

MINISTRY OF FINANCE

TAXATION OF IMMOVABLE PROPERTY

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- This presentation considers the taxation of immovable property in Bulgaria.
- The presentation includes:
 - Taxable and non-taxable immovable properties;
 - Taxable persons, tax base and tax rates;
 - Tax exemptions and tax relieves;
 - Tax returns and payment of property tax;
 - Administration of property tax.



- Local Taxes and Fees Act regulates taxation of immovable property in Bulgaria.
- Immovable properties in Bulgaria are subject to taxation with immovable property tax.
- **By itself immovable property tax is:**
 - property tax (immovable property is subject to taxation);
 - proportional tax (tax rate is constant and in certain amount);
 - local tax (tax amounts go directly into the municipal budget on the territory where the immovable property is located).



- **Immovable property tax applies to:**
 - buildings and lands within the boundaries of populated areas on the territory of the country; and
 - outside lands, which according to the structural plan have the purpose in line with Art. 8, p. 1 of Spatial Development Act (for living, social, working, health, sport and entertainment, for green areas, decorative water systems, for transport including bicycle alleys, for people with disabilities and others).
 - build-up agricultural lands and forests – for the actual build-up area and the adjacent one.



NON -TAXABLE IMMOVABLE PROPERTIES

- Non-taxable properties are:
 - Lands taken by streets, roads of the republican and the municipal road networks and the railway network;
 - Lands, taken by water sites, state and municipal property;
 - Agricultural lands and forests excluding build-up lands and forests.



- Taxable persons are:
 - Owners of taxable immovable property;
 - Owners of buildings constructed on state or municipal lands;
 - Users with an established real right of use;
 - Concessioners;
 - Persons and entities that manage state or municipal property.
- When for a taxable immovable property the right of ownership or limited real right belongs to several persons they due tax in accordance with their parts.



- **Methods used for an assessment:**
- Bulgarian tax law does not use the market value or a certain value assessed by an independent licensed appraiser for real property to determine the tax base for taxation with property tax.
- An administrative assessment (tax assessment) which is calculated on the basis of legally determined formulas and features is used.
- Tax is determined on the basis of the tax assessment of the property as of 1 January of the year for which it is due.
- If the tax assessment changes during the year, the tax is determined on the new assessment from the month following the month of change.



- The tax base for taxation of immovable properties of the citizens is the tax assessment of the property assessed in accordance with regulations determined in the law.
- The tax base for taxation of company's residential properties is determined in the same way.
- The tax base for taxation of company's non-residential properties (industrial or commercial buildings) is their book value.
- According to § 1, item 17 of the Additional Provision of Local Taxes and Fees Act “book value” is the value of the asset upon accounting recognition or the inflated/revalued value of the asset, where a valuation has been made after the initial accounting recognition.



HOW TAX ASSESSMENT IS FORMED?

- Immovable properties' tax assessment is determined by rules in the law and depends on the type of property, the location, the area, the construction and the depreciation.
- Tax assessment does not entirely correspond to the market value and constitutes around 70-75% of this value.



- The tax assessment of building or parts of building is determined on the grounds of the basic tax value per 1 square meter, correction coefficients and the area according to the following formula:

$$TA = BTV \times Cl \times Ci \times Cic \times Ch \times Cd \times AR,$$

where:

TA is the tax assessment, in BGN;

BTV - basic tax value per 1 square meter, in BGN;

Cl - coefficient for location;

Ci - coefficient for infrastructure;

Cic - coefficient for individual characteristics;

Ch - coefficient for height;

Cd - coefficient for depreciation;

AR - area of the building or part of it, in square meters.



MAIN CORRECTION COEFFICIENTS

- **Coefficient for infrastructure** – this coefficient is defined on the grounds of availability of water supply, sewerage, electricity, telephone communications, central heating and vicinity to a road network.
- **Coefficient for individual characteristics** – depends on the location in terms of height of the residential buildings, physical condition of the site and made improvements, like for example central heating, air-conditioning installation, luxurious joinery work, noise of heat insulation, roof structures and decorative components.
- **Coefficient for height** – it is stipulated in compliance with the formula of business, production, and agricultural sites, in the event when the height from the floor exceeds four meters.`



- The tax assessment of the land within the construction boundaries, the villa zone, the built yards is determined on the basis of the basic tax value per 1 square meter, correction coefficients, the area and the tax value of the improvements according to the following formula:

$$TA = BTV \times Cl \times Ci \times Cz \times Cd \times AR + TI, \text{ where:}$$

TA is the tax assessment, in BGN;

BTV - basic tax value per 1 square meter, in BGN;

Cl - coefficient for location;

Ci - coefficient for infrastructure;

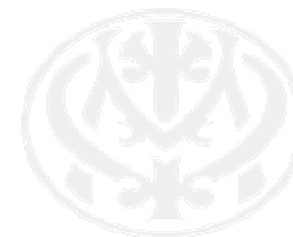
Cz - coefficient for development zone;

Cd - coefficient for development;

Cd - coefficient for depreciation;

AR - area of the land, including the built area, in square meters;

TI – tax value of the improvements.



- The tax assessment of the agricultural land is determined on the basis of the tax basic value of 1 square meter depending on the way of long term use and the category, the coefficient for location and the area according to the following formula:

$$TA = BTV \times Cl \times A,$$

where:

TA is the tax assessment in BGN;

BTV - the basic tax value per 1 square meter in BGN;

Cl - coefficient for location;

A - the area of the land in square meters.



TAX ASSESSMENT – UNFINISHED CONSTRUCTION

- The unfinished construction is valued according to the finished construction and mounting works as percentage of the tax assessment of the building according to the design as follows:
- up to ground level - 37%;
- up to rough to construction – 63%.



- In compliance with the principles of the financial decentralisation and increasing the powers of the local authorities of self-governing from January 1, 2006, the rates of the local taxes are stipulated by the municipalities within the range anticipated by the law.
- The municipal council determine the tax rate within the range from 0.1 to 4.5 pro mille on the tax assessment of the immovable property.



- From immovable property tax are exempt:
 - the municipalities for the properties – public ownership;
 - the state for the properties – public state property, except the property is conceded for use to another person and this person is not exempt from tax;
 - the local cultural centers;
 - the buildings – ownership of foreign countries where diplomatic or consular representations are located under the conditions of reciprocity;
 - the buildings of the Bulgarian Red Cross and the Red Cross organizations registered in another Member State of the European Union or another state party to the Agreement on the European Economic Area;
 - the buildings of the high schools and the academies used for study process and scientific activity;



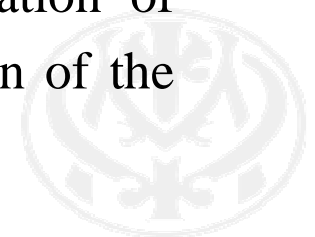
EXEMPTION FROM TAXATION (2)

- the prayer buildings of the lawfully registered religions in the country;
- the parks, the sport playgrounds, the plots and other similar properties for public needs;
- the buildings – cultural monuments, when they are not used for economic purposes;
- the museums, the galleries, the libraries;
- the properties used for the immediate operations needs of the public transport;
- the buildings of farm producers used for farm activity;
- temporary buildings servicing the construction of a new building or facility till it is finished and put into operations;



EXEMPTION FROM TAXATION (3)

- the immovable properties ownership in which has been restored under a law and which cannot be used, for a period of 5 years.
- The tax for the above mentioned immovable properties used by the state, the municipalities, the public organisations or by commercial companies where they participate, including the privatised, shall be due by the users;
- the buildings being brought in use before 1st January 2005 and having obtained certificate of category A, issued under the procedure of the Law for the Energy Efficiency as follows:
 - a) for a period of 7 years, considered from the year following the year of issuance of the certificate;
 - b) for a period of 10 years, considered from the year following the year of issuance of the certificate, if measures for measures for utilization of renewable energy sources for production of energy for satisfaction of the needs of the building are applied.



- the buildings being brought in use before 1st January 2005 and having obtained certificate of category B, issued under the procedure of the Law for the Energy Efficiency as follows:
 - a) for a period of 3 years, considered from the year following the year of issuance of the certificate
 - b) for a period of 5 years, considered from the year following the year of issuance of the certificate, if measures for utilization of renewable energy sources for production of energy for satisfaction of the needs of the building are applied;



- Essential tax relief is provided to citizens for immovable property which is a basic home.
- The tax for this type of property is 50% less.
- Basic home is the property which serves to satisfy the home needs of the citizen and the members of his family during the predominant part of the year – legal definition § 1, item 2 of the Additional Provision of Local Taxes and Fees Act .
- Tax incentive for basic home can be used only for one property.
- For a property which is basic home of a person with reduced working ability from 50 to 100 percent a tax shall be due with 75% reduction.



- Tax return is submitted in the case of:
 - purchasing a property;
 - limited rights are established over a property;
 - right to build;
 - right to use;
 - there is a change of a circumstance which is important for assessing the tax.
- Tax return is submitted to the municipality where the immovable property is located.



- Due dates for submitting tax returns

- Within two months

- when purchasing a property from the date the transfer is done;
 - when a circumstance is changed from the date it occurs.

- Within six months

- when an immovable property is inherited



- The immovable property tax is paid in two equal parts in the following terms :
- from March 1 till June 30 and,
- till October 30 of the year for which it is due.
- If the payment is made in advance between March 1 and April 30 of the year, there is a 5% discount from the tax due.
- The tax on immovable properties is received as revenue by the budget of the municipalities on the territory of which the said immovable property is situated.



- Upon transfer of property or the establishment of real rights over immovable property the tax due to the transfer / establishment including the month of transfer / establishment is paid by the transferor before the transfer / establishment.
- Judges, notaries, governors, municipal mayors and other officials carry out a transaction or action, which acquire, change or terminate property rights only after they have determined that this tax is paid.
- The tax due by the concessionaire for immovable property situated on the territory of more than one municipality is received as revenue by the municipality on the territory of which the larger part of the said immovable property is located.



- The determination and collection of property taxes is performed by the bodies of the municipal administration under the procedure of Tax and Social Security Procedure Code.
- The territory of the country is divided into 264 municipalities.
- Each municipality creates and maintains a database of taxpayers and properties located on its territory.
- Every year before the initial deadline for payment of property tax, each taxpayer receives notice of the amount due for each property owned. Communication can be done via Internet or other appropriate means.



- The property tax assessment, the tax amount, periods and payment contributions, and the office where the payment should be made appear on the notice.
- Where a person is not content with the determined tax, he can request a statement to be issued in accordance with the Tax and Social Security Procedure Code which can be appealed in front of the court.
- Moreover, the taxpayer is entitled upon request to receive information about how the obligation is calculated.
- The whole process of introducing a tax return for each property and the calculation of tax liability is automated.



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