



Brief Introduction to Bulgarian Tax System

The country with EU's most favourable taxes

CORPORATE TAXATION

Corporate taxation in Bulgaria is regulated by the Corporate Income Tax Act (CITA), as all companies and partnerships are subject to corporate taxation at 10% flat rate on taxable annual financial result, lowest in EU. Under certain conditions, corporate tax rate is 0% in high-unemployment areas (above 35% of general unemployment rate for the country).

No specific capital gain tax is levied, but capital gains are included in annual taxable result, determined in accordance with the financial result presented in the P&L (Profit & Loss Statement) with adjustments for tax purposes.

Companies are considered to be tax residents if registered in Bulgaria. Non-resident companies operating in Bulgaria through branch, office, agency or other form of a permanent establishment are also liable for corporate tax on the profits generated through the respective place of permanent establishment.

Corporate Tax Reporting Deadline is 31 March of following year (fiscal year is equal to calendar year).

WITHHOLDING TAXES

Certain incomes from sources in Bulgaria and payable to non-resident legal entities, if not generated through a permanent establishment, are subject to withholding tax at source, including (listed in Corporate Income Tax Act):

- dividends and liquidation quotas
- interest on loans & leases
- rents
- royalties,
- technical services fees (all services with consultancy nature)
- franchise & factoring fees
- management fees
- income from real estate or transactions with real estate, located within the territory of Bulgaria
- income from financial assets & transactions with such, issued by local legal entities, municipalities and the government

Standard withholding tax rate is 10% on all types, excluding dividends and liquidation quotas where it is 5% (0% for EU tax residents). Under CITA (Corporate Income Tax Act), the applicable withholding tax rate on interests and royalties, payable to EU tax residents, is also reduced to 5%, provided that certain conditions are met. Withholding taxation on incomes payable to individuals (foreign residents) are regulated by the Personal Income Tax Act.

In addition, Bulgaria has signed Double Tax Treaties with more than 60 different countries both from and outside EU, which (in some cases) allow for lower withholding taxes for certain types of income.



Countries, with which Bulgaria has signed Double Tax Treaties (in alphabetical order):

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

PERSONAL TAXATION

Personal taxation in Bulgaria is regulated by the Personal Income Tax Act (PITA), as applicable personal income tax rate is **10% flat rate** regardless of the size of the taxable income (a significant amendment in individual taxation compared to previously applied progressive tax rate within the range of 20 to 24%)

All individuals, who are treated as local tax residents, are subject to personal taxation on their worldwide income, as an individual is considered as a local tax resident regardless of his/her citizenship depending on:

- if he/she is with a permanent place of residence in Bulgaria, or
- if the periods of his/her stay (physical presence) within the territory of Bulgaria exceed more than 183 days for each consecutive 12 months, or
- if his/her center of vital interests (permanent home, family, economic & social interest and ties, etc.) is in Bulgaria

Certain tax exemptions are also applicable, including:

- pensions & other social benefits received from a Bulgarian or foreign mandatory social security system
- interest on bank deposits (under certain conditions)
- certain compensations as per the Labour Code
- gains from shares traded on the BSE (Bulgarian Stock Exchange)
- gains from disposal of movable and immovable property (under certain conditions)

Apart from personal income taxation, social security contributions are also due as the following rates apply:

- for remunerations payable under labour agreement - approx. 30.8% (out of which 12.90% for employee & 17.90% for employer), **but levied on maximal monthly income level** of BGN 2,000 (around €1,023)
- for remunerations payable under civil (consultancy) agreements - approx. 25.8% (out of which 11.1% for the consultant & 14.70% for assignor), **but levied on maximal monthly income level** of BGN 2,000 (around €1,023), as 25% legally recognized expenses are allowed
- for self-insured persons - approx. 25.8% on BGN 420 min up to BGN 2,000 max monthly income level



VAT

The Value Added Tax Act (VATA) regulates the VAT taxation in Bulgaria, as the following transactions are VAT taxable:

- any taxable supply of goods or services
- intra-Community (EU) acquisitions with a place of transaction within Bulgaria
- import of goods

Persons who practice a liberal profession (freelancers), including bailiffs, lawyers and notaries are also subject to taxation under the Value Added Tax Act.

The applicable VAT rates are as follows:

- 20% standard rate, applicable for all taxable transactions (excluding the below listed)
- 9% specific rate applicable for accommodation provided by hoteliers, where part of package tour
- 0% rate for inter-Community supplies, exports and other supplies, explicitly listed in the Value Added Tax Act.

Any person, which performs independent economic (business) activity, has the right to apply for voluntary registration under the Value Added Tax Act. At the same time, any Bulgarian or foreign businesses, performing VAT taxable transactions with a place of supply in Bulgaria and exceeding total turnover of at least BGN 50,000 (€25,565) within the last 12 consecutive months, are obliged to register under the Value Added Tax Act. For foreign business, certain exceptions can exist.

VAT registered persons submit VAT returns on a monthly basis, by 14th of the following month. In case of due VAT to budget (the eventual excess of VAT on sales over VAT on purchases), it is also payable within the same period.

In case of VAT incurred on purchase exceeding VAT charged on sales, the VAT registered persons have the right of VAT credit refund in the following way: the VAT excess deduction is first carried forward for a period of three consecutive months, during which any monthly VAT payables are offset against the excess VAT. Any (if remaining) excess VAT balance at the end of the three-month period is refunded within 30 days after the date of filing the VAT return for the third month.

Respectively, VAT registered persons are allowed to receive VAT credit refund within 30 days since the date of filing each monthly VAT return, provided that for the last 12 months before the current reporting month at least 30% of all VAT taxable turnover is derived from performed export and inter-Community supplies, as well as certain transactions with a trading partner registered for VAT purposes in another EU state, such as: transport of goods within EU and transport-related processing of goods, services related to the transport, provided by agents & brokers, etc.

For investment projects over €5 million, where at least 50 jobs are created, 2-year VAT exemption for imports of equipment is allowed.

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Sofia