



Bulgaria

Tax highlights

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Introduction

The Bulgarian economy has growth prospects linked to the structural transformation processes under way and intended to increase with the full integration of the European economy. Among the countries of the European Union, Italy is certainly among the main investors in Bulgaria and is also one of the most important commercial partners in terms of exports.

Well located within the Balkan area, Bulgaria has been part of NATO since 2004 and the European Union since 2007. The country is an important crossroad between Eastern Europe and Russia. With a population of 7 million, of which approximately 2 million reside in the capital Sofia. Infrastructure upgrading projects will soon make even the most remote areas of the country accessible.

Bulgaria has a liberal economy open to foreign investors and has sound macroeconomic and political stability.

The fixed exchange rate with the Euro (**1 EUR = 1.95583 BGN**) has made the avoidance of exchange rate fluctuations for European investments possible.

1. The tax system: general aspects

The Bulgarian corporate system consists mainly of:

- ▶ Limited liability companies (EOOD / OOD)
- ▶ Joint stock companies (EAD / AD)
- ▶ Sole proprietorships

Other forms without legal autonomy are also widely disseminated, such as:

- ▶ Branches of non-resident companies
- ▶ Representation offices
- ▶ VAT tax representative for foreign companies

With the entry of Bulgaria into the European Community, a process of harmonisation of tax law was initiated with the European one.

2. Direct taxes

2.1. Taxation of legal persons

Corporate income tax

Companies resident in Bulgaria are subject to a single tax rate of **10%** on the tax base (*Flat Tax*). In some specific cases the total exemption on taxable income can be obtained if the investment is located in depressed areas.

Withholdings at the source

Dividends

Legislation provides for a withholding tax of **5%** on dividends distributed by Bulgarian companies to foreign shareholders or residents of Bulgaria. Withholding tax is not applied if the shareholder is a Bulgarian company or resident in the European Community or in the European economic area. Furthermore, withholding tax can be reduced by applying the bilateral agreements signed between Bulgaria and other countries.

Interest from capital

In general, a withholding tax of **10%** on interest is applied at the source. The European directive is currently in force *Interest and Royalties* of 3 June 2003 which provides for the exemption of withholding tax on intra-group interests and between companies residing in the European Community. Furthermore, withholding tax can be reduced by applying the bilateral agreements signed between Bulgaria and other countries.

Royalties

In general, a withholding tax of **10%** on royalties applied at the source. As already stated the *Interest and Royalties* Directive in force as of 3 June 2003, which provides for the exemption of withholding tax on intra-group interests and between companies residing in the European Community. Furthermore, withholding tax can be reduced by applying the bilateral agreements signed between Bulgaria and other countries.

Depreciation

The following depreciation is recognized as tax-deductible costs:

- ▶ **50%** for software and hardware
- ▶ **30%** for machinery
- ▶ **25%** vehicles
- ▶ **15%** other assets
- ▶ **10%** other means of transport
- ▶ **4%** for property

In addition, a withholding tax of **10%** is applied to payments made to companies not resident in Bulgaria:

- ▶ Fees for technical and consultancy services
- ▶ Remuneration for work
- ▶ Rental fees
- ▶ Factoring income

2.2. Taxation of natural persons

Employee income tax

The Bulgarian tax system provides for a single tax rate of **10%** on income earned by persons residing in Bulgaria (*Flat Tax*). Non-residents are subject to taxation of **10%** only for the share of income generated in the country.

3. Indirect taxes

Value added tax (VAT)

Tax law provides for two rates: one of **20%** (ordinary) and the other of **9%** (for some specific cases). VAT exemption is applied to health, education and childhood services, religious and cultural, insurance, financial and NFP activities.

The VAT declaration is monthly and must be submitted by the 14 day of the following month. The taxable person in Bulgaria can request VAT reimbursement after two months (in some specific cases even monthly).

3.1. Other indirect taxes

Property Tax

Holders of properties in Bulgaria are required to pay an annual fee of between **0.1%** and **4.5%** of the property's tax value and a waste tax, variable according to the size of the building and the city where it is located.

4. Other aspects

Tax evasion laws

The tax system covers only *Thin Capitalisation*.

There are no specific rules on CFC and *Transfer Pricing*.

5. Work laws

The minimum monthly salary is set at **€261**. The current one is approximately **€ 500** inclusive of taxes and social security contributions.

Social security contributions include:

- ▶ State pensions
- ▶ Diseases, maternity and accidents
- ▶ Unemployment insurance
- ▶ Health subsidies
- ▶ Additional pensions

The total of the contributions, for category III (employee work), amounts to **33%** of the salary, the **19.22%** to be paid by the employer and the **13.78%** charged to the employee. Percentages vary based on the risk of the job category. Contributions are calculated on the gross salary, however there is a maximum ceiling of the tax base of **€ 1,330**, for salaries that exceed this ceiling, the contributions are calculated on the maximum ceiling of **€1,330**.

6. International bilateral agreements

Bulgaria has signed bilateral treaties against double taxation, in order to prevent a taxable person from being imposed in two countries for the same source of income in the same period.

Below is the list of countries subject to this type of agreement with Bulgaria:

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

7. Our services

Accounting services

Using an approach based on business processes, the environment in which the enterprise operates and the main risk areas and through periodic visits to the company, Diacron verifies the correctness of the work of the accounting department of the company from a civil law, tax, currency and administration point of view. In addition, Diacron offers its customers the management of accounting, administrative and corporate tax areas.

Tax Services

Diacron offers consultancy services in the field of national and international taxation, assisting its customers who have to deal with different jurisdictions, guiding them in identifying the most appropriate routes and choices.

Corporate services

Diacron assists its customers right from the initial stages of the internalization and corporate reorganization projects. Through the use of well-established law firms, it assists the customer in the process of setting up the company and with regard to the related obligations required.

► Tax representation in Bulgaria

In Bulgaria, Diacron assists Italian companies interested in requesting VAT identification in Bulgaria for their activities in

the country. Diacron specialises in the provision of assistance and advice for VAT recovery and is responsible for providing for the registration of the same, the declarations and all the other related obligations required by local legislation.

▶ **Support in real estate transactions**

Furthermore, Diacron assists companies interested in the search and selection of properties to buy or sell within the Bulgaria, guaranteeing an adequate management of the properties acquired, with regards to relationships with the local tax authorities and for the administrative management thereof.

8. Strengths

Global presence, local focus

7	Partner
8	Countries
9	Offices
40+	Books published
45	Conferences (since 2011)
90	Employees
200+	Press quotes
800+	Worldwide clients

Why Diacron?

- ▶ Team of professionals with in-depth knowledge of tax systems and international corporate regulations
- ▶ International tax systems integration
- ▶ Staff who speak English and local language in all locations
- ▶ Consolidated collaboration with local partners
- ▶ Strategic and global presence

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