



TAX MAP

2017

KPMG Bulgaria Ltd

CORPORATE INCOME TAXATION

Corporate tax is levied on accounting profit after the conversion of the same for tax purposes. The tax rate for 2017 is 10%.

Maximum amount of annual tax depreciation rates

Buildings, facilities, transmitters, etc.	4%
Machinery, production equipment, apparatus	30%
Vehicles, road surface and runway	10%
Computers, software, mobile phones	50%
Cars	25%
Tax tangible and intangible assets with a limited useful life	upto 33.33%
All other depreciable/amortization assets	15%

Carrying over a tax loss

Tax losses could be carried forward for the next five years. The same could be deducted from the positive financial result after its conversion for tax purposes for the respective year.

Weak capitalization

Weak capitalization regulation is applied when the amount of attracted capital exceeds three times the amount of equity. Interest expenses are recognized for tax purposes up to the amount of interest income plus 75% of the accounting financial result before interest and taxes. Interest expenses on bank loans are not subject to regulation, except in some specific cases.

Transfer pricing

Transfer pricing rules allow revenue authorities to adjust the tax base when the terms of a transaction differ from the market.

Expense tax

A tax of 10% is levied on an annual basis on the following expenses:

- Representation expenses
- Social costs provided in kind
- Expenses in kind when providing company assets and personnel for personal use.

WITHHOLDING TAX

The Bulgarian entities/persons are obliged to withhold tax in the amount of 10% when accruing the following income to foreign persons:

- Income from transactions with certain financial assets, as well as from the sale of real estate in the Republic of Bulgaria
- Rents, interest, copyright and license fees, remuneration under franchise and factoring contracts
- Remuneration for technical and consulting services, management, and control
- Penalties and indemnities, other than those accrued under insurance contracts, accrued for the benefit of foreign legal entities established in jurisdictions having preferential tax treatment regime.

5% withholding tax is levied on dividends and liquidation shares distributed in favor of foreign persons, except in cases where the same are local persons for tax purposes of a Member State of the European Union (EU) or another state - party to The Agreement on the European Economic Area (EEA), in which case no withholding tax is due.

The withholding tax shall not be levied on (i) interest income on bonds issued by a local legal entity, the State or municipalities and admitted to trading on a regulated market in the country or in an EU / EEA Member State, (ii) income on interest on a loan granted by a foreign person, resident in an EU / EEA Member State, issuer of bonds or other debt securities (under certain conditions), (iii) interest and copyright and license fees accrued for the benefit of related parties, local to EU Member States, and (iv) interest income on non - bond loans for which the government or municipalities are borrowers.

A foreign legal entity that is a local person for tax purposes of an EU / EEA Member State and cannot deduct withholding tax paid on income earned in the Republic of Bulgaria from the tax due in the country where it is a resident is entitled to chooses to recalculate the withholding tax up to the amount of corporate tax that would be due on this income if it were realized by a local legal entity. In this way, the tax base of foreign legal entities for income earned from a source in the Republic of Bulgaria could be reduced by the costs attributable to this income. The difference between the withholding tax and the recalculated corporation tax is refundable up to the amount of the withholding tax, which the foreign person cannot deduct from the tax due in the country where the same is a resident.

The provisions of double taxation agreements (DTTs) take precedence over local law after the application of a certain procedure.

VALUE ADDED TAX (VAT)

Each taxable person should register under the VAT Act (VAT) if the taxable turnover of the person from local supplies for a period of 12 consecutive months reaches BGN 50,000 (EUR 25,565).

The Taxpayers who (i) provide services within a place of performance in another EU Member State, (ii) receive services from foreign providers with a place of performance in the Republic of Bulgaria, (iii) make intra-Community acquisitions are also subject to mandatory VAT registration. of goods whose total value for the current calendar year exceeds BGN 20,000 (EUR 10,225), or (iv) make other specific deliveries. A Voluntary registration is allowed regardless of the generated turnover.

Bulgaria applies three VAT rates as follow below:

- 20%** Taxable supplies of goods and services

	Import
	Intra - Community acquisitions
9%	Accommodation in hotels and similar establishments
0%	Intra - Community supplies
	Export
	and other supplies explicitly mentioned in the law

Some supplies, such as financial, educational, insurance and health services, rental of housing, sale of old buildings and unregulated land and others, are exempt from VAT.

Deliveries for which VAT is due from a Bulgarian customer through the self-assessment mechanism include:

- Intra-Community acquisition of goods
- Services having a place of performance in the Republic of Bulgaria, provided by a foreign person to a Bulgarian taxable person
- Supply of electricity, gas, heat and cooling energy through networks from a foreign supplier
- Delivery of goods with assembly and installation by an EU supplier.

Reimbursement of VAT paid by a foreign person established in the EU for goods and services purchased in Bulgaria is possible, provided that the person could use a tax credit for these goods or services if the before mentioned person is registered in the Republic of Bulgaria.

A request for reimbursement shall be submitted through an electronic portal in the country where the person is established by 30th of September of the year following the year to which the request relates. The VAT refunds on non-EU residents are reciprocal. Bulgaria has reciprocal agreements with Israel, Iceland, Canada, Macedonia, Moldova, Norway, Republic of Korea, Serbia, Ukraine and Switzerland.

EXCISE DUTY

The production and import of certain specific goods such as alcohol and alcoholic beverages, tobacco products, energy products and electricity are subject to excise duty.

The Taxable persons are the licensed warehouse keepers, importers and other persons defined in the Law on Excise Duties and Tax Warehouses (LEDTW). The law provides for different rates of excise duty on these goods, as well as special provisions for exemption from taxation and deferral of payment of excise duty.

TAX ON INSURANCE PREMIUMS

The tax on insurance premiums is levied on premiums under insurance contracts and agreements under which the risk is located in the Republic of Bulgaria. The applicable tax rate is 2%. Some types of insurance, such as life insurance, international freight insurance and others, are exempt from tax on insurance premiums.

PERSONAL TAXES AND INSURANCE

Rates

There is a single tax rate ("flat tax") for personal income taxation of 10%. The withholding tax on wages is executed by the employer on a monthly basis. The tax on income from other economic activity and other income is withheld and paid by the company, the last one is the payer of income on a quarterly basis (except for the fourth quarter), unless the person is registered as self-insured or explicitly wishes to withhold tax in the fourth quarter. In this case or when the company is not taxable under this law, the tax is paid by the recipient on a quarterly basis (except for the fourth quarter).

A different rate applies to certain types of income, such as 5% for dividends received.

The local natural persons are persons who (i) have a permanent address in Bulgaria, (ii) reside in Bulgaria for more than 183 days in each 12-month period, (iii) are sent abroad by the Bulgarian state, its institutions and / or by Bulgarian companies, or (iv) natural persons having a center of vital interests is located in Bulgaria. The local individuals are taxed in Bulgaria on their world income, while foreigners are taxed only on income received from sources in Bulgaria. The Tax credit could be used depending on the provisions of local law or DTTs (which also allows the application of exemption with progression).

Non-taxable income

Some of the non-taxable income as follows below herein:

- Sale of movable and immovable property Income under certain terms and conditions
- Amounts received from the mandatory pension and social insurance in Bulgaria and abroad, as well as amounts received from the voluntary pension insurance in Bulgaria or another EU / EEA Member State
- Certain benefits provided for in the Labor Code
- Income from transactions with shares carried out on the Bulgarian securities market or on another regulated market in an EU / EEA Member State.

Tax relief

Some of the tax benefits that individuals could use are:

- Voluntary contributions for pension and unemployment insurance to a Bulgarian insurance fund or one established in the EU / EEA - up to 10% of the annual tax base amount
- Voluntary health insurance and life insurance with a Bulgarian insurance fund or one established in the EU / EEA – in the amount of up to 10% of the annual tax base
- Donations in favor of certain institutions in Bulgaria or in the EU / EEA - up to 5%, 15% or 50% of the annual tax base
- Interest payments on the first BGN 100,000 (EUR 51,130) of the housing loan to young families under certain terms and conditions

- Statutory costs, depending on the activity carried out and executed, for example 25% for income from civil contracts, 10% for rental income or sale of real estate income
- Reduction of up to BGN 200 (EUR 102) from the annual tax base for upbringing each minor child up to the third
- Reduction of up to BGN 2,000 (EUR 1,022) from the annual tax base for raising a child with disabilities
- Reduction of the total tax liability by 1% (but not more than BGN 500) for non-cash payments.

Social and health insurance

The obligatory social and health insurance contributions are due up to the amount of the maximum monthly insurance income of BGN 2,600 (EUR 1,329). The social security contributions are between 23.7% and 24.4%, and for health insurance - 8% of the insurance income. The weight of the pension social security contributions is divided between the employer and the employee in the ratio of 55:45, and for all other social security contributions - 60:40. The taxable income is reduced by compulsory social security contributions made by the person in Bulgaria and abroad.

Regulation № 883/04 on social security is in force and applies to EU and third-country nationals, as well as Swiss and EEA nationals.

LOCAL TAXES AND FEES

The local taxes and fees are determined and collected by municipalities.

- The Real estate tax could be between 0.01% and 0.45% of the property value.
- The fee for household waste is determined at the municipal level.
- The Property transfer tax between 0.1% and 3% is due on the value of transferred real estate or cars.
- Tax on donations and inheritances is due in the amount of between 0.4% and 6.6% of the value of the property. Exemption is provided for in certain cases.
- Vehicle tax is determined depending on the type and technical characteristics.

TAX REDUCTIONS FOR COMPANIES

Some of the existing tax breaks are summarized below:

- Special investment objectives' companies, collective investment schemes and national investment funds are exempt from corporate tax.
- Companies performing production activity (in implementation of an initial investment project) only in municipalities with unemployment with or above 25% higher than the national average¹ are entitled to up to 100% corporate tax rebate. The assignment is only applicable if a number of conditions are met.

¹ For the year before the current one (in the case of minimum aid) or the year before the year in which the aid application form is submitted (in the case of state aid for regional development).

DECLARATION DEADLINES

- Annual tax return under the Law on corporation tax - March 31st of the following year
- Annual tax return under the Personal Income Tax Act - preliminary deadline - 31st March of the following year; deadline - April 30th next year
- Monthly VAT returns - by the 14th of the month following the month to which the return relates
- VIES declarations - by the 14th of the following month the relevant tax period
- Monthly excise declarations - by the 14th of the month, the following month to which the excise declaration relates.

The Countries with which Bulgaria has concluded Double Tax Conventions (DTCs)

Austria	Italy	USA
Azerbaijan	Jordan	North Korea
Albania	Kazakhstan	Singapore
Algeria	Canada	Syria
Armenia	Qatar	Slovakia
Bahrain	Cyprus	Slovenia
Belarus	China	Thailand
Belgium	Kuwait	Turkey
Great Britain	Latvia	Uzbekistan
Vietnam	Lebanon	Ukraine
Germany	Lithuania	Hungary
Georgia	Luxembourg	Finland
Greece	Macedonia	France
Denmark	Malta	Netherlands
Egypt	Morocco	Croatia
Estonia	Moldova	Czech Republic
Zimbabwe	Mongolia	Switzerland
Israel	Norway	Sweden
India	UAE	South Africa
Indonesia	Poland	Yugoslavia **
Iran	Portugal	South Korea
Ireland	Romania ****	Japan
Spain	Russia	

Social security agreements concluded by Bulgaria

Austria *	Macedonia	Ukraine
Albania	Moldova	Hungary *
Germany *	Poland *	Netherlands *
Israel	Romania *	Croatia *
Spain *	Russia	Montenegro
Canada	Slovakia *	Czech Republic *
Libya	Serbia	Switzerland *
Luxembourg *	Turkey **	Yugoslavia ***
		South Korea

* Replaced by Regulation № 883/04.

** This Agreement has a specific scope.

*** Valid for Montenegro, Bosnia and Herzegovina.

**** New DTT, applicable from 1st of January 2017

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This tax map was prepared in March 2017 as a brief guide to the main tax rates and the most common tax problems. The special regimes have been deliberately omitted.

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