

CORPORATE INCOME TAX ACT

Promulgated, State Gazette No. 105/22.12.2006, effective 1.01.2007

PART ONE

GENERAL DISPOSITIONS

Chapter One

GENERAL PROVISIONS

Scope of Taxation

Article 1. This Act regulates taxation of:

1. the profit accruing to resident legal persons;
2. the profit accruing to resident legal persons which are not merchants, including the organizations of the religious denominations, from any transactions covered under Article 1 of the Commerce Act , as well as from letting movable and immovable property;
3. the profit accruing to non-resident legal persons from a permanent establishment in the Republic of Bulgaria;
4. the income, as specified in this Act, accruing to resident and non-resident legal persons from a source inside the Republic of Bulgaria;
5. the expenses as specified in Part Four herein;
6. the activities of organizers of games of chance;
7. the income accruing to public-financed enterprises from any transactions covered under Article 1 of the Commerce Act , as well as from letting movable and immovable property;
8. the vessels operation activity of persons which carry out maritime merchant shipping.

Taxable Persons

Article 2. (1) Taxable persons shall be:

1. the resident legal persons;
2. the non-resident legal persons which carry out economic activity in the Republic of Bulgaria through a permanent establishment or which receive income from a source inside the Republic of Bulgaria;
3. the sole traders: in respect of the taxes withheld at source and in the cases specified in the Income Taxes on Natural Persons Act ;
4. the natural persons who are merchants within the meaning given by Article 1 (3) of the Commerce Act : in the cases specified in the Income Taxes on Natural Persons Act ;
5. the employers and the commissioning entities under contracts for management and control: in respect of the tax on the expenses on fringe benefits, provided for in Part Four herein.

(2) For the purposes of this Act, the unincorporated associations and the contribution payment centres established in pursuance of Article 8 of the Social Insurance Code shall be treated as equivalent to legal persons.

(3) For the purposes of taxation of income from a source inside the Republic of Bulgaria, any non-resident organizationally and economically distinct formation (trust, fund and other such), which independently carries out economic activity or performs and manages investments, shall likewise be a taxable person where the owner of the income cannot be identified.

Resident Legal Persons

Article 3. (1) "Resident legal persons" shall be:

1. any legal persons incorporated under Bulgarian law;
2. any companies incorporated under Council Regulation (EC) No 2157/2001, and any cooperative society incorporated under Council Regulation No 1435/2003, where the registered office thereof is situated in the country and they are entered into a Bulgarian register.

(2) Any resident legal persons shall be liable to taxes under this Act in respect of the profits and income accruing thereto from all sources inside and outside the Republic of Bulgaria.

Non-resident Legal Persons"

Article 4. (1) "Non-resident legal persons" shall be any persons which are not resident persons.

(2) Any non-resident legal persons shall be liable to taxes under this Act in respect of the profits realized through a permanent establishment in the Republic of Bulgaria and of the income as specified in this Act accruing from a source inside the Republic of Bulgaria

Types of Taxes

Article 5. (1) Profits shall attract a corporation tax.

(2) The income accruing to any resident and non-resident legal persons, as specified in this Act, shall attract a tax withheld at source.

(3) The expenses, as specified in this Act, shall attract a tax on expenses.

(4) A tax alternative to corporation tax shall be levied on:

1. the activity of organizing games of chance;
2. the income accruing to public-financed enterprises from any transactions covered under Article 1 of the Commerce Act, as well as from letting movable and immovable property;
3. the vessels operation activity.

Determination of Amount of Tax

Article 6. The amount of tax shall be determined by multiplying the taxable amount by the rate of tax.

Tax Returns

Article 7. The standard forms of returns and of other documents under this Act shall be endorsed by an order of the Minister of Finance and shall be promulgated in the State Gazette.

Remittance of Taxes

Article 8. (1) The taxes due under this Act shall be remitted by the taxable persons in revenue to the executive budget.

(2) The taxes due shall be credited to an account of the National Revenue Agency territorial directorate exercising competence over the place of registration of the taxable persons or over the place where the taxable persons are registrable.

(3) The taxes due shall be deemed to be remitted on the date on which the amounts are received in the executive budget on the account of the competent National Revenue Agency territorial directorate.

Default Interest

Article 9. Interest according to the Interest on Taxes, Fees and Other State Receivables Act shall be due on any taxes which are not remitted when due, including any tax prepayments.

Documentary Support

Article 10. (1) An accounting expense shall be recognized for tax purposes where it is supported by an accounting source document within the meaning given by the Accountancy Act.

(2) An accounting expense shall be recognized for tax purposes even where part of the information required under the Accountancy Act is missing in the accounting source document, provided that documents certifying any such missing information are available.

(3) Outside the cases referred to in Paragraph (2), an accounting expense shall be recognized even where the accounting source document has been issued by a person which is not an enterprise within the meaning given by Article 1

(2) of the Accountancy Act and part of the information required under the Accountancy Act is missing in the document, provided that the said document gives a true view of the business transaction documented.

(4) The taxable persons shall be obligated to register and account for any sale of goods and services as effected by means of issuing a fiscal cash receipt printed by a fiscal device according to a procedure established by an ordinance of the Minister of Finance, except where payment is effected by bank transfer or through an offset. The lack of a fiscal cash receipt printed by a fiscal device, where the issuance of such a receipt is obligatory, shall be grounds to deny recognition of an accounting expense for tax purposes.

(5) In respect of international air transport, an accounting expense shall be supported by documents where documented by means of an accounting source document and the boarding pass for the flight executed. Where the accounting source document (protocol) is issued by the person who effects the sale on behalf and for the account of the

carrier, the said person shall be deemed to be an issuer of the said document.

Expenses Defined as Compulsory by Statutory Instrument

Article 11. Any expenses defined as compulsory by a statutory instrument shall be recognized for tax purposes and shall not attract a tax on expenses, unless otherwise provided for in this Act.

Chapter Two

SOURCES OF PROFIT AND INCOME

Profit and Income from Sources Inside Republic of Bulgaria

Article 12. (1) Any profit and income accruing to non-resident legal persons, derived from economic activity carried out through a permanent establishment in the country or from disposition of property of any such permanent establishment, shall have their source inside the country.

(2) Any income from financial assets issued by resident legal persons, the [Bulgarian] State and the municipalities, shall have its source inside the country.

(3) Any income from transactions in financial assets referred to in Paragraph (2) shall have its source inside the country.

(4) Any income from dividends and shares in a liquidation surplus, accruing from participating interests in resident legal persons, shall have its source inside the country.

(5) The following income, charged by resident legal persons, resident sole traders or non-resident legal persons and sole traders through a permanent established or a fixed base in the country or paid by resident natural persons or by non-resident natural persons who have a fixed base in the country in favour of non-resident legal persons, shall have its source inside the country:

1. any interest payments, including interest within payments under a financial lease contract;
2. any income from rent or other provision for use of movable or immovable property;
3. any copyright and licence royalties;
4. any technical assistance fees;
5. any payments received under franchising agreements and factoring contracts;
6. any compensations for management or control of a Bulgarian legal person.

(6) Any income covered under Paragraph (5), which is charged in favour of non-resident legal persons from a permanent establishment of a resident person or from a fixed base of resident natural persons situated outside the territory of the country, shall not have its source inside the country if there is an effective convention for the avoidance of double taxation between the Republic of Bulgaria and the State in which the permanent establishment or the fixed base is situated.

(7) Any income from agriculture, forestry, hunting ground management and fisheries within the territory of the country

shall have its source inside the country.

(8) Any income from immovable property or from transactions in immovable property, including an undivided interest or a limited right in rem to any immovable property situated in the country, shall have its source inside the country.

(9) Upon determination of the source of income under this Article, the place of payment of the income shall be ignored.

Chapter Three

INTERNATIONAL TAXATION

International Treaties

Article 13. Where an international treaty, which has been ratified by the Republic of Bulgaria, has been promulgated and has entered into force, contains any provisions different from the provisions of this Act, the provisions of the relevant international credit shall prevail.

Foreign Tax Credit

Article 14. (1) Where the provisions of an international treaty referred to in Article 13 herein are not applied, the taxable persons shall be allowed foreign tax credit under the terms and according to the procedure established by this Act.

(2) Upon assessment of the corporation tax or of the alternative taxes under this Act, the taxable persons shall be allowed foreign tax credit in respect of each tax similar to corporation tax or imposed in lieu of such tax and paid abroad.

(3) The taxable persons shall be allowed foreign tax credit in respect of the tax imposed abroad on the gross amount of the income from dividends, interest payments, copyright and licence royalties, technical assistance fees and rents.

(4) The tax credit referred to in Paragraphs (2) and (3) shall be determined for each State and for each type of income separately and shall be limited to the amount of the Bulgarian tax on the said profits or income.

Chapter Four

PREVENTION OF TAX EVASION

Transactions between Related Parties

Article 15. Where related parties enter into commercial and financial relationships under terms which affect the amount of the tax financial result and which differ from the terms between unrelated parties, the tax financial result shall be determined and taxed under the terms which would have arisen in respect of unrelated parties.

Tax Evasion

Article 16. (1) Where one or more transactions, inter alia between unrelated parties, has been concluded under terms

whereof the fulfilment leads to tax evasion, the tax financial result shall be determined ignoring the said transactions, certain terms thereof or the legal form thereof and taking into consideration the tax financial result that would be obtained upon the effecting of a customary transaction of the relevant type at market prices and intended to achieve the same economic result but which does not lead to tax evasion.

(2) The following shall furthermore be treated as tax evasion:

1. any substantial excess of the quantities of raw and prime materials used as production inputs and other production costs over the customary quantities and costs for the activity carried out by the person, where any such excess is not due to reasons beyond the control of the person;
2. any contracts of loan for use or other gratuitous provision for use of tangible and intangible benefits;
3. any borrowing or lending at interest diverging from the market rate of interest as applicable at the time of conclusion of the transaction, including in the cases of interest-free loans or other temporary gratuitous financial assistance, as well as the write-off of debts or repayment of non-business debts for own account;
4. payment of any remunerations or compensations for any services which have not been actually performed.

(3) Where a transaction is concealed by another, colourable transaction, the tax liability shall be assessed under the terms of the concealed transaction.

Transfers Related to Permanent Establishment

Article 17. This Chapter shall furthermore apply, *mutatis mutandis*, to any transfers between a permanent establishment and other divisions of the enterprise of a non-resident person situated outside the country, conforming to the specifics of the permanent establishment.

PART TWO

CORPORATION TAX

Chapter Five

GENERAL DISPOSITIONS

Tax Financial Result

Article 18. (1) "Tax financial result" shall be the accounting financial result adjusted according to the procedure established by this Part.

(2) The positive tax financial result shall be a tax profit.

(3) The negative tax financial result shall be a tax loss.

Taxable Amount

Article 19. The taxable amount for assessment of the corporation tax shall be the tax profit.

Rate of Tax

Article 20. The rate of corporation tax shall be 10 per cent.

Tax Period

Article 21. (1) The tax period for assessment of the corporation tax shall be the calendar year, save as otherwise provided for in this Act.

(2) In respect of any newly incorporated taxable persons, the tax period shall cover the period from the date of incorporation thereof until the end of the year, save as otherwise provided for in this Act.

Chapter Six

GENERAL DISPOSITIONS REGARDING DETERMINATION OF TAX FINANCIAL RESULT

Determination of Tax Financial Result

Article 22. The tax financial result shall be determined by means of adjusting the accounting financial result, according to a procedure and in a manner specified in this Part, for:

1. the permanent tax differences;
2. the temporary tax differences;
3. the amounts provided for in this Part.

Permanent Tax Differences and Adjustment of Accounting Financial Result for Such Differences

Article 23. (1) "Permanent tax differences" shall be accounting income or expenses which are not recognized for tax purposes.

(2) For the purposes of determination of the tax financial result, where this Act indicates that:

1. a cost (loss) is not recognized for tax purposes, the accounting financial result shall be credited with any such cost

(loss) in the year of accounting for the said cost (loss), and the accounting financial results shall not be adjusted during the succeeding years;

2. an income (profit) is not recognized for tax purposes, the accounting financial result shall be debited with any such income (profit) in the year of accounting for the said income (profit), and the accounting financial results shall not be adjusted during the succeeding years.

Temporary Tax Differences and Adjustment of Accounting Financial Result for Such Differences

Article 24. (1) Temporary tax differences shall arise where any income or expenses are recognized for tax purposes in a year other than the year of accounting for the said income or expense.

(2) A "temporary tax difference" shall be:

1. any expense unrecognized for tax purposes in the year of accounting for any such expense, which will be recognized during succeeding years, when the conditions for recognition according to this Part occur;
2. any income unrecognized for tax purposes in the year of accounting for any such income, which will be recognized during succeeding years, when the conditions for recognition according to this Part occur.

(3) Temporary tax differences shall furthermore originate in the cases of transformation of corporations and

cooperatives according to the procedure established by Chapter Nineteen herein.

(4) For the purposes of determination of the tax financial result, where this Act indicates that:

1. any cost (loss), which is not recognized for tax purposes in the year of accounting and will be recognized during

succeeding years when the condition for recognition according to this Part occurs:

(a) the accounting financial result in the year of accounting for the cost (loss) shall be credited with any such cost (loss):

origination of a temporary tax difference;

(b) the accounting financial result in the year when the condition for recognition according to this Part occurs shall be

debited with any such cost (loss): reversal of a temporary tax difference;

2. any income (profit), which is not recognized for tax purposes in the year of accounting and will be recognized during

succeeding years when the condition for recognition according to this Part occurs:

(a) the accounting financial result in the year of accounting for the income (profit) shall be debited with any such income

(profit): origination of a temporary tax difference;

(b) the accounting financial result in the year of when the condition for recognition according to this Part arises shall be

credited with any such income (profit): reversal of a temporary tax difference.

Tax-Recognized Income and Cost

Article 25. For the purposes of determination of the tax financial result, where this Act indicates that any income (cost)

or profit (loss) is recognized for tax purposes in the year of accounting for such income, the accounting financial result for

the current year or any succeeding years shall not be adjusted for the said income (cost) or profit (loss).

Chapter Seven

PERMANENT TAX DIFFERENCES

Expenses Unrecognized for Tax Purposes

Article 26. The following accounting expenses shall not be recognized for tax purposes:

1. any non-business expenses;

2. any expenses which are not supported by documents within the meaning given by this Act;

3. any expenses on tax charged or credit for input tax used according to the Value Added Tax Act , where the

expense incurred on the business transaction wherewith the value added tax is associated is not recognized for tax

purposes;

4. any expense on value added tax charged by a supplier, including by the revenue authority, in connection with a

supply effected, with the exception of tax charged in connection with deregistration under the Value Added Tax Act ;

sentence one shall furthermore apply in the cases referred to in Article 177 of the Value Added Tax ;

5. any subsequent expenses accounted for in connection with a claim which has originated from a tax charged or credit for input tax used under Items 3 and 4;

6. any expenses on fines charged, forfeitures and other sanctions imposed for violation of statutory instruments, any default interest charged for late payment of public state or municipal debts;

7. any donation expenses other than such covered under Article 31 herein;

8. any expenses on a tax which is subject to withholding at source and is for the account of the payer of the income;

9. any wage expenses at commercial corporations wherein the State or a municipality holds an interest exceeding 50 per cent in excess of the resources fixed by statutory instruments.

Income Unrecognized for Tax Purposes

Article 27. (1) The following accounting income shall not be recognized for tax purposes:

1. any income resulting from distribution of dividends by resident legal persons;

2. any income originating in connection with any expenses unrecognized for tax purposes, as referred to in Article 26 herein, up to the amount of the unrecognized expenses;

3. any income from interest payments on unduly remitted or collected public obligations, as well as on value added tax not refunded within the statutory time limits, charged by the central-government or municipal authorities.

(2) Item 1 of Paragraph (1) shall not apply:

1. to any income charged as a result of distribution of dividends by licensed special purpose investment companies under the Special Purpose Investment Companies Act ;

2. upon hidden profit distribution.

Unrecognized Expenses on Shrinkage and Wastage

Article 28. (1) Any accounting expenses on shrinkage of fixed and current assets shall not be recognized for tax purposes, with the exception of such due to a force majeure.

(2) Any accounting expenses on shrinkage and waste of stocks of materials shall not be recognized for tax purposes.

(3) Paragraph (2) shall not apply where the expenses are due to:

1. a force majeure;

2. spoilage or alteration of physical and chemical properties, as established by a statutory instrument or by company standards, where a statutory instrument does not exist, and in the customary amounts for the relevant activity;

3. expiry of the service life according to a statutory instrument or company standards, where a statutory instrument does not exist, and in the customary amounts for the relevant activity.

(4) Any tax expense referred to in Article 79 (3) of the Value Added Tax Act on any assets, which is not recognized

according to the procedure established by Paragraphs (1) to (3), shall not be recognized for tax purposes.

(5) Any subsequent accounting expenses, which have been accounted for in connection with a claim originating from shrinkage and wastage of any assets unrecognized according to the procedure established by Paragraphs (1) to (4), shall not be recognized for tax purposes.

Unrecognized Expenses Originating in Connection with Shrinkage and Wastage

Article 29. Any accounting expenses which have originated in connection with any shrinkage and wastage of assets or any claim related therewith shall not be recognized for tax purposes up to the amount of the unrecognized expenses referred to in Article 28 herein.

Recognition of Part of Undistributable Expenses of Not-for-Profit Legal Entities

Article 30. (1) Any accounted for undistributable expenses, corresponding to the activity subject to levy of corporation tax, incurred by any not-for-profit legal entities, shall not be recognized for tax purposes.

(2) The part of the undistributable expenses, determined by multiplying the total amount of undistributable expenses by the ratio between the income from the activity subject to levy of corporation tax and all income accruing to the not-for-profit legal entity, shall be recognized for tax purposes.

Donation Expenses

Article 31. (1) The accounting expenses on donations to a total amount of up to 10 per cent of the positive accounting financial result (accounting profit) shall be recognized for tax purposes where the expenses on donations are incurred in favour of:

1. any health-care and medical-treatment facilities;
2. any specialized institutions for provision of social services according to the Social Assistance Act , as well as of the Social Assistance Agency and of the Social Assistance Fund under the Minister of Labour and Social Policy;
3. any specialized child institutions according to the Child Protection Act , as well as of any care homes for children deprived of parental care according to the Public Education Act ;
4. any creches, kindergartens, schools, higher schools or academies;
5. any public-financed enterprises within the meaning given by the Accountancy Act ;
6. any religious denominations registered in the country;
7. any specialized enterprises or cooperatives of persons with disabilities, entered in the register referred to in Article 29 of the Integration of Persons with Disabilities Act , as well as in favour of the Agency for Persons with Disabilities;
8. any persons with disabilities, as well as for technical aids therefor;

9. any victims of crises within the meaning given by the Crisis Management Act , or of the families thereof;
10. the Bulgarian Red Cross;
11. any socially disadvantaged persons;
12. any children with disabilities or parentless children;
13. any cultural institutes, or for the purposes of cultural, educational or research exchange under an international treaty where to the Republic of Bulgaria is a party;
14. any not-for-profit legal entities, registered in the Central Register of Not-for-Profit Legal Entities for pursuit of public benefit activities, with the exception of organizations supporting culture within the meaning given by the Financial Support for Culture Act ;
15. any schoolchildren and students at Bulgarian schools in respect of the scholarships instituted and provided thereto for instruction;
16. the Bulgaria Energy Efficiency Fund;
17. any therapeutic communities for narcotics-dependent persons, as well as of narcotics-dependent persons for the therapy thereof.

(2) Accounting expenses on donations shall be recognized for tax purposes to an amount of up to 50 per cent of the accounting profit where the expenses on donations are incurred in favour of the Fund for Medical Treatment of Children Centre.

(3) The assistance provided gratuitously under the terms and according to the procedure established by the Financial Support for Culture Act shall be recognized for tax purposes to an amount of up to 15 per cent of the accounting profit.

(4) Any expenses on donations of computers and computer peripheral equipment, which are manufactured within one year prior to the date of the donation, and made in favour of Bulgarian schools, including higher schools, shall be recognized for tax purposes.

(5) The aggregate amount of the expenses on donations recognized for tax purposes under Paragraphs (1) to (4) may not exceed 65 per cent of the accounting profit.

(6) The entire expense on a donation shall not be recognized for tax purposes where the donation benefits, whether directly or indirectly, the managers who make it or those who dispose of the said donation, or where there is evidence that the gift has not been received.

Taxable Person's Formation Expenses

Article 32. (1) The accounting expenses on the incorporation of a legal person shall be recognized for tax purposes at

the taxable persons which are incorporators. The unrecognized expenses shall be recognized for tax purposes upon determination of the tax financial result of the newly formed legal person in the year of commencement of the legal existence thereof.

(2) The expenses referred to in Paragraph (1) shall be recognized for tax purposes in respect of the incorporators upon occurrence of circumstances determining that the legal existence of a new legal person will not commence. The said expenses shall be recognized in the year of occurrence of the said circumstances, if the requirements of this Act are complied with.

Natural Persons' Travel and Per Diem Expenses

Article 33. The accounting travel and per diem expenses of any natural persons who are in employment relationships with the taxable person or are hired thereby under non-employment relationships shall be recognized for tax purposes where the travel and stay were performed in connection with the activity of the taxable person.

Chapter Eight

TEMPORARY TAX DIFFERENCES

Non-recognition of Income and Expenses from Subsequent Valuations (Revaluations and Impairments)

Article 34. (1) Any income and expenses from subsequent valuations of assets and liabilities shall not be recognized for tax purposes in the year of accounting for the said income and expenses.

(2) Paragraph (1) shall not apply in respect of any accounting income and expenses from subsequent valuations of monetary positions in foreign currency at the central exchange rate of the Bulgarian National Bank.

Recognition of Expenses and Income from Subsequent Valuations (Revaluations and Impairments)

Article 35. (1) Any income and expenses from subsequent valuations unrecognized for tax purposes according to the procedure established by Article 34 herein shall be recognized for tax purposes in the year of write-off of the relevant asset or liability.

(2) Where the value of the stocks of materials of a specific type, written off during the current year, exceeds the value of the stocks of materials of the said type as at the 31st day of December of the preceding year, the unrecognized income referred to in Article 34 herein in respect of the said type of stocks of materials during preceding years shall be recognized for tax purposes during the current year.

(3) Paragraphs (1) and (2) shall not apply in the cases of shrinkage and wastage of assets, which are not recognized

for tax purposes according to the procedure established by Article 28 herein.

Income and Expenses from Initial Recognition and Subsequent Valuation of Biological Assets and Agricultural (Farming) Produce

Article 36. (1) Any excess of the income (profits) from an initial recognition and subsequent valuation of biological assets and agricultural (farming) process over the expenses accounted for in connection with the said assets shall not be

recognized for tax purposes in the year of accounting for the said income and expenses.

Any excess of the income referred

to in sentence one shall be recognized for tax purposes in the year of write-off of the relevant asset.

(2) Any excess of the expenses reported in connection with biological assets and agricultural (farming) process, over

the incomes (profits) from an initial recognition and subsequent valuation of said assets shall not be recognized for tax

purposes in the year of accounting for the said income and expenses. Any excess of the expenses referred to in sentence

one shall be recognized for tax purposes in the year of write-off of the relevant asset.

(3) The provisions of Articles 34 and 35 herein shall not apply to any biological assets and agricultural produce.

Recognition of Income and Expenses from Subsequent Valuations of Claims

Article 37. Any income and expenses from subsequent valuations of claims unrecognized according to the procedure

established by Article 34 herein shall be recognized for tax purposes in the year in which one of the following circumstances

occurs:

1. lapse of the prescription of the claim, but not more than five years after the time the said claim became exigible;

2. onerous transfer of the claim;

3. the bankruptcy proceedings against the debtor have been closed by a confirmed plan for rehabilitation which

provides for incomplete satisfaction of the taxable person; the unrecognized income and expenses shall be recognized for

tax purposes solely in respect of the diminution in the claim;

4. an effective judgment of court has decreed that the claim or a part thereof is undue; the unrecognized income and

expenses shall be recognized for tax purposes solely in respect of the undue part of the claim;

5. prior to the lapse of the prescription, the claims have been extinguished by virtue of a law;

6. upon expungement of the debtor, where the claim or part thereof has been left unsatisfied: recognition shall be

limited to the unsatisfied part.

Provisions for Debts

Article 38. (1) Any expenses on provisions for debts shall be recognized for tax purposes in the year of accounting for any such expenses.

(2) Any expenses on provisions unrecognized under Paragraph (1) shall be recognized for tax purposes in the year of repayment of the debt for which the provision has been recognized up to the amount of the debt repaid.

(3) The accounting income accounted for in connection with a provision recognized shall not be recognized for tax purposes.

Provisions Not Included in Tax Depreciable Value of Tax Depreciable Asset

Article 39. (1) Upon determination of the tax financial result, the accounting financial result shall be debited with the repaid debts related to any provisions which are not included in the tax depreciable value of a tax depreciable asset according to Article 53 (1) herein. The debiting referred to in sentence one shall be performed in the year of repayment of the debt.

(2) The accounting income accounted for in connection with the provision recognized shall not be recognized for tax purposes.

Specific Procedure for Recognition of Expenses on Provisions for Debts upon Cessation of Activity

Article 40. (1) Any taxable person, which has applied Article 38 (1) or Article 53 (1) herein and has entirely ceased the core activity thereof in the year of repayment of the debts in respect of which a provision unrecognized for tax purposes has been charged, shall not apply the provisions of Article 38 (2) or Article 39 (1) herein and shall be entitled to an offset or refund of the overremitted corporation tax as arrived at according to the procedure established by Paragraph (2).

(2) The overremitted corporation tax shall be arrived at as a product of the repaid part of the debts, in respect of which a provision unrecognized for tax purposes has been charged, and the rate of corporation tax for the year of repayment of the debts. The repaid part of the debts for the purposes of sentence one may not exceed the sum total of the tax financial results for the ten years last preceding the year of cessation of activity.

Unused Leaves

Article 41. (1) Any expenses on accumulating unused (compensable) leaves at the 31st day of December of the current year, as well as any expenses connected with any such leaves, for compulsory social and health insurance, shall not be recognized for tax purposes in the year of accounting for any such expenses.

(2) Any unrecognized expenses on accumulating unused (compensable) leaves referred to in Paragraph (1) shall be recognized for tax purposes in the year during which compensations for the said leaves was actually paid to the staff, up to the amount of the compensations paid.

(3) Any unrecognized expenses on compulsory social and health insurance referred to in Paragraph (1) shall be recognized for tax purposes in the year during which the relevant social and health insurance contributions were remitted, up to the amount of the insurance contributions remitted.

(4) Any accounting expenses accounted for in connection with any debts referred to in Paragraph (1) shall not be recognized for tax purposes.

Expenses Constituting Income Accruing to Resident Natural Persons

Article 42. (1) Any expenses incurred by taxable persons, constituting income accruing to resident natural persons under the Income Taxes of Natural Persons Act, which are not paid as at the 31st day of December of the current year,

shall not be recognized for tax purposes in the year of accounting for any such expenses.

(2) Paragraph (1) shall not apply to any expenses constituting:

1. a basic or supplementary labour remuneration, fixed by a statutory instrument;
2. income accruing to sole traders.

(3) The expenses unrecognized under Paragraph (1) shall be recognized for tax purposes in the year during which the income is paid, up to the amount of the income paid.

(4) The accounting income accounted for in connection with any unpaid income referred to in Paragraph (1) shall not be recognized for tax purposes.

Regulation of Thin Capitalization

Article 43. (1) Any expenses on interest payments shall not be recognized for tax purposes in the year of accounting for any such expenses to an amount arrived at for the current year according to the following formula:

$UEIP = EIP - IIR - 0.75 \times AFRBI$, where:

UEIP shall be the unrecognized expenses on interest payments;

EIP shall be the expenses on interest payments arrived at according to the procedure established by Paragraph (3);

IIR shall be the total amount of income from interest receivable;

FRBI shall be the accounting financial result before all expenses on interest payments and income from interest receivable.

(2) Any expenses on interest payments, unrecognized under Paragraph (1), shall be recognized for tax purposes during the next succeeding five years until depletion of the said expenses, to an amount arrived at for the current year according to the following formula:

$REIP = 0.75 \times FRBI + IIR - EIP$, where:

REIP shall be the recognized expenses on interest payments;

FRBI shall be the accounting financial result before all expenses on interest payments and income from interest receivable;

IIR shall be the total amount of income from interest receivable;

EIP shall be the expenses on interest payments arrived at according to the procedure established by Paragraph (3) for the current year.

(3) The expenses on interest payments shall include all financial (interest) income, accounted for under financing by

means of debt capital. The expenses on interest payments shall not include:

1. any interest payments on financial leases and bank loans, except where the parties to the transaction are related

parties or the lease or the loan, as the case may be, is guaranteed or secured by or is extended on the order of a related party;

2. any penalty charges for late payments and damages;

3. any interest unrecognized for tax purposes on other grounds in this Act.

(4) Where the accounting financial result before all expenses on interest payments and income from interest receivable

is a negative quantity, the said result shall be ignored upon determination of the amount of expenses on interest payments

unrecognized and recognized under Paragraphs (1) and (2).

(5) The provisions of this Article shall apply in respect of any newly incurred expenses on interest payments, observing

the sequence of the incurrance of the said expenses.

(6) Paragraph (1) shall not apply where:

DC1 shall be the debt capital as at the 1st day of January of the current year;

DC2 shall be the debt capital as at the 31st day of December of the current year;

OE1 shall be the owners' equity as at the 1st day of January of the current year;

OE2 shall be the owners' equity as at the 31st day of December of the current year.

(7) The expenses on interest payments incurred by credit institutions shall not be regulated according to the procedure

established by Paragraphs (1) to (6).

Chapter Nine

AMOUNTS INVOLVED UPON DETERMINATION OF TAX FINANCIAL RESULT

Securities Traded on Regulated Markets

Article 44. Where the disposition of any shares and any negotiable rights attaching to shares in public companies,

shares in and units of collective investment schemes, is effected on a regulated Bulgarian securities market, upon

determination of the tax financial result the accounting financial result:

1. shall be debited with the profit determined as a positive difference between the selling price and the documented

cost of acquisition of the said securities, and

2. shall be credited with the loss determined as a negative difference between the selling price and the documented cost of acquisition of the said securities.

Subsequent Valuations Reserve in Respect of Assets which Are Not Tax Depreciable Assets

Article 45. Upon determination of the tax financial result, the accounting financial result shall be credited with the value of the revaluation reserve (subsequent valuations reserve) written off upon the write-off of any assets which are not tax depreciable assets, where an accounting income has not been accounted for upon the write-off of the said reserve. The said crediting shall be effected in the year of write-off of the asset. Where any land is transformed into investment property, the said crediting shall be effected in the year of write-off of the investment property.

Tax Treatment of Debts

Article 46. (1) Upon determination of the tax financial result, the accounting financial result shall be credited with the amount of the debts of the taxable person originating from amounts which lead to a diminution in the tax financial result, and the said crediting shall be effected in the year in which one of the following circumstances occurs:

1. the debts are extinguished by prescription, but not more than five years after the time when the debt became exigible;
2. the bankruptcy proceedings against the taxable person have been closed by a confirmed plan for rehabilitation which provides for incomplete satisfaction of the creditors; the crediting shall be effected by the amount of the diminution in the debt;
3. an effective judgement of court has decreed that the debt or part thereof is undue;
4. the creditor has relinquished the claim thereof by a judicial procedure or has redeemed the said claim; the crediting shall be effected by the amount redeemed;
5. before the lapse of the prescription period, the debts have been extinguished by virtue of a law;
6. the taxable person has submitted a motion for expungement.

(2) The accounting income accounted for in connection with a write-off of the debts referred to in Paragraph (1) shall not be recognized for tax purposes.

Tax Treatment of Credit for Input Tax Deducted in Respect of Assets Available or upon Registration or Re-registration under Value Added Tax Act

Article 47. (1) Upon determination of the tax financial result, the accounting financial result shall be credited with the amount of the credit for input tax deducted by the taxable person in respect of the assets available as at the date of

registration or re-registration under the Value Added Tax Act .

(2) The accounting income accounted for in connection with the credit for input tax deducted under Paragraph (1) shall not be recognized for tax purposes.

(3) Paragraphs (1) and (2) shall not apply in the cases where the tax deducted is not included in the value of the asset.

Chapter Ten

TAX DEPRECIABLE ASSETS

Tax Depreciable Assets

Article 48. Tax depreciable assets shall comprehend:

1. the tax tangible fixed assets;
2. the tax intangible fixed assets;
3. the investment properties, with the exception of land;
4. the subsequent expenses referred to in Article 64 herein.

Goodwill

Article 49. (1) Goodwill generated as a result of a business combination shall not be a tax depreciable asset.

(2) Any loss from impairment and upon write-off of goodwill shall not be recognized for tax purposes.

Tax Tangible Fixed Assets

Article 50. "Tax tangible fixed assets" shall be the amounts which satisfy the requirements for depreciable tangible fixed assets according to the National Financial Reporting Standards for Small and Medium-Sized Enterprises whose value equals or exceeds the lesser of:

1. the value materiality threshold for the tangible fixed asset, as adopted in the accounting policies of the taxable person;
2. five hundred leva.

Tax Intangible Fixed Assets

Article 51. (1) "Tax intangible fixed assets" shall be:

1. any acquired non-financial resources which:
 - (a) have no physical substance;
 - (b) are used during a period longer than twelve months;
 - (c) have a limited useful life;
 - (d) are of a value which equals or exceeds the lesser of:
 - (aa) the value materiality thresholds for the tangible fixed asset, as adopted in the accounting policies of the taxable person;
 - (bb) five hundred leva;
2. any amounts charged for marketing or analogous research, business plan and corporate strategies;
3. any amounts charged as a result of business transactions leading to an increase in the economic benefits flowing from a tax tangible fixed asset which is hired or provided for use; the said amounts shall not form a tax tangible fixed asset.

(2) Any accounting expenses, accounted for in connection with the acquisition of a tax tangible fixed asset before the origination of the said asset, shall not be recognized for tax purposes in the year of accounting for the said expenses and shall be involved upon determination of the tax depreciable value of the said asset. Where any circumstances determining that the taxable person will not acquire the tax intangible fixed asset occur in a succeeding year, the unrecognized expenses referred to in sentence one shall be recognized for tax purposes in the year of occurrence of any such circumstances, if the requirements of this Act are complied with.

Tax Depreciation Schedule

Article 52. (1) Any taxable persons which form a tax financial result shall prepare and keep a tax depreciation schedule, posting therein all tax depreciable assets.

(2) The tax depreciation schedule shall be a tax ledger wherein the information, specified according to the requirements of this Act, regarding the process of acquisition, subsequent keeping, depreciation and write-off of the tax depreciable assets, shall be posted.

(3) The tax depreciation schedule shall contain, as a minimum, the following information on each tax depreciable asset:

1. designation;
2. month of commissioning;
3. tax depreciable value;
4. tax depreciation charged;
5. tax value;
6. annual rate of tax depreciation;
7. annual tax depreciation;
8. month of occurrence of any changes in the values of the asset and the circumstances necessitating the said changes;
9. month of discontinuance and resumption of the charging of tax depreciations and the circumstances which necessitate the said discontinuance and resumption;
10. month of write-off of the asset covered under Article 60 (3) herein for accounting purposes and the circumstances which necessitate the said write-off.
11. month of write-off of the asset in the tax depreciation schedule.

Values of Tax Depreciable Assets

Article 53. (1) The "tax depreciable value" shall be the historical cost of the asset debited with the charged provisions and donations associated with the asset which are included in the said cost. In the cases referred to in Article 64 (1) and

Article 67 herein, the tax depreciable value shall be the sum total of:

1. the subsequent expenses: in the cases referred to in Article 64 (1) herein;

2. the expenses unrecognized for tax purposes: in the cases referred to in Article 67 herein.

(2) The "annual tax depreciation" shall be the depreciation charged in the tax depreciation schedule for the relevant year according to the requirements of this Chapter.

(3) The "tax depreciation charged" shall be the sum total of the annual tax depreciations for the relevant asset. The tax depreciation charged may not exceed the tax depreciable value of the asset.

(4) The "tax value" shall be the tax depreciable value of the asset debited with the tax depreciation charged for the said asset.

Tax and Accounting Depreciations

Article 54. (1) The tax depreciations, determined according to the procedure established by this Chapter, shall be recognized upon determination of the tax financial result.

(2) The accounting expenses on depreciation shall not be recognized for tax purposes.

Tax Depreciable Asset Categories

Article 55. (1) Upon determination of the annual tax depreciations, tax depreciable assets shall be allocated to the following categories:

1. Category I: solid buildings, including investment properties, plant, transmission facilities, electric power carriers, communication lines;

2. Category II: machinery, process equipment, apparatus;

3. Category III: means of transport excluding automobiles; surfacing of roads and of runways;

4. Category IV: computers, computer peripheral equipment, software, and right to use software;

5. Category V: automobiles;

6. Category VI: tax tangible and intangible fixed assets whereof the period of use is restricted according to contractual relationships or a legal obligation;

7. Category VII: all other depreciable assets.

(2) The annual rate of tax depreciation shall be determined on a single occasion for the year and may not exceed the following amounts:

Asset category Annual rate of tax depreciation (%)

I 4

II 30

III 10

IV 50

V 25

VI 100/years of legal restriction

The annual rate may not exceed $33 \frac{1}{3}$

VII 15

(3) In respect of Category II assets, the annual rate of tax depreciation may not exceed 50 per cent, where the following conditions are simultaneously fulfilled:

1. the assets form part of an initial investment;
2. the assets are new as fabricated and have not been exploited prior to the acquisition thereof.

(4) The separate depreciable assets used by the taxable persons in the categories covered under Paragraph (1) shall

be exhaustively classified by an ordinance of the Council of Ministers. The ordinance referred to in sentence one shall be

updated on a motion by the Minister of Finance over a period not longer than three years.

Standard Procedure for Posting of Assets in Tax Depreciation Schedule

Article 56. Tax depreciable assets shall be posted in the tax depreciation schedule at the tax depreciable value thereof.

Specific Procedure for Posting of Assets in Tax Depreciation Schedule

Article 57. (1) Any person, in respect of which the tax treatment changes as a result of which an obligation to form a

tax financial result arises for the said person, shall prepare a tax depreciation schedule wherein the tax depreciable assets

available at that time shall be posted at tax depreciable value and tax depreciation charged determined according to the procedure established by Paragraphs (2) and (3).

(2) The tax depreciable value of any asset referred to in Paragraph (1) shall be determined by means of:

1. crediting the historical cost of the said asset with the subsequent expenses incurred theretofore which, according to accounting legislation, lead to future economic benefits derived from the said asset;

2. debiting the historical cost of the said asset with the charged provisions and donations associated with the said asset which are included in the said cost.

(3) The tax depreciation charged for any asset referred to in Paragraph (1) shall be the accounting depreciation which

would be charged theretofore on the historical cost of the said asset, adjusted according to the procedure established by

Paragraph (2).

(4) Any assets for which the tax depreciation charged equals or exceeds the tax depreciable value thereof shall not be

posted upon preparation of the tax depreciation schedule.

(5) Paragraphs (1) to (4) shall furthermore apply in the cases of re-posting of an asset in the tax depreciation schedule.

Charging of Tax Depreciations

Article 58. (1) Tax depreciation shall commence to be charged as from the beginning of the month in which the tax

depreciable asset is commissioned. The date of commissioning must be supported by documents.

(2) Where a procedure for commissioning is provided for in a statutory instrument, the asset may not be commissioned for tax purposes earlier than what is established in the statutory instrument.

(3) The annual tax depreciation shall be arrived at according to the following formula: where:

ATD shall be the annual tax depreciation;

TDV shall be the tax depreciable value;

ARTD shall be the annual rate of tax depreciation, determined by the taxable person according to Article 55 (2) and

(3) herein;

M shall be the number of months of the year during which tax depreciation is charged.

Discontinuance of Charging of Tax Depreciations

Article 59. (1) Charging of tax depreciations shall be discontinued when the relevant asset is temporarily withdrawn

from use (no economic benefit is derived therefrom) for a period not exceeding three months. Charging shall be

discontinued as from the month next succeeding the month of withdrawal of the asset from use and shall be resumed as from

the beginning of the month of re-commissioning of the said asset. The tax depreciable asset shall not be written off in the tax

depreciation schedule.

(2) Paragraph (1) shall not apply where the temporary withdrawal from use of a tax depreciable asset is due to the

specific nature of the manufacturing process of the taxable person.

(3) Charging of tax depreciations shall be discontinued where the relevant asset is withdrawn from use and no future

economic benefits will be derived from use of the said asset in the course of activities. Where Article 60 (5) herein is not

applied, the tax depreciable asset shall not be written off in the tax depreciation schedule at the time of discontinuance of the

charging of tax depreciation.

(4) The charging of tax depreciations in respect of any assets covered under Article 60 (3) herein shall not be

discontinued.

Write-off of Assets in Tax Depreciation Schedule

Article 60. (1) An asset shall be written off in the tax depreciation schedule where the said asset is completely

depreciated for tax purposes.

(2) Where an asset is written off for accounting purposes before being fully depreciated for tax purposes, the said

asset shall be written off in the tax depreciation schedule at the beginning of the month during which the said asset is written

off for accounting purposes.

(3) Paragraph (2) shall not apply upon the write-off of any assets:

1. wherefrom a flow of economic benefit is not expected, including in the cases of retirement;

2. as a result of an increase in the value materiality threshold.

(4) Any assets referred to in Paragraph (3) shall be written off in the tax depreciation schedule according to the procedure established by Paragraph (1).

(5) Where any depreciable asset according to the National Financial Reporting Standards for Small and Medium-Sized Enterprises is transformed into a non-depreciable asset, with the exception of transformation into an investment property, the said asset shall be written off in the tax depreciation schedule as from the beginning of the current month.

(6) Where a tax depreciable asset ceases to be used for an activity in respect of which a tax financial result is formed, the said asset shall be written off in the tax depreciation schedule as from the beginning of the current month.

Retention of Values of Tax Depreciable Asset

Article 61. The values of the tax depreciable asset shall not change upon:

1. any subsequent accounting valuation (revaluation and impairment);
2. any change in accounting policy, including any change in the applicable accounting standards;
3. any accounting errors applying to prior periods, with the exception of technical errors;
4. registration or re-registration under the Value Added Tax Act .

Change in Tax Depreciable Asset Values

Article 62. (1) A change in the values of the tax depreciable asset shall be effected upon occurrence of any

circumstances necessitating such a change according to accounting legislation, with the exception of the cases covered under

Article 61 herein.

(2) The change in the values of the asset shall be shown in the tax depreciation schedule as at the 1st day of January of the year in which the circumstances necessitating the change have been ascertained. The tax depreciation schedule shall not be changed and the tax depreciation charged shall not be adjusted in respect of prior years.

(3) The values of the tax depreciable asset after the change must equal the value which would be determined if the circumstances necessitating the change were known during the prior years.

(4) Upon determination of the tax financial result, the annual tax depreciation of the asset for the current year shall be adjusted for the difference between the tax depreciation charged for the asset during the prior years and the annual tax depreciation which would be charged for the said years if the circumstances necessitating the change were known during the prior years.

(5) Where the circumstances ascertained do not necessitate a change in the values of the asset for prior years, the

change in the values shall be shown in the tax depreciation schedule as at the time of ascertainment of the circumstance during the current year.

Subsequent Expenses Associated with Asset Available in Tax Depreciation Schedule

Article 63. The tax depreciable value of any asset which is available in the tax depreciation schedule shall be credited with any subsequent expenses which, according to accounting legislation, lead to future economic benefits associated with the tax depreciable asset. The tax depreciable asset shall be credited as from the beginning of the month during which the said subsequent expenses were incurred.

Subsequent Expenses Associated with Asset Written Off in Tax Depreciation Schedule

Article 64. (1) Where an asset has been written off in the tax depreciation schedule but has not been written off for accounting purposes, a separate tax depreciable asset shall be posted with the subsequent expenses which, according to accounting legislation, lead to future economic benefits associated with the said asset.

(2) The tax depreciable asset referred to in Paragraph (1) shall be posted in the tax depreciation schedule as from the beginning of the month during which the subsequent expenses were completed.

(3) For the purposes of Article 55 herein, the tax depreciable asset shall be allocated to the category to which the asset in connection with which the subsequent expenses have been incurred was allocated.

(4) Where the asset in connection with which the subsequent expenses have been incurred is written off in the tax depreciation schedule before the tax depreciable asset referred to in Paragraph (1) is fully depreciated, the said asset shall be written off in the tax depreciation schedule under the terms and according to the procedure established by Article 60 herein.

Income and Expenses from Subsequent Valuations of Tax Depreciable Assets

Article 65. The accounting income and expenses from subsequent valuations of tax depreciable assets shall not be recognized for tax purposes.

Adjustment of Accounting Financial Result upon Write-Off of Tax Depreciable Asset

Article 66. (1) Where an asset is written off in the tax depreciation schedule, upon determination of the tax financial result the accounting financial result shall be credited with the accounting carrying value of the asset.

(2) Where an asset is written off in the tax depreciation schedule, upon determination of the tax financial result the

accounting financial result shall be debited with the tax value of the asset.

(3) Paragraphs (1) and (2) shall not apply:

1. in the cases of unrecognized expenses on shrinkage of assets and associated claims, where the tax value exceeds the accounting carrying value of the said asset;
2. upon write-off of an asset for the account of owners' equity, where the tax value exceeds the accounting carrying value of the said asset;
3. upon write-off of an asset according to the procedure established by Article 60 (6) herein, where the tax value exceeds the accounting carrying value of the said asset;
4. upon transformation of corporations and restructuring of cooperatives under Sections II and III of Chapter Nineteen herein.

Accounting Expenses Forming Tax Depreciable Asset

Article 67. Any accounting expenses forming a tax depreciable asset, including any subsequent expenses, shall not be recognized for tax purposes.

Income and Expenses Accounted for in Connection with Donation Associated with Tax Depreciable Asset

Article 68. Any accounting income and expenses, accounted for in connection with a donation wherewith the historical cost has been debited upon determination of the tax depreciable value of the asset, shall not be recognized for tax purposes.

Specific Tax Treatment of Asset Formed as Result of Development Activity

Article 69. (1) Upon determination of the tax financial result, the taxable person shall have the right to debit the accounting financial result thereof with the historical cost of an intangible fixed asset on a single occasion in the year of formation of the said result, where the following conditions are simultaneously fulfilled:

1. the asset has been formed as a result of development activity;
2. the development activity has been carried out in connection with the activity carried out by the taxable person as a regular business;
3. the development activity has been commissioned under market conditions to a scientific research institute or a higher school.

(2) Where the taxable person has exercised the right thereof under Paragraph (1), the intangible fixed asset accounted for under Paragraph (1) shall not be a tax depreciable asset.

Chapter Eleven

CARRY-FORWARD OF TAX LOSS

General Dispositions

Article 70. (1) Taxable persons shall have the right to carry forward the tax loss formed according to the procedure

established by this Part. Where a taxable person has elected to carry forward the tax loss, the said loss shall mandatorily be carried forward successively until the depletion thereof during the next succeeding five years.

(2) The taxable person shall exercise the right thereof to election by means of deduction of the tax loss during the first year after incurrence of a tax loss, during which the said person has formed a positive tax financial result before deduction of the tax loss. Where the taxable person has not formed a positive tax financial result before deduction of the tax loss until the date of tax control, the person shall be presumed to have exercised the right thereof to election in respect of carry-forward of a tax loss.

Procedure for Deduction

Article 71. (1) A tax loss shall be deducted upon determination of the tax financial result within the amount of the positive tax financial result before deduction of the tax loss. Where the tax loss is less than the positive tax financial result before deduction of the tax loss, the full amount of the said loss shall be deducted upon determination of the tax financial result.

(2) The tax loss shall furthermore be deducted upon determination of the quarterly prepayments of corporation tax.

Newly Incurred Tax Losses

Article 72. The provisions of this Chapter shall apply in respect of any newly incurred tax losses, observing the sequence of incurrence of the said losses. In respect of each of the newly incurred tax losses, the five-year-period shall begin to run from the year next succeeding the year of incurrence of the said losses.

Loss from Source Outside Bulgaria upon Application of Exemption with Progression Method

Article 73. (1) Any tax loss, formed during the current year in a State wherewith the Republic of Bulgaria has concluded a convention for the avoidance of double taxation and the method of avoidance of double taxation with respect to profits is exemption with progression, shall not be deducted from the tax profits from a source inside the country or other States during the current of succeeding years.

(2) The tax loss referred to in Paragraph (1) shall be deducted in compliance with the requirements of this Chapter successively solely from the tax profits from the source outside Bulgaria from which the said loss has been incurred during the next succeeding five years.

(3) Upon cessation of the activity of a permanent establishment in a Member State of the European Community or of

the European Economic Area, any tax losses from a permanent establishment which have not been carried forward and have not been recovered shall be carried forward according to the standard procedure established by this Act until lapse of the five-year period since the incurrence of the said losses.

Loss from Source Outside Bulgaria upon Application of Credit Method

Article 74. (1) Where a taxable person has formed a tax loss and the said loss or a part thereof has its source outside Bulgaria in respect of which source the credit method for avoidance of double taxation is applied, the loss which is not deducted during the current year shall be deducted during the next succeeding five years in compliance with the requirements of this Chapter successively solely from the tax profits from the source outside Bulgaria from which the said loss has been incurred.

(2) Where the tax loss for the year has not been formed from a single source (foreign State or the country), the said loss shall be allocated for the purposes of Paragraph (1) among the States from which the said loss has originated according to the following formula:

where:

A shall be the part of the tax loss incurred by the taxable person for the year, allocated to the relevant source (foreign State or the country);

B shall be the tax loss formed by the taxable person for the year;

C shall be the tax loss formed from the relevant source (foreign State or the country);

D shall be the sum total of the tax losses formed from all sources (foreign States and the country).

(3) Paragraph (1) shall not apply to any losses from a source within a Member State of the European Community or of the European Economic Area.

Chapter Twelve

ACCOUNTING ERRORS

Correction of Accounting Errors

Article 75. (1) Upon detection, during the current year, of any account