

INTERGOVERNMENTAL CONFERENCE  
ON THE ACCESSION OF THE REPUBLIC OF BULGARIA TO THE EUROPEAN UNION

NEGOTIATION POSITION  
ON CHAPTER 10  
TAXATION

OVERALL POSITION

The Republic of Bulgaria accepts and will fully implement the *acquis communautaire* (hereinafter referred to as the *acquis*) in the field of taxation.

As a working hypothesis, the Bulgarian Government assumes that Bulgaria will become a full member of the European Union on 1 January 2007.

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.

**The Republic of Bulgaria requests a permanent derogation from the requirements of Art.24 of Council Directive 77/388/EEC on the VAT registration and exemption threshold. The Republic of Bulgaria requests that on its territory the threshold be fixed at the level of BGL 50 000 (approximately EUR 25 000) which will be achieved by 31 December 2006.**

**The Republic of Bulgaria requests a 5-year transitional period until 31 December 2011 for implementation of the minimum excise tax rate on spirits according to Art. 3 (1) of Council Directive 92/84/EEC.**

**The Republic of Bulgaria requests a 5-year transitional period until 31 December 2011 for implementation of minimum excise tax rate on cigarettes according to Art. 2 of Council Directive 92/79/EEC.**

**The Republic of Bulgaria requests a 5-year transitional period until 31 December 2011 for implementation of minimum excise tax rate on unleaded petrol and diesel according to Art. 4 and Art. 5 of Council Directive 92/82/EEC.**

**The Republic of Bulgaria requests a 5-year transitional period until 31 December 2011 regarding the requirement of Art. 12 (3)a of Council Directive 77/388/EEC for the taxation with VAT of pharmaceutical products, prosthesis, technical appliances for disabled.**

ACQUIS ADOPTION AND IMPLEMENTATION.

**Value Added Tax**

Following major tax reform in 1998, a new VAT Act became effective on 1 January 1999. The new Act replaced 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. The existing discrepancies with the *acquis* will be gradually eliminated before the date of accession of the Republic of Bulgaria to the EU by consecutive amendments of the VAT Act, as follows:

- **Taxable scope** – The definition of a supply of services, which at the moment includes all free supplies of services, will be brought into full compliance with the *acquis* **not later than 01 January 2007**
- **Place of taxable transactions** –The place of supply of the so called intellectual services to non-taxable persons outside the territory of a country, will be defined in compliance with the Directive **not later than 01 January 2006**
- **Taxable amount** –The taxable amount of taxable supplies which presently may not be less than the acquisition value or the production cost of the goods will be defined in compliance with Directive 77/388/EEC **not later than 01 January 2007**
- The taxable amount for the transfer of ownership of a building or a part thereof in which the transfer-related local taxes and fees are not presently included will be stipulated in compliance with the European legislation **not later than 01 January 2006**
- **Exemptions** – The legal services and certain agricultural goods and services, which currently are exempted supplies under the Bulgarian VAT Act, will be treated as taxable in compliance with the requirements of Directive 77/388/EEC **not later than 01 January 2007**
- The transfer of enterprise which at present is considered as an exempted supply under the VAT Act, will not be treated as a supply of goods **not later than 01 January 2004**
- The discrepancy with the European legislation which presently exists with respect to supplies under the Code of Labour will be eliminated **not later than 01 January 2004**.

**The Republic of Bulgaria requests a 5-year transitional period until 31 December 2011 to introduce the requirement of Art. 12 (3) a of Council Directive 77/388/EEC as regards taxation with VAT of pharmaceutical products, prosthesis, technical appliances for disabled.**

**Justification** – The Government of the Republic of Bulgaria is pursuing a policy of social integration of people with permanent physical disabilities. One of the elements of this policy is to provide pharmaceutical products, prosthesis and technical appliances at bearable prices. Since disabled people are mostly affected by price increases, the state policy aims at cushioning the negative social effects.

With respect to the pharmaceutical products for general use, this transitional period is necessary for the ultimate implementation of health reform, and the accumulation of sufficient resources in the health-insurance funds to cover the increased costs.

- **Export** –The taxation with VAT of that part of the international transport of passengers performed within the territory of the country will be introduced in the Bulgarian legislation **not later than 01 January 2006**.
- **Deduction** – The restriction on exercising the right of tax credit for VAT charged on some motor vehicles and goods will be eliminated in compliance with the European legislation **not later than 01 January 2007**

- **Special schemes for the small and medium sized undertakings** – The Bulgarian VAT Act defines a special scheme for small undertakings, according to which the tax liable persons are exempted from registration and taxation with VAT in cases where the turnover for the preceding 12 months does not exceed BGL 75 000 (approximately EUR 36 000). At the moment the right of voluntary registration is granted to any taxable person with an annual turnover exceeding the amount of BGL 50 000 for a period not longer than 12 consecutive months preceding the current month. The Republic of Bulgaria envisages the reduction of the threshold for mandatory registration to BGL 50 000 (approximately EUR 25 000) **not later than 01 January 2007**.

**The Republic of Bulgaria requests a permanent derogation from the requirements of Art.24 of Council Directive 77/388/EEC on the VAT registration and exemption threshold. The Republic of Bulgaria requests that on its territory the threshold be fixed at the level of BGL 50 000 (approximately EUR 25 000) which will be achieved by 31 December 2006.**

**Justification** – After the date of accession to the EU, Bulgaria would like to maintain a registration threshold under VAT at a level of BGL 50 000 (EUR 25 000), which will be achieved **not later than 01 January 2007**.

According to the estimates of the Ministry of Finance any further reduction of the registration threshold to the EU limit of EUR 5 000 (BGL 10 000) will not result in an increase in the revenues from VAT, on the contrary will reduce them. This position of the Bulgarian side is supported by the following arguments:

- under a threshold just below BGL 50 000 the number of tax liable persons for VAT will increase by a minimum of 50% of the entities registered for taxation purposes who at the present moment are over 600 000. At the same time fixing a probable threshold at the level of BGL 30 000 (EUR 15 000) and with other terms equal, the administrative costs will almost double, not even taking into account the costs for additional technical support. The increase in the VAT revenues as a result of the larger number of tax liable persons will be neutralised by the higher administrative costs.

Moreover it should be taken into consideration that a further reduction of the threshold would lead to a higher risk of fraud.

The policy of the Republic of Bulgaria is focused on promoting the small and medium sized undertakings and one of the objectives is to reduce to the greatest possible extent the administrative costs borne by the companies. With the reduction of the threshold to a level lower than BGL 50 000 the administrative costs of these companies will increase several times.

- **Special scheme for farmers** – Taking into consideration that this scheme is not of a compulsory character for the Member-States, the Bulgarian Government will decide on its implementation at a later stage.
- **Special scheme for second-hand goods, works of art, collector's items and antiques** – The alignment with the *acquis* concerning the obligation to apply the special scheme and the possibility granted to the tax liable persons to opt for a common regime of taxation with VAT will be achieved **not later than 01 January 2007**
- **Special scheme for taxation of travel agents** – The VAT Act stipulates a special scheme for taxation of travel agents. The scheme will be enforced on **01 January 2002**.

- **Transitional VAT regime** – The transitional regime of taxation with VAT of the intracommunity trade will be transposed in the Bulgarian VAT legislation **not later than 01 January 2006**.

## EXCISE TAX

With the entry into force of the Act on Amendment and Supplementation of the Excise Act from 1 January 1999, considerable harmonisation of the Bulgarian tax legislation with that of the European Community has been achieved in the field of excise tax as regards the structure of the excise taxes.

### Alcoholic beverages

#### Beer

##### ▪Scope

According to the Excise Tariff to the Excise Tax Act beer is subject to taxation with excise duty. The definition of “beer” according to article 2 of Directive 92/83/EEC “... or any product containing a mixture of beer with non-alcoholic drinks falling within CN code 2206, in either case with an actual alcoholic strength by volume exceeding 0.5% vol.” will be introduced in the Bulgarian legislation **not later than 01 January 2002**

##### ▪ Structure of the excise tax

According to the Excise Tariff to the Excise Tax Act, beer is divided in four groups depending on its Plato degree, meeting the requirement of EU for not more than 4 Plato degrees per group (Art. 3 (2) of Directive 92/83/EEC). All types of beer in the same group are taxed with one and the same excise rate per litre of finished product (according to the European legislation – EUR per hectolitre Plato degree or EUR per hectolitre alcoholic degree of finished product).

The application of a uniform excise rate on beer in BGL per hectolitre Plato degree will be introduced in the Bulgarian legislation by amending the Excise Tax Act **not later than 01 January 2002**.

##### ▪ Excise rate

According to the Bulgarian legislation the excise rate is lower than the minimum rate applied within the Community, as follows:

- |   |   |
|---|---|
| - up to 10,5 wt. % /Plato degree/ -BGL 0.055 per litre      | /EUR <sup>1</sup> 2.81 per hectolitre<br>EUR 0,268 per hectolitre per Plato degree/ |
| - from 10,6 – 13 wt. % /Plato degree/- BGL 0.065 per litre  | /EUR 3.32 per hectolitre-EUR 0,256 per hectolitre per Plato degree/                 |
| -from 13,1 – 15,6 wt. % /Plato degree/- BGL 0.075 per litre | /EUR 3.84 per hectolitre-<br>EUR 0.246 per hectolitre per Plato degree/             |
| - above 15,6 wt. % /Plato degree/- BGL 0.085 per litre      | /EUR 4.35 per hectolitre/   |

The excise tax rate in the Republic of Bulgaria will reach the minimum rate applicable in the Community in accordance with Art. 6 of Directive 92/84/EEC - EUR 0.748 per hectolitre Plato degree, **not later than 01 January 2005**.

<sup>1</sup> Central exchange rate of the Bulgarian National Bank: EUR 1 – BGL 1,95583  
20272/01

## WINE

### ▪ Structure of the excise tax

The structure of excise tax on wine is in conformity with the requirements of Art. 8 (1) of Directive 92/83/EEC. The rate is determined in BGL per litre.

With the entry into force of the Act on Amendment and Supplementation of the Excise Tax Act from 1 January 2001 a uniform rate is applied to wine as required in Art. 9, paragraph 2 of Council Directive 92/83/EEC.

### ▪ Excise rate

The excise rate is higher than the minimum rate applied within the Community – BGL 0.30 per litre / expressed in Euro - EUR 15 per hectolitre against EUR 0 minimum excise rate per hectolitre in the Community, Art. 5 of Directive 92/84/EEC/.

### ▪ Exemption from taxation

In accordance with Art.10 of Directive 92/83/EEC wine, produced by natural persons for personal consumption may be exempted from taxation under specified conditions.

Pursuant to Art.2, paragraph 3 of the Excise Tax Act, wine produced by natural persons from fruit and grapes of their own production is exempted from excise tax, provided that the wine is for personal consumption of their families and is not for sale. The annual production per family must not exceed 400 litres of wine. The same quantities are also exempted from excise tax, where the natural persons provide their own raw materials for production of wine to licensed manufacturers. The latter will be repealed **not later than 01 January 2006**.

## ETHYL ALCOHOL

### ▪ Structure of the excise tax

The structure of the excise duty on ethyl alcohol is in compliance with the requirements of Art. 21 of Directive 92/83/EEC.

Excise taxation of spirits is determined on the basis of the actual alcohol content of pure ethyl alcohol at a temperature of 20 degrees Celsius expressed in volume percentage. A uniform tax rate is applied to all types of spirits, including “rakya” (traditional national product) - (Art. 4, subpara.3 of the Excise Tax Act).

### ▪ Excise rate

The excise tax rate is lower than the minimum rate applied within the Community – BGL 0.035 per alcohol degree, paragraph 3 of the Excise Tariff /expressed in Euro - EUR 179 per hectolitre pure alcohol against minimum excise rate of EUR 550 applicable in the Community/.

**The Republic of Bulgaria requests a 5-year transitional period until 31 December 2011 for the implementation of the minimum excise tax rate on spirits according to Art. 3 (1) of Council Directive 92/84/EEC.**

**Justification** – By increasing the excise tax rate on spirits /approximately thrice/ to reach the minimum rate applicable within the Community, the retail price will rise by about 88% without regard to other factors.

Sharp increase in the excise rate will lead to tax evasion, counterfeit and smuggling attempts, which will result in decrease of excise revenues as a percentage of GDP.

▪ **Exemption from excise duty**

In accordance with Art.2, paragraph 3 of the Excise Tax Act, rakya produced by natural persons from fruit and grapes of their own production is exempted from duty, provided that this rakya is for personal consumption of the producer family and the annual production per family does not exceed 2000 alcohol degrees.

Exemption from taxation in cases when natural persons provide their own raw materials to licensed manufacturers for production of rakya will be repealed **not later than 01 January 2007**

**Intermediate products**

▪ **Scope**

According to Art.17 (1) of Council Directive 92/83/EEC the “intermediate products” are all products of an actual alcoholic strength by volume exceeding 1.2% vol., but not exceeding 22 % vol. and which do not fall within section beer, sparkling and still wine, fermented beverages other than wine and beer.

In the Bulgarian legislation “intermediate products” are not defined in a separate group.

According to the Bulgarian legislation this group of products is included in the group of spirits.

Introduction of a separate group for the intermediate products and their separation from the group of spirits will take effect by an amendment of the Excise Tax Act **not later than 01 January 2003**

▪ **Excise rate**

In accordance with para.3 of Section I of the Excise Tariff, this group of products is included in the group of spirits and is taxed with the relevant tax rate – BGL 0.035 per alcohol degree /approximately EUR 35 per hectolitre finished product (average rate)/.

The Republic of Bulgaria envisages for the excise rate to reach the minimum rate applied in the Community pursuant to Art. 4 of Directive 92/84/EEC - EUR 45 per hectolitre of finished product, **not later than 01 January 2003**.

**Tobacco products**

**Cigarettes**

▪ **Structure of the excise tax**

The application of the excise tax on cigarettes is in conformity with Directive 92/79/EEC on the approximation of taxes on cigarettes.

The Bulgarian legislation as regards cigarettes provides for a combined system of taxation including a specific excise tax per item and a proportional excise tax calculated on the basis of the retail selling price.

Presently cigarettes are divided into two groups: filter-tipped cigarettes and non-filter cigarettes.

The Republic of Bulgaria envisages an introduction of a uniform rate as regards cigarettes by amending the Excise Tax Act **not later than 01 January 2006**.

#### ▪ **Excise rate**

The excise rate on filter-tipped cigarettes is 35% of the retail-selling price for cigarettes of the price category most in demand. The excise tax on non-filter cigarettes is 17% of the retail-selling price for cigarettes of the price category most in demand.

**The Republic of Bulgaria requests a 5-year transitional period as regards implementation of minimum excise tax rate on cigarettes representing 57% of the retail-selling price for cigarettes of the price category most in demand according to Art. 2 of Council Directive 92/79/EEC until 31 December 2011**

**Justification** – The introduction of a minimum excise tax rate on cigarettes in accordance with Council Directive 92/79/EEC within the short period of time until 2007 would lead to a considerable increase in the prices of these products which will respectively have a negative effect on sales. A gradual harmonisation will lessen the possible negative effect on employment in tobacco industry. The transitional period will allow for the enterprises to adapt to the consequences from the increase in the excise tax rate on cigarettes.

By increasing the excise tax rate on cigarettes to reach the minimum rate applied in the Community, the retail price of filter-tipped cigarettes will raise by 85% and that of non-filter cigarettes by 153%, under other terms equal, causing a possible impact on the inflationary processes.

The abrupt increase in the excise rate could raise another problem – securing the tax collection. Sharp increase in the rates will lead to tax evasion, counterfeit and smuggling attempts and will make the authorities concentrate more resources on the controlling process without any guarantee of maintaining the level of tax collection. The gradual increase in the tax rates as proposed by the Bulgarian side will undoubtedly ensure a smooth and gradual increase in the tax revenues.

#### **Cigars and cigarillos**

##### ▪ **Structure of the excise tax**

The structure of the excise tax on cigars and cigarillos is in line with the requirements of Art. 3 (1) Directive 92/80/EEC on the approximation of taxes on manufactured tobacco other than cigarettes.

##### ▪ **Excise rate**

The excise rate respects the minimum Community rate.

#### **Tobacco for rolling, pipe, chewing and snuffing**

##### ▪ **Structure of the excise tax**

The structure of the excise tax on tobacco for rolling, pipe, chewing and snuffing is in line with the requirements of Art. 3 (1) Directive 92/80/EEC. A specific tax is determined per 100 grams and a percentage calculated on the basis of the selling price.

##### ▪ **Excise rate**

The excise rate respects the minimum Community rate.

#### **Mineral oils**

##### ▪ **Structure of the excise tax**

According to Art. 4, paragraph 10 of the Excise Tax Act, excise duty is levied in BGL per ton. Excise taxation per 1000 litres will be introduced **not later than 01 January 2004**.

▪ **Excise rate**

**Petrol**

**1. Leaded petrol**

In the EU the excise tax rate is uniform. The minimum excise tax rate on leaded petrol in the Community is EUR 337 per 1000 litres /Art. 3 of Directive 92/82/EEC/.

In the Republic of Bulgaria:

- there is no uniform excise rate. There are two different rates depending on the Octane Number.
- the excise rate is lower than the minimum excise rate applicable within the Community:
  - leaded petrol with octane Number less than 98 – BGL 300 per ton /EUR 114 per 1000 litres/
  - leaded petrol with octane Number 98 or higher – BGL 500 per ton / EUR 210 per 1000 litres/.

However by 31 December 2003 the production, import and use of petrol containing lead will be forbidden in accordance with the National Program for phasing out production and use of leaded petrol in Bulgaria, approved by the Council of Ministers, Decision № 173 of 1998.

**2. Unleaded petrol**

In the EU there is a uniform excise tax rate. The minimum excise rate in the Community on unleaded petrol is EUR 287 per 1000 litres.

According to paragraph 14.2.1 of the Excise Tariff:

- the excise rate is not uniform . There are two rates;
- the excise rate is lower than the minimum excise rate applicable within the Community;
  - unleaded petrol with octane Number less than 98 – BGL 300 per ton /EUR 115 per 1000 litres/
  - unleaded petrol with octane Number 98 or higher – BGL 500 per ton /EUR 192 per 1000 litres/

The Republic of Bulgaria will introduce a uniform excise rate for unleaded petrol by the Act for Amendment and Supplementation of the Excise Tax Act **not later than 01 January 2006**.

The Republic of Bulgaria will also increase the excise rate to reach the minimum rate of EUR 287 per 1000 litres **by 31 December 2011**.

**Gas oil used as propellant**

In accordance with paragraph 17 of the Excise Tariff, the excise rate on gas oil used as propellant /diesel/ is BGL 110 per ton /approximately EUR 47 per 1000 litres against a minimum rate of EUR 245 per 1000 liters in the Community, Art. 5 (1) of Council Directive 92/82/EEC/.

**The Republic of Bulgaria requests a 5-year transitional period until 31 December 2011 for implementation of minimum excise tax rate on unleaded petrol and diesel according to At. 4 and Art. 5 of Council Directive 92/82/EEC.**

**Justification** – When increasing the excise tax rate to reach the minimum rate applied in the Community, the retail price of unleaded A 95H will raise approximately by 30% and that of diesel by approximately 39%, under other terms equal. The abrupt increase in the excise tax rate both on unleaded petrol and diesel fuel used as propellant will considerably increase household, production and the transport costs representing a major part of all costs. In this respect the Republic of Bulgaria requests a transitional period until 31 December 2011 to reach the minimum rate. The inflationary effect on the Bulgarian economy will come to 8%, or over 43% of the overall anticipated figure of inflation for the period.



### **Gas oil used for industrial and commercial purposes**

In the Republic of Bulgaria gas oil used for industrial and commercial purposes and used as a heating fuel is not subject to excise taxation. The minimum excise rate in the Community is EUR 18 per 1000 litres /Art.5 (2) and (3) of Council Directive 92/82/EEC and Art. 8 (3) of Council Directive 92/81/EEC/.

The Republic of Bulgaria intends to introduce an excise taxation on gas oil used for industrial and commercial purposes and that used as a heating fuel by amending the Excise Tax Act, **not later than 01 January 2007**.

The Republic of Bulgaria envisages that the excise rate on gas oil used for industrial and commercial purposes and that used as a heating fuel will reach the minimum rate in the Community – EUR 18 per 1000 liters, **not later than 01 January 2007**.

### **Liquid Petroleum Gas /LPG/ and methane**

In the Republic of Bulgaria no excise duty is applied to LPG and methane /both used as propellant, and for industrial and commercial purposes/.

The Republic of Bulgaria plans to introduce an excise tax rate on liquid petroleum gas and methane used as propellant by amending the Excise Tax Act **not later than 01 January 2003**.

The Republic of Bulgaria envisages that the excise tax rate on liquid petroleum gas and methane used as propellant will reach the minimum rate in the Community in accordance with Art.7 (1) of Council Directive 92/82/EEC – EUR 100 per 1000 kg. **not later than 01 January 2006**.

The Republic of Bulgaria envisages to introduce an excise tax on liquid petroleum gas and methane used for industrial and commercial purposes and to reach the minimum rate applied in the Community – EUR 36 per 1000 kg, by amending the Excise Tax Act **not later than 01 January 2007**.

### **Heavy fuel oils**

In the Republic of Bulgaria no excise duty is applied to heavy fuel oils.

The Republic of Bulgaria envisages to introduce an excise tax rate on heavy fuel oils and to reach the minimum rate applied in the Community – EUR 13 per 1000 kg, by amending the Excise Tax Act **not later than 01 January 2007**.

### **Kerosene**

In the Republic of Bulgaria the excise rate on kerosene used as a propellant is lower than the minimum excise rate applicable within the Community – BGL 325 per ton or EUR 133 per 1000 litres against a minimum excise rate in the Community of EUR 245 per 1000 liters.

The Republic of Bulgaria envisages to introduce an excise taxation on kerosene in BGL per 1000 litres by amending the Excise Tax Act **not later than 01 January 2003**.

The Republic of Bulgarian envisages that the excise tax rate on kerosene will reach the minimum rate applied in the Community – EUR 245 per 1000 litres, **not later than 01 January 2007**.

### **Movement of the excise products**

At present Bulgaria does not operate a system of excise duty bonded warehouses, essential for the free movement of excise products, as provided for in Directive 92/12/EEC of 25 February 1992.

The Republic of Bulgaria envisages to implement a system of excise duty bonded warehouses in compliance with Directive 92/12/EEC of 25 February 1992 **not later than 01 January 2006**.

### **Fiscal marking of gas oil and kerosene**

At present fiscal marking of gas oil and kerosene is not performed in Bulgaria as provided for in Directive 95/60/EEC.

The Republic of Bulgaria envisages to implement fiscal marking of gas oil and kerosene **not later than 01 January 2005**.

## **Direct taxation**

According to Bulgarian legislation no indirect taxes are applied to capital gains in accordance with Directive 69/335/EEC of 17 July 1969.

The Bulgarian legislation will fully implement the principles of Code of Conduct for Business Taxation **not later than 01 January 2007**. Directive 90/434/EEC on common system of taxation applicable to companies of different Member States concerning mergers, divisions, transfers of assets and exchanges of shares, and Directive 90/435/EEC on common system of taxation applicable to parent companies and subsidiaries of Member States will be transposed in the Bulgarian legislation **not later than 01 January 2007**.

## **ADMINISTRATIVE CAPACITY**

All necessary institutional infrastructure for implementation and enforcement of the European legislation in the field of taxation will be functioning in full compliance with the *acquis* as of the date of accession of the Republic of Bulgaria into the EU. The responsible authority is the Ministry of Finance.

### **▪ General notes on strengthening of administrative capacity of tax administration**

The Bulgarian tax administration is in process of reform and modernization in compliance with the requirements of the European Union to the tax administrations of the candidate-countries. Along with the legislative changes related to the adoption of the *acquis*, a number of improvements of the work of the tax administration are implemented in order to achieve the key indicators of the Fiscal Blueprints of the European Commission.

With the adoption of the Tax Procedure Code in effect since 1 January 2000 a new function-based structure of the Bulgarian tax administration was introduced. The General Tax Directorate, responsible for the coordination through defining the tasks and objectives of the Tax Administration in accordance with the Business Change Management Plan, which was developed on the basis of Gap Analysis and Needs Analysis implemented within the pre-accession program managed by IOTA, operates at a central level. The regional and territorial directorates operate at a local level.

The General Tax Directorate envisages to introduce **not later than 01 January 2003** an organization of work structured according to different types of taxpayers. It will raise the economic efficiency of the overall activity through a reduction of the necessary operational costs, thus achieving a higher efficiency.

In the framework of the planned reform, a project is implemented for establishing a Unified Revenue Agency (URA) which will undertake both the basic fiscal activities and the collection of social, health and pension contribution on behalf and for the benefit of the relevant institutions in the country competent to perform the activities in this field. The implementation of URA will go through two stages:

**Stage 1: until 30 June 2001.** Within this period the overall Concept paper for the future URA will be finalized and all necessary actions related to the legislative changes, organizational, functional and technical changes and innovations to be introduced for the future normal operation of URA, will be planned.

**Stage 2: from 1 July 2001 by the end of 2002.** During this period all planned preparatory activities will be performed on the basis of the analyses of the previous stage:

- adoption of overall legislative framework for the operation of URA;
- further development and implementation of the new operational procedures in connection with the expanded scope of activity,
- training and qualification of the staff in connection with the new procedures,

- development and implementation of a modern and highly functional integrated tax information system capable of establishing connection and exchanging information with the information systems of the other relevant institutions
- providing the necessary premises,

URA is planned to start effective operation **as of 1 January 2003**.

For the purpose of improving the control on the compliance with the tax legislation, the following measures for modernization of the operational activity and enhancing the quality of the separate tax functions are planned to be undertaken:

- implementation of a computerized system for selection **until 31 December 2003**;
- training of part of the team leaders to perform international audits;
- establishment of a unit for detection of tax frauds and development of methods for detection and prevention of tax frauds **until 31 December 2003**.

The tax administration plans to introduce a full set of new tools for selection and more efficient taxpayers service in order to raise the level of voluntary tax compliance. In the period between 2001-2002 consultation services will be provided on a regular basis. Tax information stored in the tax offices will be regularly updated and at the same time communicated in an electronic format through a web site. Visit days, tax telephone, and tax calendar will be provided to the taxpayers and finally the site "Questions and Answers" will be efficiently maintained. A system for electronic filing of tax returns, which will be introduced by the end of 2001, will improve the internal and external communication processes related to taxpayers' registration and services.

One aspect of the development of the information technologies in the tax administration is the design and implementation of an Integrated tax information system planned for the period 2003-2004. This system will facilitate the activity of both tax administration and the future URA by supporting its operation and interaction with the other relevant institutions – National Social Security Institute, National Health Insurance Fund, National Institute of Statistics, Ministry of Finance, Customs Agency.

#### ▪ **Administrative cooperation and exchange of information**

In accordance with Directive 77/799/EEC on mutual assistance a Central Liaison Office will be set up by the date of accession, to perform administrative cooperation and exchange of information function with the tax institutions of the other Member-States of the EU and the associate countries. A system for efficient control on the VAT revenues and for combating tax fraud will be implemented by providing conditions to apply Regulation 218/92EEC on administrative cooperation. The developing on the Concept paper, the introduction of necessary legislative basis as well as the development of a strategy and action plan which will fully cover the establishment of Central Liaison Office, will be carried out under Phare-2000 Twinning Project **by 31 December 2002**.

\*       \*  
\*

The Bulgarian Government proposes the negotiations on Chapter 10 "Taxation" be provisionally closed on the basis of the existing *acquis*.

Should new elements of the *acquis* make it necessary, Bulgaria recognizes the possibility of opening supplementary negotiations before the end of the Intergovernmental conference.

Equal.