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Bulgarian Taxes **2011**



Pocket guide

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A Snapshot of Bulgarian taxes

10%	Corporate income tax <ul style="list-style-type: none">• 10% withholding tax on interest, royalties, services fees, capital gains and certain other income accrued to non-resident entities• 5% withholding tax on interest and royalties to EU related parties• 5% withholding tax on dividends distributed to non-EU residents• 10% one-off tax on certain expenses
10%	Personal income tax <ul style="list-style-type: none">• up to 31.4% mandatory insurance contributions on a capped base (BGN 2000)• 10% one-off tax on interest, royalties, services fees, capital gains and certain other income payable to non-resident individuals• 5% one-off tax on dividends and liquidation quotas
20%	Value added tax <ul style="list-style-type: none">• reduced rate of 9% for hotel accommodation• 0% for exports and certain other activities• refund of input VAT within three months (regular term)• faster refund within one month if certain requirements are met
	Other taxes, duties and fees <ul style="list-style-type: none">• 0.01% – 0.45% annual real estate tax• 0.1% – 3% transfer tax for immovable property and vehicles• taxes and fees on vehicles, donations, inheritance, etc.• excise duties on energy, fuels, alcohol and tobacco• customs duties on importation of goods from outside the EU

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 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

Withholding tax is due on the following types of income when accrued to a non-resident entity:

- 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 / EU / EEA market)
- Services fees, remuneration for the use of right and penalty or damages payments (except for insurance compensation) accrued to entities tax resident in low tax jurisdictions

Withholding tax rates

- 5% on the gross amount of dividends and liquidation quotas (0% for distributions to EU / EEA entities)
- 5% on interest and royalties accrued to related party legal entities resident in the EU (under certain conditions)
- 10% on the gross amount for all other taxable income

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

Withholding tax

Refund opportunities

Entities resident in the EU may declare tax deductible expenses and claim a corresponding refund of the withholding tax paid on a gross basis. The claim is annual and should be filed by 31 December of the following year.

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

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

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 500 thousand (approximately EUR 255 thousand).

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

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

The amount of the annual corporate income tax due by entities on their profits from manufacturing, including toll manufacturing, may be partly or fully reduced.

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

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 require that taxpayers apply arm's length prices in their related party transactions. Arm's length prices are those which unrelated parties would have agreed in similar circumstances. This requirement is imposed both to cross-border and domestic transactions.

Largely based on the 1995 OECD Guidelines, the Bulgarian transfer pricing rules envisage 5 methods for determining arm's length prices:

- The Comparable Uncontrolled Price Method
- The Resale Minus Method
- The Cost Plus Method
- The Transactional Net Margin Method
- The Profit Split Method

A taxpayer is obliged to prove the arm's length character of its related party transactions during a tax audit by applying one of the above methods.

The legislation does not include specific requirements as to the format and contents of transfer pricing documentation which taxpayers can produce as evidence for arm's length pricing. However, a transfer pricing manual released by the Bulgarian revenue administration in February 2010 mentions the items that would appear appropriate to include in the documentation.

The manual contains a set of other useful guidelines relating to different transfer pricing topics. For instance, with respect to intra-group services, the manual suggest specific profit mark-up ranges that have proved customary for Bulgaria.

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 stayed in Bulgaria for more than 183 days in any 12-month period; or
- 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 permanent address in Bulgaria, 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 “in kind 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 / EU / EEA market, interest on deposits in EU/EEA based banks or 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 freelancers, for rental income, etc.
- Voluntary personal insurance up to certain limits
- Certain donations and other specific situations (disability, etc)

Lump-sum taxation

Applicable to certain 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 are not obliged to file annual tax returns if they have received only employment income for which an annual reconciliation of the tax liability was made by the employer (which was their only employer as at the end of the year), non-taxable income and/or income subject to one-off tax.

One-off tax on certain income

One-off taxation of certain income

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

- Dividends and liquidation quotas distributed by 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 disposal of real estate and financial assets
- Certain other income.

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

EU resident individuals may declare deductible expenses and claim a corresponding refund of the one-off tax paid on a gross basis under certain conditions.

One-off tax rates

- 0% for capital gains from disposal of shares on a regulated Bulgarian / EU / EEA market by EU / EEA 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 30.7% - 31.4% paid by both the employer and the employee in a certain ratio. This includes:

- 12.8% - 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

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 contributions they make may be recognized in their home country under an applicable bilateral or multilateral social security agreement.

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
- 9% for hotel accommodation services

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.)

VAT registration

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

- Transactions with a place of supply in Bulgaria for which the VAT should be charged by the supplier 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.

Foreign entities which receive services with a place of supply in Bulgaria for which the recipient has to self-charge Bulgarian VAT 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 have to appoint a local fiscal representative, except when they have a registered branch in Bulgaria. The requirement does not apply to EU based entities.

Reverse charge mechanism

Foreign entities not established and not VAT-registered in Bulgaria performing certain supplies to local businesses 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:

- Services provided to businesses (with some exceptions)
- 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 certain specific conditions may also apply.

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:

- 2 months (period for carry forward and offsetting of the claimable VAT against VAT payable) and 30 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 deduction 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 incurred for goods and services used for supplies with a place of supply outside Bulgaria. A specific procedure before the authorities of the EU member state of establishment has to be followed.

Non-EU based entities may be entitled to a refund on a reciprocal basis (i.e., if their country of tax residence provides the right to refund of VAT to Bulgarian entities). A specific procedure before the Bulgarian revenue authorities has to be followed.

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 2011 are (thresholds are updated annually):

- BGN 180 thousand (approximately EUR 92 thousand) for arrival of goods; or
- BGN 200 thousand (approximately EUR 102 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 0.01% - 0.45% annually on the higher between the gross book value and the tax value of the immovable property. The exact rate is determined by the municipality in which the real estate is situated.

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.

Transfer tax

Between 0.1% - 3% 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.

Local taxes and fees

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.

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.

Tourist tax

Between BGN 0.2 - 3 (approximately EUR 0.1 - 1.5) per night. The exact rate is determined by the municipality in which the accommodation facilities are located.

Tax on insurance premiums

2% tax is due on insurance premiums for insurance contracts covering risks on the territory of Bulgaria. The tax should be collected by insurers but it is intended to be a burden to the insured.

Certain insurance premiums are exempt from the tax (e.g., life insurance, permanent health insurance, etc.).

Taxable base

The taxable base is the insurance premium received by the insurer increased with any bonuses and discounts conditionally offered to the insured and later reimbursed to the insurer, and reduced with sums included in the insurance premium for statutory insurance guarantee funds.

In case the premium is payable in installments, the tax should be charged separately for each installment received.

Payment and reporting

The tax collected during the calendar month by the insurer has to be remitted to the state budget by the end of the following month. A tax return has to be filed for each calendar quarter by the end of the month following the quarter.

Excise duties

The Bulgarian excise duties legislation is based on the EU rules.

Scope

Excise duties are applicable for certain products including:

- Electricity and energy products (motor fuels, coal, etc.)
- Alcohol
- Tobacco products

Excise duty rates

The excise duty rate for electricity is BGN 2 (approximately EUR 1) per megawatt hour (BGN 0 for electricity sold to individuals for use in their homes).

The excise duty rates for the most common motor fuels are:

- Leaded gasoline – BGN 830 (approximately EUR 424) per 1,000 liters
- Unleaded gasoline – BGN 710 (approximately EUR 363) per 1,000 liters
- Gas oil and kerosene – BGN 615 (approximately EUR 314) per 1,000 liters
- Liquefied petroleum gas – BGN 340 (approximately EUR 174) per 1,000 kilograms
- Natural gas – BGN 0
- Biodiesel – BGN 0
- Heavy fuel oils for ships – BGN 600 (approximately EUR 307) per 1,000 kilograms

Excise duties

The excise duty rates for the most common heating fuels are:

- Gas oil and kerosene – BGN 50 (approximately EUR 25.6) per 1,000 liters (the rate applies only to marked gas oil and kerosene)
- Heavy fuel oils, heavy oils other than lubricants, tar, creosote oils – BGN 50 (approximately EUR 25.6) per 1,000 kilograms
- Liquefied petroleum gas – BGN 0
- Natural gas – BGN 0
- Biodiesel – BGN 0
- Coal and coke – BGN 0.60 (approximately EUR 0.30) per gigajoule

The following excise duty rates apply to alcohol:

- Beer – BGN 1.5 (approximately EUR 0.77) per hectoliter/degree Plato
- Ethyl alcohol – BGN 1,100 (approximately EUR 562) per hectoliter of pure alcohol measured at 20°C
- Intermediate products – BGN 90 (approximately EUR 46) per hectoliter of product
- Still and sparkling wines, and other still and sparkling fermented beverages – BGN 0

Excise duties

The following excise duty rates apply to:

- Cigars and cigarillos – BGN 270 (approximately EUR 138) per 1,000 items
- Smoking tobacco (for pipes and cigarettes) – BGN 130 (approximately EUR 66) per kilogram

The excise duty rate for cigarettes is determined as the sum of:

- A specific duty of BGN 101 (approximately EUR 51.5) per 1,000 cigarettes; and
- A proportional duty of BGN 23% of the sales price

The total excise duty should not be less than BGN 148 (approximately EUR 76) per 1,000 cigarettes.

Tax warehouses and deferred payment of excise duties

The production of excise goods should be carried only in tax warehouses (except for natural gas).

Excise goods may be imported, processed and stored in tax warehouses as well as transported under a deferred payment regime subject to specific eligibility and registration conditions.

Excise duties

Mandatory registration

The following entities are obliged to register for Bulgarian excise duty purposes:

- Entities which import coke or coal in Bulgaria from an EU Member State or a third country or which trade in coke or coal
- Entities licensed to:
 - sell electricity or natural gas to customers for residential or commercial purposes
 - produce electricity
 - transit or distribute electricity or natural gas
 - trade in electricity
 - engage in public mandate supply of electricity or natural gas
 - buy electricity or natural gas from end suppliers which use own electricity or natural gas for their consumption
- Fiscal representatives of entities registered for VAT purposes in another EU Member State performing distance sales of excise goods to Bulgaria

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

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