

Bulgaria reduces VAT rates for certain sectors

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The standard value-added tax (VAT) rate in Bulgaria is currently 20%; a reduced VAT rate of 9% is only applicable for hotel accommodation services. As part of the emergency tax measures taken in response to the COVID-19 pandemic, the Bulgarian Parliament, on 19 June 2020, approved that the scope of the reduced VAT rate would be expanded to cover additional sectors, as outlined below. The reduced VAT rates are to be applied temporarily until 31 December 2021. The following supplies are now subject to the 9% reduced VAT rate with the exceptions noted:

Restaurant and catering services

All supplies of alcoholic drinks, including beer and wine, will still fall under the standard 20% VAT rate. Furthermore, the reduced VAT rate would not apply to carry out food and other supplies of foods and/or beverages where there are no other supporting services.

Printed and e-books, including textbooks, children's drawings or coloring books

This category also covers textbooks and children's drawing or coloring books. The reduced rate will not apply to marketing materials and to publications which consist of audio or video content.

Baby foodstuffs and diapers

The products falling within this group are defined by reference to specific CN¹ codes. However, technical challenges will likely arise in terms of whether a particular product falls in or outside the scope of the reduced rate especially considering the fact that no reduced VAT rates have been applied for goods in Bulgaria to date. Also, the suppliers would need to adjust their cash receipt systems and ERP systems so that they can correctly report the transactions subject to the reduced VAT rate.

The above amendments would enter into force as of **1 July** which would require businesses to quickly review their portfolio of products being sold and update their systems to properly report these products. Furthermore, it is still

not clear how businesses would substantiate the application of the reduced VAT rate and what kind of documentation and records will be required. Therefore, businesses locally selling the above products should take timely actions to be compliant with the upcoming amendments.

Who may be affected?

- (i) Manufacturers and distributors importing/selling locally baby foodstuffs and diapers
- (ii) Retailers selling locally baby foodstuffs, diapers, books
- (iii) Pharmacies and fuel stations

Future Alerts will report on any additional developments regarding the reduced VAT rate.

Endnote

1. Combined Nomenclature.

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