

# Tax & Legal Alert

Ernst & Young Bulgaria

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In this edition of the Tax & Legal Alert, we look at the new regime of payment in Bulgaria, recent amendments to Bulgarian tax and labor rules, as well as changes to consumer and immigration regulations.

## Restrictions to cash payments

As of 26 February 2011, payments of BGN 15,000 and more should only be done via/to bank accounts. The restrictions affect all payments with small exceptions (e.g., transfers from/to bank accounts, employment remuneration).

Installments below the threshold should also be made via wire transfers, if they relate to a total price, exceeding it. However, various interpretations are possible about the application of the new rules to transactions involving multiple or periodical payments.

Non-compliance with the restrictions may trigger penalties, amounting to 50% of the payment for legal entities and 25% of the payment for individuals, both payers and recipients. Therefore, a careful review of existing arrangements is recommended.

## Amended tax procedures

The following changes to tax procedures apply with effect from 15 February 2011:

- ▶ A longer 60-day term has been introduced for tax reviews of companies' termination and reorganization, as well as of transfers of going concern.
- ▶ The term for deciding on administrative tax appeals has been extended from 45 to 60 days and it starts running seven days after their submission.
- ▶ Social security liabilities may be determined by analogy in case of wrong or missing data.
- ▶ The threshold for requiring a clearance for the application of a Double Taxation Treaty relief has been increased from BGN 100,000 to BGN 500,000 per annum. The change applies to transactions effected after 15 February 2011. Below the new threshold, treaty relief is applied automatically, based on evidence of entitlement and is reported through a newly introduced declaration.
- ▶ Banks are obliged to disclose information on loans if formally requested by a head of a territorial directorate of the National Revenue Agency (NRA).

## Changes to tax legislation

Changes to various tax laws, effective from 8 March 2011, have been introduced through recent amendments to the VAT Act. They include:

- ▶ Non-payment of penalty tickets within the term for voluntary payment will trigger forced execution proceedings.
- ▶ Traders in liquid fuels should set up connections to NRA, allowing for a distance control over available amounts in storage tanks. This does not affect trade in excise warehouses.
- ▶ Unlicensed tour operators and travel agents will enjoy the special VAT scheme, under which VAT is due on the margin, with regard to supplies of tourist services.
- ▶ Limitations to farmers' tax privilege now extend to all types of financial aid received.
- ▶ Documents accompanying movement of excise goods under duty suspension have now been simplified.

The Regulations for application of the VAT and Excise Duties and Warehouses Acts have been aligned with previous amendments. Some of the changes, with effect from 22 February 2011, concern:

- ▶ Requirements for substantiating various supplies, such as export and certain import of goods
- ▶ Self-billing rules, under which customers may issue invoices on behalf of their suppliers
- ▶ Documents, allowing exemption from excise duties with regard to energy products
- ▶ Rules for supplies of energy products to aircraft and vessels, and for refund of overpaid excise duties on such supplies
- ▶ Warehousing of excisable goods and their movement under duty suspension
- ▶ Compliance requirements for licensed warehouse-keepers

## Labor rules

The widely debated rules for use of annual paid leave have now been streamlined within the law:

- ▶ Paid vacation must be used within the current year.
- ▶ Up to 10 days of paid leave may be transferred to the next year.
- ▶ Unused paid leave accrued for 2010 should be used by close of 2012. Paid leave carried forward from previous periods may be used without limitation.
- ▶ Employers should prepare 2011 vacation schedules by 31 March 2011.

The National Occupational Classification has been updated with effect from 1 March 2011, introducing 234 new occupations, as well as changes to the existing positions and occupations. Employers should ensure compliance with the new rules by 30 June 2011.

## Consumer protection

Changes to Bulgarian consumer protection rules came into force on 4 March 2011. They include:

- ▶ Amended rules for consumer goods' warranty and claims
- ▶ New regulations, covering the marketing and sale of four types of agreements:
  - **Timeshare contracts**, lasting more than one year under which the consumer buys the right to use any overnight accommodation for more than one period of occupation
  - **Long-term holiday products**, for a period of more than one year under which a consumer buys the right to obtain discounts or other benefits in respect of accommodation, in isolation or together with travel or other services
  - **Resale contracts**, under which a trader assists in selling or buying timeshares or long-term holiday products
  - **Exchange contracts**, through which consumers join exchange systems, allowing them access to overnight accommodation or other services in exchange for granting to other persons temporary access to the benefits of the rights deriving from the former timeshare contracts

## Amendments to non-EU/EEA nationals' immigration procedures

As of 1 February 2011, the following changes to the Foreigners' Act apply:

- ▶ Non-EU/EEA nationals may obtain a long-term residence status after five years of continuous legal residence in Bulgaria, bestowing on them the same rights as Bulgarians eligible for work. Their family members have the right to acquire Bulgarian residence permits for one year with a possibility for extension.
- ▶ Entrepreneurs will be granted a long-term residence permit, if they employ a minimum of ten Bulgarians for their entire stay.
- ▶ Visa and residence permit applicants must provide certificates of no criminal conviction.
- ▶ Residence permit applications will be processed within a period of 14 days.
- ▶ Highly qualified non-EU workers may obtain a special work and residence permit, called "the EU Blue Card", allowing its holders to work and reside in Bulgaria for up to one year with a possibility for extension of the employment period. Their family members have the right to acquire residence permits for the period allowed under the EU Blue Card.

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