

LEX MUNDI INTERNATIONAL TAX DESKBOOK
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BULGARIA TAX DESKBOOK

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INTRODUCTION

1. Sources of tax law

Taxation in Bulgaria is based on the *Tax Procedure Code (TPC)*, laws on specific taxes (the *Corporate Income Tax Act (CITA)*, the *Personal Income Tax Act*, the *VAT Law*, the *Excise Duty Law*, and the *Law on Local taxes and Fees*), the *Budget Laws*, the *Civil Procedures Code*, the *Trade Act*, and the *Contracts and Obligations Law*, and laws on specific taxes.

2. The types of taxes imposed

The property taxes and duties are collected on the grounds of the possession or using real estates, cars, etc.

The taxes and duties on acquisition of property are collected for purchase or inheritance of real estate, car, etc.

The indirect taxes are due on the grounds of carrying out certain activities. The transfer of commodities, providing services, import of commodities or services in to the country, etc. will be levied with value added tax, naturally, in the presence of definite additional conditions. The production of cigarettes, alcoholic beverages, etc. is levied with excise tax.

The income taxes are levied for the income from working or economic activity. In comparison to the preceding groups of taxes it can be seen that with the income taxes the economically active persons have enough possibilities of choice of the way of their income taxation. The choice will be made by undertaking various forms and other parameters of economic enterprise.

Present, in fact, is an INCOME TAXATION SYSTEM IN BULGARIA.

The most important taxes are profit tax; municipal tax; tax on the social expenses and the spending for cars; tax on the dividends and the liquidation shares calculated for the partners and the shareholders; patent tax.

3. Tax administration s structure

The tax administration consists of a General Tax Administration Directorate, Regional Directorates and Territorial Tax Administration Directorates. Within the territorial Directorates there may be established subdivisions and bureaus (points), following criteria determined in the Regulations of the Activities. In the directorates and their subdivisions are established functional departments and sectors, including such for specialized tax control.

Regardless of the criteria determined in the Regulations of the Activities, the location of the units are determined depending on the necessary facilities and physical conditions for [performing] taxpayer services.

INCOME TAXES AS APPLIED TO BUSINESS ENTITIES AND INDIVIDUALS

I. CORPORATIONS

1. Filing Tax Returns

Tax subjects have to file tax returns:

1. when they have an obligation under the law to report circumstances, on the basis of which the tax

administration authority has to assess the specific amount of the liabilities;

2. when they self-assess the tax base and calculate the tax due themselves.

The returns are accepted by an official in the Tax Administration Directorate, who is obliged to assist the tax subjects in all technical issues, connected with completing the returns.

The tax return has to be filed by the tax liable persons in the respective local tax directorate, no later than March 31 of the following tax year. Attached to the return must be the annual profit-and-loss account, without the annexes.

Assessment of the Tax Liabilities

For tax subjects who are obliged by law to report circumstances, the tax authority assesses the tax liabilities on the basis of the tax return. The tax subjects who calculate the tax due themselves are obliged to pay the self-assessed tax within the legally determined deadlines and generally no tax assessment decision is issued by the tax administration authority.

According to **Article 53 CITA**, the profits and municipal taxes for the relevant year shall be paid no later than March 31 of the following calendar year, after deducting the amounts of the advance payments made. Overpaid profits tax and municipal tax as reported in the annual return may be deducted by the tax liable persons against future advance payments and annual liabilities for these same taxes. Tax liable persons paying the municipal tax, which have subsidiaries, production processes or activities not accounted for on a separate balance sheet, and which are situated on the territories of other municipalities, shall pay the municipal tax due to the respective local budgets in proportion to the number of staff employed in their subsidiaries, production processes or activities.

Taxes due by insurance companies, mutual insurance co-operatives and foreign persons are paid monthly by the 15th day of the following month and are final.

(1) Estimated taxes

Tax liable persons have to make monthly advance payments of the profits and municipal taxes on the basis of 1/12 part of the annual taxable profit for the previous year, adjusted with a coefficient reflecting changes in the economic conditions in the course of the current year. The coefficient is set within the State Budget Act of the Republic of Bulgaria for the relevant year.

Those payments are determined for the period 1 April - 31 December on the basis of the taxable profit for the previous year, and for the period 1 January - 31 March, on the basis of the taxable profit for the year preceding the previous year.

Tax liable persons registered during the course of the year because of transformation, have to make the advance payments as follows:

1. in case of transformation of companies and co-operatives of one type into another, as well as of mergers and consolidations - on the basis of the taxable profit for the previous year of the transformed companies and co-operatives;
2. in case of demergers - on the basis of the respective portion of the taxable profit for the previous year determined in proportion to the equity interest.

The monthly advanced payments of the profits tax are made at a tax rate of 15 per cent.

Tax liable persons registering a negative value for the amount of the taxable profit for the previous year, have to make quarterly advance payments on the basis of their taxable profit for the respective period of the current year on an accrual basis at the rate of 15 per cent.

Legal persons and unincorporated partnerships must notify the local tax directorate by place of registration of any decrease of the advance payments for the period from 1 April to 31 December, by filing a tax return form approved by the Minister of Finance, if they believe that these advance payments exceed the amount of the annual tax due.

The monthly advance payments have to be paid no later than the 15th day of the current month, while quarterly advance payments shall be made by the 15th day of the month following the quarter. Advance payments for the last quarter are not be made.

New tax liable persons, established during the course of the year, shall make quarterly advance payments at the above mentioned tax rate from the date of their registration.

Local legal persons engaged in processing of agricultural produce and tobacco do not have to make any advance payments for profits and municipal taxes for the period from April to September included.

(2) Installments

Conditions for Allowing Deferral and Installment Agreements

At the request of the debtor, payment of the amounts due may be done in full, no later than an established deadline (deferral), or partially (in installments), in accordance with a payment schedule, approved by the tax administration authorities.

Deferrals and Installment agreements can be allowed in cases when the tax administration authority establishes that the cash and incomes of the debtor will not cover the tax liability, but, following evaluation of the debtor's [business] activity, a reasonable assumption may be made that the operation will successfully redeem the tax liabilities in installments and provide possibilities for payment of the other public liabilities.

An interest up to the amount of the basic interest rate is collected for the period of the deferral or installment agreement, if the debtors fulfill their obligations in accordance with the payment schedule. In cases when two consecutive installments are not made as agreed in the payment schedule or when the deferred payment matures, the amounts due immediately become collectible along with the legally determined interest from the date of the issuance of the permission.

Deferrals and installment agreements are not allowed:

1. for commercial entities in liquidation or undergoing insolvency procedures;
2. after the liability has been assigned for collection by the public enforcement authority;
3. for Vat and excise tax liabilities;
4. with respect to the third persons referred to in Art. 22 TPC for amounts withheld by the tax subjects, but not paid within the deadlines for payment of public receivables.

Enclosed with the request for an installment agreement has to be

1. evidence stating the financial and economic situation of the debtor, along with a prospective development program, if the debtor is a sole proprietor, a legal person or other entity treated at a par [with legal entities];
2. a tax return, stating all other public liabilities, including the interest on them, as well as all liabilities owed to private creditors and the interest on them.

2. Calculation of income/profit taxes

A. How is the taxable base determined

(1). The taxable profit is the positive value, determined on the basis of the accrued financial result, which is established as a difference between the income and the expenses, not including the taxes on account of the profits, and adjusted in accordance with the provisions of the CITA. Insurance companies, mutual insurance co-operatives and foreign persons are subject to tax for their insurance and reinsurance activities pursued through a permanent business establishment, levied on the insurance, reinsurance and all other premiums and revenues from other activities inclusive of activities not related to insurance.

(2). When establishing the taxable profit for tax purposes, depreciation allowances are

determined which are compatible with the accounting depreciation quota. The depreciation amount is established for categories of assets by systematically applying the straight-line depreciation method.

For tax purposes the assets subject to depreciation are grouped into the following categories:

1. I category - steady buildings, facilities, communication devices, electricity carriers, communication lines;
2. II category - machinery, manufacturing equipment, apparatus, computers and software;
3. III category - transportation vehicles, excluding automobiles; coverage of roads and aeroplane runways;
4. IV category - all other assets subject to depreciation.

For tax purposes for taxation of profits, the depreciation rates may not exceed the following:

Category of Assets	Annual Depreciation Rates - %
I Category	4
II Category	20
III Category	5
IV Category	15

Tax liable persons may either apply accelerated depreciation for tax purposes for the assets falling within Category II, as well as for electricity carriers, communication lines, steam- and water-pipelines, by applying the declining balance depreciation method with a coefficient of 1.5 for increasing the tax depreciation rate, or increase the tax depreciation rate by 50 per cent.

B. What are the applicable rates

The profits tax of tax liable persons, exclusive of banks and other financial institutions, is 15 per cent. The rate of the municipal tax is 10 per cent.

The rate of the tax on insurance companies, mutual insurance co-operatives and foreign persons is 7 per cent and for life insurance operations 2 per cent. The rate of the tax for dividends and liquidation proceeds distributed by local legal persons and unincorporated partnerships to local physical persons, local legal persons who are not merchants and foreign persons (Art. 34 CITA) is 15 per cent.

The rate of the tax on guest entertainment expenses, donations and sponsorship, booked as expenses, is 25 per cent.

The rate of the tax on social expenses and expenses for maintenance, repairs and operation of automobiles is 20 per cent.

C. How losses are handled

Losses are deductible consecutively during the following five tax years, respectively for banks during the following ten years.

D. Any special transfer pricing rules

No.

E. Consolidated returns for affiliated corporations.

There is no possibility of consolidated returns or relieving losses for affiliated corporations

3. Territorial Rules

What is the corporation's residence

A resident company is liable for corporate income tax on its worldwide profits, including capital gains, subject to the provisions of any relevant double taxation agreement.

Business profits of a branch or other permanent establishment of a company in Bulgaria are taxable.

Tax credits - Are there tax credits relating to legal dispositions other than provisions in Double Taxation Treaties, on the possibility of deducting taxes paid abroad, or any others.

II. PARTNERSHIPS, LIMITED LIABILITY COMPANIES AND OTHER ENTITIES SUCH AS JOINT VENTURE, ASSOCIATIONS AND FOUNDATIONS

Associations and foundations as legal persons are liable to income tax, as far as the commercial part of their activity is concerned. The enterprises - local corporate bodies with annual turnover for the preceding year up to 75 million leva are taxed by a final annual (patent) tax for income resulting from sources in Bulgaria.

Licensed investment funds are not subject to profits tax for that portion of their profit which originates from trading with long-term securities.

Above (I. 1.) mentioned filing procedures and dates for corporations apply also to other tax liable entities.

Calculation of income for income tax purpose is the same as for corporations: Calculations of taxable profit are based on the difference between income and expenses, according to the rules on accounting financial results. The financial result is then decreased or increased to arrive at a tax base.

The income of the partnership is allocated out among the members corresponding to their shares of the capital in the partnership unless otherwise agreed among the partners. The income allocated to the partners is split into capital income and earned income in the case of partners being physical persons. The dividends of the shareholders of licensed investment funds are subject to tax in accordance with the general rule.

III. INDIVIDUALS

Taxable persons

Taxable under LAW FOR TAXATION OF THE INCOME OF PHYSICAL PERSONS are the local and foreign physical persons and the local corporate bodies stipulated by this law.

The tax subjects are obliged to register and account the sales of commodities and services through issuance of cash slip by fiscal unit by an order determined by an ordinance of the Minister of Finance, unless the payment is made through a bank.

The local physical persons is taxable for income resulting from sources in Bulgaria and abroad.

The foreign physical persons are taxable for income from sources in Bulgaria.

Foreign citizens staying in Bulgaria, solely with the purpose of studies or medical treatment, and the foreign experts are taxable for income from sources in Bulgaria regardless of the term of stay. When a person - foreign citizen, staying in Bulgaria solely for the purpose of studies or medical treatment, acquires a status of permanent resident or extends the period of his stay upon conclusion of the medical treatment or education, he/she is considered local person from the day of acquiring the status of permanent resident, respectively from the date of extension of the term of temporary stay.

Taxable income

Subject to taxation is the income resulting from:

1. labour remuneration and from legal terms of employment equalised to them;
2. activity as sole entrepreneur, regardless of whether he is registered under the commercial law;
3. craftsmanship;
4. free lance;
5. providing services by personal labour, except the cases under item 3 and 4;
6. activities in the sphere of the agricultural, forest and water farming;
7. sale and exchange of real estate, road vehicles, aircrafts and vessels;
8. sale of stock, shares and other participations in trade companies, in unpersonified companies and other forms of joint venture;
9. transfer of enterprise to sole entrepreneur;
10. rent, annuity and lease;
11. temporary concession of exercising rights under contracts for leasing, franchising, factoring and other similar;
12. authors' and licence remuneration;
13. compensations for missed profit and forfeits of such nature;
14. the interest, except in the cases under Art. 12, item 3 and 5;
15. remuneration for personal labour in companies and in cooperations and production dividends from cooperations;
16. dividends, income from share holding and bonuses;
17. bonuses and awards from sport events;
18. other income, not determined as untaxable or not exempt from taxation under a law.

Untaxable income

Subject to taxation is not:

1. the income from sale or exchange of:
 - a) flat, house or country house, including the adherent land, on condition that they have been the main house of the seller for at least three years before the sale or the exchange;
 - b) up to two real estates which are not main houses of the seller, as well as agricultural and forest estates regardless of their number, if the period between the acquisition or the sale is more than 5 years;
 - c) road vehicles, aircrafts and vessels, acquired by the taxable person not less than one year before the sale;
 - d) chattel, with some exception specified in the Act.
2. the sums received by the compulsory pension, health and social insurance;
3. the interest on deposits and accounts in local commercial banks, branches of foreign banks, mutual benefit funds, savings and credit cooperations, interest and discounts from state, municipal and corporative securities and moratoria interest on bonds relations, the interests from investment

of the insurance reserves of insurance “Life, marital and children's insurances and insurance “Life” if they are connected with an investment fund;

4. indemnification and other similar payments for average and severe corporal damage, decease or professional disease; compensations on property insurance and compensations for alienation of rights and for losses, up to the amount of the loss, indemnification for suffered non-proprietary damages; insurance indemnification for working incapacity and medical expenses restored by an insurer when working incapacity has occurred; the sums paid by an insurer for death, the sums on marriage and child insurance when the insurance event has occurred - marriage or birth or the term of the insurance has elapsed;

5. interest on court established receivables, which are not subject to taxation and adjudicated indemnification for expenses related to court cases;

6. the income in cash and in kind from social aid, received on the grounds of a normative act and unemployment indemnification and support;

7. aid received from social funds and organisations;

8. extras, compensations and aid for children, received on the grounds of a normative act and payments for support, received from rightful persons, according to the provisions of the Marital Code;

9. scholarships in favour of local physical persons for education in the country and abroad;

10. cash and material awards, received on the grounds of a normative act, from donors, for submitting biological products and bodies of the human organism;

11. the prizes from the state lottery and from the state sport totalisator, the premiums and gains from gambling games and other luck games;

12. salaries and remuneration for: members of the personnel of the diplomatic representations according to the Vienna convention for the diplomatic relations; the members of the consular offices according to the Vienna convention for the consular relations; employees of inter-governmental and inter-state organisations according to the international contract, concluded with the respective organisation, and the members of the families of the above persons, inasmuch as provided in the respective international contract;

13. distributed, in the form of new shares and stock in trade companies, as well as the distributed profit in the form of increase of the nominal value of the existing shares and stock;

14. the distributed profit, by which the capital has been increased through issuance of new stocks and shares or increase of the nominal value of the existing ones.

15. the incomes from transactions with stocks of public companies and tradable right to stocks of public companies, implemented on the regulated Bulgarian market of securities.

Income is not considered the receipts from sale or exchange of property, obtained as inheritance, bequest, donation and restituted property, as well as the inheritance and donations. The incomes of the agricultural producers - individuals, including those acting as sole entrepreneurs, for the unprocessed plant and animal production, in this number apiculture, sericulture, fresh water fisheries from artificial basins and greenhouse production without the decorations are not taxable. Not levied with taxes are the income of the individuals received from rent, leasing or other paid submission of farm land.

Total annual income , taxable income and tax basis

Tax basis is the taxable income for the respective tax year, reduced by the expenses for the activity and the deposits and relief stipulated by this law.

If a taxable person receives income from two or more sources simultaneously, the tax basis of the total annual income is considered the sum total of the tax bases, determined separately for each source of income, in compliance with the provisions of Chapter Seven through Eleven.

Taxation with final annual (patent) tax

With the final annual (patent) tax are levied the persons carrying out the activities under Art. 31 and 32 of the TAXATION OF THE INCOME OF PHYSICAL PERSONS ACT (TIPPA) with annual turnover for the preceding year up to 75 million levs and who are not registered in the context of the Law for the value added tax.

This will not apply for the enterprise or the activity from the next calendar year, when within the frames of 12 consecutive months a person or persons have terminated an enterprise or one of the above mentioned activities and have established a new enterprise or have assumed activity of the same or similar subject and the sum total of the turnover is more than 75 thousand levs for 12 consecutive months. In this case for the newly established enterprise or activity will apply the general order of taxation for the next tax year.

Advance payment and deduction of taxes

The persons exercising a profession and other activities and services under non-employment relationships, including contracts for assigning management and control as well as the persons under Art. 25 TIPPA having chosen the order of taxation under this law, have to pay advance tax amounting to 20 percent.

The persons who have chosen the order of forming the tax basis under the Law for the corporate income taxation shall make advance instalments during the year by the order of the same law.

Monthly tax base	Tax
up to 110 levs	untaxable
from 110 to 140 levs	18 % for the excess over 110 levs
from 140 to 400 levs	5,4 levs + 24 % for the excess over 140 levs
from 400 to 1 000 levs	67.8 levs + 28 % for the excess over 400 levs
over 1 000 levs	235.8 levs + 29% for the excess over 1 000 levs

The corresponding tax is deducted and paid monthly by the employer or the commissioner to the account of the tax office at the place of his tax registration.

The physical person shall certify before his basic employer the received monthly income and the paid tax by the other employers with a certificate. The basic employer has to levy the sum total of the income of the person received during the respective month.

The basic employer has to calculate the final tax on the incomes on an annual basis by January 31 of the next tax year regardless of whether the person works or not under other employment contracts.

Additionally to the above (I C (2)) mentioned conditions for an installment agreement, individuals shall complete a tax return in a format, approved by the Minister of Finance or his/her designee, to certify the [individual's] family status and property;

The following income is levied with final tax amounting to 20 percent:

1. Prizes in the form of cash or objects from competitions and contests in cash and in kind, which are not provided by the employer or client;
2. compensation and penalties having the same nature;
3. Interest apart from that under Art. 12, para 1, subparas 3 and 5;
4. Production dividends of co-operatives;
5. Income received in result of inherited intellectual property rights;
6. Occasional transactions and from all other sources which are not explicitly listed in Art. 12.
7. Income from voluntary social, retirement and health insurance.

The taxable persons have to present annual tax return for their taxable income including for the income levied with one-time annual (patent) tax, by April 15 of the next year. The taxable persons have to declare within the same period the possessed stock and share holding in overseas companies, place of economic activity and real estate abroad.

For presentation of the annual tax return by January 31 of the next year and payment of the tax within the same period there is a discount of 5 percent of the sum, which is left for supplementary payment in the annual tax return.

The tax return has to be presented at the territorial tax directorate at the place of residence and the foreign persons - at the address of their last stay in the country.

The foreign persons who have received income through a proxy has to present tax return at the territorial tax directorate at the place of residence of the proxy, and if the proxy is a foreign person - at the address of the last stay of the proxy in the country.

Payment of the tax

The tax for the income has to be paid by the employers and the commissioners simultaneously with the drawing or the bank transfer of the sums for salaries and/or other remuneration from the bank account of the employer/commissioner, and for cash payments - by the 10th of the next month.

When the employer/assignor has permanently acting site out of his residence the tax for the occupied persons on the site the tax for the persons occupied on the site shall be paid to the territorial tax directorate at the location of the site.

The divisions of the budget organisations with independent account have to pay the tax at their location.

The advance payment has to be made every quarter by the 15th of the month following the quarter.

The final tax has to be paid by the payer of the taxed incomes within 15 days from the date of the deduction, and for nearly all incomes from voluntary social, retirement and health insurance till the 15th date of the following month to an account of the territorial tax directorate at the place of the headquarters of the payer.

The final annual (patent) tax have to be paid in four equal parts as follows:

1. for the first quarter - by January 31;
2. for the second quarter - by April 30;
3. for the third quarter - by July 31;
4. for the fourth quarter – by October 31.

Taxable person who, by January 31, pays the due tax for the whole year is given discount of 5 percent of the annual tax.

If the activity begins during the year the tax is determined proportionally to the number of months for the respective kind of activity regardless of the date of commencement of the activity. The month during which the activity has begun is not be taken into account.

For failure to meet the deadlines for payment of the tax it is collected with the interest for the period of delay determined by the Law for the interest on taxes, duties and other similar state receivables. When a tax return is not presented or a higher tax has been determined by a tax audit act than the current or advance tax the interest is due from the day, following the day on which the tax at latest was due.

What deductions allowed

In principle the same rules apply as explained above for corporations.

That is, within the specific income category, almost all expenses are permitted as deductible which are incurred to generate such income, i.e. social and health insurance policies, interest paid on debt which is incurred in connection with the generation of income of a certain type, transportation costs incurred by an employee for transportation between a person's home and his workplace.

A number of the deductions are allowed within certain limits. This refers particularly to insurance payments such as pension and health insurance policies.

What exemptions are allowed

Art. 12 TINPA contains a list of tax-free income which covers a number of distinctive concepts.

I.e. payments from a health insurance or from the compulsory accident insurance are held tax-free.

What major expenses are not deductible

Expenses which also relate to the private sphere of living of an individual are not deductible at all.

Territorial Rules

A. Where is the individual subject to tax

Local physical persons are liable for income tax originating from sources in the country and abroad. Income from a source in Bulgaria means income from business activity performed by a physical person on the territory of the country. It is considered that a physical person performs a business activity on the territory of Bulgaria in cases when it:

1. has a permanent establishment or a base on the territory of Bulgaria;
2. assigns or performs orders on the territory of Bulgaria either personally or through a procurator, agent or otherwise.

Enterprises which are local legal persons and have an annual turnover of up to 75 mln. BGL for the preceding year, are subject to a final annual (occupational patent) tax for their income originating from sources in Bulgaria.

Foreign physical persons are liable for income tax originating from sources in Bulgaria. Foreign citizens residing on the territory of Bulgaria with the purpose of receiving education or medical treatment, as well as foreign experts, are liable for income tax originating from sources in Bulgaria, regardless of the duration of their stay. Whenever a physical person who is a foreign citizen residing in Bulgaria with the sole purpose of receiving education or medical treatment, receives permanent residence status or extends their stay after the education or medical treatment is completed, they are considered local physical persons from the day the permanent residence status has been obtained or the day of extending their temporary stay.

B. Is the individual subject to tax on his world income

The individual is subject to tax on his world income.

Withholding Taxes

Salary is subject to withholding taxes at the source. Taxes are paid by the corresponding employer. There are no flat-rate allowances.

ALL OTHER TAXES, CONTRIBUTIONS OR TRANSFER REGIMES
OTHER THAN INHERITANCE AND DONATION TAXES AND LEVIES

I. Nature of Tax	Rate (%)
Value-added tax (also known as goods and services tax), on all goods, services and imports	20
Tax on representative expenses, donations and sponsorships (payments are not taxable to recipient)	25
Tax on social benefits and car maintenance expenses (payments are not taxable to recipient)	20
Tax on monthly contributions exceeding BGN 40 per secured or insured individual for additional voluntary pension, social and health security or insurance; (the security is provided through contributions to pension and health funds, while the insurance is provided through purchases of insurance policies and payments of premiums on such policies); tax paid by employers	20

II. Registration Duties for business entities and, if relating to their formation, identify whether it is a local or national regime or both for the formation.

1. Entering in the tax register (tax registration)

The data in the tax register is entered officially or by submitting a tax return. A tax address for connection with the tax administration has to be indicated in the tax return. Data has to be submitted within 14 days from the occurrence of the liability.

2. Registration duties due upon the incorporation of a company.

A registration duty of 20 BGN is due upon the registration as a private trader, 120 BGN are due upon the registration of a partnership and of a limited liability company. For the registration of a joint stock company a fee of 400 BGN is due.

For all other notifications in the Trade Register a fee of 20 BGN is due.

The above specified registration duties are charged by the Trade Register at the time the notification application is filed. Duties can be paid by bank transfer (the receipt of which must be attached to the application). The duties are paid to the corresponding regional court which is the governing authority of the registrations.

INHERITANCE AND DONATION TAXES

1. Tax on inheritance

At opening the inheritance the tax liable persons or their legal representatives are obliged in 6 months to submit a tax return at the territorial tax directorate at the last residence of the grantor and

if the latter has had residence abroad - at the location of the greater part of his property in the country. For an heir or legatee who is not spouse, child, parent, brother or sister, the 6 months term for submitting the tax return starts from the moment he has learned that the inheritance has been opened.

Exempt from tax are:

1. the property of those perished for the Republic of Bulgaria or at implementation of the official duty or at production accidents and natural disasters;
2. the property left by will to the state, the municipalities, the Bulgarian Red Cross, the cultural centres and the other corporate bodies that are not traders, with exception of the non-profit organisations appointed to carry out activity to a private interest;
3. the usual furniture;
4. the small farm implements;
5. the libraries and the musical instruments;
6. the pieces of art which author is the grantor, someone of the heirs or their relative of direct line without restriction, and of the lateral branch - up to fourth degree;
7. the not received pensions of the grantor;
8. the property of Bulgarian citizens abroad for which inheritance tax has been paid in the corresponding country.

The tax has to be paid in 2 months term after receiving the announcement.

When is inherited the enterprise of a sole trader, participation in a joint stock company, shares and stocks being more than 50% of the capital of the commercial companies, the due tax is possible in 1 year term after opening the inheritance.

The tax is determined separately for each heir or legatee according to the following tables:

1). for spouses and heirs of direct line	Table No 1
Inheritance share in lv	Tax sum in BGN
up to 15 000	unleviable
from 15 000,001 up to 50 000	0,1% for the sum over 15 000
from 50 000,001 up to 100 000	35 + 0,2% for the sum over 50 000
from 100 000,001 up to 200 000	135 + 1% for the sum over 100 000
from 200 000,001 up to 500 000	1135 + 2 % for the sum over 200 000
from 500 000,001 up to 1 000 000	7135 + 5% for the sum over 500 000
over 1 000 000	32 135 + 10% for the sum over 1 000 000
2). for heirs of the lateral branch	Table No 2
Inheritance share in lv	Tax sum in BGN
up to 15 000	0.1%
from 15 001 up to 50 000	15 + 0.2% for the sum over 15 000
from 50 001 up to 100 000	85 + 0.5% for the sum over 50 000
from 100 001 up to 200 000	335 + 1.5% for the sum over 100 000
from 200 001 up to 500 000	1 835 + 3.5% for the sum over 200 000
from 500 001 up to 1 000 000	12 335 + 6% for the sum over 500 000
over 1 000 000	42 335 + 12% for the sum over 1 000 000
3). for other heirs	Table No 3

Inheritance share in lv	Tax sum in BGN
up to 15 000	3%
from 15 000,001 up to 50 000	450 + 3,5 % for the sum over 15 000
from 50 000,001 up to 100 000	1675 + 4 % for the sum over 50 000
from 100 000,001 up to 200 000	3675 + 5 % for the sum over 100 000
from 200 000,001 up to 500 000	8675 + 7 % for the sum over 200 000
from 500 000,001 up to 1 000 000	29 675 + 10% for the sum over 500 000
over 1 000 000	79 675 + 20% for the sum over 1 000 000

Donation taxes

Subject to levying with tax are the properties acquired as grant as well as the immovable properties, the limited real rights in them, the vehicles acquired for payment and the gratuitously acquired in another way properties and the remitted liabilities.

Exempt from tax shall be:

1. the properties acquired by:
 - a) the state and the municipalities;
 - b) the Bulgarian health, education, culture and scientific organisations at budget maintenance as well as the homes for social care and the homes "Mother and child";
 - c) the Bulgarian Red Cross;
 - d) national represented organisations of disabled and for disabled;
 - e) the funds for support of people suffered from natural disasters and for preservation and restoration of historic and cultural heritage;
2. the grants for healing of Bulgarian citizens as well as of technical auxiliary means for disabled;
3. the grants with humanitarian objective to people with I or II group of disability and for socially disadvantaged citizens;
4. the non-profit corporate bodies registered in the central register of the non-profit corporate bodies for carrying out socially useful activity for the received and submitted donations;
5. the usual donations;
6. the property transferred gratuitously in implementation of an obligation ensuing from a law;
7. the grants in favour of public cultural centres;
8. the properties acquired by the order of the Law for privatisation and post privatisation control;
9. the non-cash contributions in the capital of a commercial company, cooperations or non-profit corporate body.

The tax shall be paid before the transfer of the property.

For grant of property the tax is calculated according to the valuation of the transferred property in extent of:

- a) 0.5% - for grant between relatives of direct line and between spouses;
- b) 0.7% - for grant between brothers and sisters and to nephews;
- c) 5% - for grant between persons other than those pointed out in items 1 and 2.

For gratuitously acquisition of property the tax is in extent of 2% of the valuation of the transferred property and in case of exchange - for the valuation of the property with higher value.

At subdivision of property when the share possessed before the subdivision is increased, the tax is calculated for the increase.

In Bulgaria, not for-profit entities are not taxed on inheritances or donations received to further to their statutory purposes.

OTHER MATTERS

I. Profits tax due is reduced by 10% of the amounts contributed to establish a company or increase the capital of a company if

1. the amounts are used to improve, modernize or reconstruct fixed tangible assets, which are large buildings, facilities, transmitting devices, electric power carriers and communication lines; and
2. the investments are made in municipalities in which the unemployment rate is at least 1.5 times higher than the average rate in the country for the two preceding years.

If the amount of the tax reduction exceeds the profits tax due for a tax year, the excess may be carried forward to the following five tax years. For investments extending for a period of more than one year, the reduction is allocated among the years, according to when the contributions are invested.

II. Are there exchange control regimes

Transactions between Bulgarian and foreign persons involving shares issued by foreign companies or other interests in foreign companies must be registered with the Bulgarian National Bank (BNB), as far as the value of the transaction is less than 2.000,00 Bulgarian levs (BGN).

Bank payments may be made freely after the payer declares the purpose of the payments. For payments exceeding BGN 20,000,00, certain requirements must be satisfied, such as the submission of certain documents to the bank.

Bulgarian and foreign individuals may export foreign currency of up to the equivalent of BGN 5.000,00 without filing a tax return. Exports exceeding this amount must be declared, whereas exports of foreign currency exceeding the equivalent of BGN 20,000.00 require a permit from the BNB.

III. Tax Treaties.

The rates of withholding tax in Bulgaria's tax treaties are described in the following table.

	Dividends %	Interest %	Royalties %
Albania	5/15 (a)	10	10
Armenia	5/10 (b)	10	10
Austria	0	0	0
Belarus	10	10	10
Belgium	10	10	5
China	10	10	7/10 (c)
Croatia	5	5	0
Cyprus	5/10 (d)	7	10
Czech Republic	10	10	10
Denmark	5/15 (e)	0	0
Finland	10 (f)	0	0/5 (g)
France	5/15 (h)	0	5
Georgia	10	10	10
Germany	15	0	5

Hungary	10	10	10
India	15	15	15/20 (i)
Indonesia	15	10	10
Ireland	5/10 (d)	5	10
Italy	10	0	5
Japan	10/15 (j)	10	10
Kazakhstan	10	10	10
Korea	5/10 (k)	10	5
Luxembourg	5/15 (a)	10	5
Macedonia	5/15 (l)	10	10
Malta	– (m)	0	10
Moldova	5/15 (a)	10	10
Morocco	7/10 (n)	10	10
Netherlands	5/15 (o)	0	0
North Korea	10	10	10
Norway	15	0	0
Poland	10	10	5
Portugal	15	10	10
Romania	10/15 (p)	15	15
Russian Federation	15	15	15
Singapore	5	5	5
Slovak Republic	10	10	10
Spain	5/15 (o)	0	0
Sweden	10	0	5
Switzerland	5/15 (a)	10	0
Thailand	10	10/15 (q)	5/15 (r)
Turkey	10/15 (s)	10	10
Ukraine	5/15 (o)	10	10
United Kingdom	10	0	0
Vietnam	15	10	15
Yugoslavia	5/15 (a)	10	10
Zimbabwe	10/20 (t)	10	10
Other countries	15	15	15

(a) The 5% rate applies if the recipient is a company owning directly at least 25% of the capital of the payer; the 15% rate applies to other dividends.

(b) The 5% rate applies if the beneficial owner of the dividends has invested at least US\$40,000 or the equivalent in another currency in the capital of the payer. The 10% rate applies to other dividends.

(c) The 7% rate applies to royalties for the right to use industrial, commercial and scientific equipment; the 10% rate applies to other royalties.

(d) The 5% rate applies if the recipient is a company that owns directly at least 25% of the payer. The 10% rate applies to other dividends.

(e) The 5% rate applies if the beneficial owner is a company (other than a partnership) holding directly more than 25% of the capital of the payer.

(f) This rate applies to dividends paid from Finland to Bulgaria. The treaty does not provide a withholding rate for dividends paid from Bulgaria to Finland.

(g) The 5% rate applies to royalties for specified types of intellectual property. The rate for other royalties is 0%.

(h) The 5% rate applies if the beneficial owner of the dividends is a company (other than a general partnership) that holds directly at least 15% of the capital of the payer; the 15% rate applies to other dividends.

(i) The 15% rate applies to royalties for the right to use copyrights of literary, artistic or scientific works.

(j) The 10% rate applies if the recipient is a legal person owning at least 25% of the voting shares of the payer for at least six months before the end of the accounting period for which the distribution of profits is made. The 15% rate applies to other dividends.

(k) The 5% rate applies if the recipient is a company that is the beneficial owner of the dividends and holds at least 15% of the capital of the payer. The 10% rate applies to other dividends.

(l) The 5% rate applies if the beneficial owner of the dividends is a company (other than a partnership) holding directly at least 25% of the payer. The 15% rate applies to other dividends.

- (m) The rate is 0% for dividends paid from Bulgaria to Malta. For dividends paid from Malta to Bulgaria, the withholding tax is the lesser of 30% of the gross dividend or the tax imposed on the profits out of which the dividends are paid.
- (n) The 7% rate applies if the beneficial owner of the dividends is a company (other than a partnership) holding directly at least 15% of the capital of the payer. The 10% rate applies to other dividends.
- (o) The 5% rate applies if the recipient is a company, other than a general partnership, owning directly at least 25% of the payer. The 15% rate applies to other dividends.
- (p) The 10% rate applies if the beneficial owner of the dividends is a company that holds more than 25% of the capital of the payer. The 15% rate applies to other dividends.
- (q) The 10% rate applies to interest received by financial institutions, including insurance companies. The 15% rate applies to other interest.
- (r) The 5% rate applies to royalties paid for the use of, or right to use, copyrights. The 15% rate applies to other royalties.
- (s) The 10% rate applies if the beneficial owner of the dividends is a company (other than a general partnership) that holds at least 25% of the payer. The 15% rate applies to other dividends.
- (t) The 10% rate applies if the beneficial owner of the dividends is a company that holds at least 25% of the capital of the payer. The 20% rate applies to other dividends.