

Tax and legal guide for
Bulgaria

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A close-up photograph of the European Union flag, showing the blue field with twelve yellow stars arranged in a circle. The flag is draped and wrinkled, creating a sense of depth and texture.

Bulgarian Taxation System. A Comprehensive Guide

Introduction

Bulgaria has emerged as a key business destination within the European Union, offering a favourable environment for both domestic and international investors. With its flat tax rates for corporate and personal income, simplified tax regulations, and a strategic location, Bulgaria is an attractive jurisdiction for entrepreneurs and businesses seeking a competitive edge. The country's legal framework is also designed to protect businesses and investors, ensuring transparency and stability in commercial activities.

This guide provides a comprehensive overview of the Bulgarian taxation and legal systems, addressing key elements such as corporate and personal income taxes, value-added tax (VAT), withholding taxes, social security contributions, and business incentives.

It also covers the legal structures available for setting up and operating businesses, intellectual property protection, and compliance with Bulgarian and EU regulations. Additionally, the guide outlines compliance obligations and international tax considerations, including transfer pricing rules and double taxation treaties.

Whether you are an individual, entrepreneur, or multinational corporation considering doing business in Bulgaria, this guide aims to offer valuable insights into both the tax and legal frameworks of the country. While this guide serves as a general reference, it is important to seek professional advice for specific legal and tax matters related to your business operations.

Geography, Demographics, and Economic Overview of Bulgaria



Size and Population of Bulgaria

Bulgaria is located in Southeastern Europe, occupying a land area of approximately 110,994 square kilometres. With a population of around 6.5 million people, Bulgaria is relatively small compared to some of its European counterparts.

The capital city, Sofia, is the largest urban centre, home to nearly 1.3 million people. Other significant cities include Plovdiv, Varna, and Burgas, which serve as important economic, cultural, and industrial hubs. The population density is low compared to Western European

countries, providing ample room for growth and investment in infrastructure. Despite its smaller size, Bulgaria's strategic location at the crossroads between Europe and Asia positions it as a key gateway for trade and logistics.

Culture and Economy

Bulgaria has a rich cultural heritage, blending traditions from its Slavic, Ottoman, and Thracian past with modern European influences. Bulgarian culture places a strong emphasis on family, hospitality, and historical pride, while the country's cultural scene includes notable contributions in literature, music, and the arts.

Economically, Bulgaria is classified as an upper-middle-income country, with its economy primarily driven by sectors such as information technology, agriculture, manufacturing, and tourism. In recent years, Bulgaria has experienced steady economic growth, supported by increased foreign direct investment (FDI) and its integration into the European Union.

Bulgaria's low corporate tax rate, competitive labour costs, and expanding IT and outsourcing sectors have made it an attractive destination for international companies.

Political System

Bulgaria is a parliamentary republic with a multi-party political system. The country's constitution, adopted in 1991, defines the division of power among the legislative, executive, and judicial branches. The National Assembly, a unicameral parliament consisting of 240 members, holds legislative authority and is responsible for passing laws, approving the budget, and overseeing the work of the government. The executive branch is headed by the Prime Minister, who leads the government and is appointed by the National Assembly. The President serves as the head of state, a largely ceremonial role with some powers in foreign policy and defense. Bulgaria's judiciary operates independently, with the Constitutional Court tasked with safeguarding the constitutionality of laws. As a member of the European Union, Bulgaria's political system is also aligned with EU policies and regulations, further shaping its governance framework.

Currency and Banking System

Bulgaria's official currency is the Bulgarian lev (BGN), which is pegged to the euro at a fixed rate of 1.95583 leva per euro. This currency stability has played a significant role in fostering economic confidence, particularly among foreign investors.

Bulgaria's banking system is regulated by the Bulgarian National Bank (BNB), which ensures the stability of the financial system and the implementation of EU monetary policy. The country's banking sector is well-developed and predominantly foreign-owned, with a range of universal banks offering full banking services, including commercial lending, retail banking, and investment services. Bulgaria is expected to adopt the euro in the future, further aligning its monetary policies with the Eurozone.

Legal System

Bulgaria's legal system is based on civil law, influenced by Roman and continental European legal traditions. The country's constitution is the supreme legal document, laying the foundation for the protection of fundamental rights, the rule of law, and the separation of powers among the executive, legislative, and judicial branches. The Bulgarian judiciary is independent and composed of three main branches: the civil courts, criminal courts, and administrative courts. The Supreme Court of Cassation is the highest court for civil and criminal matters, while the Supreme Administrative Court handles cases related to administrative law. The Constitutional Court plays a crucial role in interpreting the constitution and reviewing the constitutionality of laws and treaties. Bulgaria's legal framework is largely aligned with European Union standards, as it has incorporated EU laws and regulations into its national legislation since becoming an EU member in 2007. The country also upholds protections for foreign investors, intellectual property rights, and contractual obligations, making it a stable environment for business activities.



Forms of Legal Enterprises in Bulgaria

Bulgaria offers several forms of legal entities that businesses can choose from, depending on the nature of their activities, size, and strategic goals. Each form has specific characteristics, legal requirements, and advantages.

Below are the main types of legal enterprises in Bulgaria, along with a description of each and key elements thereof:

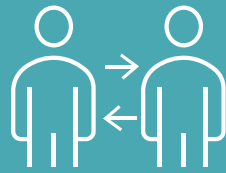


Sole Proprietorship (ЕТ - Едноличен търговец)

A sole proprietorship is the simplest and most straightforward form of business organization in Bulgaria, commonly chosen by small business owners or individual entrepreneurs. It is owned and managed by one person, who is personally responsible for all liabilities of the business.

Key Elements:

- Only natural persons can establish a sole proprietorship.
- No requirement for initial capital.
- The owner has unlimited personal liability for the business's obligations.
- The sole proprietor pays personal income tax at the rate of 15% on profits.
- Registration with the Bulgarian Trade Register is required.
- Suitable for small-scale, low-risk business operations.



Limited Liability Company (ООД - Дружество с ограничена отговорност)

The limited liability company (OOD) is the most popular legal form in Bulgaria, favoured by small and medium-sized businesses due to its flexibility and protection of shareholders. An OOD can be established by one or more individuals or legal entities and provides limited liability to its shareholders.

Key Elements:

- Can be formed by one (Single-member Limited Liability Company - EOOD) or more shareholders.
- Minimum share capital requirement is BGN 2.
- Shareholders are only liable up to the amount of their contributions.
- Managed by one or more appointed directors who may or may not be shareholders.
- Requires registration in the Bulgarian Trade Register.
- Subject to corporate income tax of 10% on profits.
- Annual financial statements must be filed with the authorities.





Joint-Stock Company (AD - Акционерно гружество)

A joint-stock company (AD) is suited for larger businesses and those looking to raise capital by issuing shares to investors. It is a more complex structure and is often used by companies planning public listings or engaging in substantial commercial activities.

Key Elements:

- Minimum share capital requirement of BGN 50,000.
- Shares can be publicly traded, allowing for the raising of capital.
- Liability of shareholders is limited to the value of their shares.
- Must have a board of directors or a supervisory board and a management board, depending on the governance model.
- Subject to strict regulatory requirements, including publishing financial reports and undergoing annual audits.
- Ideal for large enterprises and companies aiming for stock exchange listings.



Sole-Owned Joint-Stock Company (EAD - Еднолично акционерно гружество)

This is a variation of the joint-stock company, where the entire capital is owned by a single entity or individual. It combines the benefits of the joint-stock company structure with simplified ownership, and it is used by large businesses or holding companies.

Key Elements:

- Operates similarly to a Joint-Stock Company but has a sole shareholder.
- Minimum share capital requirement of BGN 50,000.
- Ideal for individuals or companies that wish to maintain complete control of the business while benefiting from the limited liability and capital-raising possibilities of a joint-stock company.
- Must adhere to the same regulatory and financial reporting standards as a regular AD.



Partnership (SD and KD - Събирателно гружество and Командитно гружество)

Partnerships in Bulgaria are of two types: General Partnership (SD) and Limited Partnership (KD). In a general partnership, all partners have unlimited liability for the debts of the company, while in a limited partnership, liability is shared between general partners with unlimited liability and limited partners with liability only up to their contributions.

Key Elements:

- General Partnership (SD):
 - Partners share full and joint liability for the company's obligations.
 - No minimum capital requirement.
 - Requires at least two partners, either natural or legal persons.
 - Suitable for small businesses with trusted partners.

- Limited Partnership (KD):
 - Requires at least one general partner with unlimited liability and at least one limited partner with liability restricted to their investment.
 - No minimum capital requirement.
 - Allows for external investors who prefer limited risk involvement.



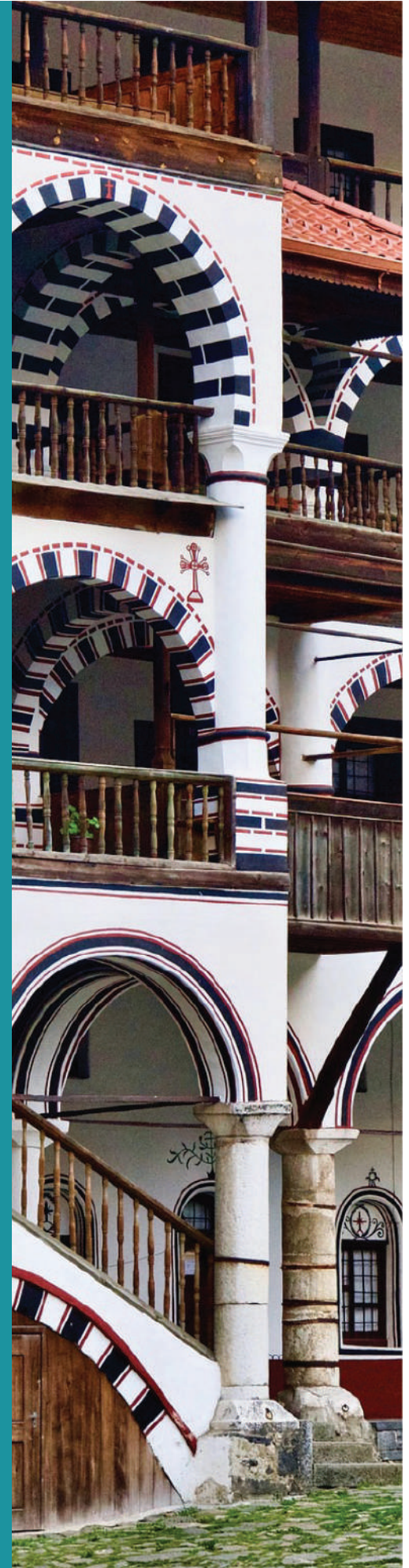
Limited Partnership with Shares (KDA - Командитно дружество с акции)

A Limited Partnership with Shares (KDA) is a hybrid legal structure that combines elements of a limited partnership and a joint-stock company. In this form, there are two types of partners: general partners who have unlimited liability for the obligations of the company, and limited partners whose liability is limited to the amount of their shares. This structure allows for the issuing of shares, making it attractive for raising capital while maintaining control by the general partners.

Key Elements:

- Two types of partners:
 - General partners (fully liable for the company's obligations).
 - Limited partners (liability limited to their share contribution).
- Minimum capital requirement: There is no specific minimum capital requirement for the limited partners, but the general partners must adhere to the regulations governing their liability.
- Shares issuance: The limited partners' capital is divided into shares, which can be publicly or privately traded, similar to a joint-stock company.
- Management: General partners are responsible for the management of the company and have full control, while limited partners do not participate in management.
- Liability: General partners have unlimited liability, meaning they are personally responsible for the debts and obligations of the company, while limited partners risk only their investment.
- Registration: The company must be registered in the Bulgarian Trade Register.
- Suitability: The structure is ideal for companies where general partners want to maintain control, but also seek to raise capital through share issuance.

This structure provides flexibility by allowing limited partners to invest in the company without assuming full liability, while giving general partners control over management and operations.





Company with Variable Capital (DPK - Дружество с променлив капитал)

A Company with Variable Capital (DPK) is a flexible legal structure in Bulgaria that allows for fluctuations in the company's capital without the need for complex procedures to adjust the share capital. This form of company is commonly used for investment funds or cooperatives where members or shareholders can join and leave the company without the need for formal capital changes. The capital can increase or decrease automatically as shareholders or members enter or exit the company.

Key Elements:

- A Company with Variable Capital can only be an enterprise that has an average number of employees of fewer than 50 people and an annual turnover not exceeding BGN 4,000,000 (circa EUR 2mln.) and/or assets valued at no more than BGN 4,000,000 (circa EUR 2mln.).
- Capital flexibility: The share capital of the company is not fixed and can change dynamically, depending on the number of shareholders or members and their capital contributions.
- Minimum capital requirement: There is usually no strict minimum capital requirement for setting up a DPK, allowing the company to start with low initial capital and expand as needed. The company's capital fluctuates according to the investments made by its members.
- Liability: The liability of shareholders or members is limited to their capital contribution, making it similar to other forms of limited liability companies in Bulgaria.
- Management: The company is typically managed by one or more directors, who oversee the business operations. Management structures can be flexible, depending on the company's internal rules.
- Taxation: The company is subject to corporate income tax at a rate of 10% on its profits, similar to other corporate entities in Bulgaria. If the company distributes dividends to its shareholders, they are subject to a 5% withholding tax.
- Capital structure: Shareholders or members can easily enter or exit the company without formal capital changes being required, which makes the company an attractive option for businesses looking for capital flexibility or investment structures.
- Suitable for: This form of company is particularly suitable for businesses or organizations where membership or shareholding changes frequently, such as investment funds, cooperatives, or associations that require capital to fluctuate without formal procedures to increase or decrease it.



Branch

A branch is not a separate legal entity, but rather an extension of a domestic company (operating outside the location of its Bulgarian headquarters) or foreign company that operates in Bulgaria. It is ideal for foreign companies looking to expand into the Bulgarian market without establishing a fully independent entity.

Key Elements:

- The branch is not independent from its parent company, meaning it does not have separate legal status.
- The parent company is liable for the branch's activities in Bulgaria.
- It must be registered in the Bulgarian Trade Register and complies with local tax and employment regulations.
- Suitable for foreign businesses testing the market or conducting short-term activities in Bulgaria.



Representative Office

A representative office allows foreign companies to establish a presence in Bulgaria without engaging in commercial activities. It is typically used for market research, promotional activities, or liaison purposes, and cannot engage in trade or generate revenue.

Key Elements:

- Not allowed to perform any business or income-generating activities.
- Typically used for marketing, promotional work, or coordination with local customers or partners.
- No legal personality; operations are considered an extension of the parent company.
- Any transactions that the foreign entity conducts with local entities, for the needs of the representative office, are subject to the same rules that apply to transactions between local persons;
- Must be registered with the Bulgarian Chamber of Commerce and Industry (BCCI).

Introduction to the Taxation System

Bulgaria's taxation system is characterized by its simplicity and relatively low tax rates compared to other European countries. It has gained attention as a favourable jurisdiction for both individuals and businesses due to its flat tax rates and straightforward regulatory framework. The system is overseen by the National Revenue Agency (NRA), which is responsible for administering taxes and social security contributions. With its business-friendly policies, Bulgaria has become an attractive destination for foreign investors seeking to benefit from a stable tax environment while accessing the broader European market.

The primary taxes imposed in Bulgaria are corporate income tax, personal income tax, value-added tax (VAT), and various local taxes. These taxes are applicable to both domestic and foreign entities operating within the country. The corporate tax rate is one of the lowest in the European Union, which, along with its strategic geographic location and EU membership, makes Bulgaria an attractive hub for businesses. Additionally, Bulgaria has established a number of double taxation treaties with other nations to prevent the double taxation of income and foster international business activities.





OECD-Bulgaria Interaction

Bulgaria has been an active participant in the OECD's Base Erosion and Profit Shifting (BEPS) initiatives, even though it is not yet a full member of the OECD. The country has adopted several OECD-recommended standards, including transfer pricing rules and anti-tax avoidance measures.

Bulgaria's cooperation with the OECD has strengthened its legal and regulatory framework, particularly in the areas of tax transparency, anti-money laundering, and preventing tax evasion. Bulgaria's alignment with OECD practices ensures that the country remains compliant with international standards, making it an attractive destination for foreign investment while fostering a fair and competitive tax system.

MLI Convention and Double Tax Treaties

Bulgaria is a signatory to the Multilateral Instrument (MLI) under the OECD's BEPS framework, which modifies the application of existing Double Tax Treaties (DTTs) to reduce opportunities for tax avoidance by multinational corporations. The MLI allows Bulgaria to amend its treaties with other countries in a coordinated manner, introducing measures such as the Principal Purpose Test (PPT), which denies treaty benefits in cases of treaty abuse, and changes to the permanent establishment definition.

These reforms aim to prevent base erosion and profit shifting, ensuring that profits are taxed in the jurisdiction where the economic activities occur.

Bulgaria's participation in the MLI enhances its network of tax treaties, promoting tax fairness and preventing double taxation.

Adoption of GloBE Regulations in Bulgaria

Bulgaria has already incorporated certain provisions of the Global Anti-Base Erosion (GloBE) rules into its domestic legislation, in line with the OECD's Pillar Two framework, which sets a global minimum tax of 15% for large multinational enterprises. Although Bulgaria's standard corporate tax rate remains at 10%, the country has introduced key anti-base erosion measures into its domestic tax laws, such as enhanced Controlled Foreign Corporation (CFC) rules and updated transfer pricing regulations. These measures align with the global effort to curb profit shifting and ensure that multinationals are subject to minimum taxation on their global profits. Bulgaria's commitment to implementing GloBE regulations is evident as it continues to adjust its tax code to meet international standards, particularly for large multinationals operating within and across its borders.



International Taxation and Transfer Pricing

Bulgaria's tax system is aligned with international standards, particularly in the area of international taxation and transfer pricing. The country adheres to the principles established by the OECD, which govern the taxation of cross-border transactions and the prevention of tax avoidance.

Transfer pricing rules in Bulgaria apply to transactions between related parties, such as subsidiaries and parent companies, where the prices charged for goods, services, or financing arrangements may not reflect market conditions. To ensure that these transactions are conducted on an arm's length basis, Bulgaria's tax authorities require companies to maintain detailed transfer pricing documentation. This documentation must demonstrate that the terms of intra-group transactions are consistent with the

prices that would be charged between independent parties in similar circumstances.

In addition to transfer pricing, Bulgaria has implemented anti-tax avoidance measures aimed at preventing base erosion and profit shifting (BEPS). These measures are designed to combat aggressive tax planning strategies that exploit gaps in the international tax system. For example, Bulgaria has introduced rules that limit the deductibility of interest expenses and require the disclosure of aggressive tax arrangements to the tax authorities.

Foreign companies that operate in Bulgaria through a permanent establishment are subject to Bulgarian corporate income tax on the profits attributable to that establishment. A permanent

establishment is typically defined as a fixed place of business, such as an office or factory, through which the foreign company carries out its activities in Bulgaria. However, certain types of activities, such as preparatory or auxiliary services, may not give rise to a permanent establishment under Bulgarian tax law.

Bulgaria has also signed numerous double taxation treaties with countries around the world, providing relief from double taxation for both individuals and companies. These treaties allow taxpayers to offset the tax paid in one country against the tax owed in another, ensuring that income is not taxed twice. The treaties cover various forms of income, including dividends, interest, royalties, and capital gains, and often provide for reduced withholding tax rates on cross-border payments.

Type of Taxes in Bulgaria

Below is a brief description of the type of taxes imposed in Bulgaria.



Corporate Income Tax

Corporate income tax (CIT) in Bulgaria is levied at a flat rate of 10%, one of the lowest in the European Union. This low tax rate has made Bulgaria an appealing location for both local and multinational businesses looking for tax efficiency in their operations. The tax is applied to the worldwide income of Bulgarian resident companies, while non-resident companies are taxed only on their Bulgarian-source income.

Resident companies are those incorporated under Bulgarian law or whose place of effective management is in Bulgaria. Non-resident entities, such as branches of foreign companies operating in Bulgaria, are subject to tax only on the income they generate within the country.

The taxable income for CIT purposes is calculated based on the company's financial statements, adjusted for tax purposes. Deductible expenses include typical business-related costs, such as wages, depreciation, and operational expenses. However, certain expenses are non-deductible, such as fines, penalties, and certain types of provisions. Furthermore, there are specific regulations for the tax treatment of dividends and capital gains. Dividends received by Bulgarian companies from domestic or foreign subsidiaries are generally exempt from taxation, provided certain conditions are met. Capital gains, on the other hand, are subject to CIT unless a specific exemption applies.

One of the attractive features of Bulgaria's corporate tax regime is the ability to carry forward losses. Companies can carry forward tax losses incurred in one financial year and offset them against profits in the following five years.

This is particularly advantageous for start-ups and companies in capital-intensive industries where initial losses are expected.

Thin capitalization rules

Bulgaria's thin capitalization rules are aimed at preventing companies from using excessive debt to reduce taxable profits through interest deductions.

These rules apply when a company's debt-to-equity ratio exceeds 3:1, meaning that interest on debt exceeding three times the equity is not deductible for tax purposes.

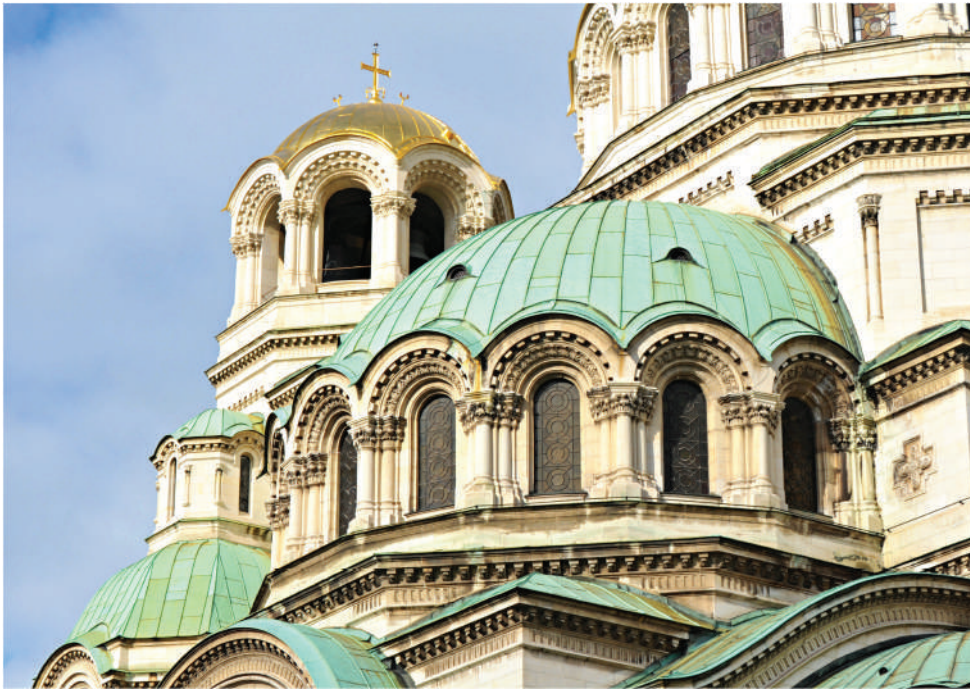
The rules are primarily relevant to loans from related parties. However, it is crucial to note that credit institutions (such as banks) are explicitly excluded from the application of thin capitalization rules, allowing them to fully deduct interest expenses without being subject to the 3:1 debt-to-equity ratio restriction.

Limitation of interest deductibility

In line with the EU Anti-Tax Avoidance Directive (ATAD), Bulgaria limits the deductibility of interest expenses to 30% of a company's EBITDA. Interest expenses exceeding this threshold can be carried forward indefinitely and deducted in future years when the company has sufficient taxable profits. However, just as with the thin capitalization rules, credit institutions are explicitly excluded from this limitation on interest deductibility. This carve-out ensures that financial institutions can fully deduct their interest expenses, reflecting the nature of their business operations.

Hidden Profit Distribution

Hidden profit distribution refers to transactions or benefits provided by a company to its shareholders, partners, or related parties, which are not officially declared as profit distributions (e.g., dividends) but effectively reduce the company's taxable base. Such transactions may include the provision of goods or services at below-market prices, interest-free loans, or excessive remuneration to shareholders. These hidden distributions are considered a way to shift profits out of the company without formally paying dividends, thus avoiding the applicable taxes.



Taxation, Sanctions, and Period of Limitation

In Bulgaria, hidden profit distributions are treated as deemed dividends and are subject to a 5% withholding tax. This tax applies to the portion of profits that have been unlawfully distributed to shareholders or related parties. If hidden profit distribution is identified during a tax audit, the Bulgarian tax authorities will impose the 5% withholding tax retroactively. In addition, the company may face penalties (20% on the amount of deemed to be HPD) and interest for late payment of the withholding tax, typically calculated as interest on unpaid tax liabilities. The period of limitation for imposing sanctions related to hidden profit distributions is five years, starting from the date the tax obligation was due.

Grace Period upon Disclosure

Bulgaria's tax laws allow companies to benefit from a certain grace upon voluntary disclosure of hidden profit distributions before a tax audit takes place. If a company proactively discloses hidden profit distribution and pays the corresponding withholding tax, the 20% penalty is waived, though interest on unpaid taxes will still accrue.

This provides an incentive for companies to regularize their tax affairs voluntarily, mitigating the risk of severe sanctions during a future audit.

Personal Income Tax

Personal income tax (PIT) in Bulgaria is also characterized by a flat rate of 10%, applicable to both residents and non-residents. This uniform rate is applied to income from employment, self-employment, capital gains, and other sources.

The flat tax system simplifies tax calculations and compliance, making it easier for individuals and employers to fulfil their tax obligations.

An individual is considered a tax resident of Bulgaria under the Personal Income Tax Act if they have a permanent address in Bulgaria, spend more than 183 days within any 12-month period in the country (excluding stays solely for education or medical treatment), are abroad on an assignment by Bulgarian entities or authorities, or if their centre of vital interests is situated in Bulgaria. Tax residents are taxed on their worldwide income, while non-residents are taxed only on their Bulgarian-source income.

Employment income is subject to withholding tax, meaning that employers are responsible for deducting the tax from employees' salaries and remitting it to the National Revenue Agency. In addition to PIT, employees must contribute to Bulgaria's social security system, with contributions split between the employee and employer.

Self-employed individuals are subject to the same flat tax rate, and they must make social security contributions based on their declared income. Certain categories of income, such as capital gains from the sale of financial assets, may be subject to preferential tax treatment or exemptions under specific conditions. Additionally, Bulgaria has an extensive network of double taxation treaties, which helps mitigate the risk of individuals being taxed on the same income by multiple jurisdictions.



Value Added Tax (VAT)

Value Added Tax (VAT) in Bulgaria is governed by the European Union VAT Directive, and it applies to most goods and services provided within the country. The standard VAT rate in Bulgaria is 20%, which is consistent with the rates applied in other EU member states. Certain goods and services are subject to a reduced VAT rate of 9%, such as hotel accommodations and certain books and newspapers. Moreover, some transactions, such as those involving medical services, financial services, and education, are exempt from VAT.

Businesses that engage in taxable supplies of goods or services must register for VAT with the National Revenue Agency if their turnover exceeds BGN 166 000 (EUR 84 874) for the last 12 consecutive months. Once

registered, businesses are required to charge VAT on their taxable sales and submit regular VAT returns, typically on a monthly basis. The VAT returns must include details of the output tax (VAT charged on sales) and input tax (VAT paid on purchases). Businesses can reclaim the input tax they incur, provided the purchases are related to their taxable business activities.

Intra-community transactions, such as the sale of goods to other EU member states, are generally zero-rated, meaning no VAT is charged, but businesses must report these transactions on their VAT returns. Imports from non-EU countries are subject to import VAT, which can usually be reclaimed in the same way as domestic VAT.

Withholding Taxes

Withholding taxes in Bulgaria apply to certain types of income paid to non-residents, including dividends, interest, and royalties. The standard withholding tax rate is 5% on dividends and 10% on interest and royalties. However, these rates may be reduced or eliminated under Bulgaria's numerous double taxation treaties, which aim to avoid double taxation and encourage cross-border investment.

Non-residents receiving income from Bulgarian sources, such as rental income, technical services, or consultancy fees, may also be subject to withholding tax. The tax must be withheld by the payer of the income and remitted to the Bulgarian tax authorities. In cases where a double

taxation treaty is in place, the non-resident can apply for relief to reduce the withholding tax rate or to avoid it altogether if the treaty provides for such an exemption.

It should be noted that DTT does not apply automatically, and a tax clearance procedure should be followed before the Bulgarian revenue authorities. The complexities of the administrative procedure depend on the amount of income accrued.

Real estate transfer tax

Real estate transfer tax is levied when ownership of real property is transferred, whether through sale, exchange, donation, or other forms of transfer. The tax rate typically ranges between 0.1% and 3% of the property's declared value or sale price, whichever is higher, and is set by the local municipalities where the property is located. The buyer is usually responsible for paying the tax, though in some cases,

parties may agree otherwise in the transfer agreement. In addition to the real estate transfer tax, the buyer must cover notary fees and registration fees for updating the ownership records in the Property Register. The transfer of real estate is formalized through a notary deed, which must be registered with the Registry Agency to complete the ownership transfer. Mechanisms for ensuring compliance include the

involvement of a notary public, who verifies that all taxes and fees are paid before finalizing the transfer. Failure to comply with the payment of real estate transfer tax can result in penalties or delays in the registration of the new ownership, preventing the transfer from being fully recognized in law.



Compliance and Filing Requirements

Bulgaria's tax compliance system is relatively straightforward, and taxpayers are expected to meet several obligations throughout the year to remain compliant with local tax laws. The tax year in Bulgaria aligns with the calendar year, running from January 1 to December 31. Both companies and individuals must file their annual tax returns, detailing their income, deductions, and any applicable tax relief.

For companies, the timeframe for filing the corporate income tax return is from March 1 until June 30 of the year following the reported year. Along with the tax return, companies must also submit their annual business activity statement to the National Revenue Agency. Companies that fail to meet the filing deadline may be subject to penalties and interest on any

unpaid taxes. Furthermore, companies that are required to make advance corporate tax payments must calculate and remit these payments quarterly, based on their projected taxable income. Individuals, including employees, self-employed persons, and other income earners, must also file annual tax returns with the timeframe starting as of January 10 until April 30 of the year following the year of income acquisition (not applicable to sole proprietors who follow the reporting deadlines set for companies). Employees typically have their income tax withheld at source by their employers, which simplifies the filing process for those with only employment income. However, individuals with additional income sources, such as rental income or

capital gains, must declare these on their tax returns.

VAT-registered businesses must file VAT returns on a monthly basis. These returns detail the VAT charged on sales (output VAT) and the VAT paid on purchases (input VAT). Businesses that consistently pay more VAT than they collect can claim a refund of the excess VAT from the National Revenue Agency. Refunds are typically processed within 30 days of filing the return, provided all necessary documentation is submitted.



Tax Incentives for Businesses



Bulgaria offers several tax incentives aimed at encouraging investment, innovation, and economic development. These incentives are designed to reduce the tax burden on businesses operating in specific sectors or regions and to attract foreign investment.

One of the key incentives is the corporate income tax exemption available for companies that operate in economically disadvantaged regions of the country. Under this scheme, companies that create jobs in these regions may benefit from a reduced or zero corporate income tax rate for a specified period. The exact

criteria and duration of the tax relief depend on the region and the nature of the business activity. To qualify for this exemption, companies must meet certain requirements related to job creation and capital investment.

Additionally, Bulgaria offers tax incentives for companies engaged in research and development (R&D) activities. Companies that invest in R&D projects may be eligible for enhanced deductions on their corporate income tax returns. These deductions can cover expenses related to personnel, materials, and equipment used in R&D activities, providing significant savings for

companies in innovative sectors.

Foreign investors are further encouraged through Bulgaria's extensive network of double taxation treaties, which ensure that foreign businesses are not subject to double taxation on their Bulgarian-source income.

These treaties, combined with Bulgaria's low corporate tax rate, make the country an attractive location for multinational companies seeking to establish a presence in Europe.

Labour Law on Regulation in Bulgaria



Legal Framework

Bulgaria's labour law is primarily governed by the Labour Code (Kogekс на тpyгa), which sets out the legal framework for employment relationships between employers and employees. The Labor Code covers a wide range of topics, including employment contracts, working conditions, wages, working hours, and employee rights. Employment contracts in Bulgaria can be either fixed-term or indefinite, and must be executed in writing, clearly stating the terms of employment such as salary, duties, and working hours. The standard working week in Bulgaria is 40 hours, spread over five days, with a maximum of 8 hours per day. Overtime work is generally restricted and is compensated at higher rates. The law also mandates paid annual leave of at

least 20 working days, in addition to public holidays.

Employee rights are strongly protected under the Labour Code. Employees cannot be dismissed without cause, and dismissals must follow strict procedures, including providing notice and, in some cases, severance pay. Specific protections are in place for pregnant women, parents, and employees on sick leave, who cannot be dismissed while enjoying these protections. In addition, collective bargaining is encouraged, and employees have the right to form and join trade unions, which negotiate with employers on working conditions, wages, and benefits.

Social Security Contributions

Bulgaria operates a compulsory social security system, which covers pensions, healthcare, unemployment, and other social benefits. Both employers and employees are required to make social security contributions, with the total contribution rate varying depending on the nature of the employment and the age of the employee. These contributions are collected by the National Revenue Agency (NRA) and distributed across the various social security funds.

For most employees, the total social security contribution is approximately 32.3% of gross income, with the employer covering around 18.5% and the employee contributing 13.8%. These rates apply to earnings up to a certain threshold, referred to as the maximum contributory income, which is set annually by the government. For 2024, this threshold is BGN 3,750 per month. Earnings above this threshold are not subject to social security contributions.

The contributions are allocated across several funds, including the pension fund, health insurance fund, and unemployment insurance. For example, around 14.3% of the total contribution goes toward pension insurance, while 8% is allocated to healthcare. There are also contributions for accident and occupational disease insurance, though the rate varies based on the risk level of the industry. Self-employed individuals must also contribute to the social security system. Their contributions are calculated based on their declared income, and they must pay both the employer and employee portions, making the total contribution rate higher than for employed individuals. Social security contributions for self-employed individuals are mandatory, covering health insurance and pension contributions, with optional contributions to the unemployment insurance fund.



Health Insurance Contributions

Bulgaria operates a universal compulsory health insurance system that covers employees, the self-employed, and unemployed individuals who meet specific criteria. Both employers and employees contribute to the health insurance system.

As mentioned above, healthcare contributions are part of the overall social security contributions. The health insurance contribution rate is 8% of gross income, split between employer and employee in a 60%-40% proportion, calculated on the gross income. These contributions ensure that employees and their dependents have access to healthcare services within Bulgaria's public healthcare system, which includes primary care, hospital services, and specialist treatments. Health insurance is also mandatory for the self-employed, who must cover the full 8% contribution themselves.

Intellectual Property Protection in Bulgaria

Bulgaria offers robust intellectual property (IP) protection through several laws that are fully aligned with European Union regulations and international treaties.

The Bulgarian Patent Office (BPO) oversees the registration and protection of patents, trademarks, industrial designs, and geographical indications.

Key laws include the Trademarks and Geographical Indications Act, the Patents and Utility Models Act, the Industrial Designs Act, and the Copyright and Related Rights Act.

These laws protect a wide range of IP assets, while Bulgaria's membership in international agreements like the European Patent Convention (EPC) and the World Intellectual Property Organization (WIPO) further ensures global IP protection.



Quality of Life in Bulgaria

Education and communication

Bulgaria offers a relatively high standard of education, with a system that includes free, compulsory education for children from ages 7 to 16. The country has a strong tradition in scientific and technical education, with several highly regarded universities, particularly in Sofia, Plovdiv, and Varna. The literacy rate is very high, and Bulgaria's education system is closely aligned with European standards, enabling students to pursue opportunities within the European Union. Bulgaria is also known for its growing number of international schools and programs that cater to expatriate communities, ensuring that residents have access to diverse educational options.

In terms of communication, Bulgaria boasts an advanced digital infrastructure, with widespread access to high-speed internet, even in rural areas. Mobile communication is robust, with coverage across most parts of the country, supporting seamless connectivity for both businesses and individuals.



Transport

Bulgaria's transport system is well-developed, with modern road networks, railways, and public transportation options connecting major cities and towns. Sofia, the capital, has an efficient public transport system that includes buses, trams, and a metro system, making commuting convenient for residents. The country's road network has seen significant improvements, especially on major highways linking Bulgaria to neighbouring countries such as Greece, Romania, and Serbia. Bulgaria's railways, operated by Bulgarian State Railways (BDZ), provide an affordable mode of transport, though they are slower compared to road travel. Additionally, Bulgaria has several international airports, with Sofia Airport serving as the main hub for international and domestic flights. Overall, Bulgaria's communication and transport infrastructure support a good quality of life, with convenient access to education, technology, and mobility.



Bulgarian Cuisine

Bulgarian cuisine is a rich blend of flavours, heavily influenced by the country's Balkan, Slavic, and Ottoman heritage. It is known for its use of fresh, locally sourced ingredients, including vegetables, dairy, and meats, with a focus on seasonal produce. Traditional dishes often feature yogurt, cheese (especially the renowned Bulgarian white brine cheese), and herbs such as parsley and dill.

Bulgaria's wine-making tradition also plays an essential role in its culinary culture, with several local varieties gaining international recognition. The cuisine reflects the warmth and hospitality of Bulgarian culture, offering a rich and diverse experience for both locals and visitors.



About MGI Delta LLC



MGI Delta is a consulting group that offers a wide range of services in audit, accounting, and business consulting. Our focus is to provide quality solutions with a personalized approach, building long-term partnerships with our clients. We work to provide not only accountability but strategic guidance that supports business growth and success.

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