Bulgaria

Tax and Investment Facts

A Glimpse at Taxation and Investment in Bulgaria

2022

Delchev & Partners Law Firm Bulgaria

Delchev & Partners Law Firm was established in 2005 as a full-service commercial law firm, based in Sofia, Bulgaria.

Delchev & Partners Law Firm provides comprehensive legal and tax services and solutions to multinational corporations operating in Bulgaria, closely held foreign and Bulgarian businesses, local entrepreneurs, exempt organisations and individuals.

Delchev & Partners Law Firm attorneys have thorough legal expertise and can offer counselling on a wide array of legal problems faced by businesses in Bulgaria. We have a diverse and extensive practice providing a full range of tax and legal services in Bulgaria with a special focus on the listed practice areas.

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1. Ways of Doing Business / Legal Forms of Companies

Current Bulgarian legislation provides for various legal forms for establishing a business presence in Bulgaria:

- general partnership
- limited partnership
- limited liability company
- joint-stock company
- partnership limited by shares
- sole trader
- branch
- trade representative office
- consortium

Except for the branch, consortium and trade representative office, all other legal forms are deemed Bulgarian legal entities.

Registration with the Trade Register is required for a person or another legal entity to start a company in Bulgaria.

The 2 types of Bulgarian company most commonly used by foreign investors are:

- limited liability company
- joint-stock company

These companies have registered capital divided by shares and the liability of the shareholders is limited to their share capital contribution.

Limited liability company in Bulgaria

- Foundation: a limited liability company is formed by one or more legal entities or individuals.
- Shareholders: there is no restriction on foreign participation, the number of the shareholders is unlimited.
- Minimum share capital: the minimum share capital of a limited liability company is BGN 2 (EUR 1).
- Statutory bodies: the General Meeting of the shareholders is the supreme governing body. The company is represented and managed by one or more director(s). The director(s) may be foreign nationals.

Joint-stock company in Bulgaria

- Foundation: joint-stock companies may be founded by one or more individuals or legal persons.
- Shareholders: there is no restriction on foreign participation, the number of the shareholders is unlimited.
- Minimum share capital: the joint-stock company capital must be at least BGN 50,000 (EUR 25,565). The share capital must be fully subscribed and 25% of the par value of each share must be paid up prior to the incorporation.
- Types of shares: shares may be issued in registered and in bearer form. Preference shares may also be issued. Preference shares may guarantee additional dividends or shares in the company's assets in cases of liquidation.
- Bonds: joint-stock companies may issue bonds.
- Statutory bodies: the General Meeting of the shareholders is the supreme governing body. Bulgarian joint-stock companies may choose between a one-tier system of management (i.e. Board of Directors) and a 2-tier system (i.e. Managing Board and Supervisory Board).

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2. Corporate Taxation

2.1. Applicable Taxes / Tax Rates

The corporate income tax rate is 10%.

An annual final tax is levied on the following expenses:

- representative expenses related to the business activities of the taxable person
- social expenses in kind provided to employees (e.g. food vouchers, health and life insurance of employees, etc.)
- expenses in kind for the use of company assets by employees (e.g. company real estate property, cars, telephones, etc.)

The rate of the final tax on representative expenses and social benefits in kind is 10%. The tax on expenses for use of company assets by employees is 3%.

2.2. Resident Companies

Legal entities registered in Bulgaria are local tax residents and must pay Bulgarian taxes on their worldwide profits and income.

2.2.1. Computation of Taxable Income

The taxable income is computed by adjusting the accounting profit/loss for tax purposes with any permanent and temporary tax differences.

Permanent tax differences

Permanent tax differences comprise income or expenses which are not tax deductible.

Non-deductible expenses include, inter alia:

- expenses which are not related to the business activities of the taxable person
- expenses which are not duly documented
- expenses for non-qualifying donations
- hidden distribution of profits
- certain expenses related to shortages and losses of current and non-current assets
- bribes

Temporary tax differences

Temporary tax differences are items of income or expenses which are tax deductible in a year other than the year of their reporting for accounting purposes, such as expenses/income from subsequent valuations, provisions, expenses for accumulated unused paid leave, etc.

2.2.2. Taxation of Dividends

Dividends distributed by Bulgarian, EU or EEA subsidiaries of Bulgarian parent companies are not subject to corporate taxation at the level of the Bulgarian parent.

2.2.3. Capital Gains and Losses (Including Capital Gains and Losses from Sales of Shares)

There is no separate capital gains scheme in Bulgaria, such gains are taxed in the course of normal corporate taxation.

2.2.4. Depreciation / Capital Allowances

Assets subject to tax depreciation comprise tax non-current tangible assets, tax non-current intangible assets and investment property, excluding land. Business combination reputation is not a tax depreciable asset.

Corporate tax legislation sets the maximum rates of the annual tax depreciation deductible for tax purposes, which may differ from the accounting depreciation rates.

2.2.5. Loss Carry Over (Including Potential Loss of Tax Loss Carry Forward in Case of Restructuring)

Tax losses can be carried forward for the following 5 years. They can be offset against the tax profits of the company. In the event of a company restructuring, the successor company cannot utilise the tax losses of the legal predecessors except where the legal form is changed.

2.2.6. Group Taxation

Bulgarian legislation does not provide for group corporate taxation.

2.2.7. Relief from Double Taxation (Tax Credit / Tax Exemption)

Tax credits and tax exemptions may apply depending on the relevant double tax treaty.

2.2.8. Incentives

Certain collective investment undertakings, national investment funds and other alternative investment funds, as well as special investment vehicles are exempt from corporate income tax.

Tax incentives may be also provided for specific purposes (e.g. hiring of unemployed persons), or in the form of state aid – de minimis state aid or regional development state aid for investing in regions with high unemployment rates.

Certain expenses for donations to charities, hospitals, educational and cultural institutions may also be tax deductible up to a certain amount.

2.3. Non-Resident Companies

Foreign tax resident entities must pay Bulgarian corporate income tax on any profits realised through a Bulgarian permanent establishment. Certain types of income paid to non-residents are subject to withholding tax at source.

2.3.1. Concept of Permanent Establishment / Doing Business

Bulgarian tax legislation provides for a very broad definition of permanent establishment (PE), which follows the fixed place of business approach and aims to encompass almost any and all activity that a foreign person may carry out in the country.

The definition of permanent establishment, as set out in the Bulgarian Tax Procedure Code, includes:

- a fixed place (owned, leased or provided for use) through which the non-resident performs, in whole or in part, an economic activity in the country, e.g. a place of management, a branch, a representative office registered in the country, office premises, a bureau, a studio, a plant, a workshop (factory), a shop, a warehouse, a repair/service site, an installation site, a construction site, a mine, a quarry, a drill, an oil or gas well, a source, or other places for extraction of natural resources
- the performance of activities in the country by persons authorised to conclude contracts on behalf of foreign persons, except for the activities of representatives with independent status as per Chapter VI of the Commerce Act
- the permanent performance of commercial transactions with a place of execution in the territory of Bulgaria even if the foreign person does not have a permanent representative or a fixed place

2.3.2. Withholding Taxes

The following types of income paid to non-resident entities are subject to withholding tax:

- capital gains from transactions with financial assets issued by Bulgarian companies
- dividends and liquidation proceeds distributed by Bulgarian companies
- interest
- royalties
- technical services fees (e.g. fees for installation and assembly of tangible assets, consultancy services and marketing research)
- directors' fees
- franchise and factoring fees
- rental fees
- income from transactions with real estate located in Bulgaria.

Dividends and liquidation proceeds distributed to non-resident companies are subject to 5% withholding tax. All other types of income from Bulgarian sources are subject to 10% tax at source.

The following types of income are exempt from source taxation:

- dividends distributed to parent companies resident in an EU or an EEA Member State
- interest and royalties paid to legal persons which are resident for tax purposes in an EU or an EEA Member State and which are associated enterprises with the Bulgarian payer of the income, subject to a 2-year holding period and 25% minimum holding conditions

2.3.3. Capital Gains

Capital gains from transactions with financial assets issued by Bulgarian companies and real estate are taxable with a 10% tax at source on the positive difference between the selling proceeds and the acquisition price of the assets.

2.4. Tax Compliance

Tax returns

The financial year is the calendar year. The annual tax returns should be filed by 30 June of the year following the respective financial year. Annual financial statements should be filed together with the tax return. Taxable persons who have not carried out any activities during the financial year are exempt from filing an annual tax return and financial statements.

Bulgarian payers of the income who have deducted and paid any withholding tax at source should submit a declaration on a quarterly basis by the end of the month following the respective quarter.

Tax payment

Companies make monthly or quarterly advance tax payments depending on their net turnover for the year before the previous year – those with a net turnover exceeding

BGN 3,000,000 (EUR 1,533,876) are liable for monthly advance payments, while the rest are obligated to make quarterly payments.

Advance tax payments are calculated based on the forecast tax profits for the current year. Certain small businesses and newly-established companies are exempt from payment of advance tax instalments. Any outstanding corporate income tax is payable by 30 June of the year following the respective tax year.

The tax on expenses is also declared in the annual corporate tax return of the company and is payable by 30 June of the following year.

Withholding taxes should be paid until the end of the month following the calendar quarter when the income was accrued.

2.5. Local Taxes

Transfer tax

Local transfer tax is levied on transactions with immovable properties, rights in rem and motor vehicles. The transfer tax is final and its rate is determined by each municipality at between 0.1% and 3% on the valuation of the purchased property.

Annual real estate tax

Annual real estate tax is payable by the owners of buildings and land within the construction boundaries of towns and villages. Agricultural land and forests are tax exempt.

The tax rate is determined by each municipality at between 0.01% and 0.45% on the tax valuation of the property of individuals, or on their acquisition value or tax valuation for company property, whichever is higher.

The annual real estate tax is payable in 2 equal instalments by 30 June and by 31 October of the year for which the tax is due. If the annual tax is paid in full by 30 April, persons are eligible for a 5% discount.

Annual vehicle tax

Annual vehicle tax is payable by the owners of motor vehicles, ships and airplanes registered in Bulgaria. The tax rate is determined by each municipality within certain statutory ranges. The taxable base depends on the type of vehicle. Electric vehicles are exempt from the local annual vehicle tax.

The annual vehicle tax is payable in 2 equal instalments by 30 June and 31 October of the year for which the tax is due. If the annual tax is paid in full by 30 April, persons are eligible for a 5% discount.

Inheritance tax

Inheritance tax is levied on property inherited by successors by law or by testimony when the inheritance share exceeds BGN 250,000 (EUR 127,823). Surviving spouses and direct-line heirs are exempt from inheritance tax.

The tax is final and its rate is determined by each municipality at between 0.4% to 0.8% for siblings and siblings' children, and between 3.3% to 6.6% for all other heirs.

Gift tax

Gift tax is due upon the acquisition of property as a donation or in any other way for no consideration. The gift tax is final and its rate is determined by each municipality at between 0.4% to 0.8% for siblings and siblings' children and between 3.3% to 6.6% for all other persons. The taxable base depends on the type of donated property. Donations between spouses and direct-line relatives are exempt from gift tax.

Waste disposal fee

The fee is payable by the owners of buildings and building land in exchange for services provided by the municipalities related to waste collection and transportation, waste treatment and maintenance of the cleanliness of community areas. The taxable base and the tax rate are determined by each municipality.

3. Double Taxation Agreements

Bulgaria has concluded double tax treaties with more than 70 countries.

4. Transfer Pricing

General rules

Transfer pricing principles have to be taken into account and documentation has to be prepared for contracts between related parties to support the market price.

As of 1 January 2020 a transfer pricing documentation liability in accordance with the BEPS requirements issued by the OECD was introduced to domestic legislation. Accordingly, transfer pricing documentation consists of a master file and local file, which must be prepared annually. The local file must be prepared by 30 June of the following year by the resident taxpayers who must have the master file of the ultimate parent company within 12 months of the deadline for drafting the local file. A new benchmarking study may be prepared every 3 years and financial data of the accepted comparables have to be updated annually unless there is a change in the meantime. The new rules apply first for tax years starting in 2020.

Failure to prepare a local file may result in a penalty of up to 5% of the total value of the controlled transactions which must be documented. Persons who do not have a master file may incur a penalty of between BGN 5,000 (EUR 2,556) and BGN 10,000 (EUR 5,113). Providing incorrect or incomplete data may result in a sanction of between BGN 1,500 (EUR 767) and BGN 5,000 (EUR 2,556).

Language

Transfer pricing documentation must be prepared in Bulgarian or accompanied by a certified Bulgarian translation.

Exemptions

Taxable persons may be exempt from preparing a local file for their controlled transactions if they do not carry out cross-border controlled transactions, or if they do not exceed at least 2 of the criteria below as of 31 December of the previous year:

- total assets – BGN 38,000,000 (EUR 19,429,091)
- net turnover – BGN 76,000,000 (EUR 38,858,183)
- average headcount – 250 employees

A local file does not need to be prepared for controlled transactions with natural persons and for certain low-value transactions which do not exceed the minimum statutory thresholds.

Country-by-Country Reporting

In addition to the preparation of transfer pricing documentation, multinational companies must also prepare and submit Country-by-Country (CbC) reports. Bulgarian tax resident ultimate parent companies are generally responsible for preparing the CbC reports and submitting them by the given deadline to the tax authority (data reporting). However, a multinational group is exempt from the CbC reporting obligation if its consolidated revenues did not reach EUR 750,000,000 in the financial year preceding the financial year when the data was provided. Apart from the parent company meeting its CbC reporting obligation (data reporting), the group members have a data reporting obligation (notification) towards the relevant tax authority by the end of the financial year.

5. Anti-Avoidance Measures

5.1. General Anti-Avoidance Rule

Associated enterprises are required to carry out their business activities under conditions which do not differ from those applicable to independent enterprises. Tax profits of a taxable person can be adjusted for tax purposes by applying transfer pricing methods if a transaction carried out by associated enterprises is not in compliance with the arm's length principle.

5.2. Thin Capitalisation and Interest Limitation Rules

Bulgarian corporate income tax provides for both interest limitation rules pursuant to the EU Anti-Tax Avoidance Directive and thin capitalisation rules.

Thin capitalisation

Thin capitalisation restrictions are triggered if debt exceeds equity threefold as at 31 December of the respective year (i.e. thin capitalisation safe haven ratio is 3:1).

In this case, the interest expenses are recognised for tax purposes up to the difference between interest expenses, interest income and 75% of the EBIT. Excess interest expenses are treated as a temporary tax difference and are not recognised for tax purposes in the current tax year. However, they can be deducted for tax purposes in one of the following 5 years under certain conditions.

Interest under financial lease arrangements and bank loans (with some exceptions) falls outside the thin capitalisation regulations.

Interest limitation

Taxpayers must increase their tax base with borrowing costs in excess of 30% of EBITDA. Exemption from the interest limitation rule applies if the borrowing cost excess is less than EUR 3,000,000. The excess interest expenses are treated as a temporary tax difference and can be deducted for tax purposes in the following years.

When both the thin capitalisation and the interest limitation rules are applicable, the temporary tax difference is the higher of the excess expenses under one or other rule.

5.3. Controlled Foreign Company Provisions

Controlled foreign company rules were first introduced as of 1 January 2019. A foreign company is classified as a controlled foreign company if a resident taxpayer controls more than 50% of the voting rights or more than 50% of the subscribed capital or is entitled to more than 50% of the profit after-tax of the foreign company and the corporate tax paid by the foreign company is less than the difference between the calculated tax based on the Bulgarian domestic rules and the corporate tax actually paid on the foreign company's profits. A foreign permanent establishment of a resident taxpayer may also qualify as a controlled foreign company.

The taxpayer must maintain a register of CFCs, which must be provided to the tax authorities upon request.

6. Taxation of Individuals / Social Security Contributions

6.1. Residency Rules

A person is deemed a Bulgarian tax resident if they:

- have a permanent address in Bulgaria, or
- reside in Bulgaria for more than 183 days in any 12-month period, or
- have their centre of vital interests in Bulgaria.

Bulgarian tax residents are taxed in Bulgaria on their worldwide income. Non-residents are taxed in Bulgaria only on the income derived from a Bulgarian source.

6.2. Income Liable to Tax

Personal income tax/final tax is levied on the following types of income:

- employment income
- income of sole traders
- income of self-employed persons
- rental income
- capital gains
- dividends and liquidation proceeds
- interest
- royalties
- other types of income (e.g. compensations, rewards, etc.)

Certain types of income are expressly exempt from taxation, including income from sale of real estate under certain conditions, income from sale of movable property with certain exceptions (e.g. some vehicles, shares, etc.), income from sale of financial assets traded on an EU stock exchange, income from social security, etc.

6.3. Allowable Deductions

The following tax reliefs can be deducted from the annual tax base:

- tax relief for persons with reduced working capacity
- tax relief for personal social security contributions and health and life insurance contributions
- tax relief for eligible donations
- tax relief for young families' mortgage loan interest
- tax relief for persons with children / disabled children
- tax relief for making non-cash payments out of earnings received by bank transfer
- tax relief for repairs and renovations of immovable property

6.4. Tax Rates

The standard tax rate for personal income tax is 10%. Sole traders' income is taxed at 15%.

The final tax on dividends and liquidation proceeds is 5% and the final tax on income from voluntary social security, voluntary health insurance and life insurance is 7%. As of 1 April 2022, the 8% final tax on interest from bank deposits held in an EU or EEA established bank is revoked.

6.5. Tax Compliance

Monthly/quarterly tax compliance

Personal income tax is deducted in advance instalments by the payer or the payee of the income on a monthly or quarterly basis, depending on the type of the income.

When the income is subject to a final tax, no advance instalments are due.

Tax declarations containing information regarding the deducted monthly/quarterly advance instalments and final taxes are filed by the deadlines for payment of the tax.

Annual tax returns

Annual tax returns are filed by the individual taxpayers by 30 April of the year following the year of receiving the income. Persons who only receive employment income do not have to file annual tax returns if certain conditions are fulfilled.

The annual tax less any advance payments is payable by 30 April of the year following the year of receiving the income. A 5% discount (but up to BGN 500, EUR 256) applies if the electronic filing of the annual tax return and payment of the outstanding tax take place by 30 March.

6.6. Social Security Contributions

The income used to calculate social security contributions comprises all kinds of remunerations and other employment income. The statutory minimum and maximum social security income amounts on which social security contributions are payable for 2022 are determined as follows:

- minimum social security income for self-employed persons – BGN 650 (EUR 332) for the period 01.01.2022 – 31.03.2022, and BGN 710 (EUR 363) as of 01.04.2022
- the minimum taxable income for persons working under employment agreements is determined depending on their job position and the economic sector they are employed in
- maximum social security income – BGN 3,000 (EUR 1,534) for the period 01.01.2022 – 31.03.2022, and BGN 3,400 (EUR 1,738) as of 01.04.2022.

For 2022 the overall social security and health insurance contributions for persons employed under employment agreements and insured for all risks amount to roughly 32.7% and are distributed between the employee and the employer in a ratio of roughly 60:40.

7. Indirect Taxes

7.1. Value Added Tax / Goods and Services Tax

VAT rates

The standard VAT rate is 20%. A reduced rate of 9% applies for hotel accommodation.

A reduced 9% VAT rate was also introduced in 2020 as a temporary measure to support the most affected businesses from the COVID-19 pandemic, which is to apply until 31 December 2022. The reduced rate applies to the following supplies:

- restaurant and catering services
- books on a physical medium or by electronic means or both, including textbooks, learning books, children's picture, drawing or colouring books and music printed or in manuscript form
- baby food and nappies
- supplies under the special travel-agent VAT scheme
- supply of services for the use of sports facilities

Compliance obligations

The taxable turnover for mandatory VAT registration for taxable persons established in Bulgaria is BGN 50,000 (EUR 25,565) accumulated either for the last 12 months, or for 2 consecutive months, including the current month. Non-established taxable persons must register for VAT purposes before making any taxable supplies in Bulgaria. Mandatory VAT registration may also be triggered on the grounds of distant sales, intra-Community acquisitions or other supplies of goods or services. Voluntary VAT registration is also possible.

The VAT period is the calendar month. VAT returns together with sale and purchase VAT ledgers are filed by the 14th of the following month. VIES returns and Intrastat returns are also submitted by the 14th of the following month.

Taxable persons accepting payments in cash or by bank cards must install cash registers and issue receipts for each payment received. Simplification measures apply to online traders.

7.2. Excise Taxes

Excise tax is levied on items such as mineral oils, electricity, alcohol and alcoholic beverages, and tobacco products, manufactured within the country or imported into Bulgaria.

8. Wealth Tax

There is no wealth tax in Bulgaria.

9. Other Reporting Obligation

Fuel stations must install a fiscal system connecting the fuel tanks, the cash registers and the fuel pumps, which must communicate data on the sales of fuel and the fuel level in the tanks to the Bulgarian tax authorities at regular intervals.

Wholesalers of mineral oils must also file reports for each incoming and outgoing movement of fuel within the same day.

The movement of certain high fiscal-risk goods (including mineral oils, agricultural products, various foodstuffs, etc.) is subject to strict control measures aimed at preventing tax evasion and tax fraud.

Businesses established in Bulgaria may also be subject to statistical reporting obligations in relation to their financial transactions or overall business activities.

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