

A Guide to Bulgarian Taxes 2018

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I. Corporate Tax

1. Corporate income tax

- Corporate income tax rate
 - 10% on the taxable profit.
- Taxable entities
 - Companies and partnerships established under Bulgarian law
 - Permanent establishments of non-resident entities in Bulgaria
- Taxable profit
 - Financial result adjusted for tax purposes.
- Accounting rules
 - IFRS or local Bulgarian GAAP (for small and medium-sized enterprises).
- Tax adjustments for expenses not recognized for tax purposes
 - E.g., non-business related or not duly documented expenses; interest restricted under the thin capitalization rules; expenses for impairment of assets; dividends received from local or EU based companies.
- Tax depreciation rules
 - Maximum annual tax depreciation rates between 4% and 50%, depending on the type of asset.
- Thin capitalization
 - If the debt to equity ratio of the company exceeds 3:1 (some of) the interest expenses may not be tax deductible in the current year. However they may become tax deductible in the following five consecutive years under certain conditions.
- Tax loss carry forward
 - Tax losses can be carried forward over the next five consecutive years.
- Tax returns and payment
 - The annual corporate tax return has to be submitted by 31 March of the following year. The tax year is the calendar year.
 - If net sales of the company for previous year exceed 300.000 BGN **quarterly** advance installments are due during the year and if net sales for previous year exceed 3.000.000 **monthly** advance installments are due during the year.
- Distribution of dividends
 - Subject to 5% withholding tax when distributed to individuals, resident non-profit entities and 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 companies
 - Non-EU/EEA foreign entities Corporate

2. Withholding taxes

Withholding tax is due on the following types of income when accrued to a non-resident entity:

- Dividends and liquidation quotas
- Interest, royalties, franchising and factoring fees
- Technical (including consultancy) and management services fees
- Income from hiring out movable or immovable property
- 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/EEA market)
- Service fees and remuneration for the use of rights (unless actually received); penalty or damages payments (except for insurance compensation) accrued to entities tax resident in low tax jurisdictions
- Withholding tax rates
 - 5% on the gross amount of dividends and liquidation quotas (0% for distributions to EU/EEA entities)
 - 5% on interest and royalties accrued to related party legal entities resident in the EU (under certain conditions)
 - 10% on the gross amount for all other taxable income

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

- Refund opportunities

Entities resident in the EU may declare tax deductible expenses and claim a corresponding 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 tax should be withheld by the resident payer and remitted to the budget within:

- Three months following the month of accrual of the income
- In case of capital gains, it is their recipient which should remit the withholding tax due within the term indicated above.

- 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 500 thousand (approximately EUR 255 thousand).

In all other cases a non-resident can benefit from tax treaty relief if an advance clearance is obtained from the Bulgarian revenue authorities under a specific procedure.



3. One-off tax on certain expenses

- Expenses subject to one-off tax
 - “Representative” expenses
 - “Social” expenses provided in-kind to the employees (e.g., fringe benefits), except for food vouchers and voluntary insurance contributions (social, health and life insurance) up to BGN 60 each per employee per month
 - Expenses related to the use of vehicles for management purposes
- Tax rate

The tax rate is 10% on the accrued expenses. Both the respective expense and the one-off tax applicable to it are deductible for corporate income tax purposes.

4. Transfer pricing rules

The Bulgarian transfer pricing rules require that taxpayers apply arm’s length prices in their related party transactions. Arm’s length prices are those which unrelated parties would have agreed in similar circumstances. This requirement is imposed both to cross-border and domestic transactions.

Largely based on the 1995 OECD Guidelines, the Bulgarian transfer pricing rules envisage 5 methods for determining arm’s length prices:

- The Comparable Uncontrolled Price Method
- The Resale Minus Method
- The Cost Plus Method
- The Transactional Net Margin Method
- The Profit Split Method

A taxpayer is obliged to prove the arm’s length character of its related party transactions during a tax audit by applying one of the above methods. The legislation does not include specific requirements as to the format and contents of transfer pricing documentation which taxpayers can produce as evidence for arm’s length pricing. However, a transfer pricing manual released by the Bulgarian revenue administration in February 2010 mentions the items that would appear appropriate to include in the documentation.

The manual contains a set of other useful guidelines relating to different transfer pricing topics. For instance, with respect to intra-group services, the manual suggests specific profit mark-up ranges that have proved customary for Bulgaria.

II. Personal income tax

1. Personal income tax
 - Personal income tax rate
 - A flat rate of 10% on the taxable income.
 - Tax residency

In general, 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 vital interests is in Bulgaria (determined in view of their personal and economic ties to the country, e.g., factors like permanent address in Bulgaria, family, employment, possession of property, etc.)

- Taxable income

Generally, the taxable income includes monetary income, as well as benefits received in-kind (except non-taxable items and "in kind social expenses"). Bulgarian tax residents are taxed on their worldwide income, while non-residents are taxed only on their Bulgarian-sourced income.

- 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, income from disposal 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 and other specific situations (e.g., disabilities)

- Tax returns and payment

The annual personal income tax return has to be submitted by 30 April of the following year (the tax year coincides with the calendar 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 30 March of the following year; or
- The annual tax return is submitted electronically.

Individuals are generally not obliged to file annual tax returns if they have received only employment income for which the full tax due has been withheld, non-taxable income and/or income subject to one-off tax.

2. One-off tax on 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
- Management and technical services fees
- Interest, royalties, franchising and factoring fees
- Income from hiring out movable and immovable property
- 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 under certain conditions.

- 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 received after the termination of the insurance policy (if older than 15 years)
 - 8% for interest income paid from the banks
 - 10% for all other income
- The one-off tax rates may be reduced under an applicable tax treaty.

3. Social security and health insurance

- Mandatory insurance contributions

Up to approximately 32,7% paid by both the employer and the employee in a certain ratio. This includes:

- 14.8% - 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

- Insurance base

The gross remuneration less statutory deductions in some cases. The insurance base is capped at BGN 2600 monthly.

- Social security treaties

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

III. Value Added Tax (VAT)

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

- VAT rates
 - 20% for domestic supplies, intra-community acquisitions and importation from non-EU countries
 - 9% for hotel accommodation services
- Exemptions
 - With the right to deduct input VAT – intra-community supplies, exportation 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.

- No right to deduct input VAT – transfer or rental of land or rights in rem over land (except for building land and land adjacent to new buildings), the 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., importation of certain goods and up to a limit).

- VAT registration

Entities are obliged to register for Bulgarian VAT purposes if they have performed:

- Transactions with a place of supply in Bulgaria for which the VAT should be charged by the supplier exceeding BGN 50 thousand (approximately EUR 25.6 thousand) for the last 12 months
- Intra-community acquisitions exceeding BGN 20 thousand (approximately EUR 10.2 thousand) during the calendar year
- Distance sales in Bulgaria exceeding BGN 70 thousand (approximately EUR 35.8 thousand) during the calendar year

Entities established in an EU Member State performing supply of goods with installation in Bulgaria to customers non-registered for VAT purposes are obliged to register irrespective of their taxable turnover. Foreign entities which receive services with a place of supply in Bulgaria for which the recipient has to self-charge Bulgarian VAT are obliged to register irrespective of their taxable turnover. Any entity may apply for voluntary VAT registration. However, if voluntarily registered, such entity will not be able to deregister for two years following the year of registration.

- Fiscal representative

In order to register for VAT purposes foreign entities have to appoint a local fiscal representative, except when they have a registered branch in Bulgaria. The requirement does not apply to EU based entities.

- Reverse charge mechanism

Foreign entities not established and not VAT-registered in Bulgaria performing certain supplies to local businesses will not have to register for VAT purposes. The VAT will be self-charged by the local customer.

- Supplies to which reverse charge of VAT applies include:
 - Services provided to businesses (with some exceptions)
 - Supply of goods 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-charges VAT, while the supplies for the first two entities are exempt with right to deduction of the input VAT)

Please note that 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 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.

IV. Intrastat

Intrastat is a system for collecting statistical data about intra-community movement of goods between Bulgaria and the other EU Member States. All entities VAT-registered in Bulgaria have to file Intrastat returns if the thresholds for incoming ("arrival") and outgoing ("dispatch") intra-community movement of goods between Bulgaria and the other EU Member States are exceeded.

The thresholds triggering the obligation to file Intrastat returns for 2018 are (thresholds are updated annually):

- BGN 430 thousand (approximately EUR 215 thousand) for arrival of goods; or
- BGN 260 thousand (approximately EUR 130 thousand) for dispatch of goods

The thresholds triggering the obligation to file Intrastat returns for 2019 are:

- BGN 460 thousand (approximately EUR 230 thousand) for arrival of goods; or
- BGN 280 thousand (approximately EUR 140 thousand) for dispatch of goods

The deadline for filing Intrastat returns is the 14th day of the month following the month of arrival or dispatch of the goods.

V. Other taxes, duties and fees

- *Real estate tax*

Between 0.01% - 0.45% annually on the higher between the gross book value and the tax value of the immovable property (on the tax value for residential property). The exact rate is determined by the municipality in which the real estate is situated.

- *Garbage collection fee*

Determined by each municipality. 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 containers used.

- *Transfer tax*

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

- *Vehicle tax*

Depending on the type and characteristics of the vehicle. Applies to cars, ships and airplanes. The tax rate is determined by each municipality within ranges stipulated in the law.

- *Donation tax*

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



- *Customs duties*

Bulgaria applies directly the customs legislation and the Common Customs Tariff of the EU. Customs duties on imports from non-EU countries are usually percentage rates calculated on the basis of the customs value (the transaction value increased by certain costs). Reduced or even 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 importation, outward processing.

N.B! The information contained herein is intended to provide general information on Bulgarian taxes and it is not intended to be relied upon as the sole basis for any decision which may affect you or your business.

