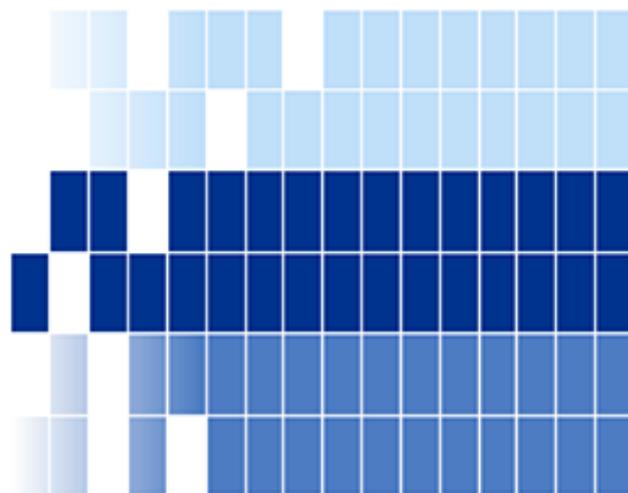




Tax News

KPMG in Bulgaria



Personal Income Tax Act

January 2021

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In the current issue of Tax News for 2021 we have summarized the most important amendments in the personal income tax (PIT) legislation in force as at 1 January 2021, introduced in:

- The Act amending and supplementing the Value Added Tax Act, promulgated in issue 104 of the State Gazette of 8 December 2020;
- The State Budget Act of the Republic of Bulgaria for 2021, promulgated in issue 104 of the State Gazette of 8 December 2020;
- The Act amending and supplementing the Currency Act, promulgated in issue 14 of the State Gazette of 18 February 2020.

New deadlines for reporting and payment of personal income tax for particular income types

The persons, carrying out economic activities as traders in the sense of the Commercial Law, including sole traders, as well as individuals registered as farmers, are obliged to file a PIT return under art. 50 PITA within the timeframe 1 March – 30 June of the year, following the year of receipt of the income. The same deadline applies for the payment of the outstanding tax due. These amendments will be applicable also with respect to the

reporting of income and settlement of the respective tax for the 2020 tax year.

The advance payments for the mentioned activities should now follow the provisions of the Corporate Income Tax Act. This is also valid for the first quarter of the year, for which special rules were applicable until now as per the Personal Income Tax Act. Following this approach, the one-off tax on expenses will also be due for payment within the specified deadline as set in the Corporate Income Tax Act, i.e. until 30 June of the following year.

It is important to note that these amendments concern only the income from economic activities, discussed above, and thus, for all other types of generated income deemed taxable as per art. 17 PITA, the deadlines for reporting and payment of the due personal income tax remain the same (until 30 April of the year, following the year of receipt of the income). The same applies in the cases when the individual, who received the income, is also registered as a trader/farmer in relation to the performance of the above economic activities.

The rate and the rules for the application of the discount for filing of the PIT return and payment of outstanding taxes within the two preliminary deadlines (respectively 31 March and 31 May) remain unchanged.



A new tax deduction related to incurred expenses for improvement and/or repairs of immovable property

Up to BGN 2,000 paid for the labor performed in relation to the improvement and/or repairs of one immovable property may be deducted from the annual tax base of taxpayers. Benefitting from this deduction would be possible through the filing of a PIT return under Art. 50 of the PIT Act.

For the purpose of benefiting from this deduction, the following criteria should be cumulatively met:

- The immovable property should be located in Bulgaria
- The taxpayer should be the owner or co-owner of the immovable property
- The improvements and/or repairs should be performed by individuals who are tax residents of an EU- or EEA- Member State
- The immovable property should not be incorporated in an entity of an individual, who is performing economic activity as a trader as per the Commercial Law
- The taxpayer should possess a document for the performed labor in relation to the improvements and/or repairs of the immovable property as well as a payment confirmation
- The taxpayer and the individual who has performed the repairs should not be related parties.

The deduction may be utilized by local tax residents, as well as by foreign tax residents, who are regarded as residents for tax purposes in another EU- or EEA- Member State.

When the immovable property is owned by more than one individual, the deduction may be utilized by each of the owners under the condition that the total amount of the deduction, they benefit from, for that immovable property does not exceed BGN 2,000. Similar to the provisions concerning the deductions for young families and underage children, if a deduction with

higher amount than the allowed one is utilized, each of the individuals who have applied the deduction would owe the portion of the tax, corresponding to the utilized deduction.



Amendments in the amounts of the tax deductions for underage children and disabled children

Once and applicable to year 2021 only when individuals utilize the deduction for underage children and disabled children, they may deduct from their annual tax base up to:

- BGN 4,500 – for one underage child
- BGN 9,000 – for two underage children
- BGN 13,500 – for three or more underage children
- BGN 9,000 – for a child with 50% of more disability, certified by a valid decision issued by the competent authorities.



Simplified documentation of income received from other economic activity or rent

For the purpose of synchronizing the provisions of the PIT Act with the effective provisions with regard to Personal Data Protection, it is no longer a requirement for the issued documents to contain certain personal data of the payer of the income. In addition, there is no longer an obligation to issue a document when the payment is made via a bank transfer.

An exception to the above rules is introduced only in cases when the payor of the income from other economic activity is an entity or a self-insured person, for whom the Accountancy Act is applicable but who does not issue a Statement of Amounts Paid. In this particular situation, the requirement for the issuance of a document containing the payor's identification information is preserved.



Amendments in the scope of transactions with financial instruments

Until 31 December 2025 the scope of transactions with financial instruments, which are deemed non-taxable under the provisions of the PIT Act, will include transactions with units and shares of collective investment schemes and supranational investment funds, shares, rights and government securities, executed on growth markets within the meaning of Art. 12 (1) of the Markets in Financial Instruments Act.

In relation to the above amendment, the scope of tax -exempt interest income is broadened to include also interest income from bonds or other debt securities, issued by countries or municipalities and tradable on a growth market in Bulgaria or another EU- or EEA- Member State.



Amendments in the definition of additional voluntary

pension/health insurance and Life insurance

An amendment made in the beginning of 2020 enters into force as of 1 January 2021 and increases the scope of the personal contributions for voluntary insurance, which may qualify as a tax deduction. Until now personal contributions made in countries outside the EU or EEA were not recognized as applicable for a deduction from the annual tax base, but as per the new amendments contributions to institutions operating under the legislation of a Member State of the Organization for Economic Cooperation and Development would be regarded as tax-deductible. This means that as at 1 January 2021 we could benefit from a tax deduction for personal contributions to additional voluntary pension/health insurance and Life Insurance funds operating under the laws of Australia, UK, Israel, Canada, Mexico, New Zealand, USA, Turkey, Chile, Switzerland, South Korea and Japan.



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