

KINSTELLAR

Setting up operations in Bulgaria

Today's uncertainties at the European Union's eastern border have left companies questioning the safety of their people and the continuity of their operations in that part of the world. Businesses in the IT and BPO sectors that had found talent and growth opportunities in counties such as Ukraine, or Moldova are now rethinking their strategy and options to move operations across the border, either temporarily or permanently.

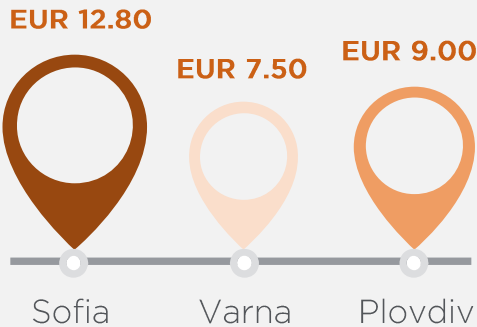
Kinstellar Bulgaria has prepared a quick overview of the most important aspects that you need to consider if you decide to move your operations to Bulgaria.

Key facts about Bulgaria



AVERAGE OFFICE LEASE COSTS

per sq. m. per month for Class-A office buildings

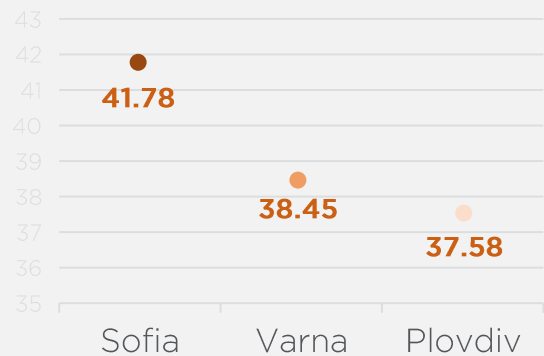


Lease costs for Class-B buildings are generally 30% lower.



COST OF LIVING INDEX¹

Cost of living indices:

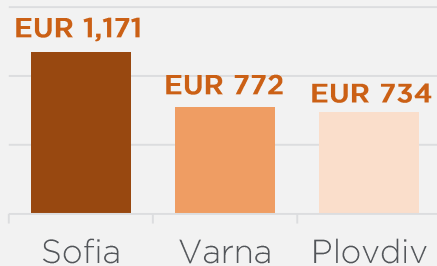


Bulgaria is number 30 out of 40 countries in Europe in terms of cost of living. The average cost of living is 41, making Bulgaria a good place for working professionals.



SALARIES

Average monthly salary in Bulgaria:



IT/BPO sector average salary in Bulgaria:

- The salary for the IT/BPO sector in Sofia is 35% higher than salaries in the rest of Bulgaria
- The average salary ranges from EUR 1,451 (Technical support) to EUR 4,660 (Executive/C-Level)



TAX

Corporate income tax

10%

Personal income tax

10%

VAT

20%



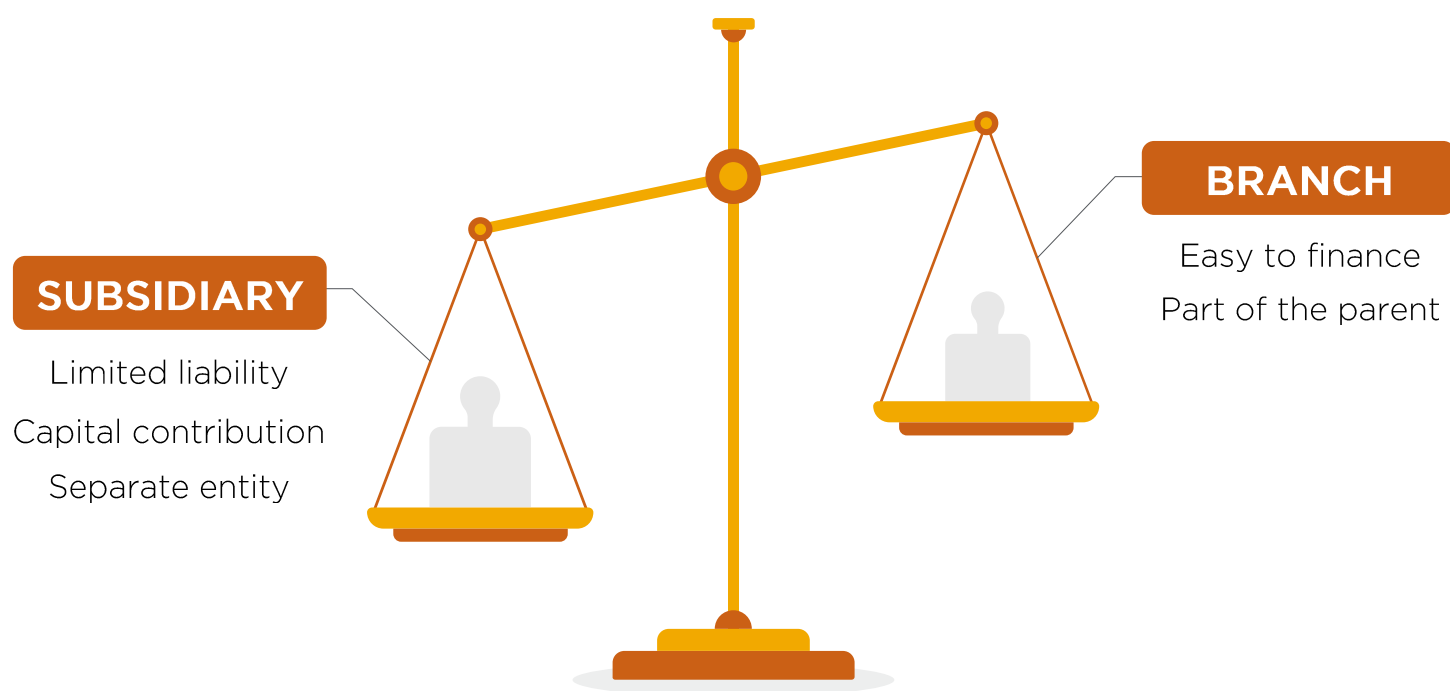
DATA PROTECTION REGULATIONS

If a company moves its team or establishes an entity in Bulgaria, GDPR rules will apply with respect to the protection of personal data and to any international transfers of personal data.

¹ Measuring the relative cost of living by calculating the average cost of a number of specific goods and services required for people to live an average life.

Choice of business entity

Limited liability or branch?



| CRITERIA | LIMITED LIABILITY COMPANY (LLC) | BRANCH |
|---|---|--|
| Minimum registered capital | BGN 2 (approx. EUR 1); fully subscribed and paid before registration | N/A |
| Minimum number of shareholders / members | One shareholder (an individual or legal entity) or more | N/A |
| Shareholders Registration | Publicly announced in the Commercial Register | The principal is publicly announced in the Commercial Register |
| Liability of the shareholders / members | Limited to the shares in the capital | Not limited to the branch. All rights and obligations arise directly for the parent company. |
| Way of transfer of the shares | <ul style="list-style-type: none"> Shares are transferred by way of a written agreement executed with simultaneous notary certification of the content and the signatures of the signatories. Each transfer is subject to a mandatory entry in the Commercial Register. In case the shares are transferred to another shareholder, no restrictions apply. In case the shares are transferred to a third party, a resolution of the general meeting should be adopted by a majority of $\frac{3}{4}$ of the capital. | N/A |

| CRITERIA | LIMITED LIABILITY COMPANY (LLC) | BRANCH |
|--------------------------|---|--|
| Governing body structure | <ul style="list-style-type: none"> General meeting of shareholders, which consists of all shareholders / sole owner of capital. It resolves on all important issues regarding the company (amendment and supplementation of the articles of association; increase and decrease of the capital; transformation and winding-up of the company; appointment or release of managing directors; etc.). In case of a solely owned limited liability company, these decisions are taken by the sole owner of the capital. Managing director, one or more individuals, appointed by the general meeting. He/she performs the day-to-day management and legal representation of the company before third parties. | Manager of the branch, one or more individuals appointed by the parent company to perform legal representation of the parent company through the branch. |
| Distribution of profit | Mandatory specific preconditions: (i) audit of the annual financial statements (only in certain cases), and (ii) approval of the statements by the general meeting. | If profit is to be transferred from a branch, no dividends would need to be distributed |
| Capital maintenance | The managing director must convene the general meeting of shareholders: (i) if the losses of the company exceed $\frac{1}{4}$ the amount of registered capital; and (ii) if the net asset of the company falls below the amount of registered capital. | N/A |
| Corporate income tax | Taxable profits will be subject to corporate income tax. | Triggers a permanent establishment of the foreign company in Bulgaria and the taxable profits of the foreign company attributable to such permanent establishment will be subject to corporate income tax. |
| Financing | The LLC may be financed by its parent company by equity or by means of a shareholder loan with market-based interest. | The branch could be financed through the provision of funds from the head office, but such provision of funds may not be regarded as a loan because the branch and the head office are part of the same legal entity. This could result in different tax consequences in terms of withholding taxes on interest income and interest expense tax deductibility. |
| Repatriation of profits | An LLC can expatriate profit to the parent company through the distribution of dividends. | A branch can freely remit its profits to the head office, as it is not a separate legal entity. This could result in different tax treatment when the distribution of dividends is not tax exempt. |
| Wage taxes | Should report, withhold and remit to the tax authorities personal income tax and social security contributions | Should report, withhold and remit to the tax authorities personal income tax and social security contributions |

Setting up your office

An office can be easily set up with a minimal initial investment through appropriate lease arrangements that generally can be very flexible.

Rent

Rent is usually calculated on a per-square-meter basis and it is subject to annual indexation.

Control of costs

In general, costs of space can be controlled by introducing indexation, caps and other contractual mechanisms. There could be audits to verify the actual amount of the service charge.

Space

There is a distinction between net leasable area (which is the area of the leased premises) and gross leasable area (which is the area of the leased premises plus parts of the common areas serving only the leased premises). Space measurement is often agreed.

Fit-out

Fit-out works are usually done at the expense of the tenant. The tenant can deduct the costs for the fit-out works through the tax depreciation charges.

Operating expenses

Tenant pays most (or all) operating expenses directly related to the leased premises over the entire term of the lease.

Lease term

Lease-term provisions could be flexible, although landlords prefer the lease term to be unbreakable for the first 5-10 years. There are contractual mechanisms to ensure that the lease agreement will be binding for any new owner of the office building if the building is sold before the lease term expires.

Service charge

The maintenance of an office building and its common areas is a responsibility of the landlords, but the landlord typically passes through these expenses as well as the operating expenses for the common areas to the tenants by means of a service charge. Capital expenses related to the building are typically not included in the service charge and are covered by landlords.

Termination

Typically, unilateral termination rights of the tenant are difficult to negotiate, especially for the first five years of the lease term. However, there could be extensive termination rights in case of default of the landlord.



Moving your team to your new office

01 | Immigration rules



New EU-wide rules

implemented in Bulgaria on 9 March 2022, grant Ukrainian citizens temporary protection within the EU Member States



Period for temporary protection

1 year and can be automatically extended twice by six monthly periods for up to one year



Applies to

Ukrainian nationals, non-Ukrainians and stateless people legally residing in Ukraine who cannot return to their country or region of origin, and certain family members of the above two categories



What does this mean for Ukrainian people?



Immediate protection and rights

Ukrainian nationals will **automatically enjoy certain rights** without having to apply for international protection



Rights of protected persons

- **Right to remain in Bulgaria** – during the time for which the protection is granted;
- **Right to work** – can be employed or self-employed in Bulgaria, subject to the rules applicable for the respective profession;
- **Right to adequate housing or financial means for accommodation**;
- **Right to social assistance** such as monthly financial assistance for families with children up to 14 years;
- **Right to medical assistance**.

An amendment of the Asylum and Refugees Act is under way. It could grant Ukrainian citizens the same rights and level of protection as refugees enjoying international protection without having to go through the application process.

02 | Remote working rules

Employers must follow certain obligations in relation to remote work.



Provide the necessary technical and communication equipment.



Cover the communication or connection costs for remote work or reimburse expenses incurred by employees. Such costs may include internet connection, business telephone calls, office supplies, etc.



Keep up to date with the occupational health and safety of remote workers. The company's occupational health and safety assessment should be updated to reflect new risks caused by Covid-19 and isolation.



Ensure that working time is being properly tracked. Implement proper reporting or a working-time tracking system to oversee working time or track overtime.



Train, retrain and up-skill employees working from home so that they can apply the equipment, applications or digital tools at their job. The Covid-19 pandemic has accelerated the digitalisation and optimisation of processes, which results in the rapid adoption of new technologies and tools by companies.



Ensure that employees comply with all GDPR and confidentiality requirements. Employers should update their cybersecurity policy to reflect work from home, to control access to data and ensure safe connections.



Put in place a proper work-from-home / teleworking policy. This policy could give specific details such as distribution and coordination of work tasks and authority, reporting lines, and performance measurements.

03 | Employment considerations



Individual employment contracts

- In written form only – mandatory requirements for its content under the Labour Code;
- Entering into, change and termination of employment contracts must be notified to the National Revenue Agency;
- Both contracts for unlimited period of time and fixed-term contracts are possible; the latter can be used as an exception in limited cases listed in the law;
- Minimum monthly wage requirements – as of April 2022 it is BGN 710 (approx. EUR 363) and the minimum hourly rate is BGN 4.29 (approx. EUR 2.19).



Working hours and rest breaks

- Strict rules for daily breaks, breaks between consecutive working days and weekend breaks apply;
- The statutory minimum annual paid leave is 20 working days, but may be more for some categories of employees;
- Approximately 14 days per year of public holidays, not included in the annual leave.



Termination of employment contracts

- Possible only on limited grounds and following the procedures set out by law. Termination for convenience is not allowed;
- Some employees enjoy special protection against dismissal – a preliminary approval may be required;
- The statutory severance package is between one and four monthly gross salaries and compensation for unused annual leave;
- Unfair dismissal claims are common as the employees do not pay court fees.

For more information, please contact
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