

## DOING BUSINESS IN BULGARIA

### WHY BULGARIA?

#### **Political and business stability**

- Bulgaria is a member of the European Union, NATO and WTO
- The stability of the currency is supported by the currency board, pegging the Bulgarian lev to the euro at the level of 1.96

#### **Low cost of doing business**

- Bulgaria has the most favourable tax regime in Europe. Corporate income tax rate is 10%, the lowest in the EU. Personal income tax is 10 %, flat rate
- A company registered in Bulgaria uses all the benefits of the EU VAT system
- Depreciation time for computers and new manufacturing equipment is 2 years
- 5% withholding tax on dividends and liquidation quotas (0% for EU tax residents)
- Bulgaria has one of the most competitive costs of labor in Central and Eastern Europe
- Favorable office rents and low cost of utilities. Bulgarian cost of electricity for industrial users is 70% of the European average

#### **Strategic location**

Located at the heart of the Balkans, Bulgaria is a strategic logistics hub. Ease of transportation of cargo is provided by

- Five Pan-European corridors ( IV, VII, VII, XI, X), which pass through the country
- Transport program TRACECA, which connects Europe with Caucasian and Central Asian region
- Four major airports: Sofia, Plovdiv, Bourgas and Varna
- Two main seaports: Varna and Bourgas
- Numerous ports at the Danube River

#### **Access to markets**

Due to its location Bulgaria provides direct access to the following key markets:

- European Union - zero tariff market with population of 500 million
- CIS – still not well penetrated market with a high potential
- Turkey - zero tariff market of near 80 million population
- Middle East – a market with high purchasing power
- North African market

#### **Human resources**

- Work force is well educated, highly skilled and multilingual
- 62.2 % of the total population is in working age (appr. 4.6 million)
- 60 000 students annually graduate from 51 universities
- 98% of the high school students study a foreign language (usually English) and 73% study a second language (mainly German, French, Spanish, Russian)
- 94% of the schools have Internet access

## **ESTABLISHING A BUSINESS**

All persons wishing to undertake economic activity in Bulgaria have to apply before the Registry Agency for registration at the special Commercial Register kept by the Agency.

Foreign entities may operate through joint ventures, wholly owned subsidiaries and branches in Bulgaria. Foreigners may own buildings and limited rights over real estate. Nevertheless, direct ownership of land by foreign persons is restricted.

### ***Organizational Forms of Doing Business***

The organizational forms of doing business are stipulated in the Bulgarian Commercial Code. It was enacted in 1991 and draws on the principles and practice of German law.

A “merchant” is such an individual or an entity that executes business transactions on a regular basis and for profit. Farmers and self-employed professionals (artisans, doctors, lawyers, etc.) are excluded from the scope of the law.

The types of merchants are:

- Sole Proprietorship (ET);
- Unlimited Partnership (SD);
- Limited Partnership (KD);
- Limited Liability Company (OOD);
- Stock Corporation (AD);
- Public Limited Partnership (KD with shares);
- Cooperative (regulated by the Cooperatives Act).

Merchants are registered with the Commercial Register on the basis of information provided by the partners or the manager. This information concerns the owners, the management, the capital, the scope of activity and other circumstances. The Commercial Register kept by the Registry Agency is public.

The most preferable forms of doing business are the Limited Liability Company and the Stock Corporation.

### ***Limited Liability Company***

The Limited Liability Company is the favourite structure of foreign investors in Bulgaria. It combines several advantages:

- Very low initial capital requirement – BGN 2 (Approx. EUR 1);
- The participants own “shares” in the company which are transferable under certain conditions;
- The shareholders bear limited liability up to the value of their shares.

The same registration procedure, as for partnerships, is applied.

The company is governed by the General Meeting of Shareholders and represented by a Manager.

The Bulgarian Law recognizes also the Solely Owned Limited Liability Company (EOOD). Usually, the foreign investors structure their direct investments in the country through this form of Limited Liability Company. The sole owner resolves on any issue connected with the company’s policy. Therefore, the

multinationals find this form of doing business the best vehicle for their centralized policy of taking decisions.

## **Stock Corporation**

The Stock Corporation may be established by one or more persons. The minimum capital required is BGN 50,000 (Approx. EUR 25,000). Banks must meet more stringent capitalization requirements imposed by the Bulgarian National Bank. The stock may be common or privileged, bearer's or registered. The Stock Corporation may also issue bonds in order to raise funds.

### *Management*

A Stock Corporation chooses between one-tier and two-tier system of management.

Under the one-tier system the Board of Directors manages the day-to-day operations and reports directly to the General Meeting of Shareholders.

Under the two-tier system the Managing Board runs the business in a way overseen and guided by the Supervisory Board.

The annual balance sheet and Profit and Loss account of the stock corporation must be certified by a chartered accountant.

## **Branch**

A foreign company can register a branch in Bulgaria. The latter is not a legal entity, but:

- Is considered as such for tax purposes;
- May conduct business activities.

Must keep its own books in accordance with the respective Bulgarian law and the national accounting standards.

## **Representative Office**

Foreign entities are allowed to operate in Bulgaria through a representative office whose activities are limited to marketing and providing support to the foreign entity. The representative office itself cannot undertake economic activity.

A representative office is registered with the Bulgarian Chamber of Commerce and Industry. A representative office:

- Is not a legal entity;
- Does not have to keep books except for payroll purposes;
- May not conduct business activities;
- Does not pay corporate taxes since no income is generated;
- May not recover VAT credit.

## **TAXATION**

### ***Direct and indirect taxes***

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 25% or higher than the average for the country.

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.

### ***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***

The value added tax in Bulgaria is 20% except for certain hotel services 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;

- 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.

The law contains tax incentives for major investment projects worth over BGN 5 million, which create more than 20 new jobs and whose period of implementation is up to 2 years.

There is also a special procedure for charging the tax on imports: it may be accounted by a VAT registered person if they have permission from the Minister of Finance and the imported goods are according to a list approved by the Minister of Finance. In this case the customs authorities may allow the release of goods without the tax being effectively paid or without a guarantee being provided. The VAT Act also provides for a short 30-day period for refund of the VAT.

## **ACQUISITION OF REAL PROPERTY**

### ***Restrictions on direct acquisition by investors from third countries***

Foreigners and foreign entities are generally able to acquire ownership of buildings and limited real rights on real estates in the country. When this is provided in an international treaty ratified and promulgated in compliance with the law, foreign citizens and foreign legal entities may acquire ownership of land, including agricultural and forest land. In general, foreigners may also inherit real estates. However, except when otherwise specified in the relevant international treaty, they are required within three years to transfer the title to land to a Bulgarian citizen/legal entity.

### ***Options for indirect acquisition***

Foreigners or foreign entities may acquire any real estate, including land, by registering a Bulgarian company. The registered company may have full 100 per cent foreign participation. Foreigners can also acquire share participation in existing Bulgarian company which has title to real estate, as well as to acquire real property through the Bulgarian company.

### ***Procedure for acquisition of real property***

Contracts for transfer of title to real property or establishment of other real rights over immovable property must be executed with a notary deed by a notary public accredited for the area where the real property is located. The notary public performs all the formalities required to register the transfer of title with the Registry Agency on the day of its execution. Notary deed is not required for transactions involving state or municipal property, where the written form of the document is sufficient.

## **RESIDENCE OF FOREIGNERS IN BULGARIA**

Foreigners may reside in Bulgaria for short-term periods (90 days from the date of entry), extended stay (1 year), long-term (with an initial authorized period of 5 years and renewable) and permanently – for an indefinite period.

Among the foreigners who can obtain **extended residence permit** are:

- Persons who engage in commercial activity in the country, by means of which at least 10 jobs for Bulgarian citizens have been opened;
- Foreign specialists staying in the country under international treaties;
- Trade representatives of foreign companies, registered in the Bulgarian Chamber of Commerce and Industry;
- Foreigners, who invested over BGN 600 000 in acquiring immovable property directly or through a Bulgarian company, in which the foreigner has invested BGN 600 000 as capital
- Foreigners, who invested over BGN 250 000 in economically disadvantaged areas through a Bulgarian company, in which the foreigner has invested BGN 250 000 as capital, and as a result the company acquired fixed tangible and intangible assets amounting to BGN 250 000 and has employed at least 5 Bulgarian nationals for the term of the foreigner's residence in Bulgaria.

The extended residence permit can be renewed, if the grounds for its issuance still exist at the time of the renewal.

Once the foreigner is granted an extended residence permit, he/she may live, reside and travel in the Republic of Bulgaria while the permit is valid. The foreigner may freely choose and change his/her place of residence, or leave the country and enter it again.

Foreigners who have been granted status of a long-term resident in the Republic of Bulgaria can obtain long-term EU residence permits. **Long-term resident status** can be granted to foreigners who have resided legally and continuously (i.e. uninterrupted) on the territory of the Republic of Bulgaria for five years prior to the submission of the application for obtaining a long-term residence status. The residence is considered uninterrupted if the foreigner has been absent from the country no more than 6 consecutive months and the periods of absence do not exceed a total of 10 months in the 5-year period. The expiration of the validity term of a long term EU residence permit does not result in losing the long-term resident status.

Among the foreigners who can obtain a **permanent resident status** are:

1. Persons who have invested or increased their investment with over **BGN 1 million** through acquisition of:
  - shares in Bulgarian companies traded on the Bulgarian regulated market;
  - bonds and treasury bills as well as derivative instruments issued by the state or municipalities, with a residual maturity of not less than 6 months;
  - ownership of assets of a Bulgarian company with more than 50% state or municipal participation in the capital in accordance with the Privatization and Post-Privatization Control Act;
  - state or municipal shares owned of a Bulgarian company in accordance with the Privatization and Post-Privatization Control Act;
  - Bulgarian intellectual property;
  - rights under concession contracts operating in the Republic of Bulgaria;
2. Foreigners, who invested over **BGN 1 million** in a licensed credit institution in Bulgaria under a trust for a period of no less than 5 years and for the same period the deposit is not used to secure other cash loans from credit institutions in Bulgaria;

3. Foreigners, who have invested in Bulgaria over **BGN 6 million** in the capital of a Bulgarian company whose shares are not traded on the Bulgarian stock exchange;
4. Foreigners, who are shareholders, representatives or employees occupying key or controlling position in a Bulgarian company, which conducts business activity in Bulgaria and obtained special certificate for class A investment, class B investment or priority project from the Bulgarian Investment Agency;
5. Foreigners, who invested over **BGN 500 000** through a Bulgarian company, in which the foreigner has invested the amount as capital, and as a result the company acquired fixed tangible and intangible assets amounting to BGN 500 000 and has employed at least 10 Bulgarian nationals for the term of the Foreigner's residence in Bulgaria

The extended, long-term or permanent residence status of a foreigner is evidenced by the issuance of a Bulgarian personal document – a residence permit, evidencing the right of residence in the Republic of Bulgaria.

## **CITIZENSHIP THROUGH INVESTMENT IN BULGARIA**

### ***Regular procedure***

According to the Bulgarian Citizenship Act (BCA), a foreign investor may apply for Bulgarian citizenship **5 years after acquiring of Permanent Residence Permit (PR)** provided that the residence has not been interrupted. To that effect the foreign person must, as of the date of filing the application for naturalization and as per Art. 12 of BCA: have reached the age of majority (18 years); maintain a current valid status of Permanent Residency, have never been sentenced by a Bulgarian court for criminal offence nor accused of committing such a crime in criminal proceedings, unless he has been rehabilitated and has income or occupation which enables his support in the Republic of Bulgaria.

### ***Fast track procedure***

Those who opt for the fast track citizenship procedure can benefit from qualification for application **1 year after obtaining their PR**. Such applications are processed within 6 months. In order to obtain citizenship, applicants, who received PR through investment of over BGN 1 million (under the conditions mentioned in p.1 and p.2 above), should increase their investment under the same conditions of the law with the amount of at least **BGN 2 million** or should invest at least **BGN 1 million** in the capital of a Bulgarian company which performs priority investment project.

Another option is available for applicants who have received PR before 1 year on the grounds that they were operating and certified under the Law on Investment Promotion. In case such applicants have performed and commissioned investment, which was **maintained above the minimum threshold for a certificate for investment class A** under the Law on Investment Promotion, they may apply for Bulgarian citizenship 1 year after receiving their PR.

Another provision of the law stipulates that a foreign citizen may acquire Bulgarian citizenship if the Republic of Bulgaria has demonstrated distinct interest in his/her naturalization or if the concerned person has made a special contribution to the Republic of Bulgaria in socio-economic spheres, as well as in the fields of science, technology, culture and sports.

Bulgarian citizenship is granted by the President of the Republic by virtue of a President Decree issued on the grounds of a special well-founded proposal by the Minister of Justice after the completion of a statutory procedure provided for in the Bulgarian Citizenship Act.