

This report provides helpful information on the current business environment in Bulgaria. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.



Global Banking Service

Report on the Republic of Bulgaria

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Important to Know

Official language

› Bulgarian

Currency

› Bulgarian lev (BGN)

Bank holidays

2011	
January	1
March	3
April	22, 25
May	1, 6, 24
September	6, 22
December	24–26
2012	
January	1
March	3
April	6, 16
May	1, 6, 24
September	6, 22
December	24–26

Source: www.goodbusinessday.com.

Types of Business Structure

Under Bulgarian law, there are numerous business structures available. Some require a minimum amount of share capital to be paid up before the business can be established.

Joint-stock company

AD/АД (*Aksionerno Druzhestvo / Акционерно Дружество*). This is a company with its own trade name and with a predetermined amount of capital divided into shares of equal value. A shareholder's liability is limited to their capital. It can be a public or private company. This requires a minimum paid up share capital of BGN 50,000. At least 30% of the authorized capital must be paid up at the time of incorporation. Shares may be registered, bearer or preference shares. An AD must have at least three board members.

EAD/ЕАД (*Ednolichno Aksionerno Druzhestvo / Еднолично Акционерно Дружество*). This is an AD with one individual owner.

Limited liability company

OOD/ООД (*Druzhestvo s Ogranichena Otgovornost / Дружество с Ограничена Отговорност*). Participants own a percentage of its capital. A participant's liability is limited to their financial contribution. This requires a minimum paid up share capital of BGN 5,000. At least 70% of the authorized capital must be paid up at the time of incorporation.

EOOD/ЕООД (*Ednolichno Druzhestvo s Ogranichena Otgovornost / Еднолично Дружество с Ограничена Отговорност*). This is an OOD with one individual owner.

General partnership with legal personality

SD/СД (*Subiratelno Druzhestvo / Събирателно Дружество*). In a general partnership, all partners have full and joint liability.

Limited partnership

KD/КД (*Komanditno Druzhestvo / Командитно Дружество*). In a limited partnership, some partners enjoy limited liability (silent partners), although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability.

Partnership limited by shares

KDA/КДА (*Komanditno Druzhestvo s Aktzii / Командитно Дружество с Акции*). A partnership limited by shares allows some partners to limit their liability to the amount invested in the partnership (similar to a shareholder in a limited liability company), while general partners are fully liable. The shareholders can sell their shares to third parties. This requires a minimum paid up share capital of BGN 50,000.

Sole proprietorship

ЕТ (*Ednolichen Turgovetz / Едноличен Търговец*). This is a business owned and run by one individual. No legal distinction exists between the business and its owner.

Cooperatives

A cooperative is a registered legal entity which is owned and controlled by its members, who have equal voting rights.

Other organizational types

Bulgarian companies are entitled to form unlimited liability European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)* member states. An EEIG performs particular activities on behalf of its member owners. It is also permitted to perform these activities with entities outside the EU. An EEIG has unlimited liability.

*The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europaea* (SE) is a European public limited company, which can be established in any European Economic Area (EEA)* member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

Branches and representative offices

Non-Bulgarian companies are entitled to establish a branch or a representative office in Bulgaria. A branch's activities are subject to Bulgarian company law, although it is considered part of the company's head office and therefore not a separate legal entity. It requires no minimum share capital. To open a branch, a company must file a number of documents, including head office accounts. While branches are permitted to make sales, representative offices may not sell directly in Bulgaria.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company has to be registered, or have a permanent establishment, in Bulgaria.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (BGN) accounts outside Bulgaria and foreign currency accounts both within and outside Bulgaria. If a resident opens a foreign currency account outside Bulgaria, it must inform the Bulgarian National Bank within 15 days.

Non-residents are permitted to hold local currency accounts and accounts denominated in some foreign currencies.

All local currency accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- › Account opening procedures require formal identification of the account holder and beneficial owners. Legal entities are required to provide documentation reflecting their formation.
- › Financial institutions must identify customers performing transactions in foreign or local currency where the value exceeds BGN 30,000 in single or linked transactions. The source of funds must also be declared. Customers must also be identified when performing cash transactions in local or foreign currency exceeding BGN 10,000 in single or linked transactions and the source of funds must be declared.
- › Where an individual performs a transaction on behalf of a third party, the identity of the individual and the third party must be obtained and recorded together with proof of authority to act on the third party's behalf.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at May 2010.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

In Bulgaria, VAT is not applied on banking services.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in the EEA. They can be initiated using Internet banking and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments. They are also the most common method of payment for business-to-business (B2B) transactions. Card payments are commonly used for consumer transactions, with debit cards much more popular than credit cards. Direct debits are irrevocable in Bulgaria and used primarily by utility companies to collect domestic payments. Cheque use has always been low in Bulgaria.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (BGN billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	Neg*	Neg*	–	Neg*	Neg*	–
Credit transfers	50.8	56.7	11.7	219.1	268.9	22.7
Direct debits	0.8	0.4	– 47.4	0.6	0.5	– 24.9
Debit cards	7.7	9.3	20.6	1.0	1.4	36.8
Credit cards	2.7	3.4	27.4	0.4	0.6	51.2
Total	61.9	69.8	12.8	221.1	271.3	22.7

* Negligible.

Source: ECB Payment Statistics, December 2009.

Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the EU.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed (BGN-denominated)	Value dating rules	Cut-off time(s) in local Eastern European Time (EET)
High-value and urgent domestic credit transfers	Real-time settlement, immediate finality	15:45 EET
High-value and urgent intra-EEA credit transfers denominated in EUR	Real-time settlement, immediate finality	18:00 EET
Non-urgent, low-value domestic consumer payments	Payments are settled on a same-day basis at 10:30 and 15:30 EET	10:15 and 15:15 EET
Non-urgent intra-EEA credit transfers denominated in EUR	Settlement either same-day or next-day	Bulk credit transfers with a maximum value of EUR 50,000 = 23:00 EET for next-day settlement Individual credit transfers = 15:30 EET for same-day settlement SEPA credit transfers = 14:00 EET for same-day settlement or 02:00 EET for overnight/next-day settlement SEPA consumer direct debits = 12:00 EET for same-day settlement SEPA B2B direct debits = 13:00 EET for same-day settlement

Central Bank Reporting

The Bulgarian National Bank (BNB) requires that all transactions between resident and non-resident bank accounts must be reported on an aggregated basis twice a month. Any transactions on resident bank accounts held abroad must be reported quarterly. Reports must be submitted within 15 days of the end of the reporting period.

Any cross-border transaction with a value above BGN 25,000 must be reported on an individual basis within 15 days of execution. Supporting documentation must be provided.

Resident legal entities must report receivables (above BGN 5,000) against non-residents and any liabilities with non-residents (above BGN 50,000). They must also report the details of direct investments held abroad. These reports must be submitted quarterly, within 15 days of the end of the reporting period.

Exchange Arrangements and Controls

Bulgaria applies few currency exchange controls. Outward investments outside the EU are to be declared to the BNB within 15 days.

Cash and Liquidity Management

Because of uncertainty over the use of physical and notional cash concentration techniques, companies need to seek independent legal and tax advice before implementing any such structure.

Physical Cash Concentration

Physical cash concentration is available from the leading Bulgarian and international cash management banks. Accounts held by different legal entities can participate in the same physical cash concentration structure.

Resident and non-resident companies can also participate in the same domestic cash concentration structure, although central bank reporting requirements will apply. Percentage-based fees usually apply to transfers between resident and non-resident accounts.

Some banks offer cross-currency physical cash concentration.

Notional Cash Pooling

Notional cash pooling is also available from leading Bulgarian and international cash management banks but is not commonly used. Accounts held in the name of different legal entities can participate in the same notional cash pool.

Cross-border and cross-currency notional cash pooling is available from some leading banks.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available. Banks offer time deposits in a range of currencies for terms from overnight to over a year. Banks also issue certificates of deposit (CDs), for terms ranging up to a year.

Non-bank instruments

There is no domestic commercial paper (CP) market, although some Bulgarian companies issue CP into the wider euro commercial paper (ECP) market. The maximum maturity of the paper is one year, although ECP is usually issued for shorter periods.

The Bulgarian Ministry of Finance issues Treasury bills for periods of three, six and 12 months.

Bulgarian companies have limited access to money market funds.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are usually all available in Bulgaria to both resident and non-resident companies. Banks will usually charge a margin over SOFIBOR (the Sofia Interbank Offered Rate) for BGN-denominated facilities and over Euribor (the Euro Interbank Offered Rate) for EUR-denominated facilities. Other commitment and arrangement fees will also be charged.

Non-bank

Some companies issue CP into the ECP market, which requires a rating. ECP can be issued for periods from a week to one year, depending on borrowing requirements and investor appetite.

Factoring (with or without recourse) is available.

Taxation

Corporate Taxation

- ▶ Corporate income tax (CIT) is levied at a flat rate of 10% for all entities, irrespective of the amount of their taxable profit. The tax is levied on the basis of “earnings before tax” adjusted for certain non-deductible items, tax allowances, and permanent and temporary differences as provided for in the law.
- ▶ Dividends distributed to Bulgarian companies from other Bulgarian, EU or EEA companies are exempt from corporate income tax.
- ▶ All entities are obliged to make provisional payments of corporate tax on a monthly or quarterly basis. No advance instalments are due from companies incorporated during the year or companies whose revenue from sales for the previous year was less than BGN 200,000.

Financial instruments

- ▶ Bulgaria has no specific tax rules addressing the different types of financial instruments.

Interest and financing costs

- ▶ Interest expenses which are regarded as “hidden profit distribution” (broadly, interest paid or accrued on balances unrelated to the business activity or amounts exceeding customary market levels, or interest under certain types of loans involving equity elements) are non-deductible for corporate income tax purposes. They also trigger a 5% Bulgarian withholding tax on dividends if payable to a foreign

tax resident. In addition, a penalty of 20% of the amount of the hidden profit distribution may be imposed. The penalty is non-deductible.

Foreign exchange

- › The Bulgarian tax legislation explicitly provides that gains or losses from revaluation of foreign exchange are currently taxable/deductible. There are no specific tax rules that deal with currency exchange conversions. Based on instructions issued by the Bulgarian revenue authorities, the annual corporate income tax return must be completed in local currency (BGN).

Advance Tax Ruling Availability

- › The Bulgarian tax authorities may issue rulings on tax issues upon the request of the taxpayer. Generally, these advance rulings are not binding on either the tax authorities or the taxpayer. However, in practice the tax authorities normally comply with advance rulings when performing a tax audit.

Withholding Tax (subject to tax treaties and other exemptions)

- › A 10% withholding tax is levied upon any of the following payments by Bulgarian entities to non-residents:
 - › interest (including interest under finance lease agreements);
 - › payments under operating leases, franchising and factoring, derived from Bulgaria;
 - › royalties;
 - › technical services fees, including consultancy and market research;
 - › management fees; and
 - › income from the sale of immovable property, shares/stakes in local companies, securities and financial assets. Income from the sale of shares on regulated Bulgarian, EU or EEA stock exchanges is exempt from withholding tax.
- › A 5% withholding tax is levied on dividends and liquidation proceeds derived from share participation in local companies paid to non-residents.
- › Under the double tax treaty network of the Republic of Bulgaria, the 10% withholding tax may be reduced or eliminated. In order to apply the reduced rates, the foreign

entity needs to obtain prior approval from the Bulgarian tax authorities (when the income exceeds BGN 100,000 annually).

- › Dividends and liquidation proceeds may be exempt from taxation in Bulgaria in the following cases:
 - › when paid to foreign legal persons who are tax residents of the EU or the EEA, they are fully exempted under the provisions of domestic legislation without any special requirements regarding participation, holding period, or other; or
 - › under the provisions of the relevant double tax treaty (when paid to entities outside the EU/EEA).

Capital Gains Tax

- › Capital gains and losses are not taxed separately. They are included within the corporate tax basis as income or an expense.
- › Upon the disposal of capital assets, the effective corporate income tax rate applies and capital losses can be offset against income from other activities.
- › Gains derived from the sale of shares that take place on regulated Bulgarian, EU or EEA stock exchanges are exempt from taxation, while losses on such transactions are not allowed for tax deduction.
- › No deferral schemes or rollover relief are provided for in the legislation, except in the cases of business reorganizations under the EU Merger Directive.

Stamp Duty

- › No stamp duty is levied on loan agreements.

Thin Capitalization

- › Where the average amount of debt exceeds three times the average equity (1:3 safe harbour), thin capitalization rules restrict the tax deductibility of interest costs in such a case. The deduction of interest expense is limited to the amount of interest received by the company, plus 75% of its earnings before interest and tax for the period. Interest expense that is non-deductible in a tax year may then be deducted in the following five years under certain conditions imposed by the thin capitalization rules.

- › Thin capitalization rules do not apply to credit institutions as per the Credit Institutions Act.
- › They also do not apply to loans extended by banks and leasing structures, provided that the creditor and the debtor are not related parties and the loan/lease is not extended, guaranteed or secured by a related party.
- › Interest costs capitalized in the value of qualifying assets are not subject to the thin capitalization rules.
- › Certain interest costs may be deemed as dividends or hidden profit distribution, if certain test criteria are met.

Transfer Pricing

- › Bulgaria requires that intercompany transactions be carried out at an arm's length price. If this is not the case, the revenue authorities may adjust taxable income.
- › Interest in excess of an arm's length rate may not be deductible.
- › The basic principles of the Organisation for Economic Co-Operation and Development's (OECD) guidelines are formally incorporated into the provisions of Bulgarian legislation. However, practical experience is still limited and universal procedures have not yet been set.
- › The revenue authorities recently issued guidelines addressing various transfer pricing issues, including documentation requirements.

Sales Taxes / VAT

- › VAT is levied on all transactions for goods and services (except those which are specifically exempt) at a standard rate of 20%. Exports are zero-rated. A tax rate of 7% applies to accommodation provided by hoteliers within a package tour. The EU VAT system has been implemented in Bulgarian domestic legislation.

Payroll and Social Security Taxes

- › Social security contributions are charged on the larger of either gross employment compensation paid or a "minimum social security base" established for various types of work and professions.
- › The statutory insurance contributions due by the company range from 16.90% to 17.60% under labour contracts (16.80% to 17.50% under management contracts); those paid by the individual are 12.10%. Under services (civil) contracts, the contributions are at the rate of 13.70% payable by the assignor and 10.30% by the assignee. In case of self-employment, the statutory contributions are at the expense of the self-employed individuals.
- › The monthly maximum social security base for computing social security contributions is fixed at BGN 2,000.
- › The payroll tax rate as of 2009 is 10%, with no minimum non-taxable base.

All tax information supplied by Deloitte Touche Tohmatsu (www.deloitte.com).
Data as at April 30, 2010.

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