

Bulgaria

Introduction

As of January 1, 2008, Bulgaria introduced a major change in the personal income tax legislation with the introduction of a 10 percent flat tax rate, which replaced the progressive tax schedule that had a highest marginal tax rate of 24 percent.

Individuals are liable to Bulgarian personal income tax either on their Bulgarian-sourced income or on their worldwide income, depending on their tax residence status. The tax due is determined based on the gross income reduced by certain deductible allowances, such as mandatory social security contributions, etc.

Contact

Kalin Hadjidimov

KPMG in Bulgaria

Tax Partner

T: +359 (2) 9697 700

E: khadjidimov@kpmg.com

Key messages

The Bulgarian tax legislation specifies that Bulgarian-sourced income consists of income directly paid by Bulgarian entities as well as income resulting from activities performed in Bulgaria.

Income tax

Liability for income tax

Bulgarian tax residents are considered to be individuals who meet one of the following criteria, irrespective of their citizenship:

- They have a permanent address in Bulgaria.
- They stay in the country more than 183 days in any 12-month period.
- They were sent on an assignment abroad by the Bulgarian State, by its institutions, or by Bulgarian entities. Under this option, the family members of these individuals are also considered Bulgarian residents for personal income tax purposes.
- Their center of vital interests is considered to be in Bulgaria, i.e., the individuals have closer personal and economic relations (such as family, social relations, occupation, etc.) with Bulgaria than with another country.

Generally, the above-mentioned four criteria are of equal importance in determining the tax-residence status of the individual. However, the tax legislation does provide that the center of vital interests criterion has precedence over the permanent address criterion.

Under Bulgarian tax legislation, nonresidents are individuals who meet none of the above-mentioned residency criteria. These individuals are subject to tax in Bulgaria only on the Bulgarian-sourced income they have generated.

Tax trigger points

The Bulgarian tax legislation places no minimum threshold with respect to when the individuals begin to have tax obligations in the country. Thus, from a Bulgarian perspective, personal income tax is levied from the first day during which work is performed in Bulgaria. A double tax treaty may provide, in certain cases, for an exemption from taxation until the individual's physical presence in the country exceeds 183 days.

Types of taxable income

Generally, all types of income (monetary and/or nonmonetary) are subject to personal income tax in Bulgaria unless they are specifically exempted. In view of this, the following categories of income will be treated as taxable: employment income (including salary payments and all additional bonuses provided by the employer, such as car and home leave allowances and equity compensation), dividends, interest income, income from other economic activity, capital gains from the sale of property, rental income, and others.

Tax rates

Residents and nonresidents for Bulgarian personal income tax purposes are levied with different types of taxes (standard tax and withholding tax). However, their rates, 10 percent, are currently equal. Only dividends (received by both residents and nonresidents) are levied with a lower rate of 5 percent. The determination of the tax base may vary, nonetheless, depending on the residence status.

Social security

Liability for social security

All those working under contractual relations with a Bulgarian or foreign entity, self-insured people, and those performing any type of activity or service within the territory of Bulgaria are obliged to participate in the mandatory national social security system and must be insured against several types of risks.

Health insurance contributions are generally due for all Bulgarian citizens and foreign nationals residing in Bulgaria on a long-term, permanent basis, regardless of the existence and type of contractual relations. Subject to minimum and maximum income thresholds set by the legislation, the social security and health insurance contributions are due and payable on the employment/management remuneration received.

For tax year 2011, the maximum insurable income is 2,000 Bulgarian leva (BGN) (1,023 euros (EUR)).

For employees, the minimum limits vary, depending on the position they take in the company, while for self-insured persons, the minimum monthly insurable income is determined based on the income generated by the individual for year 2009 as reported in the individual's annual personal income tax return.

If a foreign individual is assigned in Bulgaria for a certain period of time and is required to remain insured under the social security system in the foreign individual's home country (which is an EU member state), the individual should obtain a certificate A1 under the EU Social Security regulation 883/2004 from the authorities in the individual's home country. This will release the individual from payment of social security and health insurance contributions in Bulgaria.

Compliance obligations

Employee compliance obligations

Generally, a person who receives income from sources other than the individual's employment with a local entity or has simultaneous employment with more than one employer at year-end has a tax return filing obligation. A requirement to file a tax return also arises if the individual is considered a tax resident and owns real estate property abroad/shares in a foreign company or receives dividends from foreign shares (irrespective of whether a tax liability arises on that income in Bulgaria).

A filing obligation also arises in instances where a tax resident has granted or received loans over specific limits (other than those from credit institutions). The annual personal income tax return must be filed either within the preliminary deadline (February 10 of the following year) or final deadline (April 30 of the following year). If the tax return is filed and the outstanding tax is paid by the preliminary deadline, a 5 percent deduction from the outstanding tax liability is automatically granted. In addition, if the tax return is filed electronically within the final deadline, a 5 percent deduction is allowed. These two deductions, however, may not be accumulated, i.e., the maximum deduction that can be utilized remains at 5 percent.

Employer reporting and withholding requirements

The Bulgarian legislation provides that it is the employer's obligation to withhold and remit to the state the social security and health insurance contributions on behalf of both the employer and employee, as well as the advance personal income tax installments, on a monthly basis. Certain reporting documents should be submitted by the entity following the remittance of these charges. If the employer is a non-Bulgarian entity, the social security and health insurance obligations remain the responsibility of the employer, so that if the employer is foreign, it must register in Bulgaria for the purpose of becoming an insurer. However, if the employer is a non-Bulgarian entity, the withholding and remittance obligation with respect to the personal income tax falls entirely on the individual taxpayer (unless a secondment scheme exists).

Other

Work permit/visa requirements

In line with Bulgarian legislation, certain categories of foreign nationals must obtain a visa if they wish to enter the territory of Bulgaria.

Citizens of any of the member states of the European Union, the European Economic Area, and the Swiss Confederation, as well as citizens of other countries (such as the United States, Japan, Australia, etc.) who wish to enter and stay in Bulgaria do not need a visa.

Double taxation treaties

If there is a tax treaty in force between Bulgaria and another country, the provisions of the tax treaty regarding the avoidance of double taxation should be implemented. The treaties concluded by Bulgaria provide mainly for the exemption with progression and tax credit methods for avoiding double taxation depending on the type of income generated. Bulgaria has currently entered into tax treaties with more than 50 countries.

Permanent establishment implications

There is the potential that a permanent establishment could be created as a result of extended business travel, but this would be dependent on the type of activities/services performed and the level of authority the employee has, as well as the provisions of the relevant tax treaty.

Indirect taxes

Supplies of goods and services are generally subject to value-added tax (VAT) based on the type of goods or nature of services provided. The following categories of supplies may apply:

- Standard-rated supplies — These supplies are subject to VAT at a rate of 20 percent

- Zero-rated supplies — These supplies, such as international transport of goods and persons, are subject to a VAT rate of 0 percent
- Exempt supplies — This includes supplies of a non-economic character, financial services, insurance and postal services

Transfer pricing

Transfer pricing rules allow the revenue authorities to adjust taxable profits where transactions are not carried out on an arm's-length basis. A transfer pricing issue may arise in the case where an individual is assigned between separate subsidiaries of the same corporate group under a service or secondment agreement. This may affect the invoicing matters between the two entities but is unlikely to have an effect on the individual.

Local data privacy requirements

Bulgaria has put in force legislation concerning data protection, and companies in their role as employers are obliged to follow its provisions.

Exchange control

In accordance with the Bulgarian legislation, certain types of transactions have to be declared at Bulgarian National Bank not later than 15 days after their execution. These include (i) transactions between local and foreign individuals involving incoming and outgoing loans exceeding BGN5,000; (ii) granting of financial loans by the opening of a bank account abroad, regardless of the amount of money transferred to the account; and (iii) making initial direct investments by local people abroad, regardless of the amount of the investment.

Nondeductible costs for assignees

According to the Bulgarian personal income tax legislation, the following are nondeductible:

- The employer voluntary pension, unemployment, life, or health insurance contributions up to a certain limit, as long as these are not provided in the form of a social expense.
- The employee voluntary pension, unemployment, life, or health insurance contributions above a certain limit and in cases where contributions are made to funds outside the EU and EEA area, etc.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

The material contained within draws on the experience of KPMG tax personnel and their knowledge of local tax law in each of the countries covered. While every effort has been made to provide information current at the date of publication, tax laws around the world change constantly. Accordingly, the material should be viewed only as a general guide and not be relied on without consulting your local KPMG tax adviser for the specific application of a country's tax rules to your own situation.

© 2011 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent member firms affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved. 23943NNS