
Property Tax Conditions

Tax Conditions for Property Investors in Bulgaria

Bulgaria offers one of the best taxation laws in Europe to stimulate economic activities, foreign business and property investment. The country is now part of the EU and all EU citizens benefit from special taxation treatment. They are taxed as local persons and can take advantage of the attractive taxation in Bulgaria. Here we explain how.

We emphasize on the most important issues in this article. For additional customized advice and comments, please send us your enquiry.

There are two groups of tax liable persons – physical persons and companies. Physical persons’ taxation is explained in Section I and corporate taxation – in Section II of this article.

I. Physical persons’ incomes taxation in Bulgaria – this is applicable to physical persons who own apartments in Bulgaria.

Property owners, who have houses or plots of land in Bulgaria, please read section II. Corporate taxation is applicable in your cases as you have established limited companies in order to own property in Bulgaria.

The law makes a difference between the physical persons who are local or are citizens of EU countries and those who are citizens of countries not part of the EU. Thus, we will point out the taxation for each of those 2 groups:

1. Taxation for incomes of physical persons who are local or are citizens of EU countries or countries that belong to the EU economic area.

TAX FREE INCOMES

1. Incomes received from the sale or exchange of up to one residential property per year. It is not necessary for the owner to have lived in the property but it needs to be a residential property, not land. There is also no requirement for the term of possession of the property – this means it can have been bought at any time, even during the same year.

This gives very good opportunities for property investors who buy for investment and resale as their incomes will not be taxed.

2. Incomes received from the sale or exchange of up to 2 residential properties as well as agricultural land or forests (there is no restriction on the number of land and forests) if the above properties have been possessed by the person for more than 5 years.

Apart from property incomes, there are also a number of other sources of income which are tax free. Some of these are the incomes from deals with public limited company shares traded on the Bulgarian stock exchange. Any interest gained on funds in personal savings accounts in Bulgarian banks or international bank branches in Bulgaria are also tax free.

WHAT IS NOT AN INCOME (and is thus tax free)?

The law doesn’t regard as an income the properties which are inherited or donated. The company shares received from non-monetary installments into trading companies are also not an income.

TAXABLE INCOMES

1. The sales or exchange of more than 1 residential property per year.

2. The sale or exchange of agricultural land or forests no matter of their number if they are owned by the seller for less than 5 years. This is something that doesn’t apply for foreign persons as they cannot own land as physical persons and they need to set up limited companies, thus they need to refer to section II for corporate taxation issues.

3. Property rental incomes

2. Incomes taxation of physical persons who are not local or are not citizens of EU countries or countries that belong to the EU economic area.

All incomes from the sale, exchange, rent or any other property right, which is paid for, received by persons who are not local and are not citizens of EU countries or countries in the EU economic area, are taxed. The tax rate is 10% and is collected and paid by Bulgarian Properties if they serve as an agent in the deal.

3. Dividend tax

The dividend tax rate is 5% and it is applicable for incomes received in the form of shared profit by all Bulgarian or foreign physical persons when the source of income is Bulgaria. This means that if a person owns (or has a share in) a company in Bulgaria and this company trades in the country and shares profit, the physical person owner (or shareholder) of the company is taxed with 5% dividend tax, which is collected and paid to the state by the Bulgarian company, which shares the profit.

II. Corporate incomes taxation in Bulgaria

Corporate incomes taxation is applicable to the net profits of Bulgarian companies from their trading activities. This means that if you are a foreign person and you have established a company in Bulgaria in order to buy a house or land, when renting or selling the property on behalf of the company, you are entitled to pay corporate tax.

The tax rate is 10% and is calculated on the difference between the total incomes of the company for the year less the total expenditures. All Bulgarian companies submit tax declarations and pay their annual corporate taxes by March 31st each year.

There are no tax free corporate incomes and no matter how long the property is owned by the company, the company always pays taxes in case of property sale or rent.

IMPORTANT: All Bulgarian companies must submit tax declarations by March 31st no matter if they have traded or not – this is compulsory and all companies should have an accountant to take care of this. If you need help in finding an accountant, please let us know.