

GAMING LEGALNEWS

INVESTMENT – WHY BULGARIA?

by Pavel Velchev (Velchev & Co.)

The strategic geographical position of the country and the membership with the European Union provide a wide range of investment opportunities in Bulgaria not only for local, but for foreign investors as well. The advanced process of harmonization of the Bulgarian legislation with the EU one and the favorable macroeconomic environment also serve as a good basis for attracting foreign investments.

Below is an overview of some of the major advantages and incentives set forth by the Bulgarian legislation in favour of the legal entities and the natural persons starting business in the region.

Setting up a Company

Bulgaria is well known for the simplified registration procedures and the minimum capital requirements for the incorporation of a company. There are no restrictions relating to qualification and nationality for officers and directors of a company.

The most popular types of companies under Bulgarian law are as follows: a limited liability company (дружество с ограничена отговорност), a joint-stock company (акционерно дружество), a general partnership (събирателно дружество), a limited partnership (командитно дружество), and a partnership limited by shares (командитно дружество с акции).

1. The specifics of some of the most widely used types of legal entities are as follows:

1.1. Limited Liability Company

The minimum share capital for a limited liability company is BGN 2 (approx. EUR 1). Its corporate governing structure consists only of (i) a general meeting of the shareholders and (ii) managers. The shareholders' liability is limited to their contribution in the capital. They shall be jointly liable before the company for any damages caused following its incorporation if they haven't exercised the care which is due.

1.2. Joint-Stock Company

A joint-stock company allows concentration of larger amounts of capital and provides a lower extent of publicity for the shareholders. In addition, a joint-stock company may be listed as a public company in accordance with the provisions of the Public Offering of Securities Act. However, it should be taken into consideration that the corporate



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governance structure is more complex; there is also a higher threshold for the minimum capital amount (BGN 50,000 or approx. EUR 25,000).

The corporate bodies of a joint-stock company are: a general meeting and a board of directors (one-tier system) or a supervisory board and a management board (two-tier system). The members of the board of directors represent the company jointly or severally unless an executive director is appointed.

1.3. Branch

The branch has a certain level of independence; e.g., it is required to keep separate accounting and to file annual financial statements. However, its assets and liabilities coincide with those of the parent company, and the bylaws of the latter shall apply. The only difference is that a separate manager should be appointed.

1.4. Trade Representative Office

A trade representative office is established via registration with the Bulgarian Chamber of Commerce and Industry. A notary certified power of attorney is required for the person authorized to register and manage the trade representative office in Bulgaria. Such entity may not conduct any business activities, but merely nonmonetary activities (e.g., promotion campaigns, advertisements, etc.).

2. Fast and Low Administrative Registration Process

Usually the registration takes up to 5-7 working days, depending on the workload of the Commercial Registry.

Benefits Under the Investments Promotion Act

Foreign and local investors are entitled to apply for a special certificate before the Bulgarian Investment Agency depending on the scope of the investment. Thus, they can benefit from special incentives such as reduced administrative terms, financial support for construction of separate elements of the technical infrastructure, qualification courses for the personnel, etc.

Along with decentralization and simplification of the administrative procedures for issuance of investment certificates, as of February 2013 other reliefs were enforced as well. Some of these are:

(a) partial reimbursement of social security payments to employers involved in high-tech industries or in developing projects in municipalities where the unemployment is above average; and

(b) more favorable regime for foreign investors who seek to apply for the right to reside in the Republic of Bulgaria or for Bulgarian citizenship and which have created investment and employment opportunities in economically disadvantaged regions, etc.

Favorable Tax Regime

The corporate tax in Bulgaria is set at a flat rate of 10%, being one of the lowest in the EU. The current income tax rate for individuals is also 10%. Dividends distributed to corporate shareholders are exempt from

withholding tax, while the average withholding tax is 5% of the gross income. The standard VAT rate is 20%, and a reduced rate of 9% applies to certain services in the tourist sector.

There are also certain tax reliefs for carrying out production activities in municipalities with unemployment rate higher than the average.

Last but not least, Bulgaria has signed more than 50 double tax treaties, each providing certain tax reliefs and/or a reduced tax rate.

Outsourcing Opportunities

With increasing globalization and technological developments, investors may grow their companies and generate more income irrespective of the location. Large-scale businesses which seek to cut costs by outsourcing their activities may easily make use and take advantage of the local resources.

For example, foreigners seeking to acquire land may do so by the mere incorporation of a local company which shall be a party to the transaction.

In addition, the good level of English language knowledge and the technical and business competencies of the personnel, the market potential and the quality of the infrastructure all mark Bulgaria as an attractive outsourcing destination.

As reported in the November 8 edition of Gaming Legal News, Dickinson Wright recently entered into a cooperation agreement with Velchev & Co. as part of our focus on serving gaming clients on a worldwide basis.