DOING BUSINESS IN BULGARIA

HLB Bulgaria

Audit, Analysis & Consulting

doing business in Bulgaria

foreword

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Up-to-date information and general assistance on international matters can be obtained from HLB Bulgaria or from the Executive Office in London.

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general information

Location

Situated in south-eastern Europe, Bulgaria occupies the north-eastern part of the Balkan Peninsula. To the north, along the Danube River, it borders Romania to the west, the Republic of Serbia and the Former Yugoslav Republic of Macedonia (FYROM). To the south its neighbours are Greece and Turkey. To the east Bulgaria touches the Black Sea, which links it also to Russia, Ukraine, and Georgia. With a territory of 110,994 square kilometres (42,855 sq. mi), Bulgaria is Europe's 14th-largest country. Its location has made it a historical crossroad for various civilisations and as such it is the home of some of the earliest metalworking, religious and other cultural artefacts in the world.

Bulgaria is also a transport crossroad, affording access to Western Europe, the Near East and the Middle East, and the Mediterranean. A series of major European transport corridors pass through Bulgaria. These corridors include the international highways that connect Western and Central Europe, the Near East and the Middle East, including connections to Baghdad and Basra on the Persian Bay; from the Baltic Sea to the Aegean Sea and to the Adriatic Sea. Another important transport route is the road from Constanta to Istanbul. Bulgaria is also connected to the Trans-European networks that lead from Berlin to Prague, Budapest, Sofia, Thessaloniki, and Istanbul and from Durres to Tirana, Skopje, and Sofia to the Black Sea ports of Varna and Burgas. These transport corridors are also serviced by rail. Bulgaria's Black Sea ports connect with all other countries that border the Black Sea countries, offering particularly excellent opportunities for the development of transport through the large bays that front Burgas and Varna. Along the Danube River the country connects with the transport corridor that leads to the Rhine and the network of waterways that crisscross Western Europe.

The distances between Sofia and the capitals of the neighbouring Balkan states are: Skopje 239 km, Beograd 374 km, Bucharest 395 km, Athens 837 km, Ankara 1,012 km.

Climate

Bulgaria falls within the southern part of the temperate climate zone with subtropical influence. Its location on the transition line between two climate zones influences the climate, soils, vegetation and animal species. All of them are characterized by great diversity. The country's geographic position also determines the relatively wide angle of sunlight that falls on the country, making the country predominantly sunny. The official time in Bulgaria is Eastern European Time, which is two hours ahead of Greenwich Time. The Black and the Aegean Sea also influence the country's climate. The Danube River is important for the country, both with regard to water resources and for species diversity. Bulgaria's favourable geographic location creates excellent preconditions for the development of tourism. Bulgaria ranks second in Europe after Iceland in the number of the mineral springs, providing all types of mineral water existing in nature.

Population and Language

The population of 7.3 million people is predominantly urban and mainly concentrated in the administrative centres of its 28 provinces. Most commercial and cultural activities are concentrated in the capital Sofia. Bulgarians are the main ethnic group and comprise 85% of the population. Turkish and Roma minorities comprise 9% and 5%, respectively. All ethnic groups speak Bulgarian, the oldest written Slavic language.

Constitution and Legal System

Bulgaria is a unitary parliamentary republic with a high degree of political, administrative and economic centralisation in which the most powerful executive position is that of prime minister. It is a member of the European Union, NATO, WTO and the Council of Europe; a founding state of the Organization for Security and Co-operation in Europe; and has taken a seat at the UN Security Council three times.

Bulgaria has a typical civil law legal system. The judiciary is overseen by the Ministry of Justice. The Supreme Administrative Court and Supreme Court of Cassation are the highest courts of appeal and oversee the application of laws in subordinate courts. The Supreme Judicial Council manages the system and appoints judges.

Currency

Since 1997 Bulgaria has been operating under a Currency Board arrangement that was implemented by the Bulgarian National Bank (BNB). The exchange rate of the Bulgarian lev was fixed by law to the deutschmark and later to the euro at the level of 1.95583. Legally, the Currency Board is institutionalized through the Issue Department of the BNB, whose primary function is defined as maintaining full foreign exchange cover for the total amount of the BNB's monetary liabilities. The Currency Board arrangement is expected to be maintained until the country joins the Eurozone.

A Currency Board establishes a fixed-exchange rate and, like the gold stand, relies on automatic mechanisms to restore macroeconomic equilibrium. The discretion of policymakers is severely limited. In Bulgaria the Currency Board has also played an important role in creating more discipline throughout the economy. The central bank cannot lend to commercial banks. Commercial banks have greatly reduced their lending to state enterprises. State enterprises have been forced to restructure. In addition the Government cannot borrow from the central bank; fiscal policy has been more disciplined.

What distinguishes currency boards from other fixed-exchange-rate regimes is the credibility of the exchange rate fix. Credibility depends on both economic and political factors. To sustain confidence, the Currency Board must have sufficient foreign currency reserves to honour the pledge to exchange local currency for reserve currency. Politically, the Government must be prepared to maintain the fixed exchange rate when adverse circumstances arise. To build confidence in the Currency Board and make it difficult to change the exchange rate, the exchange rate was written into the law establishing the Bulgarian Currency Board.

Economy

Bulgaria has an emerging market economy in the upper middle income range, where the private sector accounts for more than 80% of GDP. From a largely agricultural country with a predominantly rural population in 1948, by the 1980s Bulgaria had been transformed into an industrial economy with scientific and technological research at the top of its budgetary expenditure priorities. Average salary remains one of the lowest in the EU at BGN 792 (€405) per month. More than a fifth of the labour force is employed on a minimum wage of 1 euro per hour. Bulgarian GDP per capita in Purchasing Power Standards stood at 47% of the EU average in 2012 according to Eurostat data, while the cost of living was 49% of the average.

Economic indicators have worsened amid the late-2000s financial crisis. After several consecutive years of high growth, GDP contracted by 5.5% in 2009 and unemployment remains above 12%. Industrial output declined by 10%, mining by 31%, and ferrous and metal production had a 60% drop. Positive growth was restored in 2010, although investments and consumption continue to decline steadily due to rising unemployment.

Economic activities are fostered by the lowest personal and corporate income tax rates in the EU, and the second-lowest public debt of all member states at 18.5% of GDP in 2012. In 2012, nominal GDP was estimated at €40 billion, with a per capita value of €5,436.

Extraction of metals and minerals, production of chemicals, machinery and vehicle components, petroleum refinement and steel are among the major industrial activities. Mining and its related industries employ a total of 120,000 people and generate about 5% of the country's GDP. Bulgaria is Europe's sixth-largest coal producer. Local deposits of coal, iron, copper and lead are vital for the manufacturing and energy sectors. Almost all the top export items of Bulgaria are industrial commodities such as oil products, copper products and pharmaceuticals. Bulgaria is also a net exporter of agricultural and food products.
It is the largest global producer of perfumery essential oils such as lavender and rose oil. Of the services sector, tourism is the most significant contributor to economic growth. In recent years, Bulgaria has emerged as a travelling destination with its inexpensive resorts and beaches outside the reach of the tourist industry. Lonely Planet ranked it among its top 10 destinations for 2011.

There remain a few problems associated with the change from a centrally planned communist system to a democratic free market system such as a relatively high level of bureaucracy. However these problems are being addressed now that Bulgaria is a member of the EU and some progress has already been made.

investment factors

Bulgaria offers foreign investors some of the world's most competitive business costs. Real estate investment has produced a plentiful supply of modern offices at very competitive costs. Corporate taxes (10%) and labour costs are quite low by European standards.

Privatization and deregulation are creating sophisticated public utility and telecommunications industries. Compared to western European standards - Bulgaria is cheap. Investors can still find some outstanding value on the market and opportunities are plentiful.

Approximately 3.4 million individuals or around 54 percent of the population aged 15 and over comprised the country’s labour force in 2012. About 60% of the working age population (25-64 years) speak at least one foreign language. Approximately 80% of the population in active age for work have secondary or higher education. Many Bulgarians have strong backgrounds in engineering, medicine, economics and the sciences. The aptitude of workers and the relative low cost of labour are considerable incentives for foreign companies to invest in Bulgaria. Bulgaria has a traditionally strong education system. There are over forty Higher Education institutions in Bulgaria offering degrees at the undergraduate and graduate level.

Bulgaria is a full member of NATO and has been a full member of the European Union since Jan 1, 2007. The Bulgarian political system and democratic institutions are stable. In its annual 2002 report, the European Commission assessed Bulgaria as a fully functional market economy, with a high degree of macroeconomic stability and working market mechanisms. The Bulgarian economy is working under a Currency Board, which provides for a stable and predictable macroeconomic environment. Bulgaria is the only country in the EU with a credit rating upgrade by Moody’s since the beginning of 2010.

Investment Incentives

The Investment Promotion Act determines a system of investment promotion measures, in compliance with EU regulations on national regional investment aid.

Investment incentives for priority investment projects provide opportunities for different forms of state aid, institutional support, public-private partnerships or joint-ventures. The amount of the annual corporate income tax due by entities on their profits from manufacturing may be partly or fully reduced if the activities are carried out in municipalities with high unemployment.

Entities investing in a large investment project can benefit from a faster recovery of VAT and self-charge of VAT on importation of certain goods. There are a number of specific requirements for applying the VAT incentive, including the need of obtaining authorization from the Bulgarian Ministry of Finance.

Investment promotion in specific sectors: certificates of investment class

Under Bulgarian law investors can obtain certificates of the class of their investment. Depending on the size of the investment, the economic sector and region of the country in which the investment is implemented, the investor can receive a certificate of the class of investment ("Class A" or "Class B") or a certificate for a priority project.

Investments that can receive a certificate of class are investments in tangible and intangible assets and the related to creation of new jobs that meet cumulatively the following conditions:

a) The investments are connected with the creation of a new enterprise or expanding an existing enterprise/business activity.

b) The investments take place in one of the following economic sectors:
   - In the industrial sector: manufacturing;
   - In the services sector (high-tech activities in the field of information technology and services, R&D and professional activities in central offices, education, human health and medical care services, warehousing and support activities for transportation.

c) The revenues from the investment project to be at least 80% of total revenues of the company.

d) The investment to be maintained for at least five years (three years for SMEs).

e) The term for implementation of the investment should be up to three years.

f) The amount of investment for the project to be no less than BGN 20 million for “Class A” (approx. €10.2 million) and BGN 10 million for “Class B” (approx. €5.1 million). This threshold is reduced for investments in economically disadvantaged regions and for investments in high-tech activities of the industrial and service sectors.

g) At least 40% of eligible costs to be financed through the own resources of the investor or through external financing in a form which excludes public support.

h) To create and maintain employment directly related to the implementation of the investment project, and which represents a net increase in the number of employees in the company, which is maintained for a minimum period of five years for large enterprises and three 3 years for SMEs.

i) The assets acquired for the purposes of the investment to be new and purchased at market conditions by persons independent of the investor.

The investments which have received a certificate of class are encouraged through the following measures:

- Shorter terms for administrative services (Class "A" and "B");
- Individual administrative services (Class "A");
- Options for the acquisition of title or limited rights over real estate on properties at preferential terms (for Class "A" and "B");
- Financial aid for construction of technical infrastructure elements (for Class "A" investments and in case of a joint application of two or more investment projects from class "B");
- Financial aid for staff training for acquiring professional qualifications of persons occupying the new jobs created by the investments (Class "A" and "B").

Investment promotion in all sectors: certificates of priority investment projects

Priority investment projects can be implemented in all sectors of the economy. Those are projects essential for the economic development of the country or its regions and meet the requirements specified in the law with respect to minimum amount of the investment BGN 100 million (approx. €51 million) and a minimum number of 200 newly-created jobs.

The criteria can be decreased:

- If the project envisage the establishment of an industrial zone or technological park;
- If the project is implemented in the high-tech or knowledge-based services sector or in the high-tech manufacturing sector;
- If the priority project will take place in a municipality with a high level of unemployment.

Priority investment projects can benefit from any incentives provided for investments with a certificate for class, and in addition can benefit from the following options:

- Transfer or establishment of limited real estate rights over properties of state and municipal companies at prices lower than the market prices;
- Financial aid grants for investments in education and research sectors as well as investments in the manufacturing sector;
- Institutional support, including by means of a public private partnership.

Banking System and Sources of Finance

Bulgaria's financial system is dominated by the banking sector. The banking system has undergone major reform since its virtual collapse in 1996, influenced strongly by the 1997 introduction of the Currency Board and stronger supervision and tighter prudential rules for the banking sector. With the possibility of bailouts eliminated under the Currency Board, banks have had to focus on sound banking practices.

There are 31 private banks and four public banks. Foreign banks hold over 70% of bank capital. The insurance market is fully private with the sale of two state-owned firms and has expanded rapidly since the adoption of the 1997 insurance law. Foreign insurers are strong participants. The well-maintained stock market is active but small. The government is active in capital markets through the auction of short-term treasury bills.

As a member of the European Union, Bulgaria receives significant financial support from the EU Structural Funds and the Common Agricultural Policy. For the period 2007-2013, there were three structural funds helping Bulgaria to accelerate its economy: European Regional Development Fund (ERDF), European Social Fund (ESF) and the Cohesion Fund. ERDF's main objectives cover regional economic development and co-operation throughout the EU – subjects for financing are infrastructure, renovation of urban areas, research and innovation of technology, support for small and medium enterprises, creation and maintenance of sustainable jobs, culture and health; the fund is a major instrument for helping to redress regional imbalances. The European Social Fund was created to promote employment in the European Union. Its resources are directed towards the development of the labour market: promote better education and improve people's professional qualifications, increase adaptability of workers, promote social inclusion, increase productivity. ESF invests in people and everything that supports human capital. The Cohesion Fund is a special case: it is to be used only in EU Member States whose GDP is 90% or less than the EU average GDP. The Cohesion Fund finances 2 types of projects – environmental projects and transport infrastructure projects (of European importance).

All of the finance provided by the Structural Funds will be regulated by European Legislation. The exact way Bulgaria will absorb the finances from the Structural Funds is defined by Bulgaria's National Strategic Reference Framework, which needs to be approved by the European Commission.

There are 7 Operational Programmes in Bulgaria to be supported by the Structural Funds: Regional Development, Competitiveness, Environment, Transport, Human Resources Development, Administrative Capacity, and Technical Assistance.

Foreign Exchange Controls

The Bulgarian Lev (BGN) is freely convertible into other currencies and the import and export of capital is free, subject only to reporting requirements. A free European capital market was introduced by the relevant EU directive which completely abolished all restrictions on the transfer of capital between EU Member States.

Employment Regulations

Generally, Bulgarian legislation concerning foreign citizens is in compliance with the EU acquis communautaire related to immigration policy. Effective from 31 January 2012, Bulgaria unilaterally applies the Schengen acquis.

The legal status of the citizens of any of the Member States of the European Union, the States which are parties to the European Economic Area Agreement and the Swiss Confederation (hereinafter "European citizens") in Bulgaria is governed by the Law on Entry, Residence and Departure of European Union Citizens and Members of Their Families from the Republic of Bulgaria, as well as by the applicable Acts of EU legislation.

European citizens who wish to enter and stay in Bulgaria do not need a visa. Foreigners are divided into two categories – those who must be in possession of visa when crossing the borders of the Republic of Bulgaria and those who are exempt from that requirement.

Visa requirements and the exemption from such requirements for foreigners are governed by EU legislation, agreements of the European Union with third countries for visa regime and the relevant Bulgarian legislation. Foreigners who wish to reside in Bulgaria on a long-term basis (in any case more than three months within each six-month period) shall be issued residence permit. European citizens who intend to stay in Bulgaria longer than three months are issued residence certificates instead of residence permits.

According to the relevant Bulgarian legislation, foreigners who are citizens of certain countries must obtain a visa before entering the territory of the Republic of Bulgaria. The visa is a clearance, issued to foreigners, for entry and stay on the territory of the Republic of Bulgaria for a certain period of time.

Foreigners may work in Bulgaria only after obtaining a work permit, unless otherwise stipulated by the law. The grounds for obtaining a work permit are signing by the foreigner of an employment contract with a Bulgarian employer, or sending of the foreigner on a business trip to undertake certain activities in Bulgaria.

European citizens may be employed, self-employed or commissioned to make a business trip and may work in Bulgaria without restrictions and without the need of work permits.

Work permits required for foreigners must be requested by the local employer and are issued by the Bulgarian Employment Agency. A number of legal terms and conditions must be met for the permit to be issued. Work permits are issued for a maximum duration of 1 year. If a work permit is granted to a foreigner on the basis of a signed employment contract with a local employer, generally, such a permit can be extended, if the terms and conditions for its issuance are still valid, but the total duration may not exceed 3 years. The term of validity of a work permit issued to a foreigner, who is sent on a business trip, cannot be extended for further one-year periods, unless by exception.

Social security and health insurance rates payable by the employer and the employee are about 31% of the employee's gross salary. These taxes and fees include incapacity, sickness, maternity, unemployment, and pension insurance benefits. Under Bulgarian law, social security contributions are mandatory. They are calculated on the gross income of each worker or employee.

Tax	Payable by the employee	Payable by the employer	Total
Social security	7.5%	9.8%	17.3%
Health insurance	3.2%	4.8%	8%
Professional and non- professional accident insurance		0.4-1.1%	1.1% max

The percentages are applicable only up to a maximum base income. In 2014, this maximum monthly base is BGN 2,400 (€1,227) for all types of social payments.

Leave codified in the Labour Code can be divided on the grounds of their aim into, inter alia: paid annual leave and unpaid leave, leave for studies, leave in case of temporary disability, maternity leave, etc. The amount of the basic paid annual leave is not less than 20 working days. However, annual leave can be extended by a collective labour agreement or agreement between the employer and the employee. If the annual paid leave has not been used within two years as of the end of the year to which the annual paid leave applies the right to use it becomes time-barred.

Bulgarian labour law provides for 410-day maternity leave, 45 days of which are used before childbirth. In addition, the father has the right to use the rest of the maternity leave once the child is 6 months old, subject to the mother's consent. Moreover the father of a new-born child is entitled to use 15 days leave upon the birth of a child.

types of business organisations

Bulgarian law recognizes the following types of commercial companies exhaustively listed in the Commerce Act:

- General partnership;
- Limited partnership;
- Limited liability company ("LLC") or one-person-owned limited liability company;
- Joint stock company ("JSC") or one-person-owned joint stock company;
- Company limited by shares.

All of the above organisations are recognized as separate legal entities. Regardless of the nationality of its founder(s), each company registered in Bulgaria is considered as a Bulgarian legal entity and should be governed in compliance with the relevant Bulgarian laws and regulations.

A joint stock company can be publicly listed or private. Under Bulgarian law, a joint stock company is the only type of company that may become listed, provided that it has conducted an initial public offering or has a registered share emission for the purposes of trading on a regulated securities market.

In addition to the five types of commercial companies mentioned above, business may also be conducted in one of the following organisational forms:

- Sole trader;
- Holding;
- Branch;
- Trade representative office ("TRO");
- Co-operative.

Under Bulgarian law, sole traders, partners in general partnerships and unlimited partners in limited partnerships and in companies limited by shares have unlimited personal liability to the company's creditors. On the other hand, the shareholders' exposure in limited liability companies and joint stock companies, as well as the liability of limited partners in limited partnerships and in companies limited by shares is capped at the amount of their shareholding in the company's capital.

The procedure for incorporation of a company in Bulgaria does not differ when local or foreign persons participate in its establishment. Under Bulgarian law there are no restrictions as to the size of the foreign participation in the capital of a Bulgarian company and, therefore, up to 100% of the registered capital of a local company can be held by foreign persons.

All types of commercial companies and all branches of foreign commercial companies are incorporated by way of registration in the Commercial Register administered by the Registry Agency with the Ministry of Justice. This is a one-stop shop registration upon which the registered company obtains a unified identification code which serves for all commercial, tax, social security, statistics and other public purposes. The registration procedure varies depending on the type of company that is to be registered, whereas for example, currently registration of a JSC (as well as an LLC) takes approximately up to five business days from filing the relevant documents, registration of a branch of a foreign company takes about two weeks, etc. The average cost of setting up a private limited liability company is around €500-800. If you wish to acquire a company fast and without having to undergo a registration procedure, with a "shelf" company you can start work as early as the next day.

The types of business organisations most commonly used for the establishment of a foreign presence in Bulgaria are the LLC, the JSC, the branch and the TRO.

Limited Liability Company

The limited liability company is the type of business organisation most widely used among investors because of the minimum capital requirements and the simplicity of its corporate governance structure. Shareholders in an LLC may be Bulgarian and/or foreign individuals and/or legal entities. The minimum share capital required by the Commerce Act for incorporation of an LLC is BGN 2 (€1). The shareholders can make both cash and in-kind contributions. The in-kind contribution is subject to mandatory evaluation by three independent experts, appointed by the Bulgarian Registry Agency. The shares in an LLC are not tradable instruments. They may be transferred by a notarised share transfer agreement. The transfer of shares between shareholders does not require a resolution of the general meeting, while a transfer of shares to a third party, as well as the admission of the new shareholder(s), requires such a resolution.

The corporate governance structure of an LLC consists of: (i) a general meeting of the shareholders; and (ii) one or more managers who manage the company and represent it vis-á-vis third parties. Under Bulgarian law only an individual may be appointed as manager of the LLC. The manager can be a shareholder and there are no restrictions on a foreign person being appointed as manager of an LLC. The general meeting of the shareholders of the LLC consists of all shareholders in the company and has the exclusive power among other powers, to: (i) amend and supplement the articles of association; (ii) approve new shareholders, and give consent for the transfer of shares to a new shareholder; (iii) resolve on the increase or decrease of the registered capital, etc. If the LLC is a wholly owned subsidiary, the sole owner of the capital resolves on all matters within the competence of the general meeting of the shareholders. However, a qualified majority is required by law for transfer of shares to a third party, admission of new shareholders and accordingly, unanimity - for capital increases or decreases. An LLC is usually recommended for a small number of shareholders and for long-term business relationships.

Joint Stock Company

The joint stock company is another widely used type of business organisation. It is preferred because of the lack of statutory restrictions on the transfer of shares and the absence of personal engagement of the shareholders in the operation of the company. However, the corporate governance structure is more complex compared to that of the LLC and the Commerce Act sets forth mandatory rules governing the formation of a reserve fund, distribution of profit and minority shareholders rights. A JSC may be established by one or more Bulgarian and/ or foreign individuals and/or legal entities. As a type of a JSC, the solely owned JSC is subject to the same regulation as the JSC, with certain exceptions relating to its specific structure of shareholding. The minimum registered capital required for establishment and operation of a JSC is BGN 50,000 (approx. €26,000). However, special legislation may require higher minimum share capital for carrying out certain types of activities, for example banking or insurance activity. The share capital of a JSC must be distributed in shares with a nominal value of not less than BGN 1 (one Bulgarian Lev) each. At the time of incorporation of the company and as a condition precedent for such incorporation, at least 25% of the nominal value (or issuance value determined in the by-laws) of each share must be paid in and the rest of total amount of the capital shall be paid in within two years. Similarly to the LLC, the shareholders of a JSC can also make both cash and in-kind contributions.

A JSC is usually preferred for a lower extent of publicity of its shareholders. The general rule is that the shareholders in a JSC are not registered in the Commercial Register. Notwithstanding this, they can become known to the public: (i) upon the initial registration through the corporate documents which are filed into the Commercial Register, or (ii) upon mandatory registration with the Commercial Register of resolutions of the general meeting of shareholders.

The corporate governance structure of a JSC consists of: (i) a general meeting of the shareholders, and (ii) a board of directors (in the case of a one-tier governance system), or a supervisory board and a managing board (in the case of a two-tier governance system). The powers vested by law in the general meeting of the shareholders of a JSC are similar to those of the general meeting of an LLC. These powers include, among others: (a) amendment and supplement of the by-laws of the company; (b) increase and decrease of the registered capital; (c) appointment and dismissal from office of the members of the board of directors, or of the supervisory board, respectively, etc. If the JSC is a wholly owned subsidiary, the sole owner of the capital resolves on all matters within the competence of the general meeting of the shareholders. The members of the board of directors, or the managing board, respectively, represent the company jointly, unless the by-laws provide otherwise. The board of directors (in the case of the one-tier governance system), or the managing board subject to the approval of the supervisory board (in the case of the two-tier governance system), may authorise one or more persons to serve as executive director(s) of the JSC and to represent the company vis-á-vis third parties. The law does not impose any restrictions for appointing foreign persons as executive directors of a JSC. Due to the more complicated management system in the JSC, the one-tier system, i.e. with a board of directors, is considered as more flexible system from operational point of view, compared to the two-tier system.

The shares of a JSC are tradable instruments. The shares of a JSC may be: (i) registered or bearer shares; (ii) common or privileged shares, (iii) materialised or book-entry form shares. The by-laws of a JSC may provide that privileged shares grant to the respective shareholder additional voting rights, a guaranteed or additional dividend or liquidation quota, or special management rights, such as veto rights. Shares granting equal rights form a separate class of shares, as the rights of different shareholders from one and the same class may not be restricted. Registered shares are transferred by endorsement, whereas bearer shares are transferred by mere delivery. The transfer of shares in the JSC is not subject to registration in the Commercial Register. The transfer of registered shares must be entered into the book of shareholders of the JSC to have effect against the company. In most cases new shareholders may easily enter the JSC. Nevertheless, restrictions on the transfer of shares may be provided for in the by-laws of the company, and such restrictions shall be binding on the company and on the shareholders. Restrictions on transfer may relate to any type of shares.

Branch

The incorporation of a branch is one of the alternatives to the establishment of business operations of a foreign company in Bulgaria. Foreign companies registered abroad, as well as foreign individuals or persons that do not qualify as legal entities can register a branch in Bulgaria, provided that they are properly incorporated and/ or entitled to conduct business under the national law of their home country.

A branch of a foreign company is established by means of registration into the Commercial Register. After its proper registration according to Bulgarian law, the branch of a foreign company, although not a separate legal entity, has a certain degree of independence from the parent company. Thus, it is required to keep commercial books as a separate business establishment and prepare a separate balance sheet. However, as the branch is not a separate legal entity, its assets and liabilities are deemed to be assets and liabilities of the parent company. Therefore, the branch is not required to comply with capital registration requirements or to have separate by-laws or a distinct management structure, except for a manager. From tax point of view a branch of a foreign company is considered a “permanent establishment” and it triggers corporate income tax liability in Bulgaria for the foreign parent company.

Trade Representative Office

A foreign person/ entity can register a trade representative office in Bulgaria, provided that it is entitled to conduct business under the national law of its home country. As mentioned above, a TRO is established by means of registration with the Bulgarian Chamber of Commerce and Industry. A TRO is not a separate legal entity and it may not carry out business activities. Thus, a TRO is meant to carry out non-proprietary activities, such as organising promotions, exhibitions or demonstrations, training or advertising of products or services, etc. Consequently, in general a TRO does not generate income and is not subject to corporate income taxation in Bulgaria. However, should a TRO engage in business activities in the country, it would qualify as a “permanent establishment” for tax purposes and the foreign parent company will be liable in Bulgaria for corporate income tax on the profit made as a result of the business activity of the TRO.

Accounting and Audit Requirements

All companies and sole traders in Bulgaria are obliged to keep accounting records and to prepare annual financial statements. The primary accountancy documents of the entities should be completed in the local language and currency. The accounting documents received by the entities in a foreign language should be accompanied by a translation into Bulgarian. All companies registered in Bulgaria are required to submit their financial statements to the Commercial Register which is publicly available via the internet.

The following entities must prepare financial statements on the basis of International Financial Reporting Standards (IFRS):

- Credit institutions, investment, and insurance companies, pension assurance companies and the pension funds managed by them;
- Companies issuing securities as per the Bulgarian Public Stock Offering Law;
- Companies which are not small and medium-sized enterprises.

Small and medium-sized enterprises are those which, for at least one of the two preceding years do not exceed the indicators under two of the following criteria:

- Net assets as of December 31st of BGN 8,000,000 (approx. €4,090,335);
- Net income from sales for the year of BGN 15,000,000 (approx. €7,669,378)
- Average number of personnel for the year of 250 employees.

Small and medium-sized companies prepare their financial statements on the basis of the National Financial Reporting Standards for Small and Medium-sized Enterprises. Small and medium-sized companies may also prepare and present their financial statements on the basis of IFRS.

The annual financial statements of the following legal entities shall be subject to an independent financial audit by certified auditors:

- Joint stock companies and partnerships limited by shares;
- Enterprises issuing securities as per the Bulgarian Public Stock Offering Law;
- Credit institutions, investment and insurance companies, pension assurance companies and the pension funds managed by them;
- Enterprises for which this requirement is established by law;
- All other enterprises with the exception of enterprises which over the current or the previous year do not exceed two of the following criteria:
  - Net assets as of December 31st of BGN 1,500,000 (approx. €766,938);
  - Net income from sales for the year of BGN 2,500,000 (approx. €1,278,230);
  - Average number of personnel for the year 50 employees.

  Accountants in Bulgaria charge approx. €200 per month for simple accounting activities.

taxation

Direct Taxation of Corporations

The taxation of corporate income and profits is governed by the Corporate Income Tax Act (“CITA”) which is adopted to meet the necessity of harmonization of Bulgarian taxation legislation with the requirements of European directives concerning direct taxation. Apart from the corporate income tax which is charged on corporate profits, CITA also regulates certain other taxes, such as:

- A tax alternative to corporation tax shall be levied on: gambling businesses; the income accruing to public-financed enterprises from commercial transactions, as well as from letting movable and immovable property; the vessels operation activity;
- Taxes on corporate expenses. Any expenses defined as compulsory by a statutory instrument shall be recognized for tax purposes and shall not attract a tax on expenses;
- Withholding tax on income accruing to any resident and non-resident legal persons.

The corporate income tax rate is 10%. Corporate entities, including subsidiaries of foreign companies incorporated under the Bulgarian Commercial Act are considered Bulgarian tax residents. Upon registration in Bulgaria, these legal entities are subject to tax on their worldwide income, regardless of whether or not it is remitted to Bulgaria. There is no withholding tax or income tax on undistributed profits. Non-resident companies are subject to tax on income and profits derived only from Bulgarian sources.

Determination of Profits for Tax Purposes

Profits are determined in accordance with the generally accepted accounting principles (provided for in the respective accounting standards), subject to adjustments for tax purposes.
Generally, the taxable profit is determined in accordance with the accounting financial result adjusted for tax purposes for: permanent tax differences; temporary tax differences and specific amounts provided in the CITA. There are expenses which are permanently non-deductible for tax purposes and expenses which represent a temporary tax difference, and therefore are non-deductible for tax purposes in the year when accrued for accounting purposes but can be claimed in a subsequent period.

- The major permanent tax differences include:
- Expenses which are not substantiated with proper documents;
- Expenses not related to the business activity of the company; costs incurred by an entity in favour of employees, managers, shareholders, etc. (private costs), as well as expenses for services that do not benefit the tax liable persons are not recognized for tax purposes;
- Service costs and other costs accrued at levels that differ from market levels;
- Penalties, fines and other sanctions for violation of the law;
- Expenses in relation to waste and shortage of materials (except when these are due to force majeure, technological losses, expiry of durability term, etc.);
- Expenses in relation to shortage of current and non-current assets (except when those expenses are due to force majeure, certain amount of shortage of goods in commercial outlets with direct

physical access of the customers to the merchandise);
- VAT charged in relation to items that are not tax deductible;
- VAT accrued by a supplier or by the revenue authorities with respect to a performed supply (unless the VAT expense is accrued in relation to an adjustment to the input VAT credit, in relation to supplies for no consideration or supplies performed upon VAT deregistration);
- Expenses classified as a hidden distribution of profit;
- Expenses for travel and accommodation of shareholders or partners when these are performed by individuals in their capacity of shareholders/partners;
- Revenues accrued in relation to waste and shortage of assets up to the amount of the tax non-deductible expenses incurred for the same reason;
- Income from dividends distributed by Bulgarian tax resident entities and by foreign entities that are tax residents in an EU/EEA Member State.

The major temporary tax differences comprise the following:
- Revenue and/or expenses in relation to subsequent revaluation/impairment of assets is taxable, respectively tax deductible, in the year when the respective asset is disposed of, respectively written off;
- Expenses in relation to provisions for payables or unused annual paid leave of employees (including salaries and social security and health insurance contributions) are treated as tax non-deductible in the year when accrued, except when they are capitalized as tax depreciable assets in accordance with the applicable accounting legislation. Such expenses are recognized as tax deductible in the year when the payable is settled or when the employees effectively use their paid leaves;
- Interest expenses exceeding the threshold established by the thin capitalization rule.

Valuation of Depreciable Assets for Tax Purposes

The total amount of accounting depreciation charged to the income statement of an entity is added back to the entity's financial result for tax purposes, while the annual depreciation charge as per the Tax Depreciation Schedule is reported as a decrease to the entity's financial result. Tax depreciation must be accrued by multiplying the cost of acquisition of the respective depreciable asset by the tax depreciation rate.

Maximum allowed annual tax depreciation rates are as follows:
- 50% for computers, computer peripherals, software and software licences, cell phones;
- 30% for machinery and production equipment (can be increased up to 50% for new manufacturing machines and equipment in certain specific cases defined in the law);
- 20% for automobiles;
- 10% for transport vehicles other than automobiles, roads and runways;
- 4% for buildings (including those held as investment properties), facilities, installations, electrical wiring and lines of communication, etc.;
- Up to 33.33% for long-term intangible and tangible assets where legal or contractual restrictions apply on the term of their use;
- 15% for all other tax depreciable assets where specific rates are not provided.

Utilization of Losses

When calculating their tax financial result, tax liable persons are entitled to subtract tax losses incurred in previous periods. Tax losses may be subtracted from the positive financial result over the following five years up to the amount of the positive tax financial result in those future periods.

Losses from previous years may be taken into account in the calculation of quarterly advance payments.

Foreign-source losses can be carried forward solely against foreign-source income deriving from the same operation unless the losses and the income were generated in an EU/EEA Member State and the tax credit method applies or upon termination of the foreign source in another EU/EEA Member State when the exemption with progression method applies.

Group Taxation. Transactions Between Related Parties

There is no group taxation in Bulgaria. Each entity is taxed as a separate taxpayer. Bulgaria has tax rules regulating tax deductions and taxable revenue from transactions between related parties ("the transfer pricing rules"). Transfer pricing rules apply to both domestic and international transactions between related parties. The Bulgarian transfer pricing rules are broadly similar to the generally accepted OECD standards that could be seen in the EU and OECD countries.

Tax reporting and Tax Payments

In Bulgaria the tax year coincides with the calendar year. All companies in Bulgaria, regardless of whether they are operational or not are required to file a yearly tax return with the tax administration. Taxable persons must submit an annual tax return in a standard form regarding their tax financial result and the annual corporation tax due on or before the 31st day of March of the next succeeding year. Corporate income tax is paid through making monthly/quarterly provisional tax payments. Monthly tax prepayments are made by taxable persons that have earned a tax profit in the last preceding year. Quarterly tax prepayments are made by taxable persons that are under no obligation to make monthly tax prepayments. The monthly prepayments are generally based on the tax profit for the preceding year, adjusted for economic indicators. Monthly tax prepayments are remitted on or before the 15th day of the month to which the said prepayments apply. Quarterly tax prepayments are remitted on or before the 15th day of the month next succeeding the quarter to which the said prepayments apply. No quarterly tax prepayments are made for the fourth quarter. An annual balancing payment is made before the 31st day of March of the next succeeding year. It is calculated as a balance between the annual tax liabilities reported in the tax return and monthly provisional instalments paid.

Tax on Corporate Expenses

Bulgaria levies taxes on certain expenses. The taxes are charged monthly. The expense and the tax thereon shall be recognized for tax purposes in the year of charging and shall not form a temporary tax difference. If the taxable person has over remitted any tax on expenses or any corporation tax, the said tax may be deducted from the tax on expenses due. The rate for taxes on all kinds of expenses is 10%. With regard to the fact that the tax on expenses is recognized for tax purposes, the effective tax rate is 9%.

The following expenses, supported by documents, are subject to tax on expenses:

- Representation expenses related to the company's business activity;
- Expenses for in-kind benefits provided to the company's personnel (e.g. subsidized canteen, food allowances, organized holiday, holiday allowances, subsidized vacation facilities, sports and recreational activities, etc.);
- Contributions to voluntary insurance exceeding BGN 60 per month for each hired person;
- Vouchers for food provided in accordance with the provisions of the law and exceeding the amount of BGN 60 per month (approx. €31) for each hired person;
- Expenses related to maintenance, repair and exploitation of transport vehicles when these are used for the company's management activity.

Withholding Tax

Withholding tax at a rate of 10% (5% for dividend distributions and liquidation quotas) is to be deducted by the payer when Bulgarian source income is payable by a local tax resident entity to non-resident taxpayers without a permanent establishment in Bulgaria, unless a Double Tax Treaty ("DTT") provides for lower withholding tax rates. A reduced withholding tax rate of 5% is applied on income from interest and royalties when payable to associated companies tax resident in an EU/EEA Member State. No withholding tax is due on dividends and liquidation quotas distributed by local entities to companies that are tax resident in an EU/EEA Member State. When foreign entities without a permanent establishment in Bulgaria realize capital gains from trading in Bulgarian securities or real estate properties, withholding tax of 10% is to be levied on the capital gain and remitted to the Bulgarian taxation authorities by the entity realizing the gain, unless a DTT provides for exemption or lower withholding tax rates.

Foreign companies that are tax residents in EU/EEA, and which may not utilize the withholding tax paid in Bulgaria as a tax credit in their country of tax residence, may choose an option to recalculate the withholding tax paid in Bulgaria so that the amount would equal the corporate income tax due if the income were derived by tax residents of Bulgaria. Hence, the tax base of non-residents could be reduced by the expenses attributable to the respective income whose source is Bulgarian. The difference between the withholding tax paid and the recalculated corporate income tax due may be reimbursed up to the amount that could not be used as a tax credit by the non-resident in his state of residence. This right is exercised by the foreign tax resident by filing a tax return by 31 December of the year following the tax year when the income was accrued.

Treaties for Avoidance of Double Taxation (Double Tax Treaties)

Bulgaria has concluded more than sixty double tax treaties which provide for a relief of tax or a reduced rate of tax. In order to benefit from the reliefs in a double tax treaty a non-resident person must submit an application to the revenue authority. Written evidence regarding the type, the grounds for realization and the amount of the relevant income should be attached to the claim. The revenue authorities exercise control as to the application of convention and conduct an examination or an audit. Where an examination is conducted, an opinion on the existence or non-existence of grounds for application of the tax convention shall be issued to the non-resident person within 60 days after submission of the request. Non-pronouncement within this time limit is presumed as an opinion on the existence of grounds for application of the double tax treaty.

Local Taxation

Local taxes are charged by the municipalities. The main local taxes are:

Real Estate Tax

Taxable properties are built up land and non-built construction plots. No tax shall be levied on agricultural land tracts and forests, with the exception of developed land in respect of the actually developed surface area and the adjoining ground. Taxable persons are the owners or holders of limited real rights over the taxable property. The Municipal Council determines the amount of the tax within a range of 0.1 to 4.5 ‰ of the assessed value of the property. A reduction of 50% of the tax is allowed if the property is a main residence.

Transfer Taxes

Tax shall be levied on any properties acquired by donation, as well as on any onerously acquired real estates, limited real rights thereto, and motor vehicles. The tax shall be paid by the transferee of the property or by the transferor in case the transferee is abroad. The tax rate is determined by the Municipal Council within 0.1 and 3% of the assessed value of the transferred property. Donation and disposal without consideration of any property are subject to tax at the following rates:

- 0.4-0.8% to donations between siblings and the children of siblings;
- 3.3-6.6% to donations between any persons.

Vehicle Tax

Vehicle tax is payable by the owners of means of transport on road, ships and airplanes registered in Bulgaria. The rate of tax depends on the type and the characteristics of the respective mean of transport, e.g. the vehicle tax for cars is determined by the engine power. The tax is due on an annual basis. In addition to the above taxes, municipalities also collect some service charges for performance or maintenance of public services such as waste collection charge, tourist charge, charges for various administrative services.

Income Taxation of Individuals

Taxable Persons

Taxable persons are resident and non-resident natural persons, who earn income from sources in Bulgaria and resident and non-resident persons, who are obliged to withhold and remit taxes. “Resident natural person,” whatever the nationality, is any person:

- Who has a permanent address in Bulgaria, or
- Who is present within the territory of Bulgaria for a period exceeding 183 days in any twelve-month period, or
- Who is sent abroad by the Bulgarian State, by bodies and/or organizations thereof, by Bulgarian enterprises, and the members of the family of any such person, or
- Whose centre of vital interests is situated in Bulgaria.

Any person, who has a permanent address in Bulgaria but whose centre of vital interests is not situated in the country, is not a resident natural person. Where a Double Tax Treaty applies, the residency status could be impacted by the provisions of the Treaty. Resident natural persons are liable to taxes in respect of any income acquired thereby from sources inside and outside Bulgaria while non-resident natural persons are liable to taxes in respect of any income acquired thereby from sources inside Bulgaria.

Taxable Income

The annual general flat tax rate applied for taxation of an individual’s income is 10%.

Annual taxable income is defined as an aggregate of the total income received by the individual during the calendar year with the exception of the income which is non-taxable by virtue of a law and the income specifically excluded from the annual income which is taxed separately under specific rules. Taxable income and the taxable amount shall be determined for each source of income separately under specific procedures, provided in the law. The aggregate annual taxable amount is the sum total of the annual taxable amounts determined for each type of income, depending on the sources, net of the tax reliefs provided for by law.

The sum total of the annual taxable amounts is debited with:

- Personal voluntary social insurance contributions made during the year to an aggregate amount not exceeding 10% of the sum total of the annual taxable amounts, as well as with any personal voluntary health insurance contributions and premiums/payments paid during the year under contracts of life assurance to an aggregate amount not exceeding 10% of the sum total of the annual taxable amounts;
- Donations made during the year up to certain limits and under certain conditions etc.

Individuals are subject to the following taxes on income:

- Employment income is levied with a flat 10% personal income tax rate. The tax on employment income is withheld by the employer at source on a monthly basis. Certain statutory tax deductions may be claimed against the gross income.
- Non-employment income is also subject to a flat 10% tax rate. Certain statutory tax deductions may be claimed against gross income (e.g. income received under civil contracts).
- Income received by partners in a partnership, cooperators and shareholders holding more than 5% of a company's capital in return for their personal involvement/work in the entity is treated as equivalent to employment income.
- In case of receipt of rental income, no remittance obligation arises for the payer of the income if he/she is an individual. The full responsibility for payment of the due tax charge is borne by the recipient of the income. When the payer of the rental income is an entity or a self-insured person, then they have the obligation to calculate, withhold and remit at source the due tax charge on the income. This does not waive the obligation of the recipient of income to file an annual Bulgarian personal income tax return at the end of the year
- A 10% withholding tax applies to interest, rents, royalties, capital gains, management income, income received under franchise and factoring contracts, leasing instalments under contracts according to which the ownership rights over immovable property are transferred, scholarships for studying in Bulgaria and abroad, indemnity for benefits lost, fees for technical services accrued to non-resident individuals as well as income accrued by local legal entities to foreign sportspeople, scientists and artists.
- A one-off tax of 5% is levied on Bulgarian individuals receiving dividends from foreign entities.
- A one-off tax of 10%/7% is levied on early withdrawal of accrued voluntary social security/insurance contributions depending on the circumstances.

Specific rules apply with regard to the taxation of capital gains arising from disposal of movable and immovable property. It is also specified that no withholding tax is due on payments to residents of other EU Member States regardless of the fact that the types of income may fall in the scope discussed above should this income be exempt for Bulgarian tax residents (e.g. interest on deposits).

Returns and Payment of Taxes

Natural person should file an annual tax return. The obligation to submit an annual tax return does not apply to persons who have received solely:

- Income from employment relationships;
- Non-taxable income;
- Income on which a final tax is leviable;
- Income accruing to non-resident persons, on which a final tax has been levied.

The return should be fi led before the 30th day of April of the year next succeeding the year of acquisition of the income. The tax should be remitted on or before the 30th day of April of the year next succeeding the year of acquisition of the income. If the annual tax return is submitted on or before the 10th day of February of the next succeeding year, a rate rebate of 5% of the balance of tax due under the annual tax return where remitted on or before the same date is allowed. If the return is submitted on or before this date by electronic means, a rate rebate of 5% of the balance of tax due under the annual tax return where remitted on or before the same date is provided.

Double Taxation Treaties

As mentioned above Bulgaria has concluded more than 60 double tax conventions. They also provide rules regarding natural persons. If no such treaty exists with the respective country pursuant to the Income taxes on natural persons Act resident natural persons are allowed foreign tax credit in respect of identical or similar foreign taxes levied abroad by the respective competent authorities.

Excise Duties

In Bulgaria the system of “tax warehouses” is applied. A tax warehouse is the place where excise duty goods are produced, stored, entered or sent by traders under the term of delayed excise duty payment. Certain luxury products, as well as certain other goods listed in law are subject to excise duties. Excise duties are payable as a one-time consumption tax on the import of dutiable products in Bulgaria, or on the first sale of locally manufactured products in Bulgaria by their manufacturer.

The following main categories of products are subject to excise duties:

- Liquors and beer, and raw materials with a content of alcohol; wine is zero-rated for excise duty purposes, but the producers of wine may be subject to excise duty registration and control;
- Tobacco products such as cigars, cigarettes, tobacco for consumption;
- Energy products and electricity.

Excise duties are normally charged as a flat amount per measurement unit for the respective product (BGN per piece/ ton/ litre, etc.). Exports are exempt from excise duties. Where excise duties have been paid for products that are subsequently exported, a refund could be received. Where excise duties are charged on raw materials with a content of alcohol which have been used for production of dutiable liquors or non-dutiable food products or medicines, a refund could be claimed for the duties paid on the raw materials.

Value Added Tax (“VAT”)

Bulgarian VAT legislation is generally harmonized with EU VAT Directives. The standard VAT rate for supplies of goods or services is 20 %. The rate of tax applicable to accommodation provided by hoteliers is 9%.

The following transaction should be VAT taxable:

- Each taxable supply of goods or services effected for consideration;
- Each intra-Community acquisition effected for consideration, whereof the place of transaction is within the territory of the country, by a person registered under this Act or by a person in respect of which an obligation to register has arisen;
- Each intra-Community acquisition of new means of transport effected for consideration, whereof the place of transaction is within the territory of the country;
- The importation of goods;
- Each intra-Community acquisition whereof the place of transaction is within the territory of the country of excisable goods.

Under Bulgarian legislation taxable person shall mean any person who independently carries out an economic activity, whatever the purpose and results of that activity.

Registration of Persons

Pursuant to the VAT Act some of the persons that fall within the requirements of the law are obliged to register with the National Revenue Agency. Upon registration each person is issued a unique ID number for VAT purpose having a BG prefix. There are two types of registration – compulsory and optional. In general, the compulsory registration applies to taxable persons having a taxable turnover of BGN 50,000 (approx. €25,565) or more for a period not exceeding the last twelve consecutive months proceeding the current month. Optional registration under the VAT Act provides persons that satisfy a certain requirement with the right to register (but not the obligation) and to benefit from the regime of the VAT system. The registration procedure takes about 2-3 weeks to complete and costs around €150.

VAT Exemptions

The following major transactions are entitled to zero rate of VAT:

- Intra-Community supplies of goods;
- Supplies of goods transported or dispatched outside the European Community (exports);
- International transport of passengers and goods and certain related supplies;
- Supplies of non-Community goods placed under a special customs regime (such as temporary warehousing, customs warehousing, inward processing, temporary importation with full exemption from duties);
- Services consisting in work on goods (such as processing or repair) when the recipient of the services is a person established outside the country and the goods are imported within the Community in order to be processed and after that re-exported;
- Services rendered by agents, brokers and other intermediaries acting in the name and on behalf of a third person in relation to certain export transactions.

Intra-community Supply of Goods

If a Bulgarian VAT registered person sells goods to a customer who is registered for VAT in another EU Member State and the goods are physically transferred from Bulgaria (either by the supplier or by the customer) to another EU Member State, the supply is regarded as a zero-rated (exempt with credit) intra-Community supply.

VAT Documents, Reporting and Payment

VAT is generally reported and paid monthly. The monthly VAT returns are to be filed and VAT payments transferred by the 14-th day of the following month. The tax under this Act shall become chargeable in respect of the taxable supplies and an obligation for the registered person to charge the said tax shall arise on the date when the supply of goods or services is affected. The tax upon an intra-Community acquisition shall become chargeable on the 15th day of the month following the month during which the supply of goods or services is affected.

VAT Refunds

Where VAT incurred on purchases exceeds VAT charged on sales, the excess VAT deduction is first carried forward for a period of two months to offset any VAT debt due in these two months. If at the end of the two-month period the excess VAT or part thereof has not been recovered, the balance is refunded within 30 days after the date of fi ling of the VAT return for the second month.

HLB in Bulgaria how to contact us

HLB International's member firm in Bulgaria is HLB Bulgaria Ltd. The following is a brief description of services provided:

- Independent financial audit services;
- Audit and monitoring of projects financed from European funds or other international organisations;
- Internal audit according to client's assignment;
- Review of internal control system;
- Tax advisory including tax litigation;
- Consulting services related to acquisitions and corporate restructuring ("due diligence");
- Design and implementation of management accounting and reporting systems;
- Valuation of assets and entire enterprises.

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