

## **Bulgaria Country Profile**

**Information compiled with the assistance of First Financial Brokerage House, Bulgaria.**

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### **Location and Demography**

Bulgaria is situated in the Southeastern part of the Balkan Peninsula. The country's population is 8.4 million and has a territory of 110,099.6 sq. km. Bulgaria is situated in the center of a region, which is undergoing dynamic transition. Within 500 km of its capital Sofia a population of over 60 million is concentrated throughout 10 countries most of which have only recently embarked on their way to a market economy. This is a very large market with the one of the most rapidly increasing market demands in Europe. All these regions are several hours' drive from any point in Bulgaria. A network of international motorways crosses the country, making vital connections to Western Europe, Russia, and Minor Asia, to the Adriatic, the Aegean and the Black sea. Both sea and river transport (the Black Sea and the Danube River) offer good communications and transportation to and from the region.

Bulgaria is among the most industrialized former socialist countries, with chemical industry, food, machine building, metallurgy and energy contributing more than 75% of the GDP. In addition, Bulgaria offers strategic geographic position and well-developed transport and telecommunications infrastructure combined with highly qualified and comparatively cheap labour force.

Unfortunately, in the last 9 years Bulgaria has lagged behind Central European nations in respect to economic growth and the speed of reform. The years 1989 - 1997 were characterized with political instability and economic collapse.

### *Currency Board Guarantees Stability*

A Currency Board was introduced effectively as of July 1st 1997. The Currency Board was proposed by the IMF and World Bank as an active attempt to curb down inflation, devaluation of the BGL and the run on the banking system.

### *The Goal - Accession to the European Union*

While still far from the achievements of the Visegrad 4, Bulgaria is clearly on the way to recovery. GDP growth of 3.5% for 1998, virtually no inflation, Government budget surplus, improving foreign debt indicators and high liquidity of the banking system are some of the unquestionable successes in the last 2 years. The current economic policy measures and reforms are designed to help Bulgaria make substantial progress towards meeting the conditions for accession to the European Union. The goal of accession to the European Union should create momentum for structural reforms, which are essential for the development of the Bulgarian economy.

On December 10, 1999 in Helsinki, Bulgaria was invited to start negotiations on full membership in the European Union (EU) in February 2000. For Bulgaria itself the start of negotiations with EU for full membership is expected to have greatest effect first in the domestic sphere. The admission to talks with EU should help Bulgaria in harmonising economic legislation and regulatory practice, enhancing the outward orientation of economy, improving public administration and human rights observance, and in specific concessions over issues of EU concern like the nuclear power station at Kozlodui. In the

foreign policy sphere Bulgaria will work together with the EU, especially in supporting EU-sponsored policies for promoting stability and co-operation in South-Eastern Europe. Regarding these issues Bulgaria was able to present itself as, for the moment, the least problematic country in the region in terms of economics, politics and ethnic relations.

## **The Bulgarian Equity Market**

The legal framework of Bulgaria's capital market is regulated by the Securities Law, adopted in late 1995 and amended in 1997 and 1998. In contrast to lax regulations in the first years of stock exchange trade, the new law is unanimously defined as restrictive. It sets very strict requirements on issuing companies and investment intermediaries (brokers). The regulatory body of the capital market is the Securities Commission, which controls all fields stipulated in the Securities law. Since the very establishment of this Commission it has received ample criticism because of its bureaucratic treatment of players on the market.

A new revision of the law is expected to enter the Bulgarian Parliament by the end of 1999. The revision is expected to define investment trusts, to increase disclosure requirements for listed companies and create minority shareholder protection.

### *Tax Implications*

*Note: see [Legal Frame](#) section for details*

Tax legislature is one of the weakest points of the overall legal framework. It is inconsistent and does not allow special provisions for revenues associated with capital markets.

Foreign investors' participation in Bulgarian companies is also subject to dubious treatment. Investments are generally regulated by the Law on Foreign Investment, and are registered with the Foreign Investment Agency. In case a foreign investor has realized revenues from capital gains or dividends on the Bulgarian market, he may freely repatriate the proceeds to the home country, where they will be accordingly taxed (provided, of course, that there is an agreement for avoiding double taxation between Bulgaria and the home country). Before repatriation, revenues are subject to 15% withhold tax, which is subsequently refunded. The last regulations point that the dividend and capital gains tax will be 15%. The withdrawal tax can be avoided given that there is an agreement for avoiding double taxation between Bulgaria and the country of registration of the company realizing the gains. The following three documents should be presented to the council of ministers to avoid the taxation:

- Certificate of registration of the legal entity in the country with which the double taxation agreement is signed.
- Certificate stating that the company resident in the country with which the double taxation agreement is signed is the real owner of the gains/dividends.
- Certificate that this company does not have any legal representation in Bulgaria.

### *Bulgarian Stock Exchange*

In September the Bulgarian Stock Exchange (BSE) was opened for stock trade. The first several months however were characterized by strong OTC trade that allowed brokers to realize big spreads in an obscure market conditions. The revised Law on Securities forbade OTC trade and made all trades to be registered and executed through BSE. Since January 1998 a market Index was introduced by the investment arm of SBC Warburg Dillon Read. Gradually the index turned into a semi-official stock exchange index.

### *Bulgaria as an Emerging Market*

- The Currency Board and the IMF commitment to Bulgaria provide a strong guarantee of the macroeconomic and currency stability of Bulgaria.
- The Bulgarian government is promoting Bulgaria as an isolated island of economic and political stability in a world of falling capital markets and recessing economies.

### *The Capital Market Development*

An important part of the recent changes was the capital market development. Equity trade in Bulgaria started in the beginning of the 1990s. Traded companies comprised of mainly newly established private corporations and a small number of state banks while most industrial companies were still in state hands.

The real opening of the capital market took place in 1997. The voucher privatization created some of the prerequisites for a the market development – substantial stakes of 1050 state enterprises went into the hands of individuals and privatization funds, creating a wide shareholders' base. All the necessary factors for the start of trade existed – Securities Law /adopted 1995/, Securities and Stock Exchange Commission was formed, the Bulgarian Stock Exchange /BSE/ got license in October 1997.

Forecasts for the development of the Bulgarian Economy include:

- There are new big companies coming through the cash privatization to the BSE, like Bulbank and the Bulgarian Telecommunications Company;
- Some of the remaining packages of the companies already with a majority shareholder will be floated;
- There are several big companies that will be partly privatized through the stock exchange.
- Bulgaria is expected to be invited to negotiate for full accession in the European Union in December 1999. This fact will immediately reflect into better perception of Bulgaria among foreign investors.

### **Macroeconomic Policy**

The objectives of the government's economic policy during the period 1999-2001 are to achieve strong economic growth on a sustainable basis, and to improve the living standards of its citizens while substantially advancing the transformation of Bulgaria into a competitive and well functioning market economy. Bulgaria uses the Maastricht criteria on the key macroeconomic variables as medium-term points of

reference for its economic policy targets. The priorities of economic policy over the next three years are:

- To maintain the currency board arrangement and enhance banking supervision;
- Maintaining a broadly balanced budget and reducing the government debt;
- To complete the privatisation of all earmarked fixed assets
- To restructure state-owned enterprises and natural monopolies as well as to reform the financial system;
- To develop a modern system of health insurance and social protection, and to reform the pension system;
- To enhance the development of financial markets;
- To modernize the infrastructure (transport systems, energy systems and communication systems).

## **Legal Frame**

### **Forms Of Business Organizations According to the Bulgarian Law**

According to the Bulgarian law, the following types of business organizations exist:

- an unlimited (general) partnership;
- a limited partnership;
- a private limited company;
- a public limited company (joint stock company);
- a public limited partnership;
- a sole proprietor;
- a joint venture;
- a branch;
- a holding;
- a co-operation;
- a representative office.

The provisions of the Commercial Code govern the forms of business organizations, except for representative offices. Representative offices are regulated by the Foreign Investments Act.

PRIVATE LIMITED COMPANY (a limited liability company) - "OOD" - it is a commercial company with share capital owned by its members whose liability is limited to the amount of the capital subscribed. One or more persons, including foreign natural or legal persons may found a private limited liability company. The minimum foundation capital is BGN 5,000 divided into shares and at least 70% of the capital must be paid

up on foundation. Contributions to the foundation capital may be paid in cash or in kind. The statutory bodies of the private limited companies are the general meeting of shareholders, which must be held at least once a year, and the managing director or board of directors.

PUBLIC LIMITED COMPANY (a joint stock company) - "AD" - it is a commercial company with share capital owned by its members whose liability is limited to the amount of the capital they subscribe. Two or more persons, including foreign individuals or legal persons can found a joint stock company.

The minimum required capital of a joint stock company is BGN 50,000, increasing to BGN 100,000 if the capital is raised by a public offer. There are different requirements for establishment of banks, insurance companies and investment companies:

- banks - the minimum capital required amounts to BGN 10,000,000,
- insurance companies - the minimum capital required amounts to:
  - BGN 2,000,000 for life insurance and personal accident insurance;
  - BGN 3,000,000 for property insurance;
  - BGN 4,000,000 for reinsurance;
- Investment companies - the minimum amount and the structure of the required capital as well as its relation to the assets and liabilities as per the balance sheet are determined by the Securities and Stock Exchange Commission according to the Securities, Stock Exchange and the Investment Companies Act.

In the general case of a registration of a public limited company, contributions to initial capital may be paid in cash or in kind, and at least 25% of the capital must be paid up on foundation. A joint stock company may issue either registered or bearer's shares. The general meeting of shareholders is the highest body of the company, and must be held at least once a year. The shareholder's meeting elects a board of directors (a one-tier management structure) or a board of directors and a supervisory board (a two - tier management structure). A public limited company is required to prepare a balance sheet and financial statements each year. Special statutory instruments provide additional requirements to the foundation of banks, insurance companies and investment funds in the form of joint stock companies.

GENERAL PARTNERSHIPS – according to the local law, it is a company founded by at least two persons for the purpose of engaging in commercial activities under a joint business. The partners in an unlimited partnership bear joint and unlimited liability. A foreign person must be resident in Bulgaria in order to participate in a general partnership. There are no requirements for a minimum or maximum amount of registered capital.

LIMITED PARTNERSHIPS - it is a company founded by two or more persons for the purpose of engaging in commercial activities under a joint business name. In a limited partnership there are one or more general partners, bearing unlimited liability, and one or more limited partners, whose liability is limited to the extend of their capital contribution. The general partners are responsible for managing the affairs of the company.

**PUBLIC LIMITED PARTNERSHIPS** - it is a transitional entity between a public limited company and a limited partnership, and shares features of both legal forms. A public limited partnership has general partners, who have unlimited liability, and at least three limited partners, whose liability is limited to the extent of their shareholding. The general partners are responsible for managing the business.

**CO-OPERATIVES** - a co-operative must have at least seven members. All members have rights to participate in the business and to share in the profits etc. The general meeting of members elects a management board to manage the business on their behalf, and a supervisory board. Foreign persons are required to have a permanent place of residence in Bulgaria if they are to participate in a co-operative. According to recently made amendments, co-operatives are given the right to extend loans.

**SOLE PROPRIETOR** - any individual residing in the country has the right to register himself as a sole proprietor. The liability is unlimited.

**HOLDING** – as defined in the Commercial Code, is a public limited company, a public limited partnership or a private limited company with the purpose to participate in whatever form in other companies or in their management. At least 25% of the capital of a holding has to be entered directly in subsidiaries. A subsidiary, according to the local law, means a company in which the holding owns or controls directly or indirectly at least 25% of the stocks or shares, or can appoint directly or indirectly more than 50% of the members of the managing body. The Commercial Code explicitly names the activities, which a holding is allowed to perform and those, which it is not allowed to perform.

**BRANCH** - foreign legal entities registered abroad, as well as foreign individuals and other entities, can register a branch in Bulgaria provided they are registered as commercial entities in accordance with the relevant legislation in their home country. No authorised capital is required to found a branch. A branch is not a legal entity, it is part of the company - founder. However, branches are obliged to maintain accounts as an independent company. A branch of a foreign company must prepare a balance sheet.

**REPRESENTATIVE OFFICE** - is regulated by the Foreign Investment Act. Foreign persons who are entitled to engage in business activity under the legislation of their own countries may set up a representative office which is registered with the Bulgarian Chamber of Commerce and Industry. Representative offices are not legal persons and may not engage in economic activity.

**JOINT VENTURE** - is a company formed jointly by a Bulgarian and a foreign partner. The size of the foreign participation in a joint venture is not limited. Joint ventures must take one of the forms of business entities pursuant to the Bulgarian Commercial Code. Establishment of a joint venture is one of the most popular forms for investing in Bulgaria.

## **Taxation**

*Direct Tax - Individuals*

### Territoriality and residence

The Personal Income Tax Act (PITA) sets forth the rules on the taxation of incomes of individuals, residents and non-residents, sole proprietors, as well as the incomes of certain corporate entities, explicitly stated in the Act, derived in a calendar year

(the calendar year coincides with the fiscal year). Under PITA tax liable persons are individuals - residents and non-residents, and corporate entities explicitly enumerated in the Act. Under PITA residents, irrespective of their citizenship, are deemed those persons:

- who have their permanent domicile in Bulgaria;
- who reside in the country for more than 183 days in a 365-day period  
Residents are liable for their worldwide income.

Non-residents are deemed those individuals who do not fit the Act's criteria for residents. Non-residents are liable only for their income derived from Bulgarian sources.

Foreign experts are taxed only on their Bulgarian-source income irrespective of the duration of their stay in the country.

#### Bulgarian sources of incomes

Any income derived by an individual from the conduct of business on the territory of Bulgaria is deemed to have a Bulgarian source. A person is deemed to have carried out business on the territory of the country where:

- he has a permanent establishment or a fixed base on the territory of the country;
- he has assigned or performed an assignment on the territory of the country, whether in person or through a procurator, agent or in some other way.

Any income under a contract of employment or derived from rendering services is deemed to have been derived from a Bulgarian source where labour has been extended or services have been delivered on the territory of the country, regardless of the source of payment for the labour extended or services rendered.

Notwithstanding the above, some kinds of income paid out by residents or from a permanent establishment to a non-resident on the territory of the country are deemed to have a Bulgarian source. This income includes, for example dividends and distribution of profits of entities with or without legal presence, interest, royalties, rentals, payments under lease, franchising, factoring, as well as emoluments of freelancers, or members of a managing or controlling body of a Bulgarian corporate; branch of a foreign entity, etc.

Income derived from the use of real estate and capital gains from the sale of real estate located in the country, as well as income from transactions with quotas in local companies and income from securities transactions is also income from a Bulgarian source.

#### Gross income

Income from employment includes all payments, including prizes in cash or in kind paid out by the employer or at its expense to the tax liable person during the calendar month.

The tax base of income derived under employment relationships and relationships that are equalised to them is formed by deducting the taxable income with the

installments made for social, health, pension and other insurance premiums which the employee is bound to make by virtue of law. The taxable income is reduced with the sums paid for voluntary social, pension and health security.

The loss carry forward facility is not applicable for individuals.

No concessions are granted to foreigners.

### Capital gains and investment income

#### **Capital Gains:**

The tax base in case of sale or exchange of immovable and movable property is the difference between the selling price, on the one hand, and the higher price between the factual and updated price paid for the acquisition of such property. This rule applies to certain types of vehicles (e.g. aircraft, sea vessels). For any other type of movable property the tax base is the difference between the selling price and the re-valuated price for the acquisition of such property.

**Dividends** (including any distributed profit from companies or partnerships) are taxed at 15 % at the source (the paying company or partnership) which is the final tax on this kind of income. Stock dividends are not taxable.

**Interest** except for interest on deposits in local commercial banks and branches of foreign banks and the State Savings Bank, as well as interest of claims awarded by court, is taxable.

### Tax Exempt income

The most important kinds of tax-exempt income, in addition to the kinds of income already mentioned, are listed below.

- income derived from the sale or exchange of certain types of immovable property (flats, houses or villas; means of transport)
- income derived from the sale or exchange of movable property except for the means of transport as per the preceding bullet, as well as the sale of shares, quotas and other equity interest in a commercial company, etc.
- compensation received as a result of pension, health and social security
- interest accrued on deposits in the State Savings Bank and other Bulgarian-incorporated commercial banks and branches of foreign banks, as well as the interest on court-awarded claims
- cash and non-cash income from social financial aid and the unemployment compensation
- the financial aid granted by social funds and organisations
- child allowances
- student grants for Bulgarian nationals for their education abroad
- prizes from the lottery

- salaries and emolument of foreign diplomats pursuant to the Vienna Convention on Diplomatic Relations
- company profits distributed as new quotas and shares in commercial companies, as well as the profits distributed as an increase in
- existing quotas and shares' par value

#### Tax regulations on specific types of income

**Royalty payments and technical services fees** are subject to a 15% withholding tax when paid to non-Bulgarian tax residents. No additional tax is levied. Fees for management services are not regarded as technical services' fees and are not subject to withholding tax.

**Payments under lease, factoring and franchising contracts** are subject to a 20% withholding tax on the excess over BGN 75 (approximately USD 45).

**Interest payments** except for those defined as non-taxable, are subject to a 20% withholding tax on the excess over BGN 75.

**Income Received by Civil Contractors and Freelancers:** a 15 % advance tax payment is due upon payment and the final tax obligation is assessed and paid annually. The pre-paid tax is set off against the final tax obligation. 35% of the income is regarded as non-taxable.

**Rental Income Received:** Personal income tax is due on an annual basis. 20% of the income is regarded as non-taxable. If the real estate and/or the movable property are owned by more than one person, the income is divided in proportion to the participation in the ownership. If the rent is payable to a non-Bulgarian tax resident, a 15% withholding tax is levied.

**Income Received by Managers and Members of Boards of Directors:** Managers and members of Boards of Directors who work on the basis of a civil contract are obliged to pay personal income tax on an annual basis. 15% of the tax payable is withheld at the moment of payment as an advance payment of the tax. 25% of the income is regarded as non-taxable.

**Other income**, i.e. income not explicitly addressed by the PITA, as well as income from occasional transactions, is taxed with 20% withholding tax on the excess over BGN 75.

**Income Received by Sole Proprietors.** The base for taxation is determined under the rules of the Corporate Income Tax Act. Advance payments of tax are made as per the rules of the same Act. The annual tax is paid in accordance with the rates provided for by the PITA.

#### Deductions

**Business deductions:** Except for the sole proprietors, all other groups of personal income tax payers deduct pre-estimated (not differentiated into business and other) expenses.

Both mandatory and voluntary social security and health care contributions are deductible from the taxable income of individuals working under employment and management contracts and from the taxable income of freelancers.

### Personal allowances

There are no standard personal allowances for spouses and dependents.

### Tax credits

Tax credits may be granted on the basis of double taxation treaties in force. If there is no double tax treaty in place the PITA provides for unilateral tax credit to be granted to Bulgarian tax residents for the taxes paid abroad. Tax credit is assessed on a per-country limitation basis and is limited to the amount of the Bulgarian tax, which would be paid, on the foreign source income.

### Other taxes

**Social security contributions:** In general, employers are obliged to pay social security contributions at a 34,7% of salaries, and employees - 1%.

**Unemployment fund contributions** are payable by the employer at a 3,5% rate and by the employee at a rate of 0,5% on the basis of the gross remuneration received by the employee.

**Local taxes on income:** There are no local taxes on income. Taxation with a final annual /patent/ tax. Patent tax is levied on individuals and businesses carrying out certain activities enumerated in the PITA, whose annual turnover for the preceding year has been up to BGN 75,000.

### Tax Rates

The following tax rates are applicable with effect from 1 January 1999 (Table 1 - employee income - monthly tax, Table 2 - income other than employment one - annual tax burden). Numbers are given in BGN.

Monthly income	Tax	Annual income	Tax
up to BGN 75*	non-taxable	up to BGN 900	non-taxable
from BGN 75 to BGN 100	20% on the excess over BGN 75	From BGN 900.001 to BGN 1,200	20% on the excess over BGN 900
from BGN100 to BGN 350	BGN 5 + 26% on the excess over BGN 100	from BGN 1,200 to BGN 4,200	BGN 60 + 26% of the excess over BGN 1,200
from BGN 350 to BGN 1,300	BGN 70 + 32% on the excess over BGN 350	From BGN 4,200 to BGN 15,600	BGN 840 + 32% of the excess over BGN 4,200
over BGN 1,300	BGN 375.3 + 40% on the excess over BGN 1,300	over BGN 15,600	BGN 4,503.6 + 40% of the excess over BGN 15,600

\* As of January 1, 2000 the non-taxable income will be BGN 80

### Corporations

#### Tax on corporate income

All companies and partnerships (including non-incorporated partnerships) are liable to corporate income tax. Corporate income is taxed at the rate of 27%. This rate is reduced to 20% for enterprises with taxable profits up to BGN 50,000 (about USD 27,500). In addition to the corporate tax there is a municipal tax at 10 %. The

municipal tax is deductible from the taxable base for corporate income tax. Thus the aggregate tax rate (including corporate and municipal tax) for annual taxable income up to BGN 50,000 is 28%, whereas for income above that aggregate tax rate is 34.3%.

Bulgarian resident entities are taxed on a worldwide basis. Other entities are taxed on their Bulgarian-source income. Non-business organizations (including governmental) are taxed for their business activities.

*Taxation of company expenses:* Entertainment and representative expenses, sponsorships and business gifts, that do not bear the trade-mark of the donating company, are subject to 25% taxation. Expenses representing bonuses to staff, benefits in kind, as well as expenses for maintenance, repair and exploitation of cars are taxed at 20%.

*Property tax:* Taxpayers are natural and legal persons who are owners of immovable property, e.g. buildings. Property tax rate is 0,15%. If the owner is a company, the tax base is the book value of the property.

#### Corporate residence

A company is resident in Bulgaria for tax purposes if it is registered in Bulgaria. Companies resident in Bulgaria are subject to tax on their worldwide income. Foreign entities with headquarters abroad are subject to tax on Bulgarian-source income, but their Bulgarian branches are deemed Bulgarian resident companies for tax purposes.

#### Branch income

Although branch offices are not deemed legal persons, branches of nonresident companies have separate balance sheet and profit and loss account. They are subject to corporate income tax at the standard rate of 27% (or the reduced rate of 20%), and to other general taxes too (municipal tax; VAT, etc.)

Representative offices, which are not allowed to perform business activities, are not subject to corporate taxation. Representative offices registered under the Foreign Investments Act may perform only those activities that are not regarded as "business activities," i.e., auxiliary to those of the head office.

#### Income determination

The income determination is based on the taxpayers' profit and loss account.

Inventory valuation: Any of the following methods is acceptable for inventory valuation: FIFO, LIFO, weighted-average cost, or specific identification of items of inventory.

Inventories at the end of the year are to be valued at the lower of their market or book value at the balance sheet date. The difference is to be recorded as "other expenses." However, this difference is not tax deductible.

Capital gains: Capital gains are included in corporate income and taxed at the full corporate tax rate. Exchange rate gains and losses are to be reported in the balance sheet and reflected in the assessment of taxable profit.

Dividends: Dividends received by local companies and by certain charity institutions defined by Corporate Income Tax Act, are not subject to withholding tax.

Dividends payable by local companies to Bulgarian resident individuals and certain types of charity institutions, defined by Corporate Income Tax Act, are taxed with 15% withholding tax.

Dividends distributed by Bulgarian companies to foreign shareholders are subject to 15% withholding tax.

Stock dividends: Dividends capitalised into shares (stock dividends) are not subject to withholding tax in all cases.

Foreign income: Income derived outside Bulgaria by resident entities and non-resident's branch (branches), is included in the taxable base for the purpose of corporate income tax. Resident entities utilize tax credit for the foreign source income, which is taxed abroad. The tax credit is limited to the amount of the Bulgarian tax obligation, which would have been levied if the profit or income had originated from Bulgaria.

In instances where Bulgaria has a double tax treaty with the state where the income originates from, the provisions of the double tax treaty shall apply. Undistributed income of foreign subsidiaries of a Bulgarian resident company is not taxed.

#### Deductions

Depreciation: Depreciation is calculated in accordance with the straight-line, or progressive, or declining method. Accounting regulations permit Bulgarian companies to establish a depreciation schedule for each tangible and intangible non-current asset on the basis of the method chosen by the company. However, for tax purposes the straight-line method and declining balance method, in relation to specific assets, apply. If the total amount of the depreciation costs is higher than the tax allowable depreciation, the difference is added back to the taxable base.

Net operating losses: The taxpayer has the right to carry forward losses over the following five years. Carry forward of foreign source losses is restricted. Loss carry-back is not permitted. The loss carry-over vehicle can be used with regard to the advance tax payments as well as on an annual basis.

Thin capitalization rules. The thin capitalisation rules apply only if the debt financing exceeds the equity financing (the definitions of the two terms are to be derived from the accountancy legislation).

In addition to interest on bank loans, loans between related parties and other loans, the thin capitalisation rule clearly covers interest under financial lease agreements. However, the rule will not apply to financial lease agreements enforced before 1 January 1999, provided that they are already performed. The thin capitalisation rule will not apply to bank loans, either, provided that the same conditions are met. The thin capitalisation rules

- define restricted interest costs,
- determine a limit for their tax deductibility, and
- provide a possibility for tax deduction in the following year.

Restricted interest costs are not added-back in the calculation of the taxable profit to the extent to which they do not exceed:

- $\text{interest income} + [(\text{Financial result} - \text{interest income} + \text{interest costs})/2]$

If restricted interest costs exceed the above limit the excess is to be added-back in the calculation of the taxable profit for the respective period.

Restricted interest costs added back in a given year can be deducted for tax purposes in the following tax period if certain requirements are met.

Payments to foreign affiliates: Payments to foreign affiliates may be subjected by tax authorities to adjustment in accordance with the arm's length principle. Market prices would apply, whereas deviations from such prices will be tolerated if within +/- 25%.

Other significant items: Companies may also deduct the following costs for tax purposes.

- Remuneration of members of boards of directors and supervisory boards;
- Grants extended to Bulgarian educational and cultural institutions, within certain limits.
- Promotional and advertisement costs
- Contributions made by employers for voluntary social and health insurance of employees if such contributions are up to BGL 30,000 per employee per month. These expenses are not considered social expenses and are not subject to the one-time tax at 20 per cent on social expenses.

### Group taxation

There is no specific group taxation legislation. All companies are assessed on individual assessable profits and losses. However, tax anti-avoidance rules cover transfer pricing and related persons.

### Tax exemptions

#### *Tax incentive for investments in depressed regions*

Entities investing in regions with a high unemployment rate, i.e. exceeding one and a half times the average unemployment rate for the country, are given the right for a reduction of the corporate income tax (not the municipal tax). These regions are listed annually in an appendix to the Corporate Income Tax Act. They should provide that:

- The investment is in the form of acquisition, modernization or reconstruction of tangible fixed assets such as buildings, equipment, transmitters, electricity transmitters, and telecommunication lines (assets depreciable at 4 per cent per annum);
- The funds for the investment are generated from the contributions made by shareholders for acquisition of new shares (including on incorporation) in the company making the investments.

If the requirements for the tax reduction are met the corporate tax is reduced by an amount representing 10 per cent of the amount of the share contributions used in the above manner.

The sum usable for reduction is accounted for as reserves and if greater than the corporate tax in the respective year it can be used to reduce the corporate tax in the following five years.

Entities already enjoying the tax incentive regarding regions with a high unemployment rate (in 1998 the condition for the use of the incentive was an increase of the average number of employees of such entities) may choose to continue to use the old incentive (which is already repealed) or to start using the new incentive if conditions are met.

The rules regarding the new tax incentive are not very clear and questions relating to its application are likely to arise, but this has always been the case.

### Withholding taxes

Certain types of income originating from Bulgaria and payable to foreign entities are subject to a 15% withholding tax, provided the foreign entities do not realize them through a permanent establishment. The types of income are defined in the Corporate Income Tax Act as:

1. dividends and liquidation proceeds;
2. interest, including such under finance lease agreements;
3. royalties;
4. technical services remuneration;
5. rents; and
6. payments under operating leasing, franchising and factoring
7. capital gains arising from sale of immovable property, stakes in the limited liability companies' capital, securities and financial assets.

Withholding Tax Rates as per Double Taxation Agreements between Bulgaria and the countries are listed below:

<b>Country</b>	<b>Dividends %</b>	<b>Interest %</b>	<b>Royalties %</b>	<b>Technical Services %</b>
Armenia (Note 1,6)	5/10	10	10	10
Austria	0	0	0	0
Belarus (Note 6)	10	10	10	0
Belgium (Note 6)	10	10	5	5
China (Note 2, 6)	10	10	10	7
Croatia	5	5	0	0
Cyprus	0	0	0	0

Denmark (Note 3)	5/15	0	0	0
Finland (Note 4)	10	0	5	5
France (Note 5)	5/15	0	5	5
Germany	15	0	5	5
Hungary (Note 6)	10	10	10	0
India (Note 6)	15	15	15/20	20
Indonesia (Note 6)	15	10	10	10
Italy	10	0	5	5
Japan (Note 3, 6)	10/15	10	10	10
Kazakhstan, Rep.of (Note 8)	10	10	10	10
Korea, Rep. Of (Note 5,6)	5/10	10	5	0
Luxembourg (Note 3)	5/15	10	5	5
Malta	30	0	10	10
Netherlands (Note 3,7)	5/15	0	5	5
Norway	15	0	0	0
Poland (Note 6)	10	10	5	0
Portugal (Note 3, 6)	10/15	10	10	0
Romania (Note 3, 6)	10/15	15	15	15
Russian Federation (Note 6)	15	15	15	15
Spain (Note 3)	5/15	0	0	0
Singapore (Note 6)	5	5	5	0
Sweden	10	0	5	5/10
Switzerland (Note 3)	5/15	10	5	5
Turkey (Note 3, 6)	10/15	10	10	0
Ukraine (Note 3, 6)	5/15	10	10	0
United Kingdom	10	0	0	0
Vietnam (Note 6)	15	10	15	15
Zimbabwe (Note 3, 6)	10/20	10	10	10

**Notes:**

1. The lower rate applies to dividends paid to a non-resident that is the direct owner of at least USD 40,000 forming part of the capital of the company making the payment.

2. The withholding tax on royalties for use (or right to use) industrial, mercantile or scientific equipment is reduced to 7%.

3. The lower rate applies to dividends paid to a foreign company, which is in direct control of at least 25% of the payer company's capital. In the specific cases of the different countries more requirements may be in place.
4. There is no withholding tax on royalties for the use (or right to use) of scientific or cultural works.
5. The 5% rate applies to dividends paid to a foreign company that is in direct control of at least 15% of the payer company's capital.
6. There are no withholding tax on interest when paid to public bodies (Government, Central Bank or other state-owned financial or non-financial institutions).
7. 5% royalties are applicable in case The Netherlands applies withholding tax.
8. Up to 10% branch tax may be imposed on PE profits.

#### Indirect Taxation - VAT

The Value Added Tax Act ("VAT Act") is effective as of 1 January 1999.

Although Bulgaria is not a member of the European Community, the VAT legislation in many aspects follows the provisions of the Sixth VAT Directive.

#### Administration

The Ministry of Finance and the Customs Authorities who also work within the Ministry of Finance administer VAT. Although VAT is administered separately from the other taxes at present, any VAT refunds that arise can be used to cover other tax liabilities. This, however, has to be agreed in advance with the relevant tax office.

#### Registration

Any person (legal or physical, resident or non-resident) who has a taxable turnover exceeding BGN 75,000 during the preceding twelve months is obliged to register for VAT purposes.

The most important changes compared to the old VAT regime are in the area of the registration of foreign persons performing taxable supplies in Bulgaria. According to VAT Act, such persons are subject to mandatory VAT registration, through an agent, upon achieving the respective turnover, regardless of whether:

- they have a permanent establishment in Bulgaria, and
- the activities are continuing and/or performed from an "object" in Bulgaria.

Voluntary registration is possible for persons whose taxable turnover is below BGN 75,000, who at the same time carry on non-exempt export supplies, accumulating a turnover above BGN 50,000.

Group or divisional registration is not allowed. Therefore, a group of companies or a subsidiary of a company and its parent cannot be registered as one fiscal unit for VAT purposes.

VAT Act provides for a few new instances of optional VAT registration:

- A local legal entity that does not meet the requirements for mandatory VAT registration can register if its contributed share capital is at least the BGN equivalence of USD 1 million. Such a person can keep its VAT registration for a period of three years following the date of registration. After the expiry of this term the person is de-registered ex officio, unless it has met the requirements for mandatory registration or optional registration, based on effected exports.
- As of 1 January 2000 any person who is not subject to mandatory VAT registration can register for VAT purposes when the value of its basic funds acquired in the preceding 12 months exceed BGN 150,000. Such a person can keep its registration for 12 months, after whose expiry it is de-registered, unless it has reached the required turnover for mandatory VAT registration.

There are considerable changes in the rules on the VAT registration in some cases of commercial companies' transformation and acquisition.

There are a number of new grounds for optional VAT registration applicable to transformation of commercial companies and acquisitions of companies and company assets.

#### Filing requirements

A VAT-registered person files annual and monthly tax returns. The tax return must be submitted within 14 days as of the end of each tax period. VAT-registered persons who provide both taxable (including export) and exempt supplies are obliged to submit annual VAT returns.

#### Payment requirements

VAT payments to the state and VAT refunds from the state can only be made in BGN. The payment must be made within 14 days as of the end of the tax period.

#### VAT credit refund

The VAT credit to be refunded can be set off against the VAT due, as well as against other liabilities to the state. The offsetting takes place during a 6-month term following the period in which the VAT credit occurred. If after this term there is still VAT to be refunded, the refund is to be made within 45 days.

Exporters are entitled to a VAT credit refund within 45 days, if they do not have pending liabilities to the state. The scope of taxpayers, treated as exporters is expanded under the new VAT Act. Persons whose turnover from export supplies, exceeds 30 per cent of the value of their supplies in aggregate, are also considered exporters.

#### Tax base

The tax base for local supplies is the price (exclusive of VAT) invoiced to the customer, and all other taxes and fees, including excise duties, subsidies and financing relating to a transaction, as well as any interest and penalties under a transaction. The tax base also includes transportation, package and other expenses relating to the supply, provided that these are borne by the customer.

The tax base for transactions between related persons is at least the market value of the goods and/or services involved.

VAT is also charged on goods and services provided by the employer (if registered) to the employees (benefits in kind).

The VAT mechanism applicable to sales of goods at a loss has been changed as follows:

- The VAT refund available to the supplier for such sales will not be subject to adjustments. Instead, the supplier will be obliged to charge VAT to the customer on an amount not lower than the acquisition value of the goods, or their cost, respectively, if the goods are manufactured by the supplier.
- The above rule will not apply to sales of tangible fixed assets.
- General rules for charging VAT will not apply where the sale at a loss is due to objective market conditions.

The tax base for imports includes the customs value, the customs duties and excise duties (if any) on the import goods.

#### Place of supply

Bulgaria has adopted the EC definitions of place of supply of goods and services.

#### VAT Exemptions

There are three types of exempt supplies:

- Supplies that, according to the statutory "place of supply" rule, are provided outside the territory of Bulgaria.
- Supplies of goods in customs warehouses within the frame of the respective customs procedure.
- Supplies exempt due to their subject, such as:
  - transfer of ownership and limited property rights on land;
  - financial services;
  - insurance services;
  - lease of buildings and parts thereof, provided these are leased out for dwelling purposes;
  - transfer of the commercial enterprises of a company as per article 15 of the Commerce Act as well as businesses or parts thereof as per the Privatization Act;
  - provision of legal advice by registered attorneys in accordance with Bulgarian Bar Association Act and of services in accordance with the Public Notaries Act;

- land processing services rendered by co-operatives by means of their own equipment, provided that the land is owned by the co-operative members;
- supply of grain as an in-kind rent for use of land;
- betting and gambling;
- donations in favour of charity institutions
- others.

#### Export of goods and services

According to the Act, the export of goods and services is subject to VAT at a zero rate.

Within the meaning of the VAT Act export of goods is exportation abroad or to the free zones, free warehouses and duty-free outlets. However, export supply to customs warehouses does not qualify as export.

The most important changes refer to international transport and the relating services. International transport is defined to be the transportation between two points abroad, irrespective of whether part of the transport route passes through Bulgaria or not. The transport between the free zones and the free warehouses within Bulgaria is also considered international transport. A number of services relating to international transport (including forwarding or agent services) are also considered export services.

Processing of import good that are further re-exported is also zero-rated.

#### Partial exemption

Where a registered person makes both taxable (including zero-rated) and exempt supplies the following rules apply:

1. The input VAT charged for goods or services entirely used in relation to taxable (including zero-rated) supplies is fully recoverable.
2. The input VAT charged for goods or services entirely used in relation to exempt supplies is not recoverable.
3. The input VAT charged for goods or services used both in relation to taxable (including zero-rated) supplies and exempt supplies is partially recoverable. The amount of recoverable input VAT is calculated by reference to the proportion of taxable supplies to exempt supplies.

#### VAT rates

Under the Act two rates are applicable to taxable supplies.

- 20% applicable to taxable supplies, including import of goods and services.
- A zero-rate applicable to imports and supplies of precious metals to the Bulgarian National Bank.

### Disallowable input VAT

As a rule, input VAT cannot be reclaimed for goods and services that are:

- used for promotional purposes,
- relating to cars,
- used for exempt transactions.

### Refund of VAT to non-registered persons

VAT is not refundable to non-registered persons. However, a number of new possibilities as to recovery of VAT charged upon acquisition of assets in the period when the taxpayer has not been VAT-registered, or upon cancellation of previous VAT registration, are introduced. Such VAT refund can be claimed, if the following requirements are met cumulatively:

- the taxpayer registers for VAT purposes
- the assets are available with the taxpayer on the date of the VAT registration, and
- the required documentation is available.

If VAT is not refunded within the statutory term, interest is charged at the statutory interest rate.

### Reverse charge

Only where services are imported VAT at 20% must be charged and paid by the recipient if:

- the latter is registered for VAT, and
- the supplier is not a VAT-registered person, and
- the services relate to exempt supplies.

In all other cases no reverse charge applies in Bulgaria to import services.

### Indirect Taxation

#### *Excise duties*

Excise duties are levied on goods and services listed in the Excise Duties Tariff, which are:

- subject to transactions performed in Bulgaria, or
- subject to import in Bulgaria.

Exempt from excise duties are:

- export goods

- goods and services subject to transactions performed in the free zones, free warehouses, and outlets licensed to carry out trade in hard currency
- goods and services for which excise duties have already been paid,
- international post and other parcels,
- lotteries and raffles,
- bets on sports events,
- precious metals, including such for jewelry,
- perfumes and cosmetics in aerosol containers,
- certain transfers between licensed wine producers
- other

Excise duties are to be calculated as a percentage of the sales price/customs value, as a flat amount in BGL, or as a combination between these two methods.

The Excise Duties Act sets forth the rules on collecting the excise duties and the guarantees required in relation thereof, if any.

The Act provides for reimbursement of excise duties upon exportation of goods, when excise stickers have been paid but not used by producers, etc.

#### Customs duties

A new Customs Act has entered into force as from 1 January 1999. It provides for different customs arrangements with economic impact such as customs warehousing, inward processing, placing of goods in free zones and free warehouses, etc.

In general, goods imported in Bulgaria are subject to:

- customs duty - a percentage of the customs value, and
- VAT 20% of the customs value + customs duty.

The rates of customs duties applicable to certain products are significantly reduced in 1999 (down to nil) as a result of the application of Free Trade Agreements between Bulgaria and:

- EU,
- EFTA,
- CEFTA,
- Turkey,
- Macedonia.

### *Foreign Investment Legislation*

On 24 October 1997, the Parliament of Bulgaria adopted a new Foreign Investments Act. The Act brings the legal framework on foreign investment in full compliance with the accepted international standards and provides for even more attractive investment regime.

### **Definitions**

#### *Foreign Investors*

Under the Foreign Investments Act, foreign investors are:

- legal persons which are not registered in Bulgaria;
- partnerships which are not legal persons and are registered abroad;
- individuals who are foreign citizens and have permanent residence abroad.

A Bulgarian national, who is a national of another country as well, should choose whether to avail himself of the status of a Bulgarian or foreign national under the Act.

#### *Definitions and Forms of Investment*

Foreign investment is any investment, which is made by a foreign person, in any of the following:

- shares and stakes in commercial companies;
- ownership title over buildings and limited ownership title over property;
- ownership title and limited ownership title over movable property when considered long-term tangible assets;
- ownership title over enterprise, or detached parts thereof, in accordance with the stipulations of the Law on Restructuring and Privatization of State-Owned and Municipal Enterprises;
- securities, including debentures and Treasury bonds, as well as their derivative instruments issued by the State, by the municipalities or by other Bulgarian legal persons, with a remaining term until maturity not shorter than 6 months;
- loans, also in the form of financial leasing, for a term not shorter than 12 months;
- intellectual property title - articles of copyright and kindred rights, patent inventions, utility models, trade marks, service marks and industrial designs;
- rights stemming from concession contracts and contracts for the assigning of management.

A foreign investment shall, furthermore, include the accretion in value of the investment initially made. Bilateral treaties on promotion and mutual protection of foreign investment to which Bulgaria is a party may provide for a wider definition of foreign investment.

### Legal and International Guarantees for Foreign Investment

#### *National Treatment*

The Bulgarian Constitution and the Foreign Investments Act provide national treatment to foreign investors which means that foreign investors are entitled to perform economic activity in the country under the same provisions applicable to Bulgarian investors except where otherwise is provided by law. In particular this principle covers the whole range of economic and legal forms of activities for accomplishing entrepreneurial businesses. The national treatment to foreign investors includes the participation in the process of Privatization and acquisition of shares, debentures, Treasury bonds and other kinds of securities. Foreign natural persons or legal entities with foreign participation shall obtain an official preliminary permission issued by state authorities only for explicitly determined cases provided by special laws such as:

- the Banking Act - for engaging in banking activities and participation in banking companies;
- the Insurance Act - for engaging in insurance activities and participation in insurance companies;
- the Control upon Explosives Act, Firearms and Ammunitions - for manufacturing of, or trading in weapons, ammunitions and military equipment;
- the Ownership Act - for acquisition of ownership rights over buildings and limited property rights over real estate in border areas and certain geographic regions, determined by the Council of Ministers.

The permissive regime for the above mentioned activities is applicable not only for the foreign persons but also to Bulgarian companies.

#### *Most Favored Nation Status*

Bulgaria is signatory to a system of bilateral treaties on promotion and mutual protection of foreign investment which provide, further to the national treatment regime, for the most favored nation status of the investment made by entities and individuals from one of the contracting countries on the territory of the other contracting country.

#### *Priority of International Treaties*

When international treaties to which Bulgaria is a party provide for more favourable terms and conditions for foreign investment, these terms have precedence over the local rules. This guiding principle finds expression in the treaties for protection of foreign investments and especially in the agreements for abstaining of double taxation regulations. The international treaties on mutual protection of foreign investment always include an extended concept of a foreign direct investment, and the application of this concept shall be prior to the Bulgarian legislation.

### *Legal Guarantees Against Adverse Changes in the Law*

The Foreign Investments Act stipulates the principle that foreign investment made prior to the adoption of amendments in law imposing statutory restrictions only with regards to foreign investments shall not be affected by these restrictions.

The sense of the Act provides for that foreign investments shall be guaranteed against subsequent legislative changes.

### *Protection Against Expropriation*

The Bulgarian Constitution allows forcible expropriation of property in the name of the state or for municipal needs only if effected by virtue of a law provided that these needs cannot otherwise be met, and after a fair compensation has been ensured in advance.

The State Property Act and the Municipal Property Act govern expropriation under Bulgarian Law.

The Foreign Investments Act provides additional protection to foreign investors. The first added protection granted to foreign investors is that the expropriation may only occur for exceptionally important state needs, which cannot be otherwise met. Immovable property owned by foreign persons may not be expropriated for municipal needs.

As another protection for foreign investors the Law requires compensation in the form of another immovable property in the same location, and only given the foreign investor's consent, in another location, or by cash if the foreign investor prefers so.

Compensation equals the immovable property's market price on the day of expropriation.

### *Establishment of Enterprises with Foreign Investment*

Bulgarian legislation provides for the establishment of enterprises with foreign investment. These must take the form of any of the business organizations stipulated in the Commercial Code. There are no limitations as far as the share participation of foreign persons is concerned.

### *Profit and Capital Repatriation*

Bulgaria has established a liberal regime for repatriation of after-tax profit and capital.

Foreign investors can freely purchase foreign currency and transfer it abroad upon presentation of receipt for paid taxes in the following instances:

- income generated through an investment;
- property alienation driven indemnification proceeds, when for state needs;
- liquidation quota resulting from the termination of the investment;
- proceeds from the sale of the investment good;
- a sum received after the enforcement of a writ of execution.

This right may also be exercised by foreign individuals working in the country, with respect to the remuneration received by them, and by foreign nationals who have obtained a permit for permanent residence and are registered as sole traders or participate in a co-operative or as an unlimited partner in a partnership, after a certificate for paid taxes is submitted.

#### *Ownership of Real Estate*

According to the Bulgarian Constitution foreign nationals and foreign legal entities may not directly acquire ownership rights on land. If foreigners inherit land in the country, they are obliged to transfer the ownership of the land to local natural or legal persons within three years after the inheritance becomes effective.

The above restrictions, however, do not concern Bulgarian companies with foreign participation, irrespective of the percentage of the foreign participation in the company. Thus foreign persons can acquire full land ownership rights, including ownership rights on agricultural land by setting up or joining a company incorporated under the Bulgarian legislation.

Foreign nationals and foreign legal entities are free to acquire property rights over buildings and limited property rights (right to build and right to use) over real estate, including residential property rights. In these cases, permission from the Ministry of Finance is required due to foreign exchange regulations. Bulgarian companies with foreign participation (100 % inclusive) do not need a permission to acquire ownership rights over real estate.

At the request of an investor, the Foreign Investment Agency may trigger a special mechanism for institutional support and propose to the competent authorities (regional governors or municipal councils) to transfer, further to the State Property Act and the Municipal Property Act, limited property rights (right to build and right to use) on real estate - state private or municipal property, with the view to implement a priority investment project.

Foreign persons and companies with foreign participation need an advance authorization from the Council of Ministers to acquire ownership rights over real estate in border zones and in areas of national security importance as determined by the Council of Ministers.

#### *Inter-ministerial Groups for Institutional Support for Priority Investment Projects*

The Foreign Investments Act allows special institutional help for the investors accomplishing an investment project acknowledged by the Council of Ministers as priority one.

At the request of the investor, the Foreign Investment Agency may propose to the Council of Ministers to form an inter-ministerial group, comprising representatives of ministries and agencies concerned, in order to provide institutional support for appointed investment projects acknowledged by the Council of Ministers as priority investment projects.

Based on the institutional support mechanism, the Council of Ministers recently set an inter-ministerial group in order to co-ordinate the institutional help to the "green-field" investment project of Metro Group in Bulgaria.

## *Major Trade Agreements*

**WTO:** Bulgaria is a member of the World Trade Organization since 1 December 1996.

**EUROPEAN UNION:** In March 1993, Bulgaria signed a European Union Association Agreement, coming into force on 1 February 1995 (though the Interim Agreement covering trade components came into force on 31 December 1993). In accordance with the above agreement, customs duties and other tariff restrictions between Bulgaria and the EU countries on industrial goods are being dismantled and should be completely eliminated by 2002 at the latest. Since 1998, import of industrial goods with Bulgarian origin into the EU countries is duty-free. Significant relief in trade with agricultural goods is also provided.

**EFTA:** According to the Agreement between Bulgaria and the European Free Trade Association (in force since 1993), preferences on trade with EFTA countries (Switzerland, Norway, Island and Liechtenstein) are granted under almost the same terms and conditions as those pursuant to the EU Association Agreement.

**CEFTA:** Bulgaria became a member of the Central European Free Trade Agreement in July 1998; the trade component of this agreement came into force on 1 January 1999. In accordance with the above agreement, Bulgaria has begun a process of liberalization of trade with industrial and agricultural goods with CEFTA countries (Poland, Czech Republic, Slovakia, Hungary, Romania and Slovenia) which will be completed by 1 January 2002. Since 1996 reduced duties on some goods imported from the Czech Republic and the Slovak Republic are applied and since 1997 for imports from Slovenia in accordance with the previous bilateral Free Trade Agreements.

**FREE trade agreement with Turkey** came into force on 1 January 1999. Customs duties will be reduced gradually until 2002.

**FREE trade agreement with Macedonia** came into force on 1 January 2000.

## *Foreign Trade Regulation*

Bulgaria applies a liberal foreign trade regime that meets GATT/WTO requirements. A limited number of goods are subject to administrative control.

### Export Regulation

Permits (licenses) are required for transactions with several commodity groups. These are: export and re-export of precious metals, general anesthetic and psychotropic substances and controlled chemicals for manufacture of such substances, nuclear materials and equipment, explosive materials for civil use, hunt and sport weapons, gas weapons and some others; export of sowing seeds, unprocessed wood, etc.

Bulgaria applies export quotas only for those goods, which are subject to international agreements. Quotas are applied and export permits are required for the export of textile to the USA and Canada. Bulgaria applies export fees only for timber; these fees do not apply when the export is to the countries subject to preferential treatment.

No custom duties are charged for exported goods.

## Import Regulation

Transactions of a small number of goods are subject to registration. With regards to the introduction into the customs territory of the Republic of Bulgaria, they include polycarbonates, as well as stampers (matrixes) for compact disk production. With regards to the import, they include coal and coke, oil and liquid fuels, natural gas, metals.

A limited number of commodity items are subject to permits (licensing). With regards to the introduction, they include precious metals, general anesthetic and psychotropic substances and controlled chemicals for their manufacture, drugs and substances for their production, some chemicals, nuclear materials and equipment, explosive materials for civil use, hunt and sport weapons, gas weapons, protected animal and plant species, plant protection substances, hard alcohol drinks in bulk and others. With regards to the import, they include ready-made medicines and diagnostic forms, substances and raw materials for their production, dentists' materials, asbestos, etc.

The import of the following commodities is prohibited: dangerous substances with ozone-destructive potential (freon gases), machines and devices for air-conditioning, fridges, freezers and other equipment containing freon 12 or freon 11.

### *Customs Act and Tariff System*

The new Customs Act that came in force on 1 January, 1999 is based on the EU Customs Code. The same terms and regimes as those of the EU are applied: introduction into customs territory, import, temporary import, temporary storage, transit, export, temporary export, active and passive improvement, processing under customs control, postponed payment, etc.

The Bulgarian Customs Tariff, the latest version of which entered in force on 1 January, 1999, is based on the International Harmonized Commodity Description and Coding System and on the EU Combined Nomenclature; the recent changes to the Combined Nomenclature, published in Official Journal, 292/30 October 1998 are taken into account.

The adoption of both the new Customs Law and the modified Customs Tariff is a part of the National Strategy for joining to the European Union.

The customs clearance of goods requires the presentation of a customs declaration, which is similar to the Single Administrative Document (SAD) used in the EU, accompanied by the required commercial documents like invoices, certificates of origin, transport documents or any other relevant official papers.

In the new Customs Tariff customs duties on significant number of industrial goods are reduced; the average rate for these goods is 12.58% with respect to the import from countries treated according to the Most Favored Nation principle.

A large number of commodity groups are treated with 0 rate of customs duties: metal ores, most kinds of coal and coke, natural gas, major parts of medical instruments and equipment, most kinds of medicines, rubber, unprocessed wood, PC hardware, some agricultural machines, civil aircraft, etc.

According to the Association Agreement with the European Union for 1999 a large proportion of the imports from the EU countries is taxed with reduced or zero import

duties. According to the Agreement with EFTA countries, preferences for import of goods originating from EFTA countries are granted under almost the same terms and conditions that relate to EU countries.

Reduced or zero duties on a large group of products imported from the CEFTA countries and Turkey are applied in accordance with the respective Free Trade Agreements.

To ensure a greater transparency, the rates of customs duties with respect to EU, EFTA, CEFTA countries and Turkey are included in the Customs Tariff as annexes.

Bulgaria applies the General System of Preferences, recommended by the UNCTAD, which sets lower tariffs for imports from developing countries.

Bulgaria's membership in the World Trade Organization guarantees the stability of the customs duty system.

#### Trade License

Some trade activities in the country are subject to licensing (permission) by the appropriate authorities. Permission is required for production and trade of wine, alcohol and alcoholic drinks; trade activity with ferrous and non-ferrous metal scrap; production and trade with sowing and seedling material; production and trade with drugs, processing and trade with tobacco and tobacco products, etc.

#### Free Trade Zones

The free zones were established in Bulgaria in 1987. The new economic agenda of the country raised the profile of the free zones. There are six duty-free zones in Bulgaria. All of them are initiated and provided with land and infrastructure by the state. A purpose-set joint stock company manages each zone or a state owned company. The duty-free zones are located on strategic transport routes leading to the main international markets: the EC, the Central European and ex-Soviet countries, the Middle East and Northern Africa. Two of them are along the Danube River at the ports of Vidin and Rousse with an access to Central and Western Europe via the waterway Rhine-Maine-Danube, and with the ex-Soviet countries via the Ro-Ro line between the Port of Rousse and the Port of Reni - in Ukraine. Two other zones are at the cross points of the trans-European motorways, connecting Western and Northern Europe with the Middle East and Greece - one near the Bulgarian-Serbian border in the town of Dragoman and the other in the city of Slivengrad close to the Bulgarian-Turkish border. Another duty-free zone is in Plovdiv, second largest city, situated in the heart of Bulgaria. It includes the territory of the Plovdiv International Fair and the industrial zone of the town having a very well developed infrastructure. The Plovdiv International Airport has got air connections throughout Europe, the Middle East and Northern Africa. The Bourgas duty-free zone is positioned next to the largest Bulgarian Black Sea port with convenient maritime connections to all Black Sea and Aegean countries. The zone includes a cargo terminal at the Bourgas International Port.

All kinds of production and trade activities and services are allowed to be performed on the territory of the free zones, as provided for in the Act.

Foreign goods may be kept in the free zones:

- under customs regime "import" as provided for in the law;
- without a special permission, as subject to operations designated to storage thereof, to improve their trade image and quality or processing for new delivery or sale;
- under customs regime "active improvement" according to the provisions of the Law;
- under customs regime "processing under customs control" according to the provisions of the Act;
- under customs regime "temporary import" according to the provisions of the Act.

Local goods, kept in the free zones, may be subjects only to operations aimed at their storage. Permission by the customs authorities is required for such operations. The local goods may be subject to other operations beyond storage, in case they will be exported.

Standard features of the Bulgarian free-trade zones are as follows:

- convertible foreign currency is in use;
- revenues can be transferred abroad freely without any restrictions;
- administrative structures relieve the investor's need to directly contact the local authorities;
- well-developed and convenient railway links;
- production and labour cost are low, as well trained and highly qualified labour is available.