

CHAPTER 10

“T A X A T I O N”

I. BACKGROUND

1. EU TAX HARMONISATION

The necessity of performing a tax harmonisation within the EU is determined by the goals of the Community, namely:

- Realisation of the four fundamental freedoms stated in the Treaty – free movement of goods, people, services and capital.
- Establishment of an economic zone, which possesses the same characteristics as the internal national market.

On the one hand, it is necessary to give the possibility to people, goods, services and capitals to move freely across the political borders of the countries. On the other hand, the trade and capital flows, which exist only due to tax differences, have to be stopped. As a result of this, the tax harmonisation aims to eliminate the internal legal taxation differences between the Member States, which obstruct the functioning of the common internal market of the Community.

The harmonisation of the tax policies of the EU Member States is a difficult and sensitive process. The tax policy as a tool for collection of revenues and an instrument for economy management underlies the national sovereignty of each country. Taxation affects all economic, social and political conditions as well as the budgetary requirements of a country. That is why the EU Member States are not willing their jurisdiction in this area to be displaced, which is also expressed in their unwillingness to move from voting with consensus to qualified majority voting in adopting the relevant acquis.

When presenting the “EU Tax Policy – priorities for the following years” document before the European Affairs Institute in Dublin, Ireland in 2001, the EU Commissioner responsible for the fiscal policy, Fritz Bolkenstein, stated that a high level of harmonisation is necessary in the area of indirect taxes because they can immediately create obstacles for the free movement of goods and the supply of services within the internal market.

While the direct taxation systems require only limited harmonisation. /For example: it is not necessary to harmonise personal income taxes unless they are leading to discrimination, double taxation or tax avoidance and evasion/. According to Bolkenstein, these taxes can remain within the prerogatives of the Member States even when a higher level of integration is achieved.

With respect to the taxation of companies and financial capital, which directly affects the internal market, the Member States are more willing to accept the idea for further co-ordination. The Fiscal Policy Commissioner explicitly underlined that the Commission did not intent to harmonise the corporate taxation rates.

The EU states that it is necessary to have good co-operation against harmful tax competition. The first result of this approach is the so-called “Tax package” of December 1997, which was adopted on June 3, 2003, and includes the Directive on Savings, the Interest and Royalties Directive and the Code of Conduct.

The legal basis of the tax harmonisation in the EU Member States is the Treaty – from art. 90 to art. 93 /previously art. 95 – art. 100 /primary legislation/ and under the guise of Directives, Regulations and Decisions in the secondary legislation.

2. BACKGROUND OF THE EU TAX HARMONISATION

Taxation in the EU in the area of indirect taxes, such as VAT and excise duties, has been already harmonized to a great extent.

Value Added Tax

The Value Added Tax (VAT) is the first tax, which has been harmonized on an EU level. The VAT was implemented in the Community in 1967 with the First and Second Directives.

The application of **First and Second Directives on VAT** was the first stage of the harmonization of turnover taxes in the Community. The general VAT system allowed Member States such freedom of action that in 1973 there were nine different separate systems of national legislation instead of one common Community system.

The own resources system, through which the common EU budget was financed, was implemented in 1970 by Decision of the EU Council. One of these own resources were the VAT contributions from the Member States, which were calculated upon the harmonized VAT base.

The basic principles, rules and definitions for VAT taxation are regulated in the **Sixth Directive – 77/388/EEC**, which replaced the Second Directive. The goal of the Sixth Directive, which was adopted in 1977, is to further harmonize the national legislation of different Member States. The Sixth Directive guarantees that the tax is charged on the same supplies in all Member States in a way that they constitute a common base for Community finance. It also implements a common evaluation base. *The Directive envisages the application of a common non-cumulative consumption tax, which shall be charged at all stages of production and distribution of goods and services.* This means an equal tax treatment on supplies of goods and services no matter whether internal (national) or external (import) transactions. At the same time the tax is based on the neutrality principle, i.e. the tax on goods and services is in direct ratio to their price regardless of the number of transactions performed during the process of production and distribution, preceding the stage when the tax is finally charged. Although the *acquis* determines the basic principles and definitions for VAT taxation, it also gives alternatives to the Member States.

After abolition of the customs and border control between EU Member States from January 1, 1993 with **Directive 91/680/EEC** was implemented the so called transitional regime of VAT taxation of the intracommunity supplies between taxable

persons. This regime combines taxation according to the principle for origin of the goods with taxation according to the principle for goods' destination.

Taxation according to the principle for origin of the goods remains a basic principle within the common VAT system for individuals. Since January 1, 1993 the individuals who travel in other Member States may purchase goods for personal consumption and the amount of the VAT rate is the one, which is in force in the country where they have purchased the goods. When they return to their native country with the purchase, they don't have to pay VAT again. However there are several exceptions such as the purchase of new vehicles and the sales by postal order made by a company, situated in another Member State.

Taxation according to the principle for goods' destination refers to the Intra-Community transactions. Free movement of goods within the Community means that taxable persons are not treated as importers or exporters. As a result of this, VAT charged on import and the exemption of supplies of goods on export is replaced by exemption of Intra-Community supplies of goods and taxation of Intra-Community acquisition of goods in the intracommunity trade between taxable persons.

The Value Added Tax Information Exchange System (VIES) has been created in order to guarantee the effective collection of taxes and the control on intracommunity transactions. VIES is a system for electronic exchange of VAT database between the national VAT administrations. The purpose of VIES is to collect information about the VAT identification numbers and to provide summarized information to all Member States "immediately and without delays".

In June 2000 the European Commission developed a new strategy aiming to simplify, modernize and achieve a higher level of equal application of the current provisions as well as a closer administrative cooperation. The purpose was to encourage the legitimate trade transactions within the internal market and to prevent tax frauds.

As a result of this, the **Directive amending the rules for VAT taxation of certain services supplied by electronic means** was adopted in 2002. The main purpose of the Directive is to protect the EU competitive power while eliminating the basic disadvantage for the EU suppliers of the service in respect of their competitors outside the Union */caused by the rules for the place of services supply/*. The adopted in 2001 **Directive on Electronic Invoicing** is also related to this Directive. This measure made it possible for traders to use the electronic invoicing and storage, which increases the competitive power and encourages electronic commerce.

Excise duties

Subject to excise duties are **tobacco products, alcohol and alcoholic beverages and mineral oils**, produced on the territory of the EU or imported from third countries.

Acquis Communautaire in the field of excise duties provides for:

- Harmonised structure of the excise duty
- Minimum excise rates
- Production, movement, storing and monitoring of excise goods

Basic Directives in the field of excise duties are:

Structural Directives - giving definitions of excise goods and dividing them into groups for excise purposes:

Tobacco products	Council Directive 95/59/EEC
Mineral oils	Council Directive 92/81/EEC
Alcohol and alcoholic beverages	Council Directive 92/83/EEC

Directives on excise rates - providing minimum excise rates in relation to the groups and definitions, stipulated in the structural Directives, as follows:

Cigarettes	Council Directive 92/79/EEC
Tobacco products, other than cigarettes	Council Directive 92/80/EEC
Mineral oils	Council Directive 92/82/EEC
Alcohol and alcoholic beverages	Council Directive 92/84/EEC

“Horizontal” Directive 92/12/EEC on the general arrangements for production, warehousing, storing, movement and monitoring of excise goods under **duty suspension arrangements**.

The tendency is towards:

- Widening the scope of excisable goods - Council Directive 2003/96/EC provides for levying of excise duty on natural gas, coal and coke and electricity as of 01.01.2004.
- Increasing minimum excise rates - for example since 01.07.2002 the minimum excise rate on cigarettes has been 60 Euro per 1000 items (2.35 BGL per packet) and from 01.07.2006 it shall be increased to 64 Euro per 1000 items (2.5 BGL per packet). Excise rates on mineral oils shall increase as follows:

	Motor fuels			Fuels used for industrial or commercial purposes		Heating fuels and electricity		
	2003	2204	2010	2003	2004	2003	2004 (business)	2004 (non-business)
Leaded petrol (€1000 l.)	337	421	421					
Unleaded petrol (€1000 l.)	287	359	359					
Gas oil (€1000 l.)	245	302	330	18	21	18	21	21
Heavy fuel						13	15	15
Kerosene(€1000 l.)	245	302	330	18	21	0	0	0
LPG (€1000 kg.)	100	125	125	36	41	0	0	0
Natural gas (€ gigajoule)	NA	2.6	2.6	NA	0.3	NA	0.15	0.3
Coal and coke (€gigajoule)						N/A	0.15	0.3
Electricity (€MWh)						N/A	0.5	1.0

The excise duty bonded warehouses system for tobacco products, alcohol and alcoholic beverages and mineral oils has been established and has been functioning in the EU since 01.01.1993 when the borders between Member States have been abolished.

Basic definitions:

Authorised warehousekeeper - a natural or legal person authorised by the competent authorities of a Member State to produce, process, hold, receive and dispatch products subject to excise duty in the course of his business, excise duty being suspended under tax-warehousing arrangement.

Excise warehouse - a place where goods subject to excise duty are produced processed, held, received or dispatched under duty suspension arrangements by an authorised warehousekeeper in the course of his business.

Excise duty suspension arrangements - a regime under which the excise duty payment has been temporarily suspended.

Direct taxes

Harmonisation of direct taxation proves to be a more complicated process than that of indirect taxation. The Treaty does not explicitly provide for harmonisation in the field of direct taxes. Tax systems shall facilitate the realisation of the four freedoms, stipulated in the Treaty (*free movement of goods, services, capital and people*), which in most of the cases concern some direct taxation provisions, mainly personal and corporate income taxation. The harmonisation problems in the area of direct taxation are due to differences in the tax systems of the Member States (i.e. the existence of various supplementary taxes apart from the classical definition of corporate tax), differences in accounting standards, etc.

The first successful steps towards harmonisation of corporate tax concern taxation of associated companies. This is due to the fact that companies that wanted to avail of the single market faced difficulty carrying out their business activities in two or more Member States. Therefore on July 23-th, 1990 the Council adopted the following Directives:

- **Directive 90/435/EEC** on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States. The main objective is harmonization of the system of taxation of subsidiaries that distribute dividends to their parent companies in the EU by abolition of withholding tax on dividends and exemption of dividends from corporate tax upon their receipt in the Member State of the parent company. The criterion for a subsidiary is a minimum 25% holding of the parent company in the capital of the subsidiary.
- **Directive 90/434/EEC** on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States. The objective is to introduce unified provisions for non-taxation of mergers, divisions, transfers of assets and exchanges of shares within the Community, thus avoiding the differences in taxation of such transactions, which is often discriminatory in respect to the cross-border mergers. It is assumed that in general the overall value for tax purposes is transferred to the new

company (established as a result of the merger) and therefore there is no ground for taxation of capital gains.

On June 3-rd, 2003 the so-called “**Tax Package**” was adopted. Its objective is to avoid tax evasion and facilitate transactions between associated persons concerning interest and royalty payments. The Tax Package includes:

- **Code of Conduct for Business Taxation**

The main objective of the Code of Conduct is abolition and avoidance of “harmful tax measures”, identified as such by a working group functioning under the Code. The “harmful” tax measures are part of the “harmful” tax competition and provide significantly lower level of effective taxation, including zero taxation.

- **Directive 2003/49/EC** on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States
The objective of this directive is to facilitate the intra-group transactions concerning interest and royalty payments between associated companies within the European Union by avoiding double taxation. This objective shall be fulfilled by abolition of the withholding tax on this kind of income.

- **Directive 2003/48/EC** on taxation of savings income in the form of interest payments

The objective is the effective taxation of the income of individuals from a Member State in the form of interest payments (the beneficial owner), paid by a person from another Member State (the paying agent). This income shall be taxed in the Member State whose resident is the beneficial owner. At present residents of some Member States can avoid taxation in the Member State of residence, for the part of the interest income received from another Member State. The taxation scheme provided for in the Directive comprises of exemption of withholding tax in the state where the income originates from as well as exchange of information by the state of the paying agent to the state of the beneficial owner, which enables latter to tax this income according to its legislation.

Due to structural differences, referring mainly to bank secrecy, Austria, Belgium and Luxembourg will not apply that scheme, but will avail of derogation using an alternative system of taxation to grant certain minimum level of taxation. Those Member States will levy withholding tax on that interest income (the rate starting from 15% and shall be raised to 35% in the following years), while transferring 75% of the revenues from that tax in the Member State of the beneficial owner. To avoid double taxation, the Member State of the beneficial owner shall grant the right of tax credit for the withholding tax paid in the other Member State (Austria, Belgium and Luxembourg).

3. PRINCIPLES

- **Uniform basis for Community finance**

- **Equal tax treatment of transactions:** The harmonized legislation for VAT taxation, which envisages the application of a uniform non-cumulative consumption tax charged during all stages of production and distribution, practically means an equal tax treatment of transactions no matter whether internal (national) or external (import).

- **Neutrality principle:** In the area of indirect taxation, the idea is that capital should not be moving due to tax reasons (tax competition) because this will affect negatively the effective allocation of the resources (in this case the capital) within the internal market. From the point of view of the common market, the economic effectiveness assumes neutrality of indirect taxation in respect of a company's nationality as well as of the Member State wherein it invests.

4. GOALS AND TARGETS

- **Different level of harmonization** of the separate tax systems, objects and elements of taxation as well as the regimes for their application including the complete unification of some of these elements.
- **Abolition of the tax obstacles** in order to completely develop the proper functioning of the common market.
- *Instrument of major importance for prevention of international double taxation, tax avoidance and unfair tax competition.*
- Guarantee a **“fiscal neutrality”** in respect of the competition, free movement of goods, services, capitals and people within the territory of the EU common market; mutual cooperation and assistance between the tax administrations of the Member States in order to establish conditions for prevention of tax frauds and tax avoidance.
- In the area of direct taxation, the purpose is to abolish the tax obstacles, which are standing before the companies' trans-border activities.

1. EUROPEAN COMMISSION'S BODIES

Directorate General “Taxation and Customs Union”

Directorate General “Enlargement”

II. NEGOTIATIONS BETWEEN THE REPUBLIC OF BULGARIA AND THE EU ON CHAPTER 10 “TAXATION”

1. BEGINNING, DEVELOPMENT AND END OF NEGOTIATIONS

The Negotiation Position of the Republic of Bulgaria on chapter 10 “Taxation” was deposited at the Intergovernmental conference on the accession of the Republic of Bulgaria to the EU on 30.04.2001. Chapter 10 “Taxation” was opened for negotiations on 27.06.2001 and was temporarily closed on 10.07.2002.

In its Negotiation position The Republic of Bulgaria undertakes the commitment to fully implement *acquis communautaire* in the field of taxation upon the date of accession to the EU.

The Republic of Bulgaria has adopted, and to a considerable extent implemented the *acquis* in the field of taxation and does not envisage any major problems with the entry into force of the remaining part of the relative legislation nor with its

implementation by the date of accession. There are however some cases where transitional periods or derogations are requested.

2. LEGISLATION AMENDMENTS

VAT

The basic principles of the *acquis* in the field of VAT were implemented into Bulgarian legislation by Act on amendment and supplement of the VAT Act and the Regulation for its implementation.

Following major tax reform in 1998, a new VAT Act became effective on 1 January 1999. The new Act repealed the previous VAT Act in force from April 1994. Although the main principles and mechanisms of the previous Act have been preserved, the new Act is considerably aligned with the requirements of the Sixth Directive 77/388/EEC in the following areas:

- Scope of the Act
- Basic definitions and their contents (as taxable persons, tax event, good, service, supply, tax base etc.)
- Mechanism of taxation in case of supplies executed on the territory of the country and in case of importation-VAT exemptions under importation
- Possibility for VAT registration of foreign persons - non-residents of the country by an accredited representative
- Special scheme for: supplies of second-hand goods, works of art, collector's items and antiques
- Refund of paid VAT based on documentation provided by foreign natural persons having purchased goods charged with VAT for personal use after leaving the territory of the country and on the condition that those goods are exported unchanged, as well as to legal persons for the goods services supplied to them
- Taxation of supplies concerning investment gold under the special scheme, regulated in the so-called "Golden Directive"

The existing discrepancies with the *acquis* will be gradually eliminated before the date of accession of the Republic of Bulgaria to the EU, as follows:

- The floor-limitation set in art. 29 para 5 of the VAT Act – the taxable amount in case of taxable supplies of goods shall not be lower than the acquisition (supply) value or the cost value of produces good is not in line with the requirements of the Sixth Directive, which does not limit the taxable amount.
- According to art. 56 para 1 of the VAT Act the state and municipal taxes due in case of transfer of ownership over a building or part thereof are deducted from the amount of the VAT to be charged and the result is the tax to be paid. According to the Sixth Directive art.11 para 2a the taxable amount should include all taxes, fees, customs duties and levies excluding the VAT itself. Therefore the local taxes and fees due at the transfer of ownership shall be included in the taxable amount.
- The legal services that are exempt under the VAT Act are taxable supplies under the requirements of the Sixth Directive, i.e. the latter are not within the scope of the exempt supplies in art.13 of the Sixth Directive

Other discrepancies, as implementation of the transitional regime on VAT taxation of supplies of goods and services between Member-States, cannot be eliminated before the date of accession to the EU as Bulgaria is not a Member-State.

Excise duties

As a result of the implementation of the principles of the acquis in the field of excise duties, Bulgarian legislation is amended annually by Act on amendment and supplement of the Excise Act and the Regulation for its implementation. A new Excise Act is to become effective as of 01.01.2006.

The new Excise Act will stipulate the production, storing and movement of excise goods under duty suspension arrangements. It will:

- Restrict the excise goods subject to excise duties as follows-alcohol and alcoholic beverages, mineral oils and tobacco products
- Introduce new definitions as: authorized warehousekeeper, excise warehouse, license for operating an excise warehouse, accompanying administrative document, duty suspension arrangements etc. Excise goods shall be produced only in an excise warehouse by an authorized warehousekeeper under duty suspension arrangements.
- Amend the date of occurrence of taxable event and taxable persons
- Introduce licensing and registration of authorized warehousekeepers

A greater part of the current Bulgarian legislation is aligned with the principles of the acquis in respect of structure of the excise duties. Full harmonization will be achieved with transition from excise taxation per ton to taxation per 1000 liters for petrol, gas oil and kerosene.

At present excise rates are lower than EU minimum excise rates. In order to reach the EU minimum levels by the date of accession of the country to the EU, it is necessary to increase the excise rates of beer, ethyl alcohol, cigarettes, petrol, gas oil, LPG and kerosene.

Direct taxation

The amendments to Bulgarian direct taxation law are not fulfilled yet. The Commission's assessment is that Bulgaria would not have problems implementing the acquis in the area of direct taxation.

The provisions of the **Code of Conduct for Business Taxation** include an obligation that the states shall not make amendments to their legislation, which are not in line with the Code, as well as they shall repeal existing legal provisions of the kind. A process of potential harmful tax measures is currently under way.

3. CHANGES IN THE ADMINISTRATION

The National Revenue Agency Act was passed by Parliament on November 14, 2002. It provides for the powers and responsibilities of NRA concerning unified collection, accounting and control of revenue from taxes and social security contributions.

By means of a decision of the Council of Ministers 748/12.11.02 a **Program to improve collection of revenues in the budget of the Republic of Bulgaria** has been adopted. In implementation of this program the following measures of efficient control over tax arrears have been undertaken by the tax administration:

- Support going concern enterprises;
- Strengthened control over debtors;
- Monthly monitoring;
- Selection of debtors according to the type of arrears - collectible, partially collectible, difficult to collect tax arrears.

The availability of a strong and well-equipped administration is necessary for the application and implementation of the *acquis* in the area of taxation.

During the period 2000 – 2003 the **Bulgarian Tax Administration** (BTA) has continued the process of reform and modernization and has worked actively for the achievement of higher level of voluntary compliance as well as the introduction of new relations between administration and taxpayers. Despite the achieved by the moment results, further significant efforts are necessary in order to achieve the level of administrative capacity, which is necessary for the practical implementation of the *acquis*.

The National Revenue Agency was established at the end of 2002.

At the moment a Twinning Project under the PHARE 2000 Program is being implemented in the Bulgarian tax administration in partnership with the tax administrations of three member states - the Netherlands, Sweden and Ireland. The end of the project is planned for May 2003. The purpose of the twinning project is to improve the activities of BTA in five result areas: business strategy, harmonization of substantive legislation, improved operation of the tax administration' operational departments, development and implementation of GTD human resources development strategy, enhanced administrative cooperation and exchange of information with the tax administration of EU Member States and associate countries.

A strategic plan of the Bulgarian Tax Administration has been developed. It consists of the following elements:

Mission

The Bulgarian tax administration is committed to collecting revenue as effectively as feasible, and is demanding from every person their legally prescribed liabilities, encouraging voluntary compliance with the law, providing quality services and increasing public trust through its competence, integrity and the transparency of its activities.

The basic strategic goals are:

- A modern administration serving society
- The employees of the Bulgarian tax administration must be professionals enjoying high public trust
- Highly effective collection of revenue

- Implementation of the best taxation practices and supporting the process of accession to the European Union
- Introduction of state-of-the-art management methods and sharing common values for attaining the goals of the organization

The BTA goals will be realized through **an efficient staff management system**. The performance of an overall integrated human resource management and development policy as well as the development of an adequate administrative capacity made it necessary to develop a framework strategy on HRM, which is an important prerequisite and basis for the development of HRM system's separate components. The priority being to provide the tax administration with qualified officials, meeting its requirements.

A procedure for selection, recruitment and career development of the officials from the tax administration has been developed and implemented. It regulates in detail the criteria for recruitment, selection and hiring of new personnel, moving from one function to another as well as career development in the tax administration.

The development of **a unified HR training and qualification system** has started. A "Concept vision of the statute, structure and activities of the BTA National Training Center" has been developed as well as Terms of Reference for the establishment of a new modern Training Center, which will cover the requirements for an effective training. The organization and training of trainers, who will perform training and qualifications both on central and territorial principles, has started.

The forming of **a new administrative culture** has begun. The achievement of cultural changes in an efficient and effective way concerns not only the skills and competence but also the conduct, values and standards for which the administration has to provide feedback. Preliminary meetings were held and the preparation on the future development of a **Code of Ethics** has started. The first stage will be realised within the framework of the twinning project under PHARE 2000 Program.

The Audits function is working actively on the development of a draft sector strategy, as well as four strategic projects, aiming at improvement of the quality of work and achievement of optimal results with the materials and human resource available. The operation of the specialised tax fraud unit has been improved, and the foundations of an efficient Cupertino and assistance with the institutions in charge of the combat against tax fraud, mainly in the area of VAT. A general agreement was reached among the Ministry of Finance, the Ministry of Interior and the Supreme Court of Cassation to prepare a memorandum for joint work on both central and regional level.

The Bulgarian tax administration has agreements and instructions for joint action with:

- State Receivables Agency, Public Internal Financial Control Agency and the State Gambling Committee;
- National Audit Office;
- Ministry of Interior;
- National Statistics Institute;

- Bulgarian Posts AD;
- National Social Security Institute.

A communication strategy of the tax administration has been developed. It envisages dissemination of information for taxpayers in an electronic way and on paper. This will increase their tax culture and will improve the image of the administration.

4. TRANSITIONAL PERIODS

Chapter 10 "Taxation" has been temporarily closed under the following commitments:

1. **A 3-year transitional period** as regards implementation of **minimum excise rate on cigarettes** until 01.01.2010.
2. **Three derogations** concerning:
 - **VAT registration threshold** on the territory of the Republic of Bulgaria to be fixed at the level of BGL 50 000 (approximately EUR 25 000) while article 24 of Council Directive 77/388/EEC provides for a threshold not higher than EUR 5 000.
 - **International transport of passengers** to be treated as a taxable supply with 0 rate i.e. as an exportation - **art.28(3)(b) and Supplement F of Council Directive 77/388/EEC**. According to acquis VAT shall be charged on that part of the international transport of passengers performed within the territory of the country, considering the distance (art.9 (2)(b)). This derogation shall be applied until the Council decides unanimously to abolish any derogations (art.28(4)).
 - Taxation of alcoholic beverages up to 30 liters per household with 50% of the standard excise rate, under the following conditions:
 - they are produced from fruit and grapes by individuals
 - they are produced in specialized small-scale distillation facilities
 - they are intended solely to be used by the family

COMMITMENTS IN THE NEGOTIATIONS WITH THE EU

Short-term commitments

(shall be fulfilled until the end of 2003)

Excise duties:

1. Transition from excise taxation per ton to taxation per 1000 liters for petrol, gas oil and kerosene.
2. Transformation of road and echo taxes on fuels into excise duties.
3. Introduction of a common excise rate on petrol, irrespective of the octane number
4. Abolition of usage of leaded petrol
5. Increase of excise rate on:
 - 5.1. filter-tipped cigarettes from 43.3% to 48.7% (but not less than BGL 37 per 1000 items) of the retail selling price for the cigarettes of the price category most in demand
 - 5.2. non-filter cigarettes from 19.4% to 27.1% (but not less than BGL 8 per 1000 items) of the retail selling price for the cigarettes of the price category most in demand
 - 5.3. kerosene from BGL 325 per ton to BGL 330 per 1000 liters (BGL 410 per ton)

VAT

- The transfer of enterprise to be taken out of the VAT scope and not to be considered as supply of goods. At present the transfer of enterprise is treated as an exempt supply under the VAT Act.
- The supplies under the Code of Labour to be taken out of the scope of exempt supplies under the VAT Act.

Midium-term commitments (shall be fulfilled until the end of 2004)

Excise duties

1. Excise taxation transition from BGL per alcohol degree to BGL per hectolitre pure alcohol for spirits.
2. Increase of excise rate on:
 - 2.1. beer from BGL 1.05 to BGL 1.5 per hectolitre Plato degree
 - 2.2. spirits from BGL 0.05 per alcohol degree to BGL 750 per hectolitre pure alcohol (BGL 0.075 per alcohol degree)

Long-term commitments (shall be fulfilled until the end of 2006)

Excise duties

1. Fiscal marking of gas oil and kerosene in order to be taxed with lower excise rate
2. Common excise rate on cigarettes, irrespective whether they are filter-tipped or not
3. Increase of excise rate on:
 - 3.1 cigarettes from 48.7% to 52.3% (but not less than BGL 50 per 1000 items) of the retail selling price for the cigarettes of the price category most in demand
 - 3.2 spirits from BGL 750 to BGL 1100 per hectolitre pure alcohol (BGL 0.11 per alcohol degree) in order to reach the EU minimum excise levels
 - 3.3 unleaded petrol to BGL 570 per 1000 litres (BGL 758 per ton) in order to reach the EU minimum excise levels
 - 3.4 diesel and kerosene to BGL 480 per 1000 litres in order to reach the EU minimum excise levels
4. Introduction of excise bonded warehouses system for production, storing and movement of excise goods under duty suspension arrangements.

VAT

1. Harmonisation of the place of supply of the so called intellectual services to non-taxable persons
2. Abrogation of deduction of the transfer-related state and local taxes and fees due for the transfer of ownership of a building or a part thereof from the amount of the charged VAT.
3. Harmonisation with the acquis of the definition of a supply of services, which at the moment includes also all free supply of services.
4. Abrogation of the restriction the taxable amount of taxable supplies of goods to be less than the acquisition value or the production cost of the goods.
5. Taking of legal services and agricultural goods and services out of the scope of exempt supplies under the VAT Act.

6. The special scheme for supplies of second-hand goods, works of art, collector's items and antiques shall become obligatory for the dealer, while he will be granted the right to opt for the special scheme only in case works of art, collector's items and antiques (excluding second-hand goods) are imported by the dealer or works of art are supplied by their authors or successors.
7. Transposition of the transitional regime of taxation with VAT of the intracommunity trade in the Bulgarian VAT legislation.

Direct taxation and administrative cooperation

1. Implementation of the principles of Code of Conduct for business taxation concerning the abolition and avoidance of harmful tax measures.
2. Implementation of the principles of Council Directive 90/435/EEC on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States.
3. Implementation of the principles of Council Directive 90/435/EEC on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States.
4. Implementation of the principles of Council Directive 77/799/EEC on mutual assistance between the competent authorities of the Member States in the field of direct and indirect taxation