

*MINISTRY OF FINANCE*

TAX TREATMENT  
OF EDUCATION AND  
TRAINING

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- This presentation considers the tax treatment of education and training in Bulgaria.
- The presentation focuses on three main areas:
  - VAT treatment of education and training;
  - CIT treatment of education and training;
  - PIT treatment of education and training.



## VAT TREATMENT OF EDUCATION AND TRAINING



- The Directive 112/2006/EC states that certain activities of general interest linked to education and training are exempted from VAT.
- [Art.132, VAT Directive](#)
- ‘The provision of children’s or young people’s education, school or university education, vocational training or retraining, including the supply of services and of goods closely related thereto, by bodies governed by public law having such as their aim or by other organisations recognised by the Member States concerned as having similar objects’
- This implies that the entities covered by the exemption can be different among the Member States as it is up to these MS to lay down the rules on how to ‘recognise’ these organisations.



## VAT TREATMENT OF EDUCATION AND TRAINING PROVIDERS IN NATIONAL LEGISLATION

- In terms of VAT the Bulgarian Tax Law is entirely in harmonization with the EU legislation.
- **Art.41 of Bulgarian Value Added Tax Act**
- All forms of school and university education, vocational education and post-graduate studies, retraining and further education are exempted from taxation, in the event when the education is provided by:
  - Public, municipal and private kindergartens, schools or by the units servicing them under the Public Education Act;
  - Institutions within the system of vocational education and training under the Vocational Education and Training Act, or by cultural and educational or scientific institutions;
  - Public and private Higher Education Institutions (HEIs) under the Higher Education Act.



## VAT TREATMENT OF EDUCATION AND TRAINING PROVIDERS IN NATIONAL LEGISLATION (2)

- The providers of education and training services, whose activities are **exempt from VAT** have no right to a tax credit for goods and services the received by them in connection with these activities.
- The providers of education and training services, whose activities are **not exempt from VAT** have a right to a tax credit for the goods and services received by them in connection with these activities.



## CIT TREATMENT OF EDUCATION AND TRAINING



## CIT TREATMENT OF EDUCATION AND TRAINING PROVIDERS

- In the general case the providers of education and training services are subject to corporate income tax for their activities.
- The Corporate Income Tax Act (CITA) anticipates several tax incentives in connection with providing education and training services:
  - Exemption from corporate income tax and tax on the receipts (state-owned and municipal-owned enterprises);
  - Remission of tax on the receipts;
  - Costs of donations.





- **Exemption from taxation**
- In compliance with the provisions of Art.96a of the Higher Education Act:
- The public higher education institutions (HEIs) are exempt from tax on the receipts for their main activities.
- The private HEIs are exempt from corporate income tax for their main activities.
- The main activities of the public and private HEIs comprise education, training, scientific and research activities – Art.6, Para.1 of the Higher Education Act.
- **Objective of the tax incentive** – to stimulate the higher education.



- The public and private HEIs may also carry out economic activities, which are directly connected with and auxiliary to their main activities (i.e. renting of real estate, etc.).
- The economic (auxiliary) activities of the private HEIs are subject to corporate income tax.
- **Remission of tax on the receipts**
- The economic (auxiliary) activities of the public HEIs are subject to tax on receipts. The tax on the receipts is alternative to the corporate income tax.
- The tax rate of the tax on the receipts is 3%.
- In compliance with the provisions of Art.251, Para.1 of CITA the tax on the receipts is remitted to the amount of 50% to the public HEIs.
- The tax remission is accounted in the form of written-off debt to the state.



## KINDERGARTENS AND SCHOOLS

- The private kindergartens and schools are subject to corporate income tax for their main and auxiliary activities.
- Exemption from taxation
- The public and municipal kindergartens and schools in the system of public education are not subject to taxation for their main activities.
- The main activities are funded by the state or municipal budgets.



- Remission of tax on the receipts
- The economic (auxiliary) activities of the public and municipal kindergartens and schools are subject to tax on receipts.
- The tax rate of the tax on the receipts is 3%.
- The tax on the receipts is remitted to the amount of 50% to the public and municipal kindergartens and schools.
- The tax remission is accounted in the form of written-off debt to the state.



- The Bulgarian Academy of Sciences, the Agricultural Academy, the National Centres on the issues of public health and other public and private organisations are exempt from taxation for their income connected with training of Ph.D. students.
- **Objective of the tax incentive** – to stimulate the post-graduate activities.



## BENEFICIARIES OF EDUCATION AND TRAINING SERVICES

- In compliance with the corporate tax legislation the expenses for education and training reported in the accounting statement by a beneficiary of education and training services are recognised for the tax purposes in the event when the education and training of the personnel is relevant to the activities of the company (present or future activities).
- For tax purposes are recognised the expenses spent on seminars, conferences, training courses for upgrading the qualification of the personnel.
- In the event of in-house staff training for tax purposes are recognised the following expenses - fees of trainers, renting of training spaces, learning materials, etc.
- For tax purposes are recognised the expenses of the following categories of personnel: full-time employees, part-time employees, seasonal workers, etc.



## BENEFICIARIES OF EDUCATION AND TRAINING SERVICES

- The main conclusion that can be drawn is that in order to recognise the expenses for education and training of the personnel, the education and training should be relevant to the activities of the company.
- All the expenses spent on education and training which are irrelevant to the activities of the company are not recognised for tax purposes.



- With the objective to stimulate the education in Bulgaria, a tax incentive in the field of the corporate income taxation is adopted in the form of the recognised costs for donations in benefit of schools, higher education institutions and academies.
- In the general case the costs of donations, reported in the accounting statement, are not recognised for tax purposes.
- All taxable persons on the territory of the country may make use of this tax incentive.
- For tax purposes are recognised all costs of donations, made in benefit to Bulgarian schools, HEIs and academies, and also the costs made in benefit to such institutions established in other Member State of EU or in Member States under the Agreement on the European Economic Area.





- **Art.31, Para.1, item 4 of CITA**
- The accounting costs for donations are recognised for tax purposes in the amount up to 10% of the positive accounting financial result (accounting profit) in the event when the costs of donations are made in benefit of schools, HEIs, or academies.
- **Art.31, Para.1, item 15 of CITA**
- The accounting costs for donations are recognised for tax purposes in the amount up to 10% of the positive accounting financial result (accounting profit) in the event when the costs of donations are made in benefit of pupils and students at schools in a Member States of the EU or in any other country – party to the Agreement on the European Economic Area for the established and granted to them fellowship training.



- **Art.31, Para.4 of CITA**
- All the costs on donations of computers and peripheral devices thereto, are recognised for tax purposes in the event when the computers are produced one year prior the date of donation, made in benefit of schools, including HEIs.
- The total amount of costs on donations recognised for tax purposes should not exceed 65% of the accounting profit.
- **Objective of these tax incentives** – to stimulate education and training



## COSTS FOR DONATIONS - EXAMPLE

- Accounting financial result – BGN 2 500;
- Accounting costs for donations in the amount of BGN 1 700, as follow:
  - Cost of donation to Sofia University – BGN 200;
  - Cost of donation – provided and granted scholarships – BGN 200;
  - Cost of donation for computers to a school – BGN 1 300;
- Recognised costs for tax purposes  $2\,500 \times 65\% = \text{BGN } 1\,625$ ;
- Non-recognised costs for tax purposes  $(1\,700 - 1\,625) = \text{BGN } 75$ ;
- Tax financial result (tax profit) –  $(2\,500 + 75) = \text{BGN } 2\,575$ ;
- Corporate income tax –  $2\,575 \times 10\% = \text{BGN } 257.50$



## PIT TREATMENT OF EDUCATION AND TRAINING



- Three main issues
- Tax treatment of education and training expenses the beneficiary of which is an individual – sole proprietor;
- Tax treatment of education and training expenses the beneficiaries of which are all remaining individuals;
- Tax incentives in PIT legislation.



## BENEFICIARIES OF EDUCATION AND TRAINING SERVICES – SOLE PROPRIETORS

- In compliance with the provisions of Bulgarian Commercial Act an individual may perform business activities in the form of a sole proprietor, but for the said purpose he should be registered in the Companies Register.
- The sole proprietor is obliged to keep accounting records by observing the requirements of the national accounting legislation (Accountancy Act and applicable Accounting Standards).
- The taxable income resulting from the performed economic activities as a sole proprietor is subject to taxation in compliance with the provisions of the Personal Income Tax Act.



## BENEFICIARIES OF EDUCATION AND TRAINING SERVICES – SOLE PROPRIETORS (2)

- In the event when the sole proprietor is a beneficiary of the education and training services, the expenses for education and training reported in the accounting statement are recognised for tax purposes if the education or training is relevant to the business activities of the sole proprietor.
- Expenses of participation in seminars, conferences, courses of training and upgrading qualifications of the personnel, reported in the accounting statement, are recognised for tax purposes.
- In the event of in-house staff training the following expenses – fees of trainers, costs of learning materials, business trip costs, etc., are recognised for tax purposes.
- For tax purposes are recognised the expenses for training both the individual – sole proprietor and the personnel employed by him: full-time employees, part-time employees, seasonal workers, etc.



## BENEFICIARIES OF EDUCATION AND TRAINING SERVICES – OTHER INDIVIDUALS

- The individuals who receive income from employment and non-employment relationships (agricultural producers, craftsmen, freelancers, etc.) have no right to deduct in their tax return the expenses spent on education and training.
- In order to stimulate the education in Bulgaria two tax incentives are adopted in the Personal Income Tax Act:
  - Non-taxable income;
  - Tax relief for donations.





- **Non-taxable income**
- Art.13, Para.1, item 18 of PITA
- All education scholarships received by individuals for their study in Bulgaria or abroad are recognised as non-taxable income.
- **Tax relief for donations**
- Art.22, Para.1 of PITA
- The annual tax base in the current fiscal year may be reduced by 5 per cent of the amount of donations made in benefit of public and private kindergartens, schools, HEIs and academies (established in Bulgaria, in another MS of the EU or in a country which is a party to the Agreement on the European Economic Area).
- This tax relief concerns both individuals carrying out activities in the capacity of sole proprietors, and individuals performing other business activities.



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