

# Tax & Legal Alert

Ernst & Young Bulgaria

In this edition of the Tax & Legal Alert, we report on the latest EU and domestic developments

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## European Commission's proposal for financial transaction taxes

The European Commission has proposed a new tax on financial transactions (FTT), which will apply to transactions with financial instruments, including derivatives and structured instruments. FTT is planned to assist the Commission's effort towards self-funding. In this regard, VAT reform across the EU is also envisaged.

## ECJ upholds deduction of VAT on unpaid sales invoices

The European Court of Justice (ECJ) has recently held that the Hungarian VAT rules prohibiting refund of input VAT on unpaid supplier invoices are contrary to the provisions of the EU VAT legislation. According to Hungarian legislation, taxpayers who are in a VAT reclaim position are not allowed to request a cash refund for that part of their VAT balance which relates to unsettled purchases. Similar practice is also common in Bulgaria.

## Rise in tax audits in Bulgaria

According to information announced by the Bulgarian Ministry of Finance, tax collections in the first half of 2011 are still behind plan. In order to avoid large gaps, the Bulgarian National Revenue Agency (NRA) is expected to increase the number of tax audits by the end of the year. Corporate income taxes have been identified as an area of particular importance. The tax authorities are now looking closely at the way companies have reduced their corporate tax liabilities or have ended in a tax-loss position. Audits for compliance with VAT legislation are also expected after an EU Commission's report showed that Bulgaria needs to put more efforts in combating VAT fraud. Companies may also face audits for compliance with the labor and social insurance legislation.

## Deadline for connecting cash devices to NRA extended

The deadline for connecting cash devices to NRA has been extended from 30 September 2011 to 31 March 2012. The longer term applies to all merchants, except for VAT-registered pharmaceutical retailers and grain producers.

## Scope of anti-money laundering regulations now expanded

Recent amendments to the Anti-Money Laundering (AML) Act provide that companies and individuals providing accounting services and services related to money transfer, as well as private enforcement agents are now required to observe the AML rules. To that end, they have to adopt internal rules for prevention of money laundering and financing of terrorism and to submit them to the State Agency for National Security by 30 November 2011. These companies are also required to report monthly cash transactions over BGN 30,000 which they have encountered in the course of their work.

## New requirements for insurers' remuneration schemes

The Bulgarian Financial Supervision Commission has recently published detailed rules on the remuneration policies of local and foreign insurance companies operating in Bulgaria. They also apply to reinsurance and health-insurance companies.

Specific requirements have now been set for remuneration packages offered to directors, managers, supervisors and other employees who may affect the companies' risk profile. Their remuneration should be aligned with the new standards by 13 February 2012.

## Amendments to the Bulgarian immigration policy

Amendments to the Bulgarian visa and residence rules for third country (non-EU/EEA/Swiss) nationals are in force. Key changes include:

- ▶ Applications for renewal of long-term residence permits should be submitted at least 14 days (instead of seven business days under the former regime) before expiry of previous permits.
- ▶ The specific procedures for obtaining EU Blue cards are already effective. The Employment Agency should decide such applications within 15 days. Approval is granted on the basis of performed market test, employment agreement with a Bulgarian employer and a salary exceeding the average monthly salary in Bulgaria by at least one and a half times.
- ▶ Fixed terms for issuing visas are introduced - 15 days for transit and short-term visas and 35 days for long-term visas.
- ▶ EU Blue Card applicants, approved by the Employment Agency and family members of EU/EEA/Swiss citizens are entitled to certain exemptions from the general visa application rules.

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