



# Bulgarian Companies

The recent onslaught against tax havens has substantially limited the opportunities for managing overall corporate and personal tax burdens through the use of offshore structures. As a viable and secure solution, we can help you maintain a presence in a low tax territory. Bulgaria is one such location and below we list the key benefits of choosing a Bulgarian Limited Liability company as a favourable vehicle for your business base:

1. Very low capitalization requirement – BGN 5,000 (approx. USD 2,325; € 1,650).
2. Corporate income tax of 10%.
3. Dividend payout and other income distribution withholding tax are 5%.
4. Double taxation agreements with 61 countries.
5. European Directives (dividends, interests, royalties).
6. Annual depreciation rates el 30% for machinery and equipment, 50% for new equipment for the purposes such as new investment or expansion, and 50% for software and hardware
7. Bulgaria is strategically located along the major trade routes and possesses the all critical infrastructure required.

## Holding period

The participation in the foreign subsidiary must be held without interruption for at least one year. In the case of capital gains, the one-year holding period must be completed upon realization of the capital gain. In the case of dividends, the one-year holding period may be completed after the dividend distribution.

## Tax regime of the foreign subsidiary

The foreign subsidiary must be subject to a tax that is identical or comparable to the Spanish Corporate Tax.

## Activities carried out by the foreign subsidiary

At least 85% of the income of the foreign subsidiary must come from the exercise of an active trade or business abroad.

Dividends distributed out of exempt income to foreign shareholders are not considered to be Spanish source income, and therefore will not be taxed in Spain unless the shareholder is resident in a country or territory considered to be a tax haven. If resident in a tax haven, a withholding tax of 15% will apply to dividends. Similar rules apply to capital gains. When a foreign shareholder makes a capital gain on the sales of shares in a

Spanish holding company, the capital gain is not taxed in Spain to the extent the gain corresponds to undistributed accumulated earnings in the Spanish holding company out of income that qualifies for the participation exemption. However, if the foreign shareholder is resident in a tax haven, then a Spanish tax of 35% applies to the gain.

## ETVE – Entidad de Tenencia de Valores Extranjeros

Spain has a favourable tax regime that encourages the establishment of holding companies. This regime, called the ETVE (Entidad de Tenencia de Valores Extranjeros) was introduced in 1996 and was substantially amended and improved in 2000, simplifying and making it more flexible. ETVE adhered to the tax conditions of the European Union authorities and is not included in the Code of Conduct blacklist; thus leading Spain to become a serious tax competitor.

## Qualification as a Spanish holding company

In order to qualify as a Spanish holding company, the business purpose of the company must include the administration of holdings in foreign subsidiaries. This no longer is the main purpose of the company and, therefore, the company may carry out other business activities.

## Exemption of taxation on dividends and capital gains earned by the Spanish holding company

Dividends distributed by the foreign subsidiaries and capital gains on the sale of shares of the foreign subsidiaries will be tax exempt only if the following condition is met and the subsidiary is not resident in a tax haven territory: *Minimum participation. The participation in the equity of the foreign subsidiary must be at least 5%.*

