

BULGARIA – TAX CONSIDERATIONS ON SHORT-TERM LETTINGS

The following information is a guide to help you get started in learning about some of the tax requirements that might apply to you when providing short-term accommodation in Bulgaria.

Tax can be tricky and it is important to ensure that you keep up to date with your tax obligations and remain tax compliant. The timely preparation, filing and payment of taxes are your responsibility.

If you are supplying short-term accommodations in Bulgaria, you need to make sure that you understand each of the following types of taxes, and pay the ones that apply to you:

- Income taxes
- Value added tax (VAT)

Please understand that this information is not comprehensive, and is not intended to be legal advice. If you are unsure about your local tax obligations, we encourage you to check this with official local sources (Bulgarian Revenue office), or to seek advice from qualified professionals.

Please note that we do not update this information in real time, so you should confirm that the laws or procedures have not changed recently.

INCOME TAX

Where you earn income in Bulgaria, it is likely that they will be required to pay a percentage of the tax on this income to the Bulgarian tax authorities. Below is a brief outline of the tax that may arise on income earned from short-term lettings in Bulgaria and some information on how this tax can be paid over to the Bulgarian tax authorities.

Bulgaria's tax year runs from 1 January to 31 December.

Coming within the charge to income tax in Bulgaria.

Income from short-term lettings becomes taxable in Bulgaria when it is actually received. There are no thresholds applicable.

Taxation of income from short-term lettings

The income from short-term lettings may be taxed in the following three ways:

1) Taxation as Rental income

If you rent a part of the residence in which you live, e.g. a room in your own apartment or house, it will be considered that you earn rental income from short-term lettings.

2) Taxation as Business Activity

In certain cases, income from short-term lettings may be considered as income from business activity rather than rental income, e.g. where you let out entire property, which is not used for living purposes (e.g. a spare apartment, a guest house, a villa etc.) for tourist accommodation on a regular basis and you also offer hotel type of services such as providing towels, cleaning, laundry etc. In this case you may be considered as trader, performing business activity, no matter whether you are officially registered as a sole trader or not. The taxation regime in this case will be the one applicable to sole traders.

3) Patent taxation

You will be subject to patent tax on the income from short-term lettings, if the following conditions are met simultaneously:

- you have a property, which is categorised as a tourist facility, e.g. guesthouse, guest room, family hotel, hostel, bungalow etc.;
- your turnover for the past 12 months or less is below BGN 50,000 (around EUR 25,000);
- you are NOT registered for VAT purposes.

Reporting tax in Bulgaria.

There are specific tax forms for annual and quarterly tax returns. These returns can be submitted in hard copy either in person or by post, or electronically, if the individual has an electronic signature or a Personal Identification Code (PIC).

The annual tax return (Annual tax return under art. 50 of Personal Income Tax Act) is filed to report various types of income, including rental and income from business activity, and pay any outstanding taxes due. The quarterly tax return (Tax return under art. 55 of Personal Income Tax Act) must be filed if you are in receipt of rental income and this is in addition to the obligation to file an annual tax return.

If you are in receipt of rental income, the quarterly return needs to be filed for the first 3 quarters of the year only and the last portion of the tax may be settled with the annual tax return.

If you receive income from business activity, the annual tax return must be filed in your capacity of a sole trader.

If you receive income subject to patent tax, a special tax return must be filed by 31 January of the current year.

Where you have any doubt regarding the qualification of your income and reporting of your taxes, you may consider it appropriate to seek advice from a professional tax advisor or accountant to assist you in completing your tax returns.

Further information can also be found on the Bulgarian tax authority [website](#).

Tax reporting - filing deadline.

The deadline for filing an electronic or paper annual tax return and paying any associated liabilities is 30 April of the calendar year following the one in which the income was received, e.g. the 2018 tax return is due for filing and the outstanding tax is due for payment by 30 April 2019.

The deadline for filing a quarterly tax return (excl. the last quarter) is by the end of the month following the respective quarter of rental income receipt.

Bulgarian Tax Authority contact details.

Bulgarian tax authority website:

<http://nra.bg/page?id=24>

Bulgarian income tax rates.

A flat tax rate of 10% is due on most types of personal income.

Rental income is subject to the 10% tax rate for individuals on a quarterly basis with the final 10% due with the annual tax return.

Business activity income from short-term lettings is subject to a 15% tax rate on an annual basis. This is the rate applicable to sole traders.

The patent tax is a lump sum amount, which is determined by each municipality. It is a kind of local tax applied usually to small businesses and is paid in four equal instalments over the current year.

Bulgarian specific rules applicable to income earned in relation to short term lettings.

Short-term rental income is treated in the same way as long-term rental income.

Typical expenses that can be deducted from an individual's income in relation to short term lettings.

If you are a Bulgarian tax resident in receipt of rental income, you may deduct 10% of the gross rental income as a statutory expense with no need to present expense supporting documents. Therefore, the taxable base is 90% of the rental income i.e. 10% on 90% tax base gives an effective tax rate of 9% for Bulgarian tax residents.

If you are a non-Bulgarian tax resident you are taxed on 100% of the gross rental income as you are not entitled to the 10% statutory deduction outlined above. However, if you are a tax resident of another EU member state/ EEA country, then at the end of the year you may request, via an annual tax return, to apply the tax regime for Bulgarian tax residents, and thus again be taxed effectively at 9%.

For non-Bulgarian tax residents from outside the EU/EEA (third country nationals) the tax rate applicable for rental income is also 10% but there is no option to avail of the statutory deductions.

If you are in receipt of business activity income, the taxable base will be formed following the rules for companies and you may adjust your taxable base with certain add-backs and deductions prescribed by the Bulgarian tax legislation. The taxable base is also reduced by all mandatory social security and health insurance contributions, which self-insured individuals have to make on their own account.

Special reliefs from income tax in Bulgaria that an individual providing short-term lettings may be able to avail of.

There are no special reliefs available for short-term lettings in Bulgaria. However, there is a 5% reduction of the outstanding income tax liability (but not more than BGN 500) if your annual tax return is filed electronically by 31 January, you have no outstanding public liabilities and the outstanding tax is paid by 31 January of the following year.

Bulgarian income tax obligation for non-resident individuals.

In this case, the rental income is subject to quarterly 10% one-off tax. You have an obligation to pay the one-off tax due and file a special tax return on a quarterly basis. No statutory deductions are allowed in this case (see the exception for EU / EEA citizens mentioned above).

It is also possible non-resident individuals to fall under the category of business activity income earners and such subject to patent tax, so we recommend that you seek additional specialized advice.

Property taxes and fees.

If you own real estate in Bulgaria, you will be subject to a real estate local tax ranging between 0.01% and 0.45% of the tax value of the property and garbage collection fee, determined on an annual basis. The exact rates are determined by each municipality.

Capital gains tax.

Income from capital gains on the disposal of real estate is subject to a 10% tax rate. A statutory deduction of 10% of the capital gain is allowed.

A tax exemption is provided for capital gains realized from the sale of:

1. up to one residential property per year, provided that between its acquisition and sale more than 3 years have passed;
2. up to 2 immovable properties owned for more than 5 years

Other.

If the payer of the rental income is a non-Bulgarian based company or an individual based in Bulgaria or abroad, then the reporting obligations and tax payment will lie entirely with the income recipient.

| Sample Tax Computation (Rental income) | | |
|--|--|------------|
| Laura* owns a 2 bedroom house. She rents her spare room occasionally on weekends. | | |
| Laura received total gross rent in 2018 of BGN 12,000. | | |
| Laura incurred the following expenses in relation to this house in 2018: house insurance BGN 500, local property tax BGN 350, mortgage interest BGN 5,500 and electricity/gas BGN 600. | | |
| | | BGN |
| Gross rental income | | 12,000 |

| | | |
|---|--------------------------|---------------|
| <i>Less allowable expenses:</i> | | |
| | 10% statutory expenses** | (1,200) |
| | | |
| Net taxable rental income | | 10,800 |
| Tax due (10%) | | 1,080 |
| <i>*Laura is a tax resident of Bulgaria or another EU/EEA member state.</i> | | |
| <i>** Expenses in relation to the house are not an allowable deduction. Instead you receive a 10% statutory deduction from the gross rental income.</i> | | |

| Sample Tax Computation (Income from business activity) | | |
|--|----------------------------|---------------|
| Laura owns a 2-bedroom house in which she does not live. She rents her house occasionally. | | |
| Laura received total gross rent in 2018 of BGN 12,000. | | |
| Laura incurred the following expenses in relation to this house in 2018: house insurance BGN 500, local property tax BGN 350, mortgage interest BGN 5,500 and electricity/gas BGN 600. | | |
| | | BGN |
| Gross rental income | | 12,000 |
| <i>Less allowable expenses*:</i> | | |
| | <i>house insurance</i> | (500) |
| | <i>local property tax</i> | (350) |
| | <i>mortgage interest**</i> | (5,500) |
| | <i>electricity/gas</i> | (600) |
| Net taxable rental income | | 5,050 |
| Tax due (15%) | | 757.50 |
| <i>* Expenses in relation to the house should be properly documented in order to be considered as an allowable deduction.</i> | | |
| <i>**Expenses in relation to the mortgage interest may not be deducted in full in the current year.</i> | | |

VALUE ADDED TAX

Value added taxes can be complicated and you should take time to understand the rules as they apply to you and your particular situation.

Broadly speaking, Value-Added Tax (VAT) in Bulgaria is a tax on consumption. Most goods and services supplied in Bulgaria are subject to VAT.

A person who supplies goods and/or services in Bulgaria may have to charge VAT and pay this to the Bulgarian tax authority. As with all taxes, we encourage you to consult with a tax advisor regarding your potential VAT obligations in Bulgaria.

If you are currently renting a room to guests, you may be required to apply VAT to your rental charge and to pay this VAT amount to the Bulgarian tax authorities. As Airbnb is not supplying the rental, it is the responsibility of the host to consider local VAT obligations of the rental charge.

Do I need to collect any VAT from guests if I am letting short-term accommodation in Bulgaria?

In general, individuals who are considered to perform business activity in Bulgaria need to charge VAT on their supplies, once the criteria for VAT registration is met.

Currently, in Bulgaria, you are required to register for VAT if your turnover exceeds BGN 50,000 over a period of 12 or less months. As such, where you supply short term accommodation in Bulgaria, and you reach this threshold, you should register for VAT.

If you are an individual who is not resident in Bulgaria, but your accommodation is located in Bulgaria, then you should also consider registering for VAT if your supplies exceed the above threshold.

We encourage you to consult a tax advisor if you need assistance in determining whether you need to register for and charge Bulgarian VAT.

For further guidance on registering for VAT, please see the Bulgarian tax authorities' [website](#).

VAT applies to me. How do I determine how much tax I need to collect from my guests?

VAT rates differ per country and change periodically. We recommend you to check on a regular basis with the local tax authority to get the most up to date VAT rates for the country where you are required to pay VAT.

For example, at the date of issuance of this document, the VAT rate applicable to supplies of tourist accommodation having a category (i.e. a one or two star categorised guest apartment, etc.) under the Tourism Act is 9% in Bulgaria. Other non-categorised tourist accommodation supply is subject to VAT at 20%.

However, we recommend that you confirm with a local tax advisor the VAT rate applicable to your supplies.

VAT applies to me. How do I collect VAT from guests?

If you determine that you need to charge VAT on the supplies that you make to guests, please keep in mind that you have to collect this VAT from your guests and report and remit this VAT on a periodic VAT return. In Bulgaria, the VAT return typically covers a monthly period and is required to be filed by the 14th day of the following month (i.e. the January VAT return is due to be filed by the 14th of February). The VAT payment is required to be made on the same day that the VAT return is required to be filed.

Some formalities, such as issuing a receipt or an invoice to your guests, may be required. There may also be requirements around whether you use VAT-inclusive or VAT-exclusive pricing and issuing fiscal cash receipts. We recommend that you check your obligations in terms of pricing and the applicable invoice/receipts requirements with a local tax advisor.

For further guidance on filing returns, please see the Bulgarian tax authorities' [website](#).

Should I be paying VAT for the host fee charged by Airbnb?

If you are considered to be performing a business activity and are resident in Bulgaria, you should self-charge and pay 20% VAT for the host fee.

In order to comply with this obligation, you should register for VAT under a special regime before you are charged any host fees. Under this special regime you will have to pay the VAT to the Bulgarian tax authorities but, will not be entitled to claim credit for this or any other VAT you have paid in relation to your business.

You will also not be allowed to charge VAT to your guests until you register for VAT under the general regime described above.

You don't need to register under the special regime, if you already have a VAT registration under the general regime.

For further guidance on registering for VAT and filing obligations, please see the Bulgarian tax authorities' [website](#).