

**Intelligent Transport Systems for Bulgaria
Conference
20-21.9.2007, Park Hotel Vitosha, Sofia**

***Doing Business in Bulgaria
2007***

Main focus of today's presentation

- ▼ ***Investment climate in Bulgaria***
- ▼ ***Legal environment for doing business***
- ▼ ***Bulgarian-Czech co-operation***

INVESTMENT CLIMATE IN BULGARIA

INVESTMENT INCENTIVES

- **EU and NATO membership**
- **Stable and predictable political environment**
- **Macroeconomic stability – Currency Board since July 1997**
- **6.1 % GDP growth in 2006; 5 % average GDP growth for 01-05**
- **5 172 UDS m FDI inflow in 2006**
- **15.5 ratio FDI/GDP in 2006**
- **10% corporate income tax rate, lowest in Europe**
- **Lowest operational costs in Eastern Europe**
- **Highly-skilled, multilingual workforce at Europe's most competitive wages**
- **Annual depreciation rate of 30% for machinery & equipment, 50% for new equipment used in new investments or expansion projects and 50% for software and hardware**
- **Acquisition of land and property through a Bulgarian registered company with up to 100% foreign ownership**

FOREIGN DIRECT INVESTMENT INFLOWS IN BULGARIA BY YEAR IN USD M

Year	Greenfield + Expansion	
	USD m	Growth in %
2000	635,5	Baseline: 0
2001	793,7	24.9
2002	839,7	5.8
2003	1732,8	106.4
2004	2227,4	28.5
2005	3861,9	73.4
2006	4905,0	27
Total	14996	---

Source: 1992-1998 - Ministry of Finance ; 1999 - 2006 - Bulgarian National Bank

FOREIGN DIRECT INVESTMENT IN BULGARIA IN THE TRANSPORT SECTOR BY YEAR IN USD M

2000	2001	2002	2003	2004	2005	2006	Total
10.1	5.9	8.1	45.1	29.2	-20.1	53.3	131.6
<i>Source: Bulgarian National Bank</i>							

EU COHESION FUND AND ERDF

- ▶ Bulgaria's EU accession makes available the **EU Cohesion Fund** and the **European Regional Development Fund (ERDF)**
- ▶ Sector Operative Programme "Transport" for 2007-2013
- ▶ More than **2 billion EURO**, of which 1,624 billion EURO coming from Community funding will be invested in the transportation sector
- ▶ Tender procedures upcoming

LEGAL ENVIRONMENT FOR DOING BUSINESS

COMMERCIAL COMPANIES SET UP

- ▼ *Equal opportunities for local and foreign legal and physical persons*
- ▼ *Large number of business organisation forms available*
- ▼ *Up to 100% of the registered capital held by foreign investors*
- ▼ *Legal stability – incorporation procedure within the Judicial system*
- ▼ *New nation-wide electronic Commercial register to be launched in January 2008*

COMMONLY USED BUSINESS ORGANISATION FORMS

- ▶ **Limited liability company – most common**
 - Minimal capital requirements (approx. EUR 2500)
 - Simplicity of corporate governance structure
 - Ltd. shares not tradable instruments

- ▶ **Joint Stock Company**
 - Min. EUR 25 500 capital
 - More complex governance structure
 - JSC shares tradable instruments
 - Mandatory rules governing reserve fund and profit distribution

OTHER BUSINESS ORGANISATION FORMS USED

- ▶ **Trade Representation Office**
 - Administrative registration with BCCI
 - Non-proprietary activities
 - No corporate income tax

- ▶ **Foreign Company Branch**
 - Not a separate legal entity

TAXATION

► Corporate Income Tax

- Lowest rate in the EU (10%)
- Foreign entities taxed on Bulgarian-source income
- Tax residents in EU member states not subject to a withholding tax in cases where dividends are distributed by a local subsidiary
- 50 % depreciation rate applied on investments in new machinery and other equipment, hardware and software
- Certain tax incentives, e.g. corporate tax exemption in regions with high unemployment rate & corporate tax reduction for investments in depressed regions

TAXATION

► Value Added Tax

- New VAT Act in force as of January 1, 2007
- Standard VAT rate fixed at 20%
- Reduced rate of 7% for some tourism services
- Compulsory registration at reaching EUR 25 500 taxable turnover for a period not exceeding 12 consecutive months
- Compulsory registration at EUR 10 000 when effecting Intra-Community acquisition of goods
- Optional VAT registration irrespectively of taxable turnover

INVESTMENT INCENTIVES

- **Main legislative instrument - Investment Encouragement Act**
- **Implementing authority - Bulgarian Investment Agency**
- **2007 amendments reduced the scope of supported activities, with tourism and trade no longer qualifying under IEA**
- **Promotion of initial investments in material and immaterial fixed assets and new employment linked thereto**
- **Supported activities include:**
 - **within the industrial sector: manufacturing industry and production of electricity from renewable energy sources;**
 - **within the services sector: high technology activities in the sphere of computer technologies, research and development, as well as education and human health care.**
- **Class A and class B investments receive different state aid**

INVESTMENT INCENTIVES

- ▶ Investments under the IEA are promoted through:
 1. shortened administrative services terms;
 2. individualized administrative services needed for implementation of the investment project;
 3. acquisition of a right of ownership or limited rights in rem to immovable properties constituting private state and private municipal property;
 4. financial support for construction of physical infrastructure elements needed for the implementation of one or more investment projects;
 5. financial support for training for attainment of professional qualification of personnel.
- ▶ Support under items 3-5 is granted only when the request for support is made prior to the start of the investment project.

PUBLIC PROCUREMENT

- ▶ **Public Procurement Act enacted in 2004 and substantially amended in 2006 to reflect EU requirements**
- ▶ **PP subject matters include supply of goods, provision of services, and construction works**
- ▶ **Contracting authorities include public or private undertakings carrying out activities relating to transport services and automated transport systems**
- ▶ **The public procurement procedures include:**
 - **open procedure;**
 - **restricted procedure;**
 - **competitive dialogue;**
 - **negotiated procedures.**

BULGARIAN-CZECH CO-OPERATION

CZECH DIRECT INVESTMENT INFLOW IN BULGARIA BY YEAR IN USD M

2000	2001	2002	2003	2004	2005	2006	Total
0.7	2.6	62	-6.8	373	147	262	840.5
<i>Source: Bulgarian National Bank</i>							

BILATERAL AGREEMENTS BETWEEN BULGARIA AND THE CZECH REPUBLIC

- ▶ **Treaty for avoidance of double taxation between Bulgaria and the Czech Republic**
- ▶ **Agreement between Bulgaria and the Czech Republic for the promotion and reciprocal protection of investments**
- ▶ **Agreement for legal assistance between Bulgaria and the Czech Republic (as a successor of Czechoslovakia)**

➤ **Treaty for avoidance of double taxation between Bulgaria and the Czech Republic**

- Corporate income tax**
- Property Taxation**
- Personal income tax**
- Excludes VAT**
- Permanent establishment:**
 - **branch;**
 - **office;**
 - **factory;**
 - **construction site, assembly project (more than 12 months);**
 - **provision of services (more than 6 months for every 12 months)**

- ▶ **Agreement for legal assistance between Bulgaria and the Czech Republic (as a successor of Czechoslovakia)**
- **Documents issues or verified by state organs of one of the contracting parties in accordance with the requested form and bearing all necessary seals are accepted on the territory of the other contraction party without any further verifications, i.e. no need for apostille.**

OPERATIONAL COSTS COMPARISON

Country	2007 social security dues for employer	2008 social security dues for employer	2007 corporate income tax	2008 corporate income tax
Czech Republic	approx. 35 % of gross salary	No change; insurance income limit introduced of approx. EUR 3500	24%	Reduction to 21% planned
Bulgaria	approx. 25 % of gross salary; insurance income limit of approx. EUR 700	approx. 19 % of gross salary; insurance income limit of approx. EUR 1000	10%	10%

Thank you for your attention

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