



The OOD in Bulgaria

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Establishing a company in a foreign country can be challenging in terms of designing the legal structure and organising a streamlined and efficient incorporation process. Alliuris member firms provide corporate legal services, in particular for the formation of companies in their home country.

This article provides a brief overview of the legal form of a limited company in Bulgaria.

Choice of Seat and Place of Incorporation

When establishing an OOD, the location of its seat and place of incorporation must be chosen carefully. Bulgaria's unitary government system ensures uniform legal treatment across the country, but regional economic incentives, local infrastructure, and access to skilled labor may vary. Special Economic Zones (more commonly referred to as Free Economic Zones in Bulgaria), often situated near major cities or transport hubs, can offer tax incentives and administrative benefits for businesses.

Shareholders

An OOD can be founded by one or more individuals or legal entities, including foreigners. The shareholders' liability is limited to the amount of their contributions to the company's registered capital. Shareholders can be natural persons or legal entities of any nationality, and no residency requirement applies to them. In the case of a single shareholder, the company is referred to as a 'Single-Member Limited Liability Company' (EOOD). Foreign shareholders need to designate a local representative to act on their behalf for receiving legal correspondence and interacting with Bulgarian authorities, particularly for tax compliance purposes.



Management

An OOD is managed by one or more managing directors appointed by the general meeting of shareholders. Managing directors can be Bulgarian citizens, EU citizens, or nationals of third countries, provided they have the necessary permits to reside and work in Bulgaria if required.

The managing directors are responsible for representing the company before third parties, overseeing day-to-day operations, and ensuring compliance with Bulgarian law. The articles of association may grant joint or individual authority to the directors. While there is no legal requirement for the directors to hold shares in the company, their responsibilities and liabilities as managers are significant under Bulgarian corporate law.

Formation

The process of forming an OOD involves the following steps:

1. Preparation of Articles of Association: The articles must include the company's name, registered office, business activity, share capital, management structure, and rules for profit distribution.
2. Founding Meeting to adopt the Articles of Association and choose the management: all shareholders must vote on establishing the entity and accepting the Articles and the management, which is stipulated in a document, containing the minutes of the Founding Meeting.
3. Bank Account for Capital Deposit: The company must open a capital account with a Bulgarian bank to deposit the initial share capital. Proof of this deposit is required for registration.
4. Registration with the Commercial Register: The company must file for registration with the Bulgarian Commercial Register, maintained by the Registry Agency. Required documents include the articles of association, the minutes from the founding meeting, notarized consent and signature specimen of the managing directors, and proof of capital deposit, and other declarations. For the registration of companies with an intended activity for which a separate law requires additional permission of a state authority, the relevant license or permit must be submitted also.
5. Tax Registration: The Commercial Register automatically notifies the Bulgarian National Revenue Agency (NRA) of the company's formation, if the company wants to. The whole process for OODs, which don't require any additional licensing or permission for their activity, takes roughly 2 weeks, if everything is alright with the documentation.

Share Capital

The minimum share capital for an OOD is 2 BGN or approximately 1 EURO (after Bulgaria enters the Euro zone, the minimum capital will be fixed to 1 EURO). This low threshold makes the OOD an accessible choice for new businesses. The share capital must be fully subscribed and deposited before registration. Shares may vary in size for individual partners. A share may be held jointly by several people.

Additional capital contributions or in-kind contributions, such as assets, are allowed and must be properly evaluated.

Registration with Local Authorities

In addition to registering with the Commercial Register, the OOD must:

- Register with the local municipality for trade licensing if it intends to open a commercial store.
- Notify the Regional Health Inspectorate and Labor Inspectorate if it intends to employ staff.

Certain industries, such as construction, hospitality, and food production, may require additional permits or certifications from relevant authorities.

Tax Registration

Upon registration in the Commercial Register, the company automatically receives a tax identification number (TIN) from the NRA. The company may also need to apply separately for a VAT identification number if its taxable turnover exceeds 166 000 BGN or approximately 84 874 EURO (after Bulgaria enters the Euro zone, the minimum taxable turnover for mandatory tax registration shall be fixed to 84 874 EURO) in the preceding 12 months or if it engages in intra-community transactions within the EU. If the turnover is lower, then tax registration is not mandatory.

Anti-Money Laundering Measures

OODs are subject to Bulgarian and EU regulations on anti-money laundering (AML). Companies must identify and disclose their beneficial owners in the Bulgarian Beneficial Ownership Register. This register is publicly accessible and aims to promote transparency in corporate ownership.

Foreign Investments

Bulgaria generally welcomes foreign investment and imposes no restrictions on the ownership of OODs by non-residents. However, certain sectors such as defense, telecommunications, and energy may require government approval for foreign participation.

The country is also attractive to investors thanks to its favorable geopolitical location, EU membership and a national currency tied to the euro.

Customs (Export/Import)

OODs engaged in international trade must register for a customs identification number with the Bulgarian Customs Agency. This allows them to access the EU Customs Union and benefit from simplified customs procedures, such as the Authorized Economic Operator (AEO) status for frequent exporters and importers.

Bank Account

After the company is registered, it can open a corporate bank account for operational use. Most Bulgarian banks require:

- A copy of the registration certificate from the Commercial Register.
- Identification documents of the managing director(s).
- Proof of address for the registered office.

Compliance with Know Your Customer (KYC) regulations is mandatory, and banks may request additional documentation to verify the ultimate beneficial owners of the company.

Accounting and Financial Reporting

An OOD must maintain proper accounting records and prepare annual financial statements in accordance with the Bulgarian Accounting Act and International Financial Reporting Standards (IFRS) if applicable. Micro-enterprises, as defined by Bulgarian law, benefit from simplified reporting requirements.

The financial statements must be submitted to the Commercial Register and the NRA annually. Failure to comply can result in penalties.

Corporate Tax

The standard corporate income tax rate in Bulgaria is flat 10%, one of the lowest in the EU. This rate applies to the company's worldwide income. Additionally, companies are required to prepay their corporate tax in installments based on their estimated annual income. Bulgaria also has a very low dividend tax – 5%.

Therefore, both the low main corporate tax and dividend tax (10% and 5% respectively) represent an attractive investment opportunity.

As of 01.01.2024 an additional corporate tax was introduced for multinational and big national groups of companies with revenues for the last 2 years of at least EUR 750 mil., according to which the effective tax rate should not be less than 15 % on a national level. Despite that, Bulgaria remains one of the member states with the lowest corporate tax in the EU.

In addition, foreign investments are eligible for different kinds of state incentives, including tax breaks and financial aid.

The Corporate Income Tax Act provides for certain reliefs in corporate taxation for some of the companies' expenses such as business entertainment expenses (where the expenses for welcoming, staying and sending off guests and delegations; overnight stays; consumption of food and beverages; organizing business meetings; celebrations, entertainment events, are tax exempt), social expenses (where food vouchers up to BGN 200 per employee/month, transportation of all employees to their workplace, and additional voluntary social and health insurance for up to BGN 60 per employee/month are tax exempt) and weekend tax (where the company can receive tax reliefs for any assets that are given to employees for personal use). Of course, there are other reliefs per the Act, but most others depend on the activity of the entity and must be examined for each case individually.

Trade and Turnover Tax

The standard VAT rate in Bulgaria is 20%, with reduced rates of 9% for specific goods and services, such as hotel accommodations. VAT returns must be filed monthly, and any VAT payable is due by the 14th of the following month.

Staff

Employing staff requires the OOD to register with the Bulgarian Social Security Institute. Employers are responsible for withholding and remitting employee income tax and social security contributions. The total national insurance contribution rate (social security and health insurance) is approximately 33%, of which approximately 19% is payable by the employer and 14% is payable by the employee.

Employment contracts must comply with Bulgarian labor law, which provides for minimum wage requirements, annual leave entitlements, and protection against unfair dismissal.

Formation Expenses

The cost of forming a standard OOD includes:

- Notary and translation fees: starting at BGN 200-500 (approx. EUR 100-250), depending on the volume of the documents.
- Registration fees: BGN 55 (or approx. EUR 28) for electronic filing or BGN 110 (approx. EUR 56) for paper filing with the Commercial Register.
- Legal and accounting fees: depending on the complexity of the company's structure.

Keep in mind that additional fees for acquiring permits and licensing, courier costs for sending original documents for translation, etc., may arise, which depend on each individual case and cannot be calculated in advance.

Domiciliation Services

For businesses without an established office in Bulgaria, domiciliation services are available. These include a registered address, mail handling, and administrative support. Such services are particularly useful for foreign investors during the initial stages of operation.

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