



→ International Law Firm Alliance
COMPENDIUM 2013



Bazlyankov, Stanoev and Tashev Law Office was founded in 1991 in the town of Plovdiv by the lawyers Nikolay Bazlyankov and Dessislav Tashev. In 1997 Boyan Stanoev joined as a full partner and in 2009 lawyers Ekaterina Nikolova and Diana Ilieva became partners in the law office as well. Today BST law office is one of the biggest and most dynamically developing law firms in Bulgaria.

BST law office has established traditions in Bulgarian jurisprudence and has developed a number of legal activity in fields. We achieved success and prestige due to our professionalism and the enterprise of our ambitious team of lawyers, also due to our exceptionally correct relationship with clients, our sticking to commitments, our individual approach in accordance with the specifics of each case, and our ambition to achieve a successful solution and finalization. We provide full support in clients dealing with different administrative structures and we cooperate and help during the conducting of negotiations in favour of the client.

The process of our own development and improvement is an uninterrupted and dynamic one, with skillful seeking, acquiring and implementing of traditional and non-traditional methods and original ideas and solutions in the process of the work, as well as constant striving for and interest in the adoption of current innovations not only in the sphere of law, but in other fields too. Bazlyankov, Stanoev & Tashev law office is specialized in ensuring reliable and good quality representation of its clients before courts of justice, state and municipal authorities in the entire country.

Legal consultations are provided for Bulgarian and foreign natural and legal persons, for branches and representatives of foreign companies in Bulgaria, for public entities and nonprofit legal persons. The law office is a member of the Association of European Lawyers - AEL, of the International Association of Law Firms - E-iure and of the Global Network of Independent Law Firms - ALFA International.

The BST Law Office provides services in English, Spanish, Italian and Russian languages.

Areas of Practice

The firm is specialized in and deals with issues within the scope of:

COMMERCIAL LAW

- Incorporation and registration of companies
- Structuring of holding groups
- Share transfers
- Bankruptcy and liquidation

CONTRACTUAL LAW

- All kinds of Agreements
- Contracts under general conditions
- Public procurement

REAL ESTATE AND INVESTMENTS

- Real estate deals
- Consultations on investments in real estate
- Construction - requirements and procedures
- Notary proceedings
- Pledges and mortgages
- Legal analyses and research

PRIVATIZATION

- Privatization deals
- Structuring of privatization projects
- Negotiations with state authorities

TAX LAW

- Tax consultations
- Representation before the tax authorities
- Avoidance of double taxation treaties

COMPETITION LAW

- Concentration of industrial activity
- Unfair competition
- Representation before the Competition Protection Committee

INTELLECTUAL PROPERTY LAW

- Representation before the Patent authority of the Republic of Bulgaria
- Procedures and registration of trademarks and service brands, designations of origin and geographic designations
- Protection of intellectual property

LAW OF EMPLOYMENT AND INSURANCE

- Employment contracts, conclusion, amendment and termination
- Collective employment contracts
- Consultations in relation to the hiring of Bulgarian and foreign staff
- Labour disputes

CIVIL PROCEDURE LAW

- Preliminary assessment of legal disputes and preparation of suits
- Mediation - solving disputes outside of court
- Litigation before public courts of justice
- Arbitration agreements and procedures

ADMINISTRATIVE PROCEDURE LAW

- Challenging of administrative acts
- Normative requirements and rules of trade and consumer protection
- Consultations about regulation requirements in Bulgaria

The Team

BST law office has a team of lawyers, trainees, accountants, experts and administrators working. They are all exceptional professionals, each in his/her field, and they are dynamic and active people too. Our conduct, principles and relations are based on solidarity, a developed skill for teamwork as well as team spirit.

The initiative which we all support is to lead our clients to success and optimal and positive results. This is why we try to communicate in an accessible and understandable language, to give adequate advice and offer solutions in accordance with the case and the personality of each client. We lend our experience and knowledge and we guarantee responsibly and without reservations our commitment to the clients and their cases. We strive to make a positive impression of safety with our conduct and style of work.

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→ Corporate Law**Regulations and Rules**

Bulgarian corporate law now is codified and integrated into the Commercial Law. This act contains the most of the rules of company law – incorporation of the companies, changes in the capital /increasing or decreasing/ and the decision-making bodies, insolvency and liquidation of the company, merge of companies.

In Bulgaria, as a member state of the European Union, are in force the resolutions of the EU in the area of the corporate law and several commercial directives are implemented in the corporate legislation in Bulgaria.

Types of Companies

In Bulgaria there are different legal forms to develop business. The most frequently preferred types by Bulgarian and foreign investors are:

■ **LIMITED LIABILITY COMPANY /LTD/** - is a small and the most commonly incorporated company in Bulgaria. A company with minimum capital of 2 BGN /1 euro/. The partners can be Bulgarian legal or natural entities, as well as foreign legal or natural entities.

■ **SINGLE LIMITED LIABILITY COMPANY** - a single partner /a Bulgarian legal or natural entities, as well as foreign legal or natural entities/ possesses the whole share capital of the company, the minimum capital is 2 BGN /1 euro/.

■ **JOINT STOCK COMPANY /JSC/** - company with a minimum capital of 50 000 BGN /around 25 000 euro/ of which at least 25 % must have been paid at the time of incorporation. The capital is divided into shares.

■ **SINGLE SHAREHOLDER JOINT STOCK COMPANY** – there is only one shareholder who possesses the whole share capital, divided into shares.

All these companies are limited liability companies.

Other less common legal forms are:

■ **General Partnership** – is incorporated by two or more general partners who are unlimitedly liable

■ **Limited Partnership** – is incorporated by two or more partners, some of the partners are limited liable to the amount of capital contributed and other partners are unlimitedly liable.

The incorporation of a branch

A company, duly registered in Bulgarian Registry Agency, Commercial register can open a branch or branches in a town, different from the company's registered office. The incorporation of a branch requires to be taken a formal resolution of the decision-making body, authorising the establishment of a branch in other town in Bulgaria and appointing a representative. The branch does not have a legal personality and represents an economic structure, which is managed separately than the company but cannot have a separate balance. It is inscribed in the Commercial register and information about this separate registration should be present in the branch's correspondence.

The branch of a foreign company

The regulation regarding a branch of a foreign company in Bulgaria is provided in the Commercial Code. A foreign company duly registered under the national law of the respective country can open a branch in Bulgaria. For this purpose is necessary to be represented documents for the registration of the Company and the decision making body has to take a decision about the address of administration, representative, activity of the branch. It is provided that the branch has separate balance and should have, respectively reflecting on the tax issues – the branch of a foreign company is a different tax subject.

The Liability of Shareholders

In all of the limited liability companies /Ltd and JSC/ partners' / shareholders' liability is limited to the capital contribution. If a partner/shareholder participates actively in the management of the company in the capacity of manager/director, the one becomes liable for corporate wrong management in the event of bankruptcy. The shareholders are not liable for the Company's debts as the company and its shareholders are considered for company law purposes as separate legal persons.

Share Capital /minimum and minimum paid in amount/

COMPANY	MINIMUM (€)	MINIMUM PAID	IN AMOUNT (€)
Limited Liability Company / LTD /		1	100%
Single Limited Liability Company		1	100%
Joint Stock Company / JSC /		25 000	25%
Single Shareholder JSC		25 000	25%

Shares and Share Rights

The JSC and the Single JSC issues shares, which may be registered and bearer, ordinary or preferred. It is common a companies to issue only one class of shares, known as ordinary shares. In the articles of association of the Company are performed the rights and restrictions attaching to the shares. The shareholders who hold preferred shares would be expected to carry additional rights /for example - to receive extra dividends/. It is accepted for the shares to be freely transferable. However, it is the article of association to provide the restrictions to be transferred shares and the way of transfer. When shares are issued or transferred, details of the shareholder are registered in the company's statutory books and a share certificate is issued.

Corporate Governance

SHAREHOLDERS MEETING: Partners / Shareholders reserve the right to make certain decisions. Bulgarian Commercial Law distinguishes ordinary and extraordinary resolutions. As for the ordinary resolution the required majority is 50 % and for the extraordinary resolutions the required majority is $\frac{3}{4}$.

Ordinary resolutions, for example, are: approval the annual statement and the balance sheet, adoption of resolutions for reduction and increase of capital, appointing the manager, changing the corporate purpose, adoption resolutions for opening and closing of branch offices and for participation in other companies.

Extraordinary resolutions are: making amendments and supplements to the Articles of incorporation, admittance and dismissal of a partner/shareholder, transfer of the part of the company to a new member, adoption resolutions for acquisition and expropriation of real estates and real rights.

The resolutions for reduction and increase of capital are adopted unanimously by all partners /shareholders.

Minimum number of broad meeting/year – Once a year.

At least one shareholders meeting must be held each year in order to approve the accounts of the previous year. Both JSC and Single JSC must have a Statutory Auditor. The Board of Directors annually after the end of February composes for the previous year an annual financial statement and report for the Company's activity and presents them to the expert accountants-auditor appointed by the shareholders for examination and report.

MANAGEMENT: The General meeting of partners of a LLC made the most important decisions concerning the capital, the structure, management of the company, the admittance and expelling of shareholders, the acquisition and disposing of real estates, etc.

The ruling bodies of a JSC are the General meetings of shareholders to decide the most important issues. The other bodies depend on the system of management, which has been chosen. As there are usually a greater number of shareholders the law does not require unanimity for any decisions made by the General meeting. The General meeting is not entitled to make decision for acquisition or disposing of real estates as this issue is in the scope of the Board of directors' powers.

The one-level system includes only a Board of directors consisting of 3- 9 members which is the ruling and representative body of the company. The board chooses one of its members who, in his capacity of an executive director, solely represents the company and performs the basic

actions connected with the management but on the grounds of a relevant decision of the Board. The two-level system of management includes a Managing Board and a Supervisory Board which requires a well experienced method of cooperation between the two boards as some of the actions should be performed by the Managing Board with the consent of the Supervisory Board which chooses the members of the Managing Board and controls them permanently. The first system is widely used because of its larger flexibility and simplicity than the two-level system.

MANAGER AND EXECUTIVE DIRECTOR: appointment, dismissal, duties, remuneration. In the article of association of the company is provided which company body has the rights to appoint and dismiss a manager/executive director, his duties. The person who will act as a manager/executive director must sign a declaration - consent and provide specified information to the Commercial Register. By and between the Company and the manager/executive director can be concluded a management contract and to be stipulated his duties, remuneration and liability.

The General Meeting of the partners of LLC appoints and sets a manager of the company and his remuneration. The manager it is not necessary to be a partner. The owners of the share capital have the opportunity to appoint as a manager person who represents the company and binds it in its relations with third parties. The manager carries out the current management of the company and concludes agreements on behalf of the company.

The executive directors in a JSC are appointed by resolution of the members of the Board of Directors and the Board determines their remunerations. There are no specific rules on the level of remuneration and it will usually be a matter for negotiation.

The managers or the executive directors have to act in the Company interests and to take reasonable care for the Company action and not to accomplish some personal gains. The company is be represented by a Manager/ executive director. He shall organize and manage the Company's activities in compliance with the law and the resolutions of the General Meeting/ Board of Directors. The manager/ executive director has the rights to convene the General Meeting pursuant to Bulgarian legislation and the Article of association.

Minutes /filing with the registry of commerce and companies: Minutes must be kept in a Minute Book. They are signed by the Manager of a LLC and the executive director of the JSC and by the partners/ shareholders who are present at the General meeting. Only an authorized by the Board of Directors person can write the relevant information in the books.

In case of amendments and supplements to the Article of incorporation, changes concerning the capital, the structure and the management of the companies must notify the Commercial Register and an announcement for the convening of the General Meeting shall be done in the Commercial register.

The Commercial Register Act

The new Commercial register Act was adopted and approved by Bulgarian Parliament in 2006 and is in force on 01.01.2008. Parliamentary approval of the act fulfils a recommendation in the European Commission's Monitoring Report on Bulgaria of October 2005 to introduce electronic access to the commercial register and the requirements of Directive 2003/58 of the European Parliament and the European Council.

The enforcement of the new Commercial register Act is a step forward for creation of a central electronic register and enables cheaper and faster registration as well as simplifies and secures procedures accessible through Internet.

A new state agency was incorporated - a Registry Agency, Commercial register. This register facilitates the procedures regarding the incorporation and changes in the companies and ensures more transparency for the partners, shareholders of the companies and the connections between natural and legal persons. The applications regarding the companies are reviewed very fast which considerably helps the various business activities. If the administrator finds that the legal requirements are not met, he/she has to draw up a motivated refusal. The refusal can be claimed to the District court upon the location of the Company.

An indisputable asset of the act is the provision to introduce a standard centralized electronic registration system for companies and the direct and easy access to the company information.

The provisions of the new Act are currently applied in practice with ups and downs as some issues regarding the Commercial register shall be clarified and solved /such as delays with the inscriptions and different requirements of each administrator/.

The Commercial register Act provides that till 31.12.2011 is the deadline for free of charge re-registration of the existing companies in the Commercial register. The companies which do not re-register in the Commercial register will be liquidated by the Registry agency on the partners/ shareholders expense.

Sole traders and branches of foreign traders in respect whereof no re-registration has been requested within the time limit, shall be considered deregistered as of 1 January 2012. The relevant court of registration shall archive their company files.

The operations of companies and cooperatives in respect whereof no re-registration request has been filed within the time limit shall be wound up on 1 January 2012. Companies and cooperatives which have not re-registered within the time limit shall not have the right to pursue business activities, lodge claims or submit requests to initiate enforcement proceedings, perform disposal transactions with their property, except for transactions to pay the amounts due to employees, and to transfer amounts to extinguish public liabilities. Any disposal

transactions performed after 31 December 2011 with respect to any property of companies and cooperatives whose operations have been wound up shall be null and void.

Legal representatives of companies and cooperatives whose operations have been wound up as of 1 January 2012 may only receive declarations of intention addressed to the relevant traders, and may submit requests for declaring them bankrupt.

By 1 October 2012, the court wherewith the last registration of the relevant companies and cooperatives was made shall draft and send to the Agency a List of Sole Traders and Branches of Foreign Traders in respect whereof no re-registration has been requested within the time limit (List No. 1) and a List of Companies and Cooperatives in respect whereof no re-registration has been requested within the same time limit (List No. 2), such Lists indicating company file numbers, names, seats and registered offices, names of legal representative and BULSTAT codes, as provided to the court by the Agency.

The Agency shall re-register the trader, enter its liquidation, and appoint and enter a liquidator. The persons to be appointed as liquidators of companies and cooperatives in respect whereof re-registration and launching of liquidation proceedings have been requested shall be the persons entered as such companies' or cooperatives' representatives in the relevant registers of the court of registration. Where no representative has been entered, the person to be appointed as liquidator shall be the person nominated by the interested party, or the interested party himself/herself, where such interested party has so requested in the application.

The cost of the liquidation proceedings shall be borne by the trader. Where the trader does not have the funds needed for the performance of the liquidation, including the liquidator's remuneration, the interested party itself shall provide the funds for the performance of the liquidation, including the liquidator's remuneration.

Where the funds for the initiation of the liquidation proceedings and for the performance of the liquidation have been provided for by the interested party which requested the re-registration and liquidation of the trader, such party shall be fully reimbursed therefor immediately after the property is cashed down, before steps are taken to settle other creditors' claims.

The liquidator shall:

1. within one month after his/her entry, invite the company's creditors to claim their receivables, draft an initial liquidation balance sheet valid as at the time of the company's winding-up and submit it to the Agency for disclosure in the Company's account, together with an explanatory report on the balance sheet with an opinion on the need to submit a request to the bankruptcy court to declare the trader bankrupt;
2. provide the information requested by creditors in due time.

The liquidation shall be completed within one year of the date of entry of the liquidator but not later than 31 January 2017.

If the liquidator or creditors deem it necessary, the one-year liquidation deadline may be extended based on a substantiated proposal by the liquidator or upon request by an interested party addressed to the registration official, provided that such party has indicated its willingness to provide for the cost of the liquidation, including the liquidator's remuneration.

When the creditors' claims have been settled and the rest of the property has been distributed, or where it is found that the company has no property, the liquidator shall submit to the registration official a standard-form application requesting the trader's deregistration. Where it is found that the trader has no property but has liabilities, the liquidator shall request the court to open bankruptcy proceedings.

→ Foreign Investment

Bulgarian law has set up as a general rule complete freedom of foreign investments in Bulgaria. In the past two decades and in the present Bulgaria encourages the foreign direct investments. Public on public order in order to be defending national security may define the general rules of complete freedom of investments. In connection with the forthcoming acceptance of Bulgaria in the European Unity, Bulgarian Parliament approves some legal and administrative alleviation for the investors.

Registration with Government, authorities and permits

Investment Encouragement Act provides regulations about the investing in Bulgaria. The law does not restrict the foreign investment process. Although some actions in connection with the foreign investment are subject to declaration or prior authorisation. The regulation of the foreign investment projects is a serious encouragement and alleviation for the investing.

The transactions of real estate have to be registered if foreign personal or natural entities participate in the transaction. Prior authorisation is required if:

- any foreign investment may affect public order or security;
- any foreign investment related to the national defence, arms or explosives
- any foreign investment may seriously threaten public health
- if the investment may lead to a serious presumption of criminal activity

The relevant ministry to certain period can provide prior authorization. The Ministry can of course request further information if the application is incomplete, and this extends the review period. If the companies breach of the above duties, they bear sanctions under the penal and customs codes.

TRANSFER OF DIVIDENDS, INTERESTS AND ROYALTIES ABROAD: According to the Bulgarian legislation there are no restriction for the transfer of dividends, interest and royalties abroad. Bilateral tax treaties and double avoidance tax agreements provide withholding of taxes.

REPATRIATION PROCEDURES AND RESTRICTIONS: Bulgarian legislation does not apply any repatriation procedures or restrictions.

FOREIGN PERSONNEL, PERMITS, ETC.: All foreign personnel require residency permits but the regime of EU citizens is much more simplified. Work permits are necessary only for the long-term work. Application for work permits is issued of the National Employment Services.

→ Labour Law

Bulgarian labour law and the decisions of the Bulgarian labour courts regulate the employment mainly in favour of the employees. The relationships between the employees and employer and their obligations and rights are systematized and regulated in Labour Code. The access to the labour courts in Bulgaria is free and the employees are not required to pay any court fees. The employees frequently claim damages, obtained by wrongful dismissal.

Employments Contracts

The main classes of contracts are:

- fixed terms contract and
- indefinite terms.

These types of contracts can be concluded for part time and full time job.

COST OF DISMISSAL AND WRONGFUL DISMISSAL: The Labour Code regulates the reasons for employee's dismissal. The reasons can be non-execution of duties, gross misconduct or breach of the disciplinary rules in the company. If the dismissal is not based on one of the reasons, pointed in the Labour code, the employee is entitled to claim for damages. The employer can terminate a labour contract in some cases without prior notification. But in the most employment agreement is stipulated a prior notice period which period varies /from a month to three months.

It is frequently stipulated in the employment contract the employer to pay employee a severance indemnity for the dismissal. The legal minimum of the indemnities is equal to the fourfold monthly gross salary. It is possible the work contracts provide more favourable severance indemnities. In addition to the payment of severance indemnity, if the dismissal is judged illegitimate, an employer can be sentenced to pay damages to the dismissed employee. The amount depends on the actual damages suffered by the employee and is determined by the court.

EMPLOYMENT CONTRACTS FOR DIRECTORS; A SPECIAL REGIME: Directors and managers can be appointed by the General meeting of the partners of Limited Liabile Company or the Board of directors of Joint Stock Company. Their work contracts are concluded prior to their appointment. According to the Bulgarian commercial law this type of contracts are called contract for management. Their duties are defined in the article of incorporation of the company and the employer supervises their work process. The manager/director receives special remuneration for their specific duties.

If the manager/ director has other work contract it may be suspended for the period of their management. After the termination of their appointment as a manager/director, the employment contract begins to operate again.

Bulgarian commercial law regulates the special regime of the procurator. The General meeting or the Board of Directors appoints a procurator – special representative and manager of the company who can acts at the same time with the manager/ director.

Employee's Representatives and Union Representation

BRIEF IDEA OF THE INFLUENCE OF THESE GROUPS IN LABOUR CONTRACTS: On a national level, employees' representatives the trade unions, and employers' representatives, negotiate the provisions of new laws and the conditions of the Collective Bargaining Agreements.

In a company trade unions and employees representatives are connects employers and employees. Bulgarian labour law determines the certain obligations of the employers such as: Providing employees' representatives with information concerning the economic condition of the company, state of employment in the company, implementation of new technologies, and development of the working conditions of employees.

The employees' representatives must be consulted and announced in advanced for the future dismissals of employees and changes in the structure of the company, which may influence on the work process. The employees' representatives may have the right to give a statement for the dismissal of some persons with equal qualifications.

WHEN A LABOUR UNION REPRESENTATION BECOMES BINDING? The employees and the labour representatives can organize the elections of employee's delegates who discuss the employment conditions and the dismissal.

RIGHTS AND PRIVILEGES OF A LABOUR UNION REPRESENTATION INSIDE A COMPANY: Bulgarian labour law regulates certain rights for the union representatives, for example:

- right to participate in the discussion of the questions concerning the work and insurance relationship in the company.
- access to the information about the company concerning the positions of the employees

Labour Code grants the employee representatives and union representatives specific protection against dismissals. The working conditions of the employee representatives and the union representatives cannot be changed without their prior agreement. At the request of the employees the employee representatives can represent them in court cases.

Collective Bargaining Agreements and Other Agreements (National, regional, provincial or company level...)

Labour Code provides different types of employment agreements: Individual employment agreement and collective employment agreement. The labour relations between employers and employees can govern at the level of each branch or field of industry by the provisions of national, regional or company collective bargaining agreement.

COLLECTIVE BARGAINING AGREEMENTS BINDING FOR THE LABOUR CONTRACTS? The Collective Bargaining Agreements are binding for all employees who signed the agreement and for all labour contracts in the case the provisions of law are not more favourable to employees than the provisions of the applicable Collective Bargaining Agreement

Wages and Other Types of Compensation (Wages, Social Security contributions, remuneration in kind, insurance policies, pension plans...)

Wages of employees can comprise of various elements such as:

- Fixed salary
- Incentives and Bonuses
- Remuneration "in kind" (such as - housing, car, cell phone...)

Minimum salary in 2012

Recently the Bulgarian government has accepted the minimum salary which to be paid to an employee is 290 BGN / around 150 euro/ monthly for a full time job. It is possible employees and employers have stipulated higher minimum salary in the provisions of the Collective Bargaining Agreement. The employer has no fixed annual credit of over time hours per employee.

Cost of Overtime Hours

The additional overtime work of the employee must obtain the appropriate payment. Labour Code provides the payment rates:

- overtime work on workday has to be extra paid with 50 % of the contract salary
- overtime work on weekends has to be extra paid with 75 % of the contract salary
- overtime work on official celebrations has to be extra paid with 100 % of the contract salary.

Some Collective Bargaining Agreements may provide for different rates.

Employment Regulations

The employment regulations, collective bargaining agreements, overtime work, salaries and holidays are regulated and codified within the Labour Code. The Labour authorities such as Ministry of labour and social cares and Labour inspectorate exert control over the applications of the labour regulations.

Social Security

CONTRIBUTION FORMS (terms and procedures): According to the Bulgarian Social Security Code social security contributions must be paid every month. Social security payment is divided between the employer and the employees as the percentage is:

- The employer must pay 57 % of the social security
- The employee must pay 43 % of the social security.

The percentage varies according to the age of the employees and the branch of industry they work. The percentage may also vary every year upon a government decision.

Health and Safety

ESSENTIAL DUTIES OF THE COMPANY: The employers are obliged to provide their employees with safe and healthy work place. The companies must protect their employees against all kind of accidents. The employers provide the employees with adequate tools and security training. The employees are insured against different accidents.

The Labour Inspectorate and other authorities exert regular controls over the work conditions. The employees in some branches of industry / for example mine industry / are protected and the Labour Code provides special health and security training depending on the nature of their activities. When accidents occur on the work place, the employer must declare the accident. The company is obliged to hold responsibly for the damages suffered by employees.

The health contributions are as follows:

- 3.2 % - paid by the employee
- 4.8 % - paid by the employer

MAIN REGULATIONS: Labour Code and Social Security Code comprise general regulations of health and security conditions.

Contracting and Outsourcing of Work or Services

Upon discretion of the companies some tasks within the company may be provided by consultants, agents or sub-contractors on the basis of outsourcing.

→ Real Estate Law

Bulgarian real estate law is regulated mainly in Bulgarian Constitution and Property Act. The legislation regulates certain restrictions on acquisition by foreigners. A register of transactions dealing with real estate is kept in every Regional Court. The all kind of deeds and mortgages, which are drafted by and signed before a notary must be kept in the register. The register is organized by the names of the owners of real estates, not by the real estates. Costs of real estate transactions /notary's fees, taxes and other duties/ are approximately up to 4.5 % of the value for a sale, 1% for a mortgage.

Types of Ownership

The ownership in Bulgaria is absolute. The title to real property can be an absolute and entire right or can comprise three separate rights: a right to use of the property, possession of real estate and the third right is disposition with the property.

The absolute entire title to real estate can belong to a single person / legal or natural entity/ or a collection of individual owners, where each of them owns a portion of the whole with no direct and precise right over a specific part of the real estate.

Bulgarian law of estate regulates some types of limited ownership:

- right of common
- right of building
- right of passing

The Land Register

Real property in Bulgaria is registered in special well-organized public land register. Each community is divided into section, each section into parcels. Sections and parcels are numbered in turn. The land register in Bulgaria is called detailed land plan.

The changes in the legal status of a parcel (transfers of title, liens, mortgages, etc.) or any lot within a parcel are booked on the registers maintained by every regional court in the country. There is no united country land register.

Transfer formalities

A transfer of title, mortgage or other change in the legal status is only enforceable against third parties as from its registration in the land register of the Regional court. The right of ownership of real estate is transferred in the form of a notary deed. The notary deed is a type of contract which form and content are prescribed by law. In order to be registered with the land registrar of the Regional court, the deed, mortgages, etc. must be drafted by and signed in front of a

notary within whose region the real estate is located. As the notary is under obligation to check the identity of the parties, their capacity, the authority of the representatives and the good title of the transferor, the process of execution of the notary deed offers considerable security. For all transactions with real estates the signing in front of a notary is compulsory. Some exceptions are provided in the law: orders issued by the administration, mortgages ordered by a court, court resolutions and orders, etc.

Payment of the price – from 01.07.2011 a new rule is in force – payments in real estate transactions of a total amount exceeding BGN 10,000 shall be transferred to a special bank account of the notary public or to a bank account held with a bank chosen by the parties.

Upon execution of the notary deed certain taxes, stamp duty and fees are due. A local tax levied upon the price agreed between the parties and included in the deed or the valuation of the property by the tax authorities, whichever is higher, is due. The notary fee is calculated according to rates specified in the law, depending on the price indicated in the title deed. Thirdly, a stamp duty need to be paid to the Registry agency.

Mortgages

A mortgage is established over real property to guarantee financial obligations. According to the Bulgarian property law the mortgages is a formal act – deed. The mortgages are registered in the land register of the Regional Court.

The mortgage has the following consequences:

- The owner of the real estates may dispose with his property without first paying his debt, the mortgage is in force for the new owner and the mortgage holder may seize the real property from the new owner and have it sold at auction.
- In case the mortgage is not paid the holder of a mortgage seizes his debtor's real property and sells it at auction.

The all kind of mortgage allows the mortgage holder to follow the property despite multiple transfers and seize it in the hands of the owner whoever that may be.

- The holder of the mortgage is preferred creditor according to the Bulgarian law - holder has a right to be paid, by preference over other creditors. This preference refers to the ordinary creditors and to the creditors whose rights are registered at a later date.

There are two types of mortgage:

CONTRACTUAL MORTGAGE; a debtor agrees by contract to allow the holder of the mortgage to register a mortgage over his property on a deed signed by a notary.

MORTGAGE BY OPERATION OF LAW: this type of mortgage is established in absence of debtor's agreement under certain specific cases, determined in the statute, a debtor may agree by contract to allow his creditor to register a mortgage over his property.

Restrictions on acquisition

Bulgarian legislation regulates restrictions on acquisition real property in Bulgaria by foreign natural persons and legal entities to buy land in Bulgaria. But on the other hand foreign natural or legal entities can buy building. Bulgarian legal entities with partners /shareholders foreign persons or companies are permitted to buy land and buildings without any restrictions. Amendments in the Bulgarian Constitution were adopted providing that foreign legal and natural entities may acquire land in Bulgaria under the terms arising from the accession of the Republic of Bulgaria to the European Union.

As per the accession treaty of the Republic of Bulgaria from 01.01.2012 the foreign legal entities and natural persons are allowed to purchase property for a second home. But they are not allowed to purchase agricultural lands and forests for two more years, till 31.12.2013.

Pre-emptive rights arise in certain case, pointed in Bulgarian law of estate if a co-owner decides to sell his part of the real estate, this co-owner is obliged to offer his part in the first place to the others co-owner.

Special Legal Protections for parties

In the buyer considers that the transaction of real estate is tainted in some way, he may claim in the court the validity of his purchase. The taint – reason for petition can be:

- an error concerning the important characteristics of the property
- misrepresentation: the seller is not the owner of the property, but he acts as a owner in front of seller and tricks the buyer into purchasing;
- violence /physical or mental / voids a sale.
- lack of consent
- contradiction to the law
- breach of the required form

The buyer may claim voidance of the sale – if the property is improper for the use, restrictions to use to such an extent that the buyer cannot use his new property fully, a prohibition to build on land.

Leases

Leases agreements are frequently concluded in Bulgaria. Real property can be rented under lease agreements. Bulgarian contracts and obligations act regulates residential and

commercial leases, the maximum lease term /10 years – not applicable for all the legal entities as commercial transaction/, obligation and rights of the tenant and lesser. The tenant may be given a right to renewal of the lease, if not the owner wishes to rent to other tenant, to sell or live in the building.

Rural leases are regulated as general in the same way: automatic renewal rights, limits to the use of the land, etc. The notary form is not compulsory for the lease agreement.

Zoning, building permits, etc.

Every building, residential and commercial, equires a prior permit issued by the local municipal and administrative authorities in the connection with the detailed land plan, zoning rules and regulations. Land is classified in some categorie, for example urban, farmland, forests or protected land.

In the last three years a major reform in the zoning of the real estate is conducted and is presently continuing. The reform represents entering into force a cadastre card where each property shall have unique for the whole country number. Leading authority is a new state agency - the Cadastre agency. All the properties in Bulgaria are supposed to be measured again in order the current information to be included in the new cadastre card and register as the information from the regulation in force is used too. The procedure of measuring the properties and filling the card is slow and is done region by region. At the moment this reform is very difficult and slow in practice which causes troubles to the legal entities and to the natural persons.

Wills

A will, signed by a foreigner before a notary public in Bulgaria is recognized in Bulgaria. A will signed abroad is recognized in Bulgaria if one of the following is met:

- The will is valid under the law of the country, where the will is executed or
- The will is valid under the law of the country, which is generally applicable to the person at the moment of the execution of the will or at the moment of his death or
- The will is valid under the law of the country, where the person has his domicile or permanent abode at the moment of the execution of the will or at the moment of his death;

A foreigner may also choose the applicable law. This shall be done in a separate statement in the will itself provided this statement is signed independently from the will statement. The following Regulation will be a part of the Bulgarian legislation as per the its terms. Regulation (EU) No 650/2012 of the European Parliament and of the Council of 4 July 2012 on jurisdiction, applicable law, recognition and enforcement of decisions and acceptance and enforcement of authentic instruments in matters of succession and on the creation of a European Certificate of Succession.

→ Tax Law

In response to the development of market attitudes Bulgaria carried out a number of changes within the last decades in its legislation including tax legislation. During that period major reforms have been put in place, which regulate the tax liabilities of economic subjects/local and foreign/ for their operation on the territory of Republic of Bulgaria. Now it is possible to say that Bulgarian tax legislation is in compliance with the legislation of the European Union.

The tax regulations of the European Union are applicable in Bulgaria and the intercommunity rules are implemented in the Bulgarian legislation.

Tax on corporate income

Corporate profits are levied at 10% rate. The profits received from sale of shares and other financial instruments are not levied with tax, but only in case if the shares and the financial instruments are registered on Bulgarian Stock Exchange.

Corporate residents and objects

The Corporate Income tax Act taxes profits of Bulgarian and foreign legal entities, which have been generated on Bulgarian territory, through a place of business or permanent establishment. This law also regulates the taxation of income of foreign legal entities and individuals such as: dividends, interests, royalties.

The maximum tax rate on these sources of income is 10%. Where there is a double tax treaty between Bulgaria and the country of origin of the foreign company/individual/, the treaty rates are applicable.

Other taxes: VAT- Transfer tax- Stamp duty- Property Tax.

VAT: VAT rate on the business turnover is 20 %. Generally all supplies are taxable with the exception of explicitly designated supplies such as: medicine, medical services, social services, financial services.

TRANSFER TAX: local municipal tax payable upon transfer of ownership over real estate/. In Bulgaria this tax is applied only on transfers of real estates and vehicles. From the 2011 its rate is between 0.1 – 4.5 % of the price of the real estate included in the deed. The exact percentage is determined with a decision of the Municipal council in every municipality.

STAMP DUTY is paid to the Registry Agency upon the transfer of ownership over a real estate: its rate is 0.1 % of the price of the real estate included in the deed.

ANNUAL MUNICIPALITY PROPERTY TAX: This tax is levied on the property of individuals and businesses. Taxable properties are only real estates and vehicles. The tax rate depends on the value of the property, its location and type.

Branch income

Profits realized by foreign branches in Bulgaria are generally subject to taxation at a 10% rate which is withheld at their Bulgarian source. The income generated through a branch in a foreign territory, are considered as a part of the incomes of the head office. In this case if there is not a double tax treaty legal entities apply tax credit for each identical or similar tax paid in foreign territory.

Income determination

Inventory is valued in compliance with the accounting policy of the companies, worked out on the basis of IAC and IFRS. Applicable Standards give companies the opportunity to adjust the value of the inventory with the market prices, but for the tax purposes, the effect of these transactions on the net operating profit is eliminated.

CAPITAL GAINS: Gains from transfer of shares and participations are part of the operating profit of the companies.

INTERCOMPANY DOMESTIC: Dividends arising from shares or participations in Bulgarian companies and accruing to Bulgarian company or person are taxed at a 5% rate. The capitalized part of distribution of dividends is exempted from taxation. Companies or persons, which are local residents of countries of EU, are free of withholding tax on dividends if they hold at list 20% of the shares or participations and not for shorter term than a year.

FOREIGN INCOME: As mentioned above, foreign income is considered as a part of the income of the local entity. Two ways of taxation are possible – application of rules of a double tax treaty /if there is such/ or of the right to a tax credit paid for identical or similar taxes in the foreign country.

DEDUCTIONS: Necessarily entailed expenditures for the operation of the company are generally deductible, with some exceptions. These are expenses on cars used for management needs, gifts and entertainment and some social benefits received from employee for the account of employer. These expenses are deductible, but they are subject to a withholding tax at a 10 % rate. The tax paid is recognized as an expense for operation of the company.

DEPRECIATION AND DEPLETION: According to the applicable accounting standards, each company can choose a method of depreciation. But for the purposes of taxation the sum of depreciation is limited to the tax deductible depreciation rates for each group of assets.

- Commercial and administrative buildings 3%
- Industrial buildings and facilities 4%
- Machinery, equipment and apparatus 20%
- Office equipment and furniture 25%
- Automobiles 20%
- Other vehicles 8%
- Intangible fixed assets not more than 20%

NET OPERATING LOSSES: According to the legal provisions net losses can be carried forward for five years.

Group taxation

There is no special tax regime for holding groups.

Tax incentives

Taking into consideration the low tax rate in Bulgaria, tax incentives are not such an important factor. In spite of this, there are some tax allowances for manufacturing companies.

Tax administration

Returns: By March 31 of each year, companies are obliged to file a tax return accompanied by a balance sheet and some other statements for the results of its operation for the previous year. As of the same date the balance of the annual tax liability has to be paid too. Advance payments are required. Their size is calculated at the basis of the profit from the previous year and divided into 12 monthly installments. For a new company or a company that was liquidated previous year in a loss position, the advance payments are quarterly on the base of actual results.

Withholding taxes on dividends, interest and royalties

Non treaty rate 10 %. Bulgaria has signed and is a party to a number of Double Tax Treaties and Double avoidance tax agreement dealing with the withholding taxes.

Individual Taxes

The maximum individual tax rate from 01.01.2008 is 10%. All residents, who realize income in the territory of Bulgaria, are obliged to pay tax. Bulgarian residents are taxed on their worldwide income. Sources of individual income can be labour agreements, rendering services/ lawyers, architects, etc./, or economic activities like agriculture, capital gains and others.

For 2012 employees have to contribute 12.90 % of their gross salary to fund social security and 3.2 % to fund health benefits. All of these are deductible from the gross income to form the taxable base. The rates are changed in the beginning of every year.

Capital gains tax is levied at the source and the tax is final. This income is not included in the taxable base of the individual. Personal allowances: allowances are available only for people with children up to the age of 18. Tax credit is possible only for Bulgarian residents for their foreign income.

Transactions

From 2011 all transactions of a total amount exceeding BGN 15,000 shall be transferred via bank account, no cash payments are permitted for amount higher than this.