

# Bulgaria Country Profile

EU Tax Centre

June 2017

Key tax factors for efficient cross-border business and investment involving Bulgaria

**EU Member State** Yes

**Double Tax  
Treaties** With:

Albania	Georgia	Lebanon	Slovenia
Algeria	Germany	Lithuania	South Africa
Armenia	Greece	Luxembourg	Spain
Austria	Hungary	Macedonia	Sweden
Azerbaijan	India	Malta	Switzerland
Bahrain	Indonesia	Moldova	Syria
Belarus	Iran	Mongolia	Thailand
Belgium	Rep. of Ireland	Montenegro	Turkey
Canada	Israel	Morocco	UAE
China	Italy	Netherlands	UK
Croatia	Japan	Norway	Ukraine
Cyprus	Jordan	Poland	US
Czech Rep.	Kazakhstan	Portugal	Uzbekistan
Denmark	People's Rep. of	Qatar	Vietnam
Egypt	Korea	Romania	Zimbabwe.
Estonia	Rep. of Korea	Russia	
Finland	Kuwait	Serbia	
France	Latvia	Singapore	
		Slovakia	

**Forms of doing business** Limited liability company ("OOD", in Bulgarian: дружество с ограничена отговорност - ООД);

Joint-stock company ("AD", in Bulgarian: акционерно дружество – "АД").

**Legal entity capital requirements** Limited liability company (OOD) - BGN 2; joint-stock company (AD) - BGN 50,000.

A higher statutory minimum is required for credit and financial institutions,



investment intermediary companies, special investment purpose entities, insurance and health insurance companies.

<b>Residence and tax system</b>	A company is a tax resident in Bulgaria if it is incorporated under Bulgarian law. Resident companies are taxed on their worldwide income. Non-resident companies are taxed only on their Bulgarian source income.
<b>Compliance requirements for CIT purposes</b>	The fiscal year coincides with the calendar year. The annual corporate income tax return has to be filed and the annual corporate income tax liability has to be paid by March 31 of the following year.
<b>Tax rate</b>	The standard corporate income tax rate is 10 percent.
<b>Withholding tax rates</b>	<p><b>On dividends paid to non-resident companies</b></p> <p>A 5 percent rate on dividends and liquidation proceeds distributed to foreign non-EU tax resident entities. Exemptions apply for dividends and liquidation proceeds paid by domestic companies to EU/EEA parent companies (no minimum participation or holding period requirements).</p> <p><b>On interest paid to non-resident companies</b></p> <p>A 10 percent rate applies to interest paid to a foreign entity. As of January 1, 2015 exemptions apply for interest payments made to EU tax-resident affiliated companies under the EU Interest and Royalties Directive (subject to meeting the respective conditions).</p> <p><b>On patent royalties and certain copyright royalties paid to non-resident companies</b></p> <p>A 10 percent rate applies to royalties paid to a foreign entity. As of January 1, 2015 exemptions apply for royalty payments made to EU tax-resident affiliated companies under the EU Interest and Royalties Directive (subject to meeting the respective conditions).</p> <p><b>On fees for technical services</b></p> <p>Yes, a 10 percent rate applies.</p> <p><b>On other payments</b></p> <p>A 10 percent WHT is levied on income from:</p> <ul style="list-style-type: none"><li>- financial assets issued by Bulgarian legal entities/ transactions with such assets,</li><li>- franchising/factoring and management fees,</li><li>- rent of movable property,</li><li>- rent or capital gains from disposal of real estate property.</li></ul>



	<b>Branch withholding taxes</b>
	Yes
<b>Holding rules</b>	<b>Dividend received from resident/non-resident subsidiaries</b>
	Exemptions (100 percent) apply for dividends paid from Bulgarian and EU/EEA subsidiaries as of January 1, 2009 (no minimum participation or holding period requirements), 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.
	<b>Capital gains obtained from resident/non-resident subsidiaries</b>
	An exemption (100 percent) applies to capital gains from disposal of shares traded on the Bulgarian and EU stock exchanges (no minimum participation or holding period requirements).
<b>Tax losses</b>	Tax losses can be carried forward for 5 years. There are no provisions regarding tax loss carry-back.
<b>Tax consolidation rules/Group relief rules</b>	No
<b>Registration duties</b>	The registration fees vary according to the entity to be registered, from a minimum of EUR 56 to a maximum of EUR 665.
<b>Transfer duties</b>	<b>On the transfer of shares</b>
	No
	<b>On the transfer of land and buildings</b>
	Transfer tax in the range of 0.1 percent – 3 percent is levied on the value of the transferred real estate property (land and buildings). The tax rate is determined annually by the respective municipality.
	<b>Stamp duties</b>
	No
	<b>Real estate taxes</b>
	Annual real estate tax in the range of 0.01 percent - 0.45 percent on the tax valuation of the property is determined annually by municipalities. Annual garbage collection fees on the tax valuation of the properties are also collected by municipalities.

<b>Controlled Foreign Company rules</b>	No
<b>Transfer pricing rules</b>	General transfer pricing rules Arm's length principles apply.
<b>Documentation requirement</b>	
Supporting documentation is required.	
<b>Thin capitalization rules</b>	Thin capitalization rules apply if the average debt-to-equity ratio exceeds 3:1. In this case, interest not allowed for corporate income tax purposes is calculated as the sum of all interest income plus 75 percent of the profit before all interest income, interest expenses, and taxes. Thin capitalization rules do not apply to (i) interest expenses on finance lease and bank loans, unless they are concluded between, guaranteed or secured by, or granted to the order of a related party; (ii) penalty interest; (iii) capitalized interest; and (iv) interest expenses not recognized for tax purposes under other provisions in Bulgarian law. Interest expenses not allowed under thin capitalization rules represent a temporary tax difference that may be reversed in the next 5 years following the above rule.
<b>General Anti- Avoidance rules (GAAR)</b>	Yes
<b>Specific Anti- Avoidance rules/Anti Treaty Shopping Provisions</b>	Yes
<b>Advance Ruling system</b>	Opinions issued by the tax authorities are not binding.
<b>IP / R&amp;D incentives</b>	R&D costs deductible if incurred under certain conditions. Otherwise, development cost of depreciable asset.
<b>Other incentives</b>	Tax resident companies in Bulgaria are entitled to use certain corporate tax incentives if certain conditions are met. These include a corporate tax exemption of up to 100 percent for manufacturing companies investing in municipalities with high unemployment (a decision by the EU Commission is required for large investment projects that have received state aid from all

available sources exceeding the equivalent of EUR 37.5 million in local currency, or EUR 18.75 million in local currency for investments in the southwestern region of the country); a job creation tax incentive; a corporate tax exemption for licensed real estate investment trusts.

**VAT** The standard rate is 20 percent, and the reduced rates are 9 and 0 percent.

**Other relevant points of attention** Hidden distribution of profits ("HDP"):  
Amounts accrued, paid, or distributed in any form by Bulgarian tax resident companies in favor of the shareholders, partners, or their related parties, not related to the business activity of the taxpayer or exceeding the market levels, as well as certain interest expenses, are treated as a HDP and are therefore not recognized for corporate income tax purposes. A penalty of 20 percent of the amounts qualifying as HDP may also be imposed (unless the HDP is reported in the annual corporate income tax return). In addition, HDP is considered a dividend distribution and is subject to 5 percent withholding tax if accrued, paid, or distributed to a foreign tax resident entity with no option for exemption if the beneficiary is an EU/EEA tax resident.

Source: Bulgarian tax law and local tax administration guidelines, updated 2017



## Contact us

**Kalin Hadjidimov**

**KPMG in Bulgaria**

**T +359 (2) 96 97 700**

**E [khadjidimov@kpmg.com](mailto:khadjidimov@kpmg.com)**

**[www.kpmg.com](http://www.kpmg.com)**

© 2017 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

Country Profile is published by KPMG International Cooperative in collaboration with the EU Tax Centre. Its content should be viewed only as a general guide and should not be relied on without consulting your local KPMG tax adviser for the specific application of a country's tax rules to your own situation. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.



© 2017 KPMG International Cooperative ("KPMG International"). KPMG International provides no client services and is a Swiss entity with which the independent member firms of the KPMG network are affiliated.