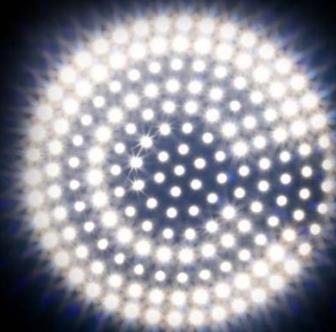


International Tax Bulgaria Highlights 2018



Investment basics:

Currency – Bulgarian Lev (BGN)

Foreign exchange control – No, but some reporting requirements apply.

Accounting principles/financial statements – Bulgaria applies IFRS as a statutory accounting basis. Only certain entities are allowed to opt to apply the national financial reporting standards for small and medium-sized enterprises.

Principal business entities – These are the joint stock company, limited liability company, sole trader and branch of a nonresident company.

Corporate taxation:

Residence – Bulgarian residents include: (i) a legal person incorporated under Bulgarian law; or (ii) a company incorporated under Council Regulation (EC) No. 2157/2001 or a cooperative society incorporated under Council Regulation No. 1435/2003 when the registered office of the entity is in Bulgaria and the latter is entered in a Bulgarian register.

Basis – Residents are taxed on their worldwide income; nonresidents are taxed only on Bulgaria-source income.

Taxable income – Taxable income comprises accounting profits per the profit and loss account, as adjusted for tax purposes.

Taxation of dividends – Dividend income received by a Bulgarian company from another Bulgarian company is not subject to taxation in the hands of the recipient, nor is the income taxed in the hands of the payer. Dividends received from an EU/European Economic Area (EEA) tax resident are excluded from taxable income. Nonexempt dividends are taxed as part of overall taxable profits.

Capital gains – Capital gains are included in taxable income and taxed at the normal corporate income tax rate. Gains and losses on the disposal of shares listed on the Bulgarian and EU stock exchanges are exempt.

Losses – Tax losses may be carried forward for five years to be offset against future taxable profits. The carryback of losses is not permitted.

Rate – 10%

Surtax – No

Alternative minimum tax – No

Foreign tax credit – A tax credit or exemption may apply under a tax treaty. If no treaty relief is available, Bulgaria grants a unilateral domestic tax credit.

Participation exemption – No (except for domestic dividends and dividends received from entities resident in the EU/EEA)

Holding company regime – No

Incentives – Tax incentives are available under domestic law for investments and the creation of new jobs in depressed regions, and EU grants may be obtained.

Withholding tax:

Dividends – Dividends and liquidation proceeds payable to a nonresident are subject to a 5% withholding tax, unless a lower rate applies under a tax treaty. Dividends and liquidation proceeds payable to a legal entity that is tax resident in an EU/EEA member state are exempt from withholding tax.

Interest – Interest paid to a nonresident is subject to a 10% withholding tax, unless the rate is reduced under a tax treaty or the EU interest and royalties directive applies. Bulgaria levies withholding tax on the gross

amount paid, but EU resident entities can claim a refund of a portion of the withholding tax paid on the gross income for the calendar year.

Royalties – Royalties paid to a nonresident are subject to a 10% withholding tax, unless the rate is reduced under a tax treaty or the EU interest and royalties directive applies. Bulgaria levies withholding tax on the gross amount of the payment, but EU resident entities can claim a refund of a portion of the withholding tax paid on the gross income for the calendar year.

Technical service fees – Technical service fees (i.e. fees for the assembly of fixed assets, services of a consultancy nature and marketing research) paid to a nonresident are subject to a 10% withholding tax, unless the rate is reduced under a tax treaty. Bulgaria levies withholding tax on the gross amount paid, but EU resident entities can claim a refund of a portion of the withholding tax paid on the gross income for the calendar year.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – See under "Personal taxation."

Real property tax – The owner of real property is subject to a real property tax ranging between 0.01% and 0.45% of the higher of the gross book value or the tax value of nonresidential property, and between 0.01% and 0.45% of the tax value of residential property. The actual rate is determined annually by the municipality.

Social security – The total social security insurance contribution is 32.7%-33.4% (the employer's portion is 18.92%-19.62% and the employee's portion is 13.78%). The base for the contribution is total income, capped at BGN 2,600 per month. Minimum thresholds per position and industry also apply.

Stamp duty – No

Transfer tax – Transfer tax is imposed on the sale or exchange of immovable property and motor vehicles, at rates ranging from 0.1% to 3%, determined by the municipality.

Other – Insurance contracts covering risks in Bulgaria are subject to a 2% tax on the insurance premiums. An exemption applies for certain premiums, including those under reinsurance contracts, life insurance contracts and permanent health insurance.

Anti-avoidance rules:

Transfer pricing – Bulgarian transfer pricing rules generally follow the OECD guidelines. There are no

documentation requirements, but the tax authorities are permitted to request transfer pricing documentation during an audit. In the case of transactions involving nonresidents, the burden of proof is shifted to the Bulgarian taxpayer to demonstrate the arm's length nature of the transaction.

Thin capitalization – The thin capitalization rules apply in both domestic and cross-border situations, where the liabilities of a company exceed three times its equity (i.e. a 3:1 debt-to-equity ratio). In such cases, interest expense incurred by a Bulgarian company may not be fully deductible, although nondeductible interest expense may be carried forward for five years. The thin capitalization rules do not apply in certain cases (e.g. bank loans).

Controlled foreign companies – No

Disclosure requirements – Taxable persons should disclose the overall amount of the accounting income and expenses for the year from transactions with related parties and/or with parties from jurisdictions with a preferential tax regime, as well as receivables from and payables to related parties. Taxable persons also are required to file an annual report on their activities at the time they file their income tax return.

On 20 July 2017, Bulgaria adopted the rules on country-by-country reporting introduced by the EU directive on the mandatory automatic exchange of information in the field of taxation.

Other – General rules apply to hidden profit distributions in respect of interest expense and expenses incurred on behalf of shareholders. A 5% dividend withholding tax, plus a penalty of 20%, apply to hidden profit distribution amounts.

Compliance for corporations:

Tax year – Calendar year

Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.

Filing requirements – The tax return and final payment of tax are due by 31 March of the year following the tax year. Companies must make monthly or quarterly advance payments of tax, based on their taxable results for the previous or current year.

Penalties – Interest penalties apply for the late payment of tax, and administrative penalties apply in various circumstances.

Rulings – Nonbinding instructions on a particular case can be obtained.

Personal taxation:

Basis – Resident individuals are taxed on their worldwide income; nonresident individuals are taxed only on Bulgarian-source income.

Residence – An individual is resident if he/she has a permanent address in Bulgaria, resides in the country for more than 183 days in any 12-month period or is sent abroad by the state, state organizations or a Bulgarian enterprise; or if his/her center of vital interests is in Bulgaria. Individuals who have a permanent address in Bulgaria but whose center of vital interests is not in the country are not considered Bulgarian tax residents.

Filing status – Each individual must file his/her own return; joint filing is not permitted.

Taxable income – Taxable income includes income from employment, income from a business or professional activities, capital gains, income from rent, all types of interest from bank accounts, etc.

Capital gains – Capital gains arising from the sale of real property generally are taxable, but certain exemptions may apply.

Deductions and allowances – Some deductions and allowances are available in computing taxable income, depending on the type of income.

Rates – 10% (8% on interest from bank accounts)

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – An annual real estate tax is levied on the owner of immovable property at a rate between 0.01% and 0.45% of the tax value of the property.

Inheritance/estate tax – Inheritance tax is levied at a rate of 0.4%-6.6%, depending on the relationship of the beneficiary. The rate is determined by each municipality. A gift tax is levied at a rate ranging from 0.4% to 6.6% of the value of donated property, depending on the relationship between the donor and the donee. The rate is determined by each municipality.

Net wealth/net worth tax – No

Social security – The total social security insurance contribution is 32.7%-33.4% (the employer's portion is 18.92%-19.62% and the employee's portion is 13.78%). The base for the contribution is total income, capped at BGN 2,600 per month. Minimum thresholds per position and industry also apply.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Income from employment is taxed via withholding at source. An individual who received only employment income during the calendar year generally is not required to file an annual tax return, provided the advance tax paid is equal to the annual tax due. In all other cases, an individual must file an annual tax return by 30 April of the year following the calendar year.

Penalties – Interest penalties apply for late payment of tax, and administrative penalties apply in various circumstances.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods and the provision of services.

Rates – The standard rate is 20%, with a reduced rate of 9% applying to hotel accommodation services. Exports and intracommunity supplies are zero-rated.

Registration – Registration is compulsory for persons with taxable turnover exceeding BGN 50,000 with respect to VAT taxable supplies with a place of supply in Bulgaria in any previous 12-month period (except when the VAT must be self-assessed by the recipient). Registration also is triggered by the receipt of services in Bulgaria that are provided by a taxable person not established in Bulgaria. The other thresholds for compulsory registration are BGN 20,000 for intracommunity acquisitions and BGN 70,000 for distance sales of goods with a place of supply in Bulgaria. Registration may be made on a voluntary basis, regardless of turnover. A nonresident company making supplies in Bulgaria must register for VAT through an accredited representative (except entities established for VAT purposes in an EU member state).

Filing and payment – The tax period for VAT is the calendar month; VAT returns must be filed monthly by the 14th day of the following month.

Source of tax law: Corporate Income Tax Act, Personal Income Tax Act, VAT Act, Social Security Code, Health Insurance Act, Local Taxes and Charges Act, Insurance Premium Tax Act

Tax treaties: Bulgaria has concluded more than 60 tax treaties.

Bulgaria signed the OECD MLI on 7 June 2017.

Tax authorities: National Revenue Agency

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