

BULGARIA FACT SHEET



Political and economic data

- Territory – 110,994 sq km
- Population – 7.8 million
- GDP, 2005 – €21.4 bn
- Political system: parliamentary republic
- **Stable political environment & low country risk**
 - NATO membership;
 - EU membership
- **Consistent record of macroeconomic stability**
 - 2006 real GDP growth of 6.5%
 - 2006 average inflation of 6.5%
- **Strategic geographic position** as a bridge between Europe and Asia
- Highly **skilled, English speaking work force**
- Europe's **most competitive wage levels**
- **Free movement of capital**
- **No restrictions on after-tax repatriation of profits**
- **Free trade opportunities** within a market of over **550 million consumers** (EU, EFTA, CEFTA countries, Macedonia, Turkey, Albania, Serbia & Montenegro, BiH, Israel and Moldova)
- **Lower operational costs** for real estate compared to other CEE countries

Major investment incentives

- **Corporate tax rate – 10% and 0% in areas of high unemployment**
- **VAT exemption for imports** on investment projects over €5 million
- **Annual depreciation rate of 30%*** for machinery & equipment and **50%** for software and hardware
- **Substantial asset discount** prior to the EU membership compared to the rest of Europe
- **Opportunity to buy land**
- **Smooth, speeded up administrative service**
- **Infrastructure subsidy** for investment projects over EUR 36 million
- **Adoption of International Accounting Standards**
- **61(as of Feb 2007) treaties** for avoidance of double taxation
- **60(as of Feb. 2007) agreements** on mutual protection and promotion of foreign investment

**Up to 50% when new investment is made and the equipment is new and purchased after January 1, 2005*

OPERATIONAL COST IN BULGARIA, 2007

Gross monthly salary, average, 4Q 2006, EUR	188		
Social security, unemployment and health care contributions as % of monthly salary, 2007	24,08 paid by the employer		
Corporate income tax, 2007, %	10		
VAT, 2007, %	20		
Office prime rent in Sofia, 2007, EUR per sq m/month	A class	11-18	
	B class	10	
Office purchase price in Sofia, 2007, EUR per sq m	A class	1,300 -2,000	
<i>Price of land, average</i>			
Agricultural land, 2007, EUR per 1,000 sq m	85-350		
Industrial land, 2007, large cities, EUR per sq m	30-100		
<i>Costs of rough construction, 2007, EUR per sq m</i>			
Industrial construction	350-550		
Office building construction	450-850		
Water charges for corporate clients in Sofia (potable water, sewage, water purification), 2007, including VAT, EUR per m ³	0.53-0.59		
Water charges for household use in Sofia, 2007, including VAT, EUR per m ³	0.43		
Telephone installation charge, VAT not included, 2007, EUR	Standard plan – 12,27; ISDN (2B+D) – 42,94		
BTC - Monthly telephone subscription fee for business users, VAT not included, 2007, EUR	Standard plan – 42,95; ISDN (2B+D) – 61,35		
International phone call from Bulgaria per 1 min, VAT not included, 2007, EUR		to Europe	to the USA
	Fixed lines (BTC)	0.09~0.13	0.13
	VoIP (Orbitel)	0.08	0.08
<i>Electricity prices per kWh including VAT, 2007, EUR</i>			
<i>Electricity for industrial use, medium voltage (1 kV – 60 kV)</i>			
<u>3 tariff-reading</u>			
peak electricity	0.074		
day electricity	0.046		
night electricity	0.028		
<u>2 tariff-reading</u>			
day electricity	0.058		
night electricity	0.028		
<u>1 tariff-reading</u>	0.056		
<i>Electricity for household use</i>			
<u>2 tariff-reading</u>			
day electricity	0.075		
night electricity	0.048		
<u>1 tariff-reading</u>			
Day & night electricity	0.075		
Natural gas for industrial users, VAT included, as of 1 January 2007, EUR per 1,000 m ³ (price depends on the distribution company and the volume consumed)	189 to 287		

Compliance with the EU standards

Bulgarian Customs Law is based on the EU Customs Code. The same procedure and regimes as those of the EU are applied: release for import; transit; customs warehousing; inward processing; processing under customs control; temporary admission; outward processing; export; temporary export, etc.

The Customs Tariff of Bulgaria consists of the Combined Nomenclature of Bulgaria and the appropriate rates of customs duties. The Combined Nomenclature of the Republic of Bulgaria is based on the Convention on Harmonized Commodity Description and Coding System (*HS*) and on the EU Combined Nomenclature.

The VAT legislation (Value Added Tax Act) follows the provisions of the Sixth EU VAT Directive.

Project implementation phase

Special preferential VAT regime for imports of goods necessary for implementation of an investment project

VAT-registered investors who perform certain eligible investment projects are entitled to import assets needed for the project without effective payment of import VAT. In addition, such investors are entitled to refund VAT incurred on local purchases within 10 days after filing of the tax return, provided that at least 80% of the monthly VAT charges incurred on purchases are paid through a VAT account.

In order to benefit from the special investment rules, the investor needs to obtain an advance approval from the Ministry of Finance. In order to receive the approval, the investment project must meet certain conditions, such as:

- The size of the investment should be at least BGN 10 million for a period not exceeding two years;
- The period for the completion of the project should not exceed two years;
- The project should result in creation of at least 50 new jobs;
- The project should be eligible for state aids for regional development;
- The investor should prove an ability to finance the project.

VAT credit refund

Where VAT incurred on purchases exceeds VAT charged on sales, the excess VAT deduction is first carried forward for a period of three months to offset VAT debt due in these three months. If at the end of the three-month period the excess VAT or part thereof has not been recovered, the balance is refunded within 45 days after the date of filing of the VAT return for the third month (i.e., within approximately five months after the excess VAT has been incurred).

Companies whose turnover consists of at least 30% of export transactions are entitled to refund VAT with 30 days after filing of the VAT return.

DIRECT TAXATION – MAIN PROVISIONS

Corporate income tax

Under the Corporate Income Tax Act (CITA) all companies and partnerships (including non-incorporated partnerships), carrying out business in the country, are liable to a corporate income tax at a rate of 10%.

Depreciation

Depreciation is calculated by systematically applying the straight-line depreciation method. Depreciation norms should not exceed the following rates:

Category of assets	Assets description	Annual depreciation norms (%)
I	steady buildings, facilities, communication devices, electricity carriers, communication lines	4
II	machinery, manufacturing equipment, apparatus	30*
III	transportation vehicles, excluding automobiles; coverage of roads and airplane runways	10
IV	computers, software and right of using software	50
V	automobiles	25
VI	all other depreciative assets	15

**Up to 50% when new investment is made and the equipment is new*

Tax incentive for investments in regions with high unemployment

Incentives are available for investments in depressed regions included in a list approved by the Minister of Finance.

Certain companies and industries cannot benefit from the regional incentives. These include companies in liquidation and bankruptcy, companies in financial difficulties or companies engaged in the following activities: automotive assembly, shipbuilding, coal mining, steelmaking industry, manufacturing of synthetic fibers, agriculture and fish breeding.

The incentives are subject to some advance and subsequent filing requirements and notifications. Where the value of the exemptions/incentives and other state aids for regional development exceeds BGN 75 million, a clearance from the Commission for Protection of the Competition is required.

Where the amount of the state grants and subsidies (excluding the grants provided tax incentives) does not exceed BGN 200,000 in a three-year period, the tax incentives can be used under less strict conditions.

The following regional incentives are available:

- Tax credit for the value of assets acquired as part of initial investment

Tax credit is available for acquiring assets in terms of investing in depressed regions. The credit is determined at 10% of the acquisition costs of the assets. The tax credit can be carried forward for a period of 5 years.

The eligible investment should be an initial investment in a depressed region, an enhancement of the investment in such a region, or commencement of a new activity related to modernization of the business processes. The investment should consist of acquisition of fixed tangible assets (except for cars) or purchase of patents, licenses or know-how. The costs of the intangible assets should not exceed 25% of the acquisition costs of the fixed assets.

The assets acquired in terms of eligible investment cannot be disposed off for a period of five years, except in cases of merger or restructuring of the company.

In order to qualify for tax credit the taxpayer also has to meet some other conditions related to the financing of the investment project or designated to preserve the competition on the market.

- Tax exemption for manufacturing companies

Manufacturing companies, which invest in depressed regions (including companies involved in toll manufacturing) are entitled to complete exemption from corporate income tax, subject to the following basic conditions:

- All business sites and premises of the taxpayer have to be located in the respective depressed region;
- All assets of the taxpayer (except for cash in bank accounts and investments in associates and subsidiaries) have to be located in the respective depressed region;
- The taxpayer should not have outstanding and non-disputable liabilities for taxes or social insurance or penalty interest thereon for the respective year in which the exemption is claimed;

The amount of the tax credit for each year should be invested in manufacturing activities within a period of 3 years after the end of the year in which the exemption was claimed. The eligible investment should consist of fixed tangible assets or licenses, patents and know-how at a value not exceeding 25% of the costs of the fixed tangible assets. The investor is also required to invest own funds of at least 25% of the amount of tax credit. Some other additional conditions are also required to be met. The assets acquired could not be disposed for a period of 5 years, except for in cases of merger or reorganization.

The incentive is available continuously, subject to meeting its conditions in each respective year. If the respective region is excluded from the list of the depressed regions, the incentive survives the exclusion and can be applied for another 5 consecutive years. Where a company started preparatory activities for investing in a depressed region, but prior to commencement of manufacturing the region was excluded from the list, the company is still eligible to use the incentive for a period of four years.

Personal income tax (as of 1 January 2007)

Incomes derived under an employment contract are taxed on a monthly basis as follows:

Monthly income	Tax
up to BGN 200	non-taxable
from BGN 200 to BGN 250	20% on the excess over BGN 200
from BGN 250 to BGN 600	BGN 10 + 22% on the excess over BGN 250
above BGN 600	BGN 87 + 24% on the excess over BGN 600

The annual taxable base is the sum of all taxable incomes received during the calendar year. The total annual income is subject to some adjustments and is then taxed in accordance with an annual progressive scale as follows:

Annual income	Tax
up to BGN 2,160	non-taxable
from BGN 2,160 to BGN 3000	20% on the excess over BGN 2,160
from BGN 3,000 to BGN 7,200	BGN 168 + 22% on the excess over BGN 3,000
above BGN 7,200	BGN 1092+ 24% on the excess over BGN 7,200

Employment issues

Working hours: 8 hours a day. A 24 hour rest period is required during a 7-day period.

Annual leave: not less than 20 days.

Retirement age: minimum of 63 for men and 59 (2007) for women¹.

Minimum monthly gross salary: EUR 92

Average monthly gross salary: EUR 188 (Q4 2006)

Social security: A complex system covering retirement, health and unemployment risks and obligations. Side costs to the amount of 24,08% of the gross monthly salary are to the account of the employer.

Type of insurance	Paid by		Total (%)
	Employer (%)	Employee (%)	
Health	3.9	2.1	6.00
Social:			
<i>Pension insurance fund</i>	14.95	8.05	23
<i>Sickness & motherhood insurance fund</i>	2.275	1.225	3.50
<i>Employment insurance fund</i>	0.5	0	0.5
<i>Unemployment fund</i>	1.95	1.05	3.00
<i>Guaranteed payment of the employees and servants fund</i>	0.5	0	0.5
Total	24.08	12.43	36.5

The above contributions are calculated on the remuneration and other employment income of the employee for the respective month but on not more than the maximum monthly insurance base fixed annually in the Mandatory National Insurance Budget Act. The fixed base for 2007 is BGN 1,400 (around EUR 716). Since January 2003 minimum monthly insurance bases for the main economic activities and groups of professions have been introduced.

Labor contracts: According to the Labor Code the employment contract may be concluded for an indefinite period of time or, alternatively, as an employment contract for a fixed term. An employment contract is considered to be concluded for an indefinite period unless explicitly agreed and stated otherwise. An employment contract concluded for an indefinite period may not be changed to a fixed-term contract unless explicitly requested by the employee, and stated so in writing.

1. An employment contract for a fixed term may be concluded:

- for a definite period no longer than 3 years – upon request in writing by the employee or for execution of temporary, seasonal or short-term work and activities
- until completion of some specified work
- for substitution for an employee who is absent from work
- for a job, which is to be taken through a competitive examination, for the time until it is taken on the basis of the competitive examination.

2. Employment contract for a trial period

In cases when the work requires the ability of the employee who will perform it to be tested, his final appointment may be preceded by a contract providing for a trial period of up to 6 months. Such a contract may also be concluded in the case when the employee wants to make sure the job is suitable for him. This contract

¹ For women the minimum retirement age is being increased by ½ year annually. There are certain limits set that will no longer be changed:

– 60 years for women; the limit will be reached in 2009

indicates to whose benefit has been agreed the trial period. Prior of the expiration of the trial period, the party to whose benefit it has been agreed may terminate the contract without notice.

Termination: Employees other than senior management cannot be dismissed without sufficient justification. The employee has the right to sue for damages for unfair dismissal. Certain people cannot be dismissed during absence (e.g. on sick leave, pregnant, nursing mothers, military assignment).

Notice periods are usually 30 days. If the employee, working under an indefinite-period contract, is dismissed without a notification and there is a sufficient justification by the employer, the employee is compensated by 1 monthly salary.

If the relation is based on a term contract, the compensation is equal to the amount of the gross salaries to be paid for the rest of the contract time.

The employer can initiate a dismissal of the employee on "mutual consent" terms. In this case he has to compensate the employee with at least 4 monthly gross salaries.

Upon dismissal due to closing down of the enterprise or part of it, staff reduction, reduction of the volume of work and work stoppage for more than 15 working days, the employee is entitled to compensation from the employer. The compensation is in the amount of his gross labour remuneration for the period of unemployment but not for more than one month. A compensation for longer periods may be stipulated by a collective contract or by the labour contract.

Upon termination of the employment relationship after the employee has acquired the right to a pension for insured service and age, irrespective of the grounds for the termination, he is entitled to compensation by the employer in the amount of his gross labour remuneration for a period of two months; where the employee has worked with the same employer for the last ten years of the length of service, the compensation is equal to his gross labour remuneration for a period of six months.

Employment of foreign persons: All foreign persons that have a permanent residence permit or are granted the right of sanctuary or refugee status can be employed in the same way as Bulgarian citizens. Temporary work permits are issued by the National Office of Employment of the Ministry of Labour and Social Policy. The work permits are issued for a specified time, job and employer. The permit is issued after a request by the employer and is valid for the time of the employment contract but not more than one year. The permission can be prolonged several times but within a three year period.

Foreign persons that have an employment contract and a valid work permit can acquire a permit for stay in the country for the time of the contract but for no more than one year. The permission for continuous residence can be prolonged if the work permission is prolonged but the maximum period for prolongation of the work permission cannot exceed three years.

The number of employees who are foreign citizens cannot be over 10% of the total work force.