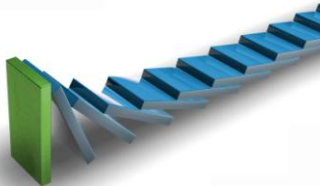


Deloitte.



Bulgarian Taxes **2009**

Pocket guide

Contents

A snapshot of Bulgarian taxes	1
Corporate income tax	2
Corporate income tax rate	2
Taxable entities	2
Taxable profit	2
Accounting rules	2
Tax adjustments	2
Tax depreciation rates	2
Thin capitalization	3
Tax loss carry forward	3
Tax returns and payment	3
Distribution of dividends	3
Withholding tax	4
Taxable income	4
Withholding tax rates	4
Payment	4
Double tax treaty application	5
One-off tax on certain expenses	6
Corporate income tax incentives and specific tax regimes	7
Transfer pricing rules	8
Personal income tax	9
Personal income tax rate	9
Tax residency	9
Taxable income	9
Exempt income	9
Deductions	10

Contents

Lump-sum taxation	10
Tax returns and payment	10
One-off tax on certain income	11
Social security and health insurance	12
Value added tax (VAT)	13
VAT rates	13
Exemptions	13
VAT registration	14
Fiscal representative	14
Reverse charge mechanism	15
VAT returns and payment	16
VAT refund	16
Intrastat	17
Local taxes and fees	18
Real estate tax	18
Transfer tax	18
Vehicle tax	18
Donation tax	18
Inheritance tax	19
Garbage collection fee	19
Excise duties	20
Scope	20
Excise duty rates	20
Tax warehouses and deferred payment of excise duties	20
Customs duties	21
Environmental fees	22

A Snapshot of Bulgarian Taxes

10%	Corporate income tax <ul style="list-style-type: none">• 10% withholding tax on interest, royalties, technical and management services fees, capital gains from financial assets, etc.• 5% withholding tax on dividends and liquidation quotas payable to non-EU country residents• 10% one-off tax on certain expenses
10%	Personal income tax <ul style="list-style-type: none">• up to 31.7% mandatory insurance contributions on a capped base (BGN 2000)• 10% one-off tax on interest, royalties, management services fees, capital gains and certain other income payable to foreign persons• 5% one-off tax on dividends and liquidation quotas
20%	Value added tax <ul style="list-style-type: none">• 7% for certain tourist services• 0% for exports and certain other activities
	Other taxes, duties and fees <ul style="list-style-type: none">• local taxes and fees on real estate properties, vehicles, donations, inheritance, etc.• excise duties on energy, fuels, certain cars, alcohol, tobacco• customs duties on importation of goods from outside the EU• environmental fees on certain products

Corporate income tax

Corporate income tax rate

10% on the taxable profit.

Taxable entities

- Companies and partnerships established under Bulgarian law
- Permanent establishments of non-resident entities in Bulgaria

Taxable profit

Financial result adjusted for tax purposes.

Accounting rules

IFRS or local Bulgarian GAAP (for small and medium-sized enterprises).

Tax adjustments

E.g., non-business related or not duly documented expenses; interest restricted under the thin capitalization rules; expenses for impairment of assets; dividends received from local or EU based companies.

Tax depreciation rules

Maximum annual tax depreciation rates between 4% and 50%, depending on the type of asset.

Corporate income tax

Thin capitalization

If the debt to equity ratio of the company exceeds 3:1 (some of) the interest expenses may not be tax deductible in the current year. However they may become tax deductible in the following five consecutive years under certain conditions.

Tax loss carry forward

Tax losses can be carried forward over the next five consecutive years.

Tax returns and payment

The annual corporate tax return has to be submitted by 31 March of the following year. The tax year is the calendar year.

The corporate tax has to be paid also by 31 March. Quarterly or monthly advance installments are generally due during the year.

Distribution of dividends

Subject to 5% withholding tax when distributed to individuals, resident non-profit entities and non-residents (except for EU / EEA entities).

Dividends distributed to resident companies are not included in their taxable income except for dividends distributed by:

- Special purpose investment companies
- Non-EU / EEA foreign entities

Withholding tax

Taxable income

- Dividends and liquidation quotas
- Interest, royalties, franchising and factoring fees
- Technical (including consultancy) and management services fees
- Income from the use of movable or immovable property
- Capital gains from transfer of real estate
- Capital gains from disposal of financial assets issued by resident entities or the State and municipalities (exemption for capital gains from disposal of shares on a regulated Bulgarian or EU / EEA market)

Withholding tax rates

- 5% for dividends and liquidation quotas (0% for distributions to EU / EEA entities)
- 10% for all other taxable income

The withholding tax rates may be reduced under an applicable tax treaty.

Payment

The tax should be withheld by the resident payer and remitted to the budget within:

- Three months following the month of accrual of the income when the recipient is tax resident of a country which has a tax treaty in force with Bulgaria
- One month following the month of accrual in all other cases

Withholding tax

In case of capital gains, it is their recipient which should remit the withholding tax due within the terms indicated above.

Double tax treaty application

If available, double tax treaty relief may be applied by the income recipient directly if the income accrued for the calendar year does not exceed BGN 100 thousand (approximately EUR 51 thousand). However, certain documents must be presented to the income payer (e.g., a tax residence certificate, a declaration for beneficial ownership and lack of a permanent establishment in Bulgaria).

In all other cases a non-resident can benefit from double tax treaty relief if an advance clearance is obtained from the Bulgarian revenue authorities under a specific procedure.

Otherwise the payer will be obliged to remit the withholding tax at the domestic rate within three months following the month of accrual. The non-resident can apply for a refund within five years following the year the tax became due.

Bulgaria has an extensive network of double tax treaties with over 60 countries, including most European countries, USA, Russia, China and India.

One-off tax on certain expenses

Expenses subject to one-off tax

- “Representative” expenses
- “Social” expenses provided in-kind to the employees (e.g. fringe benefits), except for food vouchers and voluntary insurance contributions (social, health and life insurance) up to BGN 60 each per employee per month
- Expenses related to the use of vehicles for management purposes

Tax rate

The tax rate is 10% on the accrued expenses. Both the respective expense and the one-off tax applicable to it are deductible for corporate income tax purposes.

Corporate tax incentives and specific tax regimes

Tax holiday

Up to the full amount of corporate tax due for agricultural activities, manufacturing, higher technology and infrastructure may be granted back for investment in regions with high unemployment.

The application of the tax holiday is subject to certain limitations and conditions, including the EU state aid restrictions.

For some of the activities above the tax holiday is not yet applicable and is awaiting authorization by the European Commission.

Exemptions from corporate tax

Special purpose investment companies, close-ended licensed investment companies and collective investment schemes authorized for public offering in Bulgaria are not subject to corporate income tax.

Special corporate tax regimes

Applicable to:

- Commercial maritime shipping companies
- Gambling businesses
- Some other (e.g., state organs, etc.)

Transfer pricing rules

The Bulgarian transfer pricing rules apply to transactions between related parties and are generally in line with the OECD Transfer Pricing Report. In certain cases the rules may be applied to unrelated party transactions as well.

The prices charged in related party transactions may be adjusted for tax purposes, if such transactions are made on terms that differ from the terms set in unrelated party transactions.

It is not possible to have an Advance Pricing Agreement in Bulgaria.

The following 5 transfer pricing methods are acceptable:

- The Comparable uncontrolled price method
- The Resale price method
- The Cost plus method
- The Transactional net margin method
- The Profit split method

There are no special transfer pricing documentation or reporting requirements. However, during a tax audit the taxpayer should be able to prove the arm's length basis of its related party transactions.

If the taxpayer has prepared transfer pricing documentation, the revenue authorities are obliged to use the chosen method as a starting point in their transfer pricing analysis.

Personal income tax

Personal income tax rate

A flat rate of 10% on the taxable income

Tax residency

In general, individuals are considered Bulgarian tax residents if:

- They have a permanent address in Bulgaria
- They have stayed in Bulgaria for more than 183 days in any 12-month period
- The centre of their vital interests is in Bulgaria (determined in view of their personal and economic ties to the country, e.g. factors like family, employment, possession of property, etc.)

Taxable income

Generally, the taxable income includes monetary income, as well as benefits received in-kind (except non-taxable items and "social expenses", see p. 6)

Bulgarian tax residents are taxed on their worldwide income, while non-residents are taxed only on their Bulgarian-sourced income.

Exempt income

Certain types of income are exempt from taxation, including capital gains from the disposal of shares on a regulated Bulgarian or EU / EEA market, interest on deposits in EU based banks or EU based branches of non-EU banks, income from disposal of certain real estate, etc.

Personal income tax

Deductions

Tax deductions apply in some cases, including:

- Mandatory social security and health insurance contributions
- Statutory deductions for free lancers, for rental income, etc.
- Voluntary personal insurance up to certain limits
- Certain donations
- Other specific situations

Lump-sum taxation

Applicable to sole proprietorships with annual turnover less than BGN 50 thousand (approximately EUR 25 thousand).

Tax returns and payment

The annual personal income tax return has to be submitted by 30 April of the following year (the tax year coincides with the calendar year).

The tax has to be paid by the same deadline. A 5% reduction of the outstanding tax can be applied if:

- The annual tax return is filed and the tax is paid before 10 February of the following year; or
- The annual tax return is submitted electronically

Individuals who have received only employment income from Bulgarian employers, non-taxable income or income subject only to one-off tax are not obliged to file annual tax returns

One-off tax on certain income

One-off taxation of certain income

One-off tax is due on income received by non-residents from:

- Dividends and liquidation quotas distributed from a Bulgarian resident company
- Management and technical services fees
- Interest, royalties, franchising and factoring fees
- Income from the use of movable and immovable property
- Capital gains from transfer of real estate
- Capital gains from disposal of financial assets
- Scholarships, awards, compensations and indemnities
- Income from early redemption of voluntary life, health and private pension insurance plans

One-off tax is due on dividends and liquidation quotas distributed to a Bulgarian resident by a non-resident entity.

One-off tax rates

- 0% for capital gains from disposal of shares on a regulated Bulgarian or EU / EEA market by EU / EEA country residents
- 5% for dividends and liquidation quotas
- 7% for income from voluntary life insurance received after the termination of the insurance policy (if older than 15 years)
- 10% for all other income

The one-off tax rates may be reduced under an applicable tax treaty.

Social security and health insurance

Mandatory insurance contributions

Between 31% - 31.7% paid by both the employer and the employee in a certain ratio. This includes:

- 13% - pensions fund
- 5% - universal pensions fund
- 0.4% - 1.1% - occupational accident and professional disease fund (rate depending on the field of activity)
- 3.5% - general illness and maternity fund
- 1% - unemployment fund
- 8% - health insurance fund
- 0.1% - employees' receivables guarantee fund

Non-residents working in Bulgaria under management service contracts or supply of staff agreements do not pay contributions to the employees' receivables guarantee fund.

Insurance base

The gross remuneration less statutory deductions in some cases. The insurance base is capped at BGN 2000 (approximately EUR 1000) monthly.

Social security treaties

Foreigners may be exempt from social security contributions in Bulgaria or the contribution they make may be recognized in their home country under an applicable bilateral social security treaty or for EU / EEA nationals subject to the coordination rules.

Value added tax (VAT)

The Bulgarian VAT legislation is based on the EU VAT rules and Directive 2006/112/EC.

VAT rates

- 20% for domestic supplies, intra-community acquisitions and importation from non-EU countries
- 7% for accommodation provided by a hotel as a part of a tourist package

Exemptions

- With the right to deduct input VAT – intra-community supplies, exportation to non-EU countries, international transport of goods and passengers, certain supplies related to international transport, sale of duty free goods under certain conditions, certain transactions related to international trade, specific supplies under international treaties, etc.
- No right to deduct input VAT – transfer or rental of land or rights *in rem* over land (except for building land and land adjacent to new buildings), the transfer of old buildings or parts thereof, rental for residential purposes to individuals (an option to tax these transactions is available); financial and insurance services; gambling; certain services related to health, education, religion, culture, etc.; other specific supplies (e.g. importation of certain goods and up to a limit, etc.)

Value added tax (VAT)

VAT registration

Entities are obliged to register for Bulgarian VAT purposes if they have performed:

- Transactions with a place of supply in Bulgaria exceeding BGN 50 thousand (approximately EUR 25.6 thousand) for the last 12 months
- Intra-community acquisitions exceeding BGN 20 thousand (approximately EUR 10.2 thousand) during the calendar year
- Distance sales in Bulgaria exceeding BGN 70 thousand (approximately EUR 35.8 thousand) during the calendar year

Entities established in an EU member state performing supply of goods with installation in Bulgaria to customers non-registered for VAT purposes are obliged to register irrespective of their taxable turnover.

Any entity may apply for voluntary VAT registration. However, if voluntarily registered, such entity will not be able to deregister for two years following the year of registration.

Fiscal representative

In order to register for VAT purposes foreign entities (including EU entities) have to appoint a local fiscal representative, except when they have a registered branch in Bulgaria

Value added tax (VAT)

Reverse charge mechanism

Foreign entities not established and not VAT-registered in Bulgaria performing certain supplies to local customers will not have to register for VAT purposes. The VAT will be self charged by the local customer.

Supplies to which reverse charge of VAT applies include:

- Intellectual services (supply of licenses, patents, copyright, know-how, etc.)
- Consultancy and advertising services
- Processing and provision of information
- Services related to real estate
- Intra-community transport of goods and certain related services
- Supply of goods with installation
- Supply of natural gas and electricity
- Supply of goods under a triangular transaction (i.e. a supply of goods between three entities VAT-registered in three different EU member states. Under certain conditions the ultimate customer self charges VAT, while the supplies for the first two entities are exempt with right to deduction of the input VAT)

Please note that in certain cases the local recipient has to be VAT registered in order for the reverse charge mechanism to apply. Certain other specific conditions may also apply.

Value added tax (VAT)

VAT returns and payment

Monthly VAT returns are filed and the tax is due by the 14th of the following month. The tax period is a calendar month.

European sales list (VIES) returns have to be filed monthly by the same deadline if intra-community supplies of goods or certain services have been performed during the respective month.

VAT refund

VAT can be refunded through the VAT returns within:

- 3 months (period for carry forward and offsetting of the claimable VAT against VAT payable) and 45 days of filing the last VAT return (period for effective refund)
- 30 days of filing the VAT return for entities which have performed exempt supplies with the right to deductions exceeding 30% of the total turnover from taxable supplies for the last 12 months

An investor in a large investment project which has received authorization by the Ministry of Finance can receive a refund within 30 days. The investor can also apply reverse charge for VAT on importation of goods (without effective cash outflow).

EU based foreign entities which are not registered and established for VAT purposes in Bulgaria can receive a refund of the local input VAT for goods and services used for supplies with a place of supply outside Bulgaria. Non-EU based entities may be entitled to a refund on a reciprocal basis.

Intrastat

Intrastat is a system for collecting statistical data about intra-community movement of goods between Bulgaria and the other EU member states.

All entities VAT-registered in Bulgaria have to file Intrastat returns if the thresholds for incoming (“arrival”) and outgoing (“dispatch”) intra-community movement of goods between Bulgaria and the other EU member states are exceeded.

The thresholds triggering the obligation to file Intrastat returns for 2009 are (thresholds are updated annually):

- BGN 250 thousand (approximately EUR 128 thousand) for arrival of goods; or
- BGN 400 thousand (approximately EUR 204 thousand) for dispatch of goods

The deadline for filing Intrastat returns is the 10th day of the month following the month of arrival or dispatch of the goods.

Local taxes and fees

Real estate tax

Between 0.05% - 0.2% annually on the gross book value (or the tax value for individuals) of the real estate. The exact rate is determined by the municipality in which the real estate is situated.

Transfer tax

Between 1.3% - 2.6% on the higher of the sales price or the tax value of the transferred real estate / on the insurance value of cars. The exact rate is determined by each municipality.

Vehicle tax

Depending on the type and characteristics of the vehicle. Applies to cars, ships and airplanes. The tax rate is determined by each municipality within ranges stipulated in the law.

Donation tax

Between 3.3% - 6.6% on the value of the donation. The exact rate is determined by each municipality. Lower rates and exemptions apply to donations between relatives.

Local taxes and fees

Inheritance tax

Inheritance by a spouse, children and their descendants are exempt.

The tax is between 0.4% -0.8% on inheritance exceeding BGN 250 thousand (approximately EUR 128 thousand) in favor of brothers, sisters and their descendants (between 3.3% - 6.6% for other heirs).

The exact rate is determined by each municipality.

Garbage collection fee

Determined by each municipality. Generally levied on the gross book value of the real estate. Alternatively, it may be determined on the basis of the number and volume of waste containers used.

Excise duties

The Bulgarian excise duties legislation is based on the EU rules

Scope

Excise duties are applicable for certain products including:

- Electricity
- Fuels (motor fuels, coal, etc.)
- Cars with engine power exceeding 120 kW
- Alcohol
- Tobacco products

Excise duty rates

Generally, the excise duty rates are charged as a flat amount per unit of the product upon importation or release for consumption.

Tax warehouses and deferred payment of excise duties

The production of some excise goods (e.g. tobacco products, alcohol, etc.) should be carried only in tax warehouses.

Excise goods may be imported, processed and stored in tax warehouses as well as transported under a deferred payment regime.

Customs duties

Bulgaria applies directly the customs legislation and the Common Customs Tariff of the EU.

Customs duties on imports from non-EU countries are usually percentage rates calculated on the basis of the customs value (the transaction value increased by certain costs). Reduced or even zero duty rates apply on imports from countries granted preferential tariff treatment by the EU. In addition, the duties for certain imports can be suspended upon action of the businesses.

Goods can be imported in Bulgaria under customs procedures with economic impact – customs warehousing, inward processing, processing under customs control, temporary importation, outward processing.

As of 1 January 2008 businesses in Bulgaria can apply for AEO (approved economic operator) certification. Holders of AEO status enjoy preferential treatment with regard to customs controls and simplified procedures.

Environmental fees

The producers or importers (or the entity performing an intra-community acquisition) of products the use of which leaves large amounts of waste have to pay a product fee based on the type of waste.

The entities can avoid paying the product fee if they collect or recycle certain amount of the waste produced by their products either on their own or through a licensed collective waste management organization.

Scope

The products which are subject to the product fee include:

- Certain motor vehicles and tires
- Goods with plastic, paper, metal, glass, wooden, textile, etc. packaging
- Batteries
- Motor oil
- Electric or electronic apparatus and appliances

Contacts

Sofia Office
103, Al. Stamboliyski Boulevard
Sofia Tower,
1303 Sofia, Bulgaria
Tel.: +359 (2) 802 3300
Fax: +359 (2) 802 3350

These materials and the information contained herein are provided by Deloitte Bulgaria OOD and are intended to provide general information on a particular subject or subjects and are not an exhaustive treatment of such subject(s).

Accordingly, the information in these materials is not intended to constitute accounting, tax, legal, investment, consulting, or other professional advice or services. The information is not intended to be relied upon as the sole basis for any decision which may affect you or your business. Before making any decision or taking any action that might affect your personal finances or business, you should consult a qualified professional adviser.

These materials and the information contained therein are provided as is, and Deloitte Bulgaria OOD makes no express or implied representations or warranties regarding these materials or the information contained therein. Without limiting the foregoing Deloitte Bulgaria OOD does not warrant that the materials or information contained therein will be error-free or will meet any particular criteria of performance or quality. Deloitte Bulgaria OOD expressly disclaims all implied warranties, including, without limitation, warranties of merchantability, title, fitness for a particular purpose, non-infringement, compatibility, security, and accuracy.

Your use of these materials and information contained therein is at your own risk, and you assume full responsibility and risk of loss resulting from the use thereof. Deloitte Bulgaria OOD will not be liable for any special, indirect, incidental, consequential, or punitive damages or any other damages whatsoever, whether in an action of contract, statute, tort (including, without limitation, negligence), or otherwise, relating to the use of these materials or the information contained therein.

If any of the foregoing is not fully enforceable for any reason, the remainder shall nonetheless continue to apply.

Member of Deloitte Touche Tohmatsu

© 2009 Deloitte Bulgaria OOD