

## Amendments to the taxation of personal income and social security



**KPMG's Tax News outline and highlight legislative changes and trends in the area of tax.**

The eighth issue of Tax News in 2016 presents a summary of the more significant and interesting amendments in the Personal Income Tax Act (PITA), promulgated in the State Gazette, issue 97 dated 6 December 2016 and in the area of social security as stipulated in the 2017 Social Security Budget Act promulgated in the State Gazette, issue 98 dated 9 December 2016.

### Scope of taxation of monetary and non-monetary prizes won in gambling and other chance games

The following amendments have been made in the PITA with regard to the scope of tax exempt income from gambling activities, monetary and non-monetary prizes:

- It is explicitly clarified that tax exempt are the monetary and non-monetary prizes won in gambling games that are licensed.
- The tax exemption for prizes won from chance games is restricted: as of 1 January exempt will be only prizes received from slot machines and chance games of a negligible value. As per the introduced definition, a prize of negligible value is such not exceeding BGN 30.

Issue 8  
December 2016

#### In this issue:

[Scope of taxation of monetary and non-monetary prizes won in gambling and other chance games](#)

[Taxation of income received from the sale of property contributed in-kind to an entity](#)

[Introduction of a new tax allowance and amendments to the procedures for utilizing existing allowances](#)

[Amendments concerning the filing of the annual personal income tax return](#)

[Advance taxation of foreign source income](#)

[Insurable income of self-employed individuals](#)

[Certifying the insurable income](#)

[Contributions on social expenses](#)

[Consequences as a result of changes in insurance data](#)

- The scope of tax exempt winnings and prizes is expanded to also include such received as per the legislation of another member state and a European Economic Area state.

[Top](#)

### **Taxation of income received from the sale of property contributed in-kind to an entity**

As per the additionally introduced provision, sold property that has been contributed in-kind in an entity's capital and whose sale leads to a subsequent decrease of the capital, currently represents income for the individual who has contributed the said property and should be treated as received as at the date the decrease in the capital of the entity is registered in the Trade register. Up to the present moment this subsequent transaction was not explicitly regulated in the legislation.

If in the case of a sale of shares/quotas that have been initially received in return for an in-kind contribution to the capital of an entity and subsequently contributed in-kind to the capital of another entity, a gain is generated, then this gain will be taxable. The acquisition price in this case represents the documentarily substantiated price of the acquired property that has been initially contributed to the capital of the first company.

[Top](#)

### **Introduction of a new tax allowance and amendments to the procedures for utilizing existing allowances**

As of January 2017 individuals will be able to benefit from a new tax allowance with regard to electronic payments made during the year. The prerequisites for utilizing this allowance are that all taxable income of the person is received through bank transfer and that at least 80% of the payments are performed electronically. If the individual meets the criteria mentioned above, he/she can decrease the total amount of his/her annual personal income tax liability by 1%, but not more than BGN 500. This tax allowance can be used only through the filing of an annual tax return under Art. 50 of the PITA, i.e. it cannot be applied through the annual reconciliation of employment income performed at the end of the year by the main employer.

With respect to utilizing tax allowances (irrespective of whether through filing of an annual tax return under Art. 50 or through the annual reconciliation performed by the main employer) a new requirement is introduced, namely as at the date of filing the annual tax return/ use of the tax allowance, the person should not have any outstanding public liabilities subject to enforcement. Up to the

[Early termination of the temporary inability to work due to maternity](#)

[Unemployment compensation](#)

[Notifying the insured person of the retirement conditions](#)

[For information](#)

present moment this requirement was applicable only with regard to the possibility for applying the preferential tax regime for electronic filing of a tax return within the preliminary deadline but it seems that currently the goal is to stimulate better collectability of older liabilities.

In instances where a tax allowance is being fully utilized through the annual reconciliation performed by the employer, but the person is still obliged to file an annual tax return, the amendments in the legislation introduce a simplified procedure for documenting the used tax allowance upon filing the tax return. This simplified procedure for evidencing the right to utilize the tax allowance can also be applied when filing the annual tax return under Art. 50 of the PITA for 2016.

[Top](#)

### **Amendments concerning the filing of the annual personal income tax return**

The changes to the PITA introduce the possibility for heirs of a deceased person to file a tax return on his/her behalf where during the year the latter has generated taxable income subject to reporting under Art. 50 of the PITA. The filing deadlines are the standard ones and there is a possibility for extending these deadlines in certain instances.

A one-time opportunity for amending an already filed tax return after the statutory filing deadline (30 April of the following year) expired is introduced when an error in the filed tax return is identified. This should be done not later than 30 September of the following year. The described option could be used also by individuals with regard to the information declared by them in their annual tax return under Art. 50 for 2016.

An additional restriction is introduced with regard to the possibility for reducing the outstanding tax liability in case of electronic filing of the tax return within the preliminary deadline. The amount of the discount is unaltered, namely 5% of the outstanding tax liability due, but the amendments in the legislation place a maximum threshold as well: the discount in monetary terms cannot exceed BGN 1000. This threshold will also be applicable when filing electronically the annual tax returns for 2016.

[Top](#)

### **Advance taxation of foreign source income**

The requirement for advance taxation of foreign source income on quarterly basis and the respective filing of a tax return under Art. 55 of PITA is revoked. As of 1 January 2017 such income will be taxed and declared on a yearly basis, through submission of the annual personal income tax return under Art. 50.

[Top](#)

### **Insurable income of self-employed individuals**

The minimum insurable income threshold for self-employed individuals is increased from BGN 420 to BGN 460. The insurable income based on which the self-employed persons will pay advance installments is also increased. For the purposes of determining the applicable insurance income level for year 2017, the 2015 taxable income of individuals will be used as a reference.

[Top](#)

### **Certifying the insurable income**

As of 1 January 2018 certificates for acquired insurance periods and age will be issued upon request by the individual only for periods prior to 1 January 2000, or upon request by the competent authorities, i.e. the employer will no longer have the obligation upon request from the employee to issue such a certificate for the acquired insurance periods after this date.

[Top](#)

### **Contributions on social expenses**

The preferential insurance regime related to social expenses in cash or in kind is revoked. As of 1 January 2017 social security contributions on such expenses will be due for all social security risks.

[Top](#)

### **Consequences as a result of changes in insurance data**

In instances where as a consequence of the amended insurance information from insurers, the Social Security Institute recalculates the monetary benefits for temporary inability to work, labor

repositioning, pregnancy and childbirth and determines an overpayment, the latter should be reimbursed by the employee, unless it was a result of wrongly reported data by the insurer. Up to the present moment the Social Security Code only regulated the consequences in instances where an additional payment was owed to the insured person.

[Top](#)

### **Early termination of the temporary inability to work due to maternity**

As of 1 June 2017 an option is introduced for mothers to terminate their maternity leave prior to its expiry and to continue to receive 50% of the maternity benefit.

[Top](#)

### **Unemployment compensation**

The following changes have been introduced:

- The period for payment of the benefit depends on the accumulated insurance periods after 31 December 2001.
- Corresponding changes (relevant to the introduced limit of 31 December 2001) have been made to the number of insurance periods in years necessary to qualify for a benefit for a particular period.
- There are changes in the duration of the period for which a benefit is paid but the minimum (4 months) and respectively the maximum (12 months) are preserved.

[Top](#)

### **Notifying the insured person of the retirement conditions**

The Social Security Institute undertakes the responsibility to notify the insured persons 6 months before acquiring retirement age of the conditions under which they can retire during the following year.

#### **For information**

**Kalin Hadjidimov**  
Partner, Tax & Legal  
Tel: + 359 (2) 9697 700

Fax: + 359 (2) 9697 878  
[khadjidimov@kpmg.com](mailto:khadjidimov@kpmg.com)

**Vesselina Stankova**  
Senior Manager, Tax  
Tel: + 359 (2) 9697 700  
Fax: + 359 (2) 9697 878  
[vstankova@kpmg.com](mailto:vstankova@kpmg.com)



[Privacy](#) | [Legal](#)

KPMG Bulgaria OOD, 45/A Bulgaria Boulevard, 1404 Sofia, Bulgaria.

© 2017 KPMG Bulgaria OOD, a Bulgarian limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.