



**Bulgaria –
Corporate and
Individual tax guide
2020**

BULGARIA

Bulgaria, situated on the Balkan Peninsula in Southeast Europe, has a strategic geographic position as a bridge between Europe and Asia. Bulgaria is divided into 28 provinces, with Sofia as its capital. The official language of Bulgaria is Bulgarian, and the currency is the lev (BGN).

Bulgarian tribes merged with the local Slavic inhabitants in the late seventh century to form the first Bulgarian state. At the end of the 14th century, the Bulgarian state fell under Ottoman rule. Northern Bulgaria attained autonomy in 1878, and all of Bulgaria became independent from the Ottoman Empire in 1908. Communist influences ended in 1990, when Bulgaria held its first multi-party election since World War II and began the process of moving toward political democracy and a market economy.

Bulgaria joined the North Atlantic Treaty Organization (NATO) in 2004 and the European Union in 2007.

As a member of the European Union, Bulgaria has well-developed macroeconomic policies and is one of the most financially stable economies in the Central and Eastern region of Europe. In recent years, Bulgaria has been an increasingly attractive destination for outsourcing of businesses in a number of sectors, such as the pharmaceutical sector and the IT and communications sectors. The workforce in Bulgaria is well-educated, while the cost of labour in the country is relatively low. The country has a low corporate income tax (CIT) rate of 10%.

CORPORATE - Significant developments

Mandatory transfer pricing documentation

Recent amendments in the Bulgarian Tax and Social Security Procedure Code promulgated in the State Gazette in August 2019, provide for mandatory preparation of transfer pricing (TP) documentation, justifying the arm's length nature of related party transactions.

Bulgarian entities, as well as foreign entities acting through permanent establishments in Bulgaria, which participate in cross-border related party transactions, and meet certain criteria (exceed certain thresholds), will be required to prepare TP documentation.

The TP documentation shall comprise a Local file and a Group Master file (if the company is part of a multinational group). The contents of the documentation are explicitly listed in the TSSPC. The first year for which a Local file should be available is 2020 (i.e. the documentation should be prepared by 31 March 2021).

CORPORATE - Taxes on corporate income

Bulgarian tax residents are taxed on their worldwide income. Non-residents are taxed on their income from Bulgarian sources only, through a PE and/or via withholding tax (WHT), depending on the case (*see the Branch income section*).

In general, corporate income is subject to CIT at a flat rate of 10%.

Alternative tax

Income earned by organisers of gambling games for which the bet is included in the price of a phone or other telecommunication service is subject to 15% alternative tax, applied on the increase in the price of the phone or other telecommunication service (i.e. the difference between the regular price of the service and the new higher price due to the gambling game). A fixed-sum tax is applied to the operation of gaming machines.

Online gambling games are exempt from the alternative tax (and are subject to standard CIT instead), as are a significant part of the other land-based gambling games (i.e. totto; lotto sports betting, including horse and dog racing; and betting on random events or related to the knowledge of facts).

Tonnage tax regime

A special alternative tax regime applies to the operation of commercial maritime vessels, as per their net tonnage, at a rate of 10%.

Local income taxes

There are no provincial or local government corporate income taxes in Bulgaria.

Corporate - Corporate residence

A corporation is resident in Bulgaria for tax purposes if it is incorporated in Bulgaria.

Permanent establishment (PE)

PEs of foreign tax residents (e.g. branches) are treated as separate entities similar to Bulgarian residents for tax and accounting purposes.

The definition of a PE in the Bulgarian legislation follows, in general, the Organisation for Economic Co-operation and Development (OECD) model; however, it covers a broader scope of activities leading to a tax presence in Bulgaria. A PE is generally defined as a fixed place (own, rented, or otherwise used) through which a foreign entity partly or wholly carries out business activities in the country.

Other taxes

Value-added tax (VAT)

The standard VAT rate is 20%. A reduced VAT rate of 9% applies to certain tourist services. Some activities are zero-rated, including intra-Community supplies, exports of goods to countries outside the European Union (EU), international transport of goods (i.e. transport to or from countries outside of the European Union), and supplies of goods and services related to aircraft and vessels, subject to statutory limitations. Some supplies are VAT exempt without the right to a VAT credit, including (but not limited to) certain land transactions; leasing of residential property to individuals; financial, insurance, gambling, educational, and health services; and provision of food products to a food bank free of charge, subject to certain statutory conditions. Options to charge VAT exist for certain land transactions, leasing of residential property to individuals, and finance lease contracts.

Input VAT shall be deducted proportionately depending on the percentage of the use of the goods or the immovable property for business purposes.

The VAT Act provides for mandatory VAT registration upon certain conditions (e.g. for all companies upon reaching a statutory threshold of 50,000 Bulgarian lev (BGN) taxable turnover in Bulgaria for a period not longer than two consecutive months, including the current month). Voluntary VAT registration is also available. The Bulgarian legislation does not provide for retroactive VAT registration.

The following mechanism for VAT recovery applies to VAT-registered companies: the positive or negative difference between the output VAT charged by the company and the input VAT for the respective month results, respectively, in a VAT payable or a VAT refundable position. The VAT payable should be remitted to the state budget not later than the 14th day of the month following the respective month. VAT refundable is offset against any VAT payable in the following two months, and any remainder is effectively recovered within 30 days thereafter.

The following statutory periods for VAT refunds apply:

- 30 days for persons that have performed supplies subject to zero-rate (e.g. exports) within the last 12 months exceeding 30% of the total value of all taxable supplies performed by them in the same period, as well as by large investors meeting certain specific conditions.
- Two months and 30 days in all other cases.

It is possible to claim a refund for VAT paid with respect to assets acquired not earlier than five years prior to the VAT registration, under certain conditions. In the case of real estate, the term is 20 years.

The cash accounting regime may be applied by persons with a taxable turnover below EUR 500,000 for a period of 12 months and a number of other requirements. Taxpayers authorised to apply this regime remit VAT upon receiving a payment from their counterparts and are entitled to VAT credit when they make a payment to their suppliers. Under this regime, a person who has received an invoice from a supplier that is using the cash accounting regime will be entitled to VAT credit upon payment of the invoiced amount.

The telecommunications, broadcasting, and electronically supplied services rendered to EU non-taxable persons (e.g. private individuals, public bodies) are subject to VAT in the country where the customer is established, has its permanent address, or usually resides. This rule has a significant impact on the pricing strategies and the profit margins of the suppliers. In order to apply the correct VAT rate, the suppliers need to collect information to identify the location of their customers. In addition, under this rule, the suppliers are required to register for VAT purposes and pay VAT in different EU countries where they have customers. In order to avoid such administrative difficulties, a possibility for registration under the Mini One Stop Shop (MOSS) is available. Examples of services that are impacted by this VAT rule include the following:

- Fixed and mobile telephone services.
- Access to internet, website supply, and webhosting.
- Radio and television programmes transmitted over a network or distributed via the internet.
- Supply of software and associated updates.
- Supply of music, films, games, images, texts, and information.
- Distance maintenance of programmes and equipment.
- Supply of distance teaching.

As of 1 January 2019, a relief for smaller suppliers of telecommunication services, radio and television broadcasting services, and electronically supplied services is introduced. Where the turnover for such services is below a threshold of EUR 10,000 per calendar year, the supplier should charge VAT under the Bulgarian rules. The supplier can opt to apply the existing rules and charge VAT in the country of the recipient even before its sales reach EUR 10,000 per calendar year.

Customs duties

Customs duties are calculated in accordance with the EU customs tariff and regulations.

All entities that are holders of customs procedures shall be registered in the electronic system of the Customs Agency.

Excise duties

Excise duties are charged as a percentage of the sales price or customs value or as a flat amount in Bulgarian lev per unit (or per other quantity measures, depending on the type of the excisable good), unless a suspension regime applies. Excisable products include petrol and diesel fuel, liquefied petroleum gas (LPG), heavy oil, kerosene, beer and spirits, tobacco and tobacco products, and electricity.

The applicable rates include the following:

- Unleaded petrol: BGN 710 per 1,000 litres.
- Diesel: BGN 646 per 1,000 litres if used as motor fuel and BGN 646 per 1,000 litres if used for heating purposes.
- LPG: BGN 340 per 1,000 kg if used as motor fuel and BGN 0 per 1,000 kg if used for heating purposes.
- Kerosene: BGN 646 per 1,000 litres if used as motor fuel and BGN 646 per 1,000 litres if used for heating purposes.
- Natural gas: BGN 0.85 per gigajoule if used as motor fuel (may be increased to BGN 5.10 if the European Commission (EC) rules that the rate is incompatible with the state aid rules); BGN 0.60 per gigajoule if used for production purposes; and BGN 0 per gigajoule if used by households.
- Biogas: Zero rate.
- Heavy oil: BGN 646 per 1,000 kg if used as motor fuel for vessels.
- Electricity: BGN 2 per MWh (zero rate if used by households).

- Beer: BGN 1.50/hl/°Plato.
- Wine: Zero rate.
- Ethyl alcohol: BGN 1,100 per hectolitre.
- Cigarettes: 25% *ad valorem* plus BGN 109/1,000 pieces (minimum total of BGN 177 per 1,000 pieces).

Lower rates may apply in certain cases (e.g. beer produced by independent small breweries).

The Excise Duties and Tax Warehouse Act provides for the tax warehousing regime and regulates the production, storage, and movement of excisable products under duty suspension.

Property tax

The annual property tax rate is determined by each municipality and ranges from 0.01% to 0.45% of the tax value of property. Individuals and legal entities that are owners of immovable property (i.e. land and buildings) are liable for property tax. For individuals and residential properties of enterprises, the taxable base is the tax value as determined by the municipal authorities based on certain statutory criteria. The taxable base for properties of enterprises is the higher of the property's gross book value and its tax value determined by the respective municipal authorities.

A garbage collection fee is payable for immovable property at a rate determined by the local municipal council annually.

New rules on the garbage collection fee calculation are expected to apply as of 1 January 2020. Local municipalities will calculate the garbage collection fee based on either the actual volume of the garbage produced by the individual property (or alternatively, based on the estimated volume taking into account the volume of the garbage containers and the collection frequency) or on the number of garbage collection service users at the given immovable property.

Transfer tax

A transfer tax is due on the value of transferred real estate or motor vehicles, subject to certain exemptions (e.g. contributions in-kind, acquisitions under the Law on Privatisation and Post-privatisation Control). The rate of the transfer tax ranges from 0.1% to 3% and is determined by each municipality.

Stamp duties

There are no stamp duties in Bulgaria.

Payroll taxes

Upon payment of salaries, the employer should withhold personal income tax (PIT) at a flat rate of 10% due on employment remuneration, bonuses, and certain fringe benefits and should remit it to the tax authorities by the 25th day of the following month.

National insurance contributions

National insurance contributions include social security and health insurance contributions.

The aggregate rate of social security contributions is 24.7% to 25.4%*, of which 14.12% to 14.82%* is payable by the employer and 10.58% is payable by the employee.

The aggregate rate of health insurance contributions is 8%, out of which 4.8% is payable by the employer and 3.2% is payable by the employee.

The total national insurance contribution rate (social security and health insurance) is 32.7% to 33.4%*, out of which 18.92% to 19.62%* is payable by the employer and 13.78% by the employee.

* The range is due to the rate of contributions payable to the 'Accident at Work and Occupational Illness Fund', which is due only by the employer and can vary from 0.4% to 1.1%, depending on the employer's economic activity. The rate for the administration and services sector is 0.5%.

Insurance premium tax

A tax of 2% is levied on all insurance premiums paid under insurance agreements covering risks insured in Bulgaria. Life insurance, reinsurance, aircraft, vessels, and international transport insurance agreements are exempt from this tax. The taxable base is the insurance premium received by an insurance company under an insurance agreement.

Insurance companies and their tax representatives are liable to collect the tax and remit it to the budget quarterly by the end of the month following the quarter when the insurance premium was collected.

Tourist tax

The tourist tax is levied with respect to the number of nights spent in hotels and other places for accommodation. The municipalities may determine the tax within a range of BGN 0.20 to BGN 3 per night, depending on the type of accommodation facility.

The tax is payable on a monthly basis by the 15th day of the following month.

One-off taxes

The following corporate expenses are subject to a one-off tax:

- Representative expenses related to a company's business.
- Social expenses provided to employees in kind (monetary social expenses are subject to PIT).
- Expenses in-kind related to the private use of company assets.

The rate of the one-off tax with respect to the above expenses is 10%. Both the expenses and the related one-off taxes are deductible for CIT purposes.

CORPORATE - Branch income

Although branches are not deemed to be separate legal persons, branches of non-resident companies have separate balance sheets and profit and loss accounts and are subject to CIT at the standard rate of 10% as well as other general taxes (e.g. VAT, property tax).

Representative offices of foreign entities are not allowed to carry out business activities and are not subject to CIT. A representative office registered under the Encouragement of Investments Act may perform only those activities that are not regarded as 'economic activities' (e.g. marketing activities normally carried out by a representative office and auxiliary to the activities of its head office). Representative offices do not constitute PEs of the non-resident entities unless they engage in business activities in breach of the law.

Profits repatriated by a branch to its head office abroad are not subject to WHT. However, certain income payable by a Bulgarian branch or a PE to other parts of the enterprise abroad may trigger WHT (e.g. income from technical services, interest, royalties) unless the respective expenses are not deductible to the branch or the PE, or are recharged at cost.

CORPORATE - Income determination

The taxable result is based on the statutory accounting principles relating to profit/loss and adjusted for tax purposes. Statutory accounting is maintained on an accrual basis in line with the applicable accounting standards.

Small and medium-sized companies may apply specific national standards for the financial statements of small and medium-sized companies or, optionally, IFRS. The principles provided by the standards for the financial statements of small and medium-sized companies are similar to those provided by IFRS. Certain types of companies, including banks and insurance companies, are obligated to apply IFRS.

Inventory valuation

The tax legislation follows the accounting rules for inventory valuation methods. The accounting rules may restrict the application of certain methods (e.g. last in first out [LIFO] is not allowed under IFRS).

Inventory valuation and revaluation methods applicable under accounting standards may be used for tax purposes. Companies may choose the method of inventory valuation but must apply the chosen method consistently throughout the accounting period. An inventory of assets and liabilities is carried out in each accounting period. Accounting gains and losses realised upon revaluation of inventory will not be recognised for tax purposes and will form a temporary tax difference. These gains and losses will be recognised for tax purposes in the period in which the inventory is disposed of.

Capital gains

Realised capital gains are included in corporate income and are taxed at the full CIT rate.

Note that capital gains from securities will not be subject to taxation if resulting from shares in listed companies and tradable rights in such shares on a regulated securities market in the EU/European Economic Area (EEA). Assets distributed as dividends are deemed realised at market value, and any capital gains arising from this will be subject to tax.

Dividend income

Dividends distributed by Bulgarian companies to foreign shareholders and resident individuals are subject to 5% WHT under the domestic legislation (*see the Withholding taxes section for exceptions for payments to EU/EEA tax residents and under double tax treaties [DTTs]*).

Inter-company dividends

Inter-company dividend payments between Bulgarian companies and dividends distributed by EU/EEA residents to Bulgarian companies (except for dividends from special purpose investment companies or in case of 'hidden distribution of profits') are not included in the tax base of the recipient company.

Note that dividends distributed to a Bulgarian company by its EU or EEA subsidiary are exempt from CIT only if the distribution is not treated as a tax-deductible expense by the distributing company.

Stock dividends

No explicit regulation with respect to stock dividends exists in the Bulgarian CIT Act. Rather, the tax treatment of stock dividends follows the accounting treatment.

Interest income

Interest income is included in the financial results of the company and is subject to 10% CIT.

Royalty income

Royalty income is included in the financial results of the company and is subject to 10% CIT.

Exchange rate gains/losses

Exchange rate gains and losses are reported in the profit and loss account and reflected in the assessment of taxable profit.

Foreign income

Income derived outside Bulgaria by resident legal entities and income derived in Bulgaria by Bulgarian branches of non-residents is included in the taxable base for the purpose of CIT, regardless of whether such income is subject to taxation abroad.

In instances where the provisions of a DTT are applicable, a tax credit or exemption for the foreign tax paid may be allowed. There is also a unilateral tax credit that may not exceed the amount of the tax that would be payable in Bulgaria for the same type of income.

Undistributed income of foreign subsidiaries of a Bulgarian resident company may be taxed, subject to the CFC rules (*for more details, please see the Group taxation section*).

CORPORATE - Deductions

Depreciation and depletion

For accounting purposes, depreciation is calculated in accordance with the straight-line, progressive, or declining-balance methods. Accounting regulations permit Bulgarian companies to establish a depreciation schedule for each tangible and intangible fixed asset on the basis of the method chosen by the company.

For tax purposes, only the straight-line method is permitted. For machines and equipment that are part of the initial investment, accelerated depreciation may also apply, subject to certain conditions.

For tax purposes, fixed assets are divided into the following seven categories:

Category	Assets	Maximum rates (%)
I	Massive buildings, industrial constructions/equipment, transmission facilities/lines (including electricity)	4
II	Machinery, production facilities, apparatuses	30/50
III	Vehicles (except cars), coverage of roads and runways	10
IV	Computers, peripherals to computers, software and rights to use software, mobile phones	50
V	Cars	25
VI	Long-term intangibles with legal or contractual limitations on the period of use	33⅓
VII	Other assets	15

Under certain conditions, assets classified in Category II that are new may be depreciated at a maximum rate of 50% for tax purposes.

The depreciation rate for Category VI is determined by the period of limitations, but not more than 33⅓%. Depletion is not specifically regulated for tax purposes.

Goodwill

Goodwill is not amortisable under Bulgarian tax law.

Start-up expenses

Start-up expenses may be recognised as deductible in the year of establishment of the company.

Interest expenses/borrowing costs

Interest expenses are recognised as deductible expenses, subject to the thin capitalisation rules (*see the Group taxation section*) and the interest limitation rules applicable in Bulgaria.

Interest limitation regime

As of 1 January 2019, in addition to the existing thin capitalisation regime, new interest limitation rules are introduced to the CIT Act, transposing the EU ATAD.

Under the interest limitation regime, net borrowing costs are deductible for tax purposes in the year when incurred, up to 30% of the company's tax-adjusted EBITDA.

If the net borrowing costs for the year are up to EUR 3 million, no restrictions apply under the interest limitation regime (the thin capitalisation rules may still apply).

Any resulting non-deductible borrowing costs can be carried forward and deducted in future years without a time limitation based on a special formula.

Credit institutions are out of the scope of the interest limitation regime.

Bad debt

Bad debt impairment costs can be deducted upon expiration of the statute of limitation period. Also, the impairment costs can be recognised for tax purposes upon transferring the receivables. Such impairment costs are tax deductible for financial institutions in the year of recognition.

Charitable contributions

Generally, charitable contributions to certain organisations or persons, specified by law, can be deductible at up to 10% of a company's accounting profit.

Fines and penalties

Expenses for fines and penalties for violation of the legislation are not deductible.

Taxes

CIT is not deductible for tax purposes. However, other taxes, such as one-off taxes on certain expenses (e.g. representative expenses, certain types of fringe benefits) or local taxes and fees may be recognised as deductible for CIT purposes.

Net operating losses

The taxpayer has the right to carry forward tax losses incurred in a given year over the following five years. The loss subject to carryforward is the negative amount of the financial result adjusted for tax purposes, with certain add-backs and deductions specified in the tax legislation.

Tax losses may be reversed up to the amount of the positive financial result after tax adjustments (without the effect of the loss subject to be carried forward itself).

Carryforwards of foreign-source losses may only offset income from the same source. However, EU/EEA-source losses may offset income from other sources, including Bulgarian sources.

Loss carryback is permitted in very specific cases.

Payments to foreign affiliates

Payments to foreign affiliates may be subject to recalculation by the tax authorities if such payments are not made at arm's length.

CORPORATE - Group taxation

No group consolidation is permitted for tax purposes in Bulgaria. All companies must pay tax on the basis of individually assessable profits and losses.

Transfer pricing

Bulgarian law requires that taxpayers determine their taxable profits and incomes applying the arm's-length principle to prices at which they exchange goods, services, and intangibles with related parties (transfer prices). Bulgarian transfer pricing rules generally follow OECD Transfer Pricing Guidelines.

Transfer prices are not set in compliance with the arm's-length principle where:

- prices of the supply of goods or services differ from the market prices or
- loans are received or granted against an interest rate that differs from the market interest rate effective at the time the loan agreement is concluded.

The market interest rate is defined as the interest payable under the same conditions for a loan provided or received, notwithstanding the form of the loan, between non-related parties. The market interest is determined according to the market conditions.

The taxable person should be able to evidence that its relations with related parties are in line with the arm's-length principle.

For the purposes of transfer pricing rules, market prices are determined by the following methods:

- Comparable uncontrolled price method.
- Resale price method.
- Cost plus method.
- Transactional net margin method.
- Profit split method.

Recently, the revenue authorities are increasingly focusing on the transfer pricing area.

New rules have been adopted in August 2019, providing for mandatory preparation of transfer pricing documentation justifying the arm's length nature of related party transactions.

Bulgarian entities, as well as foreign entities acting through permanent establishments in Bulgaria, which participate in cross-border related party transactions, and meet certain criteria (exceed certain thresholds), will be required to prepare transfer pricing documentation, comprising:

- a Local file and
- a Group Master file (if the company is part of a multinational group).

The contents of the documentation are explicitly listed in the Bulgarian Tax and Social Security Procedure Code.

The first year for which a Local file should be available is 2020 (with a deadline for preparation of the file by 31 March 2021).

Currently, there is no possibility to obtain an Advance Pricing Agreement (APA). However, it is possible to obtain an opinion from the revenue authorities on a case-by-case basis. Such opinions are not binding, but they may provide protection from assessment of interest for late payment and penalties.

Mandatory country-by-country (CbC) reporting obligations and notification requirements

The following entities have the obligation to submit CbC reports to the National Revenue Agency (NRA): An ultimate parent company of a multinational enterprise group (MNE group) that is a tax resident in Bulgaria (if the consolidated group revenue exceeds BGN 100 million in the year preceding the reporting fiscal year).

A Bulgarian subsidiary or a PE of an MNE group, with consolidated group revenue exceeding BGN 1,466,872,500 (EUR 750 million) in the year preceding the reporting fiscal year when:

- the Bulgarian tax administration does not have an available mechanism to receive the CbC reports filed by the ultimate parent entity of the MNE group or another designated reporting group entity, or
- the MNE group has appointed the Bulgarian subsidiary/PE to act as a surrogate parent company or on behalf of all EU group members, subject to the requirements envisaged in the law.

The CbC reports shall contain certain types of financial information, as well as information on the business activities of all group entities.

The reports will be automatically exchanged between the EU member states or other jurisdictions with which Bulgaria has signed international agreements. An exception exists for the reports submitted by MNEs with group revenue exceeding BGN 100 million whose ultimate parent company is a Bulgarian tax resident, which will not be subject to the automatic exchange of information with other jurisdictions.

The first year for which CbC reports should have been filed by Bulgarian ultimate parent companies or surrogate parent entities was fiscal year (FY) 2016. In the other cases, the first reporting year was FY 2017.

Notification requirements

Bulgarian tax residents that are part of an MNE group shall notify the NRA of the group entity that will submit the CbC report. The notification deadline is the last day of the reporting fiscal year of the MNE group.

The first year for which CbC notifications should have been submitted was FY 2016 (the notification deadline for FY 2016 was 31 December 2017).

Thin capitalisation

Interest payable by local companies to local or foreign persons may be restricted by the thin capitalisation rules (which also apply to interest due to non-affiliated companies).

The tax deductibility for interest expenses that exceed interest income is restricted to 75% of the accounting result of the company, exclusive of interest income and expense. If the accounting result of the company before including the effect of the interest income and expenses is a loss, none of the net interest expense will be deductible for tax purposes. Interest on bank loans and interest under financial lease agreements are subject to thin capitalisation regulations only when the agreements are between related parties or guaranteed by or extended at the order of a related party.

The thin capitalisation rules do not apply if the debt-to-equity ratio does not exceed 3:1 for the respective tax period.

Interest expenses restricted in a given year under the thin capitalisation rules may be deducted from the financial result for tax purposes during the following years (as of January 2019, the previously existing five-year carryforward term has been removed). This reversal may be made up to the tax allowed interest expenses, as per the above formula (considering also potential limitations in the deductibility capacity under the interest limitation regime, where applicable).

Controlled foreign companies (CFCs)

A CFC regime has been introduced for the first time in Bulgaria as of 1 January 2019.

Undistributed profits of low-taxed foreign subsidiaries (and PEs) shall be included in the tax base of the Bulgarian controlling entity, subject to 10% Bulgarian CIT. Certain exemptions apply, including that profits of CFCs with substantive economic activity will not be taxed in Bulgaria.

A foreign entity or a PE is treated as a CFC if it meets the controlling interest test (generally defined as more than 50% of voting rights, capital, or entitlement to profits) and a low-taxation test.

Certain measures apply to avoid double taxation (e.g. tax credit for foreign tax paid by the CFC abroad, measures in case of subsequent dividend distribution).

CORPORATE - Tax credits and incentives

Tax incentives may apply in certain circumstances, including:

- Partial granting of the CIT due for performance of agricultural activities.
- Additional tax deductions for hiring of long-term unemployed, handicapped, or elderly persons.
- Granting back of up to 100% of the CIT due for investment in regions with high unemployment.

Foreign tax credit

See Foreign income in the Income determination section for a description of the foreign tax credit regime.

CORPORATE - Withholding taxes

Bulgarian companies are required to withhold tax on payments of dividends and liquidation proceeds; interest (including that incurred under finance lease agreements and on bank deposits); royalties; fees for technical services; payments for the use of properties; payments made under operating leasing, franchising, and factoring agreements; and management fees payable to non-residents.

Capital gains from the transfer of shares in a Bulgarian company or immovable property located in Bulgaria realised by a non-resident are also subject to domestic WHT; however, the tax is payable by the non-resident. Capital gains from securities are not subject to WHT if they result from shares in listed companies and tradable rights in such shares on a regulated securities market in the EU/EEA. Capital gains from disposal of governmental bonds are also exempt from WHT realised on a regulated market in the EU/EEA. Dividends and liquidation proceeds are also taxed where payments are made to resident individuals and non-profit organisations (*for details on dividend payments between domestic companies, see Dividend income in the Income determination section*). Dividends capitalised into shares (stock dividends) are not subject to WHT.

Interest and royalties payable to EU-based associated companies are subject to full WHT exemption in Bulgaria. Associated company criteria are identical to those in the EU Interest and Royalty Directive and require a holding of at least 25% of the capital for at least two years. The WHT exemption on income from interests and royalties can be applied before the expiration of the two-year participation period, provided that the participation in the capital does not fall below the required minimum before the end of this period (i.e. the direct participation is kept for at least two years).

Any fees for services and use of rights (in addition to technical services fees and royalties) accrued to entities in low-tax jurisdictions will attract 10% Bulgarian WHT unless there is proof of the effective provision of the supply. Subject to 10% WHT would also be any accruals for penalties or damages payments to entities in low-tax jurisdictions, except for insurance compensations. The tax legislation introduces a list of low-tax jurisdictions. These are certain off-shore territories that are explicitly listed, as well as countries with which Bulgaria has not signed a DTT and in which the applicable corporate tax rates are more than 60% lower than the applicable rate in Bulgaria.

Certain types of income (other than dividends) accrued by a PE of a foreign person to other parts of its enterprise located outside the country are subject to WHT (*except for that mentioned in the Branch Income section*).

Dividends

When a dividend is accrued to a non-resident company or an individual (both resident and foreign), it is subject to WHT at a rate of 5%, unless the rate is reduced by an applicable DTT. No differentiation is made between portfolio and substantial holdings for purposes of this WHT on dividends.

Dividends distributed by a Bulgarian resident company to an entity that is a tax resident in an EU/EEA member state are not subject to Bulgarian WHT (except for cases of hidden profit distribution).

Interest

A 10% rate applies to interest (including interest from bank deposits) payable to a non-resident, unless the rate is reduced by an applicable DTT.

Interest on borrowings by the government or the Bulgarian National Bank from international financial institutions is not taxable if the respective loan agreements contain relevant exemption arrangements (international treaties override domestic legislation).

Interest paid to an associated EU-based related company is subject to WHT exemption (requiring at least 25% holding for at least two years, *see above for a description of relief from the two-year participation period*).

An exemption from WHT is provided for income from interests on bonds and other debt securities emitted by a local tax resident and admitted to a regulated stock exchange in an EU/EEA member state.

An exemption from WHT is also provided for income from interests on loans extended by a tax resident of an EU/EEA member state, issuer of bonds or other debt securities, provided that the bonds/debt securities are issued for the purposes of extending a loan to a local legal entity and are admitted to a regulated stock exchange in an EU/EEA member state.

Royalties

Royalties payable to foreign persons are taxed at a rate of 10% at source, unless the rate is reduced by an applicable DTT.

Royalty payments to an associated EU-based related company are exempt from WHT (requiring at least 25% holding for at least two years, *see above for a description of relief from the two-year participation period*).

Capital gains and technical services

Capital gains generated by foreign tax residents out of certain types of qualifying Bulgarian-source disposals, are subject to 10% WHT, unless the rate is reduced by an applicable DTT.

Technical service fees payable to foreign tax residents are subject to 10% WHT, unless the rate is reduced by an applicable DTT. As per the domestic legislation, technical services include installation and assembly of tangible assets as well as consultancy services and marketing research.

Application of DTT relief

Applying DTT relief is generally possible only after completing an advance clearance procedure with the Bulgarian tax authorities. Companies have to evidence that they satisfy the requirements for applying the DTT (e.g. tax residence, beneficial ownership, existence of contractual relationship, actual accrual/payment of the income). The procedure usually takes 60 days to complete.

The above procedure has to be followed only if the annual income payable by a Bulgarian resident exceeds BGN 500,000. In all other cases, DTT relief can be applied directly, through submitting a tax residence certificate and a beneficial ownership declaration with the payer of the income.

Beneficial ownership is explicitly defined in Bulgarian legislation. A company is considered a beneficial owner of the income if it has the right to dispose of the income, has discretion over its use, bears the whole or a significant part of the risk of the activity from which the income is realised, and does not qualify as a conduit company.

A conduit company is a company that is controlled by persons who would not benefit from the same type and amount exemption if the income was realised directly by them, does not carry out any economic activity except for owning and/or administering the rights or the assets from which the income was realised, and does not own assets, capital, or personnel relevant to its economic activity or does not control the use of the rights or assets from which the income was realised.

The conduit company restriction does not apply to companies that have more than a half of their voting shares traded on a registered stock exchange.

CORPORATE - Tax administration**Taxable period**

The financial and tax years coincide with the calendar year.

Tax returns

Annual profit must be declared no later than 31 March of the year following the financial (tax) year. Along with their annual CIT returns, companies are required to file financial information for their business activities during the year in a standard statistical form not subject to a financial audit. The self-assessment principle is applied.

Payment of tax

If a company realised net revenue from sales of more than BGN 3 million in the preceding year, it is liable for monthly CIT payments for each month in the current year. If the net revenue from sales for the preceding year is below BGN 3 million but above BGN 300,000, the company is liable for quarterly advance CIT payments for each quarter of the year except the fourth quarter. The amount of the monthly or quarterly CIT instalments is calculated based on the forecasted taxable profit for the current year.

Companies established during the current year and companies with net revenue from sales below BGN 300,000 for the preceding year are not required to pay advance CIT instalments.

The overpaid amount of CIT can be offset against advance and annual payments due for the next period. The overpaid amount may also be effectively claimed for refund by the taxpayer. The difference between the annual tax declared in the CIT return and the advance tax paid for the corresponding year must be paid by the deadline for submitting the tax return on 31 March of the following year.

Priority order for settlement of tax and social security liabilities

Payment of tax liabilities and social security contributions should be made to four separate accounts: for tax liabilities, for general mandatory social security contributions, for supplementary mandatory retirement provisions, and for health insurance contributions.

If a taxpayer has several public liabilities (e.g. tax and/or social security liabilities) to one of the four accounts of the NRA, the one with the earlier payment date will be settled first.

Tax audit process

Tax audits are usually performed every four to five years, corresponding to the period of the statute of limitations.

Statute of limitations

The statute of limitations (i.e. the period within which the state authorities are entitled to collect the tax liabilities and other related mandatory payments) is five years from the beginning of the year following the year in which the tax liabilities became payable. The above periods can be extended in certain cases. However, the maximum period of the statute of limitations is ten years.

Topics of focus for tax authorities

Transfer pricing is becoming an area of focus for the tax authorities.

CORPORATE - Other issues

Intergovernmental agreements (IGAs)

In December 2014, Bulgaria and the United States signed and disclosed a non-reciprocal Model 1B IGA to implement the tax reporting and withholding procedures associated with the Foreign Account Tax Compliance Act (FATCA).

As of 1 January 2016, Bulgaria has implemented the rules on automatic exchange of financial information in compliance with the EU law, OECD recommendations, and FATCA. The tax authorities will exchange financial information with foreign tax offices on an annual basis.

The information concerns individual and company accounts (including trusts, foundations, and pass-through foreign control entities), account balances, and fund movements related to dividends, interest, sales proceeds, assets, etc.

Base erosion and profit shifting (BEPS)

Bulgaria has incorporated measures tackling hybrid mismatches in its Corporate Income Tax Act (e.g. non-taxable dividends from EU/EEA subsidiaries become taxable if the dividend payment is deductible at the level of the paying entity).

The Bulgarian tax authorities generally follow the other BEPS developments and consider them in their approach.

Multilateral Instrument (MLI)

Bulgaria is a signatory to the MLI, as of 7 June 2017. As at 1 January 2019, the MLI has not been ratified by Bulgaria. Detailed information regarding the position/reservations of Bulgaria on the provisions of the MLI can be found in the country's List of Reservations and Notifications at the Time of Signature, available on the official OECD website.

Common reporting standard (CRS)

Bulgaria has incorporated the CRS in its domestic Tax and Social Security Procedure Code, effective as of 1 January 2016. Detailed information can be found in the OECD's Automatic Exchange Portal at the OECD BEPS portal.

EU state aid investigations

Currently, there are no investigations on the part of the European Commission (EC) with regard to Bulgarian tax law.

However, in case SA.39869 (2014/N), the EC examined a tax incentive scheme that aims at attracting investments into manufacturing activities in certain of the assisted regions of Bulgaria. The measure allows enterprises to retain up to 100% of the CIT in respect of the tax profit derived from the manufacturing activities carried out in municipalities where the rate of unemployment for the year preceding the current year exceeded by 25% (or more) the national average unemployment rate for the same period.

The EC concluded that the measure meets all the compatibility criteria of the Regional Aid Guidelines, and is therefore compatible with the internal market pursuant to Art. 107(3)(a) TFEU.

INDIVIDUAL - Personal income tax**Residence**

There are four criteria for determining the residence of an individual in Bulgaria for personal income tax purposes, of which three are mainly of significance for expatriates moving to Bulgaria: the permanent address, the 183-day rule and the center of vital interests.

Individuals who have a permanent address in Bulgaria or who are physically present in Bulgaria for more than 183 days in the course of a 12-month period are considered Bulgarian residents for tax purposes. The respective individual becomes a Bulgarian resident in the calendar year when their stay in the country exceeds 183 days. The days of departure and arrival are treated as separate days of physical presence in Bulgaria. An additional criterion for tax residence is the center of vital interests. Accordingly, individuals who have closer economic and personal relations to Bulgaria than to another country would be considered Bulgarian tax residents regardless of the duration of their physical presence in the country. The personal income tax legislation also specifies that the center of vital interests has priority over the permanent address criterion, i.e. if an individual has a permanent address in Bulgaria but their center of vital interests is abroad, they must not be considered a Bulgarian resident for tax purposes.

Bulgarian tax resident individuals are subject to tax on their worldwide income whereas non-resident individuals are subject to tax on their income derived from Bulgarian sources. Different residence rules may be provided for in applicable DTTs.

Income subject to tax

Individuals are subject to the following taxes on income:

- Employment income is levied with a flat 10% personal income tax rate. The tax on employment income is withheld by the employer at source on a monthly basis. Certain statutory tax deductions may be claimed against the gross income.
- Income received by partners in a partnership, cooperators and shareholders holding more than 5% of a company's capital in return for their personal involvement/work in the entity is treated as equivalent to employment income.
- Non-employment income (e.g. income received under civil contracts) is also subject to a flat 10% tax rate. Certain statutory tax deductions may be claimed against gross income (e.g., income received under civil contracts). The due tax is withheld and paid on a quarterly basis by the payer of the income if a legal entity duly registered under Bulgarian law. No tax is to be withheld and paid for the fourth quarter of the year unless specifically requested by the recipient of the income. In certain instances, the remittance obligation may also fall on the individual recipient themselves if (i) the payer is an individual or an entity not registered under the Bulgarian law and (ii) the recipient of the income under a civil

- contract is a self-insured person for social security purposes and has reported themselves as such to the payer (in this case, the status of the entity is of no importance). Under this scenario, the personal income tax on that income is again remitted on a quarterly basis (with the exception of the fourth quarter).
- In case of receipt of rental income, no remittance obligation arises for the payer of the income if the payer is an individual. The full responsibility for payment of the due tax charge is borne by the recipient of the income. Advance quarterly personal income tax installments are to be made in case of receipt of such income (with the exception of the fourth quarter). The final assessment is performed at year end with the annual Bulgarian personal income tax return. When the payer of the rental income is an entity or a self-insured person, then they have the obligation to calculate, withhold and remit at source on a quarterly basis (without the fourth quarter unless specifically requested by the recipient) the due tax charge on the income. This does not waive the obligation of the recipient of income to file an annual Bulgarian personal income tax return at the end of the year. A different treatment is applied in the case of payment of rental income by Bulgarian entities to condominiums. In these circumstances, a final one-off tax will be calculated, deducted and remitted by the payer of the income and no obligation for filing of an annual Bulgarian personal income tax return arises for the recipient of the income.
- Advance personal income tax on a quarterly basis is also remitted by the payer of the income if an entity or a self-insured individual with respect to other income (awards other than those provided by the employer, indemnity for benefits lost, non-bank interest, etc.) following the rules already specified above with respect to rental income (i.e. remitted quarterly for the first three quarters of the year by the end of the month following the respective quarter unless for the fourth quarter the individual has asked payments to also be made in which case withholding and remittance will continue).
- A 10% withholding tax applies to interest, rents, royalties, capital gains, management income, income received under franchise and factoring contracts, leasing installments under contracts according to which the ownership rights over immovable property are transferred, scholarships for studying in Bulgaria and abroad, indemnity for benefits lost, fees for technical services accrued to non-resident individuals as well as income accrued by local legal entities to foreign sportspeople, scientists and artists. A lower withholding tax rate of 5% is levied on dividends paid by Bulgarian entities to non-residents. Should there be an applicable DTT in force, the rate of the withholding tax on the above mentioned types of income may be reduced. The tax base is the gross amount of income received. As of 1 January 2010, Bulgarian legislation allows EU and EEA nationals subject to Bulgarian withholding tax to calculate the tax base and the due tax following the same rules applicable to local residents, i.e. the application of deductions from gross income is possible through the filing of an annual Bulgarian personal income tax return.
- A withholding tax of 8% is due on interest income accrued on all types of bank accounts.
- A one-off tax of 5% is levied on Bulgarian individuals receiving dividends from foreign entities.
- A one-off tax of 10/7% is levied on early withdrawal of accrued voluntary social security/insurance contributions depending on the circumstances.

Specific rules apply with regard to taxation of capital gains arising from disposal of movable and immovable property.

It is also specified that no withholding tax is due on payments to residents of other EU Member States regardless of the fact that the types of income may fall in the scope discussed above should this income be exempt for Bulgarian tax residents.

Deductions

Certain payments decrease an individual's taxable income, including mandatory health insurance and social security contributions (made both to the local and foreign mandatory insurance systems), as well as personal voluntary pension, life and health insurance contributions to either local insurance funds or those registered under the jurisdiction of other EU/EEA Member States. The deductibility of such voluntary contributions is limited up to certain maximum thresholds.

Statutory deductions are provided for the recipients of different types of non-employment income (e.g. 25% for free lancers; 40% for royalties, inventions and products of science or art; 10% for rental income; 10% for capital gains received from the disposal of immovable property).

Deductions for donations to a list of special beneficiary organizations are also allowed provided that certain conditions are met. As of 1 January 2010, donations to EU organizations with an equivalent status to those listed in the local legislation are also deemed tax deductible.

Furthermore, provided that certain conditions are met, individuals may also deduct from their taxable income the value of the mandatory personal social security contributions paid during the year for accumulating additional length of service for pension (up to five years for the period of university education and/or in case of insufficient length of service upon pension).

As of 1 January 2009, the Bulgarian personal income tax legislation introduced a tax allowance for young families who have a mortgage. With this allowance, the total taxable base of the tax liable person may be decreased with the interest installments paid on the first BGN 100,000 of the mortgage taken. There are certain requirements that have to be met in order for a young family to qualify for this allowance, e.g. at least one of the spouses must be under the age of 35 when the mortgage is entered into, the property must be the main residence of the family for the tax year and the mortgage agreement is in the name of at least one spouse. The fulfillment of these criteria must be evidenced by certain documents. The taxpayer is obliged to demonstrate that the necessary conditions have been met within the tax return form and will be responsible if that is not the case. As of 1 January 2014, the legislation specifies that individuals who are tax residents in other EU/EEA countries may also benefit from this allowance provided that the remaining conditions are met.

As of 1 January 2015, two further deductions are available: a child tax allowance with a decrease of the tax base by up to BGN 200 annually for the first three children and a tax allowance for a disabled child with an annual deduction of up to BGN 2,000 from the tax base. Taxpayers may benefit from these allowances through the annual reconciliation of employment income performed by the employer at year end or through the filing of an annual Bulgarian personal income tax return.

As of 1 January 2017, a new tax relief has been introduced, namely for the performance of cashless payments. It allows taxpayers to reduce their total annual tax liability by 1% but no more than BGN 500 should the following conditions be met:

- The individual received income subject to personal income tax during the tax year
- The above income in its entirety was received via a bank transfer
- At least 80% of the income received is spent through cashless transactions.

The relief may be utilized through the filing of an annual Bulgarian personal income tax return.

As of 1 January 2017, a further criterion is introduced in the legislation for the utilization of all deductions (with the exception of the statutory deduction applicable to certain types of non-employment income specified above): the individual benefitting from the deduction should not have any outstanding public liabilities subject to enforcement.

Exempt income

Exempt income includes state pensions, scholarships, certain state welfare payments, benefits/income received from the Bulgarian mandatory social security and health insurance system, an equivalent foreign institution or under a voluntary social pension plan, provided that the latter is registered in Bulgaria or in another EU/EEA Member State. Capital gains may also be tax exempt provided that certain conditions are met.

Accommodation and daily allowances paid on behalf of the employer/assignor to individuals under employment, management and civil contracts can be treated as non-taxable income depending on the type of business trip, the destination country as well as certain conditions such as documentary substantiation of the business trip and the expenses occurred.

Relief from tax

A tax credit may be used for foreign taxes paid provided that the relevant conditions are met. Relief from tax may also be sought under the provisions of an existing DTT depending on the specific method, i.e. tax credit or tax exemption with progression.

Tax rates and payment dates

The annual general flat tax rate applied for taxation of an individual's income is 10%.

Individuals who derive income from sources other than, or in addition to, income under an employment contract for which the employer has performed an annual reconciliation as at the year-end (including dividends received from foreign entities which are taxed with a one-off tax) must file an annual tax return by 30 April of the following calendar year. A tax return must also be filed if the individual owns shares/allotment in foreign entities/permanent establishments/ immovable property regardless of whether a transaction was made with them during the respective tax year. In addition, such tax returns must be prepared by individuals who withdraw accumulated voluntary personal contributions prior to the expiration of the term under an insurance policy as well as in instances where an individual has received/granted a loan from/ to non-financial institutions or individuals (where certain conditions are met).

The outstanding personal income tax as reported in the annual Bulgarian personal income tax return, if any, must also be paid within this filing deadline.

If the annual personal income tax return is filed electronically by 31 January of the following calendar year and the individual does not have any outstanding public liability subject to enforcement, a deduction of 5% limited to BGN 500 from the outstanding tax liability is granted. The outstanding tax must also be remitted by 31 January.

As of 1 January 2017, the legislation provides for the possibility to file a one-off corrective tax return should a mistake in the return already filed be discovered. This should be done by 30 September of the year following the respective tax year.

Sole proprietors determine their taxable base and make advance payments in accordance with the rules for corporate taxation. The tax rate applied to this type of income is 15%.

Individuals performing certain activities (e.g., hotel accommodation, restaurant services, taxicab transportation, and other services) whose turnover for the previous year is below BGN 50,000 are instead subject to a lump sum license tax which is regulated by the Local Taxes and Fees Act.

Fringe benefits

Certain fringe benefits, such as canteen or food expenses like food vouchers provided to employees/assignees (under certain conditions), transportation cards, use of the employer's sports facilities or rest/holiday homes, are not taxable in the possession of the employee if provided as a social expense by the employer. However, social security and health insurance contributions are due on the amount of the fringe benefits provided as applicable for standard employment income.

Social expenses paid in cash are taxable as part of the individual's employment income as indicated above. Other fringe benefits are treated as taxable for personal income tax purposes. The tax treatment of the specific benefit is to be considered on a case-by-case basis.

Payroll-related contributions

The burden of payroll-related contributions is not split between the employer and the employee via a single unified ratio. Instead, the ratios vary depending on the fund to which contributions are made and are as follows:

- 55:45 with respect to pension and additional mandatory pension insurance contributions
- 60:40 with respect to all other funds (health insurance, unemployment, general illness and maternity).

It is an obligation of the employer to withhold from employees' remuneration and to remit to the state budget the amount of the mandatory social security and health insurance contributions at the general rates presented below.

The contributions below are determined as a percentage of the gross employment income, up to the monthly ceiling of BGN 2,600, or BGN 31,200 annually.

The minimum monthly insurable income varies depending on the type of economic activity performed by the company and the qualifications of the employee.

EU social security

Following Bulgaria's EU accession on 1 January 2007, the EU social security regulations (1408/71; 574/72) aimed at enhancing free movement of employees and prevention of double insurance of EU citizens entered into force and have precedence over the provisions of the local social security legislation and the already existing Social Security Agreements with other Member States. As of 1 May 2010, Regulation (EC) No. 883/2004 is applicable in Bulgaria to EU citizens. As of 1 January 2011, it became applicable to non-EU country nationals in most EU countries and it is currently also applicable with respect to cross border situations with Switzerland and EEA countries.

Persons and territories covered

The EU social security regulations are applied on the territory of the Member States of the European Union and the EEA, which comprises Iceland, Norway and Liechtenstein, together with Switzerland for cross border situations with Bulgaria. Furthermore, it should be pointed out that the EU provisions on social security do not apply to all individuals moving within the EU and the EEA. Generally, the following individuals would be covered under the regulations:

- Employed workers
- Self-employed persons
- Civil servants
- Students
- Pensioners
- Unemployed under certain conditions
- Family members and heirs, regardless of nationality
- Third country nationals.

In view of the above, no coverage under the EU social security regulations is provided to persons who are no longer insured under a social security system in any of the Member States and who are not considered immediate family to an employed or self-employed person or a pensioner. These individuals are deemed non-active persons.

Main principles

The main principle of the EU social security regulations is to ensure that individuals fall under the jurisdiction of only one Member State at a time. Usually, this is the Member State where the person is physically performing their work or where they act as a self-employed person. However, certain exceptions exist in instances where (i) the persons are moving within EU Member States on short-term assignments, (ii) they are simultaneously working in more than one state and (iii) they are simultaneously employed in one state and self-employed in another. In these cases, special rules apply with respect to determining the relevant social security system.

The EU social security regulations also aim to avoid discrimination in social security matters, i.e. individuals temporarily or permanently moving to an EU country for social security purposes must be treated no differently than local citizens of that Member State.

Property transfer, gift, inheritance and tourist taxes

Local taxes and fees are determined and collected by municipalities within the ranges set in the Local Taxes and Fees Act.

As of 1 January 2015, exchange of information is introduced between municipalities and the Ministry of Finance on a daily basis.

Transfer tax

Tax for the transfer of immovable property and automobiles is in the range of 0.1 – 3% and is levied on the value of the property. Transfer tax is also levied upon acquisition of real estate property or limited ownership rights related thereto as a result of the elapse of a prescribed time.

Property tax and garbage collection fees

Owners of immovable property situated in Bulgaria are liable to property tax. The tax is levied on the assessed value of the property, depending on its area in square meters and its location and for non-

residential property owned by companies – on the higher of the assessed value and the book value of the property. The tax is levied at a rate within the range of 0.01 – 0.45%. A 50% tax rebate is allowed if the property is the principal residential property of an individual taxpayer.

Owners of immovable property also pay garbage collection fees. Garbage collection fees are determined by the respective municipality. Properties which are not used for an entire year are exempt from garbage collection fee if this is declared in the previous year.

As from 1 January 2015, municipalities must notify tax liable persons of any tax liabilities by 1 March of the year in which they are due.

Transport vehicles tax

Owners of transport vehicles, including motor vehicles, ships and aircraft registered in Bulgaria, are liable to transport vehicles tax. Various criteria are used for calculation of the tax depending on the type of the transport vehicle, e.g. engine power, load-carrying capacity, number of seats, and maximum take-off weight. The tax is payable in two equal installments by 30 June and 30 October of the year in which it is due.

Gift and inheritance taxes

Certain individuals inheriting property situated in Bulgaria are subject to inheritance tax. The tax rates depend on the value of the property and the relationship of the beneficiary to the testator or donor. No inheritance tax is levied provided that the beneficiary is a spouse or immediate family member. A gift tax is levied on donated property, as well as on property transferred without consideration. No gift tax is levied on property donated to spouses and immediate family members.

The inheritance and gift tax rates are as follows:

- In the range of 0.4 – 0.8% for property inherited by/donated to brothers, sisters and their children
- In the range of 3.3 – 6.6% for inheritance/gifts (donations) between unrelated persons.

Tourist tax

A tourist tax is due from suppliers of overnight accommodation services on a monthly basis within the range of BGN 0.20 – BGN 3.00 for each overnight stay. The applicable tourist tax rate is determined by the respective municipality. The deadline for payment of the tourist tax is the 15th of the month following the month when the overnight accommodation was supplied.

Value added tax

The Bulgarian VAT legislation is generally harmonized with the EU VAT Directives and adopted the EU VAT rules based on the general principles of Directive 2006/112/EC. The latest amendments to the VAT Act came into effect on 1 January 2018.

Generally, VAT is due on any supply of goods or services with a place of supply in Bulgaria made by taxable persons in the course of their economic activities. "Supply" normally means goods or services provided in exchange for consideration. However, certain transactions carried out for no consideration are also considered to be supplies, for example, the private use of certain business assets.

The following transactions are generally subject to Bulgarian VAT:

- Supply of goods or services with a place of supply in Bulgaria
- Intra-Community acquisition of goods • Import of goods into Bulgaria.

Tax regime and place of supply of goods

The location of goods at the time of the supply determines the VAT treatment. If the goods are located in Bulgaria, then the supply is subject to 20% Bulgarian VAT.

However, if goods are dispatched or transported, the place of supply is the place where the goods are located at the time when dispatch or transport of the goods to the customer begins.

Special rules apply for the supply of electricity, gas, heat or cooling energy which are treated as goods for VAT purposes.

Intra-Community supplies

If a Bulgarian VAT registered person sells goods to a customer who is registered for VAT in another EU Member State and the goods are physically transferred from Bulgaria (either by the supplier or by the customer) to another EU Member State, the supply is regarded as a zero-rated (exempt with credit) intra-Community supply. Documents, as prescribed by law, evidencing the physical movement of the goods from Bulgaria must be obtained in order to support the zero rating.

Intra-Community acquisitions

Exports

The export of goods to customers outside the EU is zero-rated, provided that certain transportation and documentation requirements are fulfilled.

Imports

The import of non-Community goods from outside the EU is subject to Bulgarian VAT and is payable by the importer to the customs authorities. Under specific conditions, import VAT may be "reverse charged" if the importer is granted authorization to apply such a regime in connection with the implementation of an investment project.

Supply of goods with installation

Goods coming from other EU Member States and delivered under supply and install arrangement are subject to VAT reverse charge by the Bulgarian recipient if (i) the supplier is established in another EU Member State and is not established in Bulgaria, and (ii) the recipient is identified for VAT in Bulgaria.

Place of supply and taxation of services

The place of supply rules with regard to services follow the principles laid down by Directive 2006/112/EC as regards the place of supply of services.

Generally, supplies of services fall into two regimes – B2B services, i.e. services provided by one taxable person to another, and B2C services, i.e. services provided by a taxable to a non-taxable person. The place of supply under the two regimes is determined by different sets of rules.

The acquisition of goods arriving in Bulgaria from another EU country by a taxable person or by a non-taxable legal entity when the goods are supplied by a taxable person identified for VAT in another EU Member State represents an intra-Community acquisition. VAT registered recipients of intra-Community acquisitions need to reverse charge VAT within the statutory term.

B2B regime of services

Under the B2B regime of services, the place of supply follows the place where the recipient is established or has a fixed establishment which receives the services. Thus, for cross-border supplies of services where the supplier is not established in the country of the recipient, VAT is usually due by the recipient through the reverse charge mechanism.

Exceptions to this rule include:

- The supply of services connected to immoveable property is taxable where the property is located (including hotel and accommodation services)
- The supply of admission to cultural, artistic, sporting, scientific, educational, entertaining and other events is taxable where the event takes place
- The supply of passenger transport is taxable in the place where the transport takes place, proportionate to the distance covered
- The supply of services connected to short-term hiring of vehicles is taxable in the country where the vehicle is placed at the disposal of the client
- The place of supply of restaurant and catering services is taxable where the services are physically carried out.

Services provided to taxable persons but used for non-business purposes by the owner or the employees are to be treated as services provided to non-taxable persons (B2C).

B2C regime of services

Services provided to non-taxable persons are generally taxed at the place where the supplier is established. As exceptions to this, the following services provided to non-taxable persons are considered to have their place of supply in Bulgaria:

- Services connected to immovable property located in Bulgaria
- Services related to cultural, artistic, sporting, scientific, educational, entertaining and other events taking place in Bulgaria
- Services related to valuation, expert examination or work on a movable tangible property taking place in Bulgaria
- Short-term hiring of vehicles if the vehicle is placed at the disposal of the client in Bulgaria
- Telecommunication, broadcasting and electronic services when the recipient is established, has their permanent address or usually resides in Bulgaria
- Transport of goods within the Community, including forwarding, courier and postal services, when the transport begins in Bulgaria
- Intermediary services, when the underlying transaction has a place of supply in Bulgaria

VAT rates

The standard rate of VAT, which applies to most taxable supplies, is 20%. Two reduced rates are applicable for specific supplies.

Zero VAT rate

Zero VAT rate applies to specific supplies such as:

- Intra-Community supplies of goods
- Supplies of goods transported or dispatched outside the European Community (exports)
- International transport of passengers and goods
- Certain supplies related to international transport
- Supplies of non-Community goods placed under a special customs regime (such as temporary warehousing, customs warehousing, inward processing, temporary importation with full exemption from duties)
- Services consisting in work on goods (such as processing or repair) when the recipient of the services is a person established outside the country and the goods are imported within the Community in order to be processed and after that re-exported
- Services rendered by agents, brokers and other intermediaries acting in the name and on behalf of a third person in relation to certain export transactions
- Import related services (such as commission, transportation and packaging) when their value is included in the customs value.

The application of the zero VAT rate needs to be substantiated by certain documents required by the law.

9% VAT rate

A reduced rate of 9% applies to accommodation in hotels, sheltered housing and other places for accommodation.

Exemptions

Exempt supplies include:

Supplies related to health care

Supplies related to welfare and social security

- Supplies related to education, sports and physical education
- Supplies related to culture and religions
- Non-profit activities of eligible institutions
- Certain transfers of land and buildings (with the option of charging VAT)
- Insurance services
- Financial services

- Gambling
- Valid postage stamps
- Supply of goods or services for which credit for input tax has not been used because of legislative provisions.

Registration for VAT purposes

VAT can be charged only by VAT registered persons. VAT registration cannot be retrospective, unless it is performed at the initiative of the revenue authorities when the taxpayer fails to submit a registration application on time.

Mandatory VAT registration for local supplies

Mandatory VAT registration applies for taxable persons, local or foreign, who perform taxable supplies with a place of supply in Bulgaria (excluding supplies for which VAT is to be reverse charged by the recipient) exceeding the registration threshold of BGN 50,000 for a period of 12 consecutive calendar months. Zero-rated supplies count toward the VAT registration threshold as well. The taxable person must submit an application for registration within 7 days from the end of the tax period when the registration threshold was reached.

If the taxable turnover of BGN 50,000 is reached for a period not exceeding two consecutive months (including the current one), the application is to be submitted within 7 days from exceeding the turnover. If the taxpayer fails to submit the application within this time limit and the revenue authorities proceed with VAT registration ex officio, the person will be liable to pay VAT on the taxable supplies with which the turnover of BGN 50,000 is exceeded until the date of the registration by the revenue authorities.

Mandatory VAT registration for providing/ receiving services

Subject to mandatory VAT registration are all taxable persons who (i) receive services from suppliers established abroad or (ii) provide B2B services to another EU Member State. A claim for VAT registration needs to be filed with the revenue authorities not later than 7 days before the tax on the supply becomes due.

The registration for providing/receiving services is a specific registration which does not entitle the taxpayer to deduct input VAT.

Mandatory VAT registration for supply of goods with assembly and installation

A taxable person established for VAT purposes in another EU Member State who is not established in Bulgaria and supplies goods assembled and installed by them or on their account in the country is obliged to register 7 days before the chargeable event takes place, irrespective of the threshold reached. This does not apply if the recipient is registered for VAT purposes in Bulgaria.

Mandatory VAT registration for intra- Community acquisitions

A taxable person or a non-taxable legal entity not VAT registered on other grounds is subject to mandatory VAT registration when performing intra-Community acquisitions if their total amount during a calendar year exceeds BGN 20,000 (no threshold applies for intra-Community acquisitions of new means of transport and excise goods). The VAT registration needs to be effected not later than 7 days prior to the acquisition with which the threshold is exceeded. The movement of own goods from one EU Member State where the taxpayer is identified for VAT purposes to Bulgaria creates an identical registration obligation.

Entities which are VAT registered on these grounds are obliged to charge and pay output VAT upon the intra-Community acquisition but are precluded to deduct input VAT. Furthermore, entities registered under this regime are not obliged to charge output VAT on the subsequent sale of goods.

Mandatory registration for supply of telecommunication, broadcasting and electronic services

Any taxable person who is not established in Bulgaria and provides telecommunications, broadcasting and electronic services to non-taxable persons who are established, have their permanent address or usually reside in Bulgaria is obliged to register in Bulgaria if:

- They are not registered for the application of the “mini one-stop shop” special scheme in Bulgaria or in another EU Member State
- They are not registered for VAT purposes on mandatory, supply-and- install, distance sales and voluntary grounds.

The application for the VAT registration must be filed not later than the 10th day of the month following the month in which the taxable event of the first supply occurred.

Voluntary registration

Any taxable person not meeting the requirements for mandatory VAT registration has the right to register voluntarily without fulfilling threshold requirements.

“Mini one-stop shop” (MOSS) special registration and reporting scheme

Taxable persons established and registered for VAT in Bulgaria and providing telecommunications, broadcasting and electronic services to non-taxable persons established in another EU Member State may register voluntarily for MOSS in Bulgaria.

Non-EU taxable persons providing telecommunications, broadcasting and electronic services to non-taxable persons established in the EU, including Bulgaria, may register voluntarily for MOSS in Bulgaria if they are not registered for MOSS in another EU Member State.

Registration for MOSS can be performed electronically through a dedicated web- based application available on the website of the National Revenue Agency.

VAT registration procedure

Persons not registered for general tax purposes in Bulgaria may not register under the VAT Act. The general tax registration for local companies is automatic after registration with the Commercial Register is obtained. Foreign persons not established in Bulgaria need to obtain a tax number for this purpose.

In order to register for VAT (under the mandatory or voluntary procedures), an entity must file an application with the relevant territorial directorate of the National Revenue Agency (NRA).

The application must state the grounds for registration and must be submitted together with information about the monthly taxable turnover for the preceding 12 consecutive calendar months.

Foreign persons who are obliged to or wish to register may do it only by securing the services of a fiscal representative in Bulgaria. The fiscal representative is jointly and severally liable for the Bulgarian VAT liabilities of the foreign person.

This does not apply for foreign persons from EU Member States who may register without appointing a fiscal representative. If, however, they decide to appoint such, the representative will not be jointly liable for the foreign person’s VAT liabilities.

Persons applying for VAT registration need to designate an email address for official communications with the tax office.

Deregistration

Voluntary deregistration following a mandatory registration is possible when, during the last 12 consecutive months before the current month, the taxable turnover of the registered person does not exceed BGN 50,000. However, voluntarily registered persons cannot apply for deregistration before the expiration of 24 months from the beginning of the calendar year following the year of registration. Mandatory deregistration must be pursued in certain cases.

Obligations of VAT registered persons

Format of the VAT registration number

The format of a Bulgarian VAT registration number for legal entities is as follows:
BG 123456789, where 123456789 represents the unified identification code from the Commercial Register or the general tax number.

Accounting records

VAT registered persons must maintain detailed accounting records which must be adequate for the determination of their VAT liabilities. The VAT Act does not provide for the form or the level of detail of the accounting information that has to be kept. The Accountancy Act, however, regulates this matter for foreign persons that have a permanent establishment in the country.

VAT returns

Each VAT registered person must submit VAT returns accompanied by purchase and sales ledgers. The tax period under the Bulgarian VAT Act is the calendar month. The purchase and sales ledgers have to be prepared in prescribed formats and include detailed information about all transactions having relevance to VAT. The sales ledger lists all tax documents on the basis of which output VAT is applied or not applied (i.e. includes exempt and zero-rated transactions and reverse charged VAT). The purchase ledger contains all tax documents on the basis of which input VAT is claimed or not claimed (including reverse charged VAT).

The VAT return must be prepared on the basis of the information from the purchase and sales ledgers for the respective month. The deadline for submission of the VAT return and ledgers is the 14th day of the month following the reference tax period.

Taxable persons registered for MOSS in Bulgaria must file quarterly VAT returns by the 20th day of the month following the reference calendar quarter. The VAT return must be filed electronically through a dedicated web-based application available on the NRA website.

European Sales List – VIES return

VAT registered persons have to file a VIES return if some or all of the following types of sales have been performed in a given month:

- Intra-Community supplies of goods
- Triangulation operations (if the supplier acts as an intermediary)
- Taxable services provided to taxable persons established in other Member States (including cases of received advance payments on such services)

A VIES return is to be filed together with the VAT return. The deadline for submission of the VIES return is the 14th day of the month following the relevant tax period.

The VAT return, the VIES return and the VAT ledgers must be submitted electronically only by using a qualifying electronic signature.

Intrastat Return

The Intrastat system in Bulgaria is regulated by the Intra-Community Trade Statistics Act and applies to the collection of data of intra-Community trade in goods, including the movement of goods as a result of dispatches from and arrivals to the territory of Bulgaria to/from other EU Member States.

Persons registered for VAT purposes in Bulgaria which carry out intra-Community trade with goods have to file an Intrastat return if they have exceeded either of the following thresholds from intra-Community trade:

- BGN 260,000 for dispatches
- BGN 430,000 for arrivals.

Entities must submit Intrastat returns every month starting from the month when the relevant threshold was exceeded in the current year.

The Intrastat returns are to be filed with the NRA by the 14th of the month following the month when the arrival/dispatch occurred.

Recovery of input VAT

A Bulgarian VAT registered person is entitled to recover input VAT in respect of taxable supplies from another VAT registered person or in respect of imported goods, if they are used for the purposes of:

- Taxable supplies liable to Bulgarian output VAT
- Zero-rated (exempt with credit) supplies such as the dispatch of goods to other EU Member States and the export of goods to third countries
- Supplies with a place of supply outside Bulgaria, insofar as input VAT would be deductible in relation to such supplies made in Bulgaria.
- The input VAT claim must be supported with an invoice and also with a so-called reverse charge protocol (when the VAT is to be charged by the recipient of a supply) and/or with a Single Administrative Document (SAD) (in the case of import). The invoices and protocols must be issued in compliance with the Bulgarian VAT Act.

Special rules apply in respect to input VAT deductions in case taxpayers apply the cash accounting scheme. Specifically, eligible taxable persons applying this scheme can deduct input VAT once they have paid for the goods/services received. The input VAT deduction must be supported, in addition to the supplier's invoice, with a payment document and a special protocol issued by the supplier if the latter also applies the cash accounting scheme, or by themselves if the supplier does not apply the cash accounting scheme.

The right to input VAT of taxable persons receiving invoices from suppliers applying the cash accounting scheme will arise when they have paid for the goods/services received. In order to deduct input VAT on such invoices, the recipient needs to have, apart from the invoice, also a payment document and a special protocol issued by the supplier.

A VAT registered person is not generally entitled to recover input VAT on:

- Purchases used for the performance of VAT exempt supplies
- Purchases used for the performance of free-of-charge supplies (there are certain exceptions) or transactions outside the scope of the independent economic activity of the taxable person
- Purchases of passenger cars and motorcycles; fuel, repair and maintenance of such cars and motorcycles; excluding the acquisition of a passenger car or a motorcycle used for certain qualifying activities such as resale, leasing, security and taxi/ courier service. If the passenger cars and motorcycles are not used solely for qualifying services, the taxpayers will be entitled to full input VAT deduction if the qualifying services represent more than 50% of the revenue generated by the taxpayer in the last 12 months
- Purchases used for representation or entertainment purposes.

A VAT registered person is entitled to pro-rata VAT deduction in respect of purchases which are used to perform both supplies qualifying for deduction and exempt supplies. The pro-rata deduction is based on the ratio of taxable supplies to total supplies calculated for the previous calendar year and adjusted on the basis of the current year's ratio calculated with the December VAT return. Taxpayers are allowed to calculate the partial VAT deduction for goods and services which are different from non-current assets by using an alternative to the pro-rata coefficient method.

Registered persons may claim a VAT deduction within 12 months from the end of the month in which the output VAT for the supply became chargeable. No specific limitation applies to supplies subject to reverse charge, but notifications to the tax office are needed for deductions claimed after this 12-month period.

Input VAT deduction on personal use of business assets

Proportional input VAT deduction is applicable upon the acquisition of non-current assets used for both business and private purposes. The business-to-private proportion is to be determined on the basis of a reasonable criterion which should guarantee the correct calculation of the amount of the input VAT to be deducted taking into account the nature of the assets.

“Non-current assets” for VAT purposes includes (i) immovable property, (ii) vehicles and (iii) goods and services which qualify or would qualify as non-current assets within the meaning of the Bulgarian Corporate Income Tax Act with a tax base upon their acquisition of BGN 5,000 or more.

The proportional input VAT deducted initially should be adjusted on a yearly basis upon changes in the use of the assets.

Reimbursement of VAT

If, in a given month, the input VAT deduction declared by the registered person exceeds the amount of output VAT charged, the excess amount is subject to reimbursement.

The VAT for reimbursement is offset against VAT payables in the following two months. If, after the two-month period, there is still an outstanding balance for reimbursement, it is due for refund by the revenue authorities within 30 days together with any other VAT for reimbursement declared in the monthly VAT returns in this two-month period.

Accelerated refunds are available to registered persons who during the last 12 months have performed the following supplies amounting to 30% or more of their total taxable turnover for the same period:

- Zero-rated supplies, and
- The following supplies having their place of supply in another EU Member State where the customer is VAT registered
- Intra-Community transport of goods, forwarding, courier, postal and cargo handling and direct agency services related to such transport
- Valuations of and work on movable goods.

The term for the VAT refund is 30 days from the date of filing the VAT return.

The VAT is usually refunded after a tax review or tax audit by the revenue authorities, which could defer the refund until after the audit is completed. The tax audit could last up to five months. However, refund of VAT is allowed within five days despite any ongoing audit after a collateral in the form of cash deposit, government securities or irrevocable bank guarantee in favor of the revenue authorities. If any refund is postponed until the completion of the audit, the authorities owe interest for the period of delay.

VAT refund to persons identified for VAT in the EU and businesses outside the EU

Bulgaria has implemented the general provisions of the EU Directives in respect of VAT refunds to entities (i) established and registered for VAT purposes in other EU Member States (Directive 2008/9/EC), or (ii) established outside the Community (13th Directive 86/560/EEC).

Refunds of input VAT incurred by foreign EU entities are available for purchases/ imports made in Bulgaria, provided that the input VAT deduction would have been available if the foreign entity was identified for VAT purposes in Bulgaria.

The maximum period of time for which VAT reclaims can be made cannot exceed one calendar year. The minimum period cannot be less than three months unless this period comprises the remainder of the calendar year.

Refund under the 13th Directive

The 13th Directive refunds are based on reciprocity – the condition is that the country in which the person is established refunds VAT or similar tax to Bulgarian companies.

Bulgaria has reciprocity agreements with the following countries: Canada, FYR Macedonia, Iceland, Israel, Moldova, Norway, Republic of Korea, Serbia, Switzerland and Ukraine.

Taxable persons have a right to a refund if, during the year for which refund is claimed:

- They had neither a seat of their business nor a fixed establishment in Bulgaria and
- During the same period they did not perform transactions with a place of supply within Bulgaria except:
 - International transport and ancillary to it services
 - Supplies of goods and services for which the tax is due by the recipient.

The application must be made in the Bulgarian language and filed with the authorities by an appointed Bulgarian agent; the name and address of the person has to be written in the official language of the country where the person is established.

Applications must be accompanied by:

- A declaration that the person claiming refund is not established on the territory of the country
- A certificate issued by the competent tax authorities from the country in which the person is established, which proves that the person performed economic activity during the calendar year when the right to reclaim VAT arose (this certificate must be translated into Bulgarian by a certified translator and legalized)
- The original invoices/SADs on the basis of which the VAT refund is claimed
- Written power of attorney.
- Applications must be sent to the territorial director of the NRA Territorial Directorate – Sofia, located at 21 Aksakov Street, 1000 Sofia.

The right to reclaim VAT on purchases made in 2017 must be exercised by 30 June 2018.

Refund under Directive 2008/9/EC

Taxable persons have a right to refund Bulgarian VAT if during the period when VAT was incurred they:

- Had neither a seat of their business, nor a fixed establishment in Bulgaria and
- Did not perform transactions with a place of supply Bulgaria except:
 - Zero-rated supplies
 - Transport and ancillary services
 - Supplies of goods and services for which the tax is due by the recipient.

Refund is claimed by home state applications filed electronically with the local revenue authorities in the Member State where the respective person is established.

Applications to refund Bulgarian VAT and all accompanying documents must be completed in Bulgarian or English. Applications must be accompanied by:

- Codified description of the economic activities of the person
- Codified description of the goods and services purchased in Bulgaria
- Copies of invoices and SADs are not required but these need to be detailed in the application.

The right to refund is exercised personally or through an authorized representative.

The home state applications are referred to the NRA which has four months to issue its decision to accept or deny the claim. If additional documents are requested, the term for issuing the decision is extended by up to eight months from the submission of the claim. Following a positive decision, the claimed VAT must be reimbursed within 10 days to a bank account indicated by the person. The NRA owes interest for any delay after the 10-day term.

The right to reclaim VAT on purchases made in 2017 must be exercised by 30 September 2018.

Penalties

Penalties can be imposed by the revenue authorities in various cases of non-compliance, most notably for failure to charge output VAT, late charging of output VAT or failure to submit application for VAT registration.

Penalties in these cases are generally set at the amount of the underlying VAT not charged as a result of the failures (except for late charging of VAT – if the delay is within six months the potential penalty is 5%)

of the underlying VAT and if the delay is more than six months but within 18 months the potential penalty is 10% of the underlying VAT).

In addition to this, penalty interest on the unaccrued output VAT liability may be calculated for the period of non-payment. The penalty interest rate varies with the prime rate of the Bulgarian National Bank and is 10.00% per annum as at the beginning of 2018.

In the case of a failure to apply the reverse charge mechanism, the penalty amounts to 5% of the underlying VAT, provided that the taxable person is entitled to input VAT deduction. The penalty is 2% of the underlying VAT if the reverse charge mechanism is applied with a one-month delay.

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