

MOORE STEPHENS



# Doing business in Bulgaria 2017





# Introduction

The Moore Stephens Europe Doing Business In series of guides have been prepared by Moore Stephens member firms in the relevant country in order to provide general information for persons contemplating doing business with or in the country concerned and/or individuals intending to live and work in that country temporarily or permanently.

Doing business in Bulgaria 2017 has been written for Moore Stephens Europe Ltd by Moore Stephens Bulgaria Audit OOD. In addition to background facts about Bulgaria, it includes relevant information on business operations and taxation matters. This Guide is intended to assist organisations that are considering establishing a business in Bulgaria either as a separate entity or as a subsidiary of an existing foreign company. It will also be helpful to anyone planning to come to Bulgaria to work and live there either on secondment or as a permanent life choice.

Unless otherwise noted, the information contained in this Guide is believed to be accurate as of 1 June 2017. However, general publications of this nature cannot be used and are not intended to be used as a substitute for professional guidance specific to the reader's particular circumstances.

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# 1. Bulgaria at a glance

## Geography, climate and population

Bulgaria is a country located in the south-eastern part of the Balkan Peninsula in south-eastern Europe. It has a strategic geographical location in the Balkan region with a long border to the north along the Danube river with Romania. It is also bordered by Serbia and the Republic of Macedonia to the west, Greece and Turkey to the south and the Black Sea to the east. With a territory of 110 994 km<sup>2</sup>, Bulgaria ranks as Europe's 16th largest country. Bulgaria's location has defined it as a historical crossroad for various civilisations and as such it is the home of some of the world's most ancient cultural artefacts.

The climate in Northern Bulgaria is moderate continental, while in Southern Bulgaria it is intermediate continental tending to Mediterranean. The climate is exceptionally favourable for growing vines, fruits and vegetables, and the oil-yielding rose for which Bulgaria has been renowned in Europe for centuries.

The population of 7.36 million people is predominantly urban and mainly concentrated in the administrative centres of its 28 provinces. Sofia (population: 1.22 million) is the capital and largest city of Bulgaria. It is located in western Bulgaria, at the foot of Mt Vitosha and approximately at the centre of the Balkan Peninsula. Other major cities include Plovdiv, Varna, Burgas and Ruse.

## Language and religion

Bulgarian, a member of the Eastern South Slavic branch of the Slavic language family, is the official language in the country and is written in the Cyrillic alphabet, while a minority of the people (approximately 9.6%) also speak Turkish. Bulgarians make up 84.8% of the population; some 8.8% are Turks and 4.9% Roma.

In recent years, due to the intensive development of business, most people involved in commercial activity are fluent in English. German and Russian are also spoken, but not so widely.

Of those professing a religion, some 75% identify with the Bulgarian Orthodox Church. The next largest religious group are Sunni Muslims, who constitute approximately 10% of the population.

## Politics and government

Bulgaria is a parliamentary republic. The President, who is the head of state, is directly elected for a five-year term. The President is also commander-in-chief of the armed forces and nominates a candidate for Prime Minister, who must then form a government able to command a majority in Parliament. Parliamentary elections are held every four years (although earlier dissolutions are permissible in certain circumstances) to a 240-member unicameral Parliament – the National Assembly (*Narodno sŭbranie*). Members are elected from multi-member constituencies by proportional representation. Parties must poll at least 4% of votes nationally in order to enter Parliament.

The current President of Bulgaria is Rumen Radev, elected for his first five-year term in November 2016. He stood as an Independent, with the support of the Bulgarian Socialist Party, and took up office on 1 January 2017. The Prime Minister is Boyko Borisov, of the centre-right GERB (Citizens for the European Development of Bulgaria) party. His third administration, in power since May 2017, is a coalition of his party and the right-wing, populist United Patriots.

## History

Evidence of the first organised prehistoric cultures on the territory of modern Bulgaria dates back to the Neolithic period. The Thracians, one of the three primary ancestral groups of the modern Bulgarians, began to appear during the Iron Age. Later, in the late 6th century BCE, the whole of Bulgaria was incorporated into the Persian Empire of Darius the Great. Persian rule was finally overthrown by Alexander the Great, and eventually the area of Bulgaria became part of the Roman Empire in 46CE. With the division of the Roman Empire in the 5th century CE, Bulgaria came under Byzantine rule. In the 6th century, southern Slav peoples settled and absorbed the Thracians. With the arrival of the

Bulgar tribes in 680, the first Bulgarian Empire was created. The Bulgars merged with the Slavic peoples and became slavified. Following a century or so in which Byzantine rule had been restored, a second Bulgarian Empire was established in 1185. By 1396, however, the expanding Ottoman Empire had conquered all Bulgarian lands south of the Danube. Ottoman rule lasted until 1878 when, after the Russo-Turkish War of 1877-78, the Treaty of Berlin established an autonomous principality of Bulgaria recognised by all the Great Powers. Bulgaria declared itself an independent kingdom in 1910. However, the Berlin state was considerably smaller than the original Bulgarian borders as agreed between Russia and the Ottomans at the Treaty of San Stefano in March 1878. The resulting tensions contributed to a war against Serbia (in 1885) and two Balkan Wars immediately preceding World War One, in which Bulgaria was allied with the Central Powers. Towards the end of World War Two, the Soviet invasion in September 1944 led to the collapse of the monarchy and soon resulted in the establishment of a Stalinist dictatorship under Georgi Dimitrov. With the collapse of Communism in central and eastern Europe at the end of the 1980s, Communist rule in Bulgaria also fell and free multi-party elections were held in 1990, leading to the dissolution of the People's Republic and the establishment of the modern democratic state.

In 2004, Bulgaria became a member of NATO and in 2007 of the European Union.

### **Currency, time zone, weights and measures**

The national currency of Bulgaria is the Bulgarian lev (BGN), which has maintained a fixed exchange rate vis à vis the euro since 1999. Accordingly, the lev remains quoted at the rate of EUR 1 = BGN 1.9558. At the time of going to press (late June 2017), the lev was quoted against the US dollar at USD 1 = BGN 1.7140.

Bulgaria is in the Eastern European Time Zone. Eastern European Standard Time (EET) is two hours ahead of UTC (UTC+2). In common with most of Europe, Bulgaria observes summer time (UTC+3 in its case) from the last Sunday in March to the last Sunday in October.

Bulgaria uses the metric system of weights and measures and the Celsius scale of temperature.

NB: All names and titles in Bulgarian have been transliterated from the Cyrillic alphabet using an adapted digraph version of the internationally accepted standard ISO 9.



Figure 1 Map of Bulgaria showing main towns and cities



## 2. Doing business

### Main forms of business organisation

The main legal forms of business entity in Bulgaria are the limited-liability company, the joint-stock company, the branch and the Trade Representative Office (TRO). The Bulgarian Commercial Code (*Tărgovski Zakon*) also provides for three forms of partnership – the general partnership (*săbiratelno druzhestvo*), the limited partnership (*komanditno druzhestvo*) and the partnership limited by shares (*komanditno druzhestvo s aktsii*), but these are rarely used by foreign investors.

#### Limited-liability company

The limited-liability company (*druzhestvo s ogranichena otgovornost*, abbreviated in Bulgarian to *OOD (ООД)*) has a minimum share capital of BGN 2, divided into shares (*diavole*). It may be founded by any number (including a single person) of persons, natural or legal. There are no restrictions as to nationality or residence. Its governing body is the shareholders' meeting and it is managed by one or more managers (directors), who are usually but not necessarily members of the company themselves. Unless its initial share capital is the minimum required (i.e. BGN 2, in which case it must be fully paid up), at least 70% of the share capital of an OOD must be paid up upon incorporation, and the company must register in the Commercial Register (*Tărgovski registăr*). Members may not freely transfer their shares to third parties, but must first offer them to other existing members.

#### Joint-stock company

The joint-stock company (*aktsionerno druzhestvo*, abbreviated in Bulgarian to *AD (АД)*) has a minimum share capital of BGN 50 000, divided into shares (*aktsii*). It may be founded by any number (including a single person) of persons, natural or legal. There are no restrictions as to nationality or residence. At least 25% of its share capital must be fully paid up upon incorporation. The AD's governing body is the shareholders' meeting, and it is managed by one or two boards. Under the single-tier system, there is only one board of directors ('the executive board'), which manages the company and is directly responsible to the shareholders' meeting. In the two-tier system, day-to-day management is carried out by the executive board, but that board is responsible to the 'supervisory board', which in turn answers to the shareholders' meeting. Only a joint-stock company may offer its shares to the public.

#### European entities

In common with other Member States, Bulgarian law allows for the formation of a European Company (*Societas Europaea*), the European Economic Interest Grouping (EEIG) and the European Cooperative Society.

#### Branch

The opening of a branch (*klon*) is one of the alternatives to the establishment of a Bulgarian company. Foreign companies registered abroad, as well as foreign individuals or persons that do not qualify as legal entities, may register a branch in Bulgaria, provided that they are properly incorporated and/or entitled to conduct business under the national law of their home country.



A branch of a foreign company is established by means of registration in the Commercial Register. After its proper registration according to Bulgarian law, the branch of a foreign company, although not a separate legal entity, has a certain degree of independence from the parent company. Thus, it is required to keep commercial books as a separate business establishment and prepare a separate balance sheet. However, as the branch is not a separate legal entity, its assets and liabilities are deemed to be assets and liabilities of the parent company. Therefore, the branch is not required to comply with capital-registration requirements or to have separate by-laws or a distinct management structure, except for a manager. From a tax point of view a branch of a foreign company is considered a 'permanent establishment' and it triggers corporate income tax liability in Bulgaria for the foreign parent company.

### Trade Representative Office (TRO)

A foreign person may register a trade representative office (*tărgovsko predstaviteľstvo*) in Bulgaria, provided that it is entitled to conduct business under the national law of its home country. A TRO is established by means of registration with the Bulgarian Chamber of Commerce and Industry. A TRO is not a separate legal entity and it may not carry out business activities. Thus, a TRO is meant to carry out non-proprietary activities, such as organising promotions, exhibitions or demonstrations, training or advertising of products or services, etc. Consequently, in general a TRO does not generate income and is not subject to corporate income taxation in Bulgaria. However, should a TRO engage in business activities in the country, it would qualify as a 'permanent establishment' for tax purposes and the foreign parent company will be liable in Bulgaria for corporate income tax on the profit made as a result of the business activity of the TRO.

### Labour relationships

The major item of legislation that governs employment relations in Bulgaria is the Employment Code (*Kodeks na truda*). The Code regulates all major aspects of employment relations, namely:

- The conclusion, amendment and termination of employment contracts
- Working hours, absences and holidays
- Employment discipline
- The compensation and contractual liabilities of the parties to an employment contract
- Special protection for some categories of employees etc
- The procedure for collective redundancy

Legal requirements are also provided in the Healthy and Safe Working Conditions Act, the Encouragement of Employment Act, the Protection of Personal Data Act, as well as in a number of ordinances adopted on the basis of the Employment Code and the above laws. One of the main goals of Bulgarian employment legislation is to create a minimum level of protection for employees. As a result of this, the Employment Code, as well as the other relevant Bulgarian legislation, contains numerous mandatory rules and regulations by which an employer hiring employees in Bulgaria must abide and comply with:

- Employment contracts must be in writing
- An employer is obliged to notify in writing the respective division of the National Revenue Agency of the following circumstances:
  - The signing of each employment contract – within three days of the date of signing
  - An amendment to the position of the employee or the term of the employment contract – within three days of the date of signing of the respective amendment or annex to the contract and
  - The termination of an employment contract – within seven days of its termination;

The Employment Code provides that a fine of between BGN 1500 and BGN 15 000 will be imposed on an employer for each case of non-performance of one of the above obligations for notification.

### Types of contracts of employment

The LC regulates the following major types of employment contracts:

- Contracts concluded for an indefinite period of time (contracts with an indefinite term)
- Contracts concluded for a fixed period of time (fixed-term contracts) and
- Contracts with a probationary period

The most common and generally accepted type of employment contract in Bulgaria is the contract with an indefinite term. It gives better protection to the employee's rights and interests because it provides for more stable and long-term employment. Therefore, an employment contract concluded for an indefinite period of time cannot be transformed into a fixed-term contract without the prior written consent of the employee.

Under the fixed-term employment contract, the parties stipulate the period for which the contract is valid and binding. In order to better protect employees' rights and interests, the Employment Code provides that employment contracts may only have a fixed term in exceptional cases, as expressly specified in the law (e.g. for performance of seasonal or temporary activities, for completion of a specific project, for temporary substitution of absent employees etc).

If a contract is concluded for a fixed term in breach of the relevant provisions of the Employment Code, it is deemed to be a contract with an indefinite term.

A contract with a probationary period is a specific type of temporary employment contract that gives the employer the opportunity to assess whether the employee is capable of performing the work required under the contract. It can precede the conclusion of a final employment contract, which can be a fixed-term contract, or a contract with an indefinite term. The type of final contract that follows the expiration of the probationary period must be specified in the temporary contract.

The probationary period can be in favour of the employer, of the employee or in favour of both parties. If the probationary period is in favour of the employer, then the employer will be entitled, during the probationary period, to terminate the contract unilaterally without prior written notice to the employee and without the need to present any grounds for termination of the contract. If a contract with a probationary period is not terminated by the employer as described above, then upon its expiration it will become the final contract that has been specified.

### Working hours

The Employment Code contains mandatory provisions that determine the regular working hours under an employment contract in Bulgaria. The regular working week is 40 hours, made up five working days of eight hours each.

These are in fact the maximum working hours that the parties to an employment contract may negotiate, unless otherwise provided for in the Employment Code. The law sets out mandatory limits for working hours within the working day and week in order to protect the rights of employees and to prevent an employer from imposing extended working hours.

All exceptions from the regular working week are expressly stipulated in the law. A requirement to work more than the regulated hours is always compensated by the employer, in a way provided for under the law.

Special regulations cover part-time work, shift work, including night shifts, and overtime. These provisions vary depending on the labour category of the employee and the associated working conditions.



## Holidays

Full-time employees are entitled to at least 20 days of annual paid holiday. Certain categories of employees, as determined by the Council of Ministers, are entitled to extended holidays and/or additional holidays.

The employee is entitled to use annual paid leave *en bloc* or in parts during the calendar year for which the leave applies, in accordance with a schedule approved by the employer. The employer is obliged to allow the use of annual paid leave of the employee when requested, for the period specified in the schedule, unless its use is postponed on grounds specified in the Employment Code.

Use of a part of the annual paid leave, up to 10 working days, may be postponed to the following calendar year either upon written request of the employee with the employer's consent due to a valid reason, or upon the initiative of the employer for important reasons related to the business activities of the employer.

When the employee has not been able to use fully or partly the annual paid leave within the calendar year for which it applies, due to use of temporary disability leave, leave for pregnancy, delivery, adoption or raising of a child, or any other leave provided for in the law, the use of annual paid leave may be postponed.

Where annual paid leave or part of it has not been used within two years of the end of the year for which the leave applies, irrespective of the reasons, the right for use of the leave lapses.

Upon termination of the employment relationship, the employee is entitled to monetary compensation for the unused part of his or her annual paid leave, the right of use of which has not been terminated due to expiry of the prescribed period of two years.

Official public holidays are listed in the Employment Code. The Council of Ministers may designate additional official public holidays.



The statutory minimum wage is currently (June 2017) BGN 460 per month.

## Medical check-ups

All employees must undergo periodic medical check-ups. Their frequency depends on the labour category, working conditions and the employee's age as determined by the Minister of Health. The associated expenses are the employer's responsibility.

### Health and safety at work

One of the main obligations of the employer is to provide healthy and safe working conditions. The law aims to secure greater protection of the employee's life, health and working capacity by holding the employer responsible for the conditions under which the employee has to carry out his/her employment obligations.

The employment legislation sets forth strict obligations of the employer in relation to the provision and maintenance of healthy and safe working conditions, which include but are not limited to:

- An assessment of risks to the health and safety of employees, which is to be performed by an independent specialised company
- Development of a general and annual programme for achieving the required healthy and safe working conditions based on the risk assessment
- Planning and performance of measures necessary for prevention of possible risks, including but not limited to: constant technical maintenance of equipment, provision of collective and personal protective means for employees, informing employees of possible risks, providing protective food and/or antidotes for employees who work under unhealthy and harmful conditions etc
- Providing special training of employees on healthy and safe conditions

The due performance of the above obligations by employers is subject to inspection and control by the competent authorities, which are entitled to impose fines in the case of non-compliance with the rules and the standards for healthy and safe conditions.

The Employment Code empowers the Minister of Employment and Social Policy to issue regulations regarding work-related health and safety conditions. These regulations may also be drawn up jointly with other ministries. A given employer's internal rules are subordinate to regulations issued by the respective ministry/ies.

The Employment Code provides for a fine of between BGN 1500 and BGN 15 000 to be imposed on employers and a fine of between BGN 1000 and BGN 10 000 on the responsible persons at the employer-company for each case of non-performance of obligations to provide healthy and safe working conditions.

### Termination of employment contracts

Employment contracts may be terminated upon general and/or other termination grounds and may or may not require advance notice. No notice is required if employment contracts are terminated by either party on one or more of the explicit grounds listed in the Employment Code.

When notice is required for termination, it may vary from 30 days up to three months. If the required notice period is not observed, then compensation is due.

Where the employer decides to terminate the employment contracts of 10 or more employees unilaterally, the procedure for collective redundancy should be observed. This procedure is applicable in case of liquidation, staff reduction, decrease of the workload and other grounds for termination of employment on behalf of the employer. The procedure for collective redundancy includes mandatory obligations for the employer, such as:

- Notifying trade unions and employees of its intention to terminate the employment contracts
- Initiating consultations with employees in order to mitigate or avoid the consequences of redundancy
- Notifying the Employment Agency and participating in teams comprised of representatives of employees, the municipal authorities and the Employment Agency for the purposes of training of employees, initiating business start-ups among the affected employees, or participation of employees in alternative employment programmes.

According to the Employment Code a fine of between BGN 1500 and BGN 5000 will be imposed on an employer and a fine of between BGN 250 and BGN 1000 will be imposed upon the responsible official of the employer for each case of non-performance of any of the above obligations to give notice to employees.

### Foreign nationals working in Bulgaria

The Bulgarian Employment Code provides no special treatment for expatriate personnel. In most cases, foreign nationals seeking employment in Bulgaria must obtain work permits. Employment contracts executed by foreign nationals working in Bulgaria must contain provisions that regulate accommodation expenses, medical treatment, insurance, transportation costs to and from the country of permanent residence etc.

### Visas

EU nationals who wish to enter and stay in Bulgaria do not need a visa. All other individuals do need a visa.

Visa requirements and the exemption from such requirements of foreigners are governed by the EU legislation, agreements of the European Union with third countries on visa régimes and the effective Bulgarian legislation.

Foreigners who wish to reside in Bulgaria on a long-term basis (in any case more than three months within each six-month period) must obtain a residence permit. EU nationals who intend to stay in Bulgaria longer than three months are issued residence certificates instead of residence permits.

Foreigners may work in Bulgaria only after obtaining a work permit, unless otherwise stipulated by the law.



## 3. Finance and investment

### Banking supervision

The commercial activities of credit and financial institutions in Bulgaria are regulated by the Credit Institutions Act, effective from 1 January 2007.

In accordance with the Act, a Bulgarian bank must be established in the legal form of a joint-stock company, issuing only dematerialised shares and with a fully paid-up minimum registered capital of BGN 10 million. Banking activities in Bulgaria may be performed only upon obtaining a bank licence issued by the Bulgarian National Bank (BNB).

The CIA envisages two possibilities for a bank licensed in an EU Member State or in a country that is part of the European Economic Area (EEA) for carrying out banking activities on the territory of the Republic of Bulgaria:

- Through a branch, of which no more than one may be on the territory of Bulgaria or
- Directly, after specifying the names and addresses of the persons who will represent the bank before the BNB

Member State banks, including banks from the EEA, may perform only those activities that are specified in their licences. Activity can commence upon notification to the BNB by the competent foreign licensing bodies.

A foreign bank registered in a third country (i.e. not in an EEA state) may perform banking activities in Bulgaria only upon opening a branch in Bulgaria and obtaining a licence issued by the BNB.

Financial institutions are legal entities other than credit institutions, for which the main scope of business is carrying out one or more banking activities and/or granting credits with funds that have not been raised from receiving deposits or other repayable funds from the public. Following amendments to the Act from March 2009, financial institutions are subject to registration in a special register kept by the BNB, provided that special requirements have been met. The financial institution could take the form of a joint-stock company, limited-liability company or limited partnership with shares. The minimum share capital of a financial institution is set at BGN 1 000 000.

Financial institutions having their registered address in an EEA state may also carry out commercial activities on the territory of the Republic of Bulgaria directly or through a branch provided that they:

- Are subsidiaries of a bank licensed in an EU Member State or
- Are jointly owned by two or more banks, all of which are licensed in an EU Member State and
- Meet all requirements explicitly envisaged in the Act.

The representative office of any bank in the Republic of Bulgaria is obliged to submit to the BNB a copy of the act for its registration with the Bulgarian Chamber of Commerce and Industry within 14 days of the date of issue of the act. Such a representative office may not carry out any commercial activity in Bulgaria.

### Exchange control

There are generally no restrictions on payments or currency exchanges, but the following factors should be considered.

Commercial banks and the Bulgarian National Bank only make payments and transfers to recipients abroad after receiving evidence for due declaration before the Bulgarian National Bank of the respective payment and transfer describing the grounds for the transfer.

Persons making transfers or currency payments exceeding BGN 25 000 to recipients abroad must provide the bank with certain information including an agreement, invoice, import document or any other document justifying the payment.

Transactions or payments between domestic and foreign persons must be registered for statistical purposes.



## 4. The accounting and audit environment

### Accounting regulations

The accounting regulations in Bulgaria are contained in the Accounting Act. Entities other than those required to apply IFRS (International Financial Reporting Standards) must apply National Accounting Standards (NAS). These standards are very close to the International Financial Standard for Small and Medium-Sized Enterprises (IFRSSMSE).

From the beginning of 2016 the application of IFRS is mandatory for public-interest entities. According to the Accounting Act (in force from the beginning of 2016) public-interest entities comprise:

- Companies listed in any EU Member State
- Banks and pension funds
- Insurance and reinsurance companies
- Investment funds qualifying as 'large undertakings' under Directive 2013/34/EU
- Financial institutions qualifying as 'large undertakings' under Directive 2013/34/EU
- The state-owned railway operator, Bulgarian Railways and its subsidiaries
- Companies generating, distributing or selling electricity and/or heat energy and qualifying as 'large undertakings' under Directive 2013/34/EU
- Companies importing, transmitting or distributing natural gas and qualifying as 'large undertakings' under Directive 2013/34/EU
- Water companies (qualifying as "medium-sized or large undertakings" under Directive 2013/34/EU)

Every entity that is not obliged to apply IFRS may apply these standards voluntarily.

### Audit requirements

The statutory audit requirements are prescribed in the Accounting Act.

According to the Act the following entities are subject to statutory independent audit:

- Public-interest entities (see above)
- Joint-stock companies (regardless of size)
- Large and medium-sized undertakings under Directive 2013/34/EU
- Small undertakings that fulfil as a minimum two of the three following criteria for the current year:
  - Balance-Sheet total as at 31 December – over BGN 2 000 000
  - Annual turnover – over BGN 4 000 000
  - Average number of employees – over 50
- Large and medium-sized groups
- Groups with one or more public-company subsidiaries
- Non-profit organisations operating in the public interest that fulfil at least one of the following criteria:
  - Balance-Sheet total as at 31 December – over BGN 1 000 000
  - Annual turnover – over BGN 2 000 000
  - Total amount of funding – over BGN 1 000 000

For accounting periods beginning after 31 December 2016, Bulgarian legislation (the Interdependent Financial Audit Act) requires the audits of banks, insurance and reinsurance companies as well as pension funds to be performed by two auditing firms. This requirement for joint audit demands that the audit work be shared between the two audit firms and the audit opinion be signed jointly by the two audit firms. The two firms should be jointly liable for the audit opinion issued.

## 5. Overview of the tax system

### The tax system

The main taxes collected by the tax authorities are as follows:

- Corporate income tax
- Personal income tax
- Value added tax
- Immovable property tax

### Appeals

Most taxes operate on a self-assessment system. Following a tax audit and an audit report (in respect of which a taxpayer may make representations), the authorities will issue an assessment if in their view the tax self-assessed by the taxpayer is incorrect.

The taxpayer has 14 days from the issue of the assessment to lodge an administrative appeal with the Director for Appeals at the tax authorities. The Director may confirm, amend or annul the assessment. If the taxpayer remains dissatisfied, he may appeal to the administrative courts.

The courts may refer matters touching on European law to the Court of Justice of the European Union.



## 6. Taxes on business

### Corporate income tax

#### Taxable entities

The following entities are subject to corporate income tax (*korporativen danāk*):

- Resident companies (limited-liability companies and joint-stock companies)
- Partnerships (general partnerships, limited partnerships, partnerships limited by shares)
- Cooperatives
- Non-profit organisations on their business activities (including rental income, if any)
- Non-resident companies on the profits of their Bulgarian permanent establishment

For the sake of simplicity, all these entities will be referred to as 'companies' in the remainder of this Chapter, unless it is necessary to distinguish between them.

#### Partnerships

Partnerships are regarded in Bulgarian law as legal persons in their own right and are thus subject to corporate income tax at the partnership level.

#### Scope and extent

Resident companies are charged to Bulgarian corporate income tax on a worldwide basis, whereas non-resident companies are taxed on their Bulgarian-source income only.

#### Territoriality and residence

Any company that is incorporated under Bulgarian law or is a European entity (such as a European company or EEIG) registered in Bulgaria is regarded as resident, no matter where its management and control may be situated.

By the same token, any company incorporated elsewhere is regarded as non-resident even if its management and control are situated in Bulgaria.

However, these domestic-law provisions may be overridden by the provisions of a tax treaty.

#### Taxable period

The taxable period is coincident with the calendar year. Companies must choose the calendar year as their financial year.

#### Taxable income

Taxable income is computed by adjusting the pre-tax profit computed on an accruals basis from the financial statements for non-deductible and non-taxable items. Capital gains are treated as part of taxable income.

Exempt income includes the following:

- Dividends received from other Bulgarian companies and companies resident in another EEA state (with some exceptions – see under 'Dividends' below)
- Gains from the disposal of financial instruments on a regulated stock market within the European Economic Area

#### Deductions

As a general rule, expenditure incurred or accrued by the company in the performance of its taxable activities is deductible, provided that it is properly documented.

However, expenditure that is expressly non-deductible includes:

- Expenditure not connected with the business activity of the company
- Fines and penalties
- Dividends paid and payable
- Impairment allowances and accounting depreciation on all types of assets, except on disposal (but see under 'Depreciation' below)
- Provisions under IAS 37, until the event or condition occurs
- Provisions and accruals for unpaid leave and pension obligations (under IAS 19)
- Excessive interest (see under 'Thin capitalisation' below)

### *Entertaining expenses*

These are deductible but are charged with a separate tax at 10%. The tax is also deductible.

### *Employee benefits*

Certain benefits of a social nature provided to employees (such as meals, holiday camps, food vouchers, contributions on employees' behalf to pension plans and life policies) are, like entertaining expenses, deductible but charged to a separate (itself deductible) 10% tax. The amount subject to this tax may be reduced by any income received from the facilities provided (e.g. charges for meals or holidays).

### *Expenditure on vehicles etc used by management*

The total cost of maintenance and fuelling of cars, boats or aircraft used as means of transport for the company's management are subject to the same treatment as entertaining expenses and benefit provision.

### *Depreciation*

For the purposes of tax depreciation, assets are divided into seven categories, each with a maximum straight-line depreciation rate. Companies are at liberty to choose any rate equal to or lower than the maximum rate. Depreciation is calculated on a monthly basis, but the rate cannot be varied within the same year.

The maximum rates for each category are shown in Table 1 below.

Table 1 Annual tax depreciation rates

Category of asset	Maximum rate of depreciation (%)
Buildings, facilities, transmission lines etc	4.00
Vehicles (other than motor cars), road and runway surfaces	10.00
Furniture & fittings and all assets not in another category	15.00
Motor cars	25.00
Plant and machinery	30.00
Computers, hardware and software, mobile phones	50.00
Assets with a time-limited life (t years)	100/t (maximum 33.33)

Non-depreciable assets include land, tangible and intangible assets used for a period no longer than 12 months or costing no more than BGN 700, goodwill and works of art.

Plant and machinery may benefit from accelerated depreciation (of up to 50% p.a.) in some circumstances.



### Dividends, interest and royalties receivable

For the treatment of outgoing dividends, interest and royalties, see under 'Withholding taxes'.

#### Dividends

As already stated, dividends from Bulgarian or other EEA-resident companies are exempt from corporate income tax. No minimum holding period or level of participation is required.

However, with effect from 1 January 2016, a dividend in respect of which the distributing company has obtained a tax deduction (e.g. a hybrid instrument treated as a debt in the payer's jurisdiction) is no longer exempt.

Dividends from other companies are taxable.

#### Interest and royalties

Interest and royalties are generally taxable.

#### Losses

Tax losses may be carried forward over the next five years. There is no carry-back of losses.

Losses of a foreign permanent establishment may be set off only against future profits of that establishment.

#### Group taxation

All companies are taxed separately. Bulgaria does not provide for special taxation of groups of companies.

#### Withholding taxes

Table 2 shows what withholding taxes are deducted from outbound payments to non-resident companies. Payments to resident companies are not subject to withholding tax.

For withholding taxes on payments to individuals, see Chapter 7.

Table 2 Rates of withholding tax for non-resident corporate recipients

Type of income payment	Rate of withholding tax
Dividends	0 <sup>1</sup> /5
Interest	0 <sup>2</sup> /10
Royalties	0 <sup>2</sup> /10
Property rentals	10
Management fees <sup>3</sup>	10
Capital gains	10 <sup>4</sup>

#### Notes

1 No withholding tax is deducted from dividends to companies resident in an EEA member state or from dividends to a Swiss company that has held at least 25% of the shares in the Bulgarian company for an uninterrupted period of at least two years

2 No withholding tax is deducted from interest or royalties to which the EU Interest and Royalties applies. This requires a minimum 25% interest of one company in the other or by the same third company in both held for an uninterrupted period of at least two years. The same rules apply to Swiss corporate recipients

3 Includes fees for technical assistance, franchising and factoring

4 Withholding tax is charged on capital gains derived from immovable property and certain financial assets (for which gains from this type of asset are exempt from tax, see under 'Capital gains' above)

Where withholding tax is deducted, it is final.

These withholding rates may be reduced or eliminated under the terms of an applicable double tax treaty.

### Anti-avoidance provisions

#### *Thin capitalisation*

The thin-capitalisation rules are twofold. First, the company's debt-equity ratio is tested. If debt does not exceed three times equity, no restrictions apply. Where the safe-harbour ratio is exceeded, interest expense may be restricted.

The restriction applies to all interest expense, except interest on a bank loan and the interest element of payments under a finance lease, unless the bank or the lessor are related to the debtor company.

The amount of interest expense disallowed is an amount equal to the excess (if any) of net interest expense over 75% of EBIT (earnings before interest and tax). Amounts disallowed may be carried forward for deduction (under the same limitations) in the next five tax years.

#### *Transfer pricing*

Bulgaria's transfer-pricing regulations are based on the OECD Guidelines, and allow for the tax authorities to adjust the value of transactions between a Bulgarian company or permanent establishment and related parties to arm's length where, broadly speaking, there has been a sale at an undervalue or a purchase at an overvalue. However, although keeping documentation evidencing the determination of transfer prices is recommended, it is not obligatory.

#### *Controlled foreign-company (CFC) rules*

Bulgaria has no CFC rules.

#### *Other anti-avoidance rules*

In certain cases, the counterparty to a transaction with a Bulgarian company will be regarded as a related party even where no actual relation exists. This will be the case where the counterparty is located in a jurisdiction:

- Outside the European Union in which the tax due on the revenue from the transaction is less than 60% of the tax that would apply in Bulgaria, subject to certain exceptions or
- With which there is no agreement for the exchange of tax information or which fails to provide the necessary information

### Tax incentives

A corporate tax waiver of 100% may be available in certain circumstances to a company carrying out manufacturing activities in an area or areas where the unemployment rate is more than 25% higher than the national average.

Certain sectors (such as shipbuilding, coal mining and primary agricultural production) are excluded and a number of detailed conditions have to be met.

### Tax rate

With the exception of the final 5% rate of withholding tax on dividends (see under 'Withholding taxes' above), there is a single rate of corporate income tax of 10%, which is the joint lowest standard rate in the European Union.

### Assessment procedure

There is a system of self-assessment for corporate income tax.

### Returns and payments

Companies subject to corporate income tax must file annual corporate tax returns together with their financial statements and an activity report by 31 March of the following year.

The return must contain a self-assessment of the company's tax liability and payment of any balance of corporate income tax due after allowing for instalment payments (see below) must also be made by the due date.

Companies must make monthly or quarterly advance payments of corporate income tax over the course of the year in question, based on an estimate of the tax liability for the current year made in the previous year's tax return. Companies whose net turnover in the previous year exceeded BGN 3 million must make monthly advance payments of one-twelfth of the estimated liability. The payments for January, February and March are due by 15 April; the payments for the remaining months are due by the 15th of that same month. All other companies make three quarterly payments, of one quarter of the estimated liability. These are due by 15 April, 15 July and 15 October respectively. No advance payment is due in respect of the fourth quarter.

Where the final tax liability exceeds the total of advance payments made by more than 20% (or in the case of quarterly payments, where 75% of the final tax liability exceeds the total of advance payments made by more than 20%), penalty interest is payable on the excess.

Companies have the facility to make in-year interim returns to increase or decrease, as appropriate, their previous estimates of the final liability.

Companies whose turnover did not exceed BGN 300 000 in the previous year are not obliged to make advance payments.

### Appeals

See Chapter 5.

### Value added tax

Value Added Tax (VAT, or in Bulgarian – *danāk vārkhū dobavenata stoynost*, ДДЦ) as regulated by the European Union is generally charged on the supply of goods or services where the place of supply is in Bulgaria, no matter whether the customer is a private person or a business. It is thus a multi-stage tax charged at each stage of the product cycle but is ultimately borne by the end-user (final consumer). It is also levied on imports of goods from outside the European Union. The overall framework of the tax is the competence of the European Union, as legislated in the VAT Directive (2006/112/EC) and associated Directives and Regulations.

These allow Member States several options in application of the tax, not the least of which is the power to set rates (within certain broad parameters).

As elsewhere in the European Union, supplies may be taxable, exempt (with or without the right to deduct) or outside the scope. Exempt supplies with the right to deduct are sometimes referred to as 'zero-rated'. Businesses making exclusively taxable or zero-rated supplies generally qualify for full deduction of input VAT (the VAT they have incurred making supplies). Businesses making exclusively exempt supplies without the right to deduct do not qualify for deduction of input VAT. Businesses making a mixture of exempt supplies without the right to deduct and taxable or zero-rated supplies may fully deduct only the input VAT directly incurred on making the taxable or zero-rated supplies. Partial deduction will be available for overheads and other indirect costs.

VAT in Bulgaria is governed by the Value Added Act (*Zakon za danāk vārkhū dobavenata stoynost*), which is in conformity with the EU VAT Directive (2006/112/EC) as amended.

### Taxable entities

Businesses ('taxable persons') charging VAT to their customers are liable to report and pay this VAT to the Bulgarian tax authorities. Any VAT incurred in the course of the taxable person's taxable activity (e.g. charged by the taxable person's suppliers), can in principle be deducted or set off against the VAT due. Only the net amount must be paid to the tax authorities. If there is a balance of deductible VAT, the amount is in principle recoverable from the tax authorities (but see below). Consequently, the real burden of VAT falls on the final consumer, with the intervening business effectively acting as a collecting agent for the tax authorities.

Although most taxable persons are businesses and most businesses are taxable persons, a taxable person is any person independently carrying on an economic activity. The definition of 'economic activity' is quite wide, so that on occasion, even persons not carrying on a business in the generally understood sense of the word may have to charge and pay over VAT.

### Taxable persons

All persons making supplies of goods or services or importing goods in the course of independently carrying on a business activity are taxable persons for the purposes of VAT.

### Taxable activities

Taxable activities are:

- The supply (delivery) of goods or the supply (provision) of services in Bulgaria carried out for consideration by a taxable person in the course of carrying out business activities
- The importation of goods into Bulgaria

A supply of goods takes place when title to the goods passes or any other transfer takes place which enables the recipient to dispose of the goods as their owner. A supply of services is any taxable activity that is not a supply or importation of goods. Furthermore, refraining from an act may also be a supply of services.

A supply is considered to take place:

- For the supply of goods generally – where the goods are located at the moment when delivery begins
- For water, electricity, gas and thermal energy – at the place of delivery
- For goods installed by the deliverer – at the place of installation
- For the supply of services generally – at the place where the supplier has his business
- For services related to immovable property – at the place where the immovable property is located
- For transport services – at the actual place of transport
- From 1 January 2015, for broadcasting, telecommunications and electronically delivered services to private consumers, at the place where the consumer is located
- Services related to culture, art, science, education etc – at the place where the service is provided and
- Renting and leasing of movable goods, telecommunication services, transfer of intellectual rights, services of lawyers, auditors, advisors, data processing etc – at the place where the service is provided

### Exempt supplies

Exempt supplies are divided in two categories:

- Supplies that are exempt with the right to deduct input tax and
- Supplies that are exempt without the right to deduct input tax



Supplies that are exempt with the right to deduct input tax include the following:

- Exports of goods and intra-EU supplies
- Transportation of export, import, and transit goods
- Services that are directly related to goods that are imported from third countries and are not released for free circulation within the European Union but placed in a free zone or customs warehouse
- Supplies of goods and services connected with international transport (ships and aircraft)
- International transport services on ships and aircraft
- International passenger traffic
- Supplies of goods and services under diplomatic and consular arrangements

Supplies that are exempt without the right to deduct include:

- Transactions in shares and other securities
- Most banking and financial services
- Insurance and reinsurance transactions
- Services closely linked to welfare and social security work
- Provision of medical care
- Most educational services
- The sale of immovable property excluding the sale of unused immovable property and building land
- The rental of residential property (excluding hotel and holiday accommodation)
- Betting, lotteries, and other forms of gambling
- Certain postal services

### Rates of VAT

There are two rates of VAT: the standard rate of 20% and the reduced rate of 9%.

The standard VAT rate is charged on all taxable supplies that are neither exempt, outside the scope nor taxable at the reduced rate.

The reduced rate is limited to the supply of hotel and similar tourist accommodation.

### Registration

A taxable person is required to register for VAT once his annual turnover on transactions subject to VAT exceeds BGN 50 000. Voluntary registration is possible for persons whose turnover falls below this limit. Bulgaria is one of only three Member States (the others being Cyprus and Finland) where the same threshold applies to non-established taxable persons. In other Member States, non-established taxable persons who carry out taxable supplies in that Member State must register for VAT whatever their turnover from those supplies.

The threshold for distance sales (sales made to non-taxable persons in Bulgaria by a taxable person established abroad) is BGN 70 000; the threshold for intra-EU acquisitions by a previously unregistered person is BGN 20 000.

### Returns and payment

The taxable period is the calendar month.

Returns must be filed electronically and payment made within 14 days of the end of the taxable period. Only the smallest traders may still make paper returns.

If input tax exceeds output tax, the excess is normally carried forward for a maximum of two periods. If, after these two periods, there is still unrecovered VAT, these amounts should be refunded by the tax authorities within 60 days. Where the taxable person is exclusively involved in exporting, making intra-EU supplies or providing services whose place of supply is outside Bulgaria, the tax authorities should refund any excess input VAT within 30 days of the end of the period.

## 7. Personal taxation

### Personal income tax

#### Persons liable

Personal income tax (*danäk vărku dokhodite na fizicheskite litsa*) is charged on individuals deriving income in Bulgaria and (where appropriate) abroad.

#### Territoriality and residence

Individuals resident in Bulgaria are liable to income tax on their worldwide income, whereas non-residents are liable to income tax on their Bulgarian-source income only.

An individual is regarded as resident in Bulgaria if he or she:

- Is physically present in Bulgaria for more than 183 days in any 12-month period
- Has his or her centre of vital interests in Bulgaria or
- Is a Bulgarian national and is seconded abroad by a Bulgarian company or institution or is a member of the secondees' family

#### Family unit

All individuals are taxed separately, regardless of their marital status or other personal circumstances.

#### Taxable period

The taxable period is the calendar year.

#### Structure of income tax

Bulgarian law recognises six separate sources of taxable income:

- Income from employment
- Income from economic activity as a sole trader
- Income from other economic activity (including self-employment, farming, crafts, professions)
- Income from the hiring or letting of movable or immovable property (including leasing, franchising and factoring)
- Capital gains (income from the transfer of rights or property)
- Other income (e.g. dividends, interest, prizes, winnings)

Taxable income from each of these sources is computed separately and the result then aggregated, except for income from sole tradership, which is separately assessed and taxed, and elements of income subject to a final withholding tax (e.g. dividends).

#### Exempt income:

Exempt income includes:

- State pensions and social security benefits
- Private pensions under certain conditions
- Interest and discounts on state and local-authority bonds of a member state of the European Economic Area
- Stock dividends
- Agricultural-lease income

For exempt capital gains, see under 'Capital gains' below

***Income from employment***

Income from employment includes all forms of remuneration arising from an employment relationship, including benefits-in-kind. Directors' remuneration is classified as income from employment, but foreign directors' fees are subject to a final withholding tax (see under 'Withholding taxes' below).

***Benefits-in-kind***

Benefits-in-kind are subject to tax on their market price. Certain benefits (e.g. those the cost of which to the employer is subject to the separate 10% tax (see Chapter 6, under 'Deductions')) are exempt for the employee.

***Pensions***

Pensions, including permanent-disability pensions and survivors' pensions, paid under a mandatory state or state-supervised pension scheme of any country, are exempt from income tax. Private pensions are also exempt if the pensioner has reached pensionable age and the pension provider is registered and licensed in an EEA country.

***Directors' remuneration***

This is normally taxed as employment income. Where paid to a non-resident, it is subject to a final 10% withholding tax.

***Salary tax***

Employers are obliged to deduct income tax at 10% from employees' gross earnings, together with social security contributions.

***Income from a business***

The tax treatment of income from a business depends on the nature of the business and may also depend on the level of turnover.

***Sole traders***

Persons registered under the Commercial Code as sole traders and persons not so registered but who carry on a trade (as defined in the Commercial Code) of which they are the single unincorporated proprietor are taxed on their net profits, as measured under the rules applicable to companies (see Chapter 6). The net profit as so calculated is chargeable to income tax at 15%.

Individuals carrying on certain trades from which they derive an annual turnover of no more than BGN 50 000 and who do not have a VAT registration may opt for lump-sum taxation. The precise amount of tax they are then required to pay will depend on various factors, such as location, size of premises etc. The trades in question are listed in the Local Duties and Taxes Act (*Zakon za mestnite danutsi i taksi*) and include restaurants, small hotels and boarding houses, hairdressers and tailors.

***Professions and other businesses***

Income from carrying on a profession or businesses other than trades as defined in the law (see above) is taxed by deducting a fixed percentage of turnover in lieu of actual expenses. The percentages vary as follows:

- Registered agricultural producers and tobacco growers: 60% in respect of unprocessed agricultural products and 40% for processed products
- Unregistered agricultural producers, and individuals engaged in commercial forestry, hunting and fishing: 40%
- Artists, performers and craftspeople: 40%
- Professionals (e.g. lawyers, accountants, architects) and freelancers: 25%

### *Losses*

Sole traders may carry a loss forward for a maximum of five years.

### **Investment income**

#### *Dividends*

Dividends from domestic and foreign sources are subject to a final withholding tax of 5%.

#### *Interest*

Interest from bank deposits is subject to a tax at 8%, payable by means of deduction at source in the case of interest from Bulgarian-based banks.

Interest from government or local-authority bonds of an EEA country is exempt from income tax.

Any other form of interest is aggregable with other taxable income and subject to income tax at the single flat rate of 10% (see under 'Rates of tax' below).

#### *Royalties*

Royalties are aggregable with other taxable income and subject to income tax at the single flat rate of 10%, but a lump-sum deduction of 40% is first made from gross royalty income, so the effective rate of tax is 6%.

#### *Rents from immovable property*

A deduction of 10% is made by way of a lump-sum expense allowance from gross rentals; the net amount is then subject to tax at the general 10% rate. The effective rate of tax is thus 9%, but there is no allowance for related actual expenditure.

### **Capital gains**

In principle, all capital gains accruing from the alienation (by sale, transfer or exchange) of movable and immovable property are subject to tax at the general 10% rate. Capital gains are determined by deducting the acquisition cost (if any) from the proceeds of alienation. Assets acquired by way of gift are considered to have a zero acquisition cost. In the case of immovable property, an extra allowance of 10% of the capital gain is available, and indexation is applied to the acquisition cost of property acquired before 1 January 1998.

Capital losses are deductible from gains on the same type of asset.

Certain types of capital gain are exempt. These include gains from the alienation of:

- One residential property per year, if held for more than three years
- Two residential properties per year, if held for more than five years
- Financial instruments on a regulated stock market in an EEA state

### Withholding taxes on outbound payments

Table 3 shows the rate of withholding tax on the most significant types of outbound payments to resident and non-resident individuals.

Table 3 Rates of withholding tax on payments to individuals

Income or payment	Resident recipients	Non-resident recipients
Dividends	5%	5%
Interest	8% <sup>1</sup>	8%/10% <sup>2</sup>
Royalties	--	10%
Director's remuneration	10% (salary tax)	10%
Fees for artistes, athletes etc,	--	10%
Franchise and service fees	10%	10%
Rents from immovable property	10%	10%

#### Notes

1 In respect of interest on bank deposits only

2 The 8% rate applies to interest on bank deposits; otherwise, the rate is 10%

### Allowances and deductions

#### Interest relief for young families

Young families resident in Bulgaria or in another EEA state are entitled to a deduction of mortgage interest in respect of a loan to purchase their home. The conditions are that:

- The mortgagee is one member of a married couple
- Both the mortgagee and the mortgagee's spouse are under the age of 35 when they take out the loan and
- The property in question is the family's sole residence during the tax year

Relief is limited to interest on the first BGN 100 000 of the principal.

#### Donations

A deduction may be claimed for donations to certain approved charitable and social organisations in Bulgaria or their equivalents in another EEA state, subject to a maximum deduction of 65% of the individual's taxable income. These deductions are not available to sole traders.

#### Social security contributions

Mandatory social security contributions are deductible from taxable income.

#### Voluntary contributions

Individuals may deduct up to 10% of their taxable income in respect of voluntary health and life insurance and voluntary social security contributions.

#### Personal allowances

Taxpayers are not entitled to a person allowance in respect of their own circumstances but allowances are available in respect of children maintained by the taxpayer and for disabled taxpayers.

A child allowance of BGN 200 per year per child is available to the parent or guardian of a dependent minor child in respect of no more than three children. However, if the child is disabled or has other major health problems, the allowance is increased to BGN 2000 per year.

A taxpayer who is permanently disabled to the extent of 50% or more may claim a personal allowance of BGN 7920.



### Rates of tax

As has been noted, there is a single standard rate of income tax, which is 10%. However, the income of a sole trader is taxed at 15%, bank-deposit interest is taxed at 8% and dividend income is taxed at 5%.

### Inheritance and gift tax

#### Inheritance tax

##### *Taxable events and taxable persons*

Inheritance tax (*danāk vārkhū nasledstvata*) is levied on the transferee of worldwide movable and immovable property of a decedent Bulgarian national, no matter where the transferor may have been resident for tax purposes at the time of his or her death.

Where the decedent transferor is not a Bulgarian national, the transferee is liable to Bulgarian inheritance tax on property situated in Bulgaria.

##### *Exempt transfers*

Transfers to a spouse or to direct forebears or descendants are exempt, as are transfers to qualifying national institutions.

##### *Exempt assets*

Household chattels, musical instruments, works of art created by the transferor and small items of agricultural equipment are exempt.

##### *Valuation*

Liabilities owing to third parties are deductible from the value of the asset in question.

##### *Reliefs and allowances*

All non-exempt transferees are entitled to an allowance of BGN 250 000.

##### *Rates of tax*

Inheritance tax is a local tax, so exact rates are determined by each local authority, but between the parameters set out in Table 4.

Table 4 Rates of inheritance tax

Identity of transferee	Rate of tax (%)
Sibling, child of sibling	0.4-0.8
All other transferees	3.3-6.6

### Gift tax

##### *Taxable events and persons*

Gift tax (*danāk vārkhū dareniyata*) is charged on the gratuitous lifetime transfer or waiver of debt within Bulgaria between individuals or companies. The taxable person is the donee, but the parties may agree between themselves that the tax shall be borne by the donor. Where the donee is non-resident, the tax must be borne by the donor.

***Exempt transfers***

As with inheritance tax, transfers to spouses, direct forebears and descendants and certain approved charitable or other institutions are exempt.

***Exempt assets***

No types of asset are specifically exempt.

***Reliefs and allowances***

There are no reliefs or allowances.

***Rates of tax***

The parameter rates of gift tax are identical to those for inheritance tax (see Table 4 above).

**Wealth tax**

Bulgaria does not have any wealth tax.



## 8. Other taxes

### Immovable property tax

Immovable property tax (*danък въркху nedvizhimite imoti*) is levied by local authorities on the owners or usufructuaries of land and/or buildings situated in Bulgaria.

Exempt property includes heritage property (unless used for business purposes), churches, monasteries, or places of worship of registered religious communities and agricultural land.

In the case of companies, the rate of tax is between 0.01% and 0.045% of the higher of the book value and the tax value of the property concerned, unless it is residential property, in which case reference is had only to the tax value.

In the case of individuals, the tax is charged at a rate of between 0.01% and 0.045% of the tax value of the property. If the property is the taxpayer's main residence, the tax due is reduced by 50% or by 75% if the taxpayer is disabled.

The tax is payable in two equal instalments, on 30 June and 31 October.



### Property transfer tax

There is a registration duty (*danък въркху prekhvărlyaneto na nedvizhimo imushtestvo*) on the transfer of title to immovable property and motor vehicles, payable by the new holder of title applying to register the property in his name.

Transfers to certain charitable institutions are exempt.

The tax is levied by local authorities on the transferee at a rate of between 0.1% and 0.3% of the value of the property transferred.

### Other significant taxes

#### Customs duties

Goods imported into Bulgaria from outside the European Union are subject to a customs procedure. Goods exported from the European Union must be considered carefully within an export customs procedure. The declarant is a person responsible for the payment of a customs debt, and also for submitting a customs declaration on his own behalf or on the behalf of a person submitting the customs declaration. In addition to import duty payments, other payments payable for the export and import of goods are import VAT, excise taxes and charges set by the Common Agricultural Policy.

#### Excise duty

Excise duty (*aktsiz*) is payable on:

- Alcoholic beverages
- Tobacco products
- Petroleum and other hydrocarbon fuels
- Natural gas
- Electrical energy for industrial purposes

## 9. Social security contributions

### Employee and employer contributions

Social security contributions are payable by employers and employees in respect of the gross earnings of employees. Payments are hypothecated to five separate funds:

- Old-age pension insurance
- Unemployment insurance
- Industrial accident and occupational illness insurance
- Health insurance and
- Maternity and general sickness insurance

The employer is responsible for deducting the employee's contributions monthly from salary.

The earnings ceiling for contributions is BGN 2600 per month (equivalent to BGN 31 200 per year). For earnings above the ceiling, no further contributions are required. The earnings threshold, at which contributions become payable, varies according to the nature of the job and the seniority of the employee's position.

Contribution rates for 2017 for the so-called third category of employment (for those employees under normal working conditions) are shown in Table 5.

Table 5 Rates of employer and employee social security contributions

Fund	Employee (%)	Employer (%)	Total (%)
Pension	6.14/8.34 <sup>1</sup>	7.66/10.46 <sup>2</sup>	13.80/18.80
Unemployment	0.4	0.6	1.0
Industrial accident & occupational illness	0.0	0.4-1.1 <sup>3</sup>	0.4-1.1
Health	3.2	4.8	8.0
Maternity and general sickness	1.4	2.1	3.5
<b>Total</b>	<b>11.14/13.34</b>	<b>15.56/19.06</b>	<b>26.7/32.4</b>

#### Notes

1 The lower rate applies to employees born after 31 December 1959 who opt not to pay the additional 2.2% to a voluntary private fund for an additional pension. The higher rate applies to all employees born before 1 January 1960 and to younger employees who do not opt out of the additional voluntary contribution.

2 The lower rate applies in respect of employees born after 31 December 1959 who opt not to pay the additional 2.2% to a voluntary private fund for an additional pension. The higher rate applies in respect of all employees born before 1 January 1960 and to younger employees who do not opt out of the additional voluntary contribution.

3 The precise rate depends on the category of employment. Employments at greater risk of accident and disease incur a higher contribution rate than less hazardous employments

For employees in other (the first and second) employment categories, the employer's pension contribution is increased by three percentage points to 10.1% and employers must also pay 12% (for the first category) and 7% (for the second category) to a mandatory supplementary pension. Certain categories of employee (such as teachers) pay at slightly different rates. Civil servants, members of the judiciary etc are not normally required to pay contributions

## Self-employed contributions

In principle, self-employed persons pay contributions equal to the sum of employee and employer rates, based on an amount of their earnings specified by themselves, within certain parameters. The provisional minimum (threshold) amount varies according to the individual's taxable income of the antepenultimate year (i.e. contribution minima for 2017 will depend on the taxable income of 2015) and is as set out in Table 6.

Table 6 Minimum contributions base for the self-employed in 2017

Taxable income of 2015	Monthly minimum base	Annual equivalent
No greater than BGN 5400	BGN 460	BGN 5520
BGN 5401 – BGN 6500	BGN 500	BGN 6000
BGN 6501 – BGN 7500	BGN 550	BGN 6600
BGN 7501 and above	BGN 600	BGN 7200

The contributions ceiling for the self-employed is also set at BGN 2600 per month (BGN 31 200 per year). Once the individual knows what his or her taxable income in the year in question actually is, as declared in the individual's tax return, contributions must be recomputed if the thresholds fall into another band, and any additional contributions due as a result are payable no later than 30 April of the following year (i.e. by 30 April 2018 for 2017 contributions).

The contribution rates applicable for 2017 are listed in Table 7.

Table 7 Self-employed contribution rates for 2016

Fund	Contribution rate (%)
Old-age pension	13.8/18.8 <sup>1</sup>
Health	8.0
Maternity and general sickness	3.5
<b>Total</b>	<b>25.3/30.3</b>



# 10. Moore Stephens in Bulgaria

Moore Stephens is represented in Bulgaria by two firms:

## **Moore Stephens Bulgaria – Audit OOD**

**ulitsa Lege 10**

**Sofia 1000**

**T** +359 2 987 5380

**F** +359 2 987 5381

[info@msaudit.com](mailto:info@msaudit.com)

[www.msaudit.com](http://www.msaudit.com)

<b>International liaison:</b>	Stefan Nenov	<a href="mailto:nenov@msaudit.com">nenov@msaudit.com</a>
	Sonia Doikova	<a href="mailto:doikova@msaudit.com">doikova@msaudit.com</a>
<b>International tax liaison:</b>	Ivan Simov	<a href="mailto:simov@msaudit.com">simov@msaudit.com</a>

## **Moore Stephens OOD**

**ulitsa Trapezitsa 6**

**Sofia 1000**

**T** +359 2 983 9781

**F** +359 2 980 5108

[moorestephens@abv.bg](mailto:moorestephens@abv.bg)

<b>International liaison:</b>	Anton Koshev	<a href="mailto:moorestephens@abv.bg">moorestephens@abv.bg</a>
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# Appendix 1: Double tax treaties

## Comprehensive double tax treaties

Bulgaria has comprehensive double taxation treaties with the following countries:

Albania	Indonesia	Portugal
Algeria	Iran	Qatar
Armenia	Ireland	Romania
Austria	Israel	Russia
Azerbaijan	Italy	Serbia <sup>1</sup>
Bahrain	Japan	Singapore
Belarus	Jordan	Slovakia
Belgium	Kazakhstan	Slovenia
Canada	Kuwait	South Africa
China	Latvia	South Korea
Croatia	Lebanon	Spain
Cyprus	Lithuania	Sweden
Czech Republic	Luxembourg	Switzerland
Denmark	Macedonia	Syria
Egypt	Malta	Thailand
Estonia	Moldova	Turkey
Finland	Mongolia	Ukraine
France	Montenegro <sup>1</sup>	United Arab Emirates
Georgia	Morocco	United Kingdom
Germany	Netherlands	United States
Greece	North Korea	Uzbekistan
Hungary	Norway	Vietnam
India	Poland	Zimbabwe

<sup>1</sup> The treaty concluded with the former Federal Republic of Yugoslavia (Serbia and Montenegro)

## Double tax treaties: estates, gifts and inheritances

Bulgaria has no double tax treaties covering taxes on inheritances or gifts.

### Treaties on administrative assistance

Within the European Union, mutual administrative assistance is governed by the Directives on exchange of information (2011/16/EU) as amended, together with its implementing Regulation (Regulation (EU) No 1156/2012), and the recovery of claims (10/24/EC). As regards VAT, the same function is performed by Council Regulation (EU) No 904/2010. Outside the European Union, Bulgaria is a party to the Convention on Mutual Administrative Assistance in Tax Matters, and has a separate agreements on exchange of information with Guernsey (but this has yet to enter into force).

### Social security agreements

The interaction of national social security systems within the European Economic Area is governed by EU Regulations (883/04/EC and 987/09/EU, as amended by Regulation 465/12/EU) which also extend, by agreement (and with some differences), to Switzerland. The following non-EEA countries have social security agreements with Bulgaria, the terms of which differ from case to case.

Albania	Macedonia	South Korea
Bosnia and Herzegovina	Moldova	Turkey
Canada	Montenegro	Ukraine
Israel	Russia	
Libya	Serbia	

# Appendix 2: Moore Stephens around the world

Moore Stephens member firms may be found in 104 countries and territories around the world, with correspondent firms in another eight.

Albania	Dominican Republic	Liechtenstein*	Serbia
Argentina	Ecuador	Lithuania	Seychelles
Australia	Egypt	Luxembourg	Sierra Leone
Austria	El Salvador*	Macedonia	Singapore
Azerbaijan	Finland	Malaysia	Slovakia
Bahamas	France	Malta	South Africa
Bahrain	Germany	Mauritius	South Korea
Bangladesh	Gibraltar	Mexico	Spain
Belgium	Greece	Moldova	Sri Lanka*
Belize	Guernsey	Monaco	Suriname
Bermuda	Honduras	Mongolia*	Sweden
Bolivia	Hong Kong	Morocco	Switzerland
Brazil	Hungary	Netherlands	Taiwan
British Virgin Islands	India	New Zealand	Tajikistan*
Bulgaria	Indonesia	Nigeria	Thailand
Burundi	Iraq	Norway	Tunisia
Cambodia*	Ireland	Oman	Turkey
Canada	Isle of Man	Pakistan	Uganda
Cayman Islands	Israel	Panama*	Ukraine
Chile	Italy	Paraguay	United Arab Emirates
China	Japan	Peru	United Kingdom
Colombia	Jersey	Philippines	United States
DR Congo	Jordan	Poland	Uruguay
Costa Rica	Kazakhstan	Portugal	Venezuela
Croatia	Kenya	Qatar	Vietnam
Cyprus	Kuwait	Romania	Yemen
Czech Republic	Latvia	Russia	Zambia
Denmark	Lebanon	Saudi Arabia	Zimbabwe*

\*denotes a correspondent firm only

For more details, see [www.moorestephens.com](http://www.moorestephens.com) under 'Locations'.

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