

Bulgarian taxes related to real estate investments of foreign individuals



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There are a number of legal and tax issues which you should consider if you plan to invest in real estate in Bulgaria.

In general, foreigner residents pay the same taxes and fees related to real estate as Bulgarian residents. However, there are important exceptions which have to do with withholding taxation of certain types of income.

The main difference in the treatment of Bulgarian and foreign residents with respect to real estate is that foreigners cannot own land, but only buildings. This restriction does not apply if you incorporate a Bulgarian company. Bulgarian companies are subject to corporate taxation, the rate currently being 15%. Please seek additional tax and legal advice if you wish to incorporate and operate a Bulgarian company. **This brochure discusses the taxation of real estate investments (construction rights, buildings or parts of building) made by foreign individuals only.**

I. Taxes related to acquisition of real estate

1. Transfer taxes and fees

Upon transfer of title to real estate certain taxes and fees are due as follows:

- a transfer tax at 2% of the price of the property*
- a registration fee at 0.1% of the price of the property*
- a notary fee calculated as a percentage of the agreed price (between 1.5% for property up to BGN 1,000 and 0.1% for values above BGN100,000). The notary fee is capped to BGN 3,000.

Generally, these taxes and fees are due by the buyer. However, the parties can agree on other arrangements. If they agree to split the taxes and fees, by law, they will be jointly and severally liable for them. If they agree that the seller will pay the taxes and fees, the buyer will be considered guarantor of the payment. The notary who executes the notary deed on the transaction checks if the transfer taxes and fees have been paid.

Within 7 days of buying the property, a foreign buyer should register for statistical purposes at the local BULSTAT registry office. This registration would be used for identification of the investor before the Bulgarian authorities.

The buyer should also file a tax registration form within 2 months of the acquisition.

2. VAT

Please check in advance whether the seller is registered for Bulgarian VAT purposes, because if they are, the sale price will be subject to 20% VAT. The VAT base is the price of the property *, increased with all other taxes and charges.

* Please see the Note on the next page.

II. Taxes and fees related to owning real estate property

1. Annual real estate tax

There is a real estate tax of 0.15% of the Tax Value (see Note below) which is due in four instalments - by 31 March, 30 June, 30 September and 30 November of the current year. The tax can be paid in one instalment with a small discount.

2. Garbage collection fee

Each municipality determines garbage collection fees. These are either a percentage of the Tax Value of the property, or a percentage plus a fixed amount. This fee is usually due together with the annual real estate tax (as above).

Note: “Tax Value”

Please consider that in the event the agreed sale/purchase price is lower than the so called Tax Value of the property, the transfer tax and transfer fee, as well as the VAT will be due on the Tax Value (i.e. on the higher value of the two).

The Tax Value is an estimation which each local municipality determines for the properties in its vicinity. It is determined in accordance with a special methodology which takes into account physical parameters such as location, square area, etc. **However, it does not include research of the market prices and it is highly unlikely that the Tax Value would be higher than the market price agreed and paid by the buyer. We would strongly advise to always specify in the notary deed the value which you actually agree and pay for a property.**

On the other hand, the annual real estate tax and the garbage collection fee are due only on the Tax Value, and not on the actual acquisition cost of the property.



III. Taxes related to renting out real estate property

1. Withholding tax

Any rental income you have from the property is subject to 15% Bulgarian withholding tax. The withholding tax is levied on the gross amount of the rental income and no expenses can be deducted. Double Tax Treaties generally do not provide relief for this tax.

Depending on the type of *tenant*, the tax is paid in different ways:

- a)** If the tenant is a [Bulgarian company](#), it should withhold the tax from the rent and transfer it to the tax office.
- b)** If the tenant is a [Bulgarian individual](#), you have to pay the tax to the tax office where the tenant is registered.
- c)** If the tenant is a [foreign entity or foreign individual](#), you have to pay the tax to the Territorial Tax Directorate - Sofia.

You can obtain a certificate for paid taxes in Bulgaria by filing a tax return to the tax office where the tax was paid.

2. VAT

Renting property for office or holiday use is a VAT-able transaction. Renting for residential purposes is VAT exempt. If your VAT-able turnover from rent reaches BGN 50,000 for a period of 12 months, you will have to register for Bulgarian VAT purposes and start charging VAT on the rent invoiced after the registration.

Under certain conditions a VAT registered person is entitled to recover the VAT paid for the acquisition of the property. In view of this, you may also register voluntarily, if your turnover for not more than 12 months exceeds BGN 25,000. Advice and tax planning well in advance of reaching the relevant turnover is required, if you are seeking VAT recovery, as the deadlines are very short.



IV. Taxes related to sale of real estate property

1. Capital gains tax

Any capital gain you make on the sale of real estate located in Bulgaria is subject to 15% Bulgarian withholding tax.

The tax is levied on the difference between the sale price of the property and its acquisition cost (as evidenced by the notary deed for the acquisition). For tax purposes the acquisition cost of a property is the purchase price, adjusted with the inflation rate, or the Tax Value, if this would be higher.

Double Tax Treaties usually do not provide relief for this tax.

Similarly to the withholding taxation of rental income, the payment of tax on any capital gain made on the sale of the property is organised differently depending on the residence status of the *buyer* of the property and whether they are an entity or an individual, (see previous page).



2. VAT

If you are VAT registered, you will have to charge 20% VAT on the sale price of the real estate, increased with the transfer taxes and fees (save transactions with limited property rights which are VAT exempt).

Please note that VAT registration is mandatory if your turnover exceeds BGN 50 thousand for a period of 12 months. However, the VAT registration obligation would probably not be triggered if the sale is a one-off transaction. Please seek consultation in this regard.



3. Transfer taxes and fees

Transfer tax and fees are due, as described on page one.

V. Inheritance tax

Property inherited by a spouse or heirs of a direct line is tax exempt.

Bulgarian inheritance tax is levied on property exceeding BGN 250,000 (approximately EUR 125,000) and amounts to 0.7% for property inherited by brothers, sisters and their descendants, and 5% - for other heirs.



We hope this brochure covers your main tax questions relating to real estate investments in Bulgaria. If you need further assistance or advice, including in relation to establishing a Bulgarian company, we will be happy to offer you a proposal for services. Please contact:

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NB! Please note that the comments in the present brochure are for general guidance only, and do not represent comprehensive advice on Bulgarian tax law. We would recommend that professional advice be sought for each specific case, so that individual circumstances are taken into account.

Please note also that the above comments are based on the current tax legislation. Significant changes, especially in the area of VAT, are expected after the EU Accession of Bulgaria.

Summary of the main Bulgarian taxes related to real estate

Tax event	Tax	Tax rate	Tax base	Payment deadline
Acquisition	Transfer tax	2%	Sale price	Notary certification
	Registration fee	0.1%	Sale price	Notary certification
	Notary fee	Up to BGN 3,000	Sale price	Notary certification
	VAT * (land is VAT exempt)	20%	Sale price plus all other taxes and fees	Together with payment of the sale price
Ownership	Annual real estate tax	0.15%	Tax value	31 March, 30 June, 30 September, 30 November
Rent	Annual Garbage collection fee	Determined by each municipality	Tax value	Usually, as above
	Withholding tax on rent	15%	Rental payment (no deductions of costs)	Depends on the type of tenant (individual or entity, residence status). Either they withhold the tax at the time of payment or the landlord pays it within 30 days from receipt of payment
	VAT * (unless the property is rented out for residential purposes)	20%	Rental payment	14 days after the month of accrual
Sale	Capital gains	15%	The difference between the sale price and the documentarily evidenced acquisition cost	Depends on the type of buyer (individual or entity, residence status). Either they withhold the tax at the time of payment or the seller pays it within 30 days from receipt of payment
	VAT * (land is VAT exempt)	20%	Sale price plus all other taxes and fees	14 days after the month of accrual
Inheritance	Inheritance tax	Spouses and heirs of a direct line are tax exempt 0.7% for brothers, sisters and their descendants 5% for all other heirs	Tax value	Within 2 months of receiving notice of the due tax by the authorities

* if lessor / seller is VAT registered.