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# **Important business information – Bulgaria 2015**

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Kindly provided by Leinonen Bulgaria EOOD



## How to open company in Bulgaria

The current review intends to give overall information on investment and doing business in Bulgaria. Presented data is actual as to July 2015, if other is not stated. However any actions are advised to be taken after additional consultation.

### About author:

Leinonen Bulgaria is group of experieced accountants and consultants **specialized in company formation, accounting, tax advisory and payroll services**. The

company is a part of Leinonen Group - expanding international entity with offices in 11 countries: Finland, Sweden, Norway, Estonia, Latvia, Lithuania, Poland, Hungary, Bulgaria, Russia and Ukraine.

Since 2010 reliability of [Leinonen Bulgaria](#)'s accounting services have been assured by Bureau Veritas with ISO 9001:2008 Certificate.

As member of Nordic-Bulgarian, German-Bulgarian Chambers of Commerce and British-Bulgarian Business Association, Leinonen is well recognizable partner in Bulgaria.

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## Chapter 1: General information about Bulgaria

Bulgaria has strategic geographical location – border of the European Union, intersection between Europe and Asia. The country is a parliamentary republic. Tourism, information technology and telecommunications, agriculture, pharmaceuticals, and textiles are leading industries. Attractive investment segments in service sector are: Transport and Logistics; Information technologies; Outsourcing of business processes; Health and tourism related to healthy lifestyle. In Industry sector leading sectors are: Transport equipment and machine building; Electronics and Electrical engineering; Chemical industry; Food and Agriculture. For Resources sector: Mining; Alternative energy.

### General Factsheet

*source: NSI, NRA, Eurostat*

Bulgaria	General Facts
Population	7,246 million – 61 % of population is in working age
Area	110 910 km <sup>2</sup>
Capital City	Sofia (1,2 million), 7 - cities more than 100 000
Urban population	73%
Languages	Bulgarian – 85%; Turkish – 9%,
Currency	Bulgarian Lev (fixed rate 1 € = 1,95583 BGN)
Memberships	Joined EU in 2007; NATO in 2004; WTO in 1996
GDP	42 billion EUR for 2014
GDP per capita	4 446 EUR (39 % of the world's average)
Economic freedom index	66.8 for 2015 (world average 60.4)
FDI	1 306 millions EUR for 2014

Labor force in Bulgaria	
Average salary	423 EUR for 4 Q 2014
Labor productivity	42 % (average EC=100%)
Unemployment rate	10.6 % (1 Q of 2015)

## Chapter 2: Business establishment

The Commercial Act governs business establishment in Bulgaria. Foreign persons wishing to setup a presence in Bulgaria have the same options as Bulgarians. There is no limitation on the share participation of foreign legal entities and individuals. The following forms of commercial organization can be set up:

- Sole-shareholder limited liability company (EOOD);
- Limited liability company with more than one shareholders (OOD);
- Sole trader, individual company with unlimited liability (ET);
- Joint stock company (AD);
- Sole shareholder joint stock company (EAD);
- Unlimited partnership set up by two or more individuals, who carry unlimited responsibility (SD);
- Limited partnership, responsibility is according to agreement (KD);
- Partnership limited by shares (KDA);
- Branch;
- Representative office;
- Consortium and holding.

Comparison between establishing a Branch Office, Subsidiary Company, or a Representative Office can be acquired on request at [contact@leinonen.bg](mailto:contact@leinonen.bg).

The registration must be carried out by a professional firm in Bulgaria.

It is possible that foreign persons can do business in Bulgaria without incorporation through a permanent establishment.

Regardless founder nationality, all types of entities established in Bulgaria are considered as Bulgarian and treated under Bulgarian legislation system.

## Registration in Commercial Register

The newly established company becomes a legal entity with its registration in the electronic Commercial Register with Register Agency. The information in the register is public and freely available online (<http://brra.bg>). Registration process takes 3 to 5 days after documents submission. Incorporation of company can be filed in the Commercial Register either by a lawyer or by legitimate proxy with verified Power of Attorney.

Some further changes, such as appointment of a new manager, changing of legal address or change of registered capital are subject to registration too. All companies registered in the Commercial Register should announce the annual financial statement for every year no later than: (i) 30<sup>th</sup> of June the following year for Limited Liability Companies; (ii) 31<sup>st</sup> of May – for sole traders and (iii) 31<sup>th</sup> of July – for all other forms.

The initial step for establishment of all types of entities is adoption of Article of Association. The document must contain: trade name, seat and address of management, scope of business activities, managing bodies and representation, shareholders relations etc.

The most common commercial entities in Bulgaria are limited liability Company (OOD) and joint-stock company (AD) as they offer the best combination of running costs, management opportunities, limitation of shareholders' liability, legal regulation and administrative requirements.

## Personal Data Administrator registration

Companies that operate with personal data of employees, counter partners /vendors and clients/ etc. should have registration as Personal Data Administrator.

## Chapter 3: Limited Liability Company (OOD)

According to Commercial Act, OOD company can be established by natural or legal persons without limitation of shareholders number. In case of single shareholder, the entity is registered as EOOD (single member limited liability company).

### Liability

The liability of OOD Company is limited to the extent of its own assets. The shareholders themselves bear liability limited to the amount of their contributions in share capital.

### Capital

One Euro minimum capital is required for limited liability Company incorporation. The capital is formed by the contribution made from the shareholder. Registered capital is the main

financing source of the entity. When determining the amount of share capital should be taken into account incorporation expenses for incorporation of the company, accounting and administrative support together with all current expenses which will be running until the time company is able to make profit and finances its activity. Share capital is paid in bank which shall issue a Certificate. This is one of the compulsory documents for company registration.

It is possible that company registers lower amount of share capital and finance its activity by loan from bank or from shareholder. Note that according to Bulgarian legislation transfer pricing are applied. Such loans should include market interest otherwise they are treated as tax evasions.

## Shareholders

Shareholders may be either individuals or legal entities. They may be local or foreign. If shareholder is legal entity certificate of good standing is necessary for the company incorporation. More over legal entities which are shareholders in the legal entity should provide for the incorporation minutes of meeting of their managing bodies where they decide to incorporate legal entity in Bulgaria and appoint its manager/s. The transfer of an shares from one shareholder to another is unrestricted but transfer to a third party is subject to a more complex procedure.

## Governing structure

The OOD is managed by the General Meeting of Shareholders and by the appointed Managing Director(s). In the case of an EOOD, the sole owner of the capital manages and represents the company either personally or through an appointed Managing Director(s).

Manager(s) who can be individual(s) or legal entity, represent the company in court and in dealings with third parties and conduct the daily activities of the company. It is not very popular a company to be managed by legal entities in Bulgaria. Representation of company by more than one Manager could be as follows:

- Jointly and separately: any manager can represent the company by himself/herself. Documents signed by only one of the managers are considered valid.
- Jointly: documents of company are considered valid if only signed by all managers. Documents which are not signed by all managers are considered void.

Manager(s) is (are) appointed by the shareholders or, in the case of an EOOD, by the sole owner of the capital. A written contract must be signed with the Manager(s). The rights and obligations of the manager(s) as well as the scope of their authority are described in management agreement. Specimen of signature verified by notary public is needed, consent Commercial Act.

## Chapter 4: Accounting and auditing

The Bulgarian accounting legislation is generally aligned with the European. Companies have to observe and keep their accountancy in compliance with the requirements under the Accountancy Act.

Fiscal year is the calendar year in Bulgaria.

Audit of Financial Reports is obligatory for companies which during current or previous year do exceed two of the three criteria:

- balance value of assets towards 31st of December 1.5 million BGN;
- net sales income for the year 2.5 million BGN;
- average number of employees for the year 50 people.

Despite the above requirements audit is statutory for the following companies: AD, KDA, emittients on public markets, insurance companies, credit institutions, additional social contribution funds, other companies when required by legal acts.

Small and medium-sized companies (“SMEs”) can apply National Accounting Standards. Newly established entities are considered SMEs in the year of their establishment and can choose to apply National or International Accounting Standards for the year of establishment and the following year.

Companies which for one of the two previous years exceed the following indicators:

- balance value of assets towards 31st of December 8 million BGN;
- net sales income for the year 15 million BGN;
- average number of employees for the year 250 people;

should apply International Financial Reporting Standards (IFRS). However, Credit institutions, insurance and investment companies, pension and health insurance funds and funds managed by these companies have no choice and can only apply IFRS.

### Bulgarian National Bank Reporting

Companies which have loans that exceed 50,000 BGN (approx. 25,000 EUR) from foreign entities/individuals should declare this loan in BNB and they should report the changes in loan principal and interest every quarter. Companies report their payables/receivables to foreign companies which exceed particular threshold every quarter.

### National Statistical Institute Reporting

Companies report to statistical institute every year their Annual Financial Reports and other statistical information within the deadlines for corporate income tax declarations. They may be appointed from Statistical Institute for monthly and quarterly reporting as well.

## Chapter 5: Taxes

### Personal income tax

Bulgarian individuals are taxed at a flat rate of 10% on their worldwide income on a self-assessment basis, unless in an employment or similar relationship. Local individuals must file annual tax returns until 30 April for the incomes received in the previous year. Self-employment income is also charged with 10% tax. Non-resident individuals are taxed only on their income from sources in Bulgaria with 10% withholding tax. Dividends and liquidation quotas paid to resident or non-resident individuals are subject to 5% tax, calculated on the gross income. Sole-traders are subject to 15% tax on their incomes.

Bulgarian tax resident persons are considered persons who:

- have a permanent address in Bulgaria;
- reside in Bulgaria for more than 183 days in a 12-month period;
- are sent abroad by the Bulgarian government, Bulgarian entities, or their families;
- have their centre of vital interests in Bulgaria.

### Corporate income tax

Bulgarian resident persons are taxed on their worldwide income in Bulgaria, while non-resident persons are taxed only on income generated from a source in Bulgaria.

Corporate income tax rate is 10% flat rate. Taxable entities are primarily companies incorporated under Bulgarian law and non-resident companies in respect of their own Bulgarian income or income derived through a Bulgarian permanent establishment.

Tax year corresponds to the calendar year. Most taxable persons are required to file corporate tax returns by 31 March of the year following the year for which the tax is due. Annual corporate tax is due on the same date, deducted with advance installments paid during the year. The amount of the advance tax payments is determined on the base of the profit forecast for the current year. If the net sales in the previous year were up to BGN 300,000 (approx. EUR 150,000) advance payments are not mandatory. Above BGN 3,000,000 net sales, tax installments are due every month, otherwise on a quarterly base. Newly established companies are free of obligation to pay advance corporate tax installments for the year of incorporation.

Losses can be carried forward consecutively during the next five years.

## Tax on expenses

Bulgaria levies 10% annual tax on entertainment expenses, the cost of social benefits provided in-kind to employees and maintenance and running costs for vehicles. Business trip costs are tax exempt provided that they are connected with the company's activity, duly documented and that certain thresholds are not exceeded.

## Withholding taxes

Withholding taxes due by the Bulgarian entities on incomes distributed to non-resident individuals/entities are:

- Dividends – 5% withholding tax on dividends or liquidation quotas distributed by local companies to persons is applied. Dividends distributed to Bulgarian or EU/EEA corporate shareholder are exempt from withholding tax.
- Interest and royalties – the tax rate is 10%, unless a more favorable double tax treaty rate applies. The preferential rate of 5% applies to EU companies provided that the payer and the recipient are related entities and certain conditions are met.
- Remuneration for technical services, management services, remuneration under franchise and factoring agreements etc., is subject to a withholding tax of 10%, subject to any double tax treaty.
- Capital gains: Gains realised by non-residents on the sale of company's shares or real estate property are subject to 10% withholding tax, levied on the difference between the acquisition and the sales price.
- Other income: Certain income derived by non-residents and not generated by a permanent establishment in Bulgaria, is subject to a withholding tax of 10%, subject to any double tax treaty.

Tax Treaties can be applied if they provide more favorable taxation of incomes acquired from source in Bulgaria. Profit generated under permanent establishment in Bulgaria is exempted from further taxation in home country in most Agreements for Avoidance of Double Taxation (AADT). Bulgaria has concluded 68 AADT and around 63 investment protection treaties.

## Transfer Pricing

Transactions between related parties should be performed in conformity with transfer pricing rules. Guideline released by the National Revenue Agency recommends preparing and maintaining transfer pricing documentation. It is tax payers' burden to prove that their transactions are negotiated according to arm's length prices. If tax officials conclude that prices are not at arm's length they may recalculate profits and impose additional levies.

## Chapter 6: Indirect Taxes

### Excise duties

The following groups are subject to excised duties:

- Alcohol beverages;
- Tobacco products;
- Energy products and electricity.

The amount of the excise duty depends on the type of goods and can be a flat rate based on quantity or proportionally to the value.

### Custom Duties

Bulgaria is applying the International EU customs legislation directly.

### Value Added Tax (VAT)

VAT legislation in Bulgaria is generally harmonized with EU VAT legislation. Any supply of goods or services within Bulgaria made by taxable individual or legal person is VAT chargeable.

### Bulgarian VAT rate

- 20 % for supply of goods and services in Bulgaria, Intra-Community acquisition and import of goods to Bulgaria.
- 9 % for hotel and accommodation services.
- 0 % for Intra-Community supplies, Export of goods outside EU, International transport of goods and passengers, certain supplies related to international transport, supplies of non-Community goods placed under a special customs regime, other specific international transactions under certain conditions.

The export of goods to customers outside the EU is zero-rated, while the import is subject to Bulgarian VAT and is payable by the importer to the customs authorities.

A "zero" VAT rate applies for Intra-Community Supplies of goods and services delivered to VAT-registered entity in another EU Member States.

Intra-Community acquisitions of goods are subject to VAT reverse charge by the Bulgarian recipient under certain conditions: when the supplier is established in another Member State and is not VAT - registered in Bulgaria; and when the recipient is identified for VAT in Bulgaria.

A purchase of new vehicle from another EU country is always treated as an Intra-Community acquisition, no matter whether the buyer is registered for VAT or not.

Reverse charge is applied also by the Bulgarian recipient in case of receiving services from foreign providers. The tax is payable by the recipient when the provider is a not-resident tax person and the delivery is taxable.

## Exemptions

The list of exempt supplies replicates the list contained in EU directives. For example: transactions involving (parts of) “old” buildings and adjacent land, or non-regulated land (except for building land and land adjacent to new buildings), rental for residential purposes to individuals (an option to tax these transactions is available); financial and insurance services; gambling; non-profit activities of eligible institutions; certain services related to health, education, religion, culture, etc. Supply of goods for which VAT tax credit has not been used because of legislative provisions is also exempt.

For investment projects related to importing machines and equipment which cost more than 5 000 000 EUR, Bulgaria offers a two-year VAT exemption for the imported equipment.

## VAT Registration

VAT registration is either compulsory or voluntary. Voluntary registration may apply to any individuals or legal persons who carry out business activities in Bulgaria. Compulsory registration applies:

- When the threshold for compulsory VAT registration 50 000 BGN (approx. EUR 25 000) for the period of 12 consecutive months is exceeded. Zero-rated supplies count toward the VAT registration threshold.
- When distance sales with place of supply in Bulgaria exceed BGN 70 000 (approx. EUR 35 000) for calendar year.
- When Intra-Community acquisitions exceed BGN 20 000 (approx. EUR 10 000) in the current year.
- When an EU taxable person supply goods with installation agreement in Bulgaria (unless the goods are supplied to a VAT-registered person).

Registration procedure takes 14 day after application submission to NRA. The application must state the grounds for registration and must be submitted together with information about the monthly taxable turnover for the 12 consecutive months.

## Special regimes for VAT registrations:

- When unregistered company provides to or purchases services from another EU Member State. The application for this special registration should be submitted 7 days before the service is rendered or received.
- MOSS: Subject to special VAT registration shall **be every taxable person, who** is not based in the country and provides telecommunication services, services for radio- and television broadcasting or services **provided electronically to recipients who are non-liable tax persons** residing in Bulgaria, except for having such registration in another EU country.

Any generally registered company shall be deemed registered also for the purposes of special registrations, but not vice versa.

## VAT registration of non-resident persons

Non-resident person who is not established in Bulgaria but effects taxable supplies within the territory of the country, except for the supplies which require self-taxation, and who satisfied the condition of VAT Act for compulsory registration shall be registered for VAT purposes in Bulgaria.

## VAT reporting

All companies that are VAT registered should declare and pay their VAT monthly by the 14<sup>th</sup> of the following month.

It is necessary to include all sales invoices (incl. overseas) and credit notes, received within current month. Purchase invoices may be included within the next 12 months.

## VAT refund

The tax authorities are required to refund recoverable VAT within roughly four months (three months for offsetting and 30 days for effective refunding) after the VAT was first declared for recovery.

A shorter procedure of VAT reimbursement is provided for intra-Community dispatch and supply of goods.

Intra-Community supplies of goods and services to recipients, registered for VAT purposes in other EU Member State should be included in VIES /VAT Information Exchange System/ declarations.

There are serious penalties for violation of the VAT Act.

## Chapter 7: Employment in Bulgaria

Labor Code governs employment relations in Bulgaria. Other Acts related to employment legal requirements are Healthy and Safe Working Conditions Act, Employment Promotion Act and some ordinances and regulations.

### Employment contracts

Employment contract must be concluded between the employee and the employer in a written form, specifying certain statutory requirements such as place and nature of work, position occupied and the characteristics of work, basic and additional employment remunerations, working hours etc.

All employment contracts must be registered with the respective territorial division of National Revenue Agency:

- In three days term after concluding or amendment of the employment contract, but before the first working day;
- In seven days term after its termination.

Employment contracts can be concluded for fixed and indefinite period of time. Fixed-term contracts can only be signed in exceptional cases specified in the Labor Code. For both types of contracts, employers have the opportunity to assess employees' capability for certain work through probation period which cannot exceed six months.

Employers report monthly information about employees' social contributions and personal income tax. Declaration for social contributions should be submitted till 25<sup>th</sup> calendar day of the following month. Employers' legal responsibility is to pay over employee's tax and social security deductions to the Bulgarian tax authorities.

### Healthy and safe working conditions

Each company that employs personnel must provide healthy and safe working conditions and must conclude a contract with Occupational Medicine company.

### Paid leaves

Labor code entitles full-time employees to have at least 20 days annual paid leave.

Employees working in specific conditions and dangerous environment have legal right to use additional annual paid leave. Under certain circumstances, up to 10 working days from the annual paid leave can be postponed to the following year.

## Sick leaves and maternity

Sick leaves are paid at 70% of the gross remuneration for the first 3 days by the employer. The remaining days of sick leave period are paid by the National Insurance Fund.

Women are entitled to 410 days leave for pregnancy and after childbirth period. All days in maternity period are paid by the National Insurance Fund.

## Social security and health insurance (shortly called SOCIAL SECURITY)

### Employee solution

Social security is mandatory paid on employee's gross income in Bulgaria. Contributions are shared between employee and employer. Maximum threshold for social security payments is BGN 2,600 (approx.EUR 1,300) while minimum insurance income depends on the group of economic activities and professions.

#### Contributions rates

Social security contribution	paid by employer, %	paid by employee, %
Health insurance fee	4.80%	3.20%
Pension fee	7.10%	5.70%
Unemployment fee	0.60%	0.40%
Common disease and maternity	2.10%	1.40%
Supplementary compulsory pension	2.80%	2.20%
Professional disease , labour accident insurance	from 0,4 to 1,1 %	
<b>Total</b>	<b>From 17.80% to 18.5%</b>	<b>12.90%</b>

*Most common skim for III labor category*

For I and II labor category (under heavy and dirty work conditions) contribution percentages are higher for both employee and employer.

According to Bulgarian legislation additional 0.6% on gross salary is charged for each year of employee's professional experience. It est, Cost to Company (CTC) includes not only employee gross salary (wage), social security contribution paid by employer but also supplement for professional experience.

Director's fees are treated with the same taxation and social contributions as under employment contract.

Foreigners could be exempt from social security contributions in Bulgaria or the contributions paid in Bulgaria could be recognised in their home country under applicable social security treaties.

### Self-employed persons/Freelancers

Based on their annual income, self-employed persons are responsible for the entire social and healthy security charge. Maximum threshold is the same as under employment contract – 2600 BGN (approx. EUR1,300). Minimum insurance income is mandatory 420 BGN (approx. EUR210) even if less income is generated. The social contribution rate is minimum 17.80%.

*Concealment of mandatory social contributions in large size (over 3 000 BGN) is criminalized.*

### Posted workers

EU Regulation 883/2004 on social security is applicable for Bulgarian workers posted in another EU Member State and foreign workers seconded to Bulgaria from another EU Member State. In both case workers may remain under their home social security legislation if the working period is less than 2 years.

## If need any help contact us:

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