



# TAXES IN EUROPE

**2024**

32<sup>nd</sup> EDITION

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# Bulgaria



 **Capital city:**  
Sofia

 **Language:**  
Bulgarian

 **GDP/capita**  
**2023:**  
USD 33,846

 **Telephone code:**  
+359

 **Area:**  
110,944 km<sup>2</sup>

 **Political system:**  
Parliamentary  
Republic

 **Currency:**  
Lev

 **National day:**  
3 March

 **Population:**  
6,645,149

 **ISO Code:**  
BGR



## 1. Corporate taxation

### 1.1 Taxes on entities

Legal entities are subject to corporate income tax on their profits.

The taxation of corporate income and profits is governed by the Corporate Income Tax Act (“CITA”).

Corporate tax is not paid by entities liable to taxation only with alternative taxes for the respective activity specified in Section Five of the CITA:

- enterprises funded by the budget,
- the organizers of the gambling games specified in the CITA,
- the entities engaged in ships’ operation activities.

The organizers of gambling games and the entities engaged in ships’ operation activities are subject to corporate taxation for all the remaining activities except for the ones subject to alternative taxation. Therefore, for the activities outside those subject to alternative taxation, these entities are subject to corporate taxation.

### 1.2 Residence and non-residence

Taxable persons are:

- Resident legal persons
- Non-resident legal persons who carry out economic activity in the Republic of Bulgaria through a permanent establishment or from disposition of property of such permanent establishment, or who receive income from a source inside the Republic of Bulgaria.

Bulgarian resident companies are subject to Bulgarian tax on their world-wide profits.

Companies that are non-residents in Bulgaria are liable for taxes on all profits gained through a permanent establishment in the Republic of Bulgaria and on the income specified in the CITA accruing from a source inside the Republic of Bulgaria.

A company is resident in Bulgaria if it is registered pursuant to Bulgarian legislation. Most of the taxation rules, including the major rules relating to tax incentives, apply equally to resident and non-resident companies conducting activities through a Bulgarian permanent establishment.

### 1.3 Tax year and filing

The tax period for assessment of the corporation tax is the calendar year. In respect of any newly incorporated taxable persons, the tax period covers the period from the date of incorporation thereof until the end of the year.

The annual tax return shall be submitted starting from 1 March but not later than 30<sup>th</sup> of June of the following year at the National Revenue Agency territorial directorate exercising competence over the place of registration of the taxable person:

- by 30 June of the next calendar year – submitting the annual tax return;
- by 30 June of the next calendar year – paying the corporate tax after having deducted the advance payments made.

There are monthly and quarterly advance payments for corporate tax. The payments are Assessed based on taxpayer's expected taxable profit for the current year.

Advance payments are not made by:

- taxable entities whose net sales income for the year preceding the previous does not exceed BGN 300,000;
- newly incorporated taxable entities for the year of their incorporation, except for those that are newly established as a result of transformation as per the Commerce Act (BG).

An annual activity report shall be submitted together with the annual tax return. Some exceptions are available for entities without economic activity during the previous year.

### 1.4 Types of income

The tax base for assessment of the corporate tax is the taxable profit.

Profits are determined in accordance with the generally accepted accounting principles (provided for in the respective accounting standards), subject to adjustments for tax purposes.

The taxable profit, called "tax financial result", is determined in accordance with the accounting financial result adjusted for tax purposes with any permanent tax differences, temporary tax differences and specific amounts provided in the CITA.

### **The following accounting expenses shall not be recognized for tax purposes:**

- any non-business related or undocumented expenses;
- any expenses on fines charged, penalties, fines and other sanctions imposed for violation of statutory instruments;
- any default interest charged for late payment of public state or municipal debts;
- expenses which are considered hidden distribution of dividends, etc.

### **Some of the temporary tax differences:**

- Valuation of Depreciable Assets for Tax Purposes

Maximum annual tax depreciation rates are between 4% and 50% depending on the type of asset.

- Thin Capitalization

If the debt to equity ratio of the company exceeds 3:1 part of the interest expenses may not be tax deductible in the current year. However, such interest expenses may become tax deductible in the following consecutive years if certain conditions apply.

New interest limitation rule applies alongside the existing thin capitalization rule, if the net borrowing costs exceed EUR 3,000,000 for the year. Net borrowing costs will be restricted if they exceed 30% of a tax-based EBITDA.

- Other temporary tax differences:
  - subsequent appraisal of biological products and agricultural (farming) products;
  - subsequent appraisals of receivables;
  - provisions for liabilities;
  - expenses regarding the accumulated unused (compensable) leave of absence;
  - expenses which constitute income of local natural persons not being paid until 31 December of the current year, etc.

Bulgaria levies taxes on certain expenses. Both the respective expenses and the applicable tax on them are deductible for corporate income tax purposes.

### **The following expenses are subject to tax on expenses:**

- business entertainment expenses;
- benefits to the personnel (“Social Expenses”);
- expenses relating to use and maintenance of company assets for personal purpose;
- the tax rate is 10% on the accrued expenses.

### **Withholding tax is levied on:**

Dividends and liquidation shares, distributed by resident legal persons in favor of:

- non-resident legal persons (legal entities), except for the cases when dividends are realized by the non-resident legal person by means of a permanent establishment in Bulgaria;
- resident legal persons who are not traders.

### **Withholding tax is not levied on dividends and liquidation shares when they are distributed to:**

- a local legal person participating in the company’s capital as a representative of the State;
- a contractual fund;
- a non-resident legal person that is resident for tax purposes of a Member State of the European Union or a State party to the Agreement on the European Economic Area.

### **Withholding tax is also levied on the following types of income of non-resident legal persons, when these types of income have not been realized by means of a permanent establishment in Bulgaria:**

- income from financial assets and from transactions with financial assets, issued by resident legal persons, the state, and the municipalities;
- interest, including interest, which is part of the payments under financial leasing;
- income from rent or other granting of movable property for usage;
- royalties;
- remuneration for technical services;
- remuneration under franchise and factoring contracts;
- remuneration for management or control of a Bulgarian legal person;
- income from rent or other granting of immovable property, located in Bulgaria, for usage;
- income from disposal of immovable property, located in Bulgaria;
- penalties and compensations of any kind, charged to the benefit of

non-resident legal persons established in jurisdictions with preferential tax regime, except for the compensations under insurance contracts.

Withholding tax is not levied on income from disposal of financial assets pursuant to § 1, Item 21 of CITA's additional provisions.

The withholding tax for Dividends and liquidation shares is 5%. Certain expenses from which a natural person benefits, treated as hidden distribution of profit, may be subject to 5% tax as well.

Dividends are subject to 5% withholding tax when distributed to individuals, resident non-profit entities and non-residents (except for EU/EEA entities). The tax rate for the tax on all other types of income as per Art.195 of the CITA is 10%.

## 1.5 Group income and grouping arrangements

There is no group taxation in Bulgaria. Each entity is taxed as a separate taxpayer. Bulgaria has tax rules regulating the tax deductions and the taxable revenue from transactions between related parties ("the transfer pricing rules"). The transfer pricing rules are broadly similar to the generally accepted OECD standards applicable in other EU and OECD countries.

In certain cases controlled foreign companies may become subject to taxation in Bulgaria - CFC regime. The CFC rule aims to re-attribute the income of a low-taxed foreign controlled subsidiary/ permanent establishment to its Bulgarian parent company/ principal. If a Bulgarian taxpayer has a CFC, it should include a proportionate part of the CFC's taxable profits into its Bulgarian taxable profits. In order to be a CFC, the respective foreign company/ permanent establishment should meet certain requirements.

From 01.01.2024 the minimum effective tax rate of 15% will apply to Bulgarian companies and permanent establishments, part of multinational or purely domestic groups, with a consolidated turnover above EUR 750 million for 2 out of the last 4 years.

## 1.6 Capital gains

No specific taxes are charged on the capital of businesses or their net worth or on their assets. In particular, no capital duties or material stamp duties are payable on the incorporation of a Bulgarian company or on its capital or on subsequent contributions to the capital.

## **Dividends**

Dividends distributed to resident companies are not included in their taxable income except for dividends distributed by Special purpose investment companies or Non-EU/EEA foreign entities.

## **1.7 Losses**

Tax loss must be carried forward gradually, in the course of the 5 subsequent years, until all of it has been carried forward. The entity shall exercise his right to opt for deducting the tax loss in the first year, following the year in which the tax loss occurred, in which it has formed positive tax financial result prior to deducting the tax loss.

In case of a merger, the right to be carried forward can be lost.

## **1.8 Exemptions**

The withholding tax on interest and royalties to EU related parties is 5%.

### **Tax incentives upon hiring of unemployed persons**

Such legal entities are entitled to debit the accounting financial result by the amounts paid for labor remuneration and the contributions remitted on behalf of the employer to the public social insurance funds and the National Health Insurance Fund during the first twelve months after the hiring.

### **Tax incentives for enterprises hiring people with disabilities**

Such entities may be allowed to retain 100% of the corporate tax otherwise due under certain conditions.

### **Tax incentives for Social and health security funds**

Such entities are allowed to retain 50% of the corporate tax on their economic activity directly related to their primary activity otherwise due under specific conditions) etc.

## **1.9 Rates**

The rate of corporation tax is 10%.

The withholding tax is 10%.

The withholding tax for Dividends and liquidation shares is 5%.

The final tax on certain expenses is 10%.

New and complex rules will be introduced on 01.01.2024 in the Bulgarian CIT Act to determine the effective tax rate (calculated on an aggregate basis for all entities in a given jurisdiction) and top-up taxes due (where the effective tax rate for a jurisdiction is below 15%).

### 1.10 Double tax relief

Double tax relief is according to the signed mutual agreements between the countries and Bulgaria and it is applied with priority to the national legislation. Any taxes withheld in Bulgaria may be claimed for refund if applicable in the agreement. Bulgaria has currently Double Tax Avoidance Agreements with 69 countries (including all of EU countries and one with the United States of America).

## 2. Personal income taxation

### 2.1 Taxes on income

The annual taxable income is defined as an aggregate of the total income received by the individual during the calendar year except for income which is non-taxable by virtue of a law and any income specifically excluded from annual income which is taxed separately under specific rules.

To the annual taxation and declaring of income applicable are the provisions of the Personal Income Tax Act (PITA).

### 2.2 Residence and non-residence

In general individuals are considered Bulgarian tax residents if:

- they have stayed in Bulgaria for more than 183 days in any 12-month period; or
- the center of their vital interest is in Bulgaria (determined in view of their personal and economic ties to the country, e.g. factors like permanent address in Bulgaria, family, employment, possession of property, etc.).

Resident natural persons are liable to taxes on any income acquired from sources inside and outside the Republic of Bulgaria. Non-resident natural persons are liable to taxes on any income acquired from sources inside the Republic of Bulgaria.

Any person, who has a permanent address in Bulgaria but whose center of vital interests is not situated in the country, shall not be a resident natural person.

## 2.3 Tax year and filing

The tax period for assessment of the income tax is the calendar year.

Natural persons who are subject to Bulgarian taxation are obligated to file an annual tax return. The obligation to submit an annual tax return does not apply to persons who have received only:

- employment income for which the full tax due has been withheld;
- non-taxable income; or
- income subject to a final tax (see section Corporate taxation).

The tax return must be filed before 30 April of the year following the year in which the income has been received. Exception of this term is if the physical person acts as a sole trader and in that case the terms are as stated in CITA.

All taxes due should be paid by the same dates. Certain items of income are also subject to advanced tax payments through the year on monthly or quarterly basis. As of the fiscal 2023, the possibility for utilizing a 5% discount of the outstanding tax under the annual personal tax return (capped at BGN 500) would be possible through electronic filing and payment of the tax until 31 March of the following year.

## 2.4 Types of income

The Subject to taxation on the common annual tax base is the income of individuals received from:

- employment relations;
- economic activity different from the economic activity as sole proprietor and from other economic activity as per Art. 29a of the PITA;
- renting or other leasing of rights or property for consideration;
- assignment of rights or property;
- other sources.

**Note** : income from other economic activity as per Art. 29a of the PITA is the income from the economic activity of individuals registered as tobacco growers and farmers, who according to law or at their own discretion are levied under the procedure stipulated for the taxation of sole proprietors' income OR they act as sole traders without registering own company.

The tax on the common annual tax base shall be assessed by multiplying the common annual tax base by 10% tax rate.

The income from economic activity as a sole proprietor and the income from other economic activity as per Art. 29a of the PITA shall be levied with tax on the annual tax base, at 15% tax rate.

### **Tax deductions apply in some cases, including:**

- mandatory social security and health insurance contributions;
- statutory deductions for freelance professions, rental income, etc. ;
- voluntary personal insurance up to certain limits;
- certain donations and other specific expenditures.

### **Businesses of Individuals/Sole Traders**

A specific provision with respect to sole traders provides that the tax basis of a registered sole trader is the taxable profit calculated in accordance with the tax rules applicable to corporations. This provision applies to the income from economic activity of a natural person who is a merchant within the meaning given by the Commerce Act but is not registered as a sole trader. The taxable income referred to herein excludes the accounting financial result formed by activities:

- on which alternative taxes are levied under the Corporate Income Tax Act ;
- on which a Final Tax (annual license) is levied.

The annual taxable amount of a sole trader shall be determined by debiting the contributions for social and health insurance from the taxable income referred to herein for the tax year.

### **Wage income**

Salaries and other payments due for employment are included in the calculation of annual taxable income and are subject to personal income tax. The employer is required to withhold income tax from the wages of the employees on a monthly basis. The law provides specific rules for determining the taxable amount for tax on income from labor relationships. The wage withholding tax is charged at the flat tax rate of 10%.

### **Deductions that may be used:**

- tax Relief for Persons of Reduced Capacity for Work;
- tax Relief for Personal Contributions for Voluntary Insurance;
- tax Relief for Personal Contributions for Insurance Length of Service;
- tax Relief for certain types of Donations;
- tax Relief for children, etc.

## 2.5 Capital gains

Usually the capital gain is the difference between the sale price and the acquisition price (immovable property, financial assets, some types of movable property). The tax rate is 10% on the positive difference.

## 2.6 Losses

Non applicable for natural persons.

The same rules as for entities (see CITA) are applicable for economic activity as a sole proprietor.

## 2.7 Exemptions

Certain types of income are exempt from taxation, including capital gains from disposal of shares on a regulated Bulgarian/EU/EEA market, income from disposal of certain real estate, etc.

## 2.8 Social security

The base for mandatory insurance contributions is gross remuneration less statutory deductions in some cases. The insurance base income is capped at BGN 3,000 (approximately EUR 1,530) until March 31<sup>st</sup> and at BGN 3.400 (approximately EUR 1,738) monthly from April 1<sup>st</sup>. The rates are between 32.7% - 33.4% paid by both the employer and the employee in a certain ratio. This includes:

- 14.8% - pensions fund;
- 5% - universal pensions fund;
- 0.4% - 1.1% - labor accident and occupational diseases fund;
- 3.5% - common illness and maternity fund;
- 1% - unemployment fund;
- 8% - health insurance fund.

Foreigners may be exempt from social security contributions in Bulgaria or the contributions, they make may be recognized in their home country under an applicable bilateral or multilateral social security agreement.

## 2.9 Expatriates

There are not special rules for the taxation of expatriates.

## 2.10 Options

There are no special provisions for options. The general provisions for income acquired should be observed.

### Partnerships

There are no special provisions.

## 2.11 Pensions

Contributions to pension funds are deductible from the taxable income.

# 3. Inheritance and gift tax

### Tax Rates

The rate of the tax is determined by an ordinance of the Municipal Council separately in respect of each heir or legatee:

- applicable to siblings and the children of siblings: from 0.4% to 0.8% per portion in excess of BGN 250,000;
- in respect of any other persons: from 3.3% to 6.6% per portion in excess of BGN 250,000.

Donation and disposal without consideration of any property are subject to tax at the following rates:

- inheritance by a spouse, children and their descendants is exempt from tax;
- from 0.4% to 0.8% applicable to inheritance exceeding BGN 250,000 in favor of siblings and their descendants;
- for any other persons: from 3.3% to 6.6% per portion in excess of BGN 250,000;
- from 0.4% to 0.8%: applicable to donations between siblings and the children of siblings;
- from 3.3% to 6.6%: applicable to donations between any persons other than the persons referred to.

Exact rate is determined by each municipality.

Exemption from transfer taxes is provided for privatization of assets, for in-kind contribution of assets to the share capital of a company as well as in some other cases provided in law.

## 4. Value Added Tax

### 4.1 Rates

Pursuant to Bulgarian legislation the following transactions are subject to VAT:

- each taxable supply of goods or services performed in exchange for consideration;
- each intra-Community acquisition performed in exchange for consideration, whereof the place of transaction is within the territory of the country, by a person registered under this Act or by a person on whom an obligation to register has arisen;
- each intra-Community acquisition of new means of transport performed in exchange for consideration, where the place of transaction is within the territory of the country;
- the import of goods;
- each intra-Community acquisition whereof the place of transaction is within the territory of the country of excisable goods.

Under Bulgarian legislation “taxable person” shall mean any person who independently carries out an economic activity, whatever the purpose and results of that activity. As of 19 December 2007 persons who practice a freelance profession, including private bailiffs, lawyers and notaries, etc. are also subject to obligations under the Value Added Tax Act.

The 2023 tax rate of VAT in Bulgaria remains 20% for all taxable supplies, unless explicitly indicated as zero-rated.

Reduced rate of VAT applicable to certain supplies and hotel services is 9%.

Temporarily reduced tax rates of 9% in the COVID 19 circumstances are for certain sectors: Restaurant and catering services, Printed and e-books, including textbooks, children's drawings or coloring books, Baby foodstuffs and diapers, etc.

Main transactions which are exempt from VAT are:

- health care services and supply;
- supply linked to welfare and social security work;
- credit, finance and insurance services;
- transfer of shares, bonds and other securities;
- the transfer of the right of ownership of land, excluding development land and land situated under buildings.

VAT can be reimbursed if there is a deduction procedure started and on the third month it is not entirely deducted. The National Revenue Agency shall restore it in 30-days term from the submission of the last reference-declaration or offset it against other tax liabilities.

There is faster procedure for companies that are exporting goods as main activity – one month period for reimbursement.

## **4.2 Distance selling to an individual located in Bulgaria by a company located in the European Union.**

In order for there to be distance selling, the following two conditions must be fulfilled:

1. The goods must be dispatched or transported by or on behalf of the supplier from the territory of one Member State to the territory of another Member State where the transport terminates. To facilitate the process, if these goods are imported from a third party in the country from where they were dispatched, it is assumed that they are dispatched or transported from the Member State of importation.
1. The supplier of the goods must be registered for VAT in the Member State from where the goods are dispatched or transported, and the recipient is not obliged to charge VAT on intra-European Union acquisition of goods in the Member State where the transport terminates. Therefore, the recipient must be a person not registered in another Member State and the goods may be anything but new transport vehicles; those goods that are mounted and/or installed by or on behalf of a supplier and those for which a special procedure is provided for levying the price margin.

### **Place of performance of distance supplies**

The classic requirement of VATA is that goods be taxed according to the place of destination, i. e. where the same will be used or consumed.

Regulations starting 1 July 2021 in Bulgaria concerning the distance selling to an individual are as follows:

- An extension of the optional declarative system to both B2C suppliers of services and goods, avoiding multiple VAT registrations and reporting obligations in the EU (called the One-Stop-Shop or "OSS");
- The abolition of the "distance sales threshold" and the creation of a unique and common threshold of EUR 10,000 throughout the EU up to which B2C EU cross-border supplies remain subject to the VAT rules of the Member State of dispatch, and above which supplies become subject to the VAT rules of the Member State of destination;
- The abolition of the exemption for imported goods with a negligible value not exceeding EUR 22;
- A single report scheme covering sales of imported goods to EU consumers up to a value of EUR 150 and for which a VAT exemption upon import will apply if the trader declares and pays the VAT at the time of the sale using this declarative system (called the Import One-Stop-Shop, or "IOSS");
- The possibility to make Customs declarants (e.g. postal operators or courier firms) liable to collect import VAT from consumers via a monthly payment;
- The shift of EU VAT liability to marketplaces when they facilitate the delivery of goods to the EU consumers.

Due to Brexit, as of 1 January 2021, the VAT identification numbers of UK traders starting with the prefix "GB" will not be valid for the purposes of intra-Community trade.

Companies from Northern Ireland who trade in goods within the European Union under the Protocol on Ireland / Northern Ireland will be issued with new VAT identification numbers with the prefix "XI". For any other sales Northern Ireland is considered third country.

## 5. Other taxes

### Real Estate Tax

Taxable properties include built up land and non-built construction plots. No tax shall be levied on agricultural land tracts and forests.

Taxable persons are the owners or holders of limited real rights over the taxable property.

The tax rate is determined by each municipality within a range of 0.01% to 0.45% annually on the assessed value of the property for tax purposes. Different rates are applied for properties in resort areas. A reduction of 50% of the tax is allowed if the property is a main residence.

## Garbage Collection Fee

The garbage collection fee is determined by each municipality within a range established by law. Generally it is levied on the gross book value of the real estate. Alternatively, it may be determined on the basis of the number and volume of waste containers used.

## Vehicle Tax

Vehicle tax is payable by the owners of road vehicles, ships and airplanes registered in Bulgaria. The rate of tax depends on the type and the characteristics of the respective mean of transport, e.g. the vehicle tax for cars is determined by the engine power. A new ecological component will be applied alongside the property component in calculating the annual vehicle tax. Each municipality should define the ecological coefficients for 2023 until 31 January 2023. The tax is due on an annual basis.

## Tourist Tax

This tax is applicable to the persons/legal entities offering overnight lodging. The tax rate is determined by the Municipal Council from 0, 20 to 3 BGN for each night's lodging in accordance to the city in the Municipality and the category of the premises for night's lodging.

## Final Annual (License) Tax

This tax is charged by the municipalities and is not income to the central budget. The license tax is applicable to natural persons and sole traders only (not legal entities) and under the following conditions:

- performance of certain activities pointed out in the Income taxes on natural persons act;
- turnover of the person for the last preceding not exceeding BGN 50,000 (the threshold will be BGN 100,000 from 01.01.2024);
- the person is not registered under the VAT Act, with the exception of registration for intra-Community acquisition.

## Tax on Insurance Premiums

2% tax is due on insurance premiums for insurance contracts covering risks on the territory of Bulgaria. The tax should be collected by insurers but it is intended to be a burden to the insured.

Certain insurance premiums are exempt from the tax (e.g. life insurance, permanent health insurance).

## Packing Charge

The packing charge is levied on the import of packed products or on the sale of locally manufactured packed products on the Bulgarian market. The charge is collected for the provision of the public services related to management of packing waste.

The charge is not payable if the importer/ manufacturer has put in place a proper system of management and recovery/recycling of the packing waste.

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