



Investment in Bulgaria 2018

KPMG in Bulgaria

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Investment in Bulgaria

Edition 2018

Preface

Investment in Bulgaria is one of a series of booklets published by firms within the KPMG network to provide information to those considering investing or doing business internationally.

Every care has been taken to ensure that the information presented in this publication is correct and reflects the situation as of April 2018 unless otherwise stated. Its purpose is to provide general guidelines on investment and business in Bulgaria. As the economic situation is undergoing rapid change, further advice should be sought before making any specific decisions.

For further information on matters discussed in this publication, please contact Gergana Mantarkova, Managing Partner.

KPMG in Bulgaria

Sofia

45/A Bulgaria Boulevard
1404 Sofia
Bulgaria

Tel: +359 2 96 97 300

Fax: +359 2 96 97 878

Varna

3 Sofia Street, floor 2
9000 Varna
Bulgaria

Tel: +359 52 699 650

Fax: +359 52 611 502



bg-office@kpmg.com

kpmg.com/bg

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General Information

Bulgaria is situated in South-Eastern Europe, in the eastern part of the Balkan Peninsula. It borders Romania to the north, the Republic of Serbia to the west, the Former Yugoslav Republic of Macedonia to the southwest, Greece to the south and Turkey to the southeast. The Black Sea is to the east of the country; it enables direct maritime links with the Russian Federation, Ukraine and Georgia. To the north, the Danube River separates Bulgaria from Romania. Bulgaria is strategically located along key land routes from Europe to the Middle East and Asia.

Bulgaria's total area is 110,994 sq km, with 1,808 km of land borders and 354 km of coastline. The country's terrain is partly mountainous, with lowlands in the north and the southeast. The climate is mostly humid continental, with an Alpine climate in the highest mountains and a subtropical climate in the southernmost regions.

Population and language

As per information of the National Statistical Institute, as at 31 December 2017 Bulgaria's population is approximately 7.1 million, representing 1.4% of the population of the European Union. Nearly 73.3% live in urban areas. The capital, Sofia, is by far the largest urban center having nearly 1.32 million inhabitants. Approximately 18% of the population is under the age of 20, while approximately 61% is between the age of 20 and 64, and approximately 20% is over the age of 65.

According to the statistics from the most recent population census held in 2011, ethnic Bulgarians represent almost 85% of the population, while ethnic minorities of Turkish and Roma descent make up another 8.8% and 4.9% respectively. Smaller ethnic groups in Bulgaria include Russian, Armenian and Jewish among others. Nearly 76% of the Bulgarian population is Eastern Orthodox Christian. Another 10% of the population state they are Muslim. Catholicism and Judaism are also represented.

Since 1990, the country's net population growth has been negative, in part as a result of significant outward migration, but also due to the country's aging demographics. The trend of increase in the birth rate in the country in the period 2004 – 2009 reversed from 2010 onwards and the number of births cumulatively has fluctuated tending to go down, further contributing to the decrease in the population.

The country's official language is Bulgarian. Secondary languages closely correspond to ethnic background. English, and to a lesser extent German and French, are used frequently in business.

Infrastructure

Roads and railways

A network of international highways connects Bulgaria to Western Europe, Russia, Asia Minor, the Adriatic, the Aegean, and the Black Sea.

The European corridors No. 4 (from Germany to Istanbul), No. 7 (Rhine, Main, and Danube), No. 8 (from Durres, Albania to Varna), No. 9 (from Helsinki, Finland to Alexandroupoulos, Greece) and No. 10 (from Salzburg, Austria to Thessaloniki, Greece) pass through the territory of Bulgaria.

According to the 2016 annual statistics published by the National Statistical Institute, the total length of the country's road network managed by the Road Infrastructure Agency is 19,853 km, which includes 734 km of motorways, 2,954 km of category I roads, 4,025 km of category II roads, and 12,140 km of category III roads. In addition, there are approximately 20,000 km of category IV roads, which are managed by the respective municipalities. Road transportation across most of the country relies primarily on two-lane roads. The main transport corridors are Corridor No. 10 Kalotina-Svilengrad linking Serbia to Turkey, Corridor No. 4 Vidin-Sofia-Kulata linking Romania to Greece, Corridor No. 9 Ruse-Kazanlak-Kardzhali linking Romania to Greece and Turkey, and Corridor No. 8 Kyustendil-Burgas-Varna linking Macedonia to the port of Varna.

In accordance with Operational Program Transport and Transport Infrastructure 2014-2020, the Road Infrastructure Agency sets out the following key projects: construction of Struma Motorway Lot 3; construction of the western arc of the Sofia Ring Road, section 2; development and implementation of an intelligent transport system within the scope of Trakia Motorway (i.e. toll system) and preparation of the project: Road I-1 / E-79 / Vidin - Montana - Vratsa. On 27 March 2018, the construction of the Hemus Highway Section from Yablanitsa to road junction Boaza commenced. Financing

sources for the planned infrastructure projects include Operational Program Transport and Operational Program Regional Development (European Union (EU) financing), the state budget, state investment loans, financing from the European Investment Bank and the World Bank.

In 2013, the second bridge on the Danube River at Vidin – Kalafat and the last section of the Trakia Motorway were completed. In October 2015, Maritsa Motorway was opened officially. Thus, Trakia, Maritsa and Lyulin Motorways are ready with total lengths of 360 km, 117 km and 19 km respectively.

In 2015, Maritsa Motorway, connecting the Trakia Motorway and the main entrance to Turkey – Kapitan Andreevo and Lots 2 and 4 of the Struma Motorway were successfully completed. In April 2016, the 16.5 km long northern bypass highway in Sofia was opened for traffic. The bypass, with an estimated total cost at EUR 120 million, connects four motorways – Trakia, Hemus, Lyulin and Kalotina, and three pan-European corridors – No. 4, No. 8 and No. 10.

Bulgaria's railroad network includes about 4,023 km of railway lines. Some 71.1% of them are electrified and 24.6% are double-track. The majority of the network is designed to support a running speed of up to 100 km per hour, with only 150 km supporting a speed of up to 130 km per hour.

Following the failed attempt for privatization of the state owned rail company BDZ Tovarni prevozi EOOD in the summer of 2012 and 2015, the government launched another process for the sale of the company during the spring of 2016, which was unsuccessful as well.

Operational Program Transport and Transport Infrastructure 2014-2020 earmarks funds for railways amount at EUR 1 billion for new projects. The beneficiary is NR Railway Infrastructure. These funds come from two sources – EUR 385 million from the Connecting Europe Facility (CEF) and the other over EUR 600 million from OP Transport and Transport Infrastructure.

The priority railway infrastructure projects in the country until 2020 include the rehabilitation, overhaul and modernization works of more than 400 km of the existing railway infrastructure and construction of new high-speed railroads in the following directions: Plovdiv-Burgas amounting to EUR 425 million, Skutare-Orizovo-Mihaylovo, Straldzha-Tserkovski, Yambol-Zimnitsa, Elin Pelin-Ihtiman Kostenets, design and construction of a signaling and telecommunication system for Plovdiv-Burgas, railway connection between Burgas railway station and Burgas airport, modernization of the railway line Elin Pelin-Kostenets, modernization of the Sofia-Pernik-Radomir-Gyueshevo-border line with the Republic of Macedonia.

The majority of the planned works on the Sofia-Plovdiv-Burgas and Plovdiv-Svilengrad-Turkish border high-speed railroad lines were completed in 2014 and 2015

In 2015, Sofia's subway infrastructure reached important milestones. The subway network was further expanded and now connects Mladost area to Sofia Airport. The second metro diameter was completed in 2016 with the construction of the Vitosha station, while works on the entirely new third diameter were launched in the beginning of 2016 and tunnel drilling started

in March 2017 with an expected completion in 2019. As per the project plan, the third metro diameter will have an estimated cost of EUR 680 million and will connect heavily populated Ovcha Kupel and Levski districts to the city center. According to Sofia Municipality, currently 380,000 people use the subway daily and their number is expected to increase up to 550,000 people daily by 2020 upon completion of the third metro diameter.

Ports

Both sea and river routes, the Black Sea and the Danube River, offer reliable shipping transportation to and from the country. The largest Bulgarian seaports are Burgas and Varna on the Black Sea coast. Varna handles mainly containers, grain and bulk goods, while Burgas deals mainly with crude oil and some bulk commodities. A ferry connection from Varna to Odessa (Ukraine), Kavkaz (Russia) and Poti (Georgia) facilitates the transport of goods between the countries.

The Danube River is navigable during most of the year and supports inland water transport. With the Rhine-Main-Danube canal in use since 1992, Bulgaria has access to the large European ports on the North Sea. The main Bulgarian ports on the Danube River are Ruse, Lom and Vidin.

Bulgaria has 15 Black Sea and 13 Danube River ports for public transport with national importance consisting of a total of 84 and 74 wharves, respectively. The ports with regional importance for public transport are 9 on the Black Sea coast and 21 on the banks of the Danube River.

According to the National Concession Registry, 13 ports with national importance are currently under concession.

In 2013, the government granted a 35-year concession for the port terminals Ruse-West, Nikopol, Vidin-South and Lom.

In 2015, the concession of Ruse-West was terminated due to concessionaire's negligence. In the beginning of 2016, at the request of the company that previously held the rights over Vidin-South, the contract was terminated. A new concessionaire was chosen again in 2016 for a 35-year concession and total investments of EUR 1.9 million for the period.

In addition, according to the Ministry of Transport, Information Technology and Communications, concession calls for the port terminals Ruse-Center and Tutrakan took place at the end of 2012 and the beginning of 2013.

In 2015, the Ministry of Transport, Information Technology and Communications performed a pre-concession evaluation on port terminal Ruse-East and port Vidin-Center and the concession call is still ongoing.

In accordance with Operational Program Transport and Transport Infrastructure 2014-2020, a number of river infrastructure development projects are to be implemented, e.g. Modernization and optimization of the rehabilitation activities of the mutual Bulgaria-Romania shipping route on the Danube River, by supply of equipment; Feasibility study for the development of a system for electronic information exchange in Bulgarian ports (Port Community System, PCS); Improvement of the Navigation and Topohydrographic Measurements on the Danube River; Delivery, installation and commissioning of port reception facilities (PPPs) in Bulgarian public transport ports of national importance.

Airports

Bulgaria has four operating commercial airports – in Sofia, Plovdiv, Burgas and Varna. They handle both international and domestic flights. A tender for a 35-year concession for the management of Burgas and Varna Airports was held in June 2006 and the government awarded the concession to a consortium between Fraport AG, Germany and a local company, named BM Star.

Furthermore, in response to the demand for cargo transport, the government has added the airports in Plovdiv (south-central Bulgaria), Gorna Oryahovitsa (north-central Bulgaria) and Ruse (northern Bulgaria) to the list of airports which accept international air traffic. In relation to Plovdiv Airport, the government is in the process of identifying concessioners for both the passengers and the cargo terminals of the airport.

In January 2016, the airport in Gorna Oryahovitsa was awarded under a 35-year concession following two unsuccessful calls in 2011 and 2013.

Sofia Airport, which handled 6.5 million passengers in 2017 (30% up from the 2016 level), has undergone significant investments in the last few years, including a new traffic control tower, thus increasing its capacity and providing modern facilities to respond to the growing demand for international air travel. The newly constructed terminal ensures a higher standard of passenger handling and landing of wide-bodied aircraft. In late 2015, the government announced its plans to launch a concession call for Sofia Airport. The purpose of the concession of Sofia Airport is to further extend the cargo and passenger handling capacity of the airport and modernize its infrastructure. The concession tender was, however, cancelled in April 2017. In the beginning of 2018, plans for a

restart of the concession procedure were announced.

Fixed-line communications

According to the latest available information as of 2016, the fixed voice services had 1.4 million subscribers. The overall fixed telephony penetration is estimated at 20% of the population in 2016, representing a continuous decrease in recent years due to the shift in consumer preferences in favor of mobile phones.

There is an ongoing market trend for bundling fixed and mobile service offerings to subscribers.

Mobile communications

There are currently three operating telecommunications companies providing services in Bulgaria – A1 Bulgaria EAD (formerly named Mobiltel EAD), Bulgarian Telecommunication Company AD (BTC) and Telenor Bulgaria EAD – respectively branded as A1 Bulgaria, Vivacom and Telenor – operating under the GSM 900 and GSM 1800 standards. In January 2013, Bulsatcom EAD, 4G Com EAD (revoked in 2014) and Max Telecom OOD were granted licenses to utilize the 1,800 MHz band network in the country. The market has grown quickly, with the number of mobile subscriptions rising from 8.2 million in 2006 to an estimated 9 million in 2017. Based on publicly available information and calculated on the basis of mobile telecommunications service revenues, Vivacom has a 37% market share for 2017, followed by A1 Bulgaria with 34% and Telenor with 32%.

In September 2015, it was announced that by mid 2016 the only WiMAX company in Bulgaria, Max Telecom, would start supplying voice telephony, making it the fourth mobile

service supplier. Again, according to public sources, by the end of 2016, Bulsatcom, the largest satellite TV operator which also owns a mobile communications license, planned to launch mobile services, making it the fifth provider in Bulgaria. Currently the only telecommunications companies with active mobile phone subscribers are the three listed in the beginning – M-Tel, Vivacom and Telenor.

Following a vote by the Members of the European Parliament in December 2016, roaming charges no longer apply; thus, making calls, sending texts and using the internet costs the same in any country of the EU starting from 15 June 2017.

Internet

As at the end of 2016, there were an estimated 6.7 million internet subscribers (both fixed and mobile) in the country, with an 87.8% penetration rate for mobile internet and 51.3% for fixed internet (in terms of households). This is a vibrant market populated by numerous internet service providers (ISPs), whose rates and service quality vary widely. According to a market report issued by the Communications Regulatory Commission, there were 674 companies operating data-transfer services as at the end of 2015. The largest companies which provide such services are Bulgarian Telecommunication Company, Blizoo, Media and Broadband EAD, Mobiltel EAD and Bulsatcom AD.

In 2005, the Bulgarian Government granted the first point-to-multipoint wireless network licenses, which allowed operators to upgrade their infrastructure and provide high-speed wireless quality data, voice, video, and multimedia services based on the WiMAX standard. The

companies providing WiMAX services were originally five; however, due to operational difficulties, the licenses of Trans Telekom, Carrier BG and Nexcom were revoked, while Mobiltel sold its license to Max Telecom, the only remaining active participant in the sector.

Electronic payment methods

Credit and debit card use is gaining popularity, with an increasing number of consumer retailers accepting payments via such means. Local banks are offering online banking services, debit card services, and various forms of electronic payment for utility and telephone charges.

A number of new electronic services facilitating the payment process are developing in the market, e.g. electronic invoice, electronic signature and others. They are driven both by changes in regulation and market innovation.

The Bulgarian National Bank (BNB) has granted a system operator license to System for Electronic Payments Bulgaria AD to develop and maintain a national mobile infrastructure for electronic payments in the country.

Currency

The official currency in Bulgaria is the Bulgarian lev (BGN). The BGN is circulated in notes of BGN 2, BGN 5, BGN 10, BGN 20, BGN 50, and BGN 100, and coins of BGN 0.01, BGN 0.02, BGN 0.05, BGN 0.1, BGN 0.2, BGN 0.5, BGN 1, and BGN 2. Beginning in late 2015, a gradual replacement of the banknote of BGN 2 by a coin of the same nominal value began.

In July 1997, a Currency Board was introduced and the lev was pegged to the German mark at the rate of BGN 1 to DEM 1. Presently, the lev is pegged to the

euro at a rate of BGN 1.95583 to EUR 1.

Exchange rates for other currencies are quoted daily by the BNB for statistical and accounting purposes.

Labor force

According to the National Statistical Institute, as at 31 December 2016, approximately 4.3 million individuals, or around 61% of the population, are in working age (defined as 16 – 63.8 years for men and 16 – 60.8 years for women). While the Bulgarian labor force is generally highly skilled and well educated, wage levels in the country are significantly lower than those in Western Europe, creating significant upside potential for labor-intensive investments. As per data provided by the BNB, the average gross monthly salary for December 2017 was EUR 574, compared to EUR 506 for December 2016.

After a period of four consecutive years of increase in the unemployment rate in the country, in 2016 the rate decreased to 8.0% from 10.0% in 2015 and further to 5.6% as at December 2017.

Political system

Bulgaria is a parliamentary republic. It held its first multiparty elections in 1990 and its current Constitution was adopted on 12 July 1991. The national legislative body, a unicameral Parliament, is comprised of 240 members elected by popular vote who serve a four-year term. The president is the head of state and commander-in-chief of the army. The president and the vice-president are elected by a majority vote and serve a five-year term. The current president is Rumen Radev and his term began in 2017. The President cannot initiate legislation but has a qualified power of veto.

Executive power rests with the government. It is headed by a prime minister, who is appointed by a parliamentary majority. The current prime minister is Boyko Borisov, who is also the chairperson of the Council of Ministers. The latest parliamentary elections in Bulgaria were held on 26 March 2017 and won by the center-right Citizens for a European Development of Bulgaria (CEDB) party with 32.65% of the votes. The party did not receive enough votes for a parliamentary majority (it won 95 out of 240 seats) and, in April, it was announced that CEDB would form a coalition with the United Patriots, whose share of the popular vote was 9.07%, to form a new government which stepped into power on 4 May 2017.

The country is divided into 28 administrative regions headed by regional governors appointed by the Council of Ministers. Bulgaria has 262 municipalities headed by mayors elected every four years. Municipal Councils, the local legislative bodies, determine the mayors' executive functions.

Beginning in January 2018, Bulgaria took up the EU presidency for a half year with its priorities set on the future of Europe and young people, the Western Balkans, security and stability, and digital economy.

Opportunities created via EU funding

EU funding opportunities will continue to be available for businesses established and operating in Bulgaria.

Access to EU support is granted by means of implementation of national Operational Programs (OP) funded jointly by the national budget and EU funds as well as from two national programs in the field of rural development and fisheries.

OP Innovations and Competitiveness and **OP SME Initiative** are managed by the Ministry of Economy and are specifically targeted at supporting the development of private economic operators.

Public aid under **OP Innovations and Competitiveness** is provided in the form of grants which are approved following a competitive project selection procedure. The supported activities will include support for introduction of innovative products, creation and development of thematically focused laboratories, promotion of small and medium-sized enterprises (SMEs) entrepreneurship, implementation of energy efficiency measures in large enterprises, increasing resource efficiency in business through the development and implementation of new solutions, techniques and methods.

OP SME Initiative is a joint financial instrument of the European Commission through Horizon 2020, the European Investment Bank and the Bulgarian Government. Its aim is to facilitate SME access to finance by providing guarantees through a joint instrument blending Horizon 2020, COSME and European Regional Development Fund (ERDF) resources, in cooperation with the European Investment Bank/European Investment Fund and with the aim of generating additional lending to SMEs.

OP Human Resources Development is managed by the Ministry of Labor and Social Policy. It provides support to companies hiring interns, for health and safety at work and vocational training of personnel.

OP Transport and Transport Infrastructure is managed by the Ministry of Transport, Information Technology and

Communications and is aimed at the development of a sustainable transport system. It envisages the completion of major national and pan-European transport routes on the territory of Bulgaria.

The **Rural Development Program** is managed by the Ministry of Agriculture and Food. It provides funding for the implementation of measures aimed at supporting knowledge transfer and advisory services for the agriculture and forestry sectors, farm management and farm relief services and cooperation. The Program also supports investments of agricultural holdings and forestry companies, as well as start-ups in farming. Financial aid is available for the food-chain organization, including processing and marketing of agricultural products, animal welfare and risk management in agriculture. Another priority of the Program is conversion to and maintenance of organic farming, forest-environmental and climate activities, and forest conservation. Public aid is also envisaged for renewable energy production, energy efficiency in the agricultural sector and food processing, as well as for diversification into non-agricultural activities.

OP Maritime and Fisheries is managed by the Executive Agency of Fisheries and Aquaculture. The program provides assistance for reconstruction and modernization of the fishing fleet and infrastructure, protection and restoration of biodiversity, production of biological and environmentally friendly aquaculture, as well as partnerships with research organizations and development of innovations in the sector.

OP Science and Education for Smart Growth is a new program managed by the Ministry of Education and Science. It

provides support for investment in scientific research and technology development, life-long learning, and improving the quality of education. Among the main beneficiaries are the Ministry of Education and Science, universities, the Bulgarian Academy of Science, schools, professional organizations and municipalities.

Cross-border Cooperation (CBC) programs are jointly managed and coordinated by neighboring countries. CBC programs support initiatives that aim to foster cooperation and tackle common challenges identified jointly between neighboring regions of Bulgaria and the Former Yugoslav Republic of Macedonia, Serbia, Romania, Turkey and Greece. The programs offer assistance to bodies governed by public law, non-governmental organizations (NGOs) and SMEs in a number of different fields, such as small-scale infrastructure in border regions, environmental protection, culture and education, business development, innovations and cooperation between entities on both sides of the borders.

Specialized financial instruments are also available across OPs to support businesses through loans, guarantees, and venture and equity capital. During the 2014-2020 programming period, all financial instruments are managed and implemented through the newly established Fund Manager of Financial Instruments in Bulgaria (Fund of Funds).

Businesses may also benefit through the Investment Plan for Europe, the so-called Juncker Plan, a joint initiative of the European Commission and the European Investment Bank Group, aimed at creating jobs and improving living standards by targeting risk profile projects.

Bulgaria and NATO

Bulgaria, together with six other East European countries, joined the North Atlantic Treaty Organization (NATO) on 29 March 2004.

In order to become a NATO member, Bulgaria undertook a sizable modernization of the army and compulsory military service was abolished.

Economy

In 2017, the Bulgarian economy grew by 3.6% compared to the previous year and reached EUR 51 billion. The fast GDP growth is based on the real estate, energy, outsourcing and IT sectors, while professional services and government spending increased slightly compared to the 2016 levels. In total, industry accounted

for 28.3% of GDP, services – 67.4% and agriculture – 4.3%.

According to the Ministry of Finance, the economy is set to grow by 3.9% in 2018. The Economist Intelligence Unit forecasts an average real GDP growth of 3% between 2018 and 2022. In 2017, inflation rose to 2.1% from -0.8% in 2016, a deflation driven by the plummeting oil prices and the decrease in international grain prices. For 2018 and 2019, the inflation rate is expected to rise to 1.4% and 1.5% respectively, fueled by higher income and household expenditure and the expectation of rising oil prices.

The budget surplus in 2017 was the equivalent of 1.1% of GDP compared to a surplus of 0.03% in 2016. The current account surplus in 2017 was the equivalent

Bulgarian key macroeconomic indicators

Indicator	2013	2014	2015	2016	2017
Real sector					
GDP (million EUR)	42,011	42,761	45,286	48,128	50,429
GDP per capita (EUR)	5,783	5,919	6,309	6,752	7,099
Private consumption (% of GDP)	79	80	79	77	78
Annual real GDP growth (%)	0.9	1.3	3.6	3.9	3.6
Inflation (av.) (%)	0.9	-1.4	-0.1	-0.8	2.1
Average monthly wages (EUR)	396	420	449	485	542
Unemployment rate (%)	11.8	10.7	10.0	8.0	7.1
Foreign sector					
Current account deficit/surplus (% of GDP)	1.3	0.1	0.0	5.3	3.9
Trade balance, FOB (EUR million)	-2,933	-2,777	-2,622	-984	-2,041
Export, FOB (EUR million)	21,218	21,026	21,919	23,104	25,818
Import, FOB (EUR million)	24,151	23,803	24,542	24,088	27,859
Foreign direct investments (EUR million)	1,384	1,161	2,476	660	902
Foreign direct investments % (GDP)	3.3	2.7	5.5	1.4	1.8

Source: Bulgarian National Bank

of 3.9% of GDP, or EUR 1,980 million, which represented a decrease from 5.3% of GDP surplus from 2016, or EUR 2,561. Foreign direct investments (FDI) in the country increased to EUR 902 million from EUR 660 million in 2016, which is still far from the peak level of EUR 6,728 million in 2008. The Currency Board has a key role in sustaining the macroeconomic stability in the country. As a result of prudent government policy in recent years, the gross foreign currency reserves of the Bulgarian National Bank decreased by EUR 1,229 million in 2016, reaching EUR 21,739 million at the end of 2017, which represents a 5% decrease of the foreign reserves compared to EUR 22,968 million at the end of 2016.

Trade agreements

Framework agreements liberalizing foreign trade between Bulgaria, the European Union, European Free Trade Association (EFTA) and Central European Free Trade Agreement (CEFTA) countries, as well as with Turkey and Macedonia have expanded the market presence of domestic manufacturers. Bulgaria's major trade agreements are with the following organizations:

WTO

Bulgaria has been a member of the World Trade Organization since 1996.

European Union

In March 1993, Bulgaria and the European Community and its Member States became signatories to the Europe Agreement of Association effective from 1 February 1995 and the Interim Agreement on Trade and Trade Related Matters covering various trade

components, effective from 31 December 1993. In accordance with the Agreement of Association, customs duties on industrial goods between Bulgaria and EU countries phased out by 2007. Since 1998, the EU import of industrial goods of Bulgarian origin has been duty-free. Significant relief for agricultural produce is also provided. The EU accession of Bulgaria and Romania in January 2007 expanded the export opportunities available to Bulgarian producers.

EFTA

According to this 1993 Agreement, trade with EFTA countries (Iceland, Liechtenstein, Norway and Switzerland) enjoys preferential terms and conditions that are almost identical with those in the Europe Agreement of Association.

Bilateral Trade Agreements

As of 1 January 2007, the bilateral trade agreements signed between Bulgaria and other countries in the region were cancelled and the country adopted the preferential trade agreements of the EU with various countries. Presently, the EU has such agreements with countries from the Mediterranean region (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria and Tunisia) and EFTA member countries, Mexico and Chile, Ivory Coast, Madagascar, Mauritius, the Seychelles, Zimbabwe, CARIFORUM States, Singapore and South Korea. The EU has signed Stabilization and Association Agreements with Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro and Serbia. As part of the European Union, Bulgaria participates in the EU Customs Union, which includes Andorra, San Marino and Turkey.

In February 2016, a Free Trade Agreement with Vietnam was signed and, in October 2016, a Comprehensive Economic and Trade Agreement (CETA) with Canada was signed, both of which are not yet applied. On 21 September 2017, CETA entered into force provisionally and as such most of the agreement now applies. The agreement would make it easier to export goods and services, and is beneficial both to Canada and the EU. On 8 December 2017, negotiations between the EU and Japan for an Economic Partnership Agreement were finalized. Additionally, at the same time the EU is also negotiating a Strategic Partnership Agreement with Japan.

Another agreement in focus for the EU is the EU-Mercosur association agreement, which is negotiating a deal with the four founding Mercosur states - Argentina, Brazil, Paraguay and Uruguay. The agreement is intended to remove barriers before smaller EU exporters.

Foreign investment

According to the Bulgarian National Bank, FDI in 2017 amounted to EUR 902 million (1.8% of GDP), which is an increase from the FDI in 2016, that stood at EUR 660 million (or 1.4% of GDP).

The estimated top six FDI contributing countries ranked by the total FDI inflow for 2017 were the Netherlands, Switzerland, Germany, Italy, Greece and Turkey. The Netherlands retains the first position from the prior year, as the other countries were not present in the top six in 2016.

Outsourcing of business services and IT sectors attracted the larger part of the new investments, while traditionally strong investment in the real estate sector shrank.

Restrictions with regard to offshore companies

The Act on the Economic and Financial Relations with Companies Registered in Preferential Tax Regime Jurisdictions, the Persons Related to Them and Their Beneficial Owners (the "Act") imposes a prohibition for companies, registered in preferential tax regime jurisdictions, and the persons controlled by them to be directly and/or indirectly involved in the following activities:

- Procedures for obtaining licenses for credit institutions, insurance and re-insurance companies, pension insurance companies, payment institutions, mobile operators under the Electronic Communications Act, rendering of activities and services under the Financial Instruments Markets Act and Collective Investment Schemes and Other Undertakings for Collective Investments Act and others, as well as participation in such companies
- Procedures for obtaining concessions and permits for exploration and research of mineral resources, public procurement, concessions, public-private partnerships and others
- Participation in privatization transactions, as well as in companies with state or municipal ownership, companies carrying out activities under the Independent Financial Audit Act, the Independent Valuers Act and the Renewable Energy Act
- Acquisition of state or municipal property, as well as ownership over land and forests from the state forest fund.

The companies registered in preferential tax regime jurisdictions are not able to hold certain shareholdings in companies that carry out licensing activity, participate in privatization, concession or public procurement, or acquire land and forests from the state forest funds and others.

There are certain cases where a company could claim to be excluded from the scope of the law, provided that it meets certain criteria and registers the circumstances for such exclusion in the Commercial Register and Register of Non-Profit Legal Entities (the “Commercial Register”).

Opportunities for International Investors

Protection and promotion of foreign investments

National treatment and most favored nation status

The Bulgarian Constitution stipulates that foreign persons (legal entities, individuals or civil partnerships registered in a foreign country) must enjoy equal rights with local persons when conducting economic activities in the Republic of Bulgaria except where otherwise provided by the law ("national treatment"). This principle covers the entire range of economic and legal forms used for business activity.

The Encouragement of Investment Act (EIA) provides for equal treatment of local and foreign investors in the Republic of Bulgaria. Foreign investors in Bulgaria can obtain the same assistance and use the same privileges and opportunities as granted by the law to local investors.

If a bilateral treaty, signed and ratified by the Republic of Bulgaria, provides for more favorable investment terms and conditions for international investors, the citizens or legal entities of the respective contracting country will enjoy preferential investor treatment ("most favored nation status").

Protection of investments

The Republic of Bulgaria is a party to 64 bilateral agreements for mutual protection and encouragement of foreign investment (for a list please refer to Appendix A). It is also a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States. Every Bilateral Investment Treaty has a standard clause providing that, in the case of a dispute between the Republic of Bulgaria and a potential investor, this dispute shall be submitted before the World Bank's International Center for Settlement of Investment Disputes. On these grounds, every investor in Bulgaria has the opportunity to protect their investment if adverse legislation is adopted.

Incentives to investors

The EIA envisages different incentive measures and privileges for local and foreign investors who undertake significant investments in certain economic activities within the territory of Bulgaria. The aim of these measures, financed by the state, is to promote large investments and improve the business environment in the country.

The Regulation for Application of the EIA contains all detailed conditions, under which the investors may benefit from the incentive measures.

The EIA and the Regulation for its Application are the legislative basis for implementing a scheme for awarding state aid in conformity with EU legislation. All encouragement measures may be implemented by the state only in compliance with EU state aid legislation for granting state resources to private entities. Investors must therefore fulfill the conditions stipulated in the respective EU legislative acts in order to be eligible to receive state financing.

In order to benefit from the resources under the state aid scheme, investors must apply for a special certificate for class A investment, class B investment or a priority project with the Bulgarian Investment Agency.

The required minimum investment amounts for projects implemented in the industrial sector are:

- For class A investments – BGN 10 million
- For class B investments – BGN 5 million.

The required minimum investment amounts for projects implemented in the services sector are:

- For class A investments – between BGN 2 – 3 million depending on the services sector
- For class B investments – between BGN 1 – 1.5 million depending on the services sector.

Lower minimum investment amounts are envisaged in the case of investments in the industrial sector in economically disadvantaged regions and in high technology activities in the industrial and services sectors.

Investors implementing projects in the economic sectors, explicitly listed in the EIA, may apply for a certificate for priority project if the project meets any of the criteria set out in the law, e.g. the amount of the investment exceeds three times the minimum amount for class A investment, or the project includes development of industrial zones or high-tech parks with technical infrastructure.

The investors awarded with certificates for priority projects can be supported by the state with a package of the incentive measures described below.

The certificates for class A investment, class B investment and priority projects are issued by the Minister of Economy and entitle the investors to benefit from the following incentive measures:

- Right to purchase state or municipal real estate property or to acquire limited property rights over state or municipal real estate property, located near the investment site, without tender procedures, upon evaluation of the real estate property by at least two licensed independent valuers and upon written consent of the Minister of Economy and the Minister of Regional Development and Public Works for those real estate properties owned by the State, and approval of the respective municipal council for any municipal real estate properties.

In order to take advantage of this incentive measure, the investors awarded with certificates for class A investment, class B investment and priority projects must apply to the relevant local authorities by submission of their investment projects and the documents set out

in the law. Non-implementation of the investor's investment project within the implementation term and for the amount of investment, and non-commencing of project works within two years from the date of signing of the sale-purchase contract (or contract for establishment of limited property rights) are grounds for its termination. The investor may not dispose of the real estate property (or the limited property rights), acquired according to the procedures under the EIA, prior to the expiry of a five-year term (respectively a three-year term in the case of SMEs) as from the date of implementation of the respective investment project.

Buildings and other sites financed with EU funds cannot be subject to the above incentive transactions, unless 10 years have expired from the completion of the construction to submission of the application by the investor.

- Financing of construction of technical infrastructure elements, such as roads, drainage networks and facilities, and others. Eligible to receive such financing are investors awarded with certificates for class A investment, investors implementing priority investment project or at least two or more investors awarded with certificates for class investment where the investment is located in an industrial zone.

This procedure must be executed in accordance with the requirements of the EIA, the Regulation for Application of the EIA, the state aid legislation and the EU legislation regarding state aid. The Council of Ministers grants such financing only after a competition procedure is held by the Ministry of

Economy to evaluate all submitted investment projects.

- Financing of professional training of persons, hired by class A and B investors in relation to certified investments, provided that the financing is implemented in accordance with the requirements of the EIA, the Regulation for Application of the EIA, and EU Regulation 651/2014. The Council of Ministers grants such financing only after a competition procedure is held by the Ministry of Economy to evaluate all submitted investment projects.
- Issuance by local or governmental authorities of administrative documents for the realization of the investment project within periods one-third shorter than the periods set out in the relevant legislative acts. The reduced periods for administrative assistance of the investors contribute to the timely and efficient implementation of their investment projects.
- Individual administrative assistance and service from the Bulgarian Investment Agency, relating to the submission and obtaining of the necessary documents required under the Bulgarian legislation for completion of the investment.
- Financing in the form of partial refunding of statutory social security contributions and health insurance contributions paid by the investor in their capacity of an employer for the newly hired employees for a period not longer than 24 months from the opening of the respective job positions.

Investors awarded with certificates for class A investment, class B investment and priority projects are eligible to benefit from

the incentive measure provided that:

- They comply with all cumulative requirements set out in the law and
- The newly opened job positions are occupied by Bulgarian citizens, citizens of EU Member States, EEA states or Switzerland or by persons residing in Bulgaria on the legal grounds stipulated in the Employment Promotion Act.

Municipal councils and mayors of municipalities may encourage significant investment projects realized on the territory of their municipalities where the amount of investment does not exceed the minimum amount for class B investment.

The municipal council of each municipality shall determine the terms and conditions for encouragement of projects with municipal significance and for issuance of a certificate for class C investment.

Investors awarded with certificates for class C investment shall be entitled to benefit from the following incentive measures:

- Provision of administrative services by the respective municipality within periods shorter than the usual ones
- Individual administrative assistance and service from the municipality and
- Right to purchase municipal real estate property or to acquire limited property rights over municipal real estate property, located near the investment site, without tender procedures, upon evaluation of the real estate property by at least two licensed independent valuers and approval of the respective municipal council.

Furthermore, investments are encouraged according to the procedures established by the Corporate Income Tax Act, the Value

Added Tax Act, the Employment Promotion Act and the Agricultural Land Ownership and Use Act provided that they are in compliance with the requirements set out in these acts.

Eligibility for investment incentives

According to the EIA, incentive measures and privileges shall be applied to initial foreign and local investments in tangible and non-tangible fixed assets plus new employment.

The investments must cumulatively fulfill the following conditions in order to be promoted under the EIA:

- They must relate to the establishment of a new enterprise, extension of an existing enterprise, diversification of the output from an enterprise into new products, or a material change in the overall production process of an existing enterprise
- They must be implemented in the following economic areas, according to the Statistical Classification of Economic Activities in the European Community (NACE Rev. 2), applicable in Bulgaria as Classification of Economic Activities (in Bulgarian “КИД 2008”), namely:
 - Industrial sector: manufacturing (with certain exceptions); or
 - Service sector: high technology activities in computer technology, R&D, accounting, tax and audit services, education and human health care, as well as storage of goods
- At least 80% of the future aggregate income must arise from the products produced by the economic activities above

- The period of project implementation, i.e. the period between the commencement and completion of the project, must not exceed three years
- The investment amount per project must not fall below the minimum amounts specified in the Regulation on the Implementation of the EIA
- At least 40% of the eligible costs for the investment must be financed by the investor's own or borrowed resources (any resources allocated as state aid or involving an element of state aid, including retained corporation tax, are not considered own or borrowed resources)
- The jobs created in relation to the investment must be maintained in the relevant region for at least five years in the case of large enterprises and three years in the case of SMEs
- The investment must be maintained in the relevant region for at least five years in the case of large enterprises and three years in the case of SMEs, calculated from the date of completion of the investment project
- Any long-term tangible and intangible assets acquired shall be new and purchased under market conditions from third parties independent from the investor.

Any other requirements under the effective state aid legislation must be met.

Establishment of new business entities or acquisition of shares in existing entities

The Bulgarian law provides for the establishment of entities with foreign participation or for the acquisition of shares in existing local entities. Such companies

must take the form of entities under the Bulgarian Commercial Act. There is no limitation on the share participation of foreign legal entities and individuals.

Generally, no prior permission from governmental institutions is required for the establishment of a legal entity, except for cases involving banking or insurance activities, investment funds, management companies or investment intermediaries, or special concession rights and others.

Branches

Foreign legal entities or unincorporated entities may register branches in the Republic of Bulgaria if they have received permission to conduct business activities under the terms and conditions of the laws of their home country. Branches are entered in the Commercial Register.

Though part of a foreign company, branches are considered independent and therefore must keep separate accounting books and prepare balance sheets. However, registered capital is not required for the establishment of a branch.

Representative offices

Foreign legal entities and individuals who have received permission to conduct business activities under the terms and conditions of the laws of their home country are allowed to establish representative offices in the Republic of Bulgaria. They are not treated as separate legal entities and are not entitled to conduct business activities as defined in Bulgarian law.

Representative offices are registered at the Bulgarian Chamber of Commerce and Industry and may engage in marketing, informational and promotional activities.

Capital markets

The legislation regulating the capital markets comprises numerous laws and regulations, the most important of which are the new Markets in Financial Instruments Act (recently adopted and implementing MiFID II requirements), the Public Offering of Securities Act, the Commercial Act, and ordinances on the activities of investment companies, management companies, investment intermediaries and others.

Bulgarian Stock Exchange

The Bulgarian Stock Exchange (BSE) is a joint-stock company. The majority of its shareholders are private local or foreign legal entities and individuals. Its shareholders elect the Board of Directors, which is responsible for the day-to-day operations of the BSE. More than two-thirds of its private shareholders are credit and financial institutions – banks, financial intermediaries, insurance companies and others.

Capital market supervision

The Financial Supervision Commission (FSC) is responsible for capital market supervision. The FSC is an independent state authority whose mission is to protect investors' rights and to enhance the development of a transparent and efficient capital market.

The FSC has the exclusive right of approval in respect of prospectuses for public offerings of securities or take-over announcements. Issuers are obliged to file prospectuses and to register them with the FSC before going public. Once registered, they are required to periodically disclose information about their activities and financial status.

Trading procedures

The BSE operates a continuous order-driven trading system. Orders are matched automatically according to time and price priority. The minimum lot size is currently one share. There are daily limits on share price movements for both the official and the free market.

The BSE's fully automated trading system is designed to provide market transparency, liquidity and reflect price announcements.

Concessions

The Constitution of the Republic of Bulgaria states that under the conditions of a separate law the state can grant concessions for certain objects or activities that are exclusive state property or subject to sovereign state rights. These conditions are prescribed in the Concessions Act, effective from 1 January 2018, which transposes Directive 2014/23/EU of the European Parliament and of the Council of 26 February 2014 on the award of concession contracts.

The Concessions Act regulates the common terms for granting concessions. There are special rules set out in the Underground Resources Act, governing the terms for granting concessions for extraction of underground resources, and the Waters Act, governing the terms for granting concessions for extraction of mineral water.

Licensing

Licensing regime in electronic communications

The Electronic Communications Act reflects the need to establish unified rules for regulation of the common European electronic communications market, part of

which is Bulgaria.

Under the Electronic Communications Act, electronic communications may be transferred, transmitted or accepted for all kinds of signs, signals, written text, pictures, sounds or information by conductor, radio waves, optical or other electromagnetic means.

Public electronic communications may be provided by any legal entity or individual who meets the general requirements set out in the law, after first notifying the Communications Regulation Commission. Where legal entities want to use limited resource for the purposes of carrying out electronic communications, they have to obtain permission from the Communications Regulation Commission.

The Communications Regulation Commission may decide to hold a tender procedure to issue a permission for certain cases of use of limited resources.

Permissions for use of limited resources may be issued for an initial validity period of up to 20 years. Prolongation of the validity period of the permission is allowed under certain circumstances.

Radio and TV broadcasting activities require an individual license. Such licenses are issued by the Media Council, a special body designated under the Radio and Television Act.

The Radio and Television Act also regulates radio and television operators. The Media Council issues licenses to legal entities and individuals registered to perform terrestrial broadcasting. Licenses are issued after a tender process. The license term is up to 15 years and can be extended to a maximum period of 25 years.

Persons intending to create radio and television programs are to register with the Media Council.

Licensing regime in the energy and gas sector

The Energy Act transposed the Third Energy Package into Bulgarian law thus opening the Bulgarian energy and gas market to liberalization.

The main regulatory body in the energy, gas and water supply sector is the Energy and Water Regulatory Commission (EWRC) which is responsible for the issuance, amendment and withdrawal of licenses for activities in the energy and gas sector.

In general, the law requires an individual license for the specific energy activity, such as generation of electricity and/or heat, transmission of electricity, heat or natural gas, trading of electricity, organization of regulated energy exchange, supply of electricity and natural gas to final customers, and distribution of electricity and natural gas.

No license is required for:

- Generating electricity from persons owning plants with a total installed capacity not exceeding 5 MW
- Generating heat from persons owning plants with a total installed capacity not exceeding 10 MW or
- Transmission of heat from persons owning transmission networks to which plants with a total installed capacity not exceeding 10 MW have been connected or
- Generating electricity and heat for own use.

No license is required for trading with natural gas.

There are restrictions placed on those entities which have already received licenses for distribution of energy and distribution of natural gas to also be granted licenses for other energy activities. The entities which are licensed as distributors of natural gas on a particular territory may also be licensed as end suppliers of natural gas provided that the customers connected to the distribution network are less than 100,000.

Any local legal entity, fulfilling the requirements of the law, is eligible to receive a license for the activities listed above, as well as to perform gas trading activities. Such license or the right to perform gas trading activities may also be granted to an entity registered under the legislation of one of the Member States or a country that is party to the European Economic Area Agreement.

Energy and gas regulations

The regulations on the economic activities in the energy and gas sector are set out in the Energy Act and in the respective secondary legislation.

The regulations on the production and promotion of renewable energy are set out mainly by the Energy Act and the Renewable Energy Act (REA), the latter implementing the provisions of Directive 2009/28/EC.

Latest developments in the energy sector regulations

The Bulgarian energy sector has been rapidly developing towards liberalization in the recent years. The opportunity of EU electricity traders to obtain electricity

trading licenses without having to establish entities in Bulgaria increased the overall number of market participants and, hence, market competition.

The Energy Act and the Electricity Trading Rules establish clear terms and conditions for a switch of electricity suppliers, providing an opportunity to electricity consumers to change their supplier and optimize their electricity costs. As a result of the regulations, in the recent years, a large number of industrial electricity consumers have changed the end suppliers with electricity traders offering lower electricity prices.

Established in 2014, the Independent Bulgarian Energy Exchange (IBEX) is licensed for the organization of an exchange electricity market. In 2015 and 2016, the IBEX launched the day ahead market and the centralized market for bilateral contracts.

On the basis of the last amendments in the Electricity Trading Rules from 2017, the IBEX is expected to launch the intraday market segment in 2018 providing additional opportunities for trading close to delivery and thus reducing the balancing costs of market participants.

The Energy Act provides that, as of 1 January 2018, all electricity producers with a total installed capacity over 5 MW must conclude transactions at freely negotiated prices only on the exchange electricity market.

Latest developments in the renewable energy sector regulations

Producers of electricity from renewable energy sources (RES) are entitled to the following incentive measures:

- Privileged connection of the renewable energy plants to the electricity grids
- Purchase of electricity produced by renewable energy sources at preferential prices, as determined in a feed-in-tariff (FIT). The FIT is fixed for the entire period of mandatory off-take of the electricity produced from RES, which is different depending on the type of the renewable energy project (e.g. 20 years for solar, geothermal and biomass projects, 12 years for wind projects and 15 years for hydropower projects with a total installed capacity up to 10 MW and other renewable energy projects).

According to the second National Report for the progress of Bulgaria in the stimulation and the usage of energy from renewable sources, the national target of a 16% share of renewable energy of total internal energy consumption was achieved by 27 December 2013. Thus, the above incentive measures will not apply for RES producers who apply for connection to the electricity grid after 27 December 2013.

According to amendments of the Energy Act, the electricity produced by RES projects which entered into exploitation after 6 March 2015 shall not be purchased at preferential prices on the basis of long-term agreements except for:

- RES projects with a total installed capacity not exceeding 30 kW which shall be constructed over roofs and/or walls of buildings located within urbanized territories, and
- Biomass projects with a combined cycle and indirect usage of biomass which shall be constructed within urbanized zones, agricultural sites or production zones and a total installed capacity not exceeding: (i) 1.5 MW when at least

60% of the used biomass represents animal fertilizer and meets some mandatory criteria, and (ii) 500 kW when using vegetable biomass which is their own production. The gratis period for these biomass projects is until 1 January 2016 – all such biomass projects which have entered into exploitation after 1 January 2016 shall be subject to the above restriction.

For the purpose of covering of the costs of the public supplier arising from the long-term contracts for purchase of electricity from electricity producers, including RES producers, the Electric Power Grid Security Fund was established in 2015.

As of 24 July 2015, all electricity producers and traders importing electricity in Bulgaria are obliged to pay monthly contributions to the Electric Power Grid Security Fund amounting to 5% of their monthly revenues from generated, respectively imported and sold electricity, VAT excluded.

Latest developments in the gas sector regulations

The gas supply sector has been dominated for years by the Bulgarian public gas provider - Bulgargaz EAD which imports over 80% of the Bulgarian natural gas supplies from Russia on the basis of long-term take-or-pay agreement with Gazprom.

In the last five years, many amendments in the gas sector regulations have been adopted transposing the requirements of the Third Energy Package. The purpose of these amendments is to open the gas market to competition. Despite of the formal changes in the legislation providing an easy access of EU traders to the Bulgarian gas market (no licensing is required), only a modest number of gas traders have entered the market, mainly

due to the existing constraints of the gas transportation network capacity.

For the purpose of overcoming those constraints, new gas infrastructure projects have been launched or are in process of negotiation by the Bulgarian gas transmission network operator – Bulgartransgaz EAD.

Currently, ICGB, a joint Bulgarian and Greek project company, is developing a new gas interconnector linking Greece and Bulgaria, with a transportation capacity of approximately 3 bNcm/y of natural gas from Greece to Bulgaria. Meanwhile, Bulgartransgaz EAD is also researching the opportunities for construction of gas interconnectors linking Bulgaria with Turkey and Serbia.

The development of the new gas infrastructure is expected to diversify the gas supply sources and to open the gas market to competition.

Banking and finance

The commercial activities of credit and financial institutions in Bulgaria are regulated by the Credit Institutions Act.

As per the Credit Institutions Act, a Bulgarian bank must be established in the legal form of a joint-stock company, issuing only dematerialized shares and with a fully paid-up minimum registered capital of BGN 10,000,000. Banking activities in Bulgaria may be performed only upon obtaining a bank license issued by the BNB.

The Credit Institutions Act envisages the following possibilities for a bank, licensed in a Member State or in a country that is part of the European Economic Area, to

carry out banking activities on the territory of the Republic of Bulgaria:

- Through a branch, i.e. freedom of establishment
- Directly, after specifying the names and addresses of the persons who will represent it before the BNB, i.e. freedom to provide services or
- Through a tied agent whose seat is on the territory of Bulgaria – only with regard to investment services/ activities, including the ancillary investment services.

Member State banks, including banks from the EEA, may perform only those activities that are specified in their licenses. Activity can commence upon notification to the BNB by the competent bodies which have issued the license of the bank.

A foreign bank registered in a third country (i.e. not in a Member State or the EEA) may perform banking activities in Bulgaria only upon opening a branch in Bulgaria and obtaining a license issued by the BNB.

Financial institutions are legal entities other than credit institutions for which the main scope of business is carrying out one or more banking activities and/ or granting credits with funds which have not been raised from receiving deposits or other repayable funds from the public and/ or acquisition of shareholdings in credit institutions or other financial institutions. Financial institutions are subject to registration in a special register kept by the BNB provided that certain requirements have been met.

Financial institutions having their registered address in a Member State or a country that is part of the EEA are also entitled

to carry out commercial activities on the territory of the Republic of Bulgaria directly or through a branch upon fulfillment of a notification procedure between their home Member State regulator and the BNB.

The representative office of any bank in the Republic of Bulgaria is obliged to submit to the BNB a copy of the act for its registration with the Bulgarian Chamber of Commerce and Industry within 14 days after the date of issuance of the act. Such representative office may not carry out commercial activity in Bulgaria.

Company Law

The primary law governing the formation, operation, transformation and termination of companies is the Commercial Act.

There are five forms of business association in Bulgaria under the Commercial Act:

- Unlimited partnership (sabitratelno druzhestvo – SD)
- Limited partnership (komanditno druzhestvo – KD)
- Joint-stock company (aktsionerno druzhestvo – AD)
- Limited liability company (druzhestvo s ogranichena otgovornost – OOD)
- Limited partnership with shares (komanditno druzhestvo s aktsii – KDA)

All types of business association are recognized as legal entities. The founders may participate in one or more companies provided that the law does not prohibit such participation. Founders may be Bulgarian or foreign companies and/or individuals. Irrespective of the nationality of its founders, each type of company is considered to be Bulgarian.

The most usual forms of business association for foreign investors are the limited liability company (OOD) and the joint-stock company (AD).

Rules applicable to all forms of business association

Articles of Association

The adoption of the Articles of Association is an initial step in the establishment of a company.

The Articles of Association must contain:

- Trade name, seat and address of the company
- Scope of the company's activities
- Management and representation of the company
- Identity of the partners/shareholders of the company (except for the AD)
- Type (cash or in-kind) and amount of partners' contributions (for SD and KD), and/or the amount of company's capital (for OOD, AD and KDA), and
- Other matters as regulated by the Commercial Act which may differ for each form of company.

In cases when a partner or a shareholder intends to make an in-kind contribution, the Articles of Association must state the name of the contributor, the full description of the in-kind contribution, its monetary value, and the grounds for the contributor's rights. In the case of a limited liability company, a joint-stock company or a limited partnership with shares, the in-kind contribution must be valued by three experts appointed by a registration official from Commercial Register with the Registry Agency.

Registration

A newly established company comes into legal existence with its entry in the Commercial Register with the Registry Agency. The standard registration application form must be filed by the appointed management body or by a proxy, duly authorized by the latter. The managing directors of the company have an obligation to notify the Commercial Register within seven days, of any change in the circumstances already registered. If the managing director fails to perform their duties, they are subject to an administrative fine.

On 31 March 2018, a new Measures against Money Laundering Act came into force in Bulgaria, which partially transposes the provisions of Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing. Pursuant to this new act, all Bulgarian legal entities and other establishments, including those acting in their capacity as trustees of trusts, foundations and legal arrangements similar to trusts, are required to publish information about their beneficial owners, as well as about the persons that directly or indirectly control them. The information should be published under the file of the respective entity/establishment in the Commercial Register, respectively the BULSTAT Register.

Pre-company status

Prior to registration with the Commercial Register, the founders may reach an agreement on the actions that must be

taken in preparation for incorporation. The founders' actions create rights and obligations for the persons who have undertaken the said actions. The latter are held liable jointly and severally for these obligations. Eventually, with the registration, these obligations are automatically assumed by the newly established company.

Announcement of the annual financial statements

All forms of business associations under the Commercial Act, including sole proprietors who are subject to statutory independent financial audit and branches of foreign entities, as well as non-profit legal entities, performing activity in the public benefit, which performed business activity during the previous financial year, are obliged to present their annual financial statements for the said year to the Commercial Register. The deadline for announcement is 30 June of the year following the reporting year.

Together with their annual financial statements, the limited liability companies, joint-stock companies and limited partnerships with shares that are classified as medium and large entities or public interest entities are required to publish information about the proposal of the respective company's management body for profit distribution or coverage of losses, as well as about the resolution adopted in this regard.

All other enterprises are required to publish their annual financial statements for the previous financial year in an economic magazine or on the internet by 30 June of the year following the reporting year.

Termination of business associations

There are several grounds for the termination of a company:

- Expiration of the term of the company or other grounds/circumstances provided for in the Articles of Association
- Resolution by the shareholders/partners of the company adopted with the qualified majority prescribed by the law or the Articles of Association
- Resolution of the respective district court for declaring the company insolvent
- Transformation of the company in certain cases
- Termination by a resolution of the district court in cases provided by the law (e.g. where the company pursues objectives against the law)
- In the case of an AD – when the company's net asset value drops below the amount of the registered capital and, within one year, the company has not resolved to reduce its registered capital or to transform the company in accordance with the requirements of the law
- Other specific grounds regarding the SD, KD and KDA (e.g. insolvency of a partner).

When one of the above occurs, the company undergoes liquidation proceedings unless insolvency proceedings have already been initiated. The company loses its legal status being deleted from the Commercial Register.

Transformation of business associations

Pursuant to the Bulgarian Commercial Act, there are five types of transformations of business associations, namely:

- Merger
- Consolidation of two or more companies
- Demerger in two or more companies
- Spin-off of part of the property of one company into another company (a newly established company or an already existing one), and
- Transformation whereby the legal form of the company changes.

The Commercial Act regulates the procedure for execution of transformations, their legal effects and the rights and obligations of the companies and their partners/shareholders.

The Commercial Act also outlines simplified transformation procedures, provided that certain conditions are met.

Insolvency

Insolvency proceedings in Bulgaria are opened with regard to companies which have been declared insolvent (e.g. companies which are unable to meet their monetary obligations, or have not filed for announcement in the Commercial Register their annual financial statements for the preceding three years, etc.) or over-indebted (i.e. the assets of the company are not sufficient to cover its liabilities) by the competent district court.

The company's management body must file an application with the competent district court for opening of insolvency

proceedings within 30 days of becoming insolvent or over-indebted. The application may also be filed by any creditor of the company.

Upon opening the insolvency proceedings, the court appoints a trustee whose role is to represent and manage the current affairs of the company, to collect its receivables and to convert its assets into cash and subsequently distribute the cash to the company's creditors.

In 2017, insolvency proceedings were opened with regard to 480 companies in Bulgaria. Over the last few years, there has been a downward trend in the number of insolvent companies following the peak in 2013 with insolvency proceedings opened with regard to 820 companies.

Stabilization

Stabilization proceedings in Bulgaria are applicable to traders (with the exception of public entities, credit institutions and insurers) who are not insolvent but are in imminent danger of insolvency.

The stabilization proceedings are voluntary and are opened upon the request of the respective trader. They take place before the relevant district court, which appoints a fiduciary to act as an auxiliary body of the court within the proceedings.

An essential part of the stabilization proceedings is the stabilization plan prepared by the trader, containing the terms and conditions with regard to payment to its creditors, as well as the extent of their satisfaction.

The stabilization proceedings give the trader the possibility to reach an agreement with its creditors, to negotiate

debt restricting, and to create conditions for the recovery and stabilization of its commercial enterprise and continuance of its activity and thus, to avoid the opening of insolvency proceedings.

Liquidation

The liquidation procedure, in contrast to insolvency, is voluntary, except for a liquidation by a court decision in cases provided for by law, and is initiated in the case of expiration of the term of the company as set out in its Articles of Association, or by a resolution of the members/shareholders of the company.

The General Meeting of Shareholders (or the Partners in an SD or KD) must appoint a liquidator. The latter is responsible for inviting the company's creditors to claim their receivables through announcement at the Commercial Register with the Registry Agency. After the satisfaction of the creditors' claims, the remaining assets are distributed to the partners/shareholders, but not before six months have elapsed from the date of announcement of the notice to the creditors at the Commercial Register. When all liabilities of the company have been settled and the remaining assets distributed, the liquidator applies for deletion of the company from the Commercial Register.

Limited liability company (OOD)

The OOD is a commercial company whose shareholders' liability is limited to the unpaid portion of their shares¹. An OOD is liable to its creditors only to the extent of its own assets.

This form of enterprise is convenient for small and medium-sized business activities

¹The English word "share" does not explain the difference between a share in an OOD and a share in an AD. The most important differences are that the share in an OOD is not freely transferable and is not necessarily of equal value, while the AD can issue only shares of equal value and these are more easily transferable. In addition, the shares of an AD are securities. For simplicity, shares in an OOD will be referred to as an "interest."

because of the advantages it offers over the other types of business associations:

- The minimum capital required is relatively low – BGN 2
- Shareholders' personal assets are protected from business debt because their liability is limited to the amount of their contribution into the capital. By contrast, unlimited partnership partners are liable to creditors with their entire property
- The OOD avoids the higher publicity requirements and the complex incorporation procedures applicable to an AD company.

Because of these advantages, the vast majority of foreign-owned companies in Bulgaria operate in this legal form.

The Bulgarian OOD resembles the German and Austrian "GmbH" (Gesellschaft mit beschränkter Haftung), the French "Sarl" and the English private company limited by shares.

Formation

An OOD can be formed by one or more persons. The Bulgarian Commercial Act does not provide for a minimum or maximum number of shareholders in an OOD.

The specific formation rules applicable to the OOD are as follows:

- All the capital must be subscribed on incorporation and at least the minimum statutory capital (BGN 2) must be paid in before the standard registration application form is submitted to the Commercial Register
- The founders must appoint managing director(s) of the company. The managing director does not necessarily

have to be a shareholder, Bulgarian citizen or resident

- In the case of an EOOD (single member limited liability company), an Incorporation Deed must be drawn up instead of Articles of Association.

Capital

The statutory minimum capital of an OOD is BGN 2. The capital of the company is divided into interests and the size of each shareholder's interest determines their rights and obligations concerning the company. It is possible for the interests of the individual shareholders to be of different value. The interests of shareholders in an OOD are not securities.

One of the main characteristics of the OOD is related to the transfer of shareholders' interests. The transfer of an interest from one shareholder to another is unrestricted, while the transfer to a third party is subject to a more complex procedure. In both cases, a Share Purchase Agreement must be signed before a notary public and the transfer must be registered in the Commercial Register with the Registry Agency.

As per the latest amendments to the Commercial Act, shares from the capital of an OOD may not be transferred if the respective company or the person owning the shares subject to the transfer has unpaid obligations related to payment of employment remuneration or social security contributions.

Management

The OOD is managed by the General Meeting of Shareholders (the sole owner in case of an EOOD) and by the appointed managing director(s).

Each OOD must hold at least one General Meeting of Shareholders each calendar year (Annual General Meeting).

The General Meeting is empowered to make key strategic and executive decisions regarding the company, including the admission and expulsion of shareholders, the appointment of managing director(s), a capital increase or reduction, approval of the annual report and balance sheet, distribution of profits and others.

The day-to-day management of an OOD is conducted by at least one managing director. The managing director represents the OOD before third parties. They are financially liable for damages caused to the company. For example, in the case of over-indebtedness or insolvency, the managing director must file an application initiating insolvency proceedings. If the managing director does not perform their duty, they commit a criminal offence and may be held liable for damages to both the company and its creditors.

In the case of an EOOD, the sole owner of the capital manages and represents the company either personally or through an appointed managing director(s). When the owner is a legal entity, the managing director of the legal entity or a person designated by them manages the company.

Distribution of profits

Shareholders cannot claim their interest back while the company is in operation. They are only entitled to receive profits in proportion to their interest, unless otherwise agreed by the shareholders. Payment of interest on a shareholder's profits is explicitly prohibited.

Joint-stock company (AD)

A joint-stock company is a company whose capital is divided into shares. The AD's liability to its creditors is limited to the amount of its assets. Foreign investors prefer this type of business association when larger amounts of capital need to be raised, particularly when public capital markets need to be tapped. The Bulgarian AD resembles the French "Societe Anonyme," the German and Austrian "AG" (Aktiengesellschaft) and is similar to the English public company limited by shares.

Formation

An AD is incorporated by a Constituent Assembly whereby all persons who subscribe shares into the capital of the new company adopt its Articles of Association. An AD may also be formed by an individual or legal entity.

The AD is registered in the Commercial Register with the Registry Agency by filing its Articles of Association and other documents evidencing that:

- Its capital is fully subscribed
- A portion of the value of each share stipulated by the Articles of Association, but not less than 25% of the nominal or issuing value, has been paid
- The Board of Directors or, respectively, the Managing Board and Supervisory Board have been appointed, and
- The remaining requirements of the law have been fulfilled (e.g. banks, insurance and investment companies have to obtain the necessary licenses granted by the Bulgarian authorities).

Capital

General rules

The statutory minimum capital of an AD is BGN 50,000. A higher statutory minimum is required for credit and financial institutions, investment companies, insurance and health insurance companies.

The capital of the company is divided into bearer or registered shares. Within these two types of shares, the AD may issue ordinary and preference shares. An ordinary share entitles its holder to one vote. Preference shares may provide a guaranteed or additional dividend or a specified share in the company's assets in the case of liquidation. Non-voting shares cannot represent more than 50% of the company's capital. Multiple voting shares are permitted only if provided for in the Articles of Association. ADs can issue dematerialized shares.

The shares in an AD can be traded on the stock exchange if the company is registered as a public company under the Public Offering of Securities Act.

The AD must set up a reserve fund mainly to cover losses. At least one-tenth of the company's profit must be set aside until the fund's assets reach at least one-tenth of the company's registered capital. In addition, any premium over the par value for shares and debentures obtained upon their issuance must be included in the reserve fund.

Increase of capital

The capital of the AD may be increased in one of the following ways:

- Issuing new shares

- Increasing the nominal value of shares already issued, or
- Converting debentures into shares.

The resolution to increase the capital must be taken by the General Meeting of Shareholders/sole owner of the capital.

The Articles of Association may empower the Management Board (Board of Directors) to increase the company's capital up to a specified amount. Under this provision, new shares may be issued within five years from the date of the company's incorporation.

Decrease of capital

An AD may decrease its capital through either of the following:

- Reduction in the nominal value of shares, or
- Cancellation of shares.

A capital decrease requires shareholders' approval. The resolution of the General Meeting of Shareholders/sole owner of the capital on the capital decrease must be announced in the Commercial Register. By its announcement, it is presumed that the company is committed to secure or repay all creditor claims. Creditor consent is assumed if no written objections are filed within three months from the date of announcement of the resolution for capital decrease with the Commercial Register.

Management

General rules

The joint-stock company's governing bodies are the General Meeting of Shareholders and the Board of Directors (one-tier system), or the Supervisory

Board and the Management Board (two-tier system). There are no requirements regarding the nationality or residence of members of either board. A member of the Management Board may not be a member of the Supervisory Board. The members of the Board of Directors, the Management Board and the Supervisory Board may be shareholders. All Board members are held liable jointly and severally before the company for damages caused in the course of their duties.

In a single member joint-stock company, the owner is empowered to decide on all issues otherwise handled by the General Meeting of Shareholders.

The General Meeting of Shareholders consists of all shareholders entitled to vote. The first General Meeting of Shareholders must be held within 18 months of incorporation. Subsequently, a regular General Meeting of Shareholders must be held at least once a year, not later than 30 June. General Meetings of Shareholders are usually called by the Board of Directors/ Management Board or by the Supervisory Board, or upon a request of shareholders representing no less than 5% of the company's capital.

The General Meeting of Shareholders may amend and supplement the Articles of Association, transform and dissolve the company, elect and recall members of the Board of Directors or the Supervisory Board, appoint and dismiss registered auditors, approve the annual financial statements as certified by the appointed registered auditor and resolve other matters which fall into its prerogatives by law or by virtue of the Articles of Association.

Two-tier system

The Supervisory Board consists of three to seven board members, appointed by the General Meeting of Shareholders. The Supervisory Board does not effectively take part in the management of the company. Its primary function is to represent the company in its relations with the Management Board. The Supervisory Board appoints the members of the Management Board and exercises control over its activities and resolutions. The Management Board must report on its activity to the Supervisory Board quarterly.

The day-to-day management of an AD with a two-tier management system is carried out by the Management Board under the control of the Supervisory Board. The number of members of the Management Board may not exceed nine and not be less than three. Subject to Supervisory Board approval, the Management Board may effectively delegate the company representation to one or several of its members.

If provided in the Articles of Association, certain resolutions of the Management Board may require prior approval from the Supervisory Board.

One-tier system

One-tier system companies are managed and represented by a Board of Directors. It consists of a minimum of three and a maximum of nine persons. The Board of Directors delegates the actual management and representation of the company to one or more of its members who are subsequently designated as executive directors. They serve at the discretion of the Board of Directors and can be replaced at any time.

Commercial Register

While the Commercial Act regulates the method of incorporation of business associations in Bulgaria, the Commercial Register and the Register of Non-Profit Legal Entities Act (CRRNPLAA) regulates the registration of business associations as each newly established entity begins its legal existence with its entry into the Commercial Register.

The Bulgarian Commercial Register is a centralized electronic register where all mandatory registration matters with regard to Bulgarian traders, foreign entity branches, non-profit legal entities and branches of foreign non-profit legal entities are kept.

The registration procedure is assigned to the Registry Agency at the Ministry of Justice which is the registration authority. The Commercial Register is available to the public, including via the internet – www.brra.bg. The Registry Agency also manages the reservation of company names and announcement of documents and facts such as annual financial statements, Articles of Association, invitations to shareholders and others.

The CRRNPLAA determines the registration procedure of all five main forms of business associations, namely: unlimited partnership, limited partnership, joint-stock company, limited liability company and limited partnership with shares. Furthermore, the CRRNPLAA regulates the registration procedure of sole proprietors, cooperatives, branches of foreign companies, non-profit legal entities and branches of foreign non-profit legal entities. It does not apply to partnerships, foundations and others.

Following registration with the Commercial Register, entities obtain a registration number – Unified Identification Code (UIC) which is used for taxation, social security and statistical purposes. Once received, this UIC remains unchanged until termination and/or cancellation.

Apart from the registration of an entity, the CRRNPLAA also regulates subsequent corporate changes such as entry into the Commercial Register of a procurator, pledge of shares, pledge over a commercial enterprise, termination and liquidation, initiation of insolvency or stabilization proceedings, transfer or transformation of a commercial enterprise, change of the company's representatives, seat or name and others.

District courts retain their competency regarding insolvency and stabilization procedures.

The Bulgarian Registry Agency provides free SMS notifications to traders, branches of foreign companies, non-profit legal entities and branches of foreign non-profit legal entities when an application for registration of changes has been submitted to the Commercial Register.

Real Estate

The major legislative acts governing real estate and real estate transactions in Bulgaria are the Bulgarian Constitution, the Ownership Act, the State Property Act, the Municipal Property Act, the Agricultural Land Ownership and Use Act, the Civil Procedure Code, the Encouragement of Investment Act, the Territorial Development Act, the Obligations and Contracts Act, the Condominium Ownership Management Act and the Ordinances on its implementation.

Types of ownership over real estate

Ownership of real estate in Bulgaria may be public or private.

Public ownership includes properties of public interest and those designated for public use only and public functions, such as the coastal beach, national roads, forests and parks, streets, squares, museums and schools.

Public state and municipal properties can be granted for operation to third parties through concession, public-private partnership or lease upon satisfying conditions explicitly stated by law.

Public properties cannot be disposed of (i.e. by sale purchase, donation, in-kind contribution, exchange) and cannot be acquired on the basis of possession and expired prescription period. However, limited property rights (e.g. construction right) may be granted for municipal public properties and for state public properties

(except for properties related to national security and state defense), when provided by the law.

Private properties can belong to individuals, entities, the state and municipalities.

Private properties can be subject to real estate transactions. The sale and purchase of state and municipal property is usually executed by public tender or as part of a public-private partnership (PPP) project. The exchange of ownership title or construction right over private state and municipal real estate property can be performed only in cases explicitly specified in the law. The lease period for state and municipal private property cannot exceed 10 years and the granting of a lease is subject to public tender procedures.

By virtue of amendments to the Act to Supplement the Ownership Act, the statutory prescription period for acquiring private state and municipal properties has been stopped to run by 31 December 2022. This means that currently private state and municipal properties cannot be acquired on the basis of expired prescription period.

When the property belongs to two or more persons, co-ownership is established. The co-owners decide operations by majority and each has a right of first refusal in case of disposal of the property. The co-owners can authorize one of themselves to represent their co-ownership before third parties.

Buildings can represent condominium ownership. In this case, floors or specific units of floors may be exclusively owned by separate persons while condominium ownership areas for all owners in the building are the façade, the roof, the construction and everything which is for common use. Condominium ownership is established when: (i) the building is completed, (ii) the floors in the building are two or more, and (iii) floors or specific units on the floors belong to different owners (see Section “Condominium ownership management” below).

Condominium ownership management

The Condominium Ownership Management Act (COMA) regulates the regime of buildings under condominium ownership.

There are two exceptions in which the COMA shall not apply, namely: (i) in case of buildings under condominium ownership with up to three individual units, belonging to more than one owner; and (ii) in case of buildings under condominium ownership in closed-type residential complexes, the management of the common areas shall be agreed by written contract with notarized signatures, concluded between the investor and the owners of the individual units.

As per the COMA, condominiums shall be managed by a general assembly of owners and/or by an association of owners. The general assembly of owners or the association of owners may decide to transfer the maintenance of the building by means of contract to a third party – individual or legal entity.

By virtue of the COMA, the municipalities have established and maintain public

registers of buildings or separate entrances under condominium ownership located on their territory.

Evidence of title

The ownership title and limited property rights over real estate property in Bulgaria are evidenced by ownership title documents (usually in the form of a notary deed). In addition, the law requires that title documents are registered at the Land Registry. By virtue of this registration, the acquisition of the ownership title or limited property rights becomes defensible against third parties.

Acquisition of real estate

Direct acquisition

In Bulgaria, foreign citizens and foreign companies can directly acquire buildings, premises within a building and limited property rights (e.g. a construction right and right of use). There are restrictions to foreigners owning land in Bulgaria.

EU residents and entities can acquire urban land, agricultural land, forest and forest land in accordance with the requirements specified by national law.

Citizens (non-resident citizens) and entities of countries which are not members of the EU and the EEA may acquire ownership title over land under the terms of an international agreement ratified under the terms provided for in the Constitution of the Republic of Bulgaria, which has entered into force.

Foreigners (non-resident or resident citizens) may acquire ownership title over land in case of legal succession. In case of inheritance of land by citizens and entities of countries which are not members of the EU and the EEA, if not otherwise provided for in an international agreement, they are obliged,

within three years following the revealing of the inheritance, to transfer the ownership to persons who have the right to acquire such estates.

Indirect acquisition

The restrictions on the acquisition of land by foreigners do not apply to Bulgarian legal entities involving foreign participation. However, the applicable laws provide for other restrictions to the acquisitions of agricultural land as described in the present Section. Thus, in general, foreign legal entities and individuals can effectively acquire ownership rights over land through the acquisition of shares or an interest in existing Bulgarian companies, or through the establishment of such companies under Bulgarian law. It is possible for such a company to be 100-percent owned by a foreign investor.

Foreign companies and foreign citizens, furthermore, can acquire shares in the capital of a Bulgarian company which already owns a real estate in Bulgaria.

In contrast to the above, the following legal entities may not acquire and possess ownership title over agricultural land:

- Companies in which the shareholders directly or indirectly are legal entities registered in jurisdictions with preferential tax regimes
- Companies whose shareholder(s) are non-EU individuals and/or non-EU legal entities, or whose shareholders are citizens of/have their registered seat at a country, which is not a party to the EEA agreement, as well as sole proprietors, incorporated by such individuals/legal entities
- Joint-stock companies which have issued bearer shares.

Only individuals and legal entities who are residents and have resided, respectively have been registered, in Bulgaria for more than five years may acquire ownership title over agricultural lands. Legal entities which have been registered in Bulgaria for less than five years may acquire ownership title over agricultural lands if their shareholders individuals have resided/have been registered residents in Bulgaria for more than five years.

Project development

After the acquisition of the real estate, the owner can commence the project development, since the Bulgarian legislation recognizes as an investor the owner of land, or the holder of a construction right. However, certain exceptions are provided for the cables and pipelines of the common technical infrastructure, such as electricity cables, water and sewerage pipelines, telecommunication cables and others.

The main stages of the development process can be divided into:

- Regulation and planning stage
- Environmental impact assessment
- Permitting construction works and
- Execution of construction works and commencement of use.

The major legislation governing the development process in Bulgaria is made up of the Territorial Development Act (TDA), the Constructors Chamber Act, the Chambers of Architects and Engineers in Investment Design Act, the Development of the Black Sea Coast Act and various sub legislative acts.

Regulation and planning

The regulation and planning stage comprises approval of a Detailed Development Plan (DDP) or amendment of an existing DDP, applicable when the provisions of the current DDP are not sufficient for the investor. The effective DDP is the first precondition to commence construction works.

The DDP can consist of a regulation part (plan for regulation) and/or a construction part (plan for construction). The plan for regulation transforms an unregulated land plot into a regulated land plot through determination of its borders (regulating lines) and provides access to the land plot from a street. In relation to the future construction, the construction part of the DDP specifies the construction parameters such as type and height of the building(s), the maximum density and intensity allowed, as well as the minimum green area.

Generally, the DDP is approved by the municipal authorities, but for construction projects of regional or national significance the DDP is approved by the Regional Governor or by the Minister of Regional Development and Public Works.

Environmental impact assessments

Environmental impact assessments are required for real estate projects in two cases:

- For projects which are presumed to impact the environment, such as chemical factories, oil refineries, thermal power plants and others, and
- For projects impacting existing protected areas (reserves, national parks and others) or existing and potential protected zones (Natura 2000).

For certain projects, procedures for assessing the need for environmental impact assessment need to be performed.

Permission of construction works

Construction works are permitted on the basis of an effective DDP.

The investment design is subject to approval by the respective administrative bodies and it serves as a ground for the issuance of a construction permit.

The construction permit may be issued for the entire project or, predominately for complex infrastructure projects – for different stages of the project which can be executed and used separately.

In general, the investment design is approved and the construction permit is issued by the chief architect of a municipality.

Execution of construction works and entering into exploitation

The next development stage is the execution of the construction works. The law provides that the construction permit shall lose legal effect unless construction has commenced within three years after the said permit has become effective or unless the rough construction work, including the roof of the building, has been completed within five years after the said permit has become effective and, applicable to physical-infrastructure line projects, unless the construction is completed within ten years after the said permit has become effective.

During the construction works, a number of standard-form acts and protocols have to be compiled.

The completion of the construction works is certified by the execution of a provisional Taking Over Certificate (the so-called Act, sample 15). With it, the participants certify that the works have been executed in compliance with the DDP, the approved design, the legal requirements to the construction works and the terms of the construction contract.

Depending on the significance of the construction project, its complexity and the associated operational risks, it can enter into exploitation through a:

- Permit for exploitation issued by the NCSD director if it is a significant construction project, or
- Certificate for exploitation issued by the chief architect of a municipality if it is not a significant construction project.

A permit for exploitation is based on a complex procedure which includes a protocol signed by a special committee (the so-called Act, sample 16) and a report issued by the construction supervisor. A certificate for exploitation is issued under a simplified procedure which involves only a desktop review of the documents for the construction project.

Participants in the development process

During the various stages of the development process, the investor enters into relations with other participants, namely: the designer, the contractor, the consultant, the structural engineer, the technical controller and the utility companies. The relations between the participants in the development process must be settled by written contracts.

The **designer** of the construction works may be an individual with designer capacity, or an entity employing such individuals. Designers are responsible for the preparation of the investment design. They also exercise control to ensure that the construction works comply with the design (the so-called author's supervision), and are authorized to issue mandatory instructions to the contractor.

The **constructor** is responsible for execution of the works in compliance with the approved design and permits, and the legal requirements applicable to such construction works.

The **consultant** is a trader who carries out valuations to ensure that the construction work complies with the investment design and exercises supervision over construction works. The consultants are subject to registration at a special register with the NCSD and they are granted certificates with a five-year term of validity.

The **technical controller** is a civil engineer who manages the execution of the construction works on behalf of the contractor. If the construction works are executed by the investor themselves, the investor is obliged to appoint a technical controller.

Accounting and Auditing

Accounting

The Bulgarian accounting requirements are governed by the Accountancy Act (AA) effective from 1 January 2016 which transposes the requirements of Directive 2013/34/EU. The Commercial Act, the Credit Institutions Act, the Bulgarian National Bank Act, the Social Security Code, the Insurance Code, the Public Offering of Securities Act and certain other laws also contain regulations applicable to accounting and financial reporting requirements.

The requirements of the AA extend to all business organizations, including branches of foreign organizations, with representative offices being the only exception.

Overview of the requirements of the AA:

- It lays down definitions and classifications of entities
- Criteria for application of either

International Financial Reporting Standards (IFRS) adopted by the European Union, or National Accounting Standards (NAS)

- Mandatory preparation of additional reports for certain entities
- Criteria for statutory financial audit
- Preparation of consolidated financial statements (CFS)
- Deadlines for publication of the annual financial statements and other reports.

Categories of entities and groups

The classification of entities and groups of entities is at the core of the provisions of the AA as different requirements will apply on the basis of the categories, e.g. the preparation of additional reports for some entities. Entities and groups are classified in the respective category when, as at 31 December of the current year, they do not exceed at least 2 out of the 3 criteria.

Entities	Micro	Small	Medium	Large
Carrying value of assets (BGN)	700,000	8,000,000	38,000,000	> 38,000,000
Net sales revenue (BGN)	1,400,000	16,000,000	76,000,000	> 76,000,000
Average personnel	10	50	250	> 250

“Group of entities” is defined as the parent company and all of its subsidiaries.

Groups	Small	Medium	Large
Carrying value of assets (BGN)	8,000,000	38,000,000	> 38,000,000
Net sales revenue (BGN)	16,000,000	76,000,000	> 76,000,000
Average personnel	50	250	> 250

A 2016 amendment to the AA stipulates that the categories of groups of entities may be further defined on the basis of the sum of the values of the indicators in the separate annual financial statements of the companies in the group, prepared as of 31 December of the current reporting period. In this case, in determining the category of the group, the thresholds of the criteria for the carrying value of assets and the net sales revenue shall be increased by 20%.

A change in the category is made when, for the last two reporting periods, the group does no longer meet two of the three criteria for the respective category. The category is changed from the beginning of following reporting period.

Public interest entities (PIEs)

Every PIE must have an audit committee in accordance with the requirements of the Independent Financial Audit Act and these entities are required to publish additional reports together with the annual financial statements.

The public interest entities in accordance with the AA are listed below:

- Entities whose transferrable securities are admitted to trading on a regulated market of a European Union Member State
- Credit institutions
- Insurance and reinsurance undertakings
- Pension insurance companies and funds managed by them
- Investment intermediaries which are large enterprises as defined in the AA
- Collective investment schemes and management companies within the

meaning of the Collective Investment Schemes and Other Undertakings for Collective Investments Act which are large enterprises as defined in the AA

- Financial institutions within the meaning of the Credit Institutions Act which are large enterprises as defined in the AA
- Holding Bulgarian State Railways EAD and its subsidiaries; National Railway Infrastructure Company
- Commercial entities whose primary business activity is to produce and/or transfer and/or sell electricity and/or thermal power and which are large enterprises as per the AA
- Commercial entities whose primary business activity is to import and/or transmit and/or distribute and/or transit natural gas and which are large enterprises as per the AA
- Water supply and sewage operators under Article 2, paragraph 1 of the Law on the Regulation of the Water Supply and Sewage Services which are medium or large entities.

Preparation of annual financial statements (AFS)

All entities are required to prepare annual financial statements with a financial year end of 31 December. The financial statements are the responsibility of the company's management.

Pursuant to the AA, companies prepare stand-alone (non-consolidated) and consolidated financial statements (where required). In accordance with the requirements of the AA, financial statements (interim, annual and consolidated) may be drawn up only by preparers of financial statements. Any

individual or a specialized accounting enterprise may be a preparer of financial statements provided that they meet the requirements of the AA for a minimum level of education and relevant professional experience.

Depending on their classification (micro, small, medium, large or PIE), the entities apply different criteria or may apply certain exemptions for the preparation of a full set of annual financial statements.

Applicable financial reporting framework

Public interest entities are required to prepare and present their annual financial statements on the basis of the IFRS as adopted by the EU. Entities other than PIEs apply the National Accounting Standards which are adopted by the Council of Ministers of Bulgaria but they may opt to voluntarily apply IFRS. Once having selected IFRS as an applicable framework, entities could not revert to NAS.

Non-profit legal entities, regardless of their classification, prepare AFS in accordance with NAS.

The underlying accounting principles under NAS are generally similar to those under IFRS in their 2002 version. The basic principles adopted by the AA are going concern and the accrual basis of accounting. The principles of consistency, prudence, matching and substance over form are also incorporated into the Bulgarian accounting practices.

Currently, the IFRS for SMEs which were issued by the International Accounting Standards Board (IASB) in 2009 are not endorsed in Bulgaria.

Effective from 1 January 2018, the AA clarifies that if an enterprise's applicable financial reporting framework is IFRS,

the enterprise must fully comply with the requirements of IFRS and without amendments. Under the AA, if IFRS contain guidance different from the regulations in the AA, the text of the IFRS is applied.

Stand-alone financial statements

The financial statements consist of a statement of financial position, statement of profit or loss and other comprehensive income, statement of cash flows, statement of changes in equity and disclosure notes to the financial statements.

Entities, with certain exceptions, are additionally required to prepare an annual management report for the annual activity of the company. This report includes, but is not limited to, information about recent and future developments of the entity, a description of the major risks, analysis of financial and non-financial key performance indicators, ecological and human resources matters, important subsequent events, a description of financial instruments used by the entity and financial risk management.

The statement of financial position and the statement of profit or loss and other comprehensive income must be based on, and supported by, bookkeeping records. Comparative figures must be presented.

Entities under the supervision of the Financial Supervision Commission, such as banks, insurance companies, investment companies, pension and health insurance funds and listed entities, are required to file certain additional reports with the Commission on a monthly basis.

Under the AA, there are specific accounting rules to be followed by companies in liquidation and bankruptcy.

The disclosure notes must include additional information necessary to give a true and fair view of the financial position and results of the business. This includes an explanation of the accounting policies applied in the accounts and disclosure notes.

Consolidated financial statements (CFS)

Companies having a majority holding in, or exercising control over subsidiaries, must generally prepare consolidated annual financial statements. The consolidated financial statements must present a true and fair view of the group's transactions with third parties. To this end, all intra-group transactions and balances are eliminated. The consolidated financial statements are prepared and presented on the basis of the accounting standards applied to prepare and present the annual separate financial statements of the parent company.

CFS are prepared by a parent company in accordance with the rules and requirements of the applicable accounting standards – NAS or IFRS. CFS may not be prepared by a parent company of a small group, unless at least one PIE is part of the group.

Additional mandatory reports for certain entities

Certain mandatory reports are to be prepared and published together with the AFS in addition to the annual report on activities:

- Report on payments to governments – required from large enterprises and all PIEs active in the extractive industry or the logging of primary forests
- Non-financial declaration – required from large enterprises which are PIEs and which, as at 31 December of the

reporting period, exceed the criterion for average number of employees during the financial year – 500 employees

- Corporate governance declaration (in accordance with the Public Offering of Securities Act, see also section “Reporting requirements as per the Public Offering of Securities Act (POSA)” below) – required for:
 - Entities whose transferrable securities are admitted to trading on a regulated market of a European Union Member State
 - Credit institutions
 - Insurance and reinsurance undertakings.

Exemption from preparation of activity report for micro and small enterprises is envisaged in certain circumstances. This exemption is not available for investment enterprises and financial holding enterprises classified as micro or small enterprises.

Equity requirements

Equity includes share capital, reserves (including revaluation reserves) and retained earnings. Joint-stock companies are required to allocate one-tenth of their after-tax profit to a statutory reserve until the amount of the statutory reserve exceeds one-tenth of the registered share capital of the company.

In accordance with the requirements of the Commercial Act, a joint-stock company may be dissolved when the net worth of the company (its net assets) becomes less than the amount of the registered share capital.

Filing requirements

All entities publish their AFS, CFS and the additional annual reports (if required)

approved by the General Meeting of Shareholders or by the respective committee; for all traders within the meaning of the Commercial Act, this is done through filing with the Commercial Register before 30 June of the following year. Certain exceptions are envisaged for enterprises that have not performed activities during the reporting period. The definition of an enterprise which has not performed an activity during the reporting period is given in the AA. Management is responsible for the timely preparation of the financial statements and their content.

An amendment effective from 2018 stipulates that a parent entity, which is a subsidiary at the same time (intermediate parent) and which is not obliged to prepare CFS according to the applicable financial reporting standards, publishes in Bulgarian the audited CFS and annual reports of its parent entity together with the auditor's report within three months from the mandatory deadline for publication of the CFS by its parent entity.

Non-profit legal entities designated for public benefit have to file their annual financial statements, together with an audit opinion (if required), with the Central Register at the Ministry of Justice. Effective from 1 January 2018, non-profit legal entities designated for public benefit shall publish their financial statements by filing to the Central Register of Non-profit Legal Entities, managed by the Registry Agency by 30 June of the following year.

Entities other than traders and non-profit legal entities designated for public benefit publish their financial statements in the financial press or on the internet (if free access is granted for a period of not less than three years after the date of release) not later than 30 June of the following year.

By 31 July of the current year, the Registry Agency provides to the National Revenue Agency electronically a list of the entities which failed to publish their annual financial statements for the previous year within the time limit stipulated above. By the 30 September of the current year, the National Revenue Agency undertakes the necessary measures for reviews and for determining the violations.

Listed entities and financial institutions must present their audited stand-alone financial statements and certain additional reports to the Financial Supervision Commission within 90 days after the year end. In addition, such companies must present a financial report to the Financial Supervision Commission on a monthly basis within 30 days of the end of the previous month.

All enterprises are required to file their annual corporate income tax declaration with the tax authorities by 31 March of the following year. This declaration needs to be accompanied by certain statistical summaries as defined in the Statistics Act.

Auditing and reporting

General audit environment

A new Independent Financial Audit Act (IFAA) was promulgated in the State Gazette on 29 November 2016. The Act became effective on 2 December 2016. The IFAA transposes the provisions of Directive 2006/43/EC, amended by Directive 2014/56/EU, as well as Regulation (EU) No. 537/2014. It introduces significant changes in relation to the obligations of the audit committees and in relation to the audit of PIEs. The IFAA lays down new major principles such as joint audit, mandatory rotation of registered auditors, prohibition of the provision of particular services and restrictions on the

fees for non-audit services. Audit committees will be supervised by the Commission for Public Oversight of Statutory Auditors (CPOSA). The changes are expected to influence significantly the PIEs.

The AA requires that financial statements of those entities meeting certain criteria be audited by a registered auditor. The IFAA in Bulgaria provides for the profession of independent auditors. It requires that the International Standards of Auditing be applied. The body which regulates the auditors' practice is the Bulgarian Institute of Certified Public Accountants. The public oversight over the registered auditors is implemented by CPOSA.

The auditor issues an opinion on whether the annual financial statements give a true and fair view of the financial position of the entity as at the year end, and of its financial performance and its cash flows for the year in accordance with the applicable financial reporting framework. The annual financial statements usually include also a summary of significant accounting policies and other explanatory notes in accordance with the Bulgarian accounting legislation.

The general rule is that the entity subject to audit must appoint an independent auditor. Auditors are usually appointed at the General Meeting at which the previous year's accounts are approved. The selection of the statutory auditor has to be made after a recommendation from the Audit Committee for those companies required to have such a committee (as discussed below). The independent auditor must be an individual or an audit company registered with the Institute of Certified Public Accountants ("registered auditor"). If an audit company has been appointed auditor, an individual who

is a registered auditor must be designated as the auditor responsible for performing the independent financial audit. KPMG Audit OOD can be appointed auditor as it is an audit company registered with the Institute of Certified Public Accountants.

An important requirement of the IFAA is that each entity which performs activities of public interest (PIE) is required to set up an Audit Committee. PIEs are defined in the AA (see section "Public interest entities (PIEs)" above).

The members of the Audit Committee are appointed by the General Meeting of the Shareholders or the Partners upon a proposal by the chairperson of the Board of Directors or the Supervisory Board or the Managing Director of the entity. Members may be chosen from among the members of the supervisory or management bodies of the entity who are not executive members of the management body. The General Meeting of the shareholders or partners approves a statute of the Audit Committee in which its functions, rights and responsibilities in respect to the financial audit, internal control and internal audit, as well as in respect to its relations with the management bodies, are stipulated. The Audit Committee's main functions and obligations are to:

- Supervise the fees received by the registered auditor of the PIE, including supervision over the cap of the permitted non-audit services
- Supervise the process through which the registered auditor assesses the provision of permitted non-audit services, ensuring that particular requirements regarding the permitted services are met

- Assess the threats to independence and the safeguards applied to mitigate those threats before approval of non-audit services. All permitted services require preliminary approval by the Audit Committee
- Provide guidelines and appropriate policies regarding the services which can be permitted
- Recommend the prolongation of the audit engagement only if it is appropriate. The maximum initial period can be prolonged under certain conditions only if the Audit Committee recommends to the General Meeting of Shareholders that the engagement should be renewed and this proposal is accepted
- Monitor auditor independence. The registered auditor must confirm their independence from the audited entity to the Audit Committee annually in writing and discuss every threat to their independence as well as the safeguards applied to mitigate those threats
- Observe the process of financial reporting and provide recommendations and proposals to guarantee its effectiveness
- Observes the effectiveness of the internal control system, of the risk management system and the internal audit activity regarding the financial reporting in the audited entity
- Report its activity before the appointment body. Prepare and present an annual report to the CPOSA not later than 30 June.

The CPOSA supervises the activities of the audit committees of PIEs.

Audit requirements

Under the Accountancy Act, the following reports are required to be audited by registered auditors:

- AFS and CFS of PIEs and of medium-sized and large enterprises and groups, as well as groups with at least one PIE
- AFS and CFS of joint-stock companies and limited partnerships with shares, except for the cases where these companies have not performed activities during the reporting period
- AFS of enterprises for which this requirement is established by law
- AFS of small entities which, on 31 December of the current accounting period, exceed at least 2 of the following criteria:
 - Carrying amount assets as of 31 December: BGN 2 million
 - Net revenue from sales for the year: BGN 4 million
 - Average number of personnel for the year: 50 persons.

Micro enterprises which are not PIEs are exempt from statutory audit. Consolidated financial statements and financial statements included in the consolidation are both subject to an independent financial audit.

Annual financial statements of non-profit legal entities designated for public benefit and listed in the Central Register with the Ministry of Justice are subject to an independent financial audit by registered auditors where they exceed one of the following criteria for the current year:

- Carrying amount of assets as of 31 December: BGN 1 million

- Revenue from for-profit and non-profit operations for the current year: BGN 2 million
- Total amount of financing received during the current year and financing received in previous reporting periods not absorbed as of 31 December: BGN 1 million.

The auditor's report on the annual and on the consolidated financial statements has to be issued by 30 June of the following year because of the requirement to file the audited financial statements and audit report with the Commercial Register by that date.

Joint audit

The new IFAA introduces the requirement of a joint audit. Insurance, reinsurance, pension insurance companies and funds and credit institutions will be required to be jointly audited by two audit companies and the auditors will be appointed after preliminary coordination with the appropriate regulator, the Financial Supervision Committee or the Bulgarian National Bank. The criteria for coordination regarding the appointment of the auditors are accepted by the respective regulator, the Financial Supervision Committee or the Bulgarian National Bank, in coordination with the CPOSA.

Mandatory rotation of the registered auditors of PIEs

The IFAA implements the mechanism of mandatory rotation of the registered auditors of PIEs. Namely, a registered auditor carrying out a statutory audit of a PIE withdraws after 7 consecutive years and may not carry out audit engagements for that PIE for a period of 4 years after the withdrawal. For an individual registered auditor assigned by the audit company as

responsible for the audit, the restrictions encompass 4 consecutive years after which they may not perform the role for 3 years after their withdrawal. There is no possibility for extension of the maximum deadline through a tender procedure (unlike the possibilities set out in Regulation (EU) No. 537/2014).

The initial date for calculation of the audit duration starts from the year when the first audit engagement for a statutory financial audit for the respective period is undertaken.

Prohibited non-audit services

Certain non-audit services may not be provided by the auditor of the PIE under the regulations of the new IFAA.

Cap on fees for non-audit services provided to PIEs

When the registered auditor provides to the audited PIE entity, its parent company or its subsidiaries, for a period of three or more consecutive financial years, permitted non-audit services, the total fees for such services shall be limited to no more than 70% of the average of the fees paid in the last three consecutive financial years for the statutory audit(s) of the audited entity and, where applicable, of its parent company, of its subsidiaries and of the consolidated financial statements of that group. The restriction shall not apply to non-audit services which are different from the prohibited ones and are required by law.

Reporting requirements as per the Public Offering of Securities Act (POSA)

Entities within the scope of the POSA are required to disclose specific financial information before the Financial Supervision Commission every 3 months.

Furthermore, these entities have to disclose additional information in their management report for the annual activities.

It is important to note that the requirements of the POSA for disclosure of information concern all public entities, as well as certain other entities (see section “Additional mandatory reports for certain entities” above).

Taxation

Corporate tax

The basic principles for the taxation of business profits are detailed in the Corporate Income Tax Act (CITA). The current taxes and levies imposed by the CITA are:

- Corporate income tax
- Lump sum tax levied on certain types of expenses accrued by local tax residents
- Withholding tax.

According to the provisions of the CITA currently in effect, the corporate income tax rate is 10%. Corporate entities, including subsidiaries of foreign companies incorporated under the Bulgarian Commercial Act, are considered Bulgarian tax residents. Upon registration in Bulgaria, these legal entities are subject to tax on their worldwide income, regardless of whether or not it is generated in Bulgaria. There is no withholding tax or income tax on undistributed profits.

Non-resident companies are subject to tax on income and profits derived only from Bulgarian sources.

Taxable income

Generally, a taxpayer's tax base is the entity's financial result according to its income statement, further adjusted for corporate income tax purposes. These adjustments represent either items that increase the financial result for tax

purposes, usually through an add-back of non-deductible expenses, or items that decrease the financial result for tax purposes. The latter are usually specific income items which are exempt from taxation, or tax incentives provided by the Government. There are expenses which are permanently non-deductible for tax purposes and expenses which represent a temporary tax difference, and therefore are non-deductible for tax purposes in the year when accrued for accounting purposes but can be claimed in a subsequent period.

Permanent tax differences

The major permanent tax differences include:

- Expenses not related to the business activity of the company; costs incurred by an entity in favor of employees, managers, shareholders and others (private costs), as well as expenses for services that do not benefit the tax liable persons are not recognized for tax purposes
- Service costs and other costs accrued at levels that differ from market levels
- Penalties, fines and other sanctions for violation of the law
- Expenses which are not substantiated with proper documents
- Expenses for VAT charged in relation to items that are not tax deductible

- Expenses for VAT accrued by a supplier or by the revenue authorities with respect to a performed supply (unless the VAT expense is accrued in relation to an adjustment to the input VAT credit, in relation to supplies for no consideration or supplies performed upon VAT deregistration)
- Expenses classified as hidden distribution of profit
- Expenses for bribery and/or concealing bribery of a local or foreign public official
- Expenses in relation to waste and shortage of inventory (except when these are due to force majeure, technological losses, expiry of durability term and others)
- Expenses in relation to shortage of current and non-current assets (except when those expenses are due to force majeure, certain amount of shortage of goods in commercial outlets with direct physical access of the customers to the merchandise)
- Revenues accrued in relation to waste and shortage of assets up to the amount of the tax non-deductible expenses incurred for the same reason (insurance cover received, receivables in respect of shortage, theft and litigation)
- Income from dividends distributed by Bulgarian tax resident entities and by foreign entities that are tax residents in an EU/EEA Member State, unless the respective amount decreases the tax result of the distributing entity (either as tax deductible expenses, or as another type of downward adjustment to the tax base), irrespective of the applicable accounting treatment.
- Expenses for travel and accommodation of shareholders or partners when these are performed by individuals in their capacity of shareholders/partners.

Temporary tax differences

The major temporary tax differences comprise the following:

- Revenue and/or expenses in relation to subsequent revaluation/impairment of assets is taxable, respectively tax deductible, in the year when the respective asset is disposed of, respectively written off
- Expenses in relation to provisions for payables or unused annual paid leave of employees (including salaries and social security and health insurance contributions) are treated as tax non-deductible in the year when accrued, except when they are capitalized as tax depreciable assets in accordance with the applicable accounting legislation. Such expenses are recognized as tax deductible in the year when the payable is settled or when the employees effectively use their paid leaves
- Interest expenses exceeding the threshold established by the thin capitalization rule (see section “Thin capitalization” below).

Tax depreciation

The total amount of accounting depreciation charged to the income statement of an entity is added back to the entity’s financial result for tax purposes, while the annual depreciation charge as per the Tax Depreciation Schedule (TDS) is reported as a decrease to the entity’s financial result. Hence, only the depreciation charge established under the

rules of the TDS will be recognized as an expense for income tax purposes. Specific rules exist for idle assets.

Tax depreciation must be accrued by multiplying the cost of acquisition of the respective depreciable asset by the tax depreciation rate. The CITA sets out the maximum annual tax depreciation rates for groups of assets to be used in the TDS. These maximum allowed annual tax depreciation rates are as follows:

- For computers, computer peripherals, software and software licenses, cell phones: 50%
- For machinery and production equipment: 30%. The rate can be increased up to 50% for new manufacturing machines and equipment in certain specific cases defined in the law
- For automobiles: 25%
- For transport vehicles other than automobiles, roads and runways: 10%
- For buildings (including those held as investment properties), facilities, installations, electrical wiring and lines of communication: 4%
- Up to 33.33% for long-term intangible and tangible assets where legal or contractual restrictions apply on the term of their use
- For all other tax depreciable assets where specific rates are not provided: 15%.

Thin capitalization

Interest expenses accrued by tax liable persons in relation to certain types of debt finance are tax deductible up to the limits set out in the CITA and known as

thin capitalization rules. Certain interest expenses however are not subject to thin capitalization. These include interest in relation to finance lease and bank loans received from non-related lessors/banks (unless the loan is guaranteed or secured by a related party, in which case the interest on them would be subject to thin capitalization). Penalty interest for late payment of taxes, interest expenses capitalized in the value of an asset, in accordance with the accounting legislation or other interest charges that are not tax deductible on other grounds do not count towards the interest expenses subject to thin capitalization.

No thin capitalization would apply where the average debt/equity ratio for the year of the tax liable person is smaller than three to one.

The maximum amount of interest expenses subject to thin capitalization that would be tax deductible in the year when accrued is equal to the interest income accrued for the year plus 75% of the profits before all interest income and interest expenses. If interest expenses subject to thin capitalization are accrued in excess of this amount, the excess must be added back to the financial result when determining the tax base. This adjustment represents a temporary tax difference and is reclaimable in the following five tax years up to the above-mentioned threshold calculated in those subsequent years.

Tax losses

When calculating their tax financial result, tax liable persons are entitled to subtract tax losses incurred in previous periods. Tax losses may be subtracted from the positive financial result over the following five

years up to the amount of the positive tax financial result in those future periods.

Foreign-source losses can be carried forward solely against foreign-source income deriving from the same operation unless the losses and the income were generated in an EU/EEA Member State and the tax credit method applies or upon termination of the foreign source in another EU/EEA Member State when the exemption with progression method applies.

Lump sum taxes

Lump sum tax at a rate of 10% is levied on certain types of expenses accrued by Bulgarian tax resident entities as follows:

- Representation expenses related to the company's business activity
- Expenses for in-kind benefits provided to the company's personnel (e.g. subsidized canteen, food allowances, organized holiday, holiday allowances, subsidized vacation facilities, sports and recreational activities)
- Contributions to voluntary insurance exceeding BGN 60 per month for each hired person
- Vouchers for food provided in accordance with the provisions of the law and exceeding the amount of BGN 60 per month for each hired person (there is a list of requirements which must be fulfilled by both the persons entitled to receive vouchers for food and the persons acting as operators for issuance and payment with vouchers for food). Expenses in kind in relation to personal use of company assets by personnel and individuals assigned under management

contracts, unless the amounts are treated as taxable income for personal income tax purposes. The lump sum tax on expenses is recognized as a tax deductible expense for the company and is paid on an annual basis.

Sources of income

The profits and income of non-resident taxpayers are taxed in Bulgaria provided that they originate or are deemed to originate from Bulgaria. The following types of gains/income derived by foreign entities without a permanent establishment in Bulgaria when accrued by a local tax resident entity are considered to have their source in Bulgaria including:

- Interest including interest relating to finance lease
- Royalties
- Fees for technical services, i.e. services of an advisory nature, services for installation and maintenance of tangible assets and market research
- Franchise and factoring fees
- Rent
- Fees for management and control of local legal entities
- Income from securities issued by local legal entities, the Government or municipalities.

Gains of foreign entities without a permanent establishment in Bulgaria from trading in shares and securities issued by local legal entities, the government or municipalities as well as from transactions with real estate properties in Bulgaria are also considered to have their source in Bulgaria.

Gains made by foreign legal entities from the disposal of property belonging to a permanent establishment of that legal entity in Bulgaria or the permanent establishment itself are deemed to be of Bulgarian source and, as such, are taxable in Bulgaria.

Income generated from penalties and indemnities of all types, except those accrued under insurance contracts by foreign legal entities established in the listed jurisdictions with a preferential tax regime (i.e. offshore companies) are also considered to have a Bulgarian source.

Withholding tax

Withholding tax at a rate of 10% (5% for dividend distributions and liquidation quotas) is to be deducted by the payer when Bulgarian source income (see Section “Sources of income” above) is accrued by a local tax resident entity to non-resident taxpayers without a permanent establishment in Bulgaria, unless a Double Tax Treaty (DTT) provides for lower withholding tax rates. No withholding tax is due on income from interest and royalties when accrued to associated companies tax resident in an EU Member State (see Section “Interest and royalties” below) and on dividends and liquidation quotas distributed by local entities to companies that are tax resident in an EU/EEA Member State (see Section “Dividends and liquidation quotas” below). When foreign entities without a permanent establishment in Bulgaria realize capital gains from trading in Bulgarian securities or real estate properties, withholding tax of 10% is to be levied on the capital gain and remitted to the Bulgarian state budget by the entity realizing the gain, unless a DTT provides for exemption or lower

withholding tax rates.

Foreign companies which are tax residents in the EU/EEA and which may not utilize the withholding tax paid in Bulgaria as a tax credit in their country of tax residence may choose an option to recalculate the withholding tax paid in Bulgaria so that the amount would equal the corporate income tax due if the income were derived by tax residents of Bulgaria. Hence, the tax base of non-residents could be reduced by the expenses attributable to the respective income whose source is Bulgarian. The difference between the withholding tax paid and the recalculated corporate income tax due may be reimbursed up to the amount that could not be used as a tax credit by the non-resident in their state of residence. This right is exercised by the foreign tax residents by filing a tax return by 31 December of the year following the tax year when the income was accrued.

Interest and royalties

In accordance with Council Directive 2003/49/EC on a common system of taxation applicable to interest and royalty payments made between associated companies of different EU Member States (“the Interest and Royalty Directive”), interest or royalty payments arising in an EU Member State are exempt from any taxes imposed on those payments in that state, whether by deduction at source or by assessment, provided that the beneficial owner of the interest or royalties is a company of another EU Member State or a permanent establishment of an EU Member State situated in another EU Member State.

As of 1 January 2015, the transitional period for application of the maximum

withholding tax rates of 5% under the Interest and Royalty Directive agreed following Bulgaria's accession to the EU expired and no withholding tax is due on interest and royalty income derived in Bulgaria by companies that are tax resident in an EU Member State. Additional conditions must also be fulfilled by a foreign company in order to be able to benefit from the reduced withholding tax rate.

In addition, the following types of income generated by non-resident entities shall not be subject to withholding tax:

- Income from interest payments on bonds or other debt instruments issued by a resident legal entity, the state or municipalities and admitted to trading on a regulated market in the country or in an EU/EEA Member State
- Income from interest payments on a loan extended by a non-resident entity which is a tax resident of an EU/EEA Member State and is an issuer of bonds or other debt securities, where the bonds or the other debt securities are issued for the purpose of lending the proceeds to a resident legal entity and have been admitted to trading on a regulated market in an EU/EEA Member State
- Interest income on loans that are not issued in the form of bonds under which the state or municipalities are borrowers.
- Capital gains realized by non-resident taxpayers from the sale of real estate property situated in Bulgaria or from the sale of shares, securities and other long-term financial assets sourced in Bulgaria, that are in turn subject to a 10% withholding tax
- Liquidation proceeds attributable to non-resident taxpayers and local individuals exceeding the value of their initial investment that are taxed at the rate of zero percent for residents of EU/EEA Member States or 5% for all other non-residents; and
- (i) capital gains realized from the sale of shares in collective investment schemes and national investment funds, shares, rights of public companies and government securities traded on the Bulgarian or EU stock exchange within the meaning of the Bulgarian Markets in Financial Instruments Act, (ii) transactions with financial instruments concluded in accordance with the procedure for repurchase or redemption by collective investment schemes which have been admitted to public offering in Bulgaria or in another EU/EEA Member State, (iii) transactions with financial instruments concluded in accordance with the procedure for redemption by national investment funds which have been admitted to public offering in Bulgaria, and (iv) transactions with financial instruments concluded according to the procedure for tender offering under the Bulgarian Public Offering of Securities Act, or transactions of similar type in another EU/EEA Member State.

Capital gains and losses

Generally, capital gains are included in an entity's profit subject to corporate income tax, except in the following cases which are not subject to tax:

Dividends and liquidation quotas

Dividends and liquidation quotas distributed by local legal entities and unincorporated entities to local individuals, local unincorporated entities, and foreign persons are subject to a 5% withholding tax, unless an applicable DTT provides for a lower withholding tax rate.

No withholding tax is due in Bulgaria on liquidation quotas and outbound dividends distributed by Bulgarian entities to tax resident companies in the EU/EEA without any participation or holding requirements, except for cases of hidden profit distribution.

Dividends distributed by local legal and unincorporated entities to local legal entities are tax-exempt except when they fall under the Special Investment Purpose Entities Act. In the case of dividends received as a result of a profit distribution made by such companies, for example a real estate investment trust, the dividend is taxed at the shareholder level in the same way as any other revenue received – at the corporate income tax rate of 10%.

Payment due dates and filing deadlines

Companies subject to corporate income tax must file an annual return for each calendar year together with the company's annual activity report under the Statistics Act. Annual corporate tax returns must be filed and income tax liabilities must be finally settled by all taxpayers for a calendar year by 31 March of the following year. A mandatory electronic submission of tax returns under the CITA was introduced for all tax returns for which the filing obligation arises after 31 December 2017. Taxpayers may correct errors in the annual tax return already filed for the respective year by a one-off filing of a new annual tax return by

30 September of the following year. Tax liable persons who have not performed economic activities and have not reported income or expenses during the fiscal period are relieved from filing annual activity reports and annual tax returns.

Advance corporate tax payments are due either on a monthly or on a quarterly basis and are calculated on the basis of the entity's forecast taxable profit for the current year. Both (i) tax liable persons whose net sales revenue for the previous year does not exceed BGN 300,000 and (ii) newly established companies (except when the establishment is a result from a corporate restructuring in accordance with the Commercial Act) do not have an obligation to remit advance corporate tax installments. Persons liable for tax with a net sales revenue for the previous year exceeding BGN 3,000,000 are obliged to make monthly advance corporate tax installments, otherwise quarterly advance corporate tax installments are due.

Withholding tax is payable by the end of the month following the calendar quarter in which the income was accrued or the decision for distribution of dividends/ liquidation quotas was made. The persons obliged to withhold and pay tax have to report the withholding tax due for the relevant calendar quarter by submitting a standard return by the end of the month following the respective quarter.

Taxpayers are required to include in the withholding tax return for the fourth quarter of the respective year the following information regarding income accrued in favor of foreign tax residents:

- Fees received under management contracts and
- Rental income or other types of income

from the use of or the right to use immovable property.

This requirement applies also to foreign legal entities deriving the specified types of income from a permanent establishment in the Republic of Bulgaria.

Local companies accruing income to foreign tax resident entities not exceeding BGN 500,000 per annum for which a reduced withholding tax rate was applied under an existing DTT must submit to the revenue authorities a standard tax return reporting the amount of income accrued and the withholding tax relief granted. The deadline for submission of the tax return is 31 March of the year following the reporting year.

The lump sum tax on expenses is payable by 31 March of the year following the reporting year. It is reported in the annual corporate income tax return.

Relief from tax

Foreign tax credits

The domestic tax law provides unilateral relief to taxpayers whereby a tax credit may be allowed for taxes paid abroad.

Tax treaties

Bulgaria has entered into a number of DTTs with other countries. For a detailed overview of the withholding tax rates applicable under the DTT network, see Appendix B.

Branch vs. subsidiary

Permanent establishments, including branches, are subject to tax on profits derived from Bulgarian sources. Effectively, there is no difference between the taxation

of branches and subsidiaries with respect to business profits.

The repatriation of after-tax profits generated by a permanent establishment, including a branch, is not subject to withholding tax.

Grouping/consolidated returns

The concept of a consolidated company tax return is not accepted under the Bulgarian legislation. Companies may not transfer their tax losses to other companies within a corporate group.

Partnerships

Partnerships are treated as incorporated entities for tax purposes. In other words, partnerships are non-transparent entities.

Alternative assessment

When taxable income cannot be reliably determined, it is assessed by the revenue authorities on the basis of a number of factors including the type of activities undertaken, duties and fees paid, bank account transfers, capital, turnover, profits of entities with similar activities and others.

Instead of being subject to a corporate income tax, state budget enterprises are taxed on their proceeds generated from their activities as well as from lease of property. Specific taxation rules also apply to certain activities of gambling companies and ship operating companies.

Anti-avoidance measures

Transfer pricing

Transfer pricing rules allow the revenue authorities to adjust the tax base where transactions are not made on an arm's length basis or where transactions aiming

at tax evasion have been performed. Therefore, when the transfer pricing rules are applied by the revenue authorities, additional income may be assessed or an expense may be disallowed.

The Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations of the Organization for Economic Cooperation and Development (OECD) have not been officially adopted for tax purposes in Bulgaria. However, in practice, the Bulgarian transfer pricing methods are, to a great extent, harmonized with the OECD methods.

The right to adjust profits extends to transactions involving Bulgarian branches and their foreign head offices as well as to foreign tax residents deriving income from a Bulgarian source that is subject to withholding tax in Bulgaria and Bulgarian tax resident entities which incur expenses subject to lump sum taxes in Bulgaria.

In addition, it is the obligation of taxpayers and not the revenue authorities to prove that the transactions are performed at an arm's length price which must be supported with documents.

Anti-avoidance provisions relating to business transformations

Generally, according to the provisions of the CITA, transposing Council Directive 2009/133/EC on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States ("the Mergers Directive"), business transformations between Bulgarian entities or involving entities of other EU Member States may be tax neutral under certain conditions, meaning that no corporate tax effects are to arise on

the date when the business transformation is performed.

However, the CITA includes certain provisions related to tax avoidance achieved through business combinations. It states that a business transformation will not be considered tax neutral if its purpose is to evade tax payment. Tax avoidance is also considered to exist in cases when the business transformation is not carried out for valid economic reasons or its purpose is to conceal the disposal of assets. In this case, following the general provisions of the CITA, it is possible that taxable gains may be realized upon disposal of the assets at market prices.

Hidden distribution of profits

According to the provisions of the Bulgarian CITA, amounts accrued, paid or distributed in any form by Bulgarian tax resident companies to shareholders, partners or another related party must be evidenced as part of the business activity of the local company. In addition, they must be determined at market levels. If these circumstances are not proven, the respective amount may be classified as a hidden distribution of profits.

Furthermore, interest expenses accrued by taxpayers are considered a hidden distribution of profit provided that at least three of the following four conditions are met:

- The amount of the loan facility for which interest expenses are accrued exceeds the equity of the payer of the interest as at 31 December of the previous fiscal year
- The repayment of the principal as well as the related interest due is not limited in time

- The repayment of the principal and the related interest or the amount of the interest due is made conditional upon the amount of the profits realized by the borrowing entity
- The repayment of the principal is made conditional upon satisfying the claims of other creditors or upon distribution of dividends.

If certain amounts accrued, paid or distributed by local taxpayers are considered hidden profit distribution, these would be treated as dividend distribution. The respective amount would not be recognized as deductible for corporate income tax purposes and a penalty could be imposed at a rate of 20% of the amount classified as a hidden profit distribution. The penalty can be avoided if the local taxpayer which has made a hidden profit distribution reports this circumstance in the corporate tax return for the respective year. Additionally, a 5% withholding tax could be levied if the deemed dividend is distributed to a foreign tax resident entity.

Corporate tax incentives

The corporate income tax incentives are granted in two forms – a corporate income tax retention and/or a tax reduction.

A corporate income tax incentive is granted to enterprises employing people with disabilities or unemployed people, and to those providing student scholarships which match certain criteria.

Taxable persons registered as farmers are also entitled to a corporate tax rebate up to 60% in the form of state aid for profits derived directly from the production of unprocessed plant and animal products, provided that certain conditions are met.

The tax relief for registered farmers can be applied for each of the years in the period 2014 – 2020 following a notice of receipt with the final identification number of the aid granted by the European Commission on 20 March 2015 in accordance with Commission Regulation (EU) No. 702/2014 of 25 June 2014.

Production companies investing in municipalities with an unemployment rate exceeding the average unemployment rate for Bulgaria by 25% are entitled to up to 100% corporate income tax retention. In order to benefit from the tax relief, a number of additional criteria have to be met. The tax relief for production companies investing in municipalities with a high unemployment rate under the regional state aid regime can only be applied for the period 2015 – 2020 following a positive decision of the European Commission for the approval of the tax relief as compatible with state aid regulation issued on 14 September 2015. Retention of tax is allowed only if an order/approval is issued by the Bulgarian Investment Agency (BIA) certifying the maximum allowed amount of the state aid (the retained tax), the intensity and term of the aid (the tax periods for which the retention of tax is allowed) and confirming the stimulating effect of the investment project. For that purpose, a designated application is to be filed with the BIA by the companies eligible to regional state aid tax relief before the start of implementation of the initial investment project.

The relief claimed under the *de minimis* state aid regime can be applied for the period 2014 – 2020 without a preliminary decision of the European Commission being required.

In addition, a positive decision by the European Commission is required for large investment projects where the total amount of tax incentives exceeds EUR 37.5 million (or EUR 18.75 million for projects in the Southwestern region).

Other tax incentives include:

- Tax neutral capital gains and/or losses resulting from the disposal of qualifying financial instruments, performed on the Bulgarian stock exchange or on a stock exchange in an EU/EEA Member State
- 50% retention of the corporate income tax of social security and health insurance funds, established by a law, for their business activity which is directly related or auxiliary to their main activity, provided that the retained tax is invested in the main activity by the end of the following year.

Taxation of individuals

Personal income tax

Residence

There are four criteria for determining the residence of an individual in Bulgaria for personal income tax purposes, of which three are mainly of significance for expatriates moving to Bulgaria: the permanent address, the 183-day rule and the center of vital interests.

Individuals who have a permanent address in Bulgaria or who are physically present in Bulgaria for more than 183 days in the course of a 12-month period are considered Bulgarian residents for tax purposes. The respective individual becomes a Bulgarian resident in the calendar year when their stay in the country exceeds 183 days. The days of departure and arrival are treated as

separate days of physical presence in Bulgaria.

An additional criterion for tax residence is the center of vital interests. Accordingly, individuals who have closer economic and personal relations to Bulgaria than to another country would be considered Bulgarian tax residents regardless of the duration of their physical presence in the country. The personal income tax legislation also specifies that the center of vital interests has priority over the permanent address criterion, i.e. if an individual has a permanent address in Bulgaria but their center of vital interests is abroad, they must not be considered a Bulgarian resident for tax purposes.

Bulgarian tax resident individuals are subject to tax on their worldwide income whereas non-resident individuals are subject to tax on their income derived from Bulgarian sources. Different residence rules may be provided for in applicable DTTs.

Income subject to tax

Individuals are subject to the following taxes on income:

- Employment income is levied with a flat 10% personal income tax rate. The tax on employment income is withheld by the employer at source on a monthly basis. Certain statutory tax deductions may be claimed against the gross income.
- Income received by partners in a partnership, cooperators and shareholders holding more than 5% of a company's capital in return for their personal involvement/work in the entity is treated as equivalent to employment income.

- Non-employment income (e.g. income received under civil contracts) is also subject to a flat 10% tax rate. Certain statutory tax deductions may be claimed against gross income (e.g., income received under civil contracts). The due tax is withheld and paid on a quarterly basis by the payer of the income if a legal entity duly registered under Bulgarian law. No tax is to be withheld and paid for the fourth quarter of the year unless specifically requested by the recipient of the income. In certain instances, the remittance obligation may also fall on the individual recipient themselves if (i) the payer is an individual or an entity not registered under the Bulgarian law and (ii) the recipient of the income under a civil contract is a self-insured person for social security purposes and has reported themselves as such to the payer (in this case, the status of the entity is of no importance). Under this scenario, the personal income tax on that income is again remitted on a quarterly basis (with the exception of the fourth quarter).
- In case of receipt of rental income, no remittance obligation arises for the payer of the income if the payer is an individual. The full responsibility for payment of the due tax charge is borne by the recipient of the income. Advance quarterly personal income tax installments are to be made in case of receipt of such income (with the exception of the fourth quarter). The final assessment is performed at year end with the annual Bulgarian personal income tax return. When the payer of the rental income is an entity or a self-insured person, then they have the obligation to calculate, withhold and remit at source on a quarterly basis (without the fourth quarter unless specifically requested by the recipient) the due tax charge on the income. This does not waive the obligation of the recipient of income to file an annual Bulgarian personal income tax return at the end of the year. A different treatment is applied in the case of payment of rental income by Bulgarian entities to condominiums. In these circumstances, a final one-off tax will be calculated, deducted and remitted by the payer of the income and no obligation for filing of an annual Bulgarian personal income tax return arises for the recipient of the income.
- Advance personal income tax on a quarterly basis is also remitted by the payer of the income if an entity or a self-insured individual with respect to other income (awards other than those provided by the employer, indemnity for benefits lost, non-bank interest, etc.) following the rules already specified above with respect to rental income (i.e. remitted quarterly for the first three quarters of the year by the end of the month following the respective quarter unless for the fourth quarter the individual has asked payments to also be made in which case withholding and remittance will continue).
- A 10% withholding tax applies to interest, rents, royalties, capital gains, management income, income received under franchise and factoring contracts, leasing installments under contracts according to which the ownership rights over immovable property are transferred, scholarships for studying in Bulgaria and abroad, indemnity for benefits lost, fees for technical services

accrued to non-resident individuals as well as income accrued by local legal entities to foreign sportspeople, scientists and artists. A lower withholding tax rate of 5% is levied on dividends paid by Bulgarian entities to non-residents. Should there be an applicable DTT in force, the rate of the withholding tax on the above mentioned types of income may be reduced. The tax base is the gross amount of income received. As of 1 January 2010, Bulgarian legislation allows EU and EEA nationals subject to Bulgarian withholding tax to calculate the tax base and the due tax following the same rules applicable to local residents, i.e. the application of deductions from gross income is possible through the filing of an annual Bulgarian personal income tax return.

- A withholding tax of 8% is due on interest income accrued on all types of bank accounts.
- A one-off tax of 5% is levied on Bulgarian individuals receiving dividends from foreign entities.
- A one-off tax of 10/7% is levied on early withdrawal of accrued voluntary social security/insurance contributions depending on the circumstances.

Specific rules apply with regard to taxation of capital gains arising from disposal of movable and immovable property.

It is also specified that no withholding tax is due on payments to residents of other EU Member States regardless of the fact that the types of income may fall in the scope discussed above should this income be exempt for Bulgarian tax residents.

Deductions

Certain payments decrease an individual's taxable income, including mandatory health insurance and social security contributions (made both to the local and foreign mandatory insurance systems), as well as personal voluntary pension, life and health insurance contributions to either local insurance funds or those registered under the jurisdiction of other EU/EEA Member States. The deductibility of such voluntary contributions is limited up to certain maximum thresholds.

Statutory deductions are provided for the recipients of different types of non-employment income (e.g. 25% for free lancers; 40% for royalties, inventions and products of science or art; 10% for rental income; 10% for capital gains received from the disposal of immovable property).

Deductions for donations to a list of special beneficiary organizations are also allowed provided that certain conditions are met. As of 1 January 2010, donations to EU organizations with an equivalent status to those listed in the local legislation are also deemed tax deductible.

Furthermore, provided that certain conditions are met, individuals may also deduct from their taxable income the value of the mandatory personal social security contributions paid during the year for accumulating additional length of service for pension (up to five years for the period of university education and/or in case of insufficient length of service upon pension).

As of 1 January 2009, the Bulgarian personal income tax legislation introduced a tax allowance for young families who have a mortgage. With this allowance,

the total taxable base of the tax liable person may be decreased with the interest installments paid on the first BGN 100,000 of the mortgage taken. There are certain requirements that have to be met in order for a young family to qualify for this allowance, e.g. at least one of the spouses must be under the age of 35 when the mortgage is entered into, the property must be the main residence of the family for the tax year and the mortgage agreement is in the name of at least one spouse. The fulfillment of these criteria must be evidenced by certain documents. The taxpayer is obliged to demonstrate that the necessary conditions have been met within the tax return form and will be responsible if that is not the case. As of 1 January 2014, the legislation specifies that individuals who are tax residents in other EU/EEA countries may also benefit from this allowance provided that the remaining conditions are met.

As of 1 January 2015, two further deductions are available: a child tax allowance with a decrease of the tax base by up to BGN 200 annually for the first three children and a tax allowance for a disabled child with an annual deduction of up to BGN 2,000 from the tax base. Taxpayers may benefit from these allowances through the annual reconciliation of employment income performed by the employer at year end or through the filing of an annual Bulgarian personal income tax return.

As of 1 January 2017, a new tax relief has been introduced, namely for the performance of cashless payments. It allows taxpayers to reduce their total annual tax liability by 1% but no more than BGN 500 should the following conditions be met:

- The individual received income subject to personal income tax during the tax year
- The above income in its entirety was received via a bank transfer
- At least 80% of the income received is spent through cashless transactions.

The relief may be utilized through the filing of an annual Bulgarian personal income tax return.

As of 1 January 2017, a further criterion is introduced in the legislation for the utilization of all deductions (with the exception of the statutory deduction applicable to certain types of non-employment income specified above): the individual benefitting from the deduction should not have any outstanding public liabilities subject to enforcement.

Exempt income

Exempt income includes state pensions, scholarships, certain state welfare payments, benefits/income received from the Bulgarian mandatory social security and health insurance system, an equivalent foreign institution or under a voluntary social pension plan, provided that the latter is registered in Bulgaria or in another EU/EEA Member State. Capital gains may also be tax exempt provided that certain conditions are met.

Accommodation and daily allowances paid on behalf of the employer/assignor to individuals under employment, management and civil contracts can be treated as non-taxable income depending on the type of business trip, the destination country as well as certain conditions such as documentary substantiation of the business trip and the expenses occurred.

Relief from tax

A tax credit may be used for foreign taxes paid provided that the relevant conditions are met. Relief from tax may also be sought under the provisions of an existing DTT depending on the specific method, i.e. tax credit or tax exemption with progression.

Tax rates and payment dates

The annual general flat tax rate applied for taxation of an individual's income is 10%.

Individuals who derive income from sources other than, or in addition to, income under an employment contract for which the employer has performed an annual reconciliation as at the year-end (including dividends received from foreign entities which are taxed with a one-off tax) must file an annual tax return by 30 April of the following calendar year. A tax return must also be filed if the individual owns shares/allotment in foreign entities/permanent establishments/immovable property regardless of whether a transaction was made with them during the respective tax year. In addition, such tax returns must be prepared by individuals who withdraw accumulated voluntary personal contributions prior to the expiration of the term under an insurance policy as well as in instances where an individual has received/granted a loan from/to non-financial institutions or individuals (where certain conditions are met).

The outstanding personal income tax as reported in the annual Bulgarian personal income tax return, if any, must also be paid within this filing deadline.

If the annual personal income tax return is filed electronically by 31 January of the following calendar year and the individual does not have any outstanding public liability subject to enforcement, a

deduction of 5% limited to BGN 500 from the outstanding tax liability is granted. The outstanding tax must also be remitted by 31 January.

As of 1 January 2017, the legislation provides for the possibility to file a one-off corrective tax return should a mistake in the return already filed be discovered. This should be done by 30 September of the year following the respective tax year.

Sole proprietors determine their taxable base and make advance payments in accordance with the rules for corporate taxation. The tax rate applied to this type of income is 15%.

Individuals performing certain activities (e.g., hotel accommodation, restaurant services, taxicab transportation, and other services) whose turnover for the previous year is below BGN 50,000 are instead subject to a lump sum license tax which is regulated by the Local Taxes and Fees Act.

Fringe benefits

Certain fringe benefits, such as canteen or food expenses like food vouchers provided to employees/assignees (under certain conditions), transportation cards, use of the employer's sports facilities or rest/holiday homes, are not taxable in the possession of the employee if provided as a social expense by the employer. However, social security and health insurance contributions are due on the amount of the fringe benefits provided as applicable for standard employment income.

Social expenses paid in cash are taxable as part of the individual's employment income as indicated above.

Other fringe benefits are treated as taxable for personal income tax purposes. The tax treatment of the specific benefit is to be considered on a case-by-case basis.

Payroll-related contributions

The burden of payroll-related contributions is not split between the employer and the employee via a single unified ratio. Instead, the ratios vary depending on the fund to which contributions are made and are as follows:

- 55:45 with respect to pension and additional mandatory pension insurance contributions
- 60:40 with respect to all other funds (health insurance, unemployment, general illness and maternity).

It is an obligation of the employer to withhold from employees' remuneration and to remit to the state budget the amount of the mandatory social security and health insurance contributions at the general rates presented below.

The contributions below are determined as a percentage of the gross employment income, up to the monthly ceiling of BGN 2,600, or BGN 31,200 annually. The minimum monthly insurable income varies depending on the type of economic activity performed by the company and the qualifications of the employee.

EU social security

Following Bulgaria's EU accession on 1 January 2007, the EU social security regulations (1408/71; 574/72) aimed at enhancing free movement of employees and prevention of double insurance of EU citizens entered into force and have precedence over the provisions of the local social security legislation and the already existing Social Security Agreements with other Member States. As of 1 May 2010, Regulation (EC) No. 883/2004 is applicable in Bulgaria to EU citizens. As of 1 January 2011, it became applicable to non-EU country nationals in most EU countries and it is currently also applicable with respect to cross border situations with Switzerland and EEA countries.

Persons and territories covered

The EU social security regulations are applied on the territory of the Member States of the European Union and the EEA, which comprises Iceland, Norway and Liechtenstein, together with Switzerland for cross border situations with Bulgaria. Furthermore, it should be pointed out that the EU provisions on social security do not apply to all individuals moving within the EU and the EEA. Generally, the following

Contributions	On behalf of employees	On behalf of employers	Total
Social security contributions	10,58%	14,22%*	24,80%**
Health insurance contributions	3,20%	4,80%	8,00%

* The total amount of social security contributions withheld on behalf of employers varies within the range of 14.12-14.82% depending on the economic activity performed by the respective entity.

** 5% of the mandatory social security contributions for individuals born after 31 December 1959 are payable to private pension funds licensed to provide additional mandatory pension insurance.

individuals would be covered under the regulations:

- Employed workers
- Self-employed persons
- Civil servants
- Students
- Pensioners
- Unemployed under certain conditions
- Family members and heirs, regardless of nationality
- Third country nationals.

In view of the above, no coverage under the EU social security regulations is provided to persons who are no longer insured under a social security system in any of the Member States and who are not considered immediate family to an employed or self-employed person or a pensioner. These individuals are deemed non-active persons.

Main principles

The main principle of the EU social security regulations is to ensure that individuals fall under the jurisdiction of only one Member State at a time. Usually, this is the Member State where the person is physically performing their work or where they act as a self-employed person. However, certain exceptions exist in instances where (i) the persons are moving within EU Member States on short-term assignments, (ii) they are simultaneously working in more than one state and (iii) they are simultaneously employed in one state and self-employed in another. In these cases, special rules apply with respect to determining the relevant social security system.

The EU social security regulations also aim to avoid discrimination in social security matters, i.e. individuals temporarily or permanently moving to an EU country for social security purposes must be treated no differently than local citizens of that Member State.

Property transfer, gift, inheritance and tourist taxes

Local taxes and fees are determined and collected by municipalities within the ranges set in the Local Taxes and Fees Act.

As of 1 January 2015, exchange of information is introduced between municipalities and the Ministry of Finance on a daily basis.

Transfer tax

Tax for the transfer of immovable property and automobiles is in the range of 0.1 – 3% and is levied on the value of the property. Transfer tax is also levied upon acquisition of real estate property or limited ownership rights related thereto as a result of the elapse of a prescribed time.

Property tax and garbage collection fees

Owners of immovable property situated in Bulgaria are liable to property tax. The tax is levied on the assessed value of the property, depending on its area in square meters and its location and for non-residential property owned by companies – on the higher of the assessed value and the book value of the property. The tax is levied at a rate within the range of 0.01 – 0.45%. A 50% tax rebate is allowed if the property is the principal residential property of an individual taxpayer.

Owners of immovable property also pay garbage collection fees. Garbage collection

fees are determined by the respective municipality. Properties which are not used for an entire year are exempt from garbage collection fee if this is declared in the previous year.

As from 1 January 2015, municipalities must notify tax liable persons of any tax liabilities by 1 March of the year in which they are due.

Transport vehicles tax

Owners of transport vehicles, including motor vehicles, ships and aircraft registered in Bulgaria, are liable to transport vehicles tax. Various criteria are used for calculation of the tax depending on the type of the transport vehicle, e.g. engine power, load-carrying capacity, number of seats, and maximum take-off weight. The tax is payable in two equal installments by 30 June and 30 October of the year in which it is due.

Gift and inheritance taxes

Certain individuals inheriting property situated in Bulgaria are subject to inheritance tax. The tax rates depend on the value of the property and the relationship of the beneficiary to the testator or donor. No inheritance tax is levied provided that the beneficiary is a spouse or immediate family member. A gift tax is levied on donated property, as well as on property transferred without consideration. No gift tax is levied on property donated to spouses and immediate family members.

The inheritance and gift tax rates are as follows:

- In the range of 0.4 – 0.8% for property inherited by/donated to brothers, sisters and their children

- In the range of 3.3 – 6.6% for inheritance/gifts (donations) between unrelated persons.

Tourist tax

A tourist tax is due from suppliers of overnight accommodation services on a monthly basis within the range of BGN 0.20 – BGN 3.00 for each overnight stay. The applicable tourist tax rate is determined by the respective municipality. The deadline for payment of the tourist tax is the 15th of the month following the month when the overnight accommodation was supplied.

Value added tax

The Bulgarian VAT legislation is generally harmonized with the EU VAT Directives and adopted the EU VAT rules based on the general principles of Directive 2006/112/EC. The latest amendments to the VAT Act came into effect on 1 January 2018.

Generally, VAT is due on any supply of goods or services with a place of supply in Bulgaria made by taxable persons in the course of their economic activities. "Supply" normally means goods or services provided in exchange for consideration. However, certain transactions carried out for no consideration are also considered to be supplies, for example, the private use of certain business assets.

The following transactions are generally subject to Bulgarian VAT:

- Supply of goods or services with a place of supply in Bulgaria
- Intra-Community acquisition of goods
- Import of goods into Bulgaria.

Tax regime and place of supply of goods

The location of goods at the time of the supply determines the VAT treatment. If the goods are located in Bulgaria, then the supply is subject to 20% Bulgarian VAT.

However, if goods are dispatched or transported, the place of supply is the place where the goods are located at the time when dispatch or transport of the goods to the customer begins.

Special rules apply for the supply of electricity, gas, heat or cooling energy which are treated as goods for VAT purposes.

Intra-Community supplies

If a Bulgarian VAT registered person sells goods to a customer who is registered for VAT in another EU Member State and the goods are physically transferred from Bulgaria (either by the supplier or by the customer) to another EU Member State, the supply is regarded as a zero-rated (exempt with credit) intra-Community supply. Documents, as prescribed by law, evidencing the physical movement of the goods from Bulgaria must be obtained in order to support the zero rating.

Intra-Community acquisitions

The acquisition of goods arriving in Bulgaria from another EU country by a taxable person or by a non-taxable legal entity when the goods are supplied by a taxable person identified for VAT in another EU Member State represents an intra-Community acquisition. VAT registered recipients of intra-Community acquisitions need to reverse charge VAT within the statutory term.

Exports

The export of goods to customers outside the EU is zero-rated, provided that certain transportation and documentation requirements are fulfilled.

Imports

The import of non-Community goods from outside the EU is subject to Bulgarian VAT and is payable by the importer to the customs authorities. Under specific conditions, import VAT may be “reverse charged” if the importer is granted authorization to apply such a regime in connection with the implementation of an investment project.

Supply of goods with installation

Goods coming from other EU Member States and delivered under supply and install arrangement are subject to VAT reverse charge by the Bulgarian recipient if (i) the supplier is established in another EU Member State and is not established in Bulgaria, and (ii) the recipient is identified for VAT in Bulgaria.

Place of supply and taxation of services

The place of supply rules with regard to services follow the principles laid down by Directive 2006/112/EC as regards the place of supply of services.

Generally, supplies of services fall into two regimes – B2B services, i.e. services provided by one taxable person to another, and B2C services, i.e. services provided by a taxable to a non-taxable person. The place of supply under the two regimes is determined by different sets of rules.

B2B regime of services

Under the B2B regime of services, the place of supply follows the place where the recipient is established or has a fixed establishment which receives the services. Thus, for cross-border supplies of services where the supplier is not established in the country of the recipient, VAT is usually due by the recipient through the reverse charge mechanism.

Exceptions to this rule include:

- The supply of services connected to immovable property is taxable where the property is located (including hotel and accommodation services)
- The supply of admission to cultural, artistic, sporting, scientific, educational, entertaining and other events is taxable where the event takes place
- The supply of passenger transport is taxable in the place where the transport takes place, proportionate to the distance covered
- The supply of services connected to short-term hiring of vehicles is taxable in the country where the vehicle is placed at the disposal of the client
- The place of supply of restaurant and catering services is taxable where the services are physically carried out.

Services provided to taxable persons but used for non-business purposes by the owner or the employees are to be treated as services provided to non-taxable persons (B2C).

B2C regime of services

Services provided to non-taxable persons are generally taxed at the place where the supplier is established. As exceptions to

this, the following services provided to non-taxable persons are considered to have their place of supply in Bulgaria:

- Services connected to immovable property located in Bulgaria
- Services related to cultural, artistic, sporting, scientific, educational, entertaining and other events taking place in Bulgaria
- Services related to valuation, expert examination or work on a movable tangible property taking place in Bulgaria
- Short-term hiring of vehicles if the vehicle is placed at the disposal of the client in Bulgaria
- Telecommunication, broadcasting and electronic services when the recipient is established, has their permanent address or usually resides in Bulgaria
- Transport of goods within the Community, including forwarding, courier and postal services, when the transport begins in Bulgaria
- Intermediary services, when the underlying transaction has a place of supply in Bulgaria

VAT rates

The standard rate of VAT, which applies to most taxable supplies, is 20%. Two reduced rates are applicable for specific supplies.

Zero VAT rate

Zero VAT rate applies to specific supplies such as:

- Intra-Community supplies of goods
- Supplies of goods transported or dispatched outside the European Community (exports)

- International transport of passengers and goods
- Certain supplies related to international transport
- Supplies of non-Community goods placed under a special customs regime (such as temporary warehousing, customs warehousing, inward processing, temporary importation with full exemption from duties)
- Services consisting in work on goods (such as processing or repair) when the recipient of the services is a person established outside the country and the goods are imported within the Community in order to be processed and after that re-exported
- Services rendered by agents, brokers and other intermediaries acting in the name and on behalf of a third person in relation to certain export transactions
- Import related services (such as commission, transportation and packaging) when their value is included in the customs value.
- Supplies related to education, sports and physical education
- Supplies related to culture and religions
- Non-profit activities of eligible institutions
- Certain transfers of land and buildings (with the option of charging VAT)
- Insurance services
- Financial services
- Gambling
- Valid postage stamps
- Supply of goods or services for which credit for input tax has not been used because of legislative provisions.

Registration for VAT purposes

VAT can be charged only by VAT registered persons. VAT registration cannot be retrospective, unless it is performed at the initiative of the revenue authorities when the taxpayer fails to submit a registration application on time.

Mandatory VAT registration for local supplies

Mandatory VAT registration applies for taxable persons, local or foreign, who perform taxable supplies with a place of supply in Bulgaria (excluding supplies for which VAT is to be reverse charged by the recipient) exceeding the registration threshold of BGN 50,000 for a period of 12 consecutive calendar months.

Zero-rated supplies count toward the VAT registration threshold as well. The taxable person must submit an application for registration within 7 days from the end of the tax period when the registration threshold was reached.

The application of the zero VAT rate needs to be substantiated by certain documents required by the law.

9% VAT rate

A reduced rate of 9% applies to accommodation in hotels, sheltered housing and other places for accommodation.

Exemptions

Exempt supplies include:

- Supplies related to health care
- Supplies related to welfare and social security

If the taxable turnover of BGN 50,000 is reached for a period not exceeding two consecutive months (including the current one), the application is to be submitted within 7 days from exceeding the turnover. If the taxpayer fails to submit the application within this time limit and the revenue authorities proceed with VAT registration ex officio, the person will be liable to pay VAT on the taxable supplies with which the turnover of BGN 50,000 is exceeded until the date of the registration by the revenue authorities.

Mandatory VAT registration for providing/receiving services

Subject to mandatory VAT registration are all taxable persons who (i) receive services from suppliers established abroad or (ii) provide B2B services to another EU Member State. A claim for VAT registration needs to be filed with the revenue authorities not later than 7 days before the tax on the supply becomes due.

The registration for providing/receiving services is a specific registration which does not entitle the taxpayer to deduct input VAT.

Mandatory VAT registration for supply of goods with assembly and installation

A taxable person established for VAT purposes in another EU Member State who is not established in Bulgaria and supplies goods assembled and installed by them or on their account in the country is obliged to register 7 days before the chargeable event takes place, irrespective of the threshold reached. This does not apply if the recipient is registered for VAT purposes in Bulgaria.

Mandatory VAT registration for intra-Community acquisitions

A taxable person or a non-taxable legal entity not VAT registered on other grounds is subject to mandatory VAT registration when performing intra-Community acquisitions if their total amount during a calendar year exceeds BGN 20,000 (no threshold applies for intra-Community acquisitions of new means of transport and excise goods). The VAT registration needs to be effected not later than 7 days prior to the acquisition with which the threshold is exceeded. The movement of own goods from one EU Member State where the taxpayer is identified for VAT purposes to Bulgaria creates an identical registration obligation.

Entities which are VAT registered on these grounds are obliged to charge and pay output VAT upon the intra-Community acquisition but are precluded to deduct input VAT. Furthermore, entities registered under this regime are not obliged to charge output VAT on the subsequent sale of goods.

Mandatory registration for supply of telecommunication, broadcasting and electronic services

Any taxable person who is not established in Bulgaria and provides telecommunications, broadcasting and electronic services to non-taxable persons who are established, have their permanent address or usually reside in Bulgaria is obliged to register in Bulgaria if

- They are not registered for the application of the “mini one-stop shop” special scheme in Bulgaria or in another EU Member State

- They are not registered for VAT purposes on mandatory, supply-and-install, distance sales and voluntary grounds.

The application for the VAT registration must be filed not later than the 10th day of the month following the month in which the taxable event of the first supply occurred.

Voluntary registration

Any taxable person not meeting the requirements for mandatory VAT registration has the right to register voluntarily without fulfilling threshold requirements.

“Mini one-stop shop” (MOSS) special registration and reporting scheme

Taxable persons established and registered for VAT in Bulgaria and providing telecommunications, broadcasting and electronic services to non-taxable persons established in another EU Member State may register voluntarily for MOSS in Bulgaria.

Non-EU taxable persons providing telecommunications, broadcasting and electronic services to non-taxable persons established in the EU, including Bulgaria, may register voluntarily for MOSS in Bulgaria if they are not registered for MOSS in another EU Member State.

Registration for MOSS can be performed electronically through a dedicated web-based application available on the website of the National Revenue Agency.

VAT registration procedure

Persons not registered for general tax purposes in Bulgaria may not register under the VAT Act. The general tax registration for local companies is automatic after

registration with the Commercial Register is obtained. Foreign persons not established in Bulgaria need to obtain a tax number for this purpose.

In order to register for VAT (under the mandatory or voluntary procedures), an entity must file an application with the relevant territorial directorate of the National Revenue Agency (NRA). The application must state the grounds for registration and must be submitted together with information about the monthly taxable turnover for the preceding 12 consecutive calendar months.

Foreign persons who are obliged to or wish to register may do it only by securing the services of a fiscal representative in Bulgaria. The fiscal representative is jointly and severally liable for the Bulgarian VAT liabilities of the foreign person.

This does not apply for foreign persons from EU Member States who may register without appointing a fiscal representative. If, however, they decide to appoint such, the representative will not be jointly liable for the foreign person's VAT liabilities.

Persons applying for VAT registration need to designate an email address for official communications with the tax office.

Deregistration

Voluntary deregistration following a mandatory registration is possible when, during the last 12 consecutive months before the current month, the taxable turnover of the registered person does not exceed BGN 50,000. However, voluntarily registered persons cannot apply for deregistration before the expiration of 24 months from the beginning of the calendar year following the year of registration.

Mandatory deregistration must be pursued in certain cases.

Obligations of VAT registered persons

Format of the VAT registration number

The format of a Bulgarian VAT registration number for legal entities is as follows: BG 123456789, where 123456789 represents the unified identification code from the Commercial Register or the general tax number.

Accounting records

VAT registered persons must maintain detailed accounting records which must be adequate for the determination of their VAT liabilities. The VAT Act does not provide for the form or the level of detail of the accounting information that has to be kept. The Accountancy Act, however, regulates this matter for foreign persons that have a permanent establishment in the country.

VAT returns

Each VAT registered person must submit VAT returns accompanied by purchase and sales ledgers. The tax period under the Bulgarian VAT Act is the calendar month.

The purchase and sales ledgers have to be prepared in prescribed formats and include detailed information about all transactions having relevance to VAT. The sales ledger lists all tax documents on the basis of which output VAT is applied or not applied (i.e. includes exempt and zero-rated transactions and reverse charged VAT). The purchase ledger contains all tax documents on the basis of which input VAT is claimed or not claimed (including reverse charged VAT).

The VAT return must be prepared on the basis of the information from the purchase and sales ledgers for the respective month. The deadline for submission of the VAT

return and ledgers is the 14th day of the month following the reference tax period.

Taxable persons registered for MOSS in Bulgaria must file quarterly VAT returns by the 20th day of the month following the reference calendar quarter. The VAT return must be filed electronically through a dedicated web-based application available on the NRA website.

European Sales List – VIES return

VAT registered persons have to file a VIES return if some or all of the following types of sales have been performed in a given month:

- Intra-Community supplies of goods
- Triangulation operations (if the supplier acts as an intermediary)
- Taxable services provided to taxable persons established in other Member States (including cases of received advance payments on such services)

A VIES return is to be filed together with the VAT return. The deadline for submission of the VIES return is the 14th day of the month following the relevant tax period.

The VAT return, the VIES return and the VAT ledgers must be submitted electronically only by using a qualifying electronic signature.

Intrastat Return

The Intrastat system in Bulgaria is regulated by the Intra-Community Trade Statistics Act and applies to the collection of data of intra-Community trade in goods, including the movement of goods as a result of dispatches from and arrivals to the territory of Bulgaria to/from other EU Member States.

Persons registered for VAT purposes in Bulgaria which carry out intra-Community trade with goods have to file an Intrastat return if they have exceeded either of the following thresholds from intra-Community trade:

- BGN 260,000 for dispatches
- BGN 430,000 for arrivals.

Entities must submit Intrastat returns every month starting from the month when the relevant threshold was exceeded in the current year.

The Intrastat returns are to be filed with the NRA by the 14th of the month following the month when the arrival/dispatch occurred.

Recovery of input VAT

A Bulgarian VAT registered person is entitled to recover input VAT in respect of taxable supplies from another VAT registered person or in respect of imported goods, if they are used for the purposes of:

- Taxable supplies liable to Bulgarian output VAT
- Zero-rated (exempt with credit) supplies such as the dispatch of goods to other EU Member States and the export of goods to third countries
- Supplies with a place of supply outside Bulgaria, insofar as input VAT would be deductible in relation to such supplies made in Bulgaria.

The input VAT claim must be supported with an invoice and also with a so-called reverse charge protocol (when the VAT is to be charged by the recipient of a supply) and/or with a Single Administrative Document (SAD) (in the case of import). The invoices and protocols must be issued in compliance with the Bulgarian VAT Act.

Special rules apply in respect to input VAT deductions in case taxpayers apply the cash accounting scheme. Specifically, eligible taxable persons applying this scheme can deduct input VAT once they have paid for the goods/services received. The input VAT deduction must be supported, in addition to the supplier's invoice, with a payment document and a special protocol issued by the supplier if the latter also applies the cash accounting scheme, or by themselves if the supplier does not apply the cash accounting scheme.

The right to input VAT of taxable persons receiving invoices from suppliers applying the cash accounting scheme will arise when they have paid for the goods/services received. In order to deduct input VAT on such invoices, the recipient needs to have, apart from the invoice, also a payment document and a special protocol issued by the supplier.

A VAT registered person is not generally entitled to recover input VAT on:

- Purchases used for the performance of VAT exempt supplies
- Purchases used for the performance of free-of-charge supplies (there are certain exceptions) or transactions outside the scope of the independent economic activity of the taxable person
- Purchases of passenger cars and motorcycles; fuel, repair and maintenance of such cars and motorcycles; excluding the acquisition of a passenger car or a motorcycle used for certain qualifying activities such as resale, leasing, security and taxi/ courier service. If the passenger cars and motorcycles are not used solely for qualifying services, the taxpayers will be

entitled to full input VAT deduction if the qualifying services represent more than 50% of the revenue generated by the taxpayer in the last 12 months

- Purchases used for representation or entertainment purposes.

A VAT registered person is entitled to pro-rata VAT deduction in respect of purchases which are used to perform both supplies qualifying for deduction and exempt supplies. The pro-rata deduction is based on the ratio of taxable supplies to total supplies calculated for the previous calendar year and adjusted on the basis of the current year's ratio calculated with the December VAT return. Taxpayers are allowed to calculate the partial VAT deduction for goods and services which are different from non-current assets by using an alternative to the pro-rata coefficient method.

Registered persons may claim a VAT deduction within 12 months from the end of the month in which the output VAT for the supply became chargeable. No specific limitation applies to supplies subject to reverse charge, but notifications to the tax office are needed for deductions claimed after this 12-month period.

Input VAT deduction on personal use of business assets

Proportional input VAT deduction is applicable upon the acquisition of non-current assets used for both business and private purposes. The business-to-private proportion is to be determined on the basis of a reasonable criterion which should guarantee the correct calculation of the amount of the input VAT to be deducted taking into account the nature of the assets.

“Non-current assets” for VAT purposes includes (i) immovable property, (ii) vehicles and (iii) goods and services which qualify or would qualify as non-current assets within the meaning of the Bulgarian Corporate Income Tax Act with a tax base upon their acquisition of BGN 5,000 or more.

The proportional input VAT deducted initially should be adjusted on a yearly basis upon changes in the use of the assets.

Reimbursement of VAT

If, in a given month, the input VAT deduction declared by the registered person exceeds the amount of output VAT charged, the excess amount is subject to reimbursement.

The VAT for reimbursement is offset against VAT payables in the following two months. If, after the two-month period, there is still an outstanding balance for reimbursement, it is due for refund by the revenue authorities within 30 days together with any other VAT for reimbursement declared in the monthly VAT returns in this two-month period.

Accelerated refunds are available to registered persons who during the last 12 months have performed the following supplies amounting to 30% or more of their total taxable turnover for the same period:

- Zero-rated supplies, and
- The following supplies having their place of supply in another EU Member State where the customer is VAT registered
 - Intra-Community transport of goods, forwarding, courier, postal and cargo handling and direct agency services related to such transport

- Valuations of and work on movable goods.

The term for the VAT refund is 30 days from the date of filing the VAT return.

The VAT is usually refunded after a tax review or tax audit by the revenue authorities, which could defer the refund until after the audit is completed. The tax audit could last up to five months. However, refund of VAT is allowed within five days despite any ongoing audit after a collateral in the form of cash deposit, government securities or irrevocable bank guarantee in favor of the revenue authorities. If any refund is postponed until the completion of the audit, the authorities owe interest for the period of delay.

VAT refund to persons identified for VAT in the EU and businesses outside the EU

Bulgaria has implemented the general provisions of the EU Directives in respect of VAT refunds to entities (i) established and registered for VAT purposes in other EU Member States (Directive 2008/9/EC), or (ii) established outside the Community (13th Directive 86/560/EEC).

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

The maximum period of time for which VAT reclaims can be made cannot exceed one calendar year. The minimum period cannot be less than three months unless this period comprises the remainder of the calendar year.

Refund under the 13th Directive

The 13th Directive refunds are based on reciprocity – the condition is that the country in which the person is established refunds VAT or similar tax to Bulgarian companies.

Bulgaria has reciprocity agreements with the following countries: Canada, FYR Macedonia, Iceland, Israel, Moldova, Norway, Republic of Korea, Serbia, Switzerland and Ukraine.

Taxable persons have a right to a refund if, during the year for which refund is claimed:

- They had neither a seat of their business nor a fixed establishment in Bulgaria and
- During the same period they did not perform transactions with a place of supply within Bulgaria except:
 - International transport and ancillary to it services
 - Supplies of goods and services for which the tax is due by the recipient.

The application must be made in the Bulgarian language and filed with the authorities by an appointed Bulgarian agent; the name and address of the person has to be written in the official language of the country where the person is established.

Applications must be accompanied by:

- A declaration that the person claiming refund is not established on the territory of the country
- A certificate issued by the competent tax authorities from the country in which the person is established, which

proves that the person performed economic activity during the calendar year when the right to reclaim VAT arose (this certificate must be translated into Bulgarian by a certified translator and legalized)

- The original invoices/SADs on the basis of which the VAT refund is claimed
- Written power of attorney.

Applications must be sent to the territorial director of the NRA Territorial Directorate – Sofia, located at 21 Aksakov Street, 1000 Sofia.

The right to reclaim VAT on purchases made in 2017 must be exercised by 30 June 2018.

Refund under Directive 2008/9/EC

Taxable persons have a right to refund Bulgarian VAT if during the period when VAT was incurred they:

- Had neither a seat of their business, nor a fixed establishment in Bulgaria and
- Did not perform transactions with a place of supply Bulgaria except:
 - Zero-rated supplies
 - Transport and ancillary services
 - Supplies of goods and services for which the tax is due by the recipient.

Refund is claimed by home state applications filed electronically with the local revenue authorities in the Member State where the respective person is established.

Applications to refund Bulgarian VAT and all accompanying documents must be completed in Bulgarian or English. Applications must be accompanied by:

- Codified description of the economic activities of the person

- Codified description of the goods and services purchased in Bulgaria
- Copies of invoices and SADs are not required but these need to be detailed in the application.

The right to refund is exercised personally or through an authorized representative.

The home state applications are referred to the NRA which has four months to issue its decision to accept or deny the claim. If additional documents are requested, the term for issuing the decision is extended by up to eight months from the submission of the claim. Following a positive decision, the claimed VAT must be reimbursed within 10 days to a bank account indicated by the person. The NRA owes interest for any delay after the 10-day term.

The right to reclaim VAT on purchases made in 2017 must be exercised by 30 September 2018.

Penalties

Penalties can be imposed by the revenue authorities in various cases of non-compliance, most notably for failure to charge output VAT, late charging of output VAT or failure to submit application for VAT registration.

Penalties in these cases are generally set at the amount of the underlying VAT not charged as a result of the failures (except for late charging of VAT – if the delay is within six months the potential penalty is 5% of the underlying VAT and if the delay is more than six months but within 18 months the potential penalty is 10% of the underlying VAT).

In addition to this, penalty interest on the unaccrued output VAT liability may be calculated for the period of non-payment. The penalty interest rate varies with

the prime rate of the Bulgarian National Bank and is 10.00% per annum as at the beginning of 2018.

In the case of a failure to apply the reverse charge mechanism, the penalty amounts to 5% of the underlying VAT, provided that the taxable person is entitled to input VAT deduction. The penalty is 2% of the underlying VAT if the reverse charge mechanism is applied with a one-month delay.

Customs duties

New European and Bulgarian customs legislation

The currently applicable EU customs legislation entered into force in the EU Member States, including Bulgaria, as of May 2016.

In this regard, Regulation 952/2013 or the Union Customs Code (UCC) is the main legal act in the field of customs matters. In accordance with the provisions of the Lisbon Treaty, the UCC is implemented through secondary legislation, namely Regulation 2015/2446 (the Delegated Act) and Regulation 2015/2447 (the Implementing Act). These acts, along with Regulation 2016/341 specifying transitional rules for certain provisions of the UCC, currently constitute the regulatory foundation of the Union customs policies. The Union Customs Code aims to gradually introduce improvements in the existing customs procedures at the European level as well ensure transition to an electronic EU customs environment by 31 December 2020.

On the domestic level, the customs issues are addressed with the Bulgarian Customs Act (CA) as well as additional sub legislative acts aimed to clarify operational

and technical aspects involving the local customs authorities and the economic operators.

Union and non-Union goods

Union goods are:

- Goods fully produced or manufactured within the customs area of the EU
- Goods imported from outside the customs area of the EU and released in the Union customs territory for free circulation
- Goods produced or manufactured within the customs area of the EU from the abovementioned categories of goods.

Non-Union goods are goods which do not meet the criteria for Union goods.

If Union goods are exported outside the customs territory of the EU, they lose their Union status. At the same time, in case Union goods are exported and subsequently re-imported within the customs territory of the EU, they will be treated as non-Union goods (i.e. subject to customs duties) unless it is proven that the imported goods are the same as those previously exported and, while outside the EU, they have not been subject to any operations except for such aimed at preserving their good condition.

As a member of the European Union, Bulgaria applies the EU customs policies toward third countries with the following main consequences:

- Non-Union goods imported in Bulgaria from countries or territories not forming part of the customs territory of the EU are generally subject to the same customs duties and formalities as those applicable to goods imported in any other EU Member State

- Union goods released for free circulation in the EU move from Bulgaria to other EU Member States and vice versa without application of customs formalities and without customs duty payment obligations.

Release for free circulation (import)

General procedures

When entering the customs territory of the EU, non-Union goods must be declared to the customs authorities and assigned a customs-approved treatment or use. Depending on the purpose, the goods may be released for free circulation by the Bulgarian customs authorities, i.e. imported in the country, or be placed under other customs procedure such as transit, storage in a customs warehouse, inward processing, etc.

Customs value

Usually the customs value of the goods is their transaction value, i.e. the price paid or payable for the goods. Certain adjustments to this price might be necessary (e.g. transport and insurance costs following the entry of the goods into Bulgaria must be excluded from the customs value). Alternative methods may be used, for example, where there is no sale, or where the relationship between the parties influences the sales price (e.g. related party transactions).

Classification of goods

The applicable Integrated Tariff of the European Community (TARIC) is based on the Community Combined Nomenclature and on the international Harmonized System used by many nations in the world. The respective classification of the goods

within the tariff determines the rate of duty applicable upon import and whether any special preferential treatment is available.

Origin of goods

The origin of imported goods and the route they take to the EU have considerable influence on their customs duty liability. If they originate from a country which has a preferential arrangements with the EU, the duty rate is reduced significantly or possibly to zero. The EU has such arrangements with various countries such as the EFTA countries, the European Economic Area, the Western Balkan countries, the Eastern Partnership countries, African, Caribbean and Pacific states, etc. Suspension of the full rate of duty may be available from specified countries at certain times of the year for particular goods. Similarly, a quota may be in force which allows predetermined quantities of goods within certain tariff headings to be imported at lower than the general duty rates.

Charges at importation

Customs duties are mainly charged on the customs value of the goods (ad valorem), although certain products are also liable to specific duties, assessed according to weight or quantity. A few items are subject to compound duties, i.e. a mixture of value-based and specific duties. The rate and type of duty applicable to an item is determined by its tariff classification.

Domestic VAT is also charged on import. Any such VAT paid may be recovered as input tax provided that (i) the importer is registered for VAT purposes in Bulgaria, (ii) the goods are intended for use in his VAT taxable business activities, (iii) the importer has an import customs declaration issued in his name which is properly

recorded in the VAT ledgers and (iv) the import VAT was effectively paid to the budget.

Export procedures

Goods to be exported must be declared to the customs authorities. In the general case, the exporter is an EU established person who, at the time when the customs declaration is accepted, holds the contract with the consignee in the non-EU country and has the power for determining that the goods are to be brought outside the Union.

From a VAT perspective, the export of goods to a destination outside the EU can be zero-rated provided that (i) the goods are transported outside the EU by or on behalf of the supplier or by or on behalf of the customer not established in Bulgaria and (ii) the exporter can produce the necessary evidence for export.

Special procedures

In accordance with the EU-wide rules, for customs purposes goods may be placed under special customs procedures allowing for suspension and/or reduction of the generally applicable customs duties and VAT. These procedures include external and internal transit, customs warehousing, free zones, temporary admission, end-use, inward and outward processing. The operation and monitoring of the special procedures in Bulgaria follows the provisions of the UCC and is administered by the Bulgarian customs authorities.

Excise duties

The main regulatory act in Bulgaria in the area of excise duties is the Excise Duty and Tax Warehouses Act (EDTWA). The EDTWA follows the concepts laid down in the main EU excise duty legislation such as

Directives 2008/118/EC and 2003/96/EC.

Taxable persons for the purposes of excise duties are authorized warehouse keepers, importers of excisable goods and other designated persons listed in the EDTWA.

Excise duty is charged on the following goods: energy products and electricity, alcohol and alcoholic beverages, tobacco products (including the heat-not-burn tobacco products introduced on the local market during the second half of 2017). Excise duty is usually charged on the basis of weight, volume and quantity of products. Exceptions are cigarettes for which the excise duty is calculated as a combination of specific duty (based on number of pieces) and ad valorem duty (as a percentage of the sales price).

Standard tax rates for various groups of products are explicitly determined in the law. Energy products for which no tax rate is specified in the law are taxed at the rate of equivalent products.

The excise goods are subject to excise duty at the time when they are produced or enter the territory of Bulgaria. The obligation for payment of the duty occurs when the respective goods are released for consumption. The accrual and payment of excise duty can be postponed, if the goods are produced, stored or moved under an excise duty suspension regime. Usually, goods are eligible for duty suspension if produced or stored in a tax warehouse. At the same time, certain excisable goods (alcohol, tobacco and some energy products) cannot be produced outside the territory of such a warehouse. Furthermore, the goods can move under duty suspension within and out of the territory of Bulgaria in the following cases:

- Movement of excisable goods between Bulgarian tax warehouses
- Movement of excisable goods between Bulgarian and EU tax warehouses
- Movement of excisable goods from a Bulgarian tax warehouse to an exit customs office in case of export
- Imported goods transported to a Bulgarian tax warehouse
- Other movements specifically listed in the EDTWA.

The movement of goods under duty suspension within the EU is monitored by the computerized Excise Movement and Control System (EMCS).

Insurance premium tax (IPT)

Bulgarian insurance premium tax (IPT) of 2% is charged on insurance premiums covering risks located in Bulgaria with the exception of exempt premiums collected on certain types of insurance contracts (e.g., life insurance, international transport and others). Taxable persons are local insurance companies and Bulgarian branches of foreign insurance companies established outside the EEA, Bulgarian branches of foreign insurance companies established in the EEA operating under the “freedom-of-establishment” principle and foreign insurers established in the EEA and acting by way of the “freedom-of-services” principle (FOS). The tax basis is the gross premium received by the insurer adjusted for certain discounts and/or fees. The tax event is the moment when the premium payment is collected by the insurer. IPT must be paid on a quarterly basis by the end of the month following the reference calendar quarter.

IPT liabilities are reported in standard tax returns each calendar quarter. IPT returns must be filed by the end of the month following the respective calendar quarter.

Registration of FOS insurers in Bulgaria is made on the basis of the first quarterly submitted IPT return in Bulgaria.

FOS insurers can appoint a fiscal representative who will be jointly and severally liable with them. Alternatively, they may settle their IPT liabilities directly or assisted by a local service provider as all reporting documentation is in the Bulgarian language.

Employment Regulations

Legislation

The major item of legislation that governs employment relations in Bulgaria is the Labor Code. The Labor Code regulates all major aspects of employment relations, namely:

- Conclusion, amendment and termination of employment contracts
- Working hours, absences and holidays
- Business travels inside the country and abroad
- Employment discipline
- Compensations and contractual liabilities of the parties to an employment contract
- Special protection for some categories of employees
- Procedure for collective redundancy of employees.

Legal requirements are also provided in the Healthy and Safe Working Conditions Act, the Encouragement of Employment Act, the Protection of Personal Data Act, as well as in a number of ordinances adopted on the basis of the Labor Code and the above laws.

One of the main goals of the Bulgarian employment legislation is to create a minimum level of protection for employees. Therefore, the Labor Code, as well as the other relevant Bulgarian legislation, contains numerous rules and regulations which are mandatory for an employer hiring employees in Bulgaria.

Employment contracts

Form of contracts and obligation for notification

Employment contracts must be in writing.

An employer is obliged to notify in writing the respective division of the National Revenue Agency of the following circumstances:

- The signing of each employment contract – within three days from the date of signing
- An amendment to the position of the employee or the term of the employment contract – within three days from the date of signing of the respective amendment or annex to the contract
- The termination of an employment contract – within seven days after its termination.

The Labor Code provides that a fine of BGN 1,500 to BGN 15,000 will be imposed on an employer for each case of non-performance of one of the above obligations for notification.

Types of employment contracts

The Labor Code regulates the following major types of employment contracts:

- Contracts concluded for an indefinite period of time (contracts with an indefinite term)

- Contracts concluded for a fixed period of time (fixed-term contracts), and
- Contracts with a probation period.

The most common and generally accepted type of employment contract in Bulgaria is the contract with an indefinite term. It gives better protection to the employee's rights and interests because it provides for more stable and long-term employment. Therefore, an employment contract concluded for an indefinite period of time cannot be transformed into a fixed-term contract without the prior written consent of the employee.

Under the fixed-term employment contract, the parties stipulate the period during which the contract shall be valid and binding. In order to better protect employees' rights and interests, the Labor Code provides that employment contracts can only have a fixed term in exceptional cases, as expressly specified by the law (e.g. for performance of seasonal or temporary activities, for completion of a specific project, for temporary substitution of absent employees and others).

If a contract is concluded for a fixed-term in breach of the relevant provisions of the Labor Code, it is deemed to be a contract of indefinite term.

A contract with a probation period is a specific type of employment contract which gives the parties the opportunity to assess whether the employee is capable of performing the work under the contract. A probation period clause may be included in both fixed-term contracts and contracts with an indefinite term.

The probation period can be in favor of the employer, the employee or in favor of

both parties. If the probation period is in favor of the employer, the employer will be entitled, during the probation period, to unilaterally terminate the contract without prior written notice to the employee and without the need to present any grounds for termination of the contract. If a contract with a probation period is not terminated by the employer as described above, then upon its expiration it becomes a "final" contract (fixed-term or indefinite) as specified by the parties to it.

Youth employment

The internship contract is explicitly regulated by the Bulgarian labor law and is set out in the Labor Code as a separate type of employment contract. Internship contracts can be concluded with high school or university graduates, persons younger than 29 years of age, who have no work experience related to their education or acquired qualifications. The internship contract may be concluded for a term of between six to twelve months. Young people shall be hired in internship positions corresponding to their qualifications and education and, after the termination of the contract, the employer shall provide the interns with recommendations, certifying the skills acquired during the internship.

Additional measures in relation to youth unemployment are included in the Encouragement of Employment Act. If certain requirements are met, employers who hire persons younger than 29 years of age, who are registered as unemployed, as well as primary school, school or university graduates without qualifications are entitled to receive financial resources for set periods.

Temporary employment through external agencies

The Labor Code contains provisions regarding the temporary work of external employees, according to which a company (temporary employer) has the right to temporarily employ an employee (temporary employee) of another company (temporary work agency). Temporary work agencies have the right to perform activities only upon registration before the Employment Agency.

Temporary work agencies have the right to sign with their employees only two types of employment contracts: (i) until completion of specific work and (ii) for temporary replacement of an employee who is absent from work. The individual employment contract must contain a clause that the employee will be seconded to work with the temporary employer, under its management and supervision. The total number of temporary employees may not exceed 30% of the total number of employees of the temporary employer.

The Labor Code regulates in details the rights and obligations of temporary work agencies and temporary employers. The relations between both companies shall be regulated by virtue of a written agreement, with contents specified in the Labor Code. The temporary work agency and the temporary employer are jointly liable for the obligations to the temporary employees, related to the work assigned.

Since January 2017, the legislation related to sending employees hired by a temporary work agency to a temporary employer in EU/EEA/Switzerland has been further detailed by the newly adopted Ordinance for the conditions and procedure for posting of employees

within the framework of provision of services. The ordinance regulates the specific content of the employment contract concluded between a temporary work agency and its employees, including employment remuneration, working hours/week, overtime work, official holidays, annual paid leave, travel expenses, allowances, etc.

Working hours

The Labor Code contains mandatory provisions which determine the regular working hours under an employment contract in Bulgaria. The regular working week is 40 hours, five working days of eight hours each.

These are in fact the maximum working hours that the parties to an employment contract can negotiate, unless otherwise provided for in the Labor Code. The law sets out mandatory limits for working hours within the working day and week in order to protect the rights of the employees and to prevent an employer from imposing extended working hours.

All exceptions from the regular working week are expressly stipulated in the law. A requirement to work more than the regulated hours is always compensated for by the employer, in a way provided for under the law.

Special regulations cover part-time work, open-ended working hours, shift work, including night shifts, and overtime. These provisions may vary depending on the labor category of the employee and the associated working conditions.

Holidays

In general, full-time employees are entitled to at least 20 days of annual paid holiday.

Certain categories of employees, as determined by the Council of Ministers, are entitled to extended holidays and/or additional holidays.

The employee is entitled to use annual paid leave at one time or in parts during the calendar year for which the leave applies upon a written approval by the employer.

The use of the annual paid leave may be postponed due to important reasons related to the business activities of the employer. In such cases, the latter is to give the employee the opportunity to use no less than half of the annual paid leave due for the respective year. Employees may also postpone the use of the annual paid leave, when they use other types of leave or upon their request and consent of the employer.

In case the leave is postponed and is not used within the calendar year for which it is due, the employer is obliged to ensure the use of the leave not later than six months from the end of the year for which it is due.

Upon termination of the employment relationship, the employee is entitled to monetary compensation for the unused part of the annual paid leave, the right of use of which has not been terminated due to expiry of the prescription period of two years.

The official holidays are listed in the Labor Code. The Council of Ministers can designate additional official holidays.

Personal data of employees

As per the law, employers collect certain information and keep documents related to the establishment, existence, amendment and termination of the employment relationships. The respective documents must be kept in the employment file

of each employee and some of the documents may be created and stored in electronic form.

The current data privacy legislation, applicable also to the rights and obligations of the parties to an employment relation, is now supplemented by Regulation 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data ("GDPR").

The GDPR applicable as of 25 May 2018 sets out new and more extensive regulation on various aspects of processing of personal data, including consent for processing, right to access and information, means of protection of personal data, notifications in cases of breach, etc. Accordingly, employers must implement appropriate technical and organizational measures and keep proper documentation evidencing at all times that they process the personal data of their employees in compliance with the new legislation.

The sanctions for breaches of the GDPR depend on the circumstances of each individual case and amount up to EUR 20,000,000. In the case of a legal entity, the sanction may also be up to 4 % of the total worldwide annual turnover of the preceding financial year, whichever is higher.

Medical check-ups

All employees must undergo periodical medical check-ups. Their frequency depends on the labor category, working conditions and the employees' age, as determined by the Minister of Health. The associated expenses shall be incurred by the employer.

Healthy and safe working conditions

One of the main obligations of the employer is to provide healthy and safe working conditions. The law aims to secure greater protection of the employee's life, health and working capacity by holding the employer responsible for the conditions under which employees have to carry out their employment obligations.

The labor legislation sets forth strict obligations of the employer in relation to the provision and maintenance of healthy and safe working conditions, which include but are not limited to:

- An assessment of risks to the health and safety of employees, which is to be performed by an independent specialized company
- Development of an overall and annual program to achieve the required healthy and safe working conditions based on the risk assessment
- Planning and performance of measures necessary for the prevention of possible risks, including but not limited to: constant technical maintenance of equipment, provision of collective and personal protective means for employees, informing employees of possible risks, providing protective food and/or antidotes for employees who work under unhealthy and harmful conditions
- Providing special training for employees on healthy and safe conditions.

The due performance of the above obligations by employers is subject to inspection and control by the competent authorities, which are entitled to impose

finances in case of non-compliance with the rules and the standards for healthy and safe conditions.

The Labor Code empowers the Minister of Labor and Social Policy to issue regulations regarding work-related health and safety conditions. These regulations may also be drawn up jointly with other ministries. Employers shall act in compliance with these regulations.

The Labor Code provides for a fine of between BGN 1,500 to BGN 15,000 for employers and a fine of BGN 1,000 to BGN 10,000 to the responsible persons at the employer company for each case of non-performance of obligations to provide healthy and safe working conditions.

Posting or sending of employees from Bulgaria to EU/EEA/Switzerland in the framework of provision of services

As per the Ordinance for the conditions and procedure for posting of employees within the framework of provision of services effective as of 10 January 2017, Bulgarian employers are obligated to conclude an additional agreement with employees prior to their posting to another Member State of the EU/EEA/Switzerland. The Ordinance defines a range of matters which must be regulated by the additional agreement. The additional agreement shall amend the employment relationship for the duration of the posting.

The legal provisions obligate each employer to ensure that the minimum working conditions are at least those applicable in the host country where the employees shall be posted (including minimum rates of pay), provided that these conditions shall not be less favorable for the posted

employee. The employers must notify every employee to be sent or posted regarding the minimum working conditions of the receiving country. For the term of the posting the employers shall not owe daily and accommodation allowances.

The above rules are not applicable in the cases of posting of employees to third countries (outside the EU, EEA and Switzerland).

Termination of employment contracts

Employment contracts may be terminated on general or specific termination grounds which may or may not require an advance notice. No notice is required if employment contracts are terminated by either party on one or more of the explicit grounds listed in the Labor Code.

When a notice is required for termination of the employment, the notice period may vary from 30 days up to three months. If the required notice period is not observed, a compensation is due.

In certain cases of unilateral termination of employment by the employer when the number of dismissed employees is to exceed the one provided by the Labor Code, a procedure for collective redundancy must be observed. This procedure is applicable in case of liquidation, staff reduction, decrease of the workload and other grounds for termination of employment by the employer. The procedure for collective redundancy includes mandatory obligations for the employer such as:

- To notify trade unions and employees of its intention to terminate the employment contracts

- To initiate consultations with employees in order to mitigate or avoid the consequences of redundancy
- To notify the Employment Agency and to participate in teams comprised by representatives of employees, the municipal authorities and the Employment Agency for the purposes of training of employees, initiating own business by the employees, participation of employees in alternative employment programs.

According to the Labor Code, a fine of BGN 1,500 to BGN 5,000 will be imposed on an employer and a fine of BGN 250 to BGN 1000 will be imposed upon the responsible official of the employer for each case of non-performance of any of the above obligations on notification to the employees.

Foreign nationals working in Bulgaria

In most cases, foreign nationals seeking employment in Bulgaria must obtain work permits and their employment contracts are fixed-term. Also their employment contracts must contain provisions which regulate accommodation expenses, medical treatment, insurance, transportation costs to and from the country of permanent residence and others. For a discussion of work permits, please refer to Chapter 8.

Foreign Nationals

Legislative framework and general principles

The legal status of foreign nationals in Bulgaria is governed by the Constitution of the Republic of Bulgaria, the Foreign Nationals in the Republic of Bulgaria Act, the Regulation on the Application of the Foreign Nationals in the Republic of Bulgaria Act, the Ordinance on the Terms and Procedure for Issuing Visas and Determination of the Visa Regime, the Labor Migration and Labor Mobility Act, the Regulation on the Application of the Labor Migration and Labor Mobility Act. Generally, the Bulgarian legislation concerning foreign citizens is in compliance with the EU legislation as related to immigration policy. Effective from 31 January 2012, Bulgaria unilaterally applies the Schengen acquis.

The Foreign Nationals in the Republic of Bulgaria Act applies to the foreigners who are not citizens of any Member State of the European Union, the States which are a party to the European Economic Area Agreement and the Swiss Confederation ("foreigners").

The legal status of citizens of any of the Member States of the European Union, the States which are a party to the European Economic Area Agreement and the Swiss Confederation ("European citizens") in Bulgaria is governed by the Entry, Residence and Departure of European Union Citizens and Members of Their Families from the Republic of Bulgaria Act,

as well as by the applicable Acts of the EU legislation.

European citizens who wish to enter and stay in Bulgaria do not need a visa. Foreigners are divided into two categories – those who must secure a visa when crossing the borders of the Republic of Bulgaria and those who are exempt from that requirement.

Visa requirements and the exemption of such requirements for foreigners are governed by EU legislation, agreements of the European Union with third countries for visa regimes and the effective Bulgarian legislation.

Foreigners who wish to reside in Bulgaria on a long-term basis (in any case more than three months within each six-month period) shall be issued a residence permit. European citizens who intend to stay in Bulgaria longer than three months are issued residence certificates instead of residence permits.

Foreigners may work in Bulgaria only after obtaining a work permit, unless otherwise stipulated by the law.

The Constitution of the Republic of Bulgaria provides that foreign nationals have all the rights and obligations accorded under Bulgarian law and international agreements ratified by Bulgaria, except in respect to those rights for which the laws explicitly require Bulgarian citizenship.

Under the Bulgarian law, foreign nationals are restricted in exercising the following rights:

Ownership rights: Foreign nationals do not have the right to acquire ownership title over land except: (i) under the terms of an international agreement ratified under the terms provided for in the Constitution of the Republic of Bulgaria, which has been promulgated and has entered into force, or (ii) through legal inheritance.

Since the seven-year transitional period from the date of accession of Bulgaria to the European Union expired on 31 December 2013, the citizens of EU/EEA Member States, regardless of whether they reside in Bulgaria or not, can acquire ownership title over agricultural land, forests and forestry land in Bulgaria.

According to the Bulgarian legislation, no special permissions are required for individuals who want to acquire ownership over premises and/or limited property rights over immovable property. This regime does not differ for citizens of EU/EEA Member States and citizens of other countries.

Political rights: Foreign nationals cannot be candidates for positions such as those of mayors, Members of Parliament, the president.

Pursuant to Article 42, paragraph 3 of the Bulgarian Constitution, the terms and conditions for participation of citizens of EU Member States in local elections in Bulgaria are set forth in a special law.

As from the date of Bulgaria's accession to the EU, citizens of EU Member States are entitled to vote for municipal councilors and mayors in Bulgaria. In order to take part in the elections, the citizens of EU

Member States over the age of 18 must have a long-term or permanent residence status in Bulgaria and must have resided in the respective municipality for at least six months preceding the date of elections, and they must not be exempt from the right to vote in another EU Member State, including Bulgaria. In addition, they must express their will to vote in writing.

A citizen of an EU Member State over the age of 18 can be elected as a municipal councilor provided that they meet the following conditions: (i) do not have citizenship in a non-Member State, (ii) have a long-term or permanent residence status in Bulgaria, (iii) have resided in the respective municipality for at least six months before the date of the elections, (iv) have not been deprived of the right to be elected in any EU Member States in which they are a citizen. However, only Bulgarian citizens are eligible to be mayors in the country.

There is a general rule that foreign nationals are obliged to observe Bulgarian laws and the established legal order, that they must be loyal to the Bulgarian state, and not derogate the prestige and dignity of the Bulgarian people. In this respect, foreign citizens residing in Bulgaria bear the same civil, administrative and penal responsibilities as Bulgarian citizens, unless otherwise provided for under a special law, or an international agreement to which the Republic of Bulgaria is a party.

Visas

According to the effective Bulgarian legislation, foreigners who are citizens of certain countries must obtain a visa before entering the territory of the Republic of Bulgaria. The visa is a clearance, issued

to foreigners, for entry and stay on the territory of the Republic of Bulgaria for a certain period of time.

The Ordinance on the Terms and Procedure for Issuing Visas and Determination of the Visa Regime, referring to Council Regulation 539/2001 of 15 March 2001 /L81/2001, and the relevant Regulations for its amendment determine the list of those countries whose nationals must be in possession of a visa when crossing the borders of the Republic of Bulgaria and those whose nationals are exempt from that requirement. In addition, there are certain countries whose nationals are exempt from the requirement of possession of a visa when crossing the borders of the Republic of Bulgarian by virtue of agreements concluded between the European Union and the said countries for granting exemption from the visa requirement. For foreign nationals of certain countries, the exemption from the requirement of possession of a visa when crossing the borders of the Republic of Bulgaria depends on the holding of a special type of a passport (e.g., a biometric passport).

On the grounds of a resolution of the Bulgarian Council of Ministers, until the date of Bulgaria's full accession to the Schengen zone, Bulgaria shall unilaterally apply a visa-free system for holders of valid Schengen visas and residence permits, and thus Bulgaria shall apply the Schengen acquis. Effective from 31 January 2012, holders of Schengen visas and/or residence permits shall be allowed to enter and reside short term in the Republic of Bulgaria without needing to have a Bulgarian short-stay visa.

Bulgaria unilaterally recognizes short-stay and long-stay visas and residence permits issued by Croatia, Cyprus and Romania.

The holders of such types of documents may enter and stay short term in Bulgaria without needing to have a Bulgarian short-stay visa.

Foreigners who are exempt from the requirement for obtaining a visa can enter and stay in the Republic of Bulgaria without a visa for up to 90 days within a period of six months. The entry and the short-term residence in Bulgaria of holders of Schengen visas and/or residence permits is limited to the period and the entries allowed in the respective visa/permit, but in any case holders of such documents may not reside in Bulgaria for more than 90 days in any six-month period. This also applies to holders of national short-stay and/or long-stay visas and residence permits issued by Croatia, Cyprus and Romania.

A valid visa is not a guarantee of entry into Bulgaria. The border control officers are entitled to determine whether a foreigner meets the requirements for admission. If the border control officers establish that a foreigner does not meet the requirement of the law, then the foreigner may be refused entry in the Republic of Bulgaria.

The Foreign Nationals in the Republic of Bulgaria Act provides for the following main visa categories: air transit visa, short-stay visa and long-stay visa.

An air transit visa is issued to a foreigner who travels by aircraft from a certain country and stays in the international transit zone of an airport on the territory of the Republic of Bulgaria with the aim of continuing their travel with the first next flight to a different country. Air transit visa allows a foreigner one, two or, as an exception, multiple entries in the territory of Bulgaria. An air transit visa can be with a validity term of up to three months from

date of issuance. A foreigner traveling with an air transit visa is treated as not admitted to the territory of the Republic of Bulgaria.

A short-stay visa is issued to a foreigner for the purposes of transit or planned stay on the territory of the Republic of Bulgaria. The short-stay visa can be issued as one-entry, two-entry or multiple-entry visa. The term of validity of the short-stay visa and the allowed period of stay are determined on the basis of examination of the conditions of entry and risk assessment during the examination of the visa application. The term of validity of the short-stay visa cannot exceed five years.

A short-stay visa for transit allows a foreigner who is on their way from one country to another to enter and stay in the territory of the Republic of Bulgaria for a period of up to two days, unless otherwise provided in an international agreement. The total length of stay of a holder of a short-stay visa for transit may not exceed three months within every six-month period.

A short-stay visa for planned stay allows a foreign national single or multiple entries into Bulgaria for up to 90 days within a period of six months. This type of visa is issued to foreigners who wish to enter and stay in Bulgaria for the purpose of short-term personal, business or other related visits. The purpose of the visits is usually proved with written invitations.

A long-stay visa allows a foreigner to enter into Bulgaria and thereafter to apply for a residence permit in order to stay long-term in the country. The validity of the long-stay visa is six months and it allows its holder a stay up to 180 days. For certain categories of foreigners, the validity of the long-stay visa is up to one year and allows the holder to stay up to 360 days (e.g. foreigners conducting scientific research, foreigners

posted on behalf of a foreign employer for performing specific tasks related to control and coordination of the implementation of a tourist services contract, foreigners posted on behalf of a foreign employer for making investments in accordance with the Encouragement of Investment Act and others).

The long-stay visa allows its holder multiple entries into the territory of the Republic of Bulgaria within its validity term.

All visa applications must be submitted to the respective Bulgarian diplomatic missions and consular departments around the world. In case there is no diplomatic mission or consular department in a certain country, visa applications can be submitted to such authorities of an EU Member State with which Bulgaria has an agreement for representation in acceptance of visa applications and issuance of visas. In exceptional cases (e.g., the state's interest or extraordinary circumstances), border control officers can issue single short-stay visas for transit visits with an allowed period of stay not exceeding two days, unless an international agreement provides otherwise, and single short-term visas for a planned stay of up to 15 days. The State Agency for National Security shall be immediately notified of the issuance of such visas.

An application for issuance of a long-stay visa is submitted only to the Bulgarian embassy or consular office in the country where the applicant permanently resides, or to such diplomatic missions and consular departments, which are accredited for the respective country. In exceptional cases (humanitarian reasons or extraordinary circumstances), the application for issuance of a long-stay visa can be submitted to Bulgarian diplomatic missions and consular

departments in other countries.

An important condition upon applying for a visa is for the applicant's passport to be in compliance with certain requirements of the law, namely: (i) the validity term of the passport shall expire at least three months after the planned date of leaving the territory of Bulgaria, (ii) the passport shall have at least two empty pages, and (iii) the passport is issued within the past 10 years.

European citizens who wish to enter and stay in Bulgaria do not need a visa. They enter and leave the country with a valid identity card or passport. They can stay and reside in Bulgaria for a period of up to three months starting from the date of their first entry without the need to obtain any permits or certificates.

Foreigners who are family members of European citizens may enter and leave the territory of the Republic of Bulgaria with a valid passport and visa, if such is required. Family members of a European citizen, who are not European citizens themselves, are exempt from the requirement of a visa only if they are in possession of a residence card issued by an EU Member State.

Residence permits, residence certificates and residence cards

Foreigners who wish to reside in Bulgaria on a long-term basis (in any case more than 90 days within each six-month period) are issued a residence permit.

European citizens who intend to stay in Bulgaria longer than three months are issued residence certificates.

Family members of European citizens, who are not European citizens themselves, who wish to reside in Bulgaria for a period

longer than three months, must be granted residence permits and obtain Bulgarian residence document (residence permit or residence card).

The certificates for European citizens, the residence permits for foreigners and the residence cards for European citizens' family members, who are not citizens themselves, are issued by the Migration Directorate at the Ministry of the Interior, the respective division as per the applicant's address of residence in Bulgaria.

Residence permits

The Foreign Nationals in the Republic of Bulgaria Act provides for three types of residence permits:

- Extended residence permits – with a term of validity of up to one year and the option of renewal after submission of an application
- Long-term EU residence permits – for an initial period of five years and the option of renewal after submission of an application, and
- Permanent residence permits – for an indefinite period of time.

In order to apply for an extended or permanent residence permit, a foreigner must initially obtain a long-stay visa.

The most common grounds for issuance of extended residence permits are:

- A foreigner who wishes to perform work after obtaining a permit from the Bulgarian Employment Agency
- A foreigner is a member of the management or supervisory body of a Bulgarian company, provided that such company for each foreigner has

employed at least 10 Bulgarian nationals on full-time employment contracts, maintained throughout the period of residence of the foreigner in Bulgaria

- A foreigner is a trade representative of a representative office of a foreign company registered with the Bulgarian Chamber of Commerce and Industry after verification and assessment of the submitted documents regarding the activity and tax compliance of the company, and regarding the planned activities of the representative office

The application for obtaining an extended residence permit with the supporting documents must be filed before the Migration Directorate not later than 14 days prior to the expiration of the term of the respective visa. Generally, applications are considered and reviewed within 14 days of their submission.

The extended residence permit can be renewed if the grounds for issuance still exist at the time of the renewal.

Once the foreigner is granted an extended residence permit, he/she may live, reside and travel in the Republic of Bulgaria while the permit is valid. The foreigner may freely choose and change his/her place of residence, or leave the country and enter it again.

Foreigners who have been granted status of a long-term resident in the Republic of Bulgaria can obtain long-term EU residence permits. Long-term resident status can be granted to foreigners who have resided legally and continuously (i.e. uninterrupted) on the territory of the Republic of Bulgaria for five years prior to the submission of the application for obtaining a long-term residence status. The expiration of the validity term of a long-

term EU residence permit does not result in losing the long-term resident status.

Permanent residence permits are issued to foreigners:

- Of Bulgarian descent
- Who have been married for more than five years to a foreigner with a permanent residence status in Bulgaria and have resided legally and continuously on the territory of Bulgaria for a period of five years (unless exempted from the requirement for extended residence)
- Minor or underage children of a foreigner with a permanent residence status in Bulgaria, who are not married
- Members of the family of a Bulgarian citizen if they have resided continuously on the territory of the Republic of Bulgaria in the last five years
- Who have invested in Bulgaria over BGN 1 million or increased their investment with such amount, through acquisition of shares in Bulgarian companies which are traded on the Bulgarian stock exchange, through acquisition of rights under concession agreements on the territory of the Republic of Bulgaria, or through acquisition of other securities or rights explicitly provided by the law
- Who have invested in Bulgaria over BGN 6 million in the capital of a Bulgarian company whose shares are not traded on the Bulgarian stock exchange
- Who are shareholders, representatives or employees occupying key or controlling position in a Bulgarian company which conducts business

activity in Bulgaria and obtained a special certificate for class A investment, class B investment or priority project from the Bulgarian Investment Agency

- Who invested over BGN 500,000 through a Bulgarian company in which the foreigner has invested the amount as capital, and as a result the company acquired fixed tangible and intangible assets amounting to BGN 500,000 and has employed at least 10 Bulgarian nationals for the term of the foreigner's residence in Bulgaria, etc.

The extended, long-term or permanent residence status of a foreigner is evidenced by the issuance of a Bulgarian personal document (residence permit) evidencing the right of residence in the Republic of Bulgaria.

Residence certificates

European citizens are issued two types of residence certificates:

- Long-term residence certificates – with a term of validity of up to five years, and
- Permanent residence certificates – for an indefinite period of time.

The grounds for issuance of long-term residence certificates are:

- A European citizen is employed or self-employed in the Republic of Bulgaria
- A European citizen has medical insurance and sufficient financial resources to cover the expenses for their residence and that of their family members without being a burden to the Bulgarian social security system, or

- A European citizen has enrolled in a school/college/university in Bulgaria for study, including professional training, and has medical insurance and sufficient financial resources to cover their expenses and that of family members without being a burden to the Bulgarian social security system.

In order to obtain a long-term residence certificate, the European citizen must submit an application to the Migration Directorate at the Ministry of the Interior within three months of their first entry in the Republic of Bulgaria.

Applications are considered and reviewed and the certificate must be issued on the day of submitting the application. The certificate contains the person's full name and the registration date. Upon their request, the applicant may receive a long-term residence certificate in the form of an ID card with their photo and personal number on it.

Permanent residence certificates are issued to European citizens who have resided continuously in the Republic of Bulgaria for a period of five years or who meet other special requirements set forth in the law. In order to apply for a permanent residence certificate, the European citizen must submit an application to the Migration Directorate at the Ministry of the Interior enclosing documents evidencing the necessary circumstances.

Residence cards

Family members of European citizens, who are not European citizens themselves, and who accompany or live with a European citizen, are entitled to receive an extended or permanent residence permit in the

Republic of Bulgaria, on the basis of their relationship with the European citizen.

A foreigner, who received an extended or permanent residence permit in Bulgaria, is issued a Bulgarian residence document (residence card) evidencing their right of residence in the Republic of Bulgaria.

Work permits

General rules

The main rules and procedures regarding the access to the labor market of foreigners are arranged in the Labor Migration and Labor Mobility Act (LMLMA), effective from 21 May 2016 (as amended from time to time), and the Regulation on the Application of LMLMA, effective from 30 September 2016.

In general, foreigners may work in Bulgaria only after being granted access to the labor market, unless otherwise stipulated by the law.

The LMLMA sets forth the following grounds for obtaining access to the Bulgarian labor market:

- A foreigner signs an employment contract with a Bulgarian employer
- A foreigner is posted to Bulgaria in the framework of provision of services
- A foreigner is seconded in the framework of an intra-corporate transfer
- A foreigner is performing activity as a self-employed individual.

The following main categories of foreigners who have received residence permits on the respective grounds cannot receive access to the Bulgarian labor market:

- A foreigner is a member of the management or supervisory body of a Bulgarian company, provided that

such company for each foreigner has employed at least 10 Bulgarian nationals on full-time employment contracts, maintained throughout the period of residence

- A foreigner is a trade representative of a representative office of a foreign company registered with the Bulgarian Chamber of Commerce and Industry after verification and assessment of the submitted documents regarding the activity and tax compliance of the company, and regarding the planned activities of the representative office.

European citizens may be employed, self-employed or posted and may work in Bulgaria without restrictions and without the need of work permits.

Additionally, the following main categories of foreigners are not required to receive a resolution for access to the Bulgarian labor market in order to perform work in Bulgaria:

- Foreigners granted a long-term or permanent residence status in Bulgaria and members of their families
- Family members of a European citizen
- Family members of a Bulgarian citizen.

Except for the cases where the foreigner will perform activities as a self-employed individual, the access to the labor market is requested by a local employer and a resolution for granting access is issued by the Bulgarian Employment Agency. In these cases, a number of legal requirements must be fulfilled for the access to be granted. Among them are:

- Limitation on the number of foreign employees: There is a mandatory legal requirement, pursuant to which the number of the foreign employees directly employed by the Bulgarian

employer may not exceed 35% for small and medium-sized enterprises with less than 250 employees and 20% for other types of enterprises of the average number of the Bulgarian nationals and EU/EEA/Swiss nationals and other categories of foreign nationals employed by the local employer over the last twelve months.

- Performance of a market search: When a local employer hires foreign nationals who are not EU/EEA/Swiss nationals, the employer is obliged to perform a market search before submission of an application for granting access to the market. The purpose of the search is to prove that there are no qualified and suitable candidates – Bulgarian or EU/EEA/Swiss nationals – for the relevant position. The exceptions to this requirement are exhaustively provided for in the law.

Bulgarian employers must report signed labor contracts with foreigners and European citizens at the National Revenue Agency within three days from their signing.

Single work and residence permit

A single work and residence permit shall be issued to the foreigners who apply to reside in Bulgaria for the purpose of work or who have already obtained a valid residence permit for purposes other than work.

In such cases, the foreigner concludes an employment contract with the local employer. For access to the labor market to be granted, the local employer shall perform market search as specified above. The requirement for the number of foreigners hired not to exceed 35% for small and medium-sized enterprises with

less than 250 employees and 20% for other types of enterprises of the average number of Bulgarian nationals and EU/EEA/Swiss nationals at the employer's enterprise is to be observed as well.

After a resolution for access to the market has been granted, the foreigner shall apply for the single work and residence permit in a uniform procedure before the Migration Directorate at the Bulgarian Ministry of the Interior. The permit consists the resolution for granting access to the labor market. The single work and residence permit shall be valid for the period of the employment contract but for not more than 12 months. The term of validity of the permit can be extended if the terms and conditions for its issuance are still valid, but the total duration may not exceed three years.

“EU Blue Card” residence and work permit

The EU Blue Card gives foreigners the right to reside and work in Bulgaria, provided that they have higher professional qualifications.

Applying for an EU Blue Card also requires an employment contract to be concluded with the local employer. The main precondition for a foreigner to obtain an EU Blue Card is that the foreigner has a university degree for at least a three-year educational course.

There is no requirement for the local company to perform market search, neither to observe the rule according to which the number of foreigners hired may not exceed 35% for small and medium-sized enterprises with less than 250 employees and 20% for other types of enterprises of the average number of Bulgarian nationals and EU/EEA/Swiss nationals at the local enterprise.

The law requires the gross salary of foreigners applying for and holding an EU Blue Card to be at least 1.5 times higher than the average salary in the country as per the official statistical data for the previous 12 months.

The EU Blue Card residence and work permit shall be issued by the Migration Directorate at the Bulgarian Ministry of the Interior and it incorporates the rights under the resolution for granting access to the labor market of the Employment Agency. The permit is granted for a term of validity not less than 12 months and for up to 4 years.

Intra-corporate transfer permit

Intra-corporate transfer is the temporary secondment of a foreigner for work or training purposes from an undertaking having its registered seat and address outside of the territory of Bulgaria, and to which the foreigner is bound by an employment contract prior to and during the transfer, to an entity belonging to the undertaking or to the same group of undertakings which is established in Bulgaria. The intra-corporate transfer applies only in case of relocation of managers, specialists and trainee employees.

There is no requirement for the local company to perform market search, neither to observe the rule according to which the number of foreigners hired may not exceed 35% for small and medium-sized enterprises with less than 250 employees and 20% for other types of enterprises of the average number of Bulgarian nationals and EU/EEA/Swiss nationals at the local enterprise.

The intra-corporate transfer permit shall be issued by the Migration Directorate at the Bulgarian Ministry of the Interior and it incorporates the right under the resolution for granting access to the labor market of the Employment Agency.

A foreigner transferred in the framework of an intra-corporate transfer may work and reside in the country for:

- Up to three years for managers and specialists
- Up to one year for trainee employees.

Seasonal employment permit

Another development in the Bulgarian legislation is the establishment of procedures that facilitate the entry of foreigners for performance of seasonal work. As per the LMLMA, seasonal work is the activity dependent on the passing of the seasons which is tied to a certain time of the year by a recurring event or pattern of events linked to seasonal conditions during which required labor levels are significantly above those necessary for usually ongoing operations.

Seasonal work permits shall be issued only for the activities enumerated in the list of the economic sectors with activities dependent on the passing of the seasons approved by the Minister of Labor and Social Policy.

For seasonal work, a foreigner shall conclude a fixed-term employment contract with the local employer. There is no requirement for the local employer to perform market search, neither to observe the rule according to which the number of foreigners hired may not exceed 35% for small and medium-sized enterprises with less than 250 employees and 20% for

other types of enterprises of the average number of Bulgarian nationals and EU/EEA/Swiss nationals at the local enterprise.

A seasonal work permit shall be issued by the Migration Directorate at the Bulgarian Ministry of the Interior and it incorporates the rights under the resolution for granting access to the labor market of the Employment Agency. The permit is issued for a period from 90 days to 9 months in one calendar year.

The law also provides for an option for performance of seasonal work for a shorter period, i.e. up to 90 days. For such short-term seasonal work, a one-off registration at the Employment Agency is to be performed on the basis of a declaration submitted by the local employer.

Work permit for posted foreigners

Foreigners temporarily posted to Bulgaria in the framework of provision of services may also work and reside in the country after the issuance of a work permit by the Bulgarian Employment Agency.

The work permit is issued for a term of maximum one year. The term may be extended for a new period of up to 12 months only by exception, when the respective activity requires prolongation of the initial term.

In case of short-term assignment, i.e. up to 3 months within a period of 12 months, instead of work permit, one-off registration is required.

Requirements for foreign employers posting their employees to Bulgaria in the framework of provision of services

The employers registered in a Member State of the EU/EEA, in Switzerland or in a third country who send their employees to Bulgaria in the framework of provision of services should notify the Bulgarian Labor Inspectorate prior to the commencement of the work activities. When the posted employees are non-EU/EEA/Switzerland nationals, they may work after obtaining the relevant work permits, where necessary.

The foreign employer should also ensure to the posted employees at least the same minimum working conditions as set out in the current Bulgarian legislation for employees performing the same or similar work. Also other obligations are set forth in relation of keeping the documentation concerning the assignment at the disposal of the authorities for certain period of time.

Public Procurement, Concessions, Antitrust and Competition

Public procurement

The principles, terms and procedures for award of public procurements are governed by the new Public Procurement Act (PPA) which entered into force on 15 April 2016, as well as by the Regulation for its implementation. The PPA implements Directive 2014/24/EU on public procurement and Directive 2014/25/EU on procurement by entities operating in the water, energy, transport and postal services sectors.

The public procurement regulations are applied by the Bulgarian contracting authorities in the process of spending resources not only from the state and municipal budget, but also from the European Structural and Cohesion Funds.

Public procurement activities

The range of activities included in the scope of public procurement are explicitly listed in the law and divided into three areas:

- Execution of works

- Supply of goods
- Provision of services.

The legislator has established certain forecast thresholds, above which the contracting authorities/entities are obliged to award public procurement contracts according to the terms and procedures stipulated in the Public Procurement Act (PPA). The thresholds are different for the public procurements conducted by the public contracting authorities, the contracting authorities operating in the defense sector, as well as for the sector contracting entities.

Public procurements at a forecast value below the established thresholds can be awarded on the basis of simplified terms, such as collection of offers by virtue of publication of a notice or through sending of invitations to selected persons.

Low-value public procurements may be directly awarded to the selected contractors without implementation of procedures.

Main participants

Public procurement procedures involve many stakeholders, among which are the contracting authorities/entities, candidates and/or tenderers (depending on what stage of the public procurement they participate), contractors and subcontractors.

Contracting authorities/entities

The contracting authorities/entities are divided into public contracting authorities and sector contracting entities.

The public contracting authorities include the representatives of governmental and municipal authorities, judicial and prosecution authorities, public organizations and medical companies, state or municipal ownership or where over half of their revenues come from the state and/or municipal budget, etc.

The sector contracting entities are the representatives of entities performing activities in the sectors of natural gas, heat, electricity, water supply, transportation, exploitation of geographical area and postal services.

Candidates/tenderers

Any Bulgarian and foreign legal entities and individuals, as well as any combinations of them, and any entities entitled to execute works or to supply goods or to render services under their national legislation, may participate in public procurement procedures and be awarded public procurement contracts.

The application process usually requires provision of many corporate and financial documents by the candidates/tenderers to the contracting authorities/entities, certifying the fulfillment of certain conditions, called selection criteria.

Documents evidencing the fulfillment of certain selection criteria have to be presented also by the subcontractors of the candidates/tenderers depending on the activities which the subcontractors will perform.

The criterion for selection of the successful participant in the public procurement procedure is the economically most advantageous tender.

Contractors and subcontractors

Upon completion of the public procurement procedure and selection of a contractor, a public procurement contract is concluded between the contracting authority/entity and the contractor.

If the selected contractor has declared in the public procurement procedure that it will use subcontractor(s), a subcontracting contract is concluded between the contractor and subcontractor(s). Notwithstanding the use of subcontractors, the contractor assumes the entire responsibility for the implementation of the public procurement contract.

Types of public procurement procedures

The public procurement procedures set out in the PPA are as follows:

- Open procedure – in which all interested candidates may submit an offer.
- Restricted procedure – a two-stage procedure in which short-listed candidates invited by the contracting authority/entity may submit an offer.
- Competitive procedure with negotiation – a two-stage procedure in which the contracting authority holds negotiations with invited short-listed candidates. The procedure may be conducted only if the

grounds explicitly listed in the PPA are met.

- Competitive dialogue – a three-stage procedure in which the contracting authority/entity invites short-listed candidates, holds dialogue with them and after that invites one or more of the candidates to submit final offers. The procedure may be conducted only if the grounds explicitly listed in the PPA are met.
- Negotiated procedure with a prior invitation for participation – a two-stage procedure in which the contracting entity holds negotiations with short-listed candidates invited to submit offers.
- Negotiated procedure with a prior notice – a procedure applicable for procurements in the defense and security sector in which the contracting authority holds negotiations with invited short-listed candidates. The negotiations may be held in consecutive steps, in order to decrease the number of reviewed offers, by applying the award criteria.
- Innovation partnership – a new two-stage procedure used where the contracting authority/entity needs innovative goods, services or works. At the first stage, short-listed candidates are invited to submit final offers. After negotiations held with the candidates, an innovation partnership agreement is concluded with the selected candidate.
- Negotiated procedure without prior notice – in which the contracting authority holds negotiations with one or more persons selected by it for the purpose of determining the terms and conditions of the agreement. The procedure may be conducted only if the grounds explicitly listed in the PPA are met.
- Negotiated procedure without prior invitation for participation – in which the sector contracting entities hold negotiations with one or more persons for the purpose of determining the terms and conditions of the agreement. The procedure may be conducted only if the grounds explicitly listed in the PPA are met.
- Negotiated procedure without publication of a prior notice – which can be conducted only in the cases explicitly listed in the PPA and if the subject of the public procurement is related to the defense and security sector.
- Design contest – a procedure in which the contracting authority/entity acquires a plan or design in specific fields (e.g. architecture, engineering) selected by an independent jury following a competition with or without the awarding of prizes. The design contest may be open or restricted.
- Public competition – in which all interested candidates may submit an offer. The procedure is conducted with regard to procurements of low value.
- Direct negotiation – in which the contracting authority/entity holds negotiations with one or more persons for the purpose of determining the terms and conditions of the agreement. The procedure is conducted with regard to procurements of low value only if the grounds explicitly listed in the PPA are met.

The above public procurement procedures are described generally. Some of them may be applied by the public contracting authorities, while others – by the sector contracting entities as explicitly specified in the PPA.

Appeal of public procurement procedures

The decisions, actions or omissions of the contracting authorities in a public procurement procedure until conclusion of the contract or the framework agreement may be appealed by the interested parties before the Commission for the Protection of Competition.

The resolutions of the Commission for the Protection of Competition are subject to appeal before the Supreme Administrative Court. The resolutions of the court shall be final.

Public Procurement Agency and Public Procurement Register

The Public Procurement Agency is the authority which is responsible for the state policy in the area of public procurement. It exercises various types of control over public procurements.

The Public Procurement Agency also keeps the Public Procurement Register which contains certain documents and information with regard to each public procurement, such as the decisions for initiation of public procurement procedures, notices of public procurement procedures, notices of the completion of public procurement contracts, etc.

Concessions

The conditions and procedure for award, implementation and termination of concessions in Bulgaria are regulated by

the new Concessions Act, effective from 2 January 2018, transposing Directive 2014/23/EU of the European Parliament and of the Council of 26 February 2014 on the award of concession contracts.

The concessions for extraction of underground resources are awarded pursuant to the Underground Resources Act, while the terms for award of mineral water extraction concessions are set out in the Waters Act.

The concession is a public-private partnership under which a public authority assigns to an economic operator the execution of construction or the provision/management of a service whereby the economic operator receives the right to use the construction, respectively to receive the revenues from the service by assuming the operational risk.

Objects of concession agreements

The objects of concessions is property which is state or municipal ownership. The objects of works and service concessions may be ownership also of the concessionaire or of a third party.

The types of concessions are:

- Works concession – for design and implementation, or only implementation of a construction project and exploitation of the completed construction
- Service concession – for provision or management of a service
- Concession for use of public state or municipal ownership - for performing economic activities with public state or municipal property against a remuneration without execution of works or provision/management of a service.

Participants in concession procedures

The contracting authorities under state concessions are the competent ministers, while the contracting authorities under municipal concessions are the respective mayors of municipalities.

Any Bulgarian or foreign individual, legal entity, or another formation, or a partnership among them, which meet the legal requirements set out in the Concessions Act and in the concession documentation may participate in a concession procedure and be awarded with a concession.

The concession agreement is concluded with the participant which is selected as a concessionaire in the procedure. Upon requirement of the contracting authority, or upon a request of the concessionaire, the concession agreement may be concluded with a project company established by the concessionaire. The contracting authority may also require the concession agreement to be concluded with a public-private company established by the participant selected as a concessionaire and the contracting authority.

Concession procedures

The concessionaires in concessions of transnational interest, i.e. works and service concessions having a value exceeding the threshold set out in the applicable regulation of the European Commission, may be selected through one of the following three procedures:

- Open procedure
- Competitive procedure with negotiation and
- Competitive dialogue.

The type of the procedure depends on the practical complexity of the concession.

The concessionaires in concessions without transnational interest, including works and service concessions below the European threshold and in concessions for use, are selected only through an open procedure.

The tenders and applications submitted by candidates and tenderers are evaluated by an evaluation committee appointed by the contracting authority. The award criterion applied by the evaluation committee is the economically most advantageous tender at the best price-quality ratio. The maximum term of the works and service concessions under the Concessions Act is 35 years, while the maximum term of the concessions for use of public state or municipal ownership is 25 years. The term can be extended for a period which shall be no longer than one-third of the initial term of the agreement.

Appeal of concession procedures

The decisions, actions or omissions of the contracting authorities in concession procedures may be appealed by the interested parties before the Commission for the Protection of Competition.

The resolutions of the Commission for the Protection of Competition are subject to appeal before the Supreme Administrative Court. The resolution of the court shall be final.

Concessions Register

The Council of Ministers keeps a public Concessions Register which contains information on each concession procedure from its initiation until the termination of the concession agreement.

Competition and antitrust regulations

The major competition and antitrust legislation in Bulgaria is the Protection of Competition Act (PCA).

The PCA applies to all enterprises engaged in activities in or outside Bulgaria if they prevent, restrict or distort competition within the country, or if they create risk to prevent, restrict or distort competition, as well as in cases of abuse of dominant position when negotiating.

An independent state authority, the Commission for the Protection of Competition ("the Commission"), monitors the compliance of the actions of enterprises, carrying out activities on the territory of the country, with competition rules.

The Commission is empowered to impose sanctions in cases of prohibited agreements, decisions and concerted practices, unfair competition, abuse of monopoly or dominant market position and abuse of superior bargaining power.

The Commission is also responsible for issuance of authorization of concentration of economic activities (e.g., mergers, acquisition of control, joint ventures).

The PCA has implemented Directive 2014/104/EU of the European Parliament and of the Council of 26 November 2014 on certain rules governing actions for damages under national law for infringements of the competition law provisions of the Member States and of the European Union. Therefore, it regulates the terms and procedure for claiming by individuals and legal entities of compensation for the harm suffered by infringements of competition law.

Any such claims may be filed before the competent Bulgarian courts under the terms of the Civil Procedure Code. The effective decisions of the Commission for the Protection of Competition and of the Supreme Administrative Court for establishment of an infringement of competition law shall be binding for the civil courts for the fact of the infringement and of the infringer.

Prohibited agreements, decisions and concerted practices

The PCA expressly prohibits and declares void all types of agreements between undertakings, decisions by associations of undertakings, as well as concerted practices of two or more enterprises having as their object or effect the prevention, restriction or distortion of competition, which:

- Directly or indirectly fix prices or other trading conditions
- Share markets or sources of supply
- Limit or control production, trade, technical development or investments
- Apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage
- Make the conclusion of contracts subject to acceptance by the other party of additional obligations or to the conclusion of additional contracts.

The Commission can initiate proceedings in case the undertakings conclude and apply such agreements, decisions or concerted practices upon its decision, upon request of an interested party or request of the prosecutor.

In case of the above infringements, the Commission is entitled to impose a sanction at the amount of up to 10% of the aggregate turnover of the undertakings or association of undertakings for the preceding financial year.

Abuse of monopoly or dominant position

The PCA generally prohibits granting of a monopoly position to any enterprise except in cases where such a position is authorized by the state by virtue of the law in accordance with the Constitution of the Republic of Bulgaria.

The PCA does not prohibit acquisition and holding of a dominant position on a relevant market; however, certain actions of enterprises, enjoying a monopoly or dominant position, are deemed abuse and therefore are prohibited by the law, namely:

- Imposing directly or indirectly purchase or sale prices or other unfair trading conditions
- Limiting production, trade and technical development to the prejudice of consumers
- Applying different conditions to identical types of contracts with regard to certain partners, thereby placing them at a competitive disadvantage
- Concluding contracts subject to acceptance by the other party of additional obligations or concluding additional contracts
- Unjustified refusal to supply a good or to provide a service to an existing or prospective client, aimed at hindering the economic activities performed by it.

In case the Commission finds in formal proceedings that an undertaking performs abuse actions, it is entitled to impose to the said undertaking a sanction of up to 10% of its turnover for the preceding financial year.

Abuse of superior bargaining position

The PCA prohibits any act or omission by an undertaking with a stronger bargaining position during negotiations which is contrary to good faith business practice and harms or may harm the interests of the weaker negotiating party and consumers.

The superior bargaining position shall be assessed by reference to the structure of the relevant market and the specific legal relationship between the undertakings concerned, taking into account the level of economic dependency between them, the nature of their activity and its difference in scale, the availability of alternative commercial partner, including the existence of alternative sources of supply, distribution channels and/or clients.

The abuse of superior bargaining position is penalized with a sanction of up to 10% of the turnover of the infringer generated from sales of the respective product in the preceding financial year. The sanction shall be of an amount not exceeding BGN 10,000. If the company which committed the infringement has not generated turnover, the Commission shall be entitled to impose a sanction ranging from BGN 10,000 to BGN 50,000.

Control on concentration of economic activities

Concentration of economic activities may have the following forms:

- Merger or takeover of two or more independent enterprises
- Acquisition of direct or indirect control over a particular enterprise
- Creation of a joint venture that performs all functions of an autonomous economic entity on a lasting basis.

The law imposes on the enterprises participating in the concentration an obligation for a prior notification to the Commission, where the aggregate turnover of the enterprises realized in Bulgaria in the preceding financial year exceeds BGN 25 million and provided that at least one of the following conditions has been met:

- The turnover of each of at least two of the participants in the concentration realized in Bulgaria in the preceding financial year exceeds BGN 3 million, or
- The turnover of the enterprise – subject to acquisition realized in Bulgaria in the preceding financial year exceeds BGN 3 million.

If the participants in the concentration fail to notify the Commission, although they have the obligation to do it, a sanction may be imposed on them of up to 10% of the turnover of the participants for the preceding financial year.

In a simplified procedure, the Commission authorizes the concentration within 25 business days from initiation of the concentration proceedings, provided that the concentration does not result in the creation or strengthening of a dominant position that would significantly impede effective competition on the market.

Where the Commission identifies in the simplified procedure that there are serious

doubts that the concentration will result in the creation or strengthening of a dominant position that would significantly impede effective competition on the market, it can initiate thorough proceedings lasting for a period of four months in order to further investigate the consequences of the concentration.

Prohibition of unfair competition

The PCA establishes a general prohibition for unfair competition, which represents any act or omission which is contrary to good faith business practice and harms or threatens to harm competitors' interests.

Prohibited are also the specific forms of unfair competition, such as harming competitors' reputation, deliberate misleading, misleading and comparative advertising, imitation, unfair soliciting of customers and disclosure of industrial and trade secrets.

Infringements constituting unfair competition are penalized with a sanction of up to 10% of the turnover of the undertaking which has committed the infringement for the preceding financial year.

Supervision of the Bulgarian National Bank over the activities of credit and financial institutions

The Bulgarian National Bank is the state body which exercises supervision over banks and financial institutions and the compliance of their activities with the rules established by the Credit Institutions Act and the respective ordinances of the BNB.

In cases of violation of provisions of the law or other acts, the BNB is empowered to impose certain measures on banks, such as: issuance of written warnings and

orders to eliminate violations, prohibition of certain transactions, prohibition on foreign banks to carry out activities on the territory of Bulgaria and the appointment of conservators for a certain period. As a final and exceptional measure, the BNB also has the right to withdraw banks' licenses or other permits.

The BNB supervision also covers those activities of Bulgarian banks carried out abroad, as well as local activities of branches of banks from Member States or third countries. In exercising its supervisory powers, the BNB shall cooperate with the relevant supervision authorities of the Member States/countries concerned.

Investment intermediaries in Bulgaria

The activities of investment intermediaries in Bulgaria and the supervision exercised over them by the Financial Supervision Commission are regulated by the Markets in Financial Instruments Act.

In order to comply with the legislation, investment intermediaries must meet the following requirements before starting their activities:

- Be registered as a joint-stock company or a limited liability company with a seat and registered address in Bulgaria
- Be granted a license by the Bulgarian Financial Supervision Commission
- Have an initial paid-in capital, at an amount depending on the type of services to be offered.

Investment intermediaries may not conduct any other commercial activity as a regular occupation or business on a professional basis, save for certain exceptional cases, as

provided for in the law. This restriction does not apply to credit institutions, licensed to perform activities as an investment intermediary by the Bulgarian National Bank.

Foreign investment intermediaries having their seat in a Member State, which have obtained licenses for performing such activities by the competent authorities in the respective Member State, may provide services as investment intermediaries in Bulgaria. The activity can commence only after the Bulgarian Financial Supervision Commission obtains the necessary information from the competent home state authorities.

In the course of performing activities in Bulgaria, investment intermediaries must comply with the Bulgarian legislation, provides to the Financial Supervision Commission and publish all required documents and information with regard to their activities in Bulgarian language. Investment intermediaries must also inform the National Revenue Agency about any transactions concluded by them with regard to the acquisition of shares in the capital of public companies by companies registered in preferential tax jurisdictions, as well as by their beneficial owners.

The new Markets in Financial Instruments Act, which entered into force on 20 February 2018, introduces the figure of the tied agent – an individual or legal entity, which, against remuneration, provides and performs a limited scope of investment services/activities, on behalf of and for the account of an investment intermediary. One tied agent may act on behalf of no more than one investment intermediary.

The performance of activities as a tied agent is subject to preapproval by the FSC.

Tied agents are not prohibited from performing another commercial activity as long as the latter does not harm the investment services they provide.

Insurance companies and insurance intermediaries in Bulgaria

Insurance activity in Bulgaria, including the requirements for performing insurance activity by insurers from Member States and third countries on the local market is regulated by the Insurance Code (IC), which transposes the insurance directives of the European Union, including Solvency II Directive.

Pursuant to the provisions of the IC, an insurance company licensed in a Member State may carry out activity in Bulgaria on the basis of the freedom of establishment or the freedom to provide services principles, provided that this activity is covered by its license. Before commencing activity, the insurer must perform a regulatory procedure which involves notification to the Bulgarian regulator – the Financial Supervision Commission. The notification must be performed by the home Member State regulator upon request of the insurer.

Insurers from third countries (non-EU countries) may perform insurance activities in Bulgaria by registering a local branch, which needs to receive an insurance license by the Financial Supervision Commission. This scope of the license to be granted to such a branch may not exceed the scope of the insurance license of the respective third-country insurer which registered the branch.

Pursuant to the IC, an insurance intermediary may be an insurance broker or an insurance agent, who carries

out insurance intermediation against remuneration. A mandatory requirement for performing insurance intermediation activities is registration of the broker/agent into a special register maintained by the Financial Supervision Commission.

Limitations on cash payments

Limitations on cash payments are imposed by the Cash Payments Act to ensure that payments are recorded in their real amounts.

As a result of its enactment, all payments in Bulgaria of an amount equal to or exceeding BGN 10,000 must be executed only via transfer or deposit to a payment account. The same rule shall be applied to cases where the payment is of an amount lower than BGN 10,000, but represents part of a monetary obligation under an agreement whose total amount is equal to or exceeds BGN 10,000. The limitations are also applicable for payments in a foreign currency equal to or exceeding the equivalent of BGN 10,000 as per the Bulgarian National Bank's exchange rate as of the date of payment.

The scope of the Cash Payments Act excludes cash withdrawals/deposits from/to personal payment accounts (including from/to personal payment accounts of spouses, lineal relatives, legally incapable individuals or individuals with limited capability), as well as payments of employment remuneration due as per the Labor Code and cash transactions with foreign currency carried out by an exchange bureau.

Foreign exchange regime

Generally, the foreign exchange regime in Bulgaria is regulated by the Foreign

Exchange Act and regulations, issued by the BNB, the Minister of Finance and others.

Registration regime

Generally, the foreign exchange regime in Bulgaria is regulated by the Foreign Exchange Act and regulations, issued by the BNB, the Minister of Finance and others.

International payments and transfers

Certain types of transactions have to be declared at the Bulgarian National Bank not later than 15 days after their execution. These include:

- Granting of loans between local entities and foreign entities/individuals
- Remitting securities abroad by a local entity and/or purchasing securities without the assistance of a local investment intermediary
- Opening of a bank account abroad, regardless of the amount of money transferred to the account
- Making initial direct investments of local persons abroad, regardless of the amount of the investment.

International payments and transfers

Commercial banks in Bulgaria may execute cross border bank transfers and payments by local persons to foreign persons from a third country (a country which is neither an EU Member State nor part of the EEA) only after being presented with documents evidencing the purpose of the transfer and a declaration in a prescribed template.

The Payment Services and Payment Systems Act provides for the possibility

entities other than banks, called “payment institutions,” to act as providers of payment services. Pursuant to the Payment Services and Payment Systems Act, a payment institution is a joint-stock company or limited liability company, conducting one or more payment services under a license issued by the Bulgarian National Bank. Depending on the type of payment services offered, the initial share capital could vary between BGN 40,000 and BGN 250,000.

Pursuant to the provisions of the Payment Services and Payment Systems Act, a payment institution licensed in a Member State is entitled to carry out activities in Bulgaria included in its license through a branch, representative or directly, provided that the BNB has been notified by the relevant Member State regulator.

Customs foreign exchange register

Customs authorities are obliged to keep registers of commercial credits, financial leasing between local and foreign persons, and of export and import of Bulgarian levs, foreign currency in cash and bearer payment instruments which are subject to declaration.

Local and foreign individuals may import and export unlimited amounts of Bulgarian levs, foreign currency in cash and bearer payment instruments, provided that they observe the requirements established under the Foreign Exchange Act.

If the imported/exported currency amount is less than EUR 10,000 or its equivalency in another currency, no customs declaration is required. In case the amount is EUR 10,000 or more and shall be imported/exported to a country which is not part of the European Union, the individual

is obliged to declare the owner and the receiver of the amount, its kind, value, origin and purpose, as well as the transport vehicle and route. If currency at the amount equal to or exceeding EUR 10,000 shall be imported/exported to an EU country, the declaration is necessary only upon request from the customs authorities.

In cases of export of amounts equal to or exceeding BGN 30,000 in cash, local and foreign individuals are obliged to declare before the customs authorities the amount and origin of such cash and bearer payment instruments included, by presenting a certificate issued by the respective territorial directorate of the National Revenue Agency, certifying that they do not have any outstanding or overdue liabilities. In the latter case, if the amount is exported by a foreign individual and does not exceed the amount of currency imported and declared by them, only the amount and type of cash bearer payment instruments must be declared.

The export and import of Bulgarian levs and foreign currency in cash by mail is forbidden, except for mailings of declared value. This limitation does not apply to the BNB and commercial banks.

The Foreign Exchange Act also includes specific requirements regarding the production, processing and trading of precious metals and gemstones, and their import and export.

Register of the bank accounts and safe deposit boxes

The Bulgarian National Bank maintains an electronic Register of the bank accounts and safe deposit boxes, containing information about all bank accounts and safe deposit boxes opened by/kept at Bulgarian commercial banks, namely

the account numbers, their holders and the persons having disposal rights over the accounts, as well as the deposit box holders and the persons authorized by them.

Bulgarian banks have the obligation to report the above information with regard to the accounts opened at them and deposit boxes kept by them to the Bulgarian National Bank at least once a month.

Reporting to the Bulgarian National Bank

Local companies and sole proprietors are required to report the following to the Bulgarian National Bank on a quarterly basis: (i) operations and changes in the amount of a financial loan, received by or granted to a foreign person, in case the loan is equal to or larger than BGN 500,000, or its foreign currency equivalent; (ii) operations with and current balances of bank accounts opened abroad; (iii) receivables from and obligations to foreign persons with regard to commercial loans and other transactions, which are not financial loans, which exceed BGN 200,000 or its foreign currency equivalent; (iv) operations with foreign persons, related to services, remunerations and gratuitous revenues and payments, in case a written request by the Deputy Governor in charge of the Banking Supervision Department, or a person authorized by them, has been introduced.

Local companies and sole proprietors are required to report on an annual basis: (i) the operations, residues and other changes in the amount of the received/granted financial loans, whose amount is between BGN 50,000 and BGN 500,000 or its foreign currency equivalent, and (ii) direct investments in real estate abroad.

Local individuals must provide the BNB with annual reports on their receivables from, and liabilities to, foreign parties for financial credits, their receivables under bank accounts opened abroad, as well as investments in securities, which have been made without a local investment intermediary, provided that the total amount of the said receivables, bank accounts and investments in securities is equal to or exceeds BGN 50,000 as of 31 December of the previous calendar year.

The following must be reported to the BNB on a monthly basis:

- Real estate transactions between local and foreign persons, where the statistical forms must be submitted by the notaries who recorded the deeds
- Information for any securities owned by local legal entities, which belong to the Financial Corporations sector (within the meaning of Regulation (EU) No. 549/2013, for example credit and financial institutions, insurers, investment companies and others).

Appendix A

Bilateral Agreements for the Mutual Protection and Encouragement of Foreign Investment

Albania	Latvia
Algeria	Lebanon
Argentina	Libya
Armenia	Lithuania
Austria	Macedonia
Bahrain	Malta
Belarus	Moldova
Belgium-Luxembourg	Mongolia
China	Morocco
Croatia	Netherlands
Cuba	Poland
Cyprus	Portugal
Czech Republic	Romania
Denmark	Russian Federation
Egypt	San Marino
Finland	Singapore
France	Slovakia
Georgia	Slovenia
Germany	Spain
Greece	Sultanate of Oman
Great Britain and Northern Ireland	Sweden
Hungary	Switzerland
India	Syria
Indonesia	Thailand
Iran	Tunisia
Israel	Turkey
Italy	Ukraine
Jordan	United States
Kazakhstan	Uzbekistan
Korea	Vietnam
Kuwait	Yemen
Qatar	Yugoslavia (i.e. Serbia, Montenegro, Bosnia and Herzegovina)

Appendix B

Double Taxation Treaties to which Bulgaria is a party

State	Dividends (%)	Interest (%)	Royalties (%)
Albania	15/5*	10/0*	10
Algeria	10	10/0*	10
Armenia	10/5*	10/5/0*	10/5
Austria	5/0*	5/0*	5
Azerbaijan	8	7/0*	10/5*
Bahrain	5	5/0*	5
Belgium	10	10/0*	5
Belarus	10	10/0*	10
Canada	15/10*	10/0*	10/0*
Czech Republic	10	10/0*	10
China	10	10/0*	10/7*
Croatia	5	5	0
Cyprus	10/5*	7/0*	10
Denmark	15/5*	0	0
Egypt	10	12.5/0*	12.5
Estonia	5/0*	5/0*	5
Finland	10	0	5/0*
France	15/5*	0	5
Georgia	10	10/0*	10
Germany	15/5*	5/0*	5
Greece	10	10	10
Hungary	10	10/0*	10
India	15	15/0*	20/15*
Indonesia	15	10/0*	10
Iran	7.5	5	5
Ireland	10/5*	5/0*	10
Israel	10/7.5*	10/5*	7.5
Italy	10	0	5
Japan	15/10*	10/0*	10
Jordan	10	10/0*	10
Kazakhstan	10	10/0*	10

State	Dividends (%)	Interest (%)	Royalties (%)
Kuwait	5/0*	5/0*	10
Latvia	10/5*	5/0*	5/7*
Lebanon	5	7/0*	5
Lithuania	10/0*	10/0*	10
Luxembourg	15/5*	10/0*	5
Macedonia	15/5*	10/0*	10
Malta	0	0	10
Moldova	15/5*	10/0*	10
Mongolia	10	10/0*	10
Morocco	10/7*	10	10
Netherlands	15/5*	0	5
North Korea	10	10	10
Norway	15	0	0
Poland	10	10/0*	5
Portugal	15/10*	10/0*	10
Republic of South Africa	15/5*	5/0*	10/5*
Qatar	0	3/0*	5
Romania	15/10*	15/0*	15
Russia	15	15/0*	15
Serbia and Montenegro	15/5*	10	10
Singapore	5/0*	5/0*	5
Slovak Republic	10	10/0*	10
Slovenia	10/5	5/0*	10/5
South Korea	10/5*	10/0*	5
Spain	15/5*	0	0
Sweden	10	0	5
Switzerland	10/0*	5/0*	5
Syria	10	10/0*	18*
Thailand	10	15/10/0*	15/5*
Turkey	15/10*	10/0*	10
UK	15/5*/0*	5/0*	5
Ukraine	15/5*	10	10
United Arab Emirates	5/0*	2/0*	5/0*
USA	10/5/0*	5/0*	5
Uzbekistan	10	10/0*	10
Vietnam	15	10/0*	15
Zimbabwe	20/10*	10/0*	10

Notes

* The reduced rate can be applied under specific circumstances.

Appendix C

Bilateral Social Security Agreements concluded by Bulgaria

Albania
Austria*
Canada
Czech Republic*
Croatia*
Germany*
Hungary*
Israel
Libya
Luxembourg*
Macedonia
Moldova
Montenegro
Netherlands*
Poland*
Serbia
Slovakia*
Spain*
Switzerland*
Republic of Korea
Romania*
Russia
Tunisia
Turkey (for pensions only)
Ukraine
Yugoslavia**

** Superseded by EU Regulation 1408/71 and subsequently 883/2004*

*** Effective with respect to Bosnia and Herzegovina*

KPMG in Bulgaria



bg-office@kpmg.com
kpmg.com/bg

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