

LEGAL GUIDE TO BUYING PROPERTY IN BULGARIA



INTERNATIONAL LAWYERS – LOCAL EXPERTS

IN

**REGGIO DI CALABRIA - LONDON - DUBLIN - SOFIA – BOURGAS - TANGIERS - NATAL
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ANTEQUERA**

Preliminary clarification

With this guide, we do not intend to replace the need for the specialised and personalised attention you must demand from one of our qualified professionals you will contact if you wish to buy a property in Bulgaria. Our aim is to provide a general step-by-step idea of the basic questions you must keep in mind in this important and sometimes delicate process; in order to guarantee a safe transaction, with no unexpected surprises.

1. THE PROCESS OF BUYING A PROPERTY IN BULGARIA

1.1. RESERVATION OF THE PROPERTY

The first step is to formalise your offer on the property and remove it from the market, thus protecting your interest to purchase. Once the terms of the purchase have been discussed and the seller accepts the offer, a binding agreement is born which is sealed by signing a reservation contract and includes a deposit of between 1,500 € and 3,000€ to reserve the property prior to the exchange of private purchase contract.

The searching process

Whilst the property is 'reserved' in your name, our local lawyer will carry out all the necessary searches and investigations of the property with the relevant authorities to ensure that the property you are purchasing is legal and free from any charges, debts or encumbrances.

We will also ensure that the property has the necessary Title Deeds and that the vendors are the rightful owners. In the case of a new property, we will ensure that the constructors are reputable and solvent and will obtain guarantees that the property will be constructed and delivered according to the agreed terms and conditions. In the case of the purchase of a plot of land, a survey of the land will be carried out in order to obtain its exact measurements and to identify its perimeters. This study will include details on whether the land can be built on legally, and whether it has the appropriate access points and surface.

If you are buying the property and the allocated land or solely, it would be necessary to set up a limited liability company LLC (with the suffix OOD in Bulgaria). This is not necessary in case of buying only properties, apartments or 'off plan' properties without land.

In the case of setting up the LLC (OOD), we would take care of the whole process and any requirements related to the registration. We would also carry out a survey of the

land, informing on whether the land has been classified as regulated and including a detailed plan that will be included in your final title deed.

We will guarantee in writing from our Law Firm that the searching process has been satisfactorily concluded. You will have a very accurate description and explanation about every single aspect of the property.

1.2. THE PRIVATE CONTRACT

Once the searches are complete, and we are absolutely certain the property is legally declared in the best conditions to purchase; a Private Contract is drafted and signed by both parties. This private contract sets out all the details of the agreement, payment terms and completion date. During this stage the buyer puts down a non-returnable deposit which will be a percentage of the purchase price, less the holding deposit paid at the reservation

1.3. COMPLETION (Signing the title deeds)

The property sale process is finalised before a Notary, with the buyer and seller signing the Deed of Sale (Title Deeds). The Notary is a public official whose role it is to identify the buyer and the seller, and ensure that all legal requirements have been met, and that the amount due to be paid has been settled.

If you are unable to be present in the signing of the deeds, we can carry out all necessary procedures in your name by means of Power of Attorney. In fact, it is common practice of our firm to have a valid power of attorney from the beginning of all buying and/or selling operations.

a) Taking possession of the property

Immediately after the deeds have been signed, the buyer will receive the keys to the property, and can take possession of the property.

b) Title deeds and property registration

The property registration procedure entails the payment of all the taxes applicable to the property and the obtaining of the final register stamp for the Title Deeds, which guarantees the transfer of the property. This procedure is an important step, and takes place once the Title Deeds have been signed and you have taken possession of your property. The title deeds usually take around two to three months to be returned by the Land Registry office. The Notary will give us notice that the deeds are available for collection.

c) Utilities

Once the sale has been finalised, we will ensure that all the utility contracts for the property (electricity, water, rubbish collection, etc.) are in the name of the buyer. We will also arrange all bills to be paid by direct debit from your account if you wish.

2. BASIC NECESSARY FORMALITIES

There are various basic formalities you must take into account when completing your property purchase process in Bulgaria:

2.1. POWER OF ATTORNEY

To be your legal representative in Bulgaria it is essential that you sign a Power of Attorney on our behalf. With this Power, we are able to sign contracts, Deeds and all documentation related to your purchase process. We will draft the Power of Attorney to be signed, at your convenience, either in Bulgaria or through our London or Dublin offices. If you live in the U.K. or Ireland, we will be able to make the necessary arrangements for you to obtain the Power at the closest Notary to your home. We will also arrange for the Power to be stamped with the Apostille of The Hague making the Power is valid in Bulgaria.

2.2. BULGARIAN BANK ACCOUNT

It is essential to have an account in a Bulgarian bank in order to contract utility services and to pay them by direct debit. We are able to open a bank account in Bulgaria on your behalf.

2.3. BULGARIAN WILL

It is highly advisable that you bear in mind the Bulgarian Inheritance Tax, which is the tax to be paid in 'mortis causa' property ownership transfers, and be aware of how to reduce its effects.

In that sense, you have the chance of signing a Will over your new property in Bulgaria. This Will can be signed in the UK or Ireland. Through our London and Dublin offices we can make the necessary arrangements for you to obtain the Will at the closest Notary to your home. We will also arrange for the Will to be stamped with the Apostille of The Hague making it valid in Bulgaria.

3. TAXES IN BULGARIA

The purchase of a property in Bulgaria, for both residents and non-residents, involves a series of fiscal obligations which must be met:

3.1. V.A.T.

The Value Added Tax Act (VAT Act) currently in force is effective as from 1 January 2007.

In principle VAT is chargeable on the sale of real estates in Bulgaria and is at the rate of 20% of its value. However this is usually included in the purchase price of the property, so this should be taken into consideration when looking at the total cost of purchasing a property in Bulgaria.

3.2. A TAX FOR THE ACQUISITION OF REAL ESTATE

It is payable once, when acquiring the property. The rate is 2% of the purchase price as stated on the Title Deeds /tax value if more/. It is paid before the Notary public certifies the deal.

3.3. TAX ON REAL ESTATE AND FEE FOR HOUSEHOLD WASTE

A. Owners of real estates in Bulgaria are liable to pay an annual tax on their real estates. The tax shall be determined for the tax valuation of the real estate in extent of 1,5 per thousand. The amount of this local tax varies and depends on the tax valuation of the real estate.

Basically the amount of the tax valuation varies depending on whether the real estate is used for residential or commercial purposes, where it is situated, what is its area etc.

The amount of tax valuation of real estates for residential purposes shall be determined by the local authorities. The tax valuation of immovable properties of companies shall be their accounting value.

This local tax is payable at the beginning of each year.

The tax is usually up to the equivalent of 100 € per year, however can be lower in areas out with large cities.

B. The fee for household waste shall be paid for the services for collecting, transport and making harmless in depots or other facilities of household waste as well as for keeping the territories for public use clean in settlements.

The amount of this fee is subject to a decision of the respective municipal council of the municipality the property is situated wherein.

This fee is paid annually.

3.4. WEALTH TAX:

There is no wealth tax in Bulgaria.

3.5. INCOME TAX FOR INDIVIDUALS

In Bulgaria there is no separate tax specifically levied on the sale of real estate assets like the “Capital gains tax”.

The income as described above is subject to a final tax amounting to 10% and it is payable in Bulgaria.

The following real estates shall be non-taxable:

- a) one immovable housing property, regardless of the date of acquisition of the property;
- b) up to two pieces of immovable property, or agricultural property and forest land plots regardless of the number thereof, providing that the time elapsed between the date of acquisition and the date of sale or purchase is more than 5 years,.

3.6. CORPORATE TAX

The companies are liable for this tax on their income. Since 01.01.2007, standard corporate tax in Bulgaria is 10%.

TYPES OF COMMERCIAL COMPANIES

In Bulgaria, the following are accepted forms of corporation:

1) A limited liability company (with the suffix OOD)

- A limited liability company may be formed by one or more persons who shall be liable for the company's obligations with their contributions to the company's

registered capital. Shareholders in OOD may be both individuals and companies.

- The registered capital of a limited liability company shall be not less than BGN 5 000, with minimum nominal value of BGN 10 a share.
- At least 70% of the capital must be paid up front before registration.
- An annual shareholders' meeting must be convened at least once a year.
- A Manager of the company must be appointed.

2) A liability company with a single shareholder (with the suffix EOOD)

- This is an OOD company owned by one individual, who may be a foreign resident.
- The single shareholder may serve also as a Manager of the company.

3) A Joint Stock Company (with the suffix AD)

- A joint stock company is a company the capital stock of which is divided into shares. AD can be found by one or more individuals or companies.
- The minimum value of the capital of a joint-stock company shall be 50 000 levas.
- The minimum share value is BGN 1.
- At least 25% of the registered capital must be paid up front before registration.
- An annual shareholders' meeting must be convened at least once a year.
- The company is managed by a 'board of directors' (one-tier system), or by a 'supervisory board' and a 'board of management' (two-tier system).

4) A Joint Stock Company with a single shareholder (with the suffix EAD)

- The company is owned and controlled by a single shareholder.

For all kinds of commercial companies it is compulsory to file an annual balance sheet with the tax authorities.

3.7. TAX ON DIVIDENDS

Company dividends are recognized by Bulgarian legislation as an income of the shareholders so there is a tax withheld at source due at a rate of 7%. Tax deducted at

source in respect of foreign residents is subject to the Double Taxation Prevention Treaty.

3.8. INHERITANCE AND GIFTS TAX

The Bulgarian Law distinguishes between residents and non residents.

RESIDENTS: are liable to pay inheritance tax on property in both Bulgaria and overseas.

NON-RESIDENT: are liable to pay inheritance tax only on properties in Bulgaria.

In both cases, it is the recipient who pays the tax.

From 2005, inheritances received by the surviving spouse and direct relatives will be exempt.

Brothers, sisters, nieces and nephews who inherit will pay inheritance tax at 0.7% on amounts received above BNG 250,000.

All other beneficiaries pay inheritance tax at rates up to 5% for inheritance share over BGN 250 000.

Gifts tax is payable at fixed rates depending on the relationship between the donor and the beneficiary. Spouses and direct line inheritors are exempt. Gifts between brothers and sisters are taxable at 0.7%, and 5% for all other beneficiaries.

3.10. REPORTING DATES AND PAYMENT

The tax year in Bulgaria is the year ending on December 31st.

A limited company files an annual report by March 31st. An individual must file an annual report by April 15th.

Companies that finished the previous year with a profit pay 12 monthly advance payments in the following year.

New companies make 4 quarterly advance payments.