

**Document provided by Bulgaria**

**SUPPLEMENTARY INFORMATION TO  
NEGOTIATING POSITION  
ON CHAPTER 10 – TAXATION  
(CONF-BG 22/01)**

Bulgaria wishes to refer to its Negotiating Position on Chapter 10 “Taxation” (CONF-BG 22/01) and to the European Union Common Position on Chapter 10 (CONF-BG 50/01) and to provide supplementary information on issues raised in Document CONF-BG 50/01.

Bulgaria would like to confirm that it accepts the *acquis* on chapter 10 “Taxation” adopted in the year 2000 and will implement it by the date of accession.

**INDIRECT TAXATION**

**VALUE ADDED TAX**

**Exemption from taxation with VAT of pharmaceutical products, prosthesis, technical appliances for disabled.**

Bulgaria withdraws its request for a 5-year transitional period until 31 December 2011 regarding the requirement of Art.12 (3)a of Council Directive 77/388/EEC for taxation with VAT of pharmaceutical products, prosthesis, and technical appliances for disabled.

•

**Threshold for compulsory registration of VAT taxable persons**

The number of registered VAT taxable persons as of 31 July 2001 is 62 944.

The number of newly registered VAT taxable persons, if the threshold for VAT compulsory registration is reduced from BGL 75 000 to BGL 10 000 (approximately 5 000 EURO), is expected to increase with approximately 350 000 persons.

The share of the newly registered VAT taxable persons is expected to be 85% of the total number of the VAT registered taxable persons.

The calculations of the impact of increasing the number of the newly registered VAT taxable persons, as a result of harmonization of the Bulgarian legislation with the *acquis*, are made on the basis of the data for the current turnover of the companies. It can be reasonably assumed that the number of the newly registered VAT taxable persons will be greater than the number mentioned above (350 000) because the growth of the newly established companies in the following years has not been accounted for.

Holding other terms equal, the maximum positive budgetary impact of this measure would be 15% annual increase of revenues from VAT because the enterprises concerned produce a small share of the of goods for final consumption. If the following factors are accounted for, the increase of revenue can be even smaller:

- Increase of the risk of tax fraud as a result of the increased number of registered taxable persons.
- This measure will lead to VAT registration of a significant number of SMEs. As a result it is expected that the number of claims for VAT refund will increase due to new claims concerning goods previously considered for personal consumption, and for which SMEs at present pay VAT as end users. It is quite probable that the value of the additional claims for VAT refund will offset the value of the VAT revenue increase resulting from the registration of new VAT taxable persons.  
As a result of the introduction of the voluntary registration for taxable persons with annual turnover of BGL 50 000 as of 01 January 2000, 4 000 taxable persons have been registered. The claims for tax credit refund exceeded the declared VAT for payment and the VAT paid on imports with approximately 20%.
- The increase of the administrative costs of the tax administration for servicing the newly registered VAT taxable persons has to be taken into consideration. The costs are expected to increase at least by 70% of the total administrative costs of the tax administration. This increase of the administrative costs will reduce the expected additional VAT revenue by 11%.

Concerning the economic impact of this measure, it should be expected that it will lead to an increase in the administrative costs of the SMEs and to an increase in the price of their production.

Bulgaria would like to note that some Member States apply a VAT threshold higher than that required by Directive 77/388/EEC. In the case of the previous enlargement with Austria, Finland and Sweden, the EU accepted claims for higher registration thresholds. Bulgaria expects that the same approach will be applied in its accession negotiations.

According to the VAT Act taxable persons are exempt from VAT registration if their turnover for a period not longer than 12 consecutive months preceding the current month does not exceed BGL 75 000 (approximately 36 000 EUR). Presently the right of voluntary registration is granted to all taxable persons that are not subject to mandatory registration and have turnover for a period not longer than 12 consecutive months preceding the current month exceeding the amount of BGL 50 000. Therefore, taxable persons that have turnover of less than BGL 50 000 for a period not longer than 12 consecutive months preceding the current month cannot be registered for VAT purposes, are not considered VAT taxable persons, are outside the scope of the application of VAT, and may not opt for the normal VAT scheme.

According to the VAT Act the enterprises below the threshold (mandatory or voluntary registration) are not required to register for VAT if they are involved as customers in taxable transactions under Article 9(2)(e) of the Sixth VAT Directive.

The Republic of Bulgaria confirms that the VAT registration is a specific procedure that follows the general tax registration in the Tax Procedure Code.

The Republic of Bulgaria will transpose all provisions of the VAT transitional regime into the Bulgarian legislation one year before the accession. These provisions will enter into force as of the date of accession. The purpose of the early transposition is to provide an opportunity to the Bulgarian society to get acquainted with the new regime and to prepare for its application as of the date of accession.

## EXCISE DUTIES

To alleviate the social costs of the introduction of the Community system of excise duties minimum rates, Bulgaria intends to gradually phase in the Community system on a product-by-product basis within the requested transitional periods, as specified in Annex 1.

### Spirits<sup>1</sup>

Bulgaria is a traditional producer of spirits. The most popular spirits on the domestic market are rakya and wine brandy.

#### *Assessment of the impact from increasing the excise duty rates and introducing the minimum rates of the Community (Annex 2)*

The estimated impact of increasing the excise duty rates and introducing the minimum rates of the Community is calculated on the following basis: retail price and excise duty rate of spirits in force as of 01 January 2001, holding cost, discount as an absolute amount, and other terms equal and introducing the minimum rate of the Community.

When introducing the minimum rate of the Community the weighted average of the price of spirits will increase from BGL 5,02 per litre to BGL 8,51 per litre (69,35%). This will lead to decrease of consumption by 65,4% (at elasticity between the price and the consumption -0,94). The increase of retail price of spirits will lead to an increase in the average household expenditure by 0.59 percentage points. The changes in the excise duty will increase the general inflation of the consumer prices by 0,37 percentage points.

#### *Structure of the market*

Year 2000	Litres
Consumption of spirits, distillates	
<b>Total</b>	<b>46 778 129</b>
<b>From domestic production</b>	<b>43 948 564</b>
<b>From import</b>	<b>2 937 634</b>
<b>Export</b>	<b>1 797 666</b>
Production of spirits, distillates	47 598 517
Including	
Brandy	1 490 599
<b>Brandy "Slanchev briag"</b>	<b>11 798</b>
Rakya	14 128 840
Grozdova rakya	2 169 284
Djibrova rakya	1 148 955
Vinena rakya	9 510 308
Plodova rakya (rakya from fruits)	1 002 700
Slivova rakya (rakya from plums)	56 460
Otlezhala grozdova rakya	46 400

Formatted

Formatted

<sup>1</sup> The indicated impact on the retail selling prices in the Negotiation position of Republic of Bulgaria on chapter 10 "Taxation" is calculated on the basis of retail selling prices in force as of 25.04.2001. The indicated impact on the retail selling prices in this document is calculated on the basis of retail selling prices in force as of 10.09.2001

**Source:**

*Bulgarian Chamber of vine & wine – for production and consumption;*

*Customs Agency – import and export;*

*Note: Data for 2000 is preliminary.*

Consumption is calculated in the following way: production + import – export + stock difference between 31 December 1999 and 31 December 2000.

Average prices of spirits for year 2000 are presented in Annex 3.

A Programme for gradual increase of excise duty rates is presented in Annex 1.

**Tobacco products**

Tobacco production is of great economic and social significance for Bulgaria. It is concentrated in mountainous and semi-mountainous regions with soils of low productivity (on which other crops cannot be grown) and high unemployment rate.

**Cigarettes**

The retail-selling prices of cigarettes are fixed by a Government Decree<sup>2</sup>. Cigarettes are divided into filter-tipped cigarettes and non-filter cigarettes.

The excise duty on cigarettes is defined as an absolute amount in BGL per item to which is added a percentage of the retail-selling price.

The excise duty rate for filter-tipped cigarettes is 30% of the retail-selling (fixed) price plus BGL 0,002 per item.

The excise duty rate for non-filter cigarettes is 10% of the retail-selling (fixed) price plus BGL 0,001 per item.

The most popular price category of cigarettes is the brand of filter-tipped cigarettes “Victory” (box 85 millimetres) with market share 34,55%, and retail-selling price BGL 0,86 (EUR 0,44) (Annex 4)

An assessment of the impact of increasing the excise duty rates and introducing the minimum rates of the Community is presented in Annex 2.

The estimated impact of increasing the excise duty rates and introducing the minimum rates of the Community is calculated on the following basis: retail price and excise duty rate of cigarettes in force as of 01 January 2001, holding the cost, the discount as an absolute amount, and all other terms equal and introducing the minimum rate of the Community.

**Filter-tipped cigarettes**

When introducing the minimum rate of the Community, the retail-selling price of the most popular price category of filter-tipped cigarettes will increase from BGL 0,86 (EUR 0,44 per box of cigarettes) to BGL 1,59 per box of cigarettes (85%). This will lead to decrease in consumption of 37,56% (at elasticity between the price and the consumption –0,44). The changes in the excise duty will increase the general inflation of consumer prices by 2,51 percentage points.

---

<sup>2</sup> Government Decree № 9 of 25.01.1999 r. for fixed prices of tobacco products for home production and import at the domestic market /SG issue 7 of 26.01.1999 z., in force from 26.01.1999/ supplemented by issue 4 of 12.01.2001, in force from 12.01.2001./

### *Non-filter cigarettes*

When introducing the minimum rate of the Community the retail-selling price of non-filter cigarettes will increase from BGL 0,30 (EUR 0,15 per box of cigarettes) to BGL 0,76 per box of cigarettes (153%). This will lead to decrease of consumption by 67,23% (at elasticity between the price and the consumption – 0,44).

### *Market structure*

The cigarette brand “Victory” has the largest market share – 34,55% (Annex 4).

Presently the excise rate is 35% of the most popular price category of cigarettes. It is envisaged to reach 44% at the date of accession.

A Programme for gradual increase of excise duty rates is presented in Annex 1.

### **Unleaded petrol and diesel**

#### ***Assessment of the impact of increasing the excise duty rates and introducing the minimum rates of the Community (Annex 2)***

The estimated impact of increasing the excise duty rates and introducing the minimum rates of the Community is calculated on the following basis: retail price in force as of 10 September 2001, excise duty rate of petrol and diesel in force as of 01 January 2001, holding the cost, the discount as an absolute amount, and other terms equal and introducing the minimum rate of the Community.

#### ***Unleaded petrol<sup>3</sup>***

The retail selling price as of 10 September 2001 – BGL 1,53 (EUR 0,78 per litre) is estimated to grow by 26,36%. At elasticity of -0,88 of consumption to price, this will lead to decrease of consumption by 23,27% and growth of the level of consumer prices by 0,72 percentage points.

#### ***Diesel***

The retail-selling price (as of 10 September 2001 – BGL 1,25 (EUR 0,64 per litre)) is estimated to grow 37,2%.

### ***Market structure***

95% of the consumption of fuels is supplied by big distribution networks and there is no data for their sub-distribution network. That is why no data is available concerning the division of consumption between individuals and enterprises.

Production, Import, Export and Consumption of Fuels in tonnes for 2000:

<b>Fuels</b>	<b>PRODUCTION</b>	<b>IMPORT</b>	<b>Export</b>	<b>Consumption</b>	<b>Relative share</b>
PETROL	1 016 653	197 248	558 801	659 524	31.83%
Including					
- Leaded petrol	353 441	207	103 362	251 977	12.16%
- Unleaded petrol	663 212	197 041	455 439	407 547	19.67%

Formatted

<sup>3</sup> By 31 December 2003 the production, import and use of petrol containing lead will be forbidden in accordance with the National Programme for phasing out production and use of leaded petrol in Bulgaria, approved by the Council of Ministers, Decision №173 of 1998

Diesel	1 736 353	184 024	913 934	1 061 231	51.21%
LPG	97 810	121 811	2 196	216 602	10.45%
Kerosene	116 455	84 998	85 484	135 004	6.51%

**Source:**

*National Statistical Institute (NSI)*

*Data for 2000 is preliminary.*

*NSI develops a balance-sheet on petrol without dividing it into groups: leaded and unleaded petrol. Import and export of leaded and unleaded petrol are calculated on the database from Customs Agency. Production and consumption are calculated on the base of the submitted excise duties.*

The consumption is calculated in the following way: production + import – export + stock difference between 31 December 1999 and 31 December 2000.

The excise duty rate of unleaded petrol A95H as of 10 September 2001 is BGL 225 (EUR 115 per 1000 litres). It is envisaged the excise duty rate of unleaded petrol to reach BGL 384 (EUR194 per 1000 litres) at the time of accession.

The excise duty rate of diesel as of 10 September 2001 is BGL 110 (EUR 47 per 1000 litres). It is envisaged the excise duty rate of diesel to reach BGL 254 (EUR 130 per 1000 litres) until accession.

**Production of rakya by natural persons**

According to Article 24 of the Ordinance on the requirements and procedures for registration, licensing, deleting from the register, taking away the licenses, data, subject to entering in the registrar, methods of keeping registrars, contents and the form for declarations of the harvested and the available amounts and control on the licensed persons and their activity (SG 31/14.04.2000 in force as of 14.04.2000) distillation of fermented fruit raw materials, provided for production of rakya by natural persons with their own raw materials, not used for trade purposes, is carried out in stations by natural persons. These stations are registered in the Municipality at their place of establishment. The station should fulfil the requirements for production of spirits according to Wine and Spirits Act (SG 86/01.10.1999 in force as of 02.01.2000). The person in charge of the station is responsible for collection of the excise duty for the produced rakya over 2000 alcoholic degrees.

Bulgaria would like to mention that rakya distilled by natural persons from fruit and grape of their own production for individual consumption is a tradition in small towns and villages of the country and especially in regions where fruits and grape are produced. This production is gradually decreasing, because the producers are mainly elderly people. It should be emphasized that rakya produced in such a way is not sold on the market and is not used for commercial purposes.

**DIRECT TAXATION**

Bulgaria wishes to clarify that it currently levies no taxes on any of the transactions identified by Directive 69/335/EEC. At present Bulgaria does not envisage introducing such a tax. Bulgaria wishes to point out that some member states do not tax the raising of capital.

As regards the Code of Conduct for business taxation, Bulgaria undertakes to respect the principles of the Code as of the date of accession. Bulgaria confirms that it will only introduce new tax measures, which are in conformity with these principles.

\* \*  
\*

The Bulgarian Government proposes the negotiations on this chapter to be provisionally closed on the basis of the existing *acquis*.

Should new elements of the *acquis* make it necessary, Bulgaria recognizes the possibility of opening supplementary negotiations before the end of the Intergovernmental Conference.