Recent developments:
For the latest tax developments relating to Bulgaria, see Deloitte tax@hand.

Investment basics:
Currency – Bulgarian Lev (BGN)
Foreign exchange control – No, but some reporting requirements apply.
Accounting principles/financial statements – Bulgarian entities can apply national accounting standards or IFRS.
Principal business entities – These are the joint stock company, limited liability company, sole trader and branch of a nonresident company.

Corporate taxation:
Residence – A company is considered to be resident in Bulgaria if it is incorporated under Bulgarian law, or if it is incorporated under Council Regulation (EC) No. 2157/2001 or if it is a cooperative society incorporated under Council Regulation No. 1435/2003 and the registered office of the entity is in Bulgaria and 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/EEA 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 an 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** – No

**Real property tax** – The owner of real property is subject to a real property tax ranging from 0.01% to 0.45% of the higher of the gross book value or the tax value of nonresidential property, and from 0.01% to 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 ranges from 32.7% to 33.4% (the employer’s portion ranges from 18.92% to 19.62% and the employee’s portion is 13.78%). The base for the contribution is total income, capped at BGN 3,000 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 and life insurance contracts.

**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** – 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, the amount of net interest expense exceeding 75% of EBIT is non-deductible. The thin capitalization rules do not apply in certain cases (e.g. bank loans).

Bulgaria has implemented the interest deduction limitation requirements of the EU anti-tax avoidance directive (ATAD 1), which apply alongside Bulgaria’s thin capitalization rules. The interest limitation rules apply if net borrowing costs exceed EUR 3 million for the year. Net borrowing costs are restricted to the extent they exceed 30% of tax-based EBITDA. Unlike the thin capitalization rules, the interest limitation rules apply to interest expense on bank loans and finance leases that are not guaranteed by a related party.

Neither the thin capitalization rules nor the interest limitation rules apply to credit institutions. Disallowed deductions under both sets of rules can be carried forward indefinitely.

**Controlled foreign companies** – Bulgaria has implemented the requirements of the ATAD 1 for controlled foreign companies (CFCs). If a Bulgarian taxpayer has a CFC, it must include its proportionate share of the CFC’s taxable profits in its Bulgarian taxable income. A foreign company/permanent establishment is considered to be a CFC if it lacks substantive economic activity and meets certain requirements relating to Bulgarian shareholding and low or no taxation abroad.

**Disclosure requirements** – Taxable persons must 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.

Bulgaria has adopted the rules on country-by-country reporting introduced by EU directive on the mandatory automatic exchange of information in the field of taxation.

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**Highlights**

- Minimum thresholds per position and industry also apply.
- Bulgaria has adopted the rules on 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 distributions.

**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 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. Higher rates apply for residential properties located in resorts, ranging from 4.5% to 7%.

**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 0.4%-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. Exemption from inheritance/gift tax applies for spouses and certain direct-line relatives.

**Net wealth/net worth tax** – No

**Social security** – The total social security insurance contribution ranges from 32.7% to 33.4% (the employer's portion ranges from 18.92% to 19.62% and the employee's portion is 13.78%). The base for the contribution is total income, capped at BGN 3,000 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% on hotel accommodation services. Exports and intracommunity supplies are zero-rated.

**Registration** – Registration is mandatory 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 when it has a registered branch in Bulgaria or when it is established in the EU or a country with which Bulgaria has existing instruments relating to mutual assistance).

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.


Tax treaties: Bulgaria has concluded approximately 70 tax treaties. For further information on Bulgaria’s tax treaty network, visit Deloitte International Tax Source. Bulgaria signed the OECD MLI on 7 June 2017.

Tax authorities: National Revenue Agency

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