



Tax Card 2017

KPMG in Bulgaria

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CORPORATE TAX

Corporate income tax (CIT) is due on the accounting profit after adjustments for tax purposes. The applicable tax rate for the year 2017 is 10%.

Maximum annual depreciation rates for corporate tax purposes

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%

Tax loss carry forward

A tax loss can be carried forward for five years. It can be offset against a positive tax result for a subsequent tax year.

Thin capitalization

Thin capitalization rules apply in Bulgaria if the company's liabilities exceed three times the amount of its equity. Interest expenses are deductible up to an amount equal to the entity's interest income plus 75% of the profits before interest and tax. Interest expenses on bank loans are not subject to thin capitalization, except in some specific cases.

Transfer pricing

Transfer pricing rules allow the revenue authorities to adjust taxable profits and taxable income arising from transactions which are not carried out on an arm's length basis.

One-off tax on expenses

One-off tax at the rate of 10% is levied on an annual basis on the following expenses:

- Representation expenses
- Expenses for social benefits provided in-kind
- Expenses for benefits in-kind related to personal use of company assets and personnel.

WITHHOLDING TAX (WHT)

Bulgarian entities are obliged to withhold tax at the rate of 10% when they accrue the following types of charges which will be income to foreign persons:

- Capital gains
- Rent, interest, royalties, franchising and factoring fees

- Fees for technical, advisory and management services
- Penalties and indemnities other than those under insurance contracts accrued to legal entities established in jurisdictions with a preferential tax regime.

5% WHT is due on dividends and liquidation quota distributed to foreign entities unless the latter are tax residents of a European Union (EU)/European Economic Area (EEA) Member State in which case no WHT would be due in Bulgaria.

The following types of income are WHT exempt: (i) interest on bonds issued by a local legal entity, the state or municipalities and admitted for trading on a regulated stock exchange in Bulgaria or in an EU/EEA Member State, (ii) interest on loans granted by a foreign entity which is a resident of an EU/EEA Member State issuing bonds or other debt securities (provided that explicit requirements are met), (iii) interest and royalties when accrued to associated companies tax resident in an EU Member State, and (iv) interest on non-secured loans under which the state or municipalities are borrowers.

Foreign companies, tax residents in the EU/EEA which may not utilize the WHT paid in Bulgaria as a tax credit in their country of residence may choose an option to recalculate the WHT paid in Bulgaria so that its amount would equal the CIT due if the income were derived by tax residents of Bulgaria. Thus, the tax base of non-residents could be reduced with the expenses that are attributable to the respective income with a Bulgarian source. The difference between the WHT paid and the recalculated CIT due may be reimbursed up to the amount that could not be used as a tax credit by the non-resident abroad.

Double Tax Treaties (DTT) are applied following a specific procedure and have priority over domestic legislation.

VALUE ADDED TAX (VAT)

All taxable persons are subject to a mandatory VAT registration if their taxable turnover of local supplies for a period of 12 consecutive months reaches BGN 50,000 (EUR 25,565). Also, liable to register are taxable persons (i) providing services with a place of supply in another EU Member State, (ii) receiving services from foreign suppliers where the place of supply falls in Bulgaria, (iii) performing intra-Community acquisitions whose total amount during a calendar year exceeds BGN 20,000 (EUR 10,225) or (iv) performing other specific supplies. Voluntary registration is applicable on a no-threshold basis.

There are three VAT rates applicable in Bulgaria:

20%	Taxable supplies of goods and services Imports Intra-Community acquisition of goods
9%	Accommodation in hotels and similar establishments
0%	Intra-Community supplies Exports and other supplies explicitly listed in the law

Certain supplies are considered VAT exempt, e.g. financial and insurance services, certain educational and health services, property lease for residential purposes, sale of old buildings and non-regulated land plots and others.

Supplies for which local VAT is due by a Bulgarian client through the reverse charge mechanism include:

- Intra-Community acquisitions of goods
- Services provided by a foreign supplier to a Bulgarian taxable person if the place of supply is in Bulgaria
- Supplies of electricity, heat, gas and cooling energy through networks performed by a foreign supplier
- Supplies of goods with installation provided by an EU supplier.

Refunds of input VAT incurred by foreign EU entities are available for purchases made in Bulgaria, provided that input VAT deduction would have been available if the foreign entity were identified for VAT purposes in Bulgaria.

Claims for VAT refund are to be submitted with the Bulgarian revenue authorities through electronic portals set up in the country of establishment of the claimant by 30 September of the year following the year which the claim concerns.

Refunds of input VAT incurred by non-EU entities are available on a reciprocal basis. Bulgaria has reciprocity agreements with Canada, Iceland, Israel, Macedonia, Moldova, Norway, Republic of Korea, Serbia, Switzerland and Ukraine.

EXCISE DUTIES

Excise duties are levied upon the production and importation of certain goods such as alcohol and alcoholic beverages, tobacco products, energy products and electricity. Taxable persons for the purposes of excise duties are licensed warehouse keepers, importers of excisable goods and other designated persons listed in the Excise Duty and Tax Warehouses Act (EDTWA). Different excise rates apply for the above goods. The EDTWA contains special provisions for exemption and suspension of excise duties in certain cases.

INSURANCE PREMIUM TAX (IPT)

IPT is levied on insurance premiums collected under contracts for risks located in Bulgaria. The applicable IPT rate is 2%. Certain insurance contracts are exempt from IPT, e.g. contracts for life insurance, insurance of cargo during international transportation and others.

PAYROLL RELATED TAXES AND SOCIAL SECURITY

Rates

Employment income is levied with a flat rate of 10% personal income tax (PIT). The tax on employment income is withheld by the employer at source on a monthly basis. Non-employment income is also subject to 10% PIT. Generally, the PIT for income under civil contracts and other income is deducted and remitted by the legal entity payer on a quarterly basis (with the exception of the fourth quarter) unless the individual is registered as self-insured for social

security purposes or explicitly declares their willingness for tax to be withheld also during the fourth quarter. If that is the case or the entity does not have a withholding obligation, the tax is paid by the recipient of the income on a quarterly basis (with the exception of the fourth quarter).

A different flat tax rate is applied for some other types of income, for example 5% for dividends.

Bulgarian tax resident individuals are those who (i) have a permanent address in Bulgaria or (ii) are present in Bulgaria for more than 183 days in a 12-month period or (iii) are sent abroad by the Bulgarian state, its institutions and/or Bulgarian entities or (iv) individuals whose center of vital interests is located in Bulgaria. Bulgarian resident individuals are subject to PIT on their worldwide income, whereas non-resident individuals are subject to tax only on income derived from Bulgarian sources. Income tax credit may be granted under the domestic law or under DTT provisions (where exemption with progression is also possible).

Exemptions

Some of the available tax exemptions are:

- Gains from disposal of movable and immovable property under certain conditions
- Pensions and other social security benefits received from a Bulgarian or foreign mandatory social security system as well as pensions from voluntary insurance funds situated in Bulgaria or another EU/EEA Member State
- Certain types of compensation as per the Labor Code
- Capital gains from shares traded on the Bulgarian stock market and on other regulated markets in an EU/EEA Member State.

Personal income tax allowances

Some of the available tax allowances are:

- Voluntary contributions for pension and unemployment insurance in Bulgarian and EU/EEA funds up to 10% of the annual tax base
- Voluntary health and life insurance contributions in Bulgarian and EU/EEA funds up to 10% of the annual tax base
- 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 BGN 100,000 (EUR 51,130) of the credit in certain conditions
- Statutory predetermined deductions depending on activity, for example, 25% for income under civil contracts, 10% for rental income and capital gains from sale of immovable property
- Up to BGN 200 (EUR 102) from the annual tax base can be deducted for caring for an underage child (up to and including the third one)
- Up to BGN 2,000 (EUR 1,022) from the annual tax base can be deducted for caring for a disabled child
- Up to 1% of the total tax liability (but not more than BGN 500) in case of non-cash payments.

Social security and health insurance

Mandatory social security and health insurance contributions are due up to a maximum monthly insurable income of BGN 2,600 (EUR 1,329). Social security contributions are within the range of 23.7% – 24.4%. Health insurance contributions are at the rate of 8%. The pension insurance contributions are split in a ratio 55:45 between employer and employee, while the contributions to all other mandatory insurance funds – 60:40. Mandatory contributions made by individuals in Bulgaria or abroad are tax deductible.

Regulation (EC) No. 883/04 on social security is in force and is applicable to EU and third country nationals as well as nationals of Switzerland and the EEA.

LOCAL TAXES AND FEES

Local taxes and fees are determined and collected by municipalities.

- The real estate tax can be in the range of 0.01% – 0.45% of the assessed value of the property.
- Garbage collection fees are determined at a municipal level.
- Transfer tax in the range of 0.1% – 3% is levied on the value of the transferred real estate property and automobiles.
- Donation tax and inheritance tax in the range of 0.4% – 6.6% of the value of the property is due. There are certain exemptions.
- Motor vehicles tax is due depending on the type of the vehicle and its technical characteristics.

CORPORATE INCOME TAX INCENTIVES

Some of the available tax incentives are listed below:

- Licensed real estate investment trusts, collective investment schemes and national investment funds are exempt from corporate tax
- Production companies investing/implementing an initial investment project, solely in municipalities with unemployment equal to or exceeding, by 25%, the average unemployment rate for Bulgaria¹, are entitled to up to 100% corporate income tax retention. The retention is applicable only if the companies comply with a number of requirements.

FILING DEADLINES

- Annual corporate income tax return – 31 March of the following tax year
- Annual personal income tax return – preliminary deadline: 31 March; final deadline: 30 April of the following year
- Monthly VAT return – by the 14th of the month following the month to which the VAT return relates
- VIES declaration (the Bulgarian equivalent of EC sales list) – by the 14th of the month following the relevant tax period
- Monthly excise return – by the 14th of the month following the month to which the excise return relates.

¹For the preceding year (in the cases of de minimis aid) or for the year preceding the year in which the application form for state aid is filed (in the cases of regional state aid).

Bulgaria's Double Tax Treaties

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

Bulgaria's Social Security Agreements

Albania	Libya	Russia
Austria*	Luxembourg*	Serbia
Czech Republic*	Macedonia	Slovakia*
Croatia*	Moldova	South Korea
Canada	Montenegro	Spain*
Germany*	Netherlands*	Switzerland*
Hungary*	Poland*	Turkey**
Israel	Romania*	Ukraine
		Yugoslavia***

* Superseded by Regulation (EC) No. 883/04

** This Agreement is non-standard in scope

*** Effective with respect to Bosnia and Herzegovina

**** New Double Tax Treaty effective as of 1 January 2017

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This card was prepared in March 2017 as a quick reference tool for the most common tax rates and issues. Any special regimes have been deliberately omitted.

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