

# Bulgaria Country Profile

EU Tax Centre

June 2018

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

**EU Member State** Yes

**Double Tax Treaties** With:

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

**Most important 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.

#### **Residence and tax system**

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.

#### **Compliance requirements for CIT purposes**

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. As of January 1, 2018 only electronic filings are allowed.

#### **Corporate income tax rate**

The standard corporate income tax rate is 10 percent.

#### **Withholding tax rates**

##### **On dividends paid to non-resident companies**

A 5 percent rate is levied on dividends and liquidation proceeds distributed to 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).

##### **On interest paid to non-resident companies**

A 10 percent rate applies to interest paid to a foreign entity. As of January 1, 2015 exemptions apply for interest payments to EU affiliated companies under the EU Interest and Royalties Directive (subject to conditions).

##### **On patent royalties and certain copyright royalties paid to non-resident companies**

A 10 percent rate applies to royalties paid to a foreign entity. As of January 1, 2015 exemptions apply for royalty payments to EU affiliated companies under the EU Interest and Royalties Directive (subject to conditions).

##### **On fees for technical services**

Yes, a 10 percent rate applies.

##### **On other payments**

A 10 percent WHT is levied on income from:

- financial assets issued by Bulgarian legal entities/ transactions in such assets,
- franchising/factoring and management fees,
- movable property rental,
- renting out real estate property or capital gains from the disposal of such assets.

### Branch withholding taxes

Yes

### Holding rules

#### Dividend received from resident/non-resident subsidiaries

Exemptions (100 percent) apply for dividends received from Bulgarian and EU/EEA subsidiaries as of January 1, 2009 (no minimum participation or holding period requirements), unless the distributed amount decreases the tax result of the subsidiary (either as tax deductible expenses, or as another type of downward adjustment to the tax base), irrespective of the applicable accounting treatment.

#### Capital gains obtained from resident/non-resident subsidiaries

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).

### Tax losses

Tax losses can be carried forward for 5 years. There are no provisions regarding tax loss carry-back.

### Tax consolidation rules/Group relief rules

No

### Registration duties

Registration fees vary according to the entity to be registered, from a minimum of EUR 56 to a maximum of EUR 665.

### Transfer duties

#### On the transfer of shares

No

#### On the transfer of land and buildings

Transfer tax in the range of 0.1 percent – 3 percent is levied on the value of transferred real estate property (land and buildings). The tax rate is determined annually by the relevant municipality.

#### Stamp duties

No

#### Real estate taxes

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>	<p><a href="#">General transfer pricing rules</a></p> <p>Arm's length principles apply.</p> <p><a href="#">Documentation requirement</a></p> <p>Supporting documentation is required.</p>
<b>Thin capitalization rules</b>	<p>Thin capitalization rules apply if the average debt-to-equity ratio exceeds 3:1. The amount of non-deductible interest is calculated as total 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 leases 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 disallowed under thin capitalization rules represent a temporary tax difference that may be reversed in the subsequent 5 years.</p>
<b>General Anti-Avoidance rules (GAAR)</b>	Yes
<b>Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions/Anti-Hybrid Rules</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>	<p>Tax resident companies in Bulgaria are entitled to use certain corporate tax incentives subject to conditions. Available incentives include:</p> <ul style="list-style-type: none"> <li>- a corporate tax exemption of up to 100 percent for manufacturing companies investing in municipalities with high unemployment levels (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);</li> </ul>

- 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 to shareholders, partners, or 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, a HDP is treated as a deemed dividend and hence subject to a 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 2018



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