Key tax factors for efficient cross-border business and investment involving Bulgaria

<table>
<thead>
<tr>
<th>EU Member State</th>
<th>Yes</th>
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<tbody>
<tr>
<td><strong>Double Tax Treaties</strong></td>
<td>With:</td>
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<tr>
<td>Albania</td>
<td>Georgia</td>
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<td>Algeria</td>
<td>Germany</td>
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<td>Armenia</td>
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<td>Austria</td>
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<td>Azerbaijan</td>
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<td>Bahrain</td>
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<td>Cyprus</td>
<td>Jordan</td>
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<td>Czech Rep.</td>
<td>Kazakhstan</td>
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<td>Denmark</td>
<td>People’s Rep. of</td>
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<td>Egypt</td>
<td>Korea</td>
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<td>Estonia</td>
<td>Rep. of Korea</td>
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<td>Finland</td>
<td>Kuwait</td>
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<td>France</td>
<td>Latvia</td>
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</tbody>
</table>

Most important forms of doing business


Legal entity capital requirements

- Limited liability company (OOD) - BGN 2.
- Joint-stock company (AD) - BGN 50,000.
A higher statutory minimum is required for credit and financial institutions, investment intermediary companies, special investment purpose entities, insurance and health insurance companies.

**Residence and tax system**

A company is a tax resident in Bulgaria if it is incorporated under Bulgarian law. Resident companies are taxed on their worldwide income. Non-resident companies are taxed only on their Bulgarian source income.

**Compliance requirements for CIT purposes**

The fiscal year coincides with the calendar year. The annual corporate income tax return has to be filed and the annual corporate income tax liability has to be paid by March 31 of the following year. As of January 1, 2018, only electronic filings are allowed.

**Corporate income tax rate**

The standard corporate income tax rate is 10 percent.

**Withholding tax rates**

**On dividends paid to non-resident companies**

A 5 percent rate is levied on dividends and liquidation proceeds distributed to non-EU tax resident entities. Exemptions apply for dividends and liquidation proceeds paid by domestic companies to EU/EEA parent companies (no minimum participation or holding period requirements).

**On interest paid to non-resident companies**

A 10 percent rate applies to interest paid to a foreign entity. As of January 1, 2015 exemptions apply for interest payments to EU affiliated companies under the EU Interest and Royalties Directive (subject to conditions).

**On patent royalties and certain copyright royalties paid to non-resident companies**

A 10 percent rate applies to royalties paid to a foreign entity. As of January 1, 2015 exemptions apply for royalty payments to EU affiliated companies under the EU Interest and Royalties Directive (subject to conditions).

**On fees for technical services**

Yes, a 10 percent rate applies.

**On other payments**

A 10 percent WHT is levied on income from:

- financial assets issued by Bulgarian legal entities/ transactions in such assets,
- franchising/factoring and management fees,
- movable property rental,
- renting out real estate property or capital gains from the disposal of such assets.
Branch withholding taxes
Yes

Holding rules
Dividend received from resident/non-resident subsidiaries
Exemptions (100 percent) apply for dividends received from Bulgarian and EU/EEA subsidiaries (no minimum participation or holding period requirements), unless the distributed amount decreases the tax result of the subsidiary (either as tax deductible expenses, or as another type of downward adjustment to the tax base), irrespective of the applicable accounting treatment.

Capital gains obtained from resident/non-resident subsidiaries
An exemption (100 percent) applies to capital gains from disposal of shares traded on the Bulgarian and EU stock exchanges (no minimum participation or holding period requirements).

Tax losses
Tax losses can be carried forward for 5 years. There are no provisions regarding tax loss carry-back.

Tax consolidation rules/Group relief rules
No

Registration duties
Registration fees vary according to the entity to be registered, from a minimum of EUR 56 to a maximum of EUR 665.

Transfer duties
On the transfer of shares
No

On the transfer of land and buildings
Transfer tax in the range of 0.1 percent – 3 percent is levied on the value of transferred real estate property (land and buildings). The tax rate is determined annually by the relevant municipality.

Stamp duties
No

Real estate taxes
Annual real estate tax in the range of 0.01 percent - 0.45 percent on the tax valuation of the property is determined annually by municipalities. Annual garbage collection fees on the tax valuation of the properties are also collected by municipalities.
Controlled Foreign Company rules

Yes (effective January 1, 2019)

The CFC rules transpose into national legislation the relevant provisions of ATAD and aim to tackle the diversion of profits from Bulgaria through CFCs. The criteria for an entity/ permanent establishment to qualify as a CFC under the local rules are generally in line to those under the ATAD. Bulgaria has opted to treat any type of profits of the CFC as principally attributable to the tax base of the Bulgarian taxable person (and not only passive income), unless the taxable person is in a position to demonstrate to the satisfaction of the tax authorities that the CFC carries on a substantive economic activity supported by staff, equipment, assets and/ or premises. The law contains specific rules on how the tax result of the CFC is to be calculated, as well as on when and how any tax profits of the CFC are to be attributed to the tax base of the Bulgarian taxpayer. Bulgarian taxable persons are obliged to keep a special register of their CFCs, containing a list of information as laid down in the legislation.

Hybrid mismatches

The hybrid mismatch rules under ATAD II have been transposed into national legislation, with effect from January 1, 2020, save for the reverse hybrid mismatches rule, for which a delayed application is permissible under the directive. The rules address mismatch situations which result from double deductions, from conflicts in the characterization of financial instruments, payments and entities, and from the allocation of payments.

Exit tax

Exit taxation rules were introduced into Bulgarian national legislation with effect from January 1, 2020, with the aim of transposing the relevant provisions of ATAD. In essence, in the event of a transfer of assets or activities outside of the country whereby Bulgaria loses, in full or in part, its taxing rights, the new rules seek to tax the unrealized capital gains built into the net assets transferred abroad. The payment of the full amount of the tax may be deferred (and paid in equal annual instalments over a five-year period) under rules laid down in the legislation, provided certain conditions are met. Exemptions apply for a limited number of temporary transfers of assets, explicitly listed in the law.

Transfer pricing rules

General transfer pricing rules

Arm's length principles apply.

Documentation requirement

As of January 1, 2020, a requirement for compiling mandatory transfer pricing (TP) documentation, comprising a local file and a master file, entered into force. Nevertheless, exemptions apply for taxpayers not exceeding specific thresholds.

As per the new rules, the master file and the local file will need to be updated on an annual basis. Where no material changes in the factors of comparability pertinent to the controlled transactions have occurred, benchmark studies can be updated once every three years; nevertheless, the data on the identified comparable transactions and/or entities should be updated annually. The TP
documentation will not be submitted to the revenue authorities but is to be kept by the taxpayer and may be required in the course of a tax check or a tax audit.

**Thin capitalization rules**

<table>
<thead>
<tr>
<th>Rule Description</th>
<th>Exemption Conditions</th>
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<tr>
<td>Thin capitalization rules apply if the average debt-to-equity ratio exceeds 3:1.</td>
<td>(i) interest expenses on finance leases and bank loans, unless they are concluded between, guaranteed or secured by, or granted to the order of a related party; (ii) penalty interest; (iii) capitalized interest; and (iv) interest expenses not recognized for tax purposes under other provisions in Bulgarian law.</td>
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<tr>
<td>The amount of non-deductible interest is calculated as total interest income plus 75 percent of the profit before all interest income, interest expenses, and taxes. Thin capitalization rules do not apply to (i) interest expenses on finance leases and bank loans, unless they are concluded between, guaranteed or secured by, or granted to the order of a related party; (ii) penalty interest; (iii) capitalized interest; and (iv) interest expenses not recognized for tax purposes under other provisions in Bulgarian law.</td>
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**Interest limitation rule**

The ATAD’s interest limitation rule has been transposed into national legislation as of January 1, 2019, limiting the deductibility of exceeding borrowing costs incurred in a given tax period up to 30% of the taxpayer’s tax EBITDA. The rule does not apply where the exceeding borrowing costs for the year are less than or equal to the BGN equivalent of EUR 3 million. In addition, credit institutions are excluded from the scope of the interest limitation rule.

Interest expenses disallowed in a given period under thin capitalization/interest limitation rules give rise to a temporary tax difference that may be carried forward indefinitely.

**General Anti-Avoidance rules (GAAR)**

Yes

**Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions/Anti-Hybrid Rules**

Yes

**Advance Ruling system**

Opinions issued by the tax authorities are not binding.

**IP / R&D incentives**

The cost value of intangible assets acquired as a result of R&D activities may be deducted in full as a current period expense in the year of recognition of the asset, provided certain specific conditions are met.

**Other incentives**

Tax resident companies in Bulgaria are entitled to use certain corporate tax incentives subject to conditions. Available incentives include:

- a corporate tax exemption of up to 100 percent for manufacturing companies investing in municipalities with high unemployment levels (a
decision by the EU Commission is required for large investment projects that have received state aid from all available sources exceeding the equivalent of EUR 37.5 million in local currency, or EUR 18.75 million in local currency for investments in the southwestern region of the country);

- a job creation tax incentive;

- a corporate tax exemption for licensed real estate investment trusts.

**VAT**

The standard rate is 20 percent, and the reduced rates are 9 and 0 percent.

**Other relevant points of attention**

Hidden distribution of profits ("HDP"):

Amounts accrued, paid, or distributed in any form by Bulgarian tax resident companies to shareholders, partners, or related parties, not related to the business activity of the taxpayer or exceeding the market levels, as well as certain interest expenses, are treated as a HDP and are therefore not recognized for corporate income tax purposes. A penalty of 20 percent of the amounts qualifying as HDP may also be imposed (unless the HDP is reported in the annual corporate income tax return). In addition, a HDP is treated as a deemed dividend and hence subject to a 5 percent withholding tax if accrued, paid, or distributed to a foreign tax resident entity with no option for exemption if the beneficiary is an EU/EEA tax resident.

**Mandatory Disclosure Rules Updates**

For country specific information and updates on the EU Mandatory Disclosure Rules please visit KPMG’s EU Tax Centre’s MDR Updates page.

**COVID-19 Resources**

An overview of tax developments being reported globally by KPMG member firms in response to the Novel Coronavirus (COVID-19) is available here. For further insight into the potential tax, legal and mobility implications of COVID-19, please refer to the dedicated KPMG page.

Source: Bulgarian tax law and local tax administration guidelines, updated 2020