



The Tax Framework in Bulgaria

2010

Quick Reference Guide

Highlights of Types of Tax in Bulgaria

<p>Personal income tax</p> <ul style="list-style-type: none"> • up to 29.7% mandatory insurance contributions on a capped base of BGN 2,000 per month • 10% one-off tax on interest, royalties, service fees, capital gains and certain other income payable to non-resident individuals • 5% one-off tax on dividends and liquidation quotas 	<p>10%</p>
<p>Corporate profit tax</p> <ul style="list-style-type: none"> • 10% withholding tax on interest, royalties, service expenses, capital gains and certain other income payable to non-resident entities and individuals • 5% withholding tax on dividends and liquidation quotas payable to non-EU entities and residents • 10% one-off tax on certain expenses deemed discretionary by the tax authorities 	<p>10%</p>
<p>Value added tax</p> <ul style="list-style-type: none"> • reduced rate of 7% for certain tourist services • 0% for exports and certain other activities • refund of input VAT within three months (regular term) • faster refund within one month if certain conditions are met 	<p>20%</p>
<p>Other tax, duties and fees</p> <ul style="list-style-type: none"> • 0.01% – 0.25% annual real estate and property tax • 0.1% – 3% transfer tax for real estate and vehicles • tax and fees on vehicles, donations, inheritance, etc. • excise duties on energy, fuel, alcohol and tobacco • customs duties on imports of goods from outside the EU 	



Corporate Profit Tax

Corporate profit tax rate

10% on restated taxable profit.

Liable entities

Companies and partnerships established under Bulgarian law.

Places of conducting business in Bulgaria of non-resident entities.

Taxable profit

Financial result adjusted for tax purposes.

Accounting Standards

IFRS or local Bulgarian GAAP (for small and medium-sized enterprises till end of 2010).

Tax adjustments

Adjustments are made for non-business related costs or expenses that are not duly documented. Interest paid is restricted under standard thin capitalization rules. Expenses for impairment of assets; dividends received from local or EU based companies are also adjusted for.

Tax depreciation rules

Maximum annual tax depreciation rates between 4% and 50%, depending on the type of asset.

Asset Group	Annual Depreciation	Months
Buildings, including investment property, industrial facilities, transceivers, electric infrastructure, communication lines	4	300
Machines, production equipment, facilities	30	40
Vehicles, excluding cars, coating of roads and plane runways	10	120
Computing equipment, IT peripherals and devices, software and software licenses, mobile phones	50	24
Vehicles	25	48
Tangible materials and intangible assets with maturity for usage and under contractual agreements or legal obligations	100 years' ceiling and up to 33-% p.a.	
All other depreciable assets	15	80

Fiscal year

The tax (fiscal) year is the calendar year with no availability to opt for different reporting and accounting dates.



Thin capitalization

If the debt to equity ratio of the company exceeds 3:1, interest expenses exceeding statutorily recognized levels may not be treated as tax deductible in the current year. However they may be carried forward and become tax deductible in the following five consecutive years under certain conditions.

Carry forward of tax loss

Tax loss can be carried forward over the subsequent five consecutive years.

Tax returns and payment

The annual corporate tax return is due by 31 March of the following year. The tax year is the calendar year.

The corporate tax is due by 31 March. Quarterly or monthly advance installments are due during the year.

Dividends withholding tax

Dividends are subject to 5% withholding tax when distributed either to individuals or resident non-profit entities or non-residents except for EU / EEA entities.

Dividends distributed to resident companies are not included in their taxable income except for dividends distributed by:

- Special purpose investment vehicles
- Non-EU / EEA foreign entities



Withholding Tax

Income subject to withholding tax at source

When accrued to a non-resident entity withholding tax at source is due on:

- Dividends and liquidation quotas
- Interest, royalties, franchising and factoring fees
- Technical, consultancy and management services fees
- Capital gains from transfer of real estate
- Capital gains from disposal of financial assets issued by resident entities or the State and municipalities (exemption for capital gains from disposal of shares on a regulated Bulgarian, EU or EEA market)
- Rents from letting of equipment, real estate and other properties



Withholding tax rates

- 5% on the gross amount of dividends and liquidation quotas but 0% for distributions to EU / EEA entities
- 10% on the gross amount for all other taxable income

The withholding tax rates may be reduced or waived under an applicable tax treaty.

Refund provisions

Entities resident in the EU may declare tax deductible expenses and claim a corresponding deduction or refund of the withholding tax paid on a gross basis. The claim is annual and should be filed by 31 December of the following year.

Payment

The resident payer of the income has to withhold the tax and remit it to the budget within:

- Three months following the month of accrual of the income when the recipient is tax resident of a country which has a tax treaty with Bulgaria
- One month following the month of accrual in all other cases.

The recipient has to remit the withholding tax due within the terms indicated above in the case of capital gains.

Tax treaty application

If available, double tax treaty relief may be applied by the income recipient directly if the income accrued for the calendar year does not exceed BGN 100 thousand (approximately EUR 51 thousand).

An advance clearance has to be obtained from the Bulgarian revenue authorities under a specific procedure in all other cases.

Bulgaria has an extensive network of tax treaties with over 60 countries, including most European countries, Netherlands, Luxemburg, Malta, Cyprus, USA, Russia, China and India.

One-off tax on certain expenses

Expenses subject to one-off tax

- “Representative” expenses (directors’ or managers’ discretionary expenses for conduct of their duties)
- Fringe benefits provided in-kind to the employees except for food vouchers and voluntary benefits in kind provided for social insurance
- Social, health and life insurance contributions exceeding BGN 60 per employee per month
- Expenses related to the use of vehicles for management purposes

Tax rate

The tax rate is 10% on the accrued discretionary expenses. Both the respective expense and the one-off tax applicable to it are deductible for corporate income tax purposes under the no-tax-on-tax principle.



Corporate tax incentives and specific tax regimes

Tax holiday

The annual corporate income tax due by entities on their profits arising from manufacturing or industrial processing, may be partly or fully reduced.

Tax holiday applicability is subject to certain constraints, terms and conditions, such as the EU state aid restrictions.

Exemptions from corporate tax

Special purpose investment vehicles, close-ended licensed investment vehicles and collective investment schemes authorized for public offering in Bulgaria are not subject to corporate income tax.

Special corporate tax regimes

Special corporate tax regimes apply for:

- Maritime shipping companies
- Gambling activities
- Other establishments such state and municipal bodies



Transfer pricing rules

Bulgarian transfer pricing rules apply to transactions between related parties and are compatible with the OECD Transfer Pricing Report. The rules may be applied to unrelated party transactions in certain qualifying cases.

Prices charged in related party transactions may be adjusted for tax purposes provided such transactions are made on terms that differ substantially from the terms of comparable unrelated party transactions.

Advance pricing agreements are not allowed in Bulgaria. The following transfer pricing methods are acceptable:

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

No special transfer pricing documentation or reporting requirements exist. However, during a tax audit proof of the arm's length basis of related party transactions may have to be provided.

The revenue authorities will have to use the adopted method as a basis in their transfer pricing analysis if transfer pricing documentation has been prepared.



Personal income tax



Personal income tax rate

Personal income tax rate is set at 10% flat on the taxable income. No income brackets with different tax rates are applicable.

Tax residency

Individuals are considered Bulgarian tax residents if:

- They have stayed in Bulgaria for more than 183 days in any 12- month period or
- The centre of their essential lifelong interests is in Bulgaria, determined in view of their personal and economic ties to the country, such as permanent address in Bulgaria, family, employment, possession of property, investments etc.

Taxable income

Taxable income includes monetary income, as well as benefits received in-kind. Non-taxable items and “in kind social benefits” may be excluded.

Bulgarian tax residents are taxed on their worldwide income. Non-residents are taxed only on their Bulgarian-sourced income at source.

Exempt income

Certain types of income are exempt from taxation, including capital gains from the disposal of shares on a regulated Bulgarian / EU / EEA market, interest on deposits in EU/EEA based banks or branches of non-EU banks, income from sale of certain real estate, etc.

Deductions

Tax deductions apply in some cases, including:

- Mandatory social security and health insurance contributions
- Statutory deductions for freelancers, for rental income, etc.
- Voluntary personal insurance up to certain limits
- Certain donations
- Other specific situations (disability, mortgage, etc.)

Specific lump sum taxation

Lump sum taxation can apply to certain sole traders with annual turnover less than BGN 50,000 (approximately EUR 25,000).

Tax returns and payment

The annual personal income tax return has to be submitted by 30 April of the following year.

The tax has to be paid by the same deadline. A 5% reduction of the outstanding tax can be applied if:

- The annual tax return is filed and the tax is paid before 10 February of the following year or
- The annual tax return is submitted electronically.

Individuals do not have to file annual tax returns if they have received only employment income for which an annual reconciliation of the tax liability was made by the employer, non-taxable income and/or income subject to one-off taxation.



One-off taxation on certain income

One-off taxation of certain income

One-off tax is due on income received by non-resident individuals from:

- Dividends and liquidation quotas distributed by a Bulgarian resident company.
- Interest, royalties, franchising and factoring fees.
- Management and technical services fees.
- Income from the rental of machinery, equipment, property and real estate.
- Capital gains from disposal of real estate and financial assets.
- Certain other income.

One-off tax is due on dividends and liquidation quotas distributed to a Bulgarian resident by a non-resident entity.

EU resident individuals may declare deductible expenses and claim a corresponding refund of the one-off tax paid on a gross basis provided certain conditions are met.

One-off tax rates

- 0% for capital gains from disposal of shares on a regulated Bulgarian / EU / EEA market by EU / EEA residents.
- 5% for dividends and liquidation quotas.
- 7% for income from voluntary life insurance schemes received after the termination of the insurance policy (if existent for than 15 years).
- 10% for all other income.

The one-off tax rates may be reduced under an applicable tax treaty.



Social security and health insurance

Mandatory insurance contributions

Between 29% - 29.7% paid by both the employer and the employee in a certain ratio. This includes:

- 11% - pensions fund
- 5% - universal pensions fund
- 0.4% - 1.1% - occupational accident and professional disease fund (rate depending on the field of activity)
- 3.5% - general illness and maternity fund
- 1% - unemployment fund
- 8% - health insurance fund
- 0.1% - employees' receivables guarantee fund

Non-residents working in Bulgaria under management service contracts or supply-of-staff agreements do not pay contributions to the employees' receivables guarantee fund.

Base for calculation

The basis is the gross remuneration less statutory deductions in some cases. The base for calculation is capped at BGN 2,000 (approximately EUR 1,000) monthly.

Social security treaties

Foreigners may be exempt from social security contributions in Bulgaria or the contributions they make in Bulgaria may be recognized in their home country under an applicable bilateral or multilateral social security agreement.



Value added tax

The Bulgarian VAT legislation is based on the EU VAT rules and Directive 2006/112/EC.



VAT rates

- 20% for domestic supplies, intra-community procurements and imports from non-EU countries
- 7% for accommodation provided by hotels as a part of a tourist package

Exemptions

With the right to deduct input VAT:

Intra-community supplies, export to non-EU countries, international transport of goods and passengers, certain supplies related to international transport, sale of duty free goods under certain conditions, certain transactions related to international trade, specific supplies under international treaties, etc.

Without the right to deduct input VAT

Transfer or rental of land or rights over land (except for regulated land and land adjacent to new buildings), transfer of old buildings or parts thereof, rental for residential purposes to individuals (an option to tax these transactions is available); financial and insurance services; gambling; certain services related to health, education, religion, culture, etc.; other specific supplies (e.g. imports of certain goods and up to a limit, etc.)

VAT registration

Entities have to register for VAT purposes if they have performed:

- Transactions with a delivery location in Bulgaria for which the VAT should be charged by the supplier exceeding BGN 50,000 (approximately EUR 25,000) for any 12-month period.
- Intra-community procurements exceeding BGN 20,000 (approximately EUR 10,000) during the calendar year.
- Distant sales in Bulgaria exceeding BGN 70,000 (approximately EUR 35,000) during the calendar year.

Entities registered in an EU member state supplying machinery and equipment for installation in Bulgaria to customers non-registered for VAT purposes have to register regardless of their taxable turnover.

Foreign entities receiving services with a place of supply in Bulgaria for which recipients have to self-accrue Bulgarian VAT have to register regardless of their taxable turnover.

Any entity may apply for voluntary VAT registration. However, if registered voluntarily, such entity will not be able to deregister for two years following the year of registration.

Fiscal representative

Foreign entities have to appoint a local fiscal representative in order to register for VAT purposes except when they have a registered branch in Bulgaria. This rule does not apply to EU entities.

Reverse charge mechanism

Foreign entities without VAT registration in Bulgaria performing certain supplies to local businesses may not have to register for VAT purposes if the associated VAT will be self-accrued by the local customer.

Supplies to which reverse charge of VAT applies include:

- Services provided to businesses (with some exceptions)
- Supply of goods, machinery and equipment with installation
- Supply of natural gas and electricity
- Supply of goods under a triangular transaction (i.e. a supply of goods between three entities VAT-registered in three different EU member states. Under certain conditions the ultimate customer self-accrues VAT, while the supplies for the first two entities are exempt with right to deduction of the input VAT)

Certain specific conditions may also apply.

VAT returns and payment

Monthly VAT returns are filed and the tax is due by the 14th of the following month. The VAT tax period is a calendar month.

European sales list (VIES) returns have to be filed monthly by the same deadline if intra-community supplies of goods or certain services have been performed during the respective month.

VAT refund

VAT can be refunded through the VAT returns within:

- 2 months (period for carry forward and offsetting of the claimable VAT against VAT payable) and 30 days of filing the last VAT return (period for effective refund)
- 30 days of filing the VAT return for entities that have performed exempt supplies with the right to deduction exceeding 30% of the total turnover from taxable supplies for the last 12 months

An investor in a large investment project which has received authorization by the Ministry of Finance can receive a refund within 30 days. The investor can also apply reverse charge for VAT on import of goods (without effective cash outflow).

EU registered entities which are not registered and established for VAT purposes in Bulgaria can receive a refund of the local input VAT incurred for goods and services used for supplies with a place of supply outside Bulgaria. A specific procedure with the authorities of the EU member state of registration has to be followed.

Non-EU registered entities may be entitled to a refund on a reciprocal basis (i.e., if their country of tax residence provides the right to VAT refund to Bulgarian entities). A specific procedure involving the Bulgarian revenue authorities has to be followed.



Intrastat

Intrastat is a system for collecting statistical data about intra-EU movement of goods between all EU member states.

All entities VAT-registered in Bulgaria have to file Intrastat returns if the thresholds for incoming (“arrival”) and outgoing (“dispatch”) intra-EU movement of goods between Bulgaria and the other EU member states are exceeded.

The thresholds triggering the obligation to file Intrastat returns for 2010 are:

- BGN 200 thousand (approximately EUR 102 thousand) for arrival of goods; or
- BGN 250 thousand (approximately EUR 128 thousand) for dispatch of goods.

The thresholds are updated annually.

The deadline for filing Intrastat returns is the 10th day of the month following the month of arrival or dispatch of the goods.



Local tax and fees

Real estate tax

Between 0.01% - 0.25% annually on the gross book value of the real estate when owned by reporting entities or the taxation value for individuals. The exact rate is determined by the municipality in which the real estate is situated.

Taxation Value

The taxation value is determined on the basis of periodically updated schedules and provided by the municipal tax authorities.

Transfer tax

Between 0.1% -3% on the higher of the sales price or the tax value of the transferred real estate or the insurance value of cars. The exact rate is determined by each municipality.

Transport vehicles tax

The Transport vehicles tax depends on the type and characteristics of the vehicle. It applies to cars, ships and aircraft. The tax rate is determined by each municipality within statutorily determined ranges.

Donation (grants) tax

The tax is set between 3.3% - 6.6% on the value of the donation (grant). The exact rate is determined by each municipality. Lower rates and exemptions apply to donations between relatives.

Inheritance tax

Inheritance by a spouse, children and their descendants are exempt. The tax is between 0.4% - 0.8% on inheritance exceeding BGN 250,000 (approximately EUR 125,000) in favor of brothers, sisters and their descendants (between 3.3% - 6.6% for other heirs). The exact rate is determined by each municipality.

Waste collection fee

The waste (refuse) collection fee is determined by each municipality. It is generally levied on the gross book value of the real estate. Alternatively, it may be determined on the basis of the number and volume of waste (refuse) containers used.



Excise duties

The Bulgarian excise duties legislation is based on the EU rules.

Scope

Excise duties are applicable for certain products including:

- Electricity
- Fuels (motor fuels, coal, etc.)
- Alcohol
- Tobacco products

Excise duty rates

Excise duty rates are charged as a flat amount per unit of the product upon importation or release for consumption.

Tax warehouses and deferred payment of excise duties

- The production of some excise goods (e.g. tobacco products, alcohol, etc.) may be carried only in fiscally controlled warehouses.
- Excise goods may be imported, processed and stored in fiscally controlled warehouses as well as transported under a deferred-payment regime.



Customs duties

Bulgaria applies the customs legislation and the Common Customs Tariff of the EU.

Customs duties on imports from non-EU countries are percentage rates calculated on the basis of the customs value (the transaction value increased by certain costs). Reduced or zero duty rates apply on imports from countries granted preferential tariff treatment by the EU. In addition, the duties for certain imports can be suspended upon action of the businesses.

Goods can be imported in Bulgaria under customs procedures with economic impact – customs warehousing, inward processing, processing under customs control, temporary imports, outward processing.

As of 1 January 2008 businesses in Bulgaria can apply for AEO (approved economic operator) certification. Holders of AEO status enjoy preferential treatment with regard to customs controls and simplified procedures.



Environmental fees

The producers, importers or the entities performing intra- EU procurement of products whose use results in large quantities of waste are liable to a product fee based on the type of waste.

The entities may avoid paying the product fee if they collect or recycle certain amount of the waste produced by their products either on their own or through a licensed collective waste management organization.

Scope

The products which are subject to the product fee include:

- Certain motor vehicles and tyres
- Goods with plastic, paper, metal, glass, wooden, textile, packaging etc.
- Batteries
- Motor oil
- Electric or electronic equipment and appliances



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