

"Taxes in Britain are very high": that is the most common answer I get each time I ask a Brit why he is coming to work and live in Bulgaria. There are, however, some peculiarities in the Bulgarian tax system to be aware of.

As foreign nationals can invest in the country either directly or through a local entity, tax values will depend on whether or not their activities constitute a permanent establishment. However, according to Bulgarian law the mere fact that a foreign company owns and rents out property in the country may create a permanent establishment, excluding cases only where such activity is carried out through an independent agent. If the business activities of a foreign national in Bulgaria do not include a permanent establishment, s/he will be liable for 15% tax on the rental and capital gains (unless an even lower rate is applied under a double tax treaty between Bulgaria and the country in question)*.

When a foreigner buys or sells property he will inevitably come upon the term 'tax evaluation'; this represents the minimum value that must be reflected on the Title Deed of the property that is issued by the Notary in order to legalize the ownership transfer of buildings or land. Tax evaluation is set by the local municipal council before the new Title Deed is finally signed. The amount of tax evaluation differs depending on the municipality but will generally range from 25 to 50% of the full market value. If the buyer wishes the Title Deed to reflect a value higher than the tax evaluation then he will have to pay extra notary fees, municipal taxes and VAT costs. A higher tax evaluation value on a property's Title Deed may increase the purchase price by up to 14%, but if you are not looking to resell the property a

Tax Issues



higher value will only cost you more in local taxes.

Another important issue concerning foreigners wishing to invest in Bulgarian property is whether or not their native country has a double taxation treaty* with Bulgaria, as this will mean that a foreign person earning money in Bulgaria will be considered subject to taxation under the terms of Bulgarian tax law, i.e. be obliged to pay all taxes owed but subsequently entitled to claim a refund of the difference between the actual tax paid and that due according to the relevant double taxation agreement. For this to happen a foreigner must prove that he is resident in the country with which Bulgaria has signed such an agreement and that he has no establishment or fixed base within Bulgaria, thus confirming the source of his income. To be able to use the clauses of a double taxation agreement you must prove that your money is not of Bulgarian origin, i.e. has not come from business carried out in Bulgaria. By having a permanent establishment or fixed base, or by assigning or performing an assignment in Bulgaria (personally or through an agent), a person is considered to have done business in the country. Any income received via an employment contract or from rendering services is also considered to be from a Bulgarian source. All fees for technical services, when paid to non-Bulgarian tax residents, are subject to a tax of 15% at source (i.e. the paying company or partnership); no additional tax is added. Fees for management services

are viewed differently and not subject to a tax.

The basis of the taxable income of a company is usually rental income from investment in Bulgarian property and is actually the gross income derived from the property, less tax-deductible expenses and depreciation, measured at 4%. The property-related expenses include: repairs, maintenance, renovation and interest on loans used for the acquisition of the property. Land itself is not depreciable, although any immovable property is, if used for the business activities of the company and registered as a fixed asset. Real estate acquired for the purpose of re-selling is considered "investment property" and as such is non-depreciable. A Municipal Tax of 10% of all rental profits must be paid and is then deductible when calculating taxable profits which are subject to a flat corporate tax of 25%. According to law only 20% of the income is tax deductible and if the rent is payable to a non-Bulgarian tax resident the tax is 15%.

All capital gains of a company are treated as ordinary income, subject to corporate income tax. The tax base in case of sale or exchange of immovable and certain movable property is the difference between the selling price and the higher of the factual and updated prices paid for the acquisition of such property. This rule applies to certain types of vehicles (cars, aircraft and sea vessels). For any other type of movable property the tax base is the difference between the sale


and re-valued prices for the acquisition of such property.

Apart from corporate tax no other direct taxes are levied on the transfer of property; however, the transfer will be subject to notary and municipal fees. The notary fees are paid on the basis of the tax evaluation or the market value of the property, at varying rates. In addition, 2% of the market value of the property is paid to the municipality in which the property is situated.

The owner of a building or plot is obliged to pay a property tax; if the building is built on a State or municipal plot, the value of the plot will also be included in the tax base which is equal to 0.15% of the book value of the property. Farm land is exempt from local taxes. Property owners also pay waste-collection fees.

Transactions involving land and lease of property for residential purposes are exempt from Value Added Tax (VAT). All other real estate transactions are subject to VAT at the uniform rate of 20%, which is declared and paid on a monthly basis, the last deadline being the 14th of each month (fines will apply on late submission and payment). The buyer/lessee is entitled to a VAT refund, provided that it is registered for VAT purposes.

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