



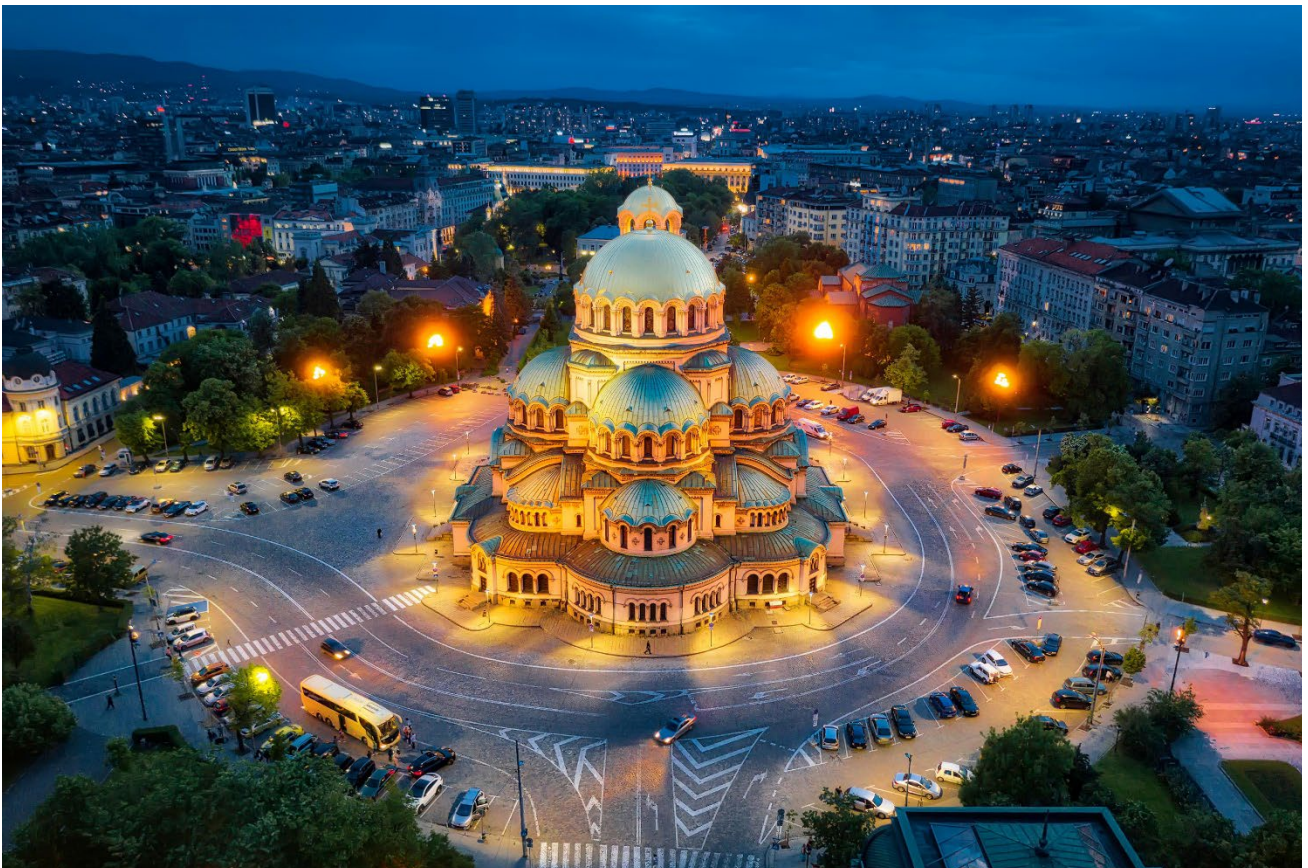
# Doing business in Bulgaria

## **A comparative guide**

July 2023

# A guide to doing business in Bulgaria

Deloitte Legal compiled this guide for Legal 500, providing an overview of the laws and regulations on doing business in a variety of jurisdictions. The following country chapter contains the relevant information on the systems of law, the legal forms through which people carry out business, capital requirements, how entities are operated and managed, expansion possibilities, corporate governance, employment law and more.



**No.**                      **Question**

## A. Legal system and landscape

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**1**                      **Is the system of law in your jurisdiction based on civil law, common law or something else?**

Bulgaria is a civil law jurisdiction, and its primary civil and commercial legislation is based on German, French and Italian laws. Due to Bulgaria's membership of the EU, its legislation is influenced by and harmonized with EU law.

## B. Entity establishment

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**2**                      **What are the different types of vehicle / legal forms through which people carry on business in your jurisdiction?**

The most common forms of incorporation in Bulgaria are the limited liability company (OOD) and the joint stock company (AD).

Bulgarian law regulates other forms of companies and forms of economic presence, such as the branch, sole proprietor, cooperation, and representative office. They also can be used for starting business in Bulgaria, but they do not offer the same advantages.

In all cases the choice of a specific legal form for doing business in Bulgaria depends on a number of factors (preferred corporate governance, size of the business, type of activity, etc.).

**3**                      **Can non-domestic entities carry on business directly in your jurisdiction, i.e., without having to incorporate or register an entity?**

Foreign companies can directly conduct business in Bulgaria, but they may form a permanent establishment within the meaning of the tax legislation. A foreign company may register a branch, which does not represent a separate legal entity. Foreign companies may also open a trade representative office, which however is not permitted to carry out business activities.

**4**                      **Are there are any capital requirements to consider when establishing different entity types?**

The minimum amount of the registered share capital for a joint stock company (AD or EAD in case of a one-shareholder company) is BGN 50,000 (approx. EUR 25,000).

The required minimum capital for a limited liability company (OOD or EOOD for a one-shareholder company) is 2 BGN (approx. EUR 1). Some regulated activities may require higher statutory minimum registered capital.

**5 How are the different types of vehicle established in your jurisdiction? And which is the most common entity / branch for investors to utilize?**

Usually, the AD is chosen as the preferred legal form for bigger investments. OOD and especially the sole ownership OOD is usually used for small or medium sized enterprises.

An OOD / AD in Bulgaria must have a constitutional document, which also comprises its rules for management. The constitutional document is known as Articles of Association or Deed of Incorporation for a one-shareholder company. In OOD, no shares are issued – the capital is divided into quota, subscribed by the shareholder (quotaholder). Share certificates, if issued, are not securities. In AD, there could be registered shares, which are securities. The securities may be ordinary or privileged, materialized or dematerialized. In OOD, the ownership of shares is registered with the Commercial Registry. In AD, the company keeps a register of shareholders of ordinary registered materialized shares. Dematerialized shares must be registered with the Central Depository.

The competent authority for the scrutiny and registration of an OOD / AD in Bulgaria is the Registry Agency at the Ministry of Justice, which administrates the Commercial Registry. All applications for registration, as well as various documents (such as annual financial statements, notifications of changes to the OOD / AD or its constitution, etc.) must be filed with the Commercial Registry.

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**6 How is the entity operated and managed, i.e., directors, officers or others? And how do they make decisions?**

The management of AD requires a more complex structure: one-tier system with a Board of Directors or a two-tier system with a Managing Board and a Supervisory Board. Each of these bodies should consist of at least 3 persons – natural persons or legal entities, local or foreign. They make decisions by majority of 50% plus one unless otherwise provided by the company's articles of association.

The management and representation of OOD is simplified, as the management of the company can be committed even to a single person – Managing Director.

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**7 Are there general requirements or restrictions relating to the appointment of (a) authorized representatives / directors or (b) shareholders, such as a requirement for a certain number, or local residency or nationality?**

In terms of OOD, a managing director may be a natural person of full legal capacity.

A board member in AD may be any natural person of full legal capacity. If provided by the Articles of Association, a legal entity may also be a board member. In this case, the legal entity shall designate a representative to perform its duties on the board. The legal entity shall be jointly and unlimitedly liable with the other board members for any liabilities arising from the actions of its representative.

There are requirements with respect to lack of previous bankruptcy history and penalties for certain infringements.

For certain regulated sectors (e.g., banks) qualification and other additional requirements exist for the board members.

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**8** **Apart from the creation of an entity or establishment, what other possibilities are there for expanding business operations in your jurisdiction? Can one work with trade /commercial agents, resellers and are there any specific rules to be observed?**

The commercial agent is a person, engaged independently and by occupation in assisting the business of another merchant (principal). They may be authorized to effect transactions on behalf of the principal, or in its own name, but for account of the principal. The commercial agent may be a natural or a legal person.

## C. Entity operation

Please answer the following questions only for the most common entity / ies within your jurisdiction:

### C1. Governance

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**9** **Are there any corporate governance codes or equivalent for privately owned companies or groups of companies? If so, please provide a summary of the main provisions and how they apply.**

The primary sources of corporate governance legislation in Bulgaria are the Public Offering of Securities Act, the Accountancy Act, the Credit Institutions Act, the Independent Financial Audit Act, the Commercial Act.

The Bulgarian National Corporate Governance Code (BNCGC) is developed by the National Committee on Corporate Governance (NCGC).

BNCGC is a standard for best practice and a support for communication among businesses from different countries. It takes into consideration and complements the Bulgarian legislation without restating it. It guides Bulgarian companies on how to apply established best practices and principles of corporate governance.

NCGC is a permanent independent body set up under the aegis of the Bulgarian Stock Exchange – Sofia (BSE) and the Financial Supervision Commission (FSC), with support from the World Bank and the International Finance Corporation. The main activities of NCGC include: encouraging the implementation of best practices in corporate governance, monitoring the implementation of the BNCGC, reviewing the BNCGC and initiating changes where necessary, preparing and publishing annual assessments of the state of corporate governance in the country etc.

### C2. Capital

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**10** **What are the options available when looking to provide the entity with working capital? i.e., capital injection, loans etc.**

There are many options for provision of additional working capital to the entity such as:

- Loans;
- Capital increase (through a cash injection or contribution in-kind – the capital increase rules are in Commercial Act);
- EU funding;

- Listing of the company as a public company, after the legal requirements and thresholds have been met.

### C3. Return of proceeds

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#### **11 What are the processes for returning proceeds from entities? i.e., dividends, returns of capital, loans etc.**

- Distribution of dividend;
- The preference shares may provide a guaranteed or additional dividend or share of the corporate property upon liquidation, as well as other rights provided for in the Articles of Association;
- Effective decrease of the registered capital;
- Liquidation quota (when a liquidation proceeding is completed).

### C4. Shareholder rights

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#### **12 Are specific voting requirements / percentages required for specific decisions?**

In general, the right to make decisions relating to the business and activity of an OOD / AD is delegated to those responsible for its management. Certain corporate decisions, however, are reserved exclusively to the shareholders. A shareholders' meeting (or "General Meeting") is the forum in which such decision-making takes place.

In terms of joint stock companies (AD), the decision of the General Meeting shall be adopted by a majority of the shares represented, unless otherwise provided for by the law or the Articles of Association (e.g., a majority of 2/3 of the capital represented is required for a decision to increase or decrease the capital). The Articles of Association may provide for a quorum of the capital. Decisions to amend and supplement the Articles of Association; to increase or reduce the capital and to transform and dissolve the company may be adopted only if at least one-half of the capital is represented at the General Meeting. The Articles of Association may provide for a larger quorum requirement as well.

In terms of limited liability companies (OOD), the decisions are adopted based on a majority of the the entire capital. The law requires different majorities and even unanimity for certain decisions (e.g., amendment to the capital).

In the Articles of Association of an AD, it may be provided that there are privileged shares without voting rights.

#### **13 Are shareholders authorized to issue binding instructions to the management? Are these rules the same for all entities? What are the consequences and limitations?**

The decisions of the general meeting of shareholders are binding on the management bodies of the company. They are obliged to comply with them in their operational activities, and if they do not comply and this results in damage to the company (losses), their liability may be engaged.



## C5. Employment

**14 What are the core employment law protection rules in your country (e.g., discrimination, minimum wage, dismissal etc.)?**

Right / Protection	Details
<b>National Minimum Wage</b>	The amount of the national minimum wage is determined by the Council of Ministers for each calendar year by September 1 of the current year in the amount of 50 percent of the average gross wage for a period of 12 months, which includes the last two quarters of the previous year and the first two quarters of the current year. The determined minimum wage for the country cannot be lower than the one determined for the previous year. Currently, the national minimum wage amounts to BGN 780 <sup>1</sup> (approx. EUR 398)
<b>Holiday</b>	20 business days
<b>Working Hours</b>	8 hours
<b>Rest Periods</b>	Each employee is entitled to a lunch break of at least 30 minutes, a rest of minimum 12 hours between the working days and a weekly rest of two consecutive days, one of which is Sunday. The non-working days and holidays are set by the law.
<b>Pension rights</b>	<ul style="list-style-type: none"> <li>• pension for periods of social insurance and old age (пенсия за осигурителен стаж и възраст);</li> <li>• early retirement pension (пенсия за ранно пенсиониране);</li> <li>• social old age pension (социална пенсия за старост).</li> </ul>
<b>Discrimination</b>	There is a general, non-specific ban on any discrimination that prejudices equal opportunity employment, equal access to jobs, equal continuity of employment or equal enjoyment of rights, and on discrimination between employees with the same work duties.
<b>Maternity Leave / Pay</b>	Paid maternity leave at 90% of the mother's salary is granted for up to 410 days, 45 of which should be taken during the last stage of pregnancy.
<b>Paternity Leave</b>	The father is entitled to 15 days of paid leave from the date of childbirth. The father is also entitled to 2 months of paid leave until the child reaches 8 years of age.
<b>Shared Parental Leave</b>	The Bulgarian social security and employment regulations do not provide such specific leave. However, when the child reaches the age of 6 months, the father may assume care of the child instead of the mother and hence the cash benefits from the mother for the remainder of the 410 days of the paid maternity leave. The usage of this leave by the father prevents the usage of the above-mentioned 2 months of paid leave that he is entitled to.
<b>Statutory sick pay</b>	The first 3 working days of the sick pay are covered by the employer for up to 70% of employee's daily gross remuneration for the month during which the

<sup>1</sup> As of 10 March 2023.

	<p>incapacity to work occurs. For the following days, the daily general sickness benefits in cash for temporary inability to work amount to 80%, or 90% of the employee's average daily gross labor remuneration or average daily insurable income on which social security contributions have been paid for the last 18 months before the incapacity to work occurs.</p>
<p><b>Statutory Notice Periods</b></p>	<p>Labor Code Article 326 (2) defines that the notice period for termination of a permanent contract is 30 days, unless the parties have agreed on a longer period, but not more than 3 months.</p> <p>The notice period for termination of fixed-term contracts is 3 months but not more than the remaining term of the contract.</p>
<p><b>Unfair dismissal</b></p>	<p>The protection against wrongful dismissals offers the employee the following possibilities of contestation:</p> <p>To seek a court ruling for recognition of the dismissal as unlawful and its repeal – according to Article 344 (1) of the Labor Code, the employee may demand before court to recognize the dismissal as void and to suspend it (No. 1) as well as to order the reemployment (No. 2). If the employee is not reinstated to work, the employer is financially (Article 225 (3) of the Labor Code), and possibly criminally liable (Article 172 (2) of the Criminal Code);</p> <p>The period between the moment that the termination entered into force and the reinstatement to work is added to the length of employment service. The suspension of the termination is registered into the employment record book.</p> <p>Compensation payment (Article 334 (1) No. 3 in combination with Article 225 (1,2) of the Labor Code) – within an independent claim, the employee may as well request from the court to oblige the employer for a compensation payment under the condition that the dismissal has been declared void by the court. The amount of the payment accords to the gross remuneration of the month preceding the dismissal (Article 228 (1) of the Labor Code). The compensation payment is owed for a period of 6 months;</p> <p>The employee can seek a revision of the grounds for the dismissal before court. (Articles 344 (1) No.4, 346 of the Labor Code).</p>
<p><b>Statutory Redundancy Payment</b></p>	<p>While there is no general provision on statutory severance pay in place, employees are entitled to redundancy pay equal to one month's salary in the case of individual or collective dismissal on economic grounds. With a decision of the Council of Ministers, or on the basis of collective labor agreements or employment contracts, compensations for a longer period could be defined. If within this period the employee started the work with lower salary, he/she is entitled to receive the difference in remuneration for the affected time period.</p> <p>The cases where such redundancy compensation must be paid are:</p> <ul style="list-style-type: none"> <li>• dismissal due to closure of the company or part of it,</li> <li>• staff cuts,</li> <li>• reducing the workload,</li> <li>• work suspend for more than 15 working days,</li> <li>• failure of an employee to follow the company or its division in which he worked when the facility moved to another area or locality,</li> </ul>



	<ul style="list-style-type: none"> <li>• or when the position occupied by the employee should be released to restore an illegally fired employee who had previously occupied the same position.</li> </ul>
<p><b>Statement of particulars</b></p>	<p>Bulgarian equivalent of statement of employee's particulars is the Job description. The Job Description shall be prepared by the Employer in writing and shall regulate the labor duties and obligations of the employee related to the nature of the work assigned, resulting from the position for which the employment contract is concluded. The Job Description shall be functionally connected to the other positions in the company. When describing the characteristic features of the held position, it is necessary to indicate the code under the National Classifier of the Occupations and the Positions in Bulgaria /NCOP/. Except for the positions legally determined in the law, the Employer can decide for each particular case of discrepancy between the requirements of the NCOP and the minimum educational and qualification level for assignment in his company. The required by the NCOP minimum educational and qualification level of the employee shall be proved by means of legitimate documents and certificates in compliance with the Bulgarian legislation.</p>

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**On what basis can an employee be dismissed in your country, what process must be followed and what are the associated costs? Does this differ for collective dismissals and if so, how?**

The employment agreement may be terminated: by mutual consent; upon the employer's offer and the employee's acceptance of it against a compensation of minimum four gross salaries; at the expiry of the term of the agreement (only for agreements with a specified term); by the employee with a termination notice of minimum 30 days (on any grounds whatsoever) or without a termination notice on certain limited legal grounds (e.g. inability to execute the work; in case the employer delays the payment of the labor remuneration, etc.); by the employer with a termination notice of minimum 30 days on certain limited legal grounds (e.g. closing down part of the enterprise, staff reduction, etc.) or without a termination notice on certain limited legal grounds (e.g. sentencing or disqualification of the employee, etc.); upon disciplinary dismissal of the employee.

Certain employees (e.g., employees suffering from certain illnesses, pregnant employees, etc.) enjoy an enhanced protection in case of dismissal by the employer.

There are procedures concerning redundancies and mass layoffs in the Labor Code. In case of mass layoffs, the employer must consult the trade union, the employee representatives and the Employment Agency and make efforts to:

- Reach an agreement to avoid the mass layoff;
- Reduce the number of employees affected;
- Mitigate the consequences of the dismissals.

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**Does your jurisdiction have a system of employee representation / participation (e.g., works councils, co-determined supervisory boards, trade unions etc.)? Are there entities which are exempt from the corresponding regulations?**

Employees are entitled, with no prior permission, to freely form, by their own choice, trade union organisations, which represent and protect the employees' interests before state bodies and employers as regards the issues of industrial and social-security relations and living standards through collective bargaining, participation in tripartite co-operation, organisation of strikes and other actions within the law.

The trade union organisations are entitled to conclude collective agreements at the level of enterprise, branch and industry. These collective agreements regulate issues of the industrial and social-security relations of employees, which are not regulated by mandatory provisions of the law. Within an enterprise, the collective agreement shall be concluded between the employer and a trade union organization. Within an industry or branch, a collective agreement is concluded between the respective organisations of employees and of employers. The collective agreements shall have effect with regard to the employees who are members of the trade union organization which is party to the agreement.

Employees may elect at a General Meeting their representatives, who shall represent their common interests on issues of industrial and social-security relations before the employers or before the State bodies. Such representatives shall be elected by a majority of more than two-thirds of the members of the General Meeting.

The general meeting of the employer's shareholders can only adopt decisions on employment and social security matters after taking into consideration the statement of the employees' representative on the issues discussed. If a company has more than 50 employees, employees must be represented at the general meeting by an individual appointed by the employees (Commercial Act).

The requirements for coordination with employees before a decision is characteristic of several types of activities, some of which are:

- In case of extension of the working time;
- In case of change of the employer;
- When issuing the rules for internal labor order;
- In determining employees entitled to additional paid annual leave for specific working conditions etc.

Consultation with the employees' representatives must be undertaken for mass redundancies/layoffs. Before these consultations, the employer must provide employee representatives with information on the reasons for the layoffs, the number of employees to be dismissed, and so on. This information is also sent to the National Employment Agency.

## C6. Anti-corruption / bribery / money laundering / supply chain

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### **Is there a system governing anti-bribery or anti-corruption or similar? Does this system extend to nondomestic constellations, i.e., have extraterritorial reach?**

Pursuant to Bulgarian legislation, corruption is a situation in which, as a result of the senior public office held thereby, the holder misuses power, breaches or refrains from performing official duties in order to derive, directly or indirectly, an undue tangible or intangible benefit for the holder himself or herself or for other persons.

The anti-corruption authority in Bulgaria is the Counter-Corruption and Unlawfully Acquired Assets Forfeiture Commission. It is a public-financed legal person seated in Sofia and an independent specialized standing State body for the implementation of the counter-corruption and unlawfully assets forfeiture policy.

The functions of the Commission are divided into two main groups:

- operational – related to the acceptance and verification of declarations of property and interests, with checks on signals received from citizens and through the media, with inspections of property status, proceedings for conflict of interest and proceedings for confiscation of illegally acquired property;
- analytical – related to the preparation of analyses and methodologies and development of anti-corruption measures. The analyses and proposals for anti-corruption measures are submitted to the

competent authorities, which are obliged to rule on them and inform the Commission about the measures taken.

The Commission shall exchange information with the competent authorities of other countries and with international organizations on the basis of international instruments and international treaties which are in force for the Republic of Bulgaria.

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**What, if any, are the laws relating to economic crime? If such laws exist, is there an obligation to report economic crimes to the relevant authorities?**

Under Bulgarian legislation, breaches of the regulations governing the economic system can be qualified either as an administrative violation, or as a crime, depending on the severity of the offence.

Administrative violations are regulated in the Administrative Violations and Sanctions Act. The administrative sanctions are fines for natural persons and property sanctions for legal persons. Some of the administrative violations related to the economic regulations are: money laundering; tax violations etc.

Crimes are regulated in the Criminal Code. Some of the economic crimes are: crimes against the monetary and credit system (e.g. counterfeit of bank notes and coins), crimes against the financial, tax and insurance systems (e.g. large-scale tax evasions), embezzlements, theft etc.

The relevant authorities and the rules for reporting differ depending on the economic breach.

The Whistleblowing Directive, which regulates the regime of reporting violations, that may also include such economic breaches has been recently implemented in the Bulgarian legislation.

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**How is money laundering and terrorist financing regulated in your jurisdiction?**

Money laundering is regulated through the Measures Against Money Laundering Act (MMLA) and terrorist financing is regulated through the Measures Against the Financing of Terrorism Act (MFTA).

The measures, enshrined in MMLA, for the prevention of the use of the financial system for the purposes of money laundering include:

1. customer due diligence;
2. collection and preparation of documents and other information under the terms and according to the procedure established by MMLA;
3. retention of the documents, data and information collected and prepared for the purposes of MMLA;
4. assessment of the risk of money laundering and terrorist financing;
5. disclosure of information on suspicious operations, transactions and customers;
6. disclosure of other information for the purposes of MMLA;
7. control over the activities of the obliged entities under MMLA;
8. exchange of information and interaction at the national level, as well as exchange of information and interaction between the Financial Intelligence Directorate of the State Agency for National Security and the Financial Intelligence Units of other States and jurisdictions, as well as with the relevant competent authorities and organizations of other States.

The measures, enshrined in MFTA, for the prevention of the financing of terrorism, include:

1. freezing of funds, other financial assets or economic resources;
2. prohibition to provide financial services, funds and other financial assets or economic resources.

The competent authority in Bulgaria which applies these measures is the specialized administrative directorate for financial intelligence, incorporated within the structure of the State Agency for National

Security – the Financial Intelligence Directorate (FID). FID collects, stores, investigates, analyzes and discloses financial intelligence under the terms and procedures of MMLA and MFTA. FID may also conclude written agreements with the competent supervisory authorities of the Member States in the EU for the purposes of cooperation and exchange of information.

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**20** **Are there rules regulating compliance in the supply chain (for example comparable to the UK Modern Slavery Act, the Dutch wet kinderarbeid, the French loi de vigilance)?**

Competition Protection Act regulates the compliance in the supply chain and other regulatory aspects of the national market.

## C7. Compliance

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**21** **Please describe the requirements to prepare, audit, approve and disclose annual accounts / annual financial statements in your jurisdiction.**

In accordance with the Accountancy Act the companies should prepare:

- Annual financial statements as at 31 December of the reporting period;
- Consolidated financial statements as at 31 December of the reporting period, when the parent is an entity falling within certain requirements;
- Interim financial statements covering period shorter than one reporting period, when this is required by law or by the company's policy.

The annual financial statements of all companies should include as a minimum a balance sheet, profit and loss account and notes to the financial statements (a summary of the significant accounting policies and other explanatory notes).

The approval of the annual financial statements is performed by the shareholders meeting or the sole owner of the capital.

The companies should publish their annual financial statements in the Commercial Register by 30 September on the following year.

It should also be considered that in respect of AD there is a requirement for a mandatory independent financial audit of the annual financial statements, which does not exist in relation to OOD, except in the presence of certain criteria.

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**22** **Please detail any corporate / company secretarial annual compliance requirements?**

The major corporate compliance requirements are related to the approval and publication of the annual financial statements.

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**23** **Is there a requirement for annual meetings of shareholders, or other stakeholders, to be held? If so, what matters need to be considered and approved at the annual shareholder meeting?**

There is a requirement for General meetings to be held at least once every year for both OOD and AD. This is the regular annual General meeting on which the results for the previous financial year are reported and accepted.

**24** **Are there any reporting / notification / disclosure requirements on beneficial ownership / ultimate beneficial owners (“UBO”) of entities? If yes, please briefly describe these requirements.**

MMLA regulates the obligation and procedure for recording information and data on beneficial owners of the legal entities operating on the territory of the Republic of Bulgaria in the Commercial Register and the BULSTAT Register.

Any subsequent change in the recorded circumstances shall also be subject to registration of the Commercial Register and the BULSTAT Register.

Beneficial ownership data is subject to registration in the relevant register if they are not entered as partners or sole owners of the capital in their lots.

When the legal person does not have as a legal representative – an individual with permanent residence in Bulgaria, a local contact should also be registered.

## C8. Tax

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**25** **What main taxes are businesses subject to in your jurisdiction, and on what are they levied (usually profits), and at what rate?**

Corporate income tax at the rate of 10% is the core tax in Bulgaria.

Bulgarian resident companies are subject to corporate income tax on their worldwide income. Non-residents are taxed only on Bulgarian-source income, i.e., income derived from activities conducted through a permanent establishment in the country and on income from Bulgarian sources.

A tax credit or an exemption may apply under a tax treaty for foreign taxes paid. If no treaty relief is available, Bulgaria grants a unilateral domestic tax credit.

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

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

A 10% one-off tax is due on certain expenses, i.e. representative expenses and social expenses. A 3% one-off tax is due on private use of companies' assets.

There is no surtax or alternative minimum tax.

General anti-tax avoidance rules apply in Bulgaria, including transfer pricing and thin capitalization/interest limitations rules.

Bulgaria has implemented EU Directives concerning e.g. CFC rules, exit tax, rules concerning hybrid mismatch arrangements.

**26 Are there any particular incentive regimes that make your jurisdiction attractive to businesses from a tax perspective (e.g. tax holidays, incentive regimes, employee schemes, or other?)**

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 are included in taxable income and taxed at the corporate income tax rate. However, gains (and losses) on the disposal of shares listed on the Bulgarian and/or EU/EEA regulated stock exchanges are exempt. Gains (and losses) on the disposal of shares listed on stock exchanges in third countries (outside the EU/EEA) that are considered as equivalent to regulated stock exchanges and for which the European Commission has adopted a decision on the equivalence also are exempt.

Fixed tangible and intangible assets can be depreciated for tax purposes, except land, goodwill, forests, plants and works of art. For tax depreciation purposes assets are classified in seven categories with a separate maximum rate applying to each category (as summarized below). An entity may choose to apply a lower rate for a certain category, as well as to change the rate each year.

Category	Assets	Maximum rates (%)
I	Massive buildings (including investment properties), industrial constructions, transmission facilities, electric poles, telecommunication lines	4%
II	Machinery, production equipment, appliances (under certain conditions assets classified in Category II that are new and unused may be tax depreciated at a maximum rate of 50%)	30%
III	Vehicles (except automobiles), road or runway pavement	10%
IV	Computers and related peripheral devices, software and rights to use software, mobile phones	50%
V	Automobiles	25%
VI	Fixed tangibles and intangibles with legal or contractual limitations on the period of their use (The depreciation rate is determined by the period of limitations but not more than 33 1/3%)	33 1/3%
VII	Other assets	15%

Tax incentives are available under domestic law for investments in fixed assets and related new job openings in depressed regions, and EU grants may be obtained.

**27 Are there any impediments / tax charges that typically apply to the inflow or outflow of capital to and from your jurisdiction (e.g., withholding taxes, exchange controls, capital controls, etc.)?**

There are no foreign exchange controls, but some reporting requirements apply. There is no capital duty.

There is no branch remittance tax.

Withholding tax on income of non-residents applies as follows:



**Dividends – 0%/5%**

Dividends and liquidation proceeds payable to a non-resident company or individual 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 (including Bulgaria) are exempt from withholding tax.

**Interest – 0%/10%**

Interest paid to a non-resident company or individual 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 upon completion of a specific procedure before the Bulgarian tax authorities, EU and Norway tax resident entities may claim a refund of a portion of the withholding tax paid on the gross income for the calendar year.

**Royalties – 0%/10%**

Royalties paid to a non-resident 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 paid, but upon completion of a specific procedure before the Bulgarian tax authorities, EU and Norway tax resident entities may claim a refund of a portion of the withholding tax paid on the gross income for the calendar year.

**Fees for technical services - 0%/10%**

Fees for technical services (i.e., fees for the assembly of fixed assets, services of a consultancy nature and marketing research) paid to a non-resident 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 upon completion of a specific procedure before the Bulgarian tax authorities, EU and Norway tax resident entities may claim a refund of a portion of the withholding tax paid on the gross income for the calendar year.

**Capital gains from the disposal of financial assets – 0%/10%**

Capital gains from shares issued by Bulgarian legal entities, the state or municipalities realized by a non-resident entity are subject to a 10% Bulgarian withholding tax, unless the rate is reduced under a tax treaty. Certain other exemptions apply, such as for capital gains from sale of shares on the Bulgarian stock exchange.

Other types of income realized by non-resident entities/individuals are subject to 10% Bulgarian WHT, unless the rate is reduced under a tax treaty (e.g. franchising and factoring fees, directorship fees, income from hiring out movable property, income from the disposal (including leasing) of immovable property situated within the territory of Bulgaria).

Bulgaria has concluded approximately 70 tax treaties. The OECD multilateral instrument (MLI) is in force for Bulgaria as of 1 January 2023. It is effective for Bulgaria with respect to withholding taxes as of 1 January 2023 and will be effective with respect to the other taxes (e.g. corporate income tax and personal income tax) as of 1 January 2024.

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**Are there any significant transfer taxes, stamp duties, etc. to be taken into consideration?**

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.

There is no stamp duty. There is no net wealth or net worth 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.

## C9. M&A

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### 29 **Are there any public takeover rules?**

The most common way of obtaining control of public companies is through a merger by acquisition of a company or merger by formation of a new company.

The general rules on merger by acquisition and merger by formation of a new company are stipulated in the Commercial Act. The special rules on the mergers of public companies are regulated in the Public Offering of Securities Act.

The procedure involves obtaining an approval from the Financial Supervision Commission. Under the Public Offering of Securities Act, there are certain mandatory and voluntary tender offer requirements and mandatory notifications, depending on the percentage of the shares, which will be acquired in a public company.

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### 30 **Is there a merger control regime and is it mandatory / how does it broadly work?**

In Bulgaria, merger control is regulated by the Protection of Competition Act (PCA). The Bulgarian national competition authority is the Commission on Protection of Competition (CPC).

Generally, a mandatory merger filing in Bulgaria with the CPC will be required with respect to a transaction if (i) the transaction represents a concentration and (ii) the turnover of the involved parties (referred to as "participant undertakings") exceeds certain thresholds.

The transaction will represent concentration if:

- i. The acquisition of direct or indirect control<sup>2</sup> of the whole or parts of one or more undertakings by one or more undertakings that already control at least one other undertaking. The acquisition of direct or indirect control can occur by the purchase of shares, quota or assets, or in any other way; or
- ii. The establishment of a joint venture performing on a lasting basis all functions of an independent economic entity.

Regarding the second criteria – the turnover, concentrations must be notified to the CPC if the following cumulative requirements are met:

- i. the sum of the total Bulgarian turnovers of the participating undertakings for the preceding financial year exceeds BGN 25 million (appr. EUR 12.5 million); and
- ii. the total turnover of each of at least two of the undertakings participating in the concentration on the territory of Bulgaria for the previous financial year exceeds BGN 3 million (appr. EUR 1.5 million), or the total turnover of the undertaking, which is the object of acquisition on the territory of Bulgaria for the previous financial year exceeds BGN 3 million.

Furthermore, if the jurisdictional criteria of the EU Merger Regulation are met, the relevant parties to a contemplated transaction will be required to seek approvals under the EU merger control regime.

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<sup>2</sup> Control is considered to be acquired when (as a result of acquisition of rights or in other ways) an undertaking is able to exercise decisive influence over another undertaking, including through rights or contracts which provide the opportunity for decisive influence on the membership, voting or decisions of the bodies of the undertaking. Even a minority shareholder may exercise control.

**31 Is there an obligation to negotiate in good faith?**

Yes, according to Art. 12 of the Obligations and Contracts Act, the parties shall act in good faith in conducting negotiations and concluding contracts. Otherwise, they shall owe damages.

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**32 What protections do employees benefit from when their employer is being acquired, for example, are there employee and / or employee representatives' information and consultation or co-determination obligations, and what process must be followed? Do these obligations differ depending on whether an asset or share deal is undertaken?**

In order to protect the economically weaker party, European and national legislation introduces special protection for the employees in the event of a change of employer. This protection consists in maintaining the employment relationship with the employees who carry out the transferred activity. Employment agreements are not automatically terminated in the case of a fusion, merger, etc. If a dismissal is made solely on the grounds of a business transfer, a court can pronounce that such dismissal is illegal. The employer is obligated to inform the company and its employees 2 months prior to the intended transfer. In case of a merger or acquisition, the new owner is solely liable to the employees. In relation to other circumstances that lead to a change of the employer, the old and the new employers are jointly liable to the employees.

## C10. Foreign direct investment

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**33 Please detail any foreign direct investment restrictions, controls or requirements? For example, please detail any limitations, notifications and / or approvals required for corporate acquisitions.**

There are no restrictions on foreign investment or foreign shareholders. Foreign investors are considered equal to local investors in all aspects, including shareholder participation. Additional requirements and specific restrictions apply to companies registered in jurisdictions with preferential tax regimes and any parties related to such companies under the regulations of the Economic and Financial Relations with Companies Registered in Preferential Tax Treatment Jurisdictions, the Persons Controlled Thereby and Their Beneficial Owners Act. In a limited number of sectors, restrictions on business activities carried out by foreign nationals can be imposed where licensing regimes apply.

There are also some restrictions for acquiring real estate (especially agricultural land) with respect to foreign nationals and companies.

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**34 Does your jurisdiction have any exchange control requirements?**

Currency regulations are provided in the Currency Act. Generally, there are no restrictions on payments or currency exchanges, but the following should be considered:

Suppliers of payment services can only make payments and transfers to recipients abroad after receiving a declaration describing the grounds for the transfer.

People making transfers or currency payments exceeding BGN 30,000 (appr. EUR 15,000) to recipients abroad must provide the supplier of payment services with certain information and documentation concerning the payment (for example, a statement of origin of the funds, document stating the reason for the payment and so on).

Transactions or payments between domestic and foreign persons must be registered for statistical purposes.

Local entities must report to the Bulgarian National Bank for:

- claims on, and liabilities to, foreign nationals; and
- direct investments made abroad.

In Bulgaria there is a currency board and a fixed exchange rate to the Euro currency. EUR 1 is equal to BGN 1.95583.

## D. Entity closure

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**What are the most common ways to wind up / liquidate / dissolve an entity in your jurisdiction? Please provide a brief explanation of the process.**

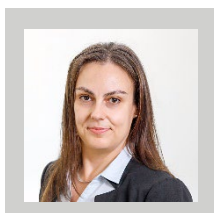
The dissolution of an entity is the termination of its commercial activity, i.e., it ceases to enter into new contracts and to generate new income and expenses. Some of the grounds for dissolution are: upon expiration of the term specified in the Incorporation Deed/Articles of Association; upon court decision; upon decision of the partners etc.

After the dissolution of a company, its liquidation shall be carried out. The liquidation proceedings are out of court and, as a rule, voluntary. It begins after the dissolution of the company and aims to distribute the company's assets and satisfy its creditors. The liquidation proceedings are managed by a liquidator. The liquidators represent the company and have the rights and obligations of its executive bodies. After finalizing the liquidation procedure, the company is deleted from the Commercial Register.

Liquidation is not carried out if the ground for dissolution of the company is upon declaration of bankruptcy. Any debtor, who becomes insolvent or over-indebted, shall apply for initiation of bankruptcy proceedings within 30 days. Bankruptcy proceedings shall be initiated upon written application filed with the court by the debtor or, respectively, by the liquidator or by a creditor or in some cases by authorities.

Liquidation is also not carried out if the ground for dissolutions is through a merger with, or an acquisition by another company. In this case, the newly established or receiving company becomes the legal successor of all rights and obligations of the transforming company.

# Contacts



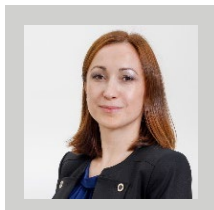
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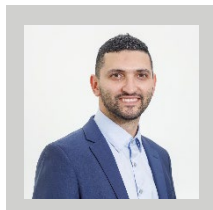
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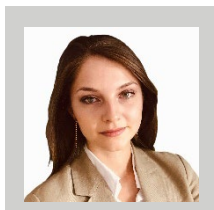
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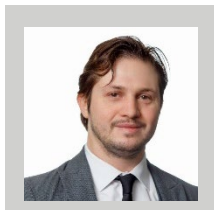
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