

TAX LAW

Direct and indirect taxes in Bulgaria

Introduction

In Bulgaria there are two main categories of taxes:

direct and
indirect taxes.

Direct taxes are:

- Corporate tax on the annual tax returns;
- Income tax on the revenues of individuals;
- Withholding tax.

Indirect taxes are:

- Value Added Tax;
- Excise duties:

Corporate tax

Corporate tax on the annual tax returns in Bulgaria is set at **10%**. Taxable persons are local entities, including unincorporated entities, conducting business in the country for the profits and income from all sources in Bulgaria and abroad. Foreign entities are taxed for the profits earned through a permanent establishment in Bulgaria or for the sale or transfer of property as well as for the income from a source in Bulgaria.

The Corporate Income Tax Act contains special provisions for minimum and regional state aid in the form of tax relief. For example, taxpayers are released from payment of corporate tax up to 100% on the taxable profit from the exercise of their manufacturing operations, including manufacturing with materials supplied by the client, if in municipalities with unemployment higher than the national average rate. To benefit from the tax relief the taxpayer must carry out the production activities only in municipalities where during the preceding year the rate of unemployment is 35% or higher than the average for the country.

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Tax relief representing state aid to farmers is also provided for by the law. In this case, the corporate tax is not due up to 60% for the profit of from production of unprocessed plant and animal production persons registered as farmers.

The Corporate Income Tax Act contains provisions for tax incentives in case of hiring unemployed workers and for companies employing people with disabilities.

Exempt from corporation tax are collective investment schemes, which are subject to public offering in Bulgaria as well as licensed closed-end investment companies under the Collective Investment Schemes Act, special investment purpose companies and the Bulgarian Red Cross.

Withholding tax

The withholding tax in Bulgaria is 10%. It should be withheld by the entity paying the income and transferred to the state budget. The withholding tax is final, i.e. the income is taxed only at the recipient level.

The withholding tax is **5% on dividends** and liquidation quotas distributed by local entities for the benefit of foreign entities (except where dividends are realized by a foreign entity through a permanent establishment in the country) and by non-for-profit local entities, including municipalities. The tax does not apply to dividends and liquidation quotas distributed in favor of a foreign legal person which is a resident for tax purposes of a member state of the European Union or another country - party to the European Economic Area, except in cases of hidden profit distribution. The tax rate on income from interests and royalties is 5% if the income owner is a foreign legal entity from a member state of the European Union, while the local entity payer of the income is a related person to the foreign legal entity - owner of the income.

Income tax on individuals

Income tax on individuals is **10%**. Bulgarian residents are subject to tax on their income from sources in Bulgaria and abroad (including the business as a sole trader) and the income of foreign individuals are taxed only if they are acquired from sources in Bulgaria.

Value added tax (VAT)

The value added tax in Bulgaria is **20%** except for certain hotel services, books, which are levied with VAT of 9%. There are also zero-rated supplies specified in the law.

Value added tax is levied on the following transactions:

- taxable supplies of goods or services;

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- intra-Community acquisition for consideration with place of performance on the territory of the country, carried out by a person registered or due for registration under the VAT Act;
- intra-Community acquisition for consideration of new vehicles with place of performance on the territory of the country;
- intra-Community acquisition for consideration of excise goods with place of performance on the territory of the country;
- import of goods.

Registration under the Value Added Tax Act may be mandatory or optional. Registration is mandatory of persons with taxable turnover of BGN 50,000 or more for a period not exceeding 12 consecutive months.

If you want more information on above matters, please don't hesitate to contact us