



Tax Newsletter

15% global minimum tax adopted in Bulgaria as of 1 January 2024

13 December 2023

In brief:

While Bulgaria is keeping its standard 10% nominal CIT rate, starting 1 January 2024, Bulgarian entities in scope of the so called global minimum tax will be subject to a minimum effective tax rate of 15%.

The law implementing the EU Global Minimum Tax Directive was finally voted by the Bulgarian Parliament on 12 December 2023.

Ever since the publication of the draft bill in September 2023, the key debate was around some important reliefs allowed under the EU Directive, that Bulgaria refused to introduce. After strong reactions from the business, the Parliament granted at least a partial relief for capital investments in fixed assets in Bulgaria.

The complex Pillar Two legislation will impact many large businesses in Bulgaria. Companies should prioritize the analysis of the financial and administrative impact of the new rules on their business organization.

Who will be affected

The minimum effective tax rate of 15% will apply to Bulgarian companies and permanent establishments, part of multinational or purely domestic groups, with a consolidated turnover above EUR 750 million for 2 out of the last 4 years.

How are top-up taxes calculated

New and complex rules will be introduced in the Bulgarian CIT Act to determine the effective tax rate (calculated on an aggregate basis for all entities in a given jurisdiction) and top-up taxes due (where the effective tax rate for a jurisdiction is below 15%).

These include special rules and book-to-tax adjustments for calculating the taxable base, taxes paid, etc.

Top-up taxes in Bulgaria

Bulgaria is introducing three taxing mechanisms:

- Domestic top-up tax - Bulgarian companies will pay directly to the Bulgarian budget a top-up tax to reach 15% effective tax rate - if their (aggregate) effective tax rate was below 15% – **applicable as of 1 January 2024**;
- Top-up tax under the Income Inclusion Rule - broadly, Bulgarian ultimate parent companies will pay top-up tax with respect to Group companies / subsidiaries that were taxed below 15% effective rate at their (aggregated) jurisdictional level - **applicable as of 1 January 2024**;
- Top-up tax under the Undertaxed Profits Rule - a specific backstop mechanism **as of 1 January 2025** where the Group's parent company does not apply the Income inclusion rule.

Substance-based carve-out for investments in fixed assets

Bulgarian entities calculating their domestic top-up tax will be allowed to reduce their taxable base with a percentage of their eligible tangible assets value. The percentage will start off at 8% in 2024 and over the next 10 years will gradually decrease to a permanent 5%.

Reliefs denied for the domestic top-up tax

Other important reliefs available under the EU Directive, will not be introduced to the Bulgarian domestic top-up tax. These include:

- the substance-based carve-out for percentage of payroll costs,
- the de minimis relief (zero top-up tax for Groups with less than EUR 10 million turnover and EUR 1 million profit in Bulgaria), and
- the 5-year relief for initial phase of international expansion of Bulgarian businesses.

Transitional safe harbours based on qualified CbCR data

Three transitional safe harbours will allow zero top-up tax for a given jurisdiction, if any of the tests below are met. These are based on qualified CbCR data and would typically be available for three years as per OECD guidance:

- *de minimis* (less than EUR 10 million turnover and EUR 1 million profit in aggregate for the entities in Bulgaria);
- *simplified ETR* (calculated using financial accounts and CbCR data) is at least 15% in FY24, 16% in 2025 and 17% in 2026;
- *routine profit test* (profit before tax as per qualified CbCR does not exceed the substance-based carve out calculated as per the global minimum tax rules for personnel and tangible assets).

Application of the transitional safe harbours should be explored. Certain formal election steps need to be observed.



Let's talk

For a deeper discussion on how the new global minimum tax rules might affect your business, please contact:



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