

**Chandrawat
& Partners**



DOING BUSINESS IN BULGARIA

A comprehensive guide on doing business

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INTRODUCTION

Bulgaria is situated on the Balkans and is bordering Romania to the North, the Republic of Serbia and North Macedonia to the West, Greece and Turkey to the South and the Black Sea to the East. The strategic location combined with developed transportation infrastructure leads to close economic ties with other countries. Bulgaria has four commercial airports in Sofia, Plovdiv, Varna and Burgas, which operate international and domestic flights. It has been ranked 61st in the World Bank's "Doing Business 2020" index. Bulgaria also benefits from a favourable credit risk score resulting from a healthy fiscal balance and a very low Debt to Gross domestic product ("GDP") ratio. In addition, the combination of the lowest market labor costs and one of the lowest flat corporate tax rates in the European Union ("EU") (10%) increase the attractiveness for foreign investors. Bulgaria has made a considerable progress in the last 25 years, reforming its economy in line with the political changes happening in the country.



ECONOMIC OVERVIEW



Begin your presentation with a cover page that briefly introduces what the report is all about.

Bulgaria has undergone a significant transformation over the past three decades. It has moved from a highly centralized, planned economy to an open, market-based, upper-middle-income economy securely anchored in the European Union ("EU").

Real GDP grew by 3.4% in 2022 on account of strong private consumption and exports. Real household consumption growth accelerated in the second half of 2022, supported by expansion in disposable income in the context of a very tight labour market.

Export growth was particularly strong in the first half of 2022, reflecting both higher prices and volumes of exported commodities to the region, notably electricity. Imports also grew strongly, driven by high domestic demand and the high import content of exports. Early signs of cooling-off of the real estate sector were registered in the fourth quarter with a slump in building permits and new transactions.



FOREIGN DIRECT INVESTMENT POLICY

Foreign Direct Investments ("FDI") in Bulgaria have exceeded US\$1.23b recently. The largest net pre-investment flows are coming from the UK, the Netherlands and Germany. Bulgaria ranks 23rd in Europe in terms of attracted FDI projects, according to Ernest & Young (EY) European Attractiveness Survey. According to United Nations Conference on Trade and Development ("UNCTAD's") 2022 World Investment Report, Foreign Direct Investment ("FDI") inflows decreased in 2021, reaching USD 1.5 billion, down from USD 3.4 billion one year earlier.

With one of the lowest corporate tax rates in the area (10%) and its low labour costs, the country is relatively well-placed for foreign investments, which are not subject to screening by the government. There are no legal limits on foreign ownership or control of firms, and foreign entities are formally granted the same treatment as national companies. However, according to the Offshore Company Act, firms with foreign participation of more than 10% cannot do business in 28 specific sectors (including government procurement, exploitation of natural resources, banking and insurance services, though there are certain exemptions).

Foreign Direct Investment	2020	2021	2022
FDI Inward Flow (million USD)	3,397	1,892	2,505
FDI Stock (million USD)	59,730	57,989	57,378
Number of Greenfield Investments*	37	50	76
Value of Greenfield Investments (million USD)	810	1,046	2,161

The Bulgarian government has established a very advantageous taxation system in order to attract investors, and the costs of starting a company have also been lowered. The government has undertaken the privatisation of a number of companies. Amongst the most attractive measures put in place are:

- Fixed company taxation rate of 10%
- Competitive labour costs
- Skilled active population
- Foreign investors, who are citizens of countries outside the EU, European Economic area ("EEA"), and Switzerland, are eligible for a Bulgarian permanent residence permit valid for an unlimited period of time if they invest over BGN 1,000,000 (approximately €511,292)
- Foreign entities' investments are not restricted

The Agency for Investment in Bulgaria ("IBA"), is at the disposal of investors for their prospection as well as their implantation, and the 2004 law for the Promotion of Investment guarantees the equal treatment of domestic and foreign investments. The industrial production and high-tech sectors have been identified as a priority by the government, which has established a series of incentives for FDI in these sectors: for example, many public-private partnership opportunities exist for land acquisition, infrastructure construction and human resource training.

KEY SECTORS



Bulgaria has a strong industrial basis. In the last decade, Bulgaria has increased its industry share and, also, the total share of manufacturing in Gross domestic product ("GDP"). Central to the economy of Bulgaria are the following sectors: energy, mining, metallurgy, machine, agriculture and tourism, as well as Information technology ("IT") and Information and communications technology ("ICT"), telecommunications, pharmaceuticals and textiles. Primary industrial exports include clothing, iron and steel, machinery and refined fuels. All of this comes as a condition for boosting competitiveness, sustainable growth and new jobs. According to Oxford Economics the fastest growing industrial sectors over the next decade are expected to be rubber & plastics, high-tech goods and wood & wood products. Low levels of unemployment and rising wages have boosted real incomes and raised consumer confidence.



IT and technology

In the last 15 years, Bulgaria has developed a strong IT and technology sector by attracting leading global IT and technology companies, thus giving impetus to the IT community and ecosystem in the country, employing thousands of qualified professionals and turning the country into a regional ICT center. Digital transformation of industries across the world and favorably developing a start-up ecosystem in Bulgaria contribute to a good-looking future image and positive growth expectations for the IT sector in the country in the upcoming years.



Outsourcing

Together with the IT sector, Bulgaria has also developed its outsourcing industry. Recently the industry contributed with 5.2% to the Bulgarian GDP. If the positive trend persists, the industry's revenue is expected to double to EUR 4.8 bln and contribute up to 9.2% of the country's GDP by 2022.



Agriculture

Agriculture accounts for less than one-tenth of the national income of Bulgaria. Cereal crops are grown on almost three-fifths of the sown land. Wheat is by far the most important, followed by corn and barley; rye, oats, soybeans, and rice also are grown. Tobacco, which is of a good-quality Oriental type and is grown mainly in the south, is an especially important industrial crop. Sunflower seed is the chief oilseed crop; after extraction of the oil, the pulp is made into cattle feed.



Automotive

The automotive sector has developed a lot in Bulgaria in recent years. Bulgaria heads the list of the top 10 countries, attractive to the automobile sector in Europe, according to a research by Colliers International and Automobile Cluster Bulgaria. The proximity to clients and producers was ranked as second most important to 45% of the respondents, followed by the tax incentives received for doing business in regions with high unemployment rate (36%). Among the criteria were the low real estate and electricity costs, the currency board, and the accessibility and quality of the workforce.

Other attractive sectors in the Bulgarian business market are electrical engineering, mechanical engineering, electronics, automotive part manufacturing, and chemical industry. Companies that operate in selected business fields will need to obtain certain permits. Examples of such sectors include the chemical industry, food and agriculture, tourism, machine building, and several others.

ADVANTAGES

Low corporate taxes and employment costs

In regards to company taxes, in Bulgaria, a company is taxed based on its profit, but it is different from turnover, more specifically, the tax is applied on the profit generated after all expenses have been removed from the total amount. The rate of the profit tax is 10%. In addition, Bulgaria has signed agreements for avoidance of double taxation with countries such as the United Kingdom, Turkey or Russia, meaning that a company that has operating both in Bulgaria and in another signatory state will pay taxes only in the country where that income is derived from.

Competitive advantages on Bulgarian market

Bulgaria has many advantages that recommend it as a location for setting up a business, among which

- it has the lowest operational cost in EU;
- a highly skilled labor force;
- very low total average monthly compensation.

Promotion for investments in certain sectors

Bulgaria is one of the east European countries that has managed to record notable advancements in many industries. Examples include the IT industry and the tourism industry. Both of these sectors and others attract foreign direct investments and entrepreneurs find that not only the country has favorable regimes for foreign company ownership but also lower business and employment costs compared to other European countries. The state offers promotions if initial investments are made in industry sectors such as:

- manufacturing
- production of electricity from renewable sources
- computer technologies
- research and development
- education or human health care.



TYPES OF BUSINESS

There are two types of permanent establishments distinguished on the basis of registration requirements, i.e., a branch and a permanent establishment.

Branch

The branch is a permanent establishment of a foreign company in Bulgaria that is registered with the Bulgarian Commercial Register. For the purpose of the registration of the branch the following particulars are necessary.

- Principal – the foreign company.
- Corporate name – the name of the principal (the foreign company) followed by “branch”.
- Registered address – must be in Bulgaria.
- Representation – by individuals appointed by the principal.

Permanent establishment:

A foreign company may also conduct business in Bulgaria through a permanent establishment within the meaning of the tax legislation.

Trade representative office:

Foreign companies may open a trade representative office in Bulgaria. The trade representative office is not a legal person and is not permitted to carry out business activities.

The most common forms of incorporation in Bulgaria are the limited liability company ("OOD") and the joint stock company ("AD"). Bulgarian law regulates other forms of companies and economic presence, such as the branch, sole proprietor, cooperation, and representative office. They also can be used for starting business in Bulgaria, but they do not offer the same advantages.

Limited liability company

- OOD and especially the sole ownership OOD is usually used for small or medium sized enterprises. The required minimum capital is 2 BGN (approximately €1).
- It may be formed by one or more persons, who are liable for the company's liabilities with their contribution to the company's capital.
- The management and representation of OOD is simplified, as the management of the company can be committed even to a single person – Managing Director.
- In terms of OOD, a managing director may be a natural person of full legal capacity.
- The share capital of an OOD must be at least BGN 2 (or EUR 1) divided into one or more shares while the minimum share capital of an AD must be at least BGN 50,000 (or approximately EUR 25,565).

Joint stock company

- The minimum amount of the registered share capital for AD is Bulgarian Lev ("BGN") 50,000 (approximately €25,000).
- The management of AD requires a more complex structure: one-tier system with a Board of Directors or a two-tier system with a Managing Board and a Supervisory Board. Each of these bodies should consist of at least three persons – natural persons or legal entities, local or foreign. They make decisions by majority of 50% plus one unless otherwise provided by the company's articles of association.
- A board member in AD may be any natural person of full legal capacity. If provided by the articles of association, a legal person may also be a board member. In this case, the legal person shall designate a representative to perform their duties on the board. The legal person shall be jointly and unlimitedly liable with the other board members for any liabilities arising from the actions of their representative.



MINIMUM ELIGIBILITY CRITERIA

Under the Bulgarian Commercial Code, foreign investors can open a business in Bulgaria just like any other local investor. There are no special requirements when opening a company in Bulgaria, except when registering a joint stock company. The minimum share capital for setting up a joint stock company is 50,000 BGN, and the share capital requirements are raised to 100,000 BGN if the company is listed on the Stock Exchange. Limited liability companies may have only one shareholder and a director, while joint-stock companies must have at least two shareholders and a management board.

As far as the requirements for foreign investors are concerned, EU entrepreneurs do not need a visa to stay in Bulgaria: they can enter the country using their ID card or passport and stay for a period of maximum three months, which in most cases is sufficient for foreign company owners to manage their business. Third-country nationals are subject to the general visa requirements that also apply in other countries in the EU, however, investors in Bulgaria from these countries can benefit from a permanent resident status when they invest a substantial amount in shares, ownership of assets in a Bulgarian company, bonds, treasury bills, and other instruments



HOW TO SETUP A BUSINESS?

The following steps must be completed when opening a company in Bulgaria:

- **Preparing and notarizing the Articles of Association:**

The constitutive documents of the company are drawn up in accordance with the law and in the presence of a notary public; other constitutive documents include the minutes of the shareholder's meeting and the identification details along with the specimen signatures for the company directors.

- **Depositing the share capital**

The minimum share capital of the company is deposited in a corporate bank account opened in the name of the legal entity.

- **Submitting the application form with Bulgarian Trade Registry:**

The form for registration, any applicable registration fees and the documents prepared at the previous step are submitted to the Commercial Register belonging to the Registry Agency.

- **Registering for Value Added Tax ("VAT") purposes**

VAT registration is mandatory in Bulgaria for companies that exceed 50,000 BGN in a 12-month period.

- **Registering employees for social insurance purposes:**

Social security contributions are mandatory in Bulgaria and companies must register for this purpose once they hire employees.

Upon registration with the Commercial Register, entrepreneurs will need to pay a set of fees for the application itself and for the reservation of the company name.

Companies in Bulgaria need to obtain the relevant special permits and licenses for functioning once they are registered. These can apply to those businesses that are engaged in construction and building activities but also for other types of businesses.

1.

Bank account opening-

Even if not all types of companies are subject to mandatory share capital requirements, a Bulgarian corporate bank account is required in order to deposit the amount of money used for the operations of the business. Moreover, later on, the same account will be used for the financial transactions of the Bulgarian company. The opening of the account is not complicated and can be completed with a local or branch of a foreign bank operating in Bulgaria.

2.

Legal address requirements-

Apart from the provisions of the Company Law, companies can be divided into resident and non-resident businesses. However, the most important benefit that of the low corporate tax is available for resident companies for which a Bulgarian registered office is required. Establishing the legal address is the next when you decide to open a company in Bulgaria. The proof of registered address must be filed with the Companies Register

3.

Share capital requirements for business registration in Bulgaria-

Currently, the only legal form that has an imposed minimum share capital is the public limited liability company which must have at least 50,000 BGN (or the equivalent in euro – approximately 26,000 euros) as a capital.

There are also specific share capital requirements based on the industry a company will operate in. In this case, the minimum amount required is imposed by the governmental agency representing the respective industry.

TAXATION

Excise duties

Excise duties are charged on: Alcoholic beverages, Tobacco products, Electricity and energy product. The list of items taxable within the three categories above tends to increase over the years. The amount subject to excise duty is calculated based on the specifics of the products. If the use changes from taxable to exempt, the excise duties could be refunded. Excise duties are not due if a duty-suspension regime applies. Chargeability and obligation for payment of excise duties arise when the goods exit this regime and are released for consumption.

VAT

The supplier of goods and/or services charges and collects VAT on the supplies to the recipients. This rule applies regardless of whether the supplier is a local or foreign entity or an individual. The supplier should start charging VAT after registering for VAT purposes in Bulgaria. The supplier can also register for VAT voluntarily before starting operations. The mandatory VAT registration threshold is the taxable turnover of BGN 50,000 in any 12 consecutive months.

Corporate income tax

10% rate

Bulgarian resident companies are subject to corporate income tax on their worldwide income. Non-residents are taxed only on Bulgarian-source income, i.e., income derived from activities conducted through a permanent establishment in the country and on income from Bulgarian sources.

Capital gains from the disposal of financial assets

0%/10%

Capital gains from shares issued by Bulgarian legal entities, the state or municipalities realized by a non-resident entity are subject to a 10% Bulgarian withholding tax, unless the rate is reduced under a tax treaty. Certain other exemptions apply, such as for capital gains from sale of shares on the Bulgarian stock exchange. Other types of income realized by non-resident entities/individuals are subject to 10% Bulgarian WHT, unless the rate is reduced under a tax treaty.

Customs

Bulgaria is part of the European customs territory and applies the Union Customs Code tariff classification, tariffs and anti-dumping duties applicable to all EU Member States.

ACCOUNTING STANDARDS

The accounting standards apply to banks, insurance, social well-being and investment companies as well as unidentified companies. Bulgarian accounting standards are now in agreement with the standards of the International Accounting Standards Board. An entity is required to maintain its records and prepare its financial statements pursuant to the Bulgarian Accountancy Act and other related Bulgarian laws and regulations.

The following falls in its scope:

- Requirements to maintain accounting records and accounting systems of enterprises, accounting documents and accounting information, the inventory of assets and liabilities and the storage of accounting information
- The applicable basis of accounting in financial reporting
- Content and preparation of financial statements, management reports and reports on payments to governments of enterprises and groups of enterprises
- Obligations for independent financial audit and disclosure of financial statements, management reports and reports on payments to governments of enterprises and groups of enterprises
- Duties and responsibilities of the manager of the enterprise



EMPLOYMENT LAWS & POLICIES

Statutory Sick Pay

The first three working days of the sick pay are covered by the employer for up to 70% of employee's daily gross remuneration for the month during which the incapacity to work occurs. For the following days, the daily general sickness benefits in cash for temporary inability to work amount to 80%, or 90% of the employee's average daily gross labor remuneration or average daily insurable income on which social security contributions have been paid for the last 18 months before the incapacity to work occurs.

Statutory Notice Periods Labor Code Article 326 (2) defines that the notice period for termination of a permanent contract is 30 days, unless the parties have agreed on a longer period, but not more than three months. The notice period for termination of fixed-term contracts is three months but not more than the remaining term of the contract.

Following policies are applicable to the Bulgarian labor industry-

- Wage BGN 7101 (approximately €363,017)
- Holiday 20 business days
- Working Hours Eight hours
- Rest Periods Each employee is entitled to a lunch break of at least 30 minutes, a rest of minimum 12 hours between the working days and a weekly rest of two consecutive days, one of which is Sunday. The non-working days and holidays are set by the law.

Pension Rights

- Pension for periods of social insurance and old age;
- Early retirement pension
- Social old age pension

Maternity Leave / Pay

Paid maternity leave at 90% of the mother's salary is granted for up to 410 days, 45 of which should be taken during the last stage of pregnancy.

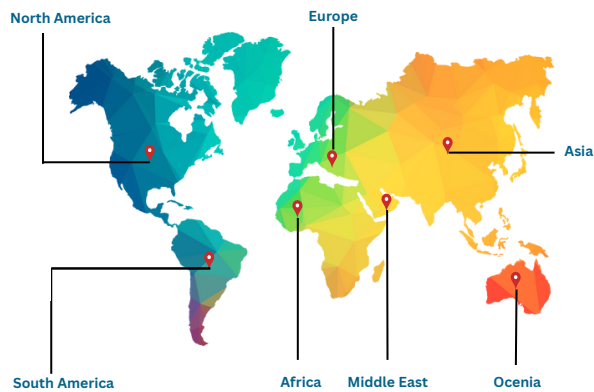
Paternity Leave The father is entitled to 15 days of paid leave from the date of childbirth. When the child reaches the age of six months, the father may assume the care of the child and hence, the cash benefits from the mother for the remainder of the 410 days.



HOW WE CAN HELP?

- Our team of professionals can conduct comprehensive market research to help businesses understand their target audience, industry trends, and potential competitors.
- Our experts can help set clear objectives, outline actionable steps, and identify opportunities for growth and expansion.
- Our team can conduct risk assessments to identify potential threats and vulnerabilities within a business. They can then recommend risk mitigation strategies to safeguard against adverse events.
- Our team offers advice on the optimal legal form for an enterprise, such as a corporation, partnership, limited liability company ("LLC") or sole proprietorship. Our team describes the legal and tax implications of each option and assists in picking the best option based on objectives and circumstances.
- Our team can investigate and identify any licenses, permissions or registrations required for the client's specific area or industry. The business assists with the application process and ensures that the organization complies with all legal criteria.

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