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BULGARIAN TAX GUIDE 2017

I. CORPORATE INCOME TAX (CIT)

Resident companies are subject to corporate tax on their worldwide income. A company is considered as being Bulgarian tax resident if:

- Incorporated under the Bulgarian legislation; or
- It is a legal entity established under EU Regulation 2157/2001 or a cooperative established in accordance with EU Regulation 1453/2003, having its registered seat in Bulgaria and entered into Bulgarian Company Register.

The tax rate is **flat – 10 % on the taxable profit.**

Taxable income

| Type of income | Taxable amount |
|---|----------------|
| Profits accruing to non-resident legal persons, derived from economic activity carried out through a permanent establishment in the country or from disposition of property of any such permanent establishment | 100% |
| Income from financial assets issued by resident legal persons, the Bulgarian State and the municipalities | 100% |
| Income from dividends in shares in a liquidation surplus, accruing from participating interests in resident legal person | 100% |
| Interest payments, including interest within payments under a financial lease contract | 100% |
| Income from rent or other provision for use of movable or immovable property | 100% |
| Copyright and license royalties | 100% |
| Technical assistance fees | 100% |
| Payments received under franchising agreements and factoring contracts | 100% |
| Compensations for management and/or control of a Bulgarian legal person | 100% |

Exempt income

- ✓ Dividends from Bulgarian and EU/EEA companies
- ✓ Unduly paid tax obligations and not refunded VAT
- ✓ Disposal of financial instruments on a regulated market

Deductible expenses

- ✓ Salaries and social insurance contributions made for a newly hired employee which was previously registered as a long-term unemployed – 100%
- ✓ Amounts for scholarships provided to students - 100%
- ✓ Whole or partial deduction for companies employing workers with disabilities - 100%
- ✓ Activity related with the production of plant and animal production – up to 60% under certain conditions

Non-deductible expenses

- ✓ Expenses not related to the ordinary course of business – 100%
- ✓ Expenses that are not justified by documentation - 100%
- ✓ Fines, interests and other penalties for violations of regulations - 100%
- ✓ Donations - with the exception of donations to hospitals, schools, orphanages, people with disabilities, cultural institutions and other – 45% under certain conditions

Tax incentives

- ✓ Newly established companies investing in undeveloped regions (available for 5 years) – 10% CIT exemption
- ✓ Production companies investing in municipalities with unemployment higher than the national average rate – up to 100% CIT exemption
- ✓ Manufacturing companies investing in undeveloped region - 100% CIT exemption
- ✓ Licensed real estate investment trusts and collective investment schemes - 100% CIT exemption

Tax loss transferring

Tax loss can be carried over the next five years. It is deducted from the positive financial result after its conversion for tax purposes in the current year.

Thin capitalization

Thin capitalization rules apply in case the company's liabilities exceed three times the amount of its equity. Interest expenses are deductible up to the amount equal to the company's interest income plus 75% of the profits before interest and taxes.

Tax on expenses

A tax of 10% is levied on an annual basis on the following expenses:

- Representation expenses;
- Social benefits provided in-kind;
- Benefits in-kind related to personal use of company assets and staff;

Maximum amount of annual tax depreciation norms

| | |
|--|--------------|
| Buildings, facilities, transmitting devices, etc. | 4% |
| Machinery, production equipment, appliances | 30% |
| Vehicles, road and runway surfaces | 10% |
| Computers, software, mobile phones | 50% |
| Automobiles | 25% |
| Tax depreciable tangible and intangible assets with legally restricted term of use | up to 33.33% |
| All other depreciable assets | 15% |

II. VALUE ADDED TAX (VAT)

VAT rates

| | |
|---|-----|
| Standard – Taxable supplies of goods and services, Imports, Intra-Community acquisitions of goods | 20% |
| Reduced – Accommodation in hotels, camping or caravan for tourist groups | 9% |
| Intra-Community supplies, Exports, other supplies listed in the VAT law | 0% |

VAT exempt supplies

Certain supplies are exempt from VAT, e.g. financial, educational, insurance and health services, property lease for residential purposes, sale of old buildings and unregulated land plots and others

Compulsory registration

| Case of compulsory registration | Registration threshold |
|---|------------------------|
| Turnover of the last 12 consecutive months | Over 25,600 EUR |
| Total value of Intra-Community acquisitions for the current year | Over 10,230 EUR |
| Distance sales | Over 35,800 EUR |
| Services provided with place of supply in another EU member state | No threshold basis |
| Services provided by non-resident suppliers (EU or third country) | No threshold basis |

Voluntary registration

This kind of VAT registration applies to any Bulgarian entity. In case of voluntary registration, such entity will not be able to deregister under VAT Act in the following two years.

VAT refund

The VAT refund can be claimed for a period of three months. The deadline for tax authorities to refund is 30 days after the respective submission of application for VAT refund. Refunds to entities established outside EU are available on reciprocal

basis. Bulgaria has reciprocal agreements with Israel, Iceland, Canada, Macedonia, Moldova, Norway, Republic of Korea, Serbia, Ukraine and Switzerland.

Statutory obligations

| | |
|---|--|
| VAT returns submission | On a monthly basis, up to 14 th day of the following month |
| Invoices issued, incl. VAT | VAT registered entities are entitled to claim input VAT |
| VIES returns | On a monthly basis, up to 14 th day of the following month. Mandatory in case of dispatches of goods and/or services provided with destination in other EU member state |
| INTRASTAT returns for dispatches/arrivals | On a monthly basis. Mandatory in case of dispatches/acquisition of goods to/from other EU member state. Registration threshold is 112,484 EUR (dispatches) and 189,178 EUR (acquisition) |

III. WITHHOLDING TAX (WHT)

Bulgarian entities are obliged to **withhold a tax at the rate of 10%** when accruing to non-residents the following charges, which will be income to foreign persons:

| Income to foreign individual/entity | Tax rate |
|--|---|
| Withholding tax on dividends and liquidation proceeds distributed to foreign entities (unless reduced by DTT rates) | 5% 0% for entities in EU / EEA |
| Capital gains | 10% |
| Royalties | 10% Applicable tax rate for related parties from EU/EEA is 5% (under certain circumstances) |
| Interests (unless reduced by DTT rates) | 10% Applicable tax rate for related parties from EU/EEA is 5% (under certain circumstances) |
| Income from rental of movable property | 10% |
| Incomes from immovable property situated in Bulgaria | 10% |
| Payment for franchise agreements and factoring | 10% |
| Remuneration for providing of management services to Bulgarian legal entities | 10% |
| Fees for technical services (incl. installation and integration of equipment, marketing studies and consulting services) | 10% |
| Income from financial assets issued by local tax residents, as well as transactions in financial assets | 10% |
| All other taxable incomes sourced in Bulgaria | 10% |
| Fees for services and rights to offshore entities | 10% |
| Penalties and compensations of any kind, with the exception of insurance benefit to offshore entities | 10% |

WHT is **not levied on** (a) interest income on bonds issued by a local legal person, the state or municipalities and admitted to trading on a regulated market in the country or in an EU / EEA Member State, (b) interest income on a loan granted by a foreign person resident in the EU / EEA Member State, issuer of bonds or other

debt securities (under certain conditions), (c) interest and royalties accruing in favor of related parties resident in EU Member States, (d) interest earnings on loans that are not issued bonds and on which the state or municipalities are borrowers.

IV. PERSONAL INCOME TAX (PIT)

Resident individuals are taxed on their worldwide income.

Bulgarian tax resident individuals are those who:

- have a permanent address in Bulgaria;
- are residing in Bulgaria for more than 183 days in any 12-month period;
- have been sent abroad by the Bulgarian state, by its institutions and/or by Bulgarian companies;
- the individuals whose center of vital interests is in Bulgaria;

The tax rate is **flat – 10 % on the taxable income.**

Taxable income

- ✓ Employment income including salary payments, bonuses, housing allowances etc.
- ✓ Income from the distribution of dividends
- ✓ Interest income
- ✓ Income from other economic activity (such as, agricultural activities, royalties, activities performed under civil contracts etc.)
- ✓ Capital gains from the sale of property
- ✓ Rental income

Exempt income

- ✓ Income from selling residential properties, when such a sale is not by occupation (under certain circumstances) – 100%
- ✓ Income from disposal of financial instruments in resident companies - shares, bonds etc. - 100%
- ✓ Income from insurances - pensions, maternity and sickness, unemployment benefits etc. - 100%
- ✓ Income from selling movable properties except works of art and antiques, new vehicles and others - 100%
- ✓ Capital gains from disposal of shares on regulated Bulgarian/EU/EEA stock market - 100%
- ✓ Interest and rebates on Bulgarian government securities, municipality and corporate bonds and similar bonds from EU / EEA - 100%
- ✓ Interests on non-deposit bank accounts in commercial banks situated in Bulgaria, EU and EEA (interests on deposits are taxable) - 100%
- ✓ Insurance claims (benefits) - 100%
- ✓ Rent, lease or similar for use of agricultural land - 100%

- ✓ Persons with low work efficiency of 50% and more than 50% - annual tax-free income of 4,050 EUR
- ✓ Income of registered tobacco and agricultural farmer - 60%
- ✓ Sales of manufactured products from agriculture (excluding the above), forestry, hunting and fishing, royalties, remuneration of actors; income from handicraft - 40%
- ✓ Income of freelancers (lawyer, notary, accountant, etc.); civil contract remuneration - 25%
- ✓ Rental income or other kind of income formed from providing of rights of usage of a property; sale or exchange of real property (the taxable income is the difference between the sales price and the acquisition one) - 10%

Deductible expenses

- ✓ Mandatory social security contributions and health insurance contributions – the whole amount
- ✓ Voluntary contributions for retirement and unemployment insurance to a Bulgarian insurance fund or one established in the EU / EEA - up to 10% of the annual tax base
- ✓ Voluntary Health Insurance and Life Insurance to a Bulgarian Insurance Fund or one established in the EU / EEA – up to 10% of the annual tax base
- ✓ Gifts and donations to certain qualified beneficiary organizations in Bulgaria and EU/EEA member states – at the amount of 5%, 15% or 50% of the annual tax base
- ✓ Interest on mortgages of young families – on the first 51,130 EUR of the credit

Non-deductible expenses

- ✓ Expenses which are not properly documented
- ✓ Expenses related to hidden profit distributions
- ✓ Withholding taxes received from a third party
- ✓ Penalties, fines, etc.

Social security contributions

The mandatory social and health insurance contributions are due to the maximum monthly insured income of 1,329 EUR. Social security contributions are ranged between 23.7% and 24.4%, as these for health insurance - 8% of the insurance income. The severity of pension contributions is shared between the employer and the worker in proportion 55:45, as well as all other insurance contributions - 60:40. Taxable income is reduced by the compulsory social security contributions made by the person in Bulgaria and abroad.

| Income | % of employee contributions |
|-----------------------------------|---|
| Employment activity | 17.96% |
| Civil contract | 15.26% |
| Freelancer / Self-employed person | 18.80% or 22.30%, depending on whether the person chooses to make |

| | |
|--|--|
| | voluntary contributions to various funds |
|--|--|

There is an option for exemption from social security contributions in Bulgaria for foreigners or the contributions paid in Bulgaria might be recognized in their home country under applicable social security treaties.

V. LOCAL TAXES AND FEES

Local taxes and fees are determined and collected by municipalities.

- The **real estate tax** may vary between 0.01% and 0.45% of the value of the property;
- The **garbage collection fee** is set at the municipal level;
- A **transfer tax** in the range of 0.1% - 3% is due to the value of the real estate or cars transferred;
- A **tax on donations and inheritances** is due between 0.4% and 6.6% of the value of the property. Exemption in certain cases is provided;
- The **tax on vehicles** is determined by type and technical characteristics;

VI. TAX CALENDAR

| Type of filing | Deadline |
|---|--|
| Monthly VAT return | by the 14th of the month following the month to which the VAT return relates |
| VIES declarations (Bulgarian equivalent of EC sales list) | by the 14th of the month following the respective tax period |
| Monthly excise return | by the 14th of the month following the month to which the excise return relates |
| Payment of social security contributions | by the 25th of the month following the month to which the contributions relate |
| Annual Corporate Income Tax Return and payment of CIT | 31 March of the following tax year |
| Annual Personal Income Tax Return and payment of PIT | Preliminary deadline: 31 March of the following tax year Final deadline: 30 April of the following tax year |
| Publication of Annual Financial Statement in the Company Register | 30 June of the following tax year |

VII. ADMINISTRATIVE PENALTIES

| Type of non-compliance | Fine/Penalty |
|---|------------------------------|
| COMPANIES | |
| Data misreporting or delayed submission, which leads to tax | From 256 EUR up to 1,535 EUR |

| | |
|--|--|
| liability reduction | |
| Non-submission of Annual Corporate Income Tax return or indication of incorrect data | From 50 EUR up to 511 EUR |
| Not issuing a revenue documents | From 511 EUR up to the amount of not accrued VAT |
| Not issuing receipts | From 256 EUR up to 1000 EUR |
| Distribution of hidden profit | Penalty of 20% of the accrued charges, representing hidden profit distribution |
| VAT | |
| Delayed VAT registration | From 256 EUR up to 2,556 EUR plus not accrued VAT |
| Delayed VAT accrual | 256 EUR plus not accrued VAT |
| Delayed VAT submission | From 256 EUR up to 5,115 EUR |
| Not issuing a VAT document or failure to book a VAT document | From 256 EUR up to not accrued VAT |
| VAT accrual from not registered entities | From 511 EUR up to accrued VAT |
| Delayed registration or not registering cash machines with the tax office. | From 1,535 EUR up to 5,115 EUR |
| INDIVIDUALS | |
| Delayed submission of Annual Personal Income Tax return | Up to 256 EUR |
| Data misreporting, which leads to tax liability reduction | Up to 511 EUR |
| Data misreporting for received or lent loans | Penalty of 10% of the non-declared amount |
| Non-submission or not paying tax | Up to 511 EUR |

VIII. ACCESS TO DOUBLE TAX TREATIES

| | | |
|----------------|------------|---------------|
| Albania | Greece | Morocco |
| Algeria | Hungary | Netherlands |
| Armenia | India | North Korea |
| Austria | Indonesia | Norway |
| Azerbaijan | Iran | Poland |
| Bahrain | Ireland | Portugal |
| Belarus | Israel | Qatar |
| Belgium | Italy | Rep. of South |
| Canada | Japan | Africa |
| China | Jordan | Romania**** |
| Croatia | Kazakhstan | Russia |
| Cyprus | Kuwait | Singapore |
| Czech Republic | Latvia | Slovakia |
| Denmark | Lebanon | Slovenia |
| Egypt | Lithuania | South Korea |
| Estonia | Luxembourg | Spain |
| Finland | Macedonia | Sweden |
| France | Malta | Switzerland |
| Georgia | Moldova | Syria |
| Germany | Mongolia | Thailand |

Turkey
Ukraine
United Arab
Emirates

United
Kingdom
USA
Uzbekistan

Vietnam
Yugoslavia**
Zimbabwe

IX. ACCESS TO SOCIAL SECURITY AGREEMENTS

Albania
Austria*
Czech Republic
Croatia*
Canada
Germany*
Hungary*
Israel
Libya

Luxembourg*
Macedonia
Moldova
Montenegro
Netherlands*
Poland*
Romania*
Russia
Serbia

Slovakia*
South Korea
Spain*
Switzerland*
Turkey**
Ukraine
Yugoslavia***

* Replaced by Regulation 883/04

** This Agreement has a specific scope

*** Valid for Montenegro and Bosnia and Herzegovina

**** New DTT applicable from 01.01.2017

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