

Doing business in Bulgaria

Learn how EY can help you navigate
through Bulgaria

2020

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the 'Y' is a yellow chevron shape pointing to the right.

Building a better
working world

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Dear reader,

Thank you for taking the time to get acquainted with this guide containing a comprehensive tax and legal analysis of the business environment in Bulgaria.

We have tried to touch upon the various questions that you as an investor might have when trying to find the best destination for your next business endeavour. Of course, you need to be aware that the economic, tax and legal landscapes change with time and there are a number of details within your specific industry sector and company business model that need to be observed.

In the last 30 years, Bulgaria has made considerable progress in terms of economic and political reforms and enjoys stable financial system and business climate. After better than expected GDP growth in 2019 of 3.4%, Bulgaria's economy, in line with other EU countries, is set to plunge into a recession in 2020, due to the toll the COVID-19 pandemic is taking on export and domestic activity. At this stage different economic forecasts envision a GDP contraction in the range of 3.0-6.0% before rebounding in 2021 as policy measures are introduced, global commodity prices gradually recover, and trade strengthens. The 2021 forecasts for Bulgaria's GDP growth is to reach between 3.0% and 4.7%.

We look forward to welcoming you in Sofia!

All the best,

Nikolay Garnev
Country Managing Partner,
EY Bulgaria

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**EY Bulgaria is here
for every step of
your business.**

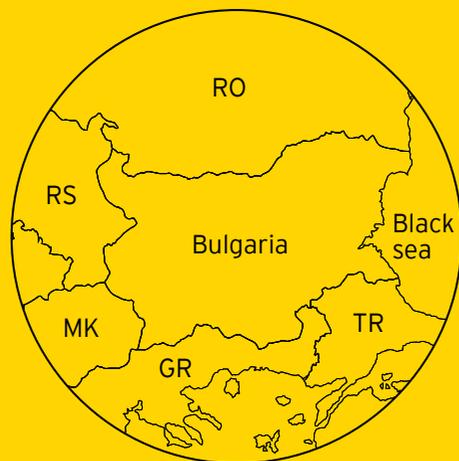
Bulgaria

An aerial night photograph of Sofia, Bulgaria. The city is illuminated with warm yellow and white lights, contrasting with the dark blue and purple twilight sky. In the foreground, the large, illuminated Parliament Building (Sofia City Hall) is a prominent feature. The city extends into the distance, with lights from buildings and streets creating a dense pattern of light against the dark landscape. Hills are visible in the background under the fading light of the sunset.

Bulgaria is situated on the Balkans and is bordering Romania to the North, the Republic of Serbia and North Macedonia to the West, Greece and Turkey to the South and the Black Sea to the East. The Danube River separates Bulgaria from Romania connecting Bulgaria with countries from Europe. The Black Sea provides water access to Russia, Ukraine and Georgia, and through the Bosphorus, to the World Ocean. Its location in southeastern Europe puts it at the crossroads of important routes connecting Western Europe with the Middle East and Russia and Asia.

The strategic location combined with developed transportation infrastructure leads to close economic ties with other countries. Bulgaria has four commercial airports in Sofia, Plovdiv, Varna and Burgas, which operate international and domestic flights.

Bulgaria



At a glance

Climate

Continental

The continental Mediterranean climate of Bulgaria is a combination of cold, damp winters and hot, dry summers. The country is partly mountainous with lowlands in the north and the southeast.

Time zone

EET

Bulgaria is in the Eastern European Time (EET) zone and is 2 hours ahead of Coordinated Universal Time. The zone uses Daylight Saving Time and is 3 hours ahead during the summer.

Language

Bulgarian

The country's official language is Bulgarian. Secondary language closely corresponds to the ethnic background. According to the most recent census from 2011, 85% are ethnic Bulgarians, 8.8% are Turkish, 4.9% are Roma and the rest are from other ethnic groups. English and, to a lesser extent, German and French are spoken by the population as second languages.

Currency

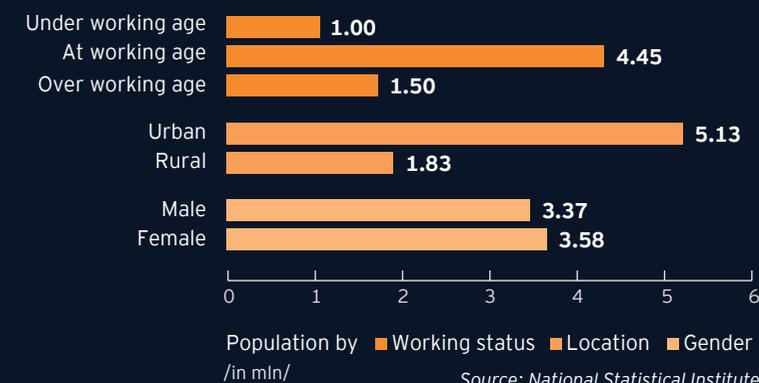
Bulgarian Lev

The official currency of Bulgaria is Bulgarian Lev. Bulgaria enjoys stable currency due to a currency board arrangement introduced in 1997 (Bulgarian currency is pegged to the euro at a rate of BGN 1.95583 : EUR 1).

Population

From 31 December 2019, the population of Bulgaria is 6.96m representing 1.6% of the population of the EU. Most of it is located in urban areas.

According to the official statistics by the World Bank, Bulgaria's population is highly educated with an adult literacy rate of 98%. This, combined with a relatively low cost of labor, makes Bulgaria an attractive destination for foreign investments.



1 Jan	New Year's Day
3 Mar	National Holiday (Bulgaria's Day of Liberation from Ottoman Rule)
1 May	Labor Day
6 May	St. George's Day, Day of the Bulgarian Army
24 May	Day of Bulgarian Enlightenment and Culture, and of Slavonic Alphabet
6 Sept	Bulgaria's Unification Day
22 Sept	Bulgaria's Independence Day
1 Nov	Enlightenment Leaders' Day - a day-off for educational establishments
24 Dec	Christmas Eve
25-26 Dec	Christmas
2 days	Easter (moveable holiday)

Public holidays

Business landscape

In the last few years, Bulgaria has enjoyed a period of sustained economic growth and political stability - it has been ranked 61st in the World Bank's "Doing Business 2020" index, and 17th as an outsourcing destination in A. T. Kearney's global research.

Pre-COVID BMI reports of 2019 re-affirmed Bulgaria has a promising growth potential over the next decade due to its cost efficient labour, growing political stability and potential for increase in productive capacity. With the country looking well-positioned to attract foreign direct investment (FDI), real GDP growth was expected to average over 2.8% in the next 10 years.

In line with latest global trends, in recent economic reports for Bulgaria a contraction in 2020 GDP of 3.0-6.0% is forecasted in various sources (World Bank, Oxford Economics, Ministry of Finance of Bulgaria, Unicredit, etc). In its recent economic report for Bulgaria

of June 2020 Oxford Economics forecasted that the economy will recover sharply in H2 2020 with a real GDP growth of 4.7% expected for 2021, and a stabilized rate of 3.0-4.3% projected thereafter. Domestic demand, a main driver of GDP growth, is expected to recover in the medium term (after the initial rebound following the pandemic effects), helped by rising exports, thereby spurring greater domestic investment. Bulgaria also benefits from a favourable credit risk score resulting from a healthy fiscal balance and a very low Debt to GDP ratio. In addition, the combination of the lowest market labor costs and one of the lowest flat corporate tax rates in the EU (10%) increase the attractiveness for foreign investors.

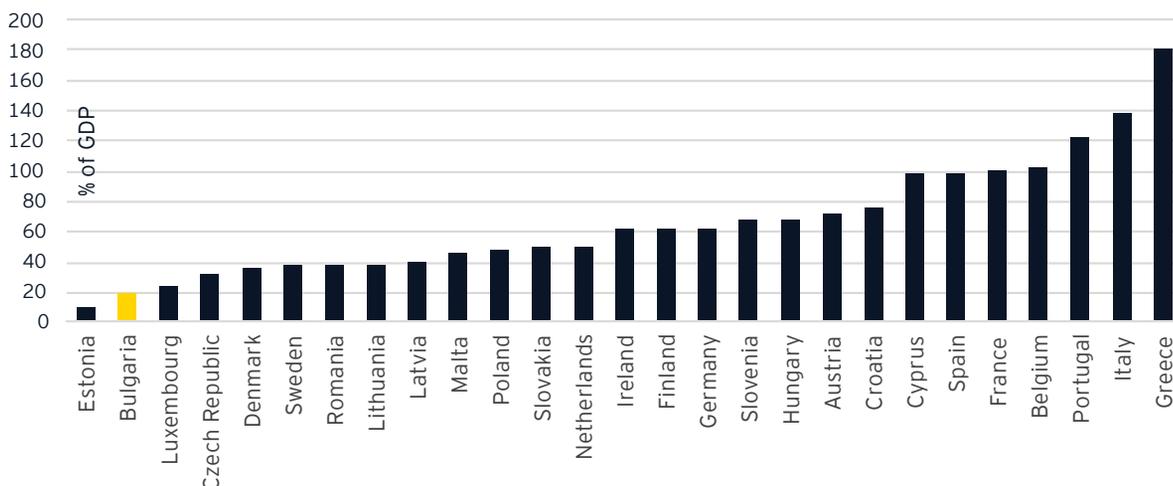
Bulgaria has made a considerable progress in the last 25 years, reforming its economy in line with the political changes happening in the country. Joining the European

Union (EU) in 2007 was a driving force for reform, modernization and convergence with EU living standards.

Bulgaria achieved a better than expected economic growth of 3.4% in 2019. Private consumption was one of the main drivers of this growth.

Foreign direct investments, EU funds and digital transformation are expected to contribute to the future growth of the local economy.

Government debt to GDP



Key indicators and forecasts

Source: Haver Analytics/Dun & Bradstreet

Subject descriptor	2013	2014	2015	2016	2017	2018	2019e	2020f	2021f	2022f
Real GDP growth (%)	0.2	2.0	3.9	3.8	3.5	3.2	3.4	-4.9	4.7	4.3
Nominal GDP in USDb	56	57	51	54	59	66	68	65	71	76
Nominal GDP in local currency (b)	82	84	89	95	102	109	119	114	122	129
GDP per capita in USD	7,658	7,859	7,050	7,544	8,350	9,413	9,754	9,600	10,749	11,585
Population (year-end, m)	7.3	7.2	7.2	7.1	7.1	7.0	7.0	6.9	6.8	6.8
Exchange rate (yr avge, USD-LCU)	1.5	1.5	1.8	1.8	1.7	1.7	1.8	1.7	1.7	1.7
Current account in USDb	0.7	0.7	0.1	1.8	2.1	0.6	2.1	1.2	3.5	5.1
Current account (% of GDP)	1.4	1.2	0.2	3.2	3.5	0.9	3.1	1.8	4.8	6.5
FX reserves (year-end, USDb)	17.3	17.6	19.9	22.7	25.7	26.1	24.9	27.3	28.8	31.1
Import cover (months)	6.3	6.5	8.5	10.2	9.6	8.5	8.4	10.3	9.6	9.7
Inflation (annual avg., %)	0.9	-1.4	-0.1	-0.8	2.1	2.8	3.1	1.9	1.9	2.0
Govt balance (% GDP)	-0.4	-5.4	-1.7	0.1	1.1	2.0	2.1	-3.4	-1.1	-0.7

Low government debt to GDP

2nd lowest government debt to GDP in the EU (<22%) in 2019

4.7% real GDP growth

in 2021, forecasted by Oxford Economic

Stable economy

Bulgaria is among the most stable economies in Central & Eastern Europe in 2019 according to Euromoney

Financial system

The Bulgarian banking sector plays the most significant part in the country's financial system, with assets accounting for around three-quarters of total financial assets. The primary institutions responsible for the financial stability of Bulgaria are the Bulgarian National Bank (BNB) and the Financial Supervision Commission (FSC). The FSC's main responsibilities lie in the regulation and supervision of non-banks, capital markets, insurance and pensions, but nevertheless it works with the BNB to safeguard the financial stability in the country. In addition, the Financial Stability Advisory Council (FSAC) is responsible for the formal Macroprudential framework, crucial for the banking sector. Furthermore, the prime responsibility of the BNB is to assess systemic risk in the banking sector. However, it also has a macro-prudential responsibility in line with the EU supervisory framework.

- ▶ The Bulgarian banking market is currently composed of 18 banks and 6 branches of foreign banks.
- ▶ In 2019, the ECB conducted an overall assessment and will adopt a decision on Bulgaria's request to establish close cooperation. The overall assessment included Asset Quality Reviews and Stress tests of six banks in Bulgaria. The assessment was done between January and June 2019. In July 2019, the European Central Bank announced the results of the AQR of the six Bulgarian banks, which confirmed the overall stability, high liquidity and good capitalization of the banking sector.

- ▶ In June 2017, KBC Group acquired United Bulgarian Bank, part of NBG Group (holding 7.4% of the total market) for the amount of EUR 610m, leading to the consolidation of UBB and CIBANK (part of KBC Group holding 3.4% of the total market).
- ▶ In January 2019 Societe Generale Expressbank was acquired by OTP. The integration between the two banks has been successfully completed in 2020. After the merger of the two financial organizations, DSK Bank moves to the second top market position in terms of deposit and loan portfolio in Bulgaria, serving over 2.5 million customers.
- ▶ The banking sector was further consolidated in June 2019 when Eurobank's Bulgarian subsidiary acquired Piraeus Bank's subsidiary Piraeus Bank Bulgaria EUR 75m. The acquisition boosts Postbank's share in Bulgaria's banking market to more than 10%, ranking it third in terms of total loans.
- ▶ The total assets of the domestic banking sector amounted to c. EUR 58.71b as at 20 Sept.
- ▶ The Bulgarian banking sector enjoys healthy levels of capital adequacy. The reported common total capital ratio of the sector was 20.16% at the end of Q419. The total amount of capital that banks and investment firms are required to hold should be equal to at least 8% of risk-weighted assets, which indicates that Bulgarian banks have enough resources to withstand an economic downturn.

Sectors

Bulgaria has a strong industrial basis. In the last decade, Bulgaria has increased its industry share and, also, the total share of manufacturing in GDP. Central to the economy of Bulgaria are the following sectors: energy, mining, metallurgy, machine, agriculture and tourism, as well as IT and ICT, telecommunications, pharmaceuticals and textiles. Primary industrial exports include clothing, iron and steel, machinery and refined fuels. All of this comes as a condition for boosting competitiveness, sustainable growth and new jobs.

According to Oxford Economics the fastest growing industrial sectors over the next decade are expected to be rubber & plastics, high-tech goods and wood & wood products.

Low levels of unemployment and rising wages have boosted real incomes and raised consumer confidence.

Strong financial system

confirmed by a number of regulatory reviews by local and EU regulators

Industries % in GDP

Source: Oxford Economics

Industry	2013	2014	2015	2016	2017	2018	2019
Manufacturing	15.0%	15.4%	15.9%	16.1%	16.4%	16.3%	16.4%
Government and community services	15.7%	15.3%	14.4%	14.2%	14.1%	14.1%	14.0%
Real estate activities	11.8%	12.0%	12.2%	12.2%	12.0%	12.1%	12.1%
Retail	11.6%	11.7%	11.4%	11.7%	11.8%	12.0%	12.1%
Financial services	7.5%	7.2%	7.4%	7.3%	7.2%	7.2%	7.2%
Transport and logistics	6.1%	6.3%	6.3%	6.4%	6.4%	6.4%	6.3%
IT and communications	5.4%	5.3%	6.0%	6.1%	6.1%	6.2%	6.2%
Other business services	5.8%	6.0%	5.9%	5.9%	5.8%	5.8%	5.8%
Construction	6.2%	6.2%	5.6%	5.5%	5.5%	5.5%	5.5%
Agriculture, forestry and fishing	4.7%	4.2%	4.3%	4.2%	4.0%	3.9%	3.8%
Utilities	4.1%	3.9%	3.9%	3.9%	3.9%	3.8%	3.8%
Hospitality	3.3%	3.6%	3.7%	3.8%	3.8%	3.8%	3.8%
Mining and extraction	2.8%	2.9%	3.0%	3.0%	2.9%	2.9%	2.9%

IT and technology

In the last 15 years, Bulgaria has developed a strong IT and technology sector by attracting leading global IT and technology companies, thus giving impetus to the IT community and ecosystem in the country, employing thousands of qualified professionals and turning the country into a regional ICT center. Digital transformation of industries across the world and favorably developing a start-up ecosystem in Bulgaria contribute to a good-looking future image and positive growth expectations for the IT sector in the country in the upcoming years. Annual revenues of IT sector in the country have grown by 23.3% in 2018 and by 133.6% in the last five years (2013-2018). Currently the sector employs more than 30,000 people and amounts at around 3% of Bulgaria GDP.

Outsourcing

Together with the IT sector, Bulgaria has also developed its outsourcing industry. In 2018 the industry contributed with 5.2% to the Bulgarian GDP compared to 4.8% in 2017. If the

positive trend persists, the industry's revenue is expected to double to EUR 4.8 bln and contribute up to 9.2% of the country's GDP by 2022. More than 58% of the companies in the sector primarily operate as BPO (Business Process Outsourcing) vendors, while the remaining 42% have ITO (IT Outsourcing) as main activity. The sourcing industry employed 73,694 end-of-year (EoY) employees and 66,565 full-time employees (FTEs). By 2022, the number of FTEs in sourcing is expected to reach 80,000.

The differentiation between ITO and BPO (business process outsourcing), especially in the KPO (knowledge process outsourcing) field is gradually fading as the complexity of the companies' products and services gradually evolves. Narrowly specialized companies in the fields of FAO (finance and accounting outsourcing) or HRO (HR outsourcing) remain considerably fewer than BPO companies with a broad profile. The number of KPO providers shows a sound growth trend, as more BPO companies turn into KPOs.

Automotive

The automotive sector has developed a lot in Bulgaria in recent years. Bulgaria heads the list of the top 10 countries, attractive to the automobile sector in Europe, according to a research by Colliers International and Automobile Cluster Bulgaria. The companies, which took part in the survey, defined as main advantages of Bulgaria the low labor costs (50%) and the EU membership. The proximity to clients and producers was ranked as second most important to 45% of the respondents, followed by the tax incentives received for doing business in regions with high unemployment rate (36%). Among the criteria were the low real estate and electricity costs, the currency board, and the accessibility and quality of the workforce.

Reasons to invest

EU, NATO, WTO

Bulgaria is part of the EU, NATO and WTO

Highly educated

Highly educated population with English widely spoken in the country

Cost efficiency

Low operating costs

Investment protection

The Republic of Bulgaria is a party to more than 50 bilateral agreements for mutual protection and encouragement of foreign investment. It is also a party to the Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

Stable currency

Bulgaria enjoys stable currency due to a currency board arrangement introduced in 1997 (Bulgarian currency is pegged to the euro at a rate of BGN 1.95583 : EUR 1).

Favorable tax regime

Bulgaria has the most favorable tax regime in Europe. Corporate income tax rate is 10%, the lowest in the EU. Personal income tax is 10%, flat rate. Industries in high-unemployment areas can be granted a 0% tax rate.

Strong economic growth

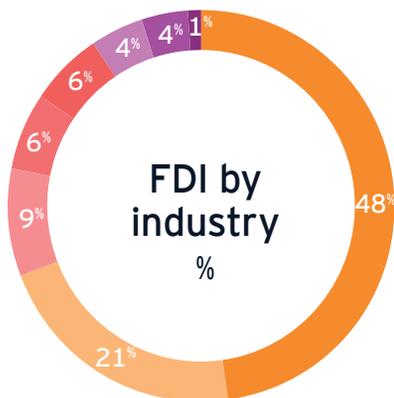
Real GDP growth reached 3.4% in 2019, which is one of the highest in Europe.

Financial stability

2nd lowest government debt to GDP in the EU (<22%) in 2019.

Good capitalization

The AQR assigned by the Central Bank in 2016 and the one performed by ECB in 2019 confirmed the good capitalization of the banking system.



Source: Bulgarian National Bank

- Automotive services
- Real estate
- Manufacturing
- Information and telecom services
- Agriculture
- Energy
- Unclassified
- Others

Source: National statistical institute

- Germany
- Russia
- Romania
- Italy
- Turkey
- Greece
- France
- Others

Foreign direct investment

Foreign Direct Investments in Bulgaria have exceeded US\$1.23b in 2019. The largest net pre-investment flows are coming from the UK, the Netherlands and Germany

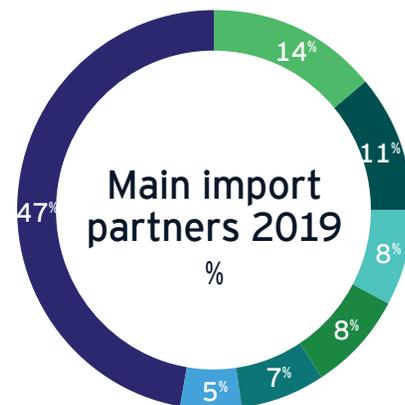
Bulgaria ranks 23rd in Europe in terms of attracted FDI projects in 2018, according to EY European Attractiveness Survey. Number of projects increased to 43 in 2018 compared to 33 in 2017.

Foreign trade

Bulgaria has been actively trading with other countries. For 2019, the total value of exports is US\$33,424m and the total value of imports is US\$37,284m.

In 2019, Bulgaria major trading partner countries for exports were Germany, Romania, Italy, Turkey and Greece and for imports they were Germany, Russian Federation, Italy, Romania and Turkey. Top exports of Bulgaria are machinery and transport equipment, manufactured goods classified chiefly by material, other manufactured articles, food and live animals and chemical and related products. Top imports of Bulgaria are machinery and transport equipment, manufactured goods classified chiefly by material, chemical and related products, mineral fuel, lubricants and related materials.

Exports and imports to the EU saw an increase in 2018 compared to the previous year. In 2018, Bulgarian exports to the EU increased by 9.1% compared to 2017 while Bulgarian imports from the EU in 2018 increased by 5.6% compared to 2017.



9.1%

increase in Bulgarian EU exports in 2018

63%

of foreign trade is with countries within the European Union (EU)

Business incentives



Can you protect
your legacy by
breaking new
ground?



The better the question. The better the answer.
The better the world works.

Business incentives

1

Tax incentives

Under certain conditions, domestic tax legislation provides for various tax incentives, such as:

- ▶ Up to 100% corporate income tax relief for manufacturers in underdeveloped regions
- ▶ 100%-expense deduction allowed for intangible assets from R&D activity
- ▶ Accelerated depreciation for new investments
- ▶ Tax relief for initial investment in tangible production assets and manufacturing plants/facilities
- ▶ Qualified investors are allowed to self-assess VAT (to a certain amount) on import instead of effectively paying it.
- ▶ Bulgaria has the shortest general VAT refund periods - practically three months.
- ▶ Qualified investors and exporters enjoy a shorter 30-day refund period.

2

Non-tax incentives

- ▶ Investors proposing projects, meeting certain eligibility rules are subject to the following benefits:
 - ▶ Financial support with the necessary public infrastructure (roads, water, etc.)
 - ▶ Reimbursement of employees' mandatory social security and health insurance contributions
 - ▶ Financial support for employees' training
 - ▶ Purchase of state or municipal land without a tender procedure and no state fees for the land status conversion
 - ▶ Shortened administrative deadlines allowing less administrative burden and a faster start of business
- ▶ Employers may benefit from salary and social security reimbursement schemes when hiring people from certain social groups.
- ▶ Companies operating in certain energy-intensive industries are entitled to financial support for reduction of electricity costs.

3

EU funding opportunities

During the present EU programming period (2014-2020), EU funding opportunities continue to be available for businesses operating in Bulgaria. EU funded operational programs (OP) provide support for entities active in a wide range of economic activities.

The 2014-2020 allocation for businesses in Bulgaria amounts to:

- ▶ **EUR 707.13m** for "Human Resources Development" OP
- ▶ **EUR 1,037.14m** for "Innovation and Competitiveness" OP
- ▶ **EUR 701.18m** for "Science, Education and Intelligent Growth" OP
- ▶ **EUR 1,009.60m** for "Rural Development" Program

Investors may obtain grants under a variety of funding instruments at national, bi-/multi-lateral or EU level for investments:

- ▶ Production equipment
- ▶ R&D and development of innovations, including new products, processes and business models
- ▶ Energy efficiency, implementing renewable energy resources in the manufacturing process
- ▶ Implementation of international standards of quality, safety, energy efficiency, etc.
- ▶ Human resources development - training and professional qualification of employees
- ▶ Refund of expenses for transport of employees, investment in safety measures at the place of employment
- ▶ Implementation of innovative models for increasing the productivity and protecting the environment

Bulgarian businesses as entities established in the EU can also benefit from a wide variety of direct EU funds supporting innovation activities and ecological projects, transfer of good practices, know-how, as well as development and implementation of specific mechanisms and policies related to the respective economic activity.

4

Loans, guarantees and equity investments

Bulgarian businesses, depending on the type of economic activity, size of business and planned investments, can also benefit from a wide range of EU-supported financial instruments in the form of low-interest loans, guarantees and equity investments.

Tax guide



Is the most
transformative
perspective the
one you don't have?



The better the question. The better the answer.
The better the world works.

Tax guide

General legislative framework

Taxation in Bulgaria is regulated by local Bulgarian tax legislation.

In addition, as an EU Member State, Bulgaria is impacted by the processes of harmonization of tax legislation at EU level. This has led to full convergence of law in some areas, such as customs, high level of harmonization in others, such as value added tax and excise duties, and limited approximation in areas, such as corporate and personal income

taxation. The core principles of the EU Treaties, as well as the case law of the Court of Justice of the European Union not only on purely tax matters could also be applied to tax issues.

Direct taxation is further regulated by the Double Tax Treaties that Bulgaria has concluded. These bilateral agreements do not create new obligations, but serve to determine which country has the right to impose tax in cases of cross-border receipt of income.

Personal Taxation

At a glance

Employment income	10%
Self-employment and business income	
▶ Independent professionals	7.5% ^a
▶ Royalties income	6% ^a
▶ Craftsmen income not subject to patent tax	6% ^a
▶ Agricultural income	4% ^a
Directors' fees	10%
Rental income	9% ^a
Interest income	8-10%
Capital gain	10%
Dividends	5%

10%
personal tax

a - Effective rate after statutory deductions

Income tax

Who is liable?

Individuals, who are considered tax residents in Bulgaria, are subject to income tax on their worldwide income.

Individuals, who are non-residents for tax purposes, are subject to income tax on their Bulgarian-sourced income only.

Income subject to tax

- ▶ **Employment income** - Employed individuals are subject to income tax on remuneration (money or benefits in kind) paid directly or provided by or on behalf of a Bulgarian employer. Income derived from employment activities performed in Bulgaria is considered to be from a Bulgarian source.
- ▶ **Self-employment and income from other economic activities** - Self-employment and income from other economic activities is income derived from professional services and business activities, such as the following:
 - ▶ Income from activity as a sole entrepreneur
 - ▶ Copyright royalties
 - ▶ Agricultural income
 - ▶ Forestry income
 - ▶ Earnings from self-employment and non-employment activities
- ▶ **Directors' fees** - Management income, including directors' fees, paid to residents is taxed as employment income. The deductions that may be applied to tax residents could be claimed by non-residents, who are tax residents of the European Union (EU) or the European Economic Area (EEA) countries by filing an annual tax return.

Double Tax Treaties

Currently, Bulgaria has concluded Double Tax Treaties with the following countries:

1 Albania	37 Lithuania
2 Algeria	38 Luxembourg
3 Armenia	39 Malta
4 Austria	40 Moldova
5 Azerbaijan	41 Mongolia
6 Bahrain	42 Montenegro*
7 Belarus	43 Morocco
8 Belgium	44 Netherlands**
9 Canada	45 North Macedonia
10 China	46 Norway
11 Croatia	47 Pakistan***
12 Cyprus	48 Poland
13 Czech Republic	49 Portugal
14 Denmark	50 Qatar
15 Egypt	51 Romania
16 Estonia	52 Russian Federation
17 Finland	53 Saudi Arabia***
18 France	54 Serbia*
19 Georgia	55 Singapore
20 Germany	56 Slovak Republic
21 Greece	57 Slovenia
22 Hungary	58 South Africa
23 India	59 Spain
24 Indonesia	60 Sweden
25 Iran	61 Switzerland
26 Ireland	62 Syria
27 Israel	63 Thailand
28 Italy	64 Turkey
29 Japan	65 Ukraine
30 Jordan	66 United Arab Emirates
31 Kazakhstan	67 United Kingdom
32 Korea (South)	68 United States
33 Korea (North)	69 Uzbekistan
34 Kuwait	70 Vietnam
35 Latvia	71 Zimbabwe
36 Lebanon	

* The Treaty with Yugoslavia (FYR) applies

** New treaty with the **Netherlands** was signed implementing the OECD BEPS measures

*** Signed, not yet ratified, pending entry into force

Currently, new treaties are under negotiations with **Italy** and **India**.

Moreover, as discussed further in the following section, the signing of the Multilateral Instrument by Bulgaria will also have an overall impact on the application of the relevant tax treaties it will modify.

- ▶ **Capital gains** - Income derived from the sale of shares and other financial assets is taxable. Gains on disposals of securities traded through the Bulgarian or an EU/EEA regulated stock exchange are exempt from tax.
- ▶ **Dividends** - Dividends and liquidation proceeds realized through participation in Bulgarian entities are considered Bulgarian source-taxable income. Foreign-source dividend income derived by Bulgarian tax residents is also taxable in Bulgaria.
- ▶ **Real estate** - Bulgarian and EU/EEA tax residents are not subject to tax on a gain derived from the disposal of one principal private residence in a tax year if at least three years have passed between its purchase and subsequent sale. Such residents are also exempt from tax on gains derived from up to two other real estate properties if the properties have been owned for at least five years.

Exempt income

Income from scholarships, pensions derived from compulsory social security schemes in Bulgaria and abroad, alimony and certain insurance payments are not taxable.

Deductions

- ▶ **Donations** - Gifts and donations to Bulgarian and similar EU/EEA charitable institutions and other welfare institutions are deductible up to 5% of the annual tax base. A deduction of up to 50% applies to gifts and donations to special funds for children's medical treatment and assisted reproduction.
- ▶ **Child benefits** - Bulgarian and EU/EEA tax residents may deduct BGN

200 per child from their annual tax base for up to three minor children. A deduction of **BGN 2,000** from the annual tax base is also available for taking care of a child with disabilities. Only one of the parents or legal guardians can benefit from these deductions.

- ▶ **Mortgage interest** - Interest paid on the first **BGN 100,000** of a mortgage loan is tax deductible for married couples if all of the following conditions are satisfied:
 - ▶ The taxpayer or his/her spouse was below the age of 35 when the mortgage agreement was concluded.
 - ▶ The mortgage loan contract is entered into after the date of the marriage.
 - ▶ The real estate subject to mortgage is the only property owned by the family.
- ▶ **Mandatory social security and health insurance contributions** - Social security and health insurance contributions made by individuals to mandatory Bulgarian and EU/EEA systems are deductible for tax purposes. Official documentation of the social security institution must be presented as proof for the paid contributions.
- ▶ **Voluntary social security contributions** - Deductions of up to 10% of the tax base may be claimed for voluntary pension contributions by individuals. In addition, deductions equaling up to 10% of the tax base may be claimed for voluntary health and life insurance contributions made by individuals to Bulgarian or EU/EEA authorized funds.

Social security

Contributions

Different social security regimes apply to individuals, depending on various factors - type of activities performed, age, retirement status, etc. Individuals performing working activities in Bulgaria are subject to Bulgarian mandatory social security contributions unless an exemption is provided. Labor is divided into three categories, depending on the characteristics of the work performed. Professions involving harmful or risky conditions are included in the first or second category. Currently, the monthly social security base is capped at **BGN 3,000**.

Coverage

Employees working in Bulgaria under an employment contract are covered under all of the social security funds, as well as the Pension Fund.

Sole entrepreneurs and freelancers insure themselves by paying contributions on a level of monthly income selected by them. For these individuals, the annual amount of social security and health insurance contributions is recalculated at the end of the year, based on actual annual income received.

Exemption

Exemption from paying social security contributions in Bulgaria may apply under EU legislation for coordination on social security systems, as well as under the provisions of the bilateral social security agreements concluded with selected third countries.

Immigration

Entry and visa requirements

- ▶ **EU nationals** - EU nationals, citizens of EEA Member States and citizens of

Switzerland may benefit fully from the right of free movement. They may enter Bulgaria based on a valid identification card or international passport and reside freely in the country. Individuals who intend to spend more than three months in Bulgaria should register with the Bulgarian Immigration Office. A long-term residence certificate is obtained through this registration.

- ▶ **Visa-free regime** - Nationals of some countries, explicitly determined by EU regulations, as well as holders of Schengen visas and residence permits issued by Schengen countries, Liechtenstein and Switzerland, are not required to obtain visas. They may stay in Bulgaria for up to 90 days within each 6-month period, counting from the date of the first entry into Bulgaria. These individuals are required to possess valid international passports to enter the country. If they intend to work or engage in self-employment activities in Bulgaria, they are subject to the same regime as citizens of non-preferred countries.
- ▶ **Visa regime** - Citizens of non-preferred countries (countries whose nationals are not subject to a visa-free regime) need a valid international passport and a Bulgarian visa to enter the country. Citizens of some non-preferred countries may require a Bulgarian type 'C' visa (business visa) to travel through the country or an air transit

visa to stay in the international transit zone of a Bulgarian airport. A Bulgarian type 'D' visa (long-term visa) allows the individual to commence working activities in the country.

Work permits and EU Blue cards

Work permits

Individuals not enjoying preferential treatment who intend to work in the country under a local employment contract or under the terms of a secondment or intra-corporate transfer must obtain a work permit from the Employment Agency. Work permits are issued to foreign nationals who possess proper education, special skills or professional experience, suitable to the position they intend to take. In most cases, the Bulgarian employer must perform a labor market test to establish the lack of Bulgarians and individuals enjoying preferential treatment, who are suitable for the position. The market test requirement can be avoided under specific circumstances. The number of non-EU nationals employed by a company may not exceed 10% of the average number of Bulgarian nationals and/or preferentially treated individuals employed by the company in the preceding year. The ratio of foreign to local employees does not apply in cases of applications for work permit based on secondment or intracorporate transfer.

EU Blue card

Highly qualified foreign employees can be granted EU Blue cards subject to preliminary approval by the Employment Agency. A labor market test is not required for the purposes of the EU Blue card procedure. An EU Blue card allows its holder to work and reside in Bulgaria for up to four years, subject to renewal of the residence permit each year.

The following individuals do not need a work permit to work in Bulgaria:

- ▶ Permanent residence permit holders
- ▶ EU/EEA family members and Swiss nationals
- ▶ Registered directors of Bulgarian companies
- ▶ Representatives of foreign companies registered with the Bulgarian Chamber of Commerce and Industry
- ▶ Individuals granted asylum or humanitarian status
- ▶ Individuals to whom the provisions of an international agreement apply

EU Blue cards

can be granted to highly qualified foreign employees

Self-employment

- ▶ **Third-country nationals** - Third-country nationals intending to perform self-employment activities in Bulgaria should apply for a permit before they can start performing them.
- ▶ **EU citizens** - EU citizens generally enjoy freedom of movement and establishment if they decide to engage in self-employment activities in Bulgaria. However, depending on the types of professional activities, there might be additional registrations that need to be performed before they can begin their self-employment in the country.

Residence permits

Residence permits may be issued to non-EU nationals who have entered Bulgaria with a long-term type 'D' visa.

- ▶ **Prolonged residence permits** - Prolonged residence permits are generally issued for a stay of up to one year, most often on the basis of employment, study, marriage or a management agreement. Depending on the grounds for application, the non-EU national must present a specific set of documents to the Immigration Office.
- ▶ **Permanent residence permits** - Non-EU nationals, who have legally and continuously resided in Bulgaria for the preceding five years, can acquire a permanent resident status. Holders of a permanent resident status enjoy equal treatment with Bulgarians in respect of access to work and self-employed activities and certain other matters.

Investment immigration procedure

- ▶ **Residence permits based on investment** - Prolonged and permanent residence permits can be obtained based on investment in Bulgaria. For prolonged residence permits, an additional requirement is that the foreigner must settle in Bulgaria. Greater investments must be made to obtain a permanent residence permit without settling in Bulgaria.
- ▶ **Fast-track citizenship** - The Bulgarian Investment Immigration Procedure also allows for a fast-track procedure to citizenship in case interested investors are willing to double the amount of investment (up to approximately **EUR 1,000,000**) in only 18 months without the need to settle in the country or revoke other citizenships. Big changes are expected to take place with respect to the possibilities to obtain citizenship based on investments

Family members

- ▶ **EU family members** - EU/EEA family members or Swiss nationals who are not citizens of EU Member States themselves can benefit from the right of free movement within the EU. They do not need a work permit to begin an employment relationship in Bulgaria. However, they need to register their employment with the Employment Agency. They may enter Bulgaria with an international passport and, if required as a result of their nationality, a visa. They can apply for a long-term residence permit on the grounds of their family

relationship with an EU, EEA or Swiss national. The term of validity of a residence permit of a family member depends on the term of residency of the EU, EEA or Swiss national whom the family member is accompanying. However, the term cannot exceed five years.

- ▶ **Non-EU family members** - Family members of non-EU, EEA or Swiss nationals must have separate permits to reside in Bulgaria. They can apply for a residence permit on the grounds of their family relationship with Bulgarian residence permit holders. The term of validity of their residence permits depends on the term of the residence permits granted to the non-EU, EEA or Swiss nationals whom they are accompanying. They should apply independently for their own work permits if they wish to take up employment in Bulgaria.

Equal treatment

with Bulgarians in respect to access to work is enjoyed by holders of a permanent resident status

Property taxes

Under Bulgarian law, transfer of property might be subject to inheritance, gift or transfer tax, depending on whether the transfer takes place before or after the death of the testator, as well as on the availability of consideration or the lack thereof.

Inheritance tax

Inheritance tax is levied on all property located in Bulgaria and is paid by the recipient. Property located outside Bulgaria that is owned by Bulgarian citizens is also subject to inheritance tax, with certain exemptions available. Spouses, parents and more remote ancestors and direct descendants are not subject to inheritance tax. The following flat rates apply for determining the inheritance tax for other heirs:

- ▶ For brothers, sisters and their children, the tax rate ranges from 0.4% to 0.8% (determined by the local Municipal Council of the last permanent residence of the deceased) for an inheritance share over BGN 250,000
- ▶ For other heirs subject to inheritance tax, the tax rate ranges from 3.3% to 6.6% (determined by the local Municipal Council of the last permanent residence of the deceased) for an inheritance share over BGN 250,000

The following are examples of inheritance tax exemptions:

- ▶ Deceased spouse and lineal descendants and ascendants
- ▶ Estate left to the state and the municipalities

- ▶ Estate left to the Bulgarian Red Cross and/or lawfully registered religious denominations in Bulgaria
- ▶ Any ordinary household furnishings
- ▶ Any small farm implements
- ▶ Libraries and musical instruments

Ordinary household furnishings, small farm implements, libraries and musical instruments are exempt from tax subject to the condition that the estate devolves them to lineal relatives, spouse or siblings.

Gift tax

Property acquired as a gift and forgiven debt is taxable unless the gift is given by a spouse or is made between direct ascendants and descendants. The tax base is the value of the property at the moment of transfer determined by the tax authorities or the Municipal Council. The applicable rates vary by location and type of property.

Property transfer tax

Property transfer tax is levied on the sale of immovable property (buildings and land), rights in rem, as well as the sale of motor vehicles.

Transfer tax is generally the responsibility of the purchaser, unless specific rules apply. The applicable tax rate is determined by each municipality within the ranges for each type of property as set in the law.

The tax should be paid upon the transfer of the property. When the transaction has to be certified by a public notary, the latter supervises for the timely payment of the transfer tax before certifying the contract.

The property value is determined as follows:

- ▶ **Immovable property:** at the price agreed or, if it is lower than the tax value, the latter is used as a taxable base
- ▶ **Motor vehicles:** at the insured value

Building tax

Building tax is imposed on real estate and land located in Bulgaria. Certain items are exempt from building tax, such as temporary buildings, agricultural land and forests and low-value real estate. Taxable persons are the owners of the real estate or land, unless another specific rule applies. The tax is due regardless of whether the real estate is being used or not.

The tax amount is payable in two equal installments – from 1 March to 30 June, and until 30 October of the respective tax year for which it is due. For payment in full of the tax until 30 April of the respective year, the taxpayer is given a discount of 5% of the total tax amount.

Tax on vehicles

Tax on vehicles registered in Bulgaria, as well as ships and aircraft, is due by their owners. The tax rate may vary within the range prescribed by law in the different municipalities. Payment of the tax is one of the conditions for using the vehicles.

Vignette fees (road tax)

Vignette fees are due for using Bulgarian national roads. The amount of fees varies depending on the period which the vignette sticker covers (a week, month or year) and on the category of the vehicle (for example, a car, truck, etc.). From 2019, a new toll system, which replaces the current vignette stickers with electronic vignettes, is being implemented.

Corporate income tax

At a glance

Capital gains tax rate (%)	10 ^(a)
Branch tax rate (%)	10
Withholding tax (WHT) (%) ^(b)	
▶ Dividends	5 ^{(c)(d)}
▶ Interest	0/10 ^{(e)(f)(g)}
▶ Royalties from patents, know-how, etc.	0/10 ^{(e)(f)}
▶ Fees for technical services	10 ^(f)
▶ Rent and payments under lease, franchising and factoring agreements derived from sources in Bulgaria	10 ^(f)
Net operating losses (Years)	
Carryback	0
Carryforward	5

10%
corporate tax

(a) Capital gains derived from the sale of shares and government bonds through the Bulgarian stock market or stock exchanges in European Union (EU) or European Economic Area (EEA) countries are exempt from tax.

(b) An EU/EEA recipient of Bulgarian-source income that is subject to withholding tax may claim a deduction for expenses incurred in earning that

(c) This tax does not apply to payments to entities that are resident for tax purposes in Bulgaria or EU/EEA countries. However, no exemption is granted to an arrangement perceived as tax avoidance.

(d) This rate may be reduced by tax treaties for dividends distributed to entities not resident for tax purposes in EU/EEA countries.

(e) The zero rate applies to EU associated companies (a minimum holding of 25% of the share capital must be maintained for at least two years).

(f) This tax applies to payments to non-residents only and may be reduced in accordance with an applicable tax treaty.

(g) Interest on debt (other than government or municipality bonds) extended to the Bulgarian state or a municipality is exempt from withholding tax. Interest income on bonds or other debt instruments issued by Bulgarian resident companies, the Bulgarian state or municipalities on a regulated EU/EEA market is exempt from withholding tax. The exemptions mentioned in the two preceding sentences are granted to all corporate investors, regardless of their tax residency. Interest income paid to non-resident issuers of bonds or other debt instruments is not subject to withholding tax in Bulgaria under certain conditions.

Taxes on corporate income and gains

Corporate income tax

Bulgarian companies are subject to corporate tax on their worldwide income.

Foreign companies are taxed in Bulgaria on their profits generated from activities conducted through a permanent establishment in the country and on income from Bulgarian sources.

Rates of corporate tax

The corporate tax rate is 10%.

A 10% tax is imposed on certain expenses, such as employee related, in-kind fringe benefits and expenses related to personal use of company assets, which increases the effective tax rate for companies incurring such expenses.

Administration

The tax year is the calendar year. Annual tax returns must be filed by 31 March on the following year.

Companies subject to tax make advance payments of corporate tax, depending on the amount of the net sales revenue generated in the previous year, as follows:

- ▶ **Monthly advance payments** - when their net sales revenue for the preceding year exceeded BGN 3m (approximately EUR 1.534m)
- ▶ **Quarterly advance payments** - with net sales ranging from BGN 300k to BGN 3m

Newly incorporated entities (except in case of business transformations - e.g., divisions) and entities with net

sales revenue from the previous year below BGN 300k (approximately EUR 153k) are not obliged to pay advance installments for corporate tax.

The tax base for determining the advance installments is based on the company's forecasted annual taxable income (as indicated by the latter in the respective tax return for the previous year).

Mandatory transfer pricing documentation requirement

The Bulgarian tax legislation requires that related party transactions should be performed at market levels. In case the tax authorities consider that the related parties transactions are not in accordance with the arm's length principle, they may apply respective adjustments resulting in additional liabilities for corporate income tax in certain cases. The preparation of local file for transfer pricing purposes is mandatory in case two out of three following criteria are met as at the end of the previous calendar year:

- ▶ Net assets
BGN 38,000,000
- ▶ Revenue for the year
BGN 76,000,000
- ▶ Average number of personnel for the year: **250**

The deadline for the preparation of the transfer pricing documentation is 31 March of the year following the year for which it refers. The first year for which mandatory transfer pricing documentation has to be prepared is 2020.

Withholding tax (WHT) obligations and administration

Certain types of Bulgarian-sourced income, as specified in the table under para A (i.e., dividends, interest, royalties, technical services and others), are subject to Bulgarian WHT. The tax has to be withheld and remitted to the state budget by the income payer (except for capital gains and income from the transfer of immovable property where this liability rests with the income recipient) within a month following the calendar quarter of accrual of the income.

WHT relief under a Double Tax Treaty

In case a foreign entity realizes Bulgarian-sourced income subject to WHT that exceeds **BGN 500,000** (approximately **EUR 255,000**) annually, the WHT due can be reduced or eliminated under a tax treaty concluded by Bulgaria only under a special tax treaty clearance procedure with the national revenue authorities.

No advance clearance applies to income equal or below **BGN 500,000**. In this case, however, the foreign entity still has to submit certain documents to the local income payer.

Capital gains and losses

Capital gains from disposals of assets, including shares, are included in the current year tax base and are subject to tax at the standard corporate tax rate of 10%. Capital losses are deductible for tax purposes.

Capital gains derived from the sale of shares and government bonds through the Bulgarian stock market or stock exchanges in EU/EEA countries are exempt from tax. Similarly, losses from sale of shares through such stock exchanges are not deductible for tax purposes.

Hidden profit distribution

Expenses, which companies accrue or make to shareholders, partners or their related parties, might be classified as hidden profit distribution and taxed as dividends, if the expenses are not related to the business activity of the companies or exceed the usual market levels. Certain interest expenses might also be classified as hidden profit distribution. Administrative sanction of 20% might be imposed on the amounts that are classified by the tax authorities as hidden profit distribution. Voluntary disclosure of hidden profit distribution by the companies is allowed. In such case, the sanction does not apply.

Remittance of profits by branches to their home countries is not subject to withholding tax.

Hybrid mismatches

Bulgaria applies hybrid mismatches rules aiming to limit the potential double deduction of expenses incurred within cross-border arrangements in case of different treatment of certain instruments. The relevant expenses in such cases should be disallowed for tax purpose in Bulgaria.

Exit taxation

Exit taxation rules were introduced which apply in cases of transfer of assets or business activity outside the territory of the country where Bulgaria loses entirely/partially the right to tax the transferred assets. Such transfers

should not be subject to tax if the the transfer of assets is for period not exceeding 12 months and if certain conditions are met.

Foreign tax relief

Bulgarian companies are entitled to a tax credit for identical or similar foreign taxes imposed abroad. The tax credit is limited to the amount of the Bulgarian tax that would have been paid in Bulgaria on the income subject to the foreign tax and it is applied separately on a country and income-type basis. Bulgarian tax treaties normally provide an exemption from Bulgarian taxation for income from foreign real estate and foreign permanent establishments.

Mandatory disclosure regime under (MDR)

The MDR rules impose reporting obligations of potentially aggressive tax arrangements in cross-border situations. Some characteristics also known as hallmarks have to be met for the cross-border arrangement to be reportable. The non-compliance of the reporting obligation may have adverse tax and legal consequences for the parties involved. The relevant MDR reporting obligations apply also to lawyers and other consultants familiar with the respective arrangement.

Other relevant international developments

As a general principle, transactions between related parties should be at arm's length. Transfer pricing (TP) documentation for proving the application of this principle should be prepared. In this regard, Bulgaria has endorsed the OECD Guidelines.

Bulgaria has signed the Multilateral instrument (MLI) with a preliminary position on the provisions contained

therein. The MLI will be applied alongside existing tax treaties, modifying their application in order to implement the Base Erosion and Profit Shifting (BEPS) measures. A focus is put on tackling hybrid mismatch arrangements, treaty abuse, avoidance of permanent establishment, TP documentation requirements and other areas.

The country-by-country reporting (CbCr) regime is applied in Bulgaria. The relevant rules include certain reporting obligations for multinational companies, which have operations in Bulgaria. The information which should be disclosed and reported by such enterprises include information, such as profit (loss) before income tax, income tax paid, income tax accrued, registered capital, etc. if certain legal requirements are met.

In case a constituent company in Bulgaria does not have the above-mentioned reporting obligations, it nevertheless have to notify the NRA which entity would file the report, the jurisdiction in which it is tax-resident and general information about the latter.

Failure to comply with the CbcR obligations could lead to significant penalties.

Bulgarian companies

are subject to corporate tax on their worldwide income

Indirect taxes

Value added tax

At a glance

Name of the tax	Value-added tax (VAT)
VAT rates	
▶ Standard	20%
▶ Reduced	9%*
▶ Other	0%
VAT return periods	
Monthly	
Type of registration	
Threshold	
▶ Mandatory registration for locally established entities	BGN 50,000/EUR 25,000
▶ Mandatory registration for non-established entities	N/A
▶ Distance selling	BGN 70,000/EUR 35,000
▶ Intra-community acquisitions	BGN 20,000/EUR 10,000
▶ Supply of services subject to reverse charge	N/A
▶ Telecommunications, broadcasting and electronic services	N/A
Recovery of VAT by non-established businesses	
Yes	

* For hotel accommodation, supplies of printed and e-books, (including textbooks, children's drawings and coloring books), restaurant and catering services, baby foodstuffs and diapers. The reduced rate is adopted as anti-crisis measure and is applicable until 31 December 2021.

Scope of tax

VAT applies to the following transactions:

- ▶ The taxable supply of goods or services in Bulgaria for consideration
- ▶ Reverse-charge services received by a Bulgarian taxable person
- ▶ Intra-Community acquisitions
- ▶ The acquisition of new means of transport and excise goods by taxable or non-taxable persons
- ▶ The importation of goods into Bulgaria, regardless of the status of the importer

Who accounts for VAT?

The supplier of goods and/or services charges and collects VAT on the supplies to the recipients. This rule applies regardless of whether the supplier is a local or foreign entity or an individual. The supplier should start charging VAT after registering for VAT purposes in Bulgaria. The supplier can also register for VAT voluntarily before starting operations. The mandatory VAT registration threshold is the taxable turnover of **BGN 50,000** in any 12 consecutive months, which includes turnover from taxable supplies chargeable at the standard rate of VAT (20%) or the reduced rate (9% for hotel accommodation), zero-rated supplies and financial and insurance services within the principal activity of the supplier. A taxable person established in Bulgaria,

rendering services with a place of supply in another EU Member State should register in Bulgaria regardless of its taxable turnover.

A taxable person receiving cross-border services subject to the reverse charge in Bulgaria must register for VAT purposes in Bulgaria regardless of its taxable turnover.

A recipient is obliged to reverse-charge VAT in case of B2B supplies of services when the supplier is not established in Bulgaria or in case of intra-Community acquisitions of goods coming from another EU Member State to Bulgaria.

Local reverse charge can be applied in limited cases, for example, for sale of waste materials and agricultural products.

Fixed establishments of foreign entities

Taxable persons that are not incorporated, nor hold a seat/place of management in Bulgaria can create a fixed establishment (FE) in Bulgaria. Unlike a representative office (RO) of foreign entities which by rule of law perform only auxiliary activities, a FE is a place of business located in another country which carry out economic activities. Still, a RO can start operating as a FE if, in terms of its organization and activities, it does not only provide auxiliary support, but also performs taxable transactions.

A foreign entity can create a FE in Bulgaria if it has enough human and technical resources in Bulgaria over a sufficiently permanent period of time. The definition of a FE is different from the definition of a permanent establishment (PE) which is applicable for corporate income tax purposes. However, it may be the case that once a PE is created, a FE is established as well.

Although a foreign taxable person may have created a FE in Bulgaria, it is considered that the FE is not intervening in a supply if its human and technical resources are not involved in the transaction.

Failure to determine correctly if an activity was carried out through FE, leads to significant exposures in practice.

Non-established businesses

A “non-established business” is a business that has neither a place of management/seat in Bulgaria, nor a FE in Bulgaria. A non-established business must register for VAT in Bulgaria if it makes taxable supplies of goods or services (unless the reverse-charge mechanism applies) or if it performs ICA exceeding the statutory thresholds.

Tax representatives of non-established businesses

A foreign person established in a non-EU country that has not entered into an agreement for mutual assistance with Bulgaria must appoint a resident tax representative to register for VAT purposes. The representative assumes joint and unlimited liability for the VAT obligations of the non-established business.

Recovery of VAT

VAT-registered taxable persons can deduct VAT credit on their purchases if they are intended for their output taxable supplies.

Timing

Right to VAT credit can be exercised in the month when the purchase took place or in one of the 12 following months. Effective VAT refund is obtained within three to four months. For a delayed VAT refund, default interest is due.

Special rules apply to the recovery of input tax incurred on assets and services acquired before VAT registration.

Reliefs

Accelerated VAT refund procedures are available, for example, for big investors, for exports and businesses with predominantly intra-Community trade.

VAT refunds by non-established businesses

Non-established EU entities can refund VAT incurred in Bulgaria. Non-EU businesses can refund Bulgarian VAT based on the principle of reciprocity, i.e., only if both countries refund VAT to their residents.

Partial VAT credit

VAT credit on purchases directly linked to exempt transactions is not recoverable. If the purchases are used for both exempt and taxable supplies, the amount of the recoverable VAT is calculated based on the proportion between taxable transactions and the overall amount of the transactions.

Adjustment of VAT credit

VAT deducted should be adjusted (paid back) if the supplier does not use the purchases for subsequent taxable transactions. The period of adjustment for capital goods is 5 years while for real estate it is 20 years.

20%
standard VAT rate

Digital services

suppliers are required to register for VAT if their customers are based in Bulgaria.

EU filings

Reportings

The reporting month for VAT purposes is the calendar month. A Bulgarian taxable person trading goods with other EU countries must complete statistical reports, known as Intrastat if the value of the goods exceeds certain thresholds, which are updated annually.

Separate reports are required for arrivals and dispatches. The thresholds for declaration are updated annually.

Bulgarian taxable persons that make intra-community supplies, supplies as intermediaries in triangular operations or B2B supplies with a place of supply outside Bulgaria must file EU Sales Lists (ESLs called VIES Declarations) with the Bulgarian National Revenue Agency.

VAT on digital economy

Supply of digital services

Suppliers not registered under the 'Mini One Stop Shop' (MOSS) scheme in another country making B2C supplies of digital services are required to register for VAT if their customers are based in Bulgaria. Suppliers established in the country can register for MOSS in Bulgaria and submit quarterly VAT returns for supplying digital B2C services in other EU Member States.

As of 2021 the scope of the application of VAT on digital economy is expected to be extended.

Distance sales

Non-established suppliers selling goods to Bulgarian customers

(B2C supplies) from a distance (e.g., online) can become liable to charge Bulgarian VAT on their supplies if they reach a threshold of **BGN 70,000/ EUR 35,000**. Failure to register on time for a distance sale could lead to double taxation of one and the same supplies in both the country where the supplier is established and where the customer belongs, charging of default interest for late payment of VAT and administrative penalties.

Special VAT schemes

Margin schemes

Tour operators apply a special margin VAT scheme where VAT is charged on the difference between the price paid by the traveller and the actual cost borne by the travel agent for the supply of the services.

Dealers of second-hand goods, works of art and collectors' items and antiques can optionally apply a margin scheme where VAT is charged on the difference between the sales price of the items and the purchase price for acquisition of the items.

Cash accounting

Small and medium-sized businesses can opt to charge VAT upon receipt of a payment and not on the date of the transaction. In such case, suppliers can deduct input VAT only after paying to the supplier.

Excise duties

Excise duties are charged on:

- ▶ Alcoholic beverages
- ▶ Tobacco products
- ▶ Electricity and energy products

The list of items taxable within the three categories above tends to increase over the years.

The amount subject to excise duty is calculated based on the specifics of the products (for example, pieces of cigarettes, MWh of electricity, hectoliters per pure alcohol, etc.).

One and the same product could be subject to excise duties or exempt depending on its usage. If the use changes from taxable to exempt, the excise duties could be refunded.

Excise duties are not due if a duty-suspension regime applies. Chargeability and obligation for payment of excise duties arise when the goods exit this regime and are released for consumption.

Customs

Bulgaria is part of the European customs territory and applies the Union Customs Code tariff classification, tariffs and anti-dumping duties applicable to all EU Member States.

Importation and exportation of goods

Therefore, goods coming from non-EU countries to Bulgaria are subject to clearance procedures connected with importation of goods. Goods leaving the European customs territory through Bulgaria are subject to clearance procedures connected with exportation of goods. Upon importation of goods from non-EU territories, customs duties may apply depending on the product and the country from which it originates. Upon importation, VAT, excise and ecological duties may also become due. Exports and imports are formalized by customs declarations.

Suspension regimes

There are different suspension regimes which defer payment of import duties – for example, when goods are imported for the purpose of processing activities only and then exported. This will also be the case if the goods are kept for warehousing and then re-exported, or pass through Bulgaria in transit.

Customs value

Special rules apply to determining the taxable base for customs purposes, such as taking into account the transport and insurance cost and sometimes the royalties related to the goods. Additionally, the customs base would include additional charges connected with importation.

Authorized economic operator

Businesses that obtain the status of Authorized economic operators (AEO) benefit from customs-related facilitation and simplified procedures, such as “self-assessment” and “centralized clearance”. The certification of AEO is obtained after covering specific criteria and the status is binding on all EU Member States.

Excise duties refunds

could happen if the use of the product/s changes from taxable to exempt

Ecological fees

Bulgaria applies different ecological fees charged on products which are harmful to the environment. Currently, ecological fees (called "product fees") due are for:

- ▶ Plastic shopping bags
- ▶ Motor vehicles
- ▶ Tires
- ▶ Packaging
- ▶ Batteries and accumulators
- ▶ Motor oils
- ▶ Electrical and electronic equipment

The taxes are charged upon release of the products on the Bulgarian market by a producer or an "importer" of the products. Certain exemptions or reliefs, including decrease in the size of ecological fees can apply, e.g., if a producer/importer of the products engages in an individual or a collective waste management scheme.

Tax on insurance premiums

Insurance premiums under taxable insurance contracts, are subject to taxation in Bulgaria. The applicable tax rate is 2% applied on the insurance premium received by the insurer. The tax due should be reported and paid on a quarterly basis.

Union Customs Code tariff

classification is applied in Bulgaria, being part of the European customs territory

Customs declarations

are required in order to formalize exports and imports in Bulgaria

An AEO status (Authorized economic operators)

benefits businesses that obtain it with simplified procedures, such as "self-assessment" and "centralized clearance"

Legal guide

Your bags
may get through
customs smoothly,
but will your goods
and services?



The better the question. The better the answer.
The better the world works.

Legal guide

Establishing business presence

There are no general investment approvals required for carrying out business in Bulgaria. The formal set-up of a business requires fulfilling certain legal formalities, such as registering with the Bulgarian Companies' Registry. In addition, running a business in certain sectors, i.e., insurance/reinsurance, banking, financial investment services and others may require that particular authorization/licences are obtained before commencing the actual activity.

Whenever the business presence is established by means of a merger, acquisition or joint venture, merger control procedures should be observed which are harmonised with the EU Merger Regulation.

Types of business

Most commonly used investment vehicles are a limited liability company (OOD) or a joint-stock company (AD). Other forms, such as limited and general partnerships, or a sole trader are also available and, depending on the case, may be more flexible or suitable for a particular business. Additionally, an investor may resort to other alternatives (not involving the set-up of a separate legal entity) to establish its business presence in Bulgaria like a branch or a representative office. The latter generally does not carry out economic activities, but rather performs marketing or other auxiliary functions.

An OOD/AD may be formed by a minimum of one shareholder; there is no limitation on the maximum number of shareholders. The latter may be individuals and/or legal entities, irrespective of their nationality, residence or place of incorporation/effective management. One person is allowed to found or participate in more than one legal entity. By default, the shareholders' liability is limited to the subscribed shares, though in certain circumstances (e.g., tax avoidance) it can be extended.

The share capital of an OOD must be at least **BGN 2** (or **EUR 1**) divided into one or more shares while the minimum share capital of an AD must be at least **BGN 50,000** (or approximately **EUR 25,565**).

The corporate governance bodies of OOD/AD are a general meeting of the shareholders and managers or a management body which is authorized to conduct the day-to-day business operations and represents the company before third parties. The structure and competences of the management are different in an OOD and in an AD. An OOD is managed by one or more directors who may be vested with individual or joint representative powers, without forming a body in any case. An AD may have a one-tier (i.e., Board of Directors) or a two-tier (i.e., Supervisory and Management Board) management system. Most of their functions are left to the discretion of the decisions of the shareholders, however, there are some limits set by the law or the established court practice.

An OOD is generally regarded as a closed type of a legal entity in comparison to an AD in terms of membership and shareholder rights and obligations. Thus, an OOD could be less flexible in comparison with an AD, for instance, in respect to changes in the shareholder structure, preferential rights attached to shares, as well as vesting schemes, among others. Conversely, an AD entails a more sophisticated management system, additional compliance obligations and equity-related requirements. Further, the shareholders in an OOD are more involved and owe personal engagement in the company's matters.

Acquisition of property

Following its accession to the EU, Bulgaria gradually opened its land market to EU citizens.

However, a more restrictive regime continues to apply to citizens and entities of third countries. They are generally allowed to acquire ownership title to buildings and rights in rem in real estates. However, there are restrictions on acquiring regulated land plots, as well as agricultural land. A foreign national may own land under the terms of an intragovernmental agreement concluded between Bulgaria and its state of nationality/residence, as the case may be. Where there is no such agreement, a national of a third country would not be allowed to purchase regulated land plots in Bulgaria.

Further restrictions with regard to agricultural land apply to all natural persons and legal entities when acquiring and possessing ownership title to such land in Bulgaria. The following categories of natural persons and legal entities can become owners of agricultural land in Bulgaria:

- ▶ **Natural persons:** (i) who have resided in Bulgaria for more than five years; or (ii) are self-employed farmers – nationals of another Member State of the EU, who wish to establish themselves and legally reside in Bulgaria, and are registered under the BULSTAT Register Act, regardless of the years of residence or establishment preceding the acquisition

- ▶ **Legal entities:** (i) which have been established in Bulgaria for more than five years; or (ii) legal entities registered in Bulgaria for less than five years, only if their shareholders (natural persons and legal entities) have resided or have been established in Bulgaria for more than five years

Some entities are not allowed to acquire and possess agricultural land under any circumstances:

- ▶ **Companies where the shareholders are companies directly or indirectly registered in preferential tax treatment jurisdictions**
- ▶ **Companies where the shareholders are foreign natural persons or legal entities:** (i) residents of or established in countries which are not members of the EU or of the European Economic Area (EEA); or (ii) residents of or established in countries with which Bulgaria has not concluded an intergovernmental agreement setting forth specific terms and conditions for acquiring agricultural land
- ▶ **Joint-stock companies** which have issued bearer shares

Possession of agricultural land in breach of the statutory restrictions may result in penalties imposed on the owner.

Regulatory compliance

Depending on their economic sector, business entities in Bulgaria face general and specific compliance obligations. Publishing annual financial statements is among the general compliance obligations of companies registered in Bulgaria. Depending on the activities carried on by a given company, it may have further regulatory, tax and accounting compliance obligations.

Recently introduced anti-money laundering legislation requires that all legal and other entities registered in Bulgarian public registers are obliged to declare by specific process their Ultimate Beneficial Owner (UBO) if not registered as such on the files of the respective entity.”

Banking

For practical and compliance reasons, companies established or registered only for tax purposes in Bulgaria most often maintain accounts in local banks, although this is not mandatory. There are no requirements or limitations in respect of the number of bank accounts or their currency. For the opening of a bank account, the banks require certain documentation to be provided to ensure anti-money laundering (AML) compliance.

There is no general statutory restriction on inbound and outbound bank account credit or debit operations.

Intellectual and industrial property

Bulgaria is a signatory to major international conventions and treaties on intellectual property rights (IP rights), thereby ensuring an effective shield which protects IP rights created or held in Bulgaria.

Licensing agreements and assignment agreements (with regard to patents, trademarks and copyright) are not heavily regulated and thus, trade in and exploitation of IP rights is expanding in the absence of overly burdensome regulatory or practical constraints. Licensing agreements should observe only minimum mandatory legal requirements. Furthermore, Bulgarian law allows IP rights to be contributed in kind to the share capital of Bulgarian companies subject to independent valuation, which is an alternative to the classical assignment or licensing of IP rights.

E-businesses

The regulatory framework of e-commerce on consumer protection, data privacy, electronic identification, among others, is harmonized with the EU legislation and is sufficiently flexible to allow cross-border trade through servers or online platforms maintained in Bulgaria.

Competition and consumer protection

Competition law is aimed at safeguarding competition in order to ensure that consumers are provided with fair prices and a sufficient diversity of goods and services. Competition law covers the following main areas: (i) anti-competitive agreements between undertakings; (ii) abuse of dominant position (or monopoly); (iii) merger control; and (iv) the potential restrictions of competition imposed by the state. The Bulgarian legislation on competition is harmonized with the applicable EU rules and with the relevant case law of the Court of Justice of the EU. Unlike other EU jurisdiction Bulgarian legislation puts into the legal framework and under the competence of the competition watchdog the cases of unfair competition, as well as the abuse of stronger bargaining position (known elsewhere as abuse of economic dependence). These are prohibited and violation of the prohibition is regulated as an administrative offence and sanctioned by fines comparable to those for prohibited agreements and abuse of dominance.

The national competition authority is the Commission for Protection of Competition (CPC). The CPC remains responsible for monitoring the competitive behavior of businesses on the Bulgarian market, collusion between competitors in the Bulgarian

market, potential abuses of market power and growth of market structures (mergers and acquisitions). Violation of the national or European competition law provisions may result in significant consequences (e.g., fines of up to 10% of the company's turnover).

The regime of state aid and potential restrictions of competition imposed by the state in the form of state aid are regulated separately, outside the competence of the CPC.

Consumer protection legislation is aimed at protecting the economic interests of consumers. It mainly covers unfair commercial practices and consumer contract law, such as misleading advertising and unfair contract terms. The national competent authority is the Commission for Protection of Consumers. Consumer protection practices on claims raised by customers are rapidly evolving.

Data privacy

In Bulgaria, the protection of natural persons with regard to processing personal data is heavily influenced by the harmonization efforts of the EU. In the wake of entry into force of the General Data Protection Regulation (GDPR) in May 2018, major amendments were introduced to the Bulgarian Data Privacy Act in 2019. The GDPR introduced uniform rules across EU

and set a clearer basis for cross-border transfers of personal data. However, while this welcome development may effectively reduce the complexity of the data protection landscape, such harmonization increased the responsibility and accountability of the data controller involved in processing personal data. Moreover, sanctions increased significantly (up to 4% of the global turnover). It applies to all data controllers and processors established in the EU and organizations that target EU citizens. Data protection officers must be appointed if an organization conducts large-scale systematic monitoring or processes considerable amounts of sensitive personal data.

GDPR imposes mandatory requirements, including performing privacy impact assessments and regular data compliance audits, notifying personal data breaches and maintaining records of personal data activities.

Labor

Bulgarian employment law applies to employment relations between Bulgarian citizens, citizens of Member States of the EU or of the EEA, citizens of Switzerland, on the one hand, and employers in the Republic of Bulgaria, on the other. It also applies to inbound and outbound secondments. In case of cross-border employment, the employer and the employee can, in principle, choose to subdue their

employment relations to the laws of another jurisdiction. However, the choice of a foreign law does not deprive the employee of the protection to which he/she is entitled by virtue of the imperative rules in the legislation of an EU/EEA or of Switzerland at the place of employment if these rules are more favorable for the worker or employee.

Special rules apply in case of posting of workers under service provision agreements and as part of inter-corporate transfers. Employers do not owe payment of daily allowance. Instead, they should provide to employees, for the duration of the posting, at least the same remuneration for the same or similar work in the hosting country. Travel costs are still at the expense of the employer, while accommodation expenses will be due only if the parties have specifically agreed on this. The employees should be subject to the more favorable working conditions between the rules applicable in the home and host countries, such as maximum length of the working week, minimum annual paid leave, payment for overtime and night work. Outside the scope of the new legislation remains any posting from Bulgaria to third countries (outside the EU, the EEA and Switzerland). For any business trip, which does not fall within the scope of the new rules, the old ones for business trips and specializations abroad apply.

Posting of workers

under service provision agreements and as part of inter-corporate transfers are subject to special rules

Accounting and financial reporting. Audit.

How can
you be both
the disruptor
and the disrupted?



The better the question. The better the answer.
The better the world works.



Accounting and financial reporting. Audit

An entity is required to maintain its records and prepare its financial statements pursuant to the Bulgarian Accountancy Act and other related Bulgarian laws and regulations. The following falls in its scope:

- ▶ Requirements to maintain accounting records and accounting systems of enterprises, accounting documents and accounting information, the inventory of assets and liabilities and the storage of accounting information
- ▶ The applicable basis of accounting in financial reporting
- ▶ Content and preparation of financial statements, management reports and reports on payments to governments of enterprises and groups of enterprises
- ▶ Obligations for independent financial audit and disclosure of financial statements, management reports and reports on payments to governments of enterprises and groups of enterprises
- ▶ Duties and responsibilities of the manager of the enterprise

Annual financial statements

publishing is among the general compliance obligations of companies registered in Bulgaria

Auditing

The independent financial audit in Bulgaria is governed by the Independent Financial Audit Act.

The following falls in its scope:

- ▶ Objective, scope and principles of the independent financial audit performed by registered auditors, hereinafter referred to as "financial audit"
- ▶ Professional standards of organizing, documenting and executing, as well as certifying the results from the financial audit, hereinafter referred to as "applicable auditing standards"
- ▶ Acquiring the right to practice as a certified public accountant
- ▶ Acquiring the right to practice and practicing the auditor's profession by registered auditors
- ▶ Rights and obligations of the registered auditors
- ▶ Statute and functions of the Commission for Public Oversight of Statutory Auditors, hereinafter referred to as the "Commission" or "CPOSA"
- ▶ Statute and functions of the Institute of Certified Public Accountants (ICPA)
- ▶ Activity of audit committees in public-interest entities

Type of enterprises according to their size or nature

Enterprises according to their size

For the purposes of the Accountancy Act, entities are classified as either micro-enterprises, small enterprises, medium-sized enterprises or large enterprises based on three criteria – net book value of assets, net sales revenue and average number of employees for the reporting period.

Entities are classified as **micro-enterprises** when at **31 December** of the current reporting period, they do not exceed at least two of the following criteria:

- ▶ Book value of assets - **BGN 700,000**
- ▶ Net sales revenue - **BGN 1,400,000**
- ▶ Average number of employees for the reporting period: **10**

Entities are classified as **small enterprises** when at 31 December of the current reporting period, they do not exceed at least two of the following criteria:

- ▶ Book value of assets - **BGN 8,000,000**
- ▶ Net sales revenue - **BGN 16,000,000**
- ▶ Average number of employees for the reporting period: **50**

Entities are classified as **medium-sized enterprises** when at **31 December** of the current reporting

period, they do not exceed at least two of the following criteria:

- ▶ Book value of the assets - **BGN 38,000,000**
- ▶ Net sales revenue - **BGN 76,000,000**
- ▶ Average number of employees for the reporting period: **250**

Entities are classified as **large enterprises** when at **31 December** of the current reporting period, they exceed at least two of the following criteria:

- ▶ Book value of the assets - **BGN 38,000,000**
- ▶ Net sales revenue - **BGN 76,000,000**
- ▶ Average number of employees for the reporting period: **250**

A change in the category is made when the enterprise no longer meets two of the three criteria for the relevant category in the last two accounting periods. The category is changed from the beginning of the next (third) reporting period. In cases when the enterprise meets the indicators for two different categories in the last two accounting periods, it shall be categorized by the indicators of the last accounting period. Enterprises determine initially their category for FY 2016, according to their indicators as of **31 December 2015**.

Similar to enterprises, the Bulgarian Accountancy Act determines groups of entities in different sizes.

Enterprises according to their nature

Under the Accountancy Act, public-interest entities (PIEs) are:

- ▶ Enterprises whose transferable securities are admitted to trading on a regulated market in a Member State of the European Union
- ▶ Credit institutions
- ▶ Insurers and reinsurers
- ▶ Pension insurance companies and funds managed by them
- ▶ Investment firms, which are large enterprises under the Accountancy Act
- ▶ Collective investment schemes and management companies within the meaning of the Collective Investment Schemes and Other Collective Investment Undertakings Act, which are large enterprises under the Accountancy Act
- ▶ Financial institutions within the meaning of the Credit Institutions Act, which are large enterprises under the Accountancy Act
- ▶ Bulgarian State Railways EAD (BDZ Holding) and its subsidiaries; the National Railway Infrastructure Company
- ▶ Companies whose primary business is to produce and/or transfer, and/or sell electricity and/or heat, and which are large enterprises under the Accountancy Act
- ▶ Companies whose primary business is to import and/or transfer, and/or distribute or transit natural gas, and which are large enterprises under the Accountancy Act

- ▶ Water Supply and Sewerage operators within the meaning of Article 2 (1) of the Regulation of Medium and Large Water Supply and Sewerage Companies Act
- ▶ For the purposes of the Accountancy act all public-interest entities (PIEs) are classified as large entities irrespectively of the net book value of assets, net sales revenue and average number of employees for the reporting period. These enterprises are subject to the extensive disclosure and reporting requirements applicable for large entities.

Requirements for independent audit over statutory financial statements

Subject to statutory independent financial audit by registered auditors are the annual financial statements of:

- ▶ Small enterprises, which at **31 December** of the current reporting period exceed at least two of the following indicators:
 - ▶ Book value of assets - **BGN 2,000,000**
 - ▶ Net sales revenue - **BGN 4,000,000**
 - ▶ Average number of employees for the reporting period: **50**
- ▶ Medium-sized and large enterprises
- ▶ Public-interest enterprises as defined in the Accountancy Act
- ▶ Joint-stock companies and limited partnerships with shares which are not classified as micro-enterprises
- ▶ The annual financial statements of enterprises included in the consolidated financial statements which are subject to statutory independent audit

- ▶ Enterprises for which this requirement is established by law
- ▶ Certain non-profit legal entities designated as operating for the public benefit when they either:
 - ▶ Exceed one of the following criteria:
 - The book value of their assets exceeds **BGN 1,000,000**
 - Net income from profit-generating and non-profit operations for the current year: **BGN 2,000,000**
 - Total amount of financing received during the current year and not utilized as of **31 December** of the current year financing, received in previous reporting periods: **BGN 1,000,000.**
 - ▶ Are established to carry out activities - for example, an agency in adoption of children under Art. 116 of the Bulgarian Family Code.

The reporting period

in Bulgaria shall correspond to the calendar year (1Jan - 31Dec)

Requirements for management and other reports to the annual financial statements

The Accountancy Act prescribes the minimum required content for the management report, depending on the category of the entity (micro-enterprise, small, medium-sized or large enterprise). Specific requirements for the content of the management report for public interest entities are also available in the Public Offering of Securities Act (POSA).

General requirements for the management report

Enterprises draw up an annual management report, which shall contain at least the following information:

- ▶ Objective review giving a true and fair view of the development and results of the operations of the enterprise and its position, together with a description of the main risks facing it
- ▶ Analysis of financial and non-financial key performance indicators relevant to the business, including information on issues related to environment and employees; when preparing the analysis for the management report, references to expenses reported in the annual financial statements and additional explanations thereon may be included
- ▶ All significant events that have occurred after the date of drawing up the annual financial statements
- ▶ Probable future development of the enterprise

- ▶ Activities in the area of research and development
- ▶ Information on the acquisition of own shares as required under Article 187e of the Commerce Act
- ▶ Existing branches of the enterprise
- ▶ Any financial instruments used by the enterprise, and where material for the purposes of evaluating the assets, the liabilities, the financial position and the financial result, the following shall be disclosed:
 - ▶ Objectives and policies of the enterprise concerning financial risk management, including its hedging policy for each main type of hedged item to which hedge accounting is applied
 - ▶ Enterprise's exposure to price, credit and liquidity risks and cash flow risk

Micro- and small enterprises which are not subject to statutory independent financial audit are not required to draw up a management report, provided that the information regarding the acquisition of their own shares, as required by Article 187e of the Commerce Act, is disclosed in the notes to the annual financial statements or in a footnote to the compiled balance sheet. The latter shall not apply to investment firms and financial holding companies, categorized as micro- or small enterprises.

Management report

is not required from micro and small enterprises

Specific requirements for PIEs

- ▶ Large enterprises which are public interest enterprises and which, at **31 December** of the reporting period, exceed the criterion of the average number of employees during the financial year of 500 people, shall include a non-financial declaration in their management report.
- ▶ For certain PIEs (whose transferable securities are admitted for trading in an EU Member State, or are credit institutions, or insurers and reinsurers) a declaration of corporate governance should be included in the management report.

Declaration of corporate governance

The declaration of corporate governance shall contain:

- ▶ Information whether the PIE complies as appropriate with the following:
 - ▶ National Corporate Government Code. The Corporate Governance Code approved by the Deputy Chairperson of the Financial Supervision Commission in Bulgaria, or
 - ▶ Another corporate governance code - in this case, the PIE should state explicitly where the respective texts are accessible to the public
 - ▶ Information regarding the corporate governance practices, which are applied by the PIE in addition to the Code under a) or b)
- ▶ Explanation by the PIE as to which parts of the accepted corporate governance code the PIE does not comply with and as to what the grounds for this non-compliance are and when the PIE has opted not to refer to any of the rules of the corporate governance code - the grounds for that
- ▶ Description of the main characteristics of the internal control system and of the risk management system of the PIE in connection with the financial reporting process
- ▶ Information regarding take-over offers
- ▶ The composition and functioning of the administrative, managerial and supervisory bodies and their committees, as well as
- ▶ Only for large PIEs - description of the diversity policy applied as regards the administrative, managerial and supervisory bodies of the PIE in connection with aspects, such as age, gender or education and professional experience, the objectives of such diversity policy, its method of application and the results therefrom during the reporting period; when no such policy is applied, the declaration shall contain an explanation regarding the reasons for that.

Non-financial declaration

Large enterprises which are public interest enterprises and which, at **31 December** of the reporting period, exceed the criterion of the average number of employees during the financial year of 500 people, shall include a non-financial declaration in their management report.

The non-financial declaration shall contain a short description of the business model of the entity (i.e., goals, strategy, etc.) and description of the policies of enterprises regarding their activities in the field of ecology, social issues and those related to employees, human rights, the fight against corruption.

Report on payments to governments

Large companies and public interest enterprises operating in mining, quarrying or logging of primary forests shall prepare and publish an annual report on payments made to governments, together with the annual management report, provided that the annual lump sum of the payments to governments exceeds the amount of **BGN 195,600 (EUR 100,000)**.

The annual report on payments to governments shall contain the following information about the relevant reporting period:

- ▶ Total amount of payments made to each government
- ▶ Total amount for each of the payment types made to each government, as follows:

- ▶ Rights in production
 - ▶ Profit and income taxes; the value added tax paid, excise duties and income tax on individuals paid shall not be disclosed
 - ▶ Copyright, licence and related rights
 - ▶ Dividends
 - ▶ Bonuses for signing a contract, opening and production
 - ▶ Licence fees, rents, registration fees and other payments for licences and concessions
 - ▶ Payments for infrastructure improvements
 - ▶ Total amount of payments for each project separately, as well as total amount on the types of payments for each project; when an enterprise has made payments on several projects to the same person representing the government within the meaning of the law, the disclosure may be on individuals rather than on projects.
- The Companies, required to prepare such a report for third countries under Commission Implementing Decision (EU) 2016/1910 of 28 October 2016 on the equivalence of the reporting requirements of certain third countries on payments to governments to the requirements of Chapter 10 of Directive 2013/34/EU of the European Parliament and of the Council, are exempt from the requirement to prepare a report on payments to governments under the Accountancy Act.

Applicable accounting standards in Bulgaria

The annual financial statements of the following companies are prepared under the International Financial Reporting Standards as adopted by the EU (IFRS-EU):

- ▶ Consolidated and separate annual financial statements of enterprises whose transferable securities are admitted to trading on a regulated market in a Member State of the European Union (listed PIEs)
- ▶ Credit and financial institutions defined in the Bulgarian credit institutions law
- ▶ Investment intermediaries as defined in the Markets in Financial Instruments Act
- ▶ Alternative investment fund managers, national investment funds and collective investment funds and management companies defined in the Bulgarian Collective investment schemes and other undertakings for collective investment act
- ▶ Payment services providers defined by Law on Payment Services and Payment Providers
- ▶ Insurers and reinsurers
- ▶ Pension funds defined in the Bulgarian Social security code
- ▶ Central securities depositories defined in Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012

Enterprises which are in the process of liquidation or enterprises which are non-profit legal entities (non-profit associations and foundations) are required to prepare their annual financial statements under the National Accounting Standards (NAS).

The financial reporting framework applicable for all other enterprises in Bulgaria are the National Accounting Standards (NAS). These enterprises, however, may choose to prepare their annual financial statements based on IFRS-EU. These enterprises are allowed to voluntarily change their financial reporting framework only once after the existing Accountancy act was entered into force (i.e. after 1 January 2016). There are no constraints in the Accountancy act for the moment of this voluntary change but enterprises are allowed to switch from NAS to IFRS EU and vice versa only once after 1 January 2016. They are allowed to change the financial reporting framework for the preparation of the annual financial statements in 2018 or in any other subsequent period.

The NAS are essentially following the measurement and recognition principles of the International Accounting Standards version before 2005. However, there are certain differences (presentation and classification, initial recognition and subsequent measurement positions, business combinations, etc.).

Enterprises without any activities

during the reporting period are exempt from the requirement to publish financial statements.

Financial year end, filing and public information

According to the Accountancy Act, entities are required to prepare their annual financial statements as at 31 December in thousands of Bulgarian levs (BGN). In line with the additional provisions of the Act, the reporting period shall correspond to the calendar year (1 January–31 December). The financial year cannot be longer than 12 months. It can be shorter than 12 months only in the year of incorporation.

The entities shall publish their annual financial statements, the consolidated financial statements (if such are prepared by the entity) and the annual reports in the Commercial register or in the Central Registry of NGOs of public benefit (for non-profit organizations) by 30 June. The annual financial statements and the management report shall be published in the form and with the text on the basis of which the registered auditor has expressed his/her opinion. The full text of the audit report shall also be subject to publication. Enterprises, which are not subject to statutory independent financial audit, are exempt from publishing certain parts of their financial statements (income statement and management report). Enterprises without any activities during the reporting period are exempt from the requirement to publish financial statements. However, if they are not sole proprietorship companies, they are required to submit declaration for lack of activities within three months after the end of the reporting period in the Commercial Register website or in the Central Registry of NGOs of public benefit website (for non profit organizations - non-profit associations and foundations).

A parent company which is a wholly-owned or partially-owned subsidiary of another entity (i.e., local intermediate parent) and is exempt under the applicable financial reporting framework from the requirement to prepare consolidated financial statements, is required to publish in Bulgarian language the consolidated financial statements of its parent company together with the respective consolidated management report and audit opinion on these financial statements within three-month period after the parent company's statutory publishing deadline.

The information published is freely accessible through the Commercial Register website and in the Central Registry of NGOs of public benefit website.

Publicly listed companies and companies meeting the requirements of §1e of the Supplementary Provisions from the POSA Act should publish their financial statements within 90 days from the financial year end.

Bulgarian Commercial Register

Annual financial statements are freely accessible through the Bulgarian Commercial Register website

Format of the statutory financial statements

The format, structure and content of the full set of the financial statements are defined by the applicable accounting standards (IFRS-EU or National Accounting Standards).

When the applicable reporting framework is National Accounting Standards, Accounting Standard 1 (AS 1) prescribes the format and structure of the balance sheet, income statement and equity statement and Accounting Standard 7 (AS 7) prescribes the format and structure of the cash flow statement. The latter should be based on the direct method. Depending on the category of the entity, there are certain voluntarily reduced reporting requirements as follows:

- ▶ The annual financial statements of micro-enterprises may consist only of a summary balance sheet and a summary income statement by section (not applicable for investment firms and financial holding companies, categorized as micro-enterprises).
- ▶ The annual financial statements of small enterprises may consist of a summary balance sheet, a summary income statement by section and group, and notes.

These entities, however, may also voluntarily prepare a full set of financial statements.

Requirements for annual inventory counts

Entities shall take inventory of the assets and liabilities at least once a year for the purpose of fair presentation in the financial statements. Entities whose net sales revenues do not exceed BGN 200,000 for the current reporting period, shall not take mandatory inventory. The Accountancy Act defines inventory taking as the process of preparing and actually checking, through various means, the physical and value parameters of assets and liabilities of the entity as at a specific date, comparing the results against accounting data and establishing any mismatches.

Language requirements

The financial statements shall be prepared in the Bulgarian language, with Arabic numerals and in thousands of levs (BGN). Where accounting software is used for the purposes of bookkeeping, the output documents shall be in the Bulgarian language.

Chart of accounts

In establishing and maintaining its accounting system, the entity shall ensure application of an individual chart of accounts as approved by the management of the entity. There is no mandatory local statutory chart of accounts that must be used.

Exchange rates used for transactions in foreign currency

When the transaction is negotiated in foreign currency, its BGN equivalent amount shall be determined by applying the central exchange rate of the Bulgarian National Bank to the foreign currency amount as at the date of the transaction.

Other specific requirements with regard to preparing statutory financial statements

Interim, annual and consolidated accounts of entities should be prepared by individuals who are in employment, civil service or contractual relationship with the entity, or by accounting firms.

Individuals who prepare the financial statements, and the managers and/or the representatives of accounting firms who sign the financial statements when prepared by accounting firms, shall meet the following requirements:

- ▶ Minimum mandatory degree of completed education and practical experience corresponding to it, as follows:
 - For the master's degree, **2 years**
 - For the bachelor's degree, **3 years**
 - For the professional bachelor's degree, **4 years**
- ▶ Other tertiary economic education and **5 years** of previous employment in the area of accounting, external and internal audit and financial inspection, tax audits or as an educator in accounting and control
- ▶ Secondary economic education and **8 years** of previous employment as an accountant
- ▶ Absence of conviction for an indictable offense

Financial statements

shall be prepared in Bulgarian language

Retention of accounting information

Accounting information shall be stored on paper and/or technical carrier in the enterprise within the following time limits:

- ▶ Payrolls - **50 years** from 1 January of the reporting period, following the accounting period to which they refer
- ▶ Accounting records and financial statements, including documents for tax control, audit and subsequent financial inspections - **10 years** from 1 January of the reporting period, following the accounting period to which they refer
- ▶ All the other carriers of accounting information - **3 years** from 1 January of the reporting period, following the accounting period to which they refer

Accounting information may be stored in private or public records.

Accounting and commercial information, as well as all other tax documents shall be stored within the following periods:

- ▶ Payrolls: **50 years**
- ▶ Accounting records and financial statements: **10 years**
- ▶ Tax and social security control documents: **5 years** after expiry of the extinguishment of the public obligation
- ▶ All other carriers of information: **5 years**

PIE audit committees and certain requirements to the PIE independent auditor

PIE audit committees

Each PIE should have an audit committee, which is elected at the general assembly of the shareholders or the partners of the entity. The majority of the members of the audit committee shall be external to and independent of the PIE. The chairperson of the audit committee shall be elected by the members of the audit committee. The chairperson should be external to and independent of the PIE as well.

The audit committee shall:

- ▶ Inform the entity's management and supervisory bodies of the results from the mandatory audit and clarify the manner in which the mandatory audit contributed to the truthfulness of the financial reporting, as well as of the role of the audit committee in the process
- ▶ Monitor the financial reporting process and present recommendations and proposals in order to guarantee the effectiveness thereof
- ▶ Monitor the effectiveness of the internal control system, the risk management system and the internal audit activity in respect of the financial reporting in the audited entity

- ▶ Monitor the mandatory financial audit of the annual financial statements, including its implementation, while taking into consideration the findings and conclusions of the CPOSA inspections on the work of the independent auditor
- ▶ Verify and monitor the independence of the registered auditors according to the requirements of the Independent Financial Audit Act, as well as pursuant to the Regulation (EU) No 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities Regulation (EU) No. 537/2014, including the appropriateness of providing other services outside the audit to the audited entity under the same Regulation
- ▶ Be responsible for the procedure for selecting the registered auditor and recommend his/her appointment, with the exception of the cases when the audited entity has its own selection commission
- ▶ Notify CPOSA, as well as the entity's management and supervisory bodies of each approval given for provision of other services outside the statutory audit, provided by the elected independent auditor, within a 7-day time limit from the date of the decision
- ▶ Report on its activity before the body in charge of the appointment
- ▶ Draw up and submit an annual report on its activity to CPOSA by 30 June

CPOSA is performing monitoring, assessment and measures in respect of the activity of the audit committees.

Requirements for the PIE independent auditor

The independent auditor of a PIE shall prepare and present to the audit committee a supplementary report to the audit report.

The supplementary report shall be prepared according to the requirements of the applicable auditing standards and the provisions of Regulation (EU) No. 537/2014.

The independent auditor is limited in providing other than statutory audit services to a PIE. Certain services are prohibited. The registered auditor can provide certain non-audit services provided that:

- ▶ The services do not exert an influence or exert an insignificant influence, separately or jointly, on the audited financial statements
- ▶ The assessment of the influence on the audited financial statements has been documented and explained comprehensively in the supplementary report for the audit committee
- ▶ The registered auditor complies with the independence requirements

The independent auditor of a PIE is subject to mandatory rotation. The independent audit firm should rotate after seven consecutive years of audit with a cooling-off period of four years, while the key audit partner of the same firm should rotate every four years, with a cooling-off period of three years.

Certain PIEs are required to have joint audits by more than one auditor.

Mandatory rotation

of independent auditors of PIEs at every 7 consecutive years

EY Bulgaria

We have been present on the Bulgarian market since 1992. Employing over 300 professionals locally across our four service lines: Assurance, Tax and Law, Strategy and Transactions and Consulting, we offer the full scope of global services in a close and integrated effort with other growing practices in the region. EY enjoys a leading position on the Bulgarian market and also covers Albania, North Macedonia and Kosovo, providing both multinational clients and strong local companies with customized advice.

Assurance Services

Promoting transparency, supporting investor confidence and economic growth

Tax Services

Helping our clients understand and manage their taxes responsibly and proactively

Strategy and Transactions Services

Supporting businesses drive competitive advantage by proactively managing their capital agenda, which determines how they strategically raise, invest, preserve and optimize their capital

People Advisory Services

Collaborating with clients to help their people agenda

Legal Services

Business and practically oriented, EY Law Partnership is a new-style legal practice working in very close cooperation with professionals from the tax, accounting and financial teams

Global compliance and reporting

Full outsourcing of accounting, payroll and tax compliance functions of our clients

Who we are

Our values define who we are. They are the fundamental beliefs of our global organization. They guide our actions and behavior. They influence the way we work with each other - and the way we serve our clients and engage with our communities.

Every day, each one of us makes choices and decisions that directly affect the way we experience each other and the way our clients and wider communities experience us. Our values give us confidence that we are using the same principles to help us make these decisions throughout our global organization.

People who demonstrate integrity, respect, and teaming.

People with energy, enthusiasm, and the courage to lead.

People who build relationships based on doing the right thing.

Assurance services



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About EY

EY is a global leader in assurance, tax, strategy, transaction and consulting services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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