

# International Tax

## Bulgaria Highlights

In Plain English



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## Investment basics:

**Currency** – Bulgarian Lev (BGN)

**Foreign exchange control** – No, but some reporting requirements apply.

**Accounting principles/financial statements** – Bulgarian entities may apply national accounting standards or IFRS.

**Principal business entities** – These are the joint stock company, limited liability company, sole trader, and branch of a nonresident company.

## Corporate taxation:

### Rates

**Corporate income tax rate** 10%

**Branch tax rate** 10%

**Capital gains tax rate** 0%/10%

**Residence** – A company is considered to be resident in Bulgaria if it is incorporated under Bulgarian law, or if it is incorporated under Council Regulation (EC) No. 2157/2001, or if it is a cooperative society incorporated under Council Regulation No. 1435/2003 and the registered office of the entity is in Bulgaria and is entered in a Bulgarian register.

**Basis** – Residents are taxed on their worldwide income; nonresidents are taxed only on Bulgaria-source income. Branches are taxed in the same way as subsidiaries.

**Taxable income** – Taxable income comprises accounting profits per the profit and loss account, as adjusted for tax purposes.

**Rate** – 10%

**Surtax** – There is no surtax.

**Alternative minimum tax** – There is no alternative minimum tax.

**Taxation of dividends** – Dividend income received by a Bulgarian company from another Bulgarian company is not subject to taxation in the hands of the recipient, nor is the income taxed in the hands of the payer. Dividends received from an EU/European Economic Area (EEA) tax resident are excluded from taxable income. Nonexempt dividends are taxed as part of overall taxable profits.

**Capital gains** – Capital gains are included in taxable income and taxed at the normal corporate income tax rate. Gains (and losses) on the disposal of shares listed on the Bulgarian and EU/EEA stock exchanges are exempt.

**Losses** – Tax losses may be carried forward for five years to be offset against future taxable profits. The carryback of losses is not permitted.

**Foreign tax relief** – A tax credit or an exemption may apply under a tax treaty. If no treaty relief is available, Bulgaria grants a unilateral domestic tax credit.

**Participation exemption** – There is no participation exemption, but domestic dividends and dividends received from entities resident in the EU/EEA are tax exempt (see “Taxation of dividends,” above).

**Holding company regime** – There is no holding company regime. **Incentives** – Tax incentives are available under domestic law for investments and the creation of new jobs

in depressed regions, and EU grants may be obtained.

### **Compliance for corporations:**

**Tax year** – Calendar year

**Consolidated returns** – Consolidated returns are not permitted; each company must file a separate return.

**Filing and payment** – The tax return and final payment of tax are due by 31 March of the year following the tax year. Companies must make monthly or quarterly advance payments of tax, based on their taxable results for the previous or current year.

**Penalties** – Interest penalties apply for the late payment of tax, and administrative penalties apply in various circumstances.

**Rulings** – Nonbinding instructions on a particular case may be obtained from the tax authorities.

### **Individual taxation:**

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#### Rates

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Individual Income Tax Rate	10%
Capital Gains Tax Rate	0%/10%

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**Residence** – An individual is resident if he/she has a permanent address in Bulgaria, resides in the country for more than 183 days in any 12-month period, or is sent abroad by the state, state organizations, or a Bulgarian enterprise; or if his/her center of vital interests is in Bulgaria. Individuals who have a permanent address in Bulgaria but whose center of vital interests is not in the country are not considered Bulgarian tax residents.

**Basis** – Resident individuals are taxed on their worldwide income; nonresident individuals are taxed only on Bulgarian-source income.

**Taxable income** – Taxable income includes income from employment, income from a business or professional activities, capital gains, income from rent, all types of interest from bank accounts, etc.

**Rates** – The standard tax rate for individuals is 10%. However, interest from bank accounts is taxed at 8% (10% for nonresidents), and dividends are taxed at 5%.

**Capital gains** – Capital gains arising from the sale of real property generally are taxable, but certain exemptions apply. Capital gains are taxed at the normal personal income tax rate (10%). Gains (and losses) from the disposal of shares listed on the Bulgarian and EU/EEA stock exchanges are exempt.

**Deductions and allowances** – Some deductions and allowances are available in computing taxable income, depending on the type of income.

**Foreign tax relief** – A tax credit or an exemption may apply under a tax treaty. If no treaty relief is available, Bulgaria grants a unilateral domestic tax credit.

### **Compliance for individuals:**

**Tax year** – Calendar year

**Filing status** – Each individual must file his/her own return; joint filing is not permitted.

**Filing and payment** – Income from employment is taxed via withholding at source. An individual who receives only employment income during the calendar year generally is not required to file an annual tax return, provided the advance tax paid is equal to the annual tax due. In all other cases, an individual must file an annual tax return by 30 April of the year following the calendar year.

**Penalties** – Interest penalties apply for late payment of tax, and administrative penalties apply in various circumstances.

**Rulings** – Nonbinding instructions on a particular case may be obtained from the tax authorities.



## Withholding tax:

### Rates

Type Of Payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%	5%	0%/5%	5%
Interest	0%	8%	0%/10%	10%
Royalties	0%	10%	0%/10%	10%
Fees for Technical Services	0%	0%	10%	10%

**Dividends** – Dividends and liquidation proceeds payable to a nonresident company or individual are subject to a 5% withholding tax, unless a lower rate applies under a tax treaty. Dividends and liquidation proceeds payable to a legal entity that is tax resident in an EU/EEA member state (including Bulgaria) are exempt from withholding tax. A 5% withholding tax applies to payments to resident individuals.

**Interest** – Interest paid to a nonresident company or individual is subject to a 10% withholding tax, unless the rate is reduced under a tax treaty or the EU interest and royalties directive applies. Bulgaria levies withholding tax on the gross amount paid, but upon completion of a specific procedure before the Bulgarian tax authorities, EU resident entities may claim a refund of a portion of the withholding tax paid on the gross income for the calendar year. No withholding tax applies to interest paid to resident companies, but an 8% withholding tax applies to payments to resident individuals.

**Royalties** – Royalties paid to a nonresident are subject to a 10% withholding tax, unless the rate is reduced under a tax treaty or the EU interest and royalties directive applies. Bulgaria levies withholding tax on the gross amount paid, but upon completion of a specific procedure before the Bulgarian tax authorities, EU resident entities may claim a refund of a portion of the withholding tax paid on the gross income for the calendar year. No withholding tax applies to royalties paid to resident companies, but a 10% withholding tax applies to payments to resident individuals (after applying a 40% statutory deduction for expenses).

**Fees for technical services** – Fees for technical services (i.e., fees for the assembly of fixed assets, services of a consultancy nature and marketing research) paid to a nonresident are subject to a 10% withholding tax, unless the rate is reduced under a tax treaty. Bulgaria levies withholding tax on the gross amount paid, but upon completion of a specific procedure before the Bulgarian tax authorities, EU resident entities may claim a refund of a portion of the withholding tax paid on the gross income for the calendar year. No withholding tax applies to payments to residents.

**Branch remittance tax** – There is no branch remittance tax.

### **Anti-avoidance rules:**

**Transfer pricing** – Mandatory transfer pricing documentation rules were introduced in Bulgaria as from 2019 that apply to transactions concluded after 1 January 2020. Under the new rules, Bulgarian companies, nonresidents that have a Bulgarian permanent establishment (PE), and sole traders generally are required to prepare a local file, but are exempt from the obligation where at least two of the following thresholds are not exceeded for the year prior to the reporting period:

- BGN 38 million in asset net book value;
- BGN 76 million in net sales revenue; and
- An average number of 250 personnel for the reporting period.

Entities that carry out only domestic controlled transactions also are exempt from the obligation to prepare a local file. Regardless of whether an entity is required to prepare the mandatory transfer pricing documentation, the general requirement that the taxpayer be able to prove the market nature of its transactions with related parties during tax checks and audits applies. The local file must be prepared for transactions that exceed the following annual monetary thresholds:

- Sales of goods - BGN 400,000;
- Loans - Principal of over BGN 1 million or interest and other revenue and expenses related to the loan of over BGN 50,000; and
- All other transactions – BGN 200,000.

The thresholds are calculated separately for each controlled transaction. An exception applies where two or more transactions with one or more related parties are concluded under comparable conditions.

Entities that are required to prepare a local file and that are part of multinational group also must have a master file prepared by the group's ultimate parent entity or another group member.

The local file must be prepared by 31 March of the year following the reporting year, and the master file must be available by 31 March of the second year following the reporting year.

A taxpayer that is required to prepare a local file and fails to do so may be subject to a penalty of up to 0.5% of the total value of the transactions that should have been documented. An entity that is required to provide a master file and fails to do so may be subject to a penalty between BGN 5,000 and BGN 10,000.

**Interest deduction limitations** – Thin capitalization rules apply in both domestic and cross-border situations where the liabilities of a company exceed three times its equity (i.e., a 3:1 debt-to-equity ratio). In such cases, the amount of net interest expense exceeding 75% of EBIT (earnings before interest and tax) is nondeductible. The thin capitalization rules do not apply in certain cases (e.g., financial leases or bank loans, unless provided or secured by a related party). As from 1 January 2020, where a loan is secured simultaneously by the borrower and its related party, the interest expense corresponding to the part of the collateral provided by the borrower is not subject to the thin capitalization rules. If the market price of the collateral provided by the borrower exceeds the principal of the loan, the interest expense under the loan is fully excluded from the thin capitalization rules.

Bulgaria has implemented the interest deduction limitation requirements of the EU anti-tax avoidance directive (ATAD 1), that apply alongside Bulgaria's thin capitalization rules. The interest limitation rules apply if net borrowing costs exceed EUR 3 million for the year. Net borrowing costs are restricted to the extent they exceed 30% of tax-based EBITDA (earnings before interest, tax, depreciation, and amortization). Unlike the thin capitalization rules, the interest limitation rules apply to interest expense on bank loans and finance leases that are not guaranteed by a related party.

Neither the thin capitalization rules nor the interest limitation rules apply to credit institutions. Disallowed deductions under both sets of rules may be carried forward indefinitely.

**Controlled foreign companies** – Bulgaria has implemented the requirements of the ATAD 1 for controlled foreign companies (CFCs). If a Bulgarian taxpayer has a CFC, it must include its proportionate share of the CFC's taxable profits in its Bulgarian taxable income. A foreign company/PE is considered to be a CFC if it lacks substantive economic activity and meets certain requirements relating to Bulgarian shareholding and low or no taxation abroad.

**Hybrids** – Rules on hybrid entities and hybrid instruments in line with the ATAD 2 (that extends the provisions of the ATAD 1) apply in Bulgaria as from 1 January 2020. The rules apply in situations involving a hybrid mismatch, i.e., where there is a deduction from the taxable income of the payer without a corresponding increase in the taxable income of the recipient; or where, due to the specific tax status of one of the parties to the transaction, the same income is deducted from the results of two entities that are subject to taxation in different countries.

The new provisions apply only to hybrid mismatches between related parties, a head office and its PE, or two or more PEs of the same entity, or under a structured arrangement between unrelated parties. A specific definition of related entities that applies only in hybrid mismatch scenarios is introduced.

The ATAD 2 reverse hybrid mismatch rules also are expected to be implemented in

Bulgaria during 2020.

**Economic substance requirements** – There are no general rules in the tax legislation, but economic substance requirements exist under the rules for taxing CFCs. A foreign company/PE must perform substantial economic activities abroad with personnel, equipment, assets, and premises to avoid CFC status.

**Disclosure requirements** – Taxable persons must disclose the overall amount of the accounting income and expenses for the year from transactions with related parties and/or with parties from jurisdictions with a preferential tax regime, as well as receivables from and payables to related parties. Taxable persons also are required to file an annual report on their activities at the time they file their income tax return.

Bulgaria has adopted the rules on country-by-country reporting introduced by EU directive on the mandatory automatic exchange of information in the field of taxation.

**Exit tax** – Rules for exit taxation in line with the ATAD 1 apply in Bulgaria as from 1 January 2020. Previously, exit taxation applied only to transfers between a Bulgarian PE and another part of the same enterprise located outside the country. The new provisions extend the scope of exit taxation to include the following:

- Transfers of assets from a head office in Bulgaria to a PE outside the country;
- Transfers of assets in cases in which an entity changes its tax residence (excluding transfers of assets that continue to be effectively connected to a PE in Bulgaria); and
- Transfers of a business carried out from a PE in Bulgaria to another country.

The amount subject to exit taxation is calculated by subtracting the tax value of the transferred asset from its market value. Exit taxation may arise only where Bulgaria loses its right to tax the result of the subsequent disposal of the transferred asset. The provisions are not intended to tax the transfer of assets between two or more companies belonging to a multinational group. An option to defer the exit tax applies in certain circumstances.

**General anti-avoidance rule** – Bulgaria has strict provisions to counteract any attempts by taxpayers to evade tax that apply to transactions between both related parties and independent entities. Bulgaria's provision are broader than the ATAD 1 general anti-avoidance rule.

**Other** – General rules apply to hidden profit distributions in respect of certain interest expense, and expenses or amounts accrued, paid, or distributed to shareholders or their related parties. A 5% dividend withholding tax plus a penalty of 20% apply to hidden profit distributions.



## Value added tax:

Rates	
Standard Rate	20%
Reduced Rate	0%/9%

**Taxable transactions** – VAT is levied on the sale of goods and the provision of services.

**Rates** – The standard rate is 20%, with a reduced rate of 9% on hotel accommodation services. Exports and intracommunity supplies are zero-rated.

**Registration** – Registration is mandatory for Bulgarian established persons with taxable turnover exceeding BGN 50,000 with respect to VAT taxable supplies with a place of supply in Bulgaria in any previous 12-month period (except when the VAT must be self-assessed by the recipient). Foreign taxpayers making distance sales of goods with a place of supply in Bulgaria also are required to register; the previous VAT registration threshold of BGN 70,000 is removed as from 1 January 2020. Non-Bulgarian entities should apply for VAT registration seven days prior to their first supply in Bulgaria, irrespective of the value of that supply. Registration also is triggered by the receipt of services in Bulgaria that are

provided by a taxable person not established in Bulgaria. A threshold of BGN 20,000 applies to intracommunity acquisitions for compulsory registration.

Registration may be made on a voluntary basis, regardless of turnover. A nonresident company making supplies in Bulgaria must register for VAT through an accredited representative (except when it has a registered branch in Bulgaria or when it is established in the EU or a country with which Bulgaria has existing instruments relating to mutual assistance).

**Filing and payment** – The tax period for VAT is the calendar month; VAT returns must be filed monthly by the 14th day of the following month.

## Other taxes on corporations and individuals:

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the federal level.

**Social security** – The total social security insurance contribution ranges from 32.7% to 33.4% (the employer's portion ranges from 18.92% to 19.62% and the employee's portion is 13.78%). The base for the contribution is total income, capped at BGN 3,000 per month. Minimum thresholds per position and industry also apply.

**Payroll tax** – Payroll taxes are social security contributions, health insurance contributions, and income tax.

**Capital duty** – There is no capital duty.

**Real property tax** – The owner of real property is subject to a real property tax ranging from 0.01% to 0.45% of the higher of the gross book value or the tax value of nonresidential property, and from 0.01% to 0.45% of the tax value of residential property. The actual rate is determined annually by the municipality.

As from 1 January 2020, the municipality may use a different value in determining the tax base if the taxpayers have violated the accounting legislation.

The owner of real property also is subject to a garbage collection fee determined by each municipality. The fee generally is levied as a percentage of the gross book value of the real property. Alternatively, it may be determined based on the number and volume of waste containers used or by direct contract with the garbage collection company.

**Transfer tax** – Transfer tax is imposed on the sale or exchange of immovable property and motor vehicles, at rates ranging from 0.1% to 3%, determined by the municipality.

**Stamp duty** – There is no stamp duty.

**Net wealth/net worth tax** – There is no net wealth or net worth tax.

**Inheritance/estate tax** – Inheritance tax is levied at a rate of 0.4%-6.6%, depending on the relationship of the beneficiary. The rate is determined by each municipality. A gift tax is levied at 0.4%-6.6% of the value of donated property, depending on the relationship between the donor and the donee. The rate is determined by each municipality. Exemption from inheritance/gift tax applies for spouses and certain direct-line relatives.

**Other** – Insurance contracts covering risks in Bulgaria are subject to a 2% tax on the insurance premiums. An exemption applies for certain premiums, e.g., those under reinsurance contracts.

**Tax treaties:** Bulgaria has concluded approximately 70 tax treaties. Bulgaria signed the OECD multilateral instrument (MLI) on 7 June 2017 but has yet to ratify it.

**Tax authorities:** National Revenue Agency

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