



Shape the future  
with confidence

# Tax Agenda Bulgaria

October 2024

No.	Fact	Action
1	<p><b>Minimum taxation under Pillar 2 rules</b></p> <p>In December 2023, Bulgaria adopted the amendment of its Corporate Income Tax Act (CITA), effectively transposing EU Directive 2022/2523 of 14 December 2022 (The Directive). The rules are the result of the OECD's BEPS Initiative for the introduction of a global minimum tax rate of 15% for multinational enterprise groups (MNE) and large-scale domestic groups. The amendments enact a national top-up tax (domestic top-up tax) from 1 January 2024 aiming to bridge the gap between the current corporate tax rate of 10% in Bulgaria and the 15% effective tax rate agreed upon on the OECD level. Bulgaria has introduced certain specifics under its domestic top-up tax rules, such as providing for a partial substance-based income exclusion (only for tangible assets and not for payroll expenses), not providing for a de minimis exclusion and other.</p> <p>Tax returns for the new top-up tax will be administered via a declaration submitted to the National Revenue Agency for each constituent entity. These returns must be filed within 15 months of the last day of the tax period and within 18 months with respect to the transitional period. The proposal envisions significant penalties for non-performance of administrative obligations by taxpayers.</p>	<p>This new tax regime would have wide-ranging consequences which taxpayers will need to take into account and prepare for. It is important for companies to consider the potential impact of the new rules on their business and internal procedures, as well as the possibility to make use of the available safe harbors for the first several periods.</p>





● Compliance    ● Risk management    ● Cash-flow and ETR impact

Use text boxes above the timeline to plan your actions for coming months

No.	Fact	Action
2	<p><b>Bulgaria ratified the Multilateral Instrument (MLI) to modify its existing tax treaties</b></p> <p>Bulgaria deposited its instrument of ratification for the MLI Convention in September 2022 and the latter has entered into force on 1 January 2023. The country elected to affect a significant part of its treaty network under the MLI and it has made use of several of the optional provisions. Some of the notable amendments concern the right to tax capital gains on transfer of shares in real estate rich Bulgarian entities by their foreign holding vehicles, as well as a number of measures tackling artificial avoidance of permanent establishments.</p>	<p>The ratification of the MLI could have a direct impact on exit plans in the real estate industry, as well as any foreign entities that sell goods on the Bulgarian market without being established through a local branch or a related distribution entity.</p> <p>Furthermore, foreign tax residents claiming tax relief would likely have to evidence that they have not put in place an arrangement or transaction with the main objective of obtaining tax benefits under the treaty.</p>
3	<p><b>Bulgaria and Malta move forward with renegotiation of the Double Tax Treaty</b></p> <p>On 15 May 2024, Bulgaria's Finance Minister was authorized to sign a revised DTT with Malta. It is expected that it would incorporate the minimum standards envisioned under the MLI, including the principal purpose test, denying treaty benefits to arrangements having as their primary aim to obtain treaty benefits in contravention to the purpose of the treaty, as well as an updated mutual agreement procedure relief mechanism, and an updated clause requiring corresponding adjustments related to transfer pricing matters.</p>	<p>Further developments on the negotiations are expected in the following months and taxpayers could need to assess their tax position.</p>
4	<p><b>Notional interest income may not benefit from WHT exemption</b></p> <p>In January 2023, the Supreme Administrative Court issued a judgment, where it did not provide for WHT relief under any of the EU Directives with respect to notional interest assessed by the tax administration on an initially non-interest bearing debt. The judgment follows the interpretation provided under the Court of Justice of the EU's ruling on the same case (C-257/20) under which it was settled that EU Directives do not prevent the application of withholding tax on notional interest.</p>	<p>Leveraged taxpayers should assess their arrangements on debt in light of this case law.</p>
5	<p><b>Supreme Administrative Court rejects the tax administration's assessment on inter-group financing</b></p> <p>In May 2024, the Supreme Administrative Court issued its judgement on a case where the tax administration had deemed a refinancing of a loan did not adhere to arm's length conditions and further regarded that the interest income recipient was not the beneficial owner of the income. The court revoked the assessment act in its entirety, on the grounds that refinancing did not deviate from market practice and furthermore the income recipient economically benefited from the interest income.</p>	<p>Companies should periodically assess their position on intra-group dealings in order to evaluate any potential risks in lights of the changing economic environment, which could provide for new and better alternatives compared to the moment when the transaction was entered into.</p>

No.	Fact	Action	
6	<p><b>Introduction of DAC7 in Bulgaria</b></p> <p>Adopted changes in December 2022 to the Tax and Social Security Procedure Code transposing the rules of the Directive (2021/514) have introduced the automatic exchange of information for both EU and non-EU digital platform operators. This may have an impact on digital platforms, the rental of real estate, rental of any means of transport, the provision of personal services and the sale of goods. The first reporting obligations would be for the period 2023 with report submissions by January 2024.</p>	<p>Latest initiatives on administrative cooperation on tax matters impose reporting obligations for taxable persons, therefore it is paramount for the concerned companies to consider their readiness and resources to comply with reporting obligations.</p>	
7	<p><b>Distribution of advance (interim) dividends</b></p> <p>Historically in Bulgaria, the distribution of interim dividends (i.e., dividend distribution prior to year-end, based on current year profit) has been contested by the tax authorities and treated as hidden profit distribution. In a recent non-binding ruling issued by the Bulgarian tax administration on the topic from 9 June 2022, the tax authorities have acknowledged that distribution of dividends in advance could be tax compliant under certain conditions.</p>	<p>Although the tax ruling is non-binding it could provide a source of guidance as it also refers to a certain court practice and its interpretation is expected to be followed by the tax administration.</p>	
8	<p><b>Supreme Administrative Court rules on the tax auditors' approach to apply a different TP method</b></p> <p>In June 2024, the Supreme Administrative Court revoked an assessment act where the tax administration had challenged a Bulgarian taxpayer's transfer pricing policy, as the tax auditors had not provided sufficient evidence the taxpayer's approach did not result in an arm's length result. Furthermore, the Court outlined that aggregating several related party dealings and analyzing them under a single TP method was permissible where they cannot be evaluated adequately on a separate basis. Considering the tax auditors did not provide strong arguments why the transactions cannot be reliably analyzed on a transaction-by-transaction basis, the aggregation approach was not allowed and further motivated the revoking of the assessment act.</p>	<p>The described case further showcases the revenue authorities' detailed review of the taxpayers' transfer pricing documentation during tax audits. Furthermore, it appears for manufacturing companies employing significant non-current tangible assets, the tax administration tends to perform a separate transfer pricing analysis based on the return on assets as a preferred profit level indicator.</p>	
9	<p><b>Introduction of VAT bad-debt relief</b></p> <p>From 1 January 2023, a right to adjust the tax base in case of total or partial non-payment of the supply (the so-called bad debt relief) was introduced in Bulgaria. This will allow a supplier who has not received payment from his customer to refund the tax charged and paid into the budget for the supplied good or service. The new provisions regulate the rules for documenting the adjustment of the tax base, the conditions for such adjustment, exceptions, as well as the procedure for adjusting the tax credit deducted by the recipient, etc.</p>	<p>The new rules will allow consumer facing businesses to obtain VAT relief for bad debt with relation to their taxable supplies. Nevertheless, the procedure and requirements in obtaining this tax relief require certain reporting formalities, which should be adhered to. Businesses should assess whether they meet the criteria and whether they have the necessary internal procedures which would allow them to be eligible for this relief.</p>	

No.	Fact	Action
10	<p><b>New VAT rules on destroying/scraping goods</b></p> <p>From the beginning of 2024 new rules with respect to destroying/scraping goods have been introduced in Bulgaria. Namely, there would be no need for a VAT adjustment for goods which have been scraped when it is duly proven such goods have lost all usefulness and relevant conditions have been met.</p>	<p>Taxpayers would need to assess their scrapping procedures and the collected documentation under such processes.</p> 
11	<p>In December 2023, Bulgaria adopted the legal amendments for the transposition of Directive (EU) 2021/2101, providing for the introduction of the new public Country-by-Country (CbC) reporting requirements in Bulgaria (The Public CbcR Directive). The Public CbcR Directive is aimed at increasing tax transparency requiring multinational groups and large domestic groups to disclose certain information on their corporate income tax status.</p> <p>The new rules require standalone entities and ultimate parent entities of MNE groups with consolidated revenues of no less than EUR 750 million in each of the last two consecutive fiscal years to issue an annual report disclosing information on the income taxes accrued and paid by group entities. Where the ultimate parent entity of the group is situated in a third state and upon certain conditions Bulgarian subsidiaries or branches may need to adhere to the disclosure obligation. The disclosure obligation comprises of an annual report which must include revenue streams, pre-tax profits, tax accrued, paid and other.</p>	<p>Entities in Bulgaria obligated to prepare a Public CbcR Report must file the relevant report with the Commercial Register and Register of Non-Profit Legal Persons within 12 months after the end of the respective reporting period. Entities which fail to meet this obligation may be subject to significant sanctions.</p> <p>The rules are envisaged to apply as of 1 January 2025.</p> 

## Contacts:

Viktor Mitev  
 Partner, International Tax & Transaction services  
 Ernst & Young Bulgaria EOOD  
[viktor.mitev@bg.ey.com](mailto:viktor.mitev@bg.ey.com)

Viktor Borisov  
 Senior Manager, International Tax & Transaction services  
 Ernst & Young Bulgaria EOOD  
[viktor.borisov@bg.ey.com](mailto:viktor.borisov@bg.ey.com)

Kameliya Marinova  
 Manager, International Tax & Transaction services  
 Ernst & Young Bulgaria EOOD  
[kameliya.marinova@bg.ey.com](mailto:kameliya.marinova@bg.ey.com)

## EY | Shape the future with confidence

EY exists to build a better working world, helping create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

© 2024 EYGM Limited.  
EYG no. 372519-24Gb  
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal, or other professional advice. Please refer to your advisors for specific advice.

[ey.com](https://ey.com)

