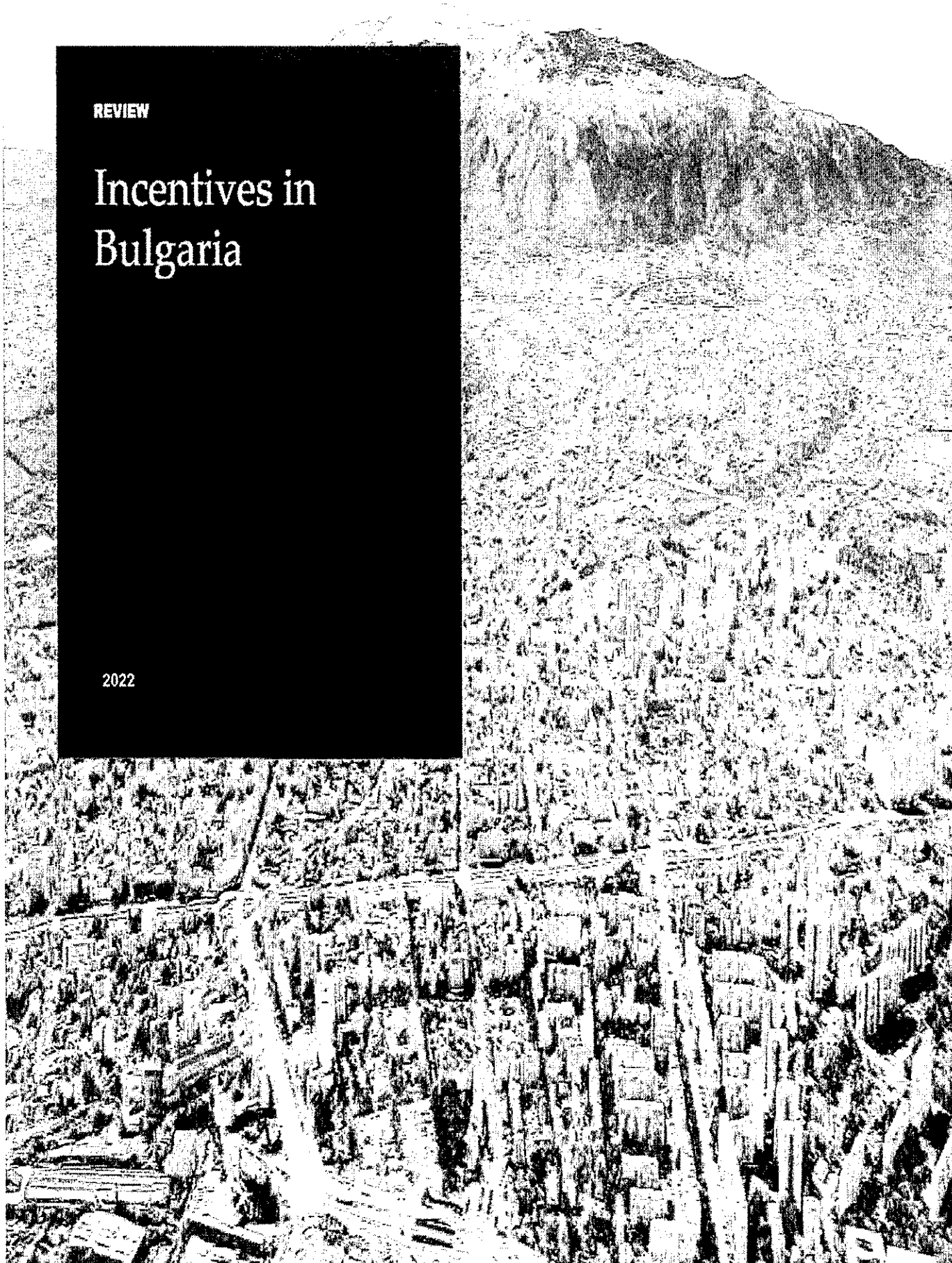


REVIEW

Incentives in Bulgaria

2022



Structure and functions of InvestBulgaria Agency

InvestBulgaria Agency (herein referred to as "the Agency") is a governmental institution under the authority of the Ministry of Innovation and Growth. The Agency's main goal is to facilitate potential and existing direct investors with the implementation and establishment of their investment projects in Bulgaria. This process takes place in the form of individualized administrative services and, in principle, is divided in three stages:

- Stage I - exchange of information
- Stage II - site selection
- Stage III - decision making

The preliminary exchange of information is the stage where both sides are required to provide a sufficient amount of information with emphasis placed on the key areas necessary for the elaboration of an effective action plan.

Once the Agency collects enough information about the profile of the investor and the parameters of the project, it should be able to identify his needs in terms of suitable site. Although optional, this preselection assistance is highly valued by investors due to the favorable conditions on the acquisition or other limited *in rem* rights offered for municipal or state owned land. During this process we work in close collaboration with public and other business partners from the real estate area of expertise. Site visits, contact initiation and local support are among others the activities that we perform. For example, one major partner of the Agency is the state-owned company National Industrial Zones managing 11 industrial zones across the country with a total area of approximately 7.4 million square meters.

Decision making on the feasible package of incentive measures is the final stage and it depends on the conclusions drawn on the gathered information and the evaluated potential of the sampled sites.

Evaluation factors

As an equal EU-member State Bulgaria has the obligation to regulate the terms and conditions related to the investment promotion procedures and certification process in line with the applicable domestic and EU legal framework. That is why potential and established investors need to consider a mix of factors that have the potential to influence their project profile feasibility and structure when they apply for incentive measures to the Bulgarian Investment Agency.

In this sense, several key factors should be identified and considered by each applicant/investor with cross-reference to the specificity of his project:

- Field of economic activity
- Size of the company or group of companies
- Source and structure of financing
- Purpose of the investment
- Region of implementation

The clarification of the above-listed factors is the starting point which should further determine the scope and package of incentive measures to be applied for.

Field of economic activity

There is a pre-defined set of economic activities that is supported under the Bulgarian Investments Promotion Act (BIPA). In particular, we support a nomenclature of economic activities from the statistical classification of economic activities in the European Community (Nace rev. 2) from the manufacturing industry and the services sector (for more information on the acceptable economic activities, please refer to p.1 from Annex I).

Further on, there are specific economic activities from the list that could be used as a lever against the investment threshold requirement due to the fact that they are considered with priority status for the Bulgarian economy. These are economic activities from the high-tech manufacturing industry and the knowledge-intensive services sector (see p.2 from Annex I).

Size of the company or group of companies

We consider the magnitude of the undertaking as a very important topic due to the fact that it determines a set of rules and conditions which must be followed by the investor. The criteria have been set on an EU level and subsequently adopted and implemented into the domestic legislation.

Evaluation of company size

Company category	Staff head count	Annual turnover	Annual balance sheet total
Small enterprise	< 50	≤EUR10million	≤EUR10million
Medium-sized enterprise	< 250	≤EUR50million	≤EUR43million
Large enterprise	≥ 250	>EUR50million	>EUR43million

*Head count is mandatory, whereas either annual turnover or the balance sheet criteria must be considered in addition.
Source: European Commission*

The distinction between large enterprises and SMEs is reflected in the statutory terms for investment project maintaining once it has been completed and operations take

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place. In this respect, if the enterprise is recognized as large one, it should be able to maintain the project within a statutory term of at least 5 years. In contrast, should an enterprise be recognized as an SME, the statutory term is decrease to three years.

Source and structure of financing

Information about the sources and structure of financing envisaged within the three-year project implementation period is important requisite used in the investment evaluation process. In the general case, InvestBulgaria Agency would distinguish between the following funding strategies:

- Equity capital
- Debt capital (incl. finance lease)
- Public aid

At least 40% of the investment project must be funded by the investor's own resources. This share should be either achieved through equity, debt or through a combination of both.

Purpose of the investment

The purpose of the investment should be:

- Setting up of new undertaking
- Extension of an existing undertaking/activity
- Diversification of the output of an existing undertaking/activity with new products
- Fundamental change in the overall production process of existing undertaking/activity

The invested amount in fixed tangible and intangible assets could be realized for one or for a combination of more than one of the above purposes.

Region of implementation

Each Member State of the European Union has identified particular regions which are less developed based on certain macro-economic and demographic indicators. Such regions could benefit from better incentive conditions in order to boost regional development and competitiveness with the rest of the country. In this manner, Bulgaria has identified such less developed areas/municipalities on employment rate basis. Therefore, municipalities with employment rate lower than the average for the country could apply for incentive measures with lower investment thresholds requirements (see Annex II).

Other

Besides the key factors described under this section, there are some additional aspects of the evaluation process that should be also considered by the applicant.

A well-structured business plan that could be incorporated into the certification application is a great advantage. In particular, the topics of interest that should be envisaged therein, among others are:

- Economic data for the last three years – this includes total

assets, total turnover, financial result and number of employees;

- Information about previous completed projects;
- Break-down of costs for acquisition of fixed assets – this includes costs related to land, buildings, machines and equipment, licenses, patents, intellectual property, know-how, etc.;
- Financial-economic plan for a 5-year period – should be based on the expected profit (per main product and per other additional products and services), expected costs (raw materials, fuels, depreciation, staff, repair, financial other, other) and expected net cash flow (expected profit minus expected costs);
- Program for the economic activity for the next 5 years – description of buildings/constructions plus description of machines and equipment (type and number), description of the technological process, description of the products, schedule for the implementation and SoP of the project, schedule of the recruitment process and wage level.

Key concepts

- ***InvestBulgaria Agency is government body for the promotion of investments in specific industries and services***
- ***The eligible industries and services are categorized in economic activities described under Annex I***
- ***The size of the company determines the time for investment maintaining***
- ***Minimum 40% of the project should be financed via equity and/or debt capital***
- ***Only activities for setting up new undertaking or fundamental change, extension or diversification of production are promoted***
- ***Investment in less developed regions may minimize certification threshold requirements***
- ***Specific information from the business plan should be available to be incorporated in the application form***

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Incentive measures

Depending on the evaluation factors each investor may apply for different class of investment certificate for his project. The class of certificate (A, B or Priority) determines the package of incentive measures that could be utilized.

Investments under the Investments Promotion Act (IPA) per class certificate

	Priority Class €500.00M 50 – 150 jobs	Class A €100M – €500M 25 – 150 jobs	Class B €500K – 250M 10 – 100 jobs
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SHORTCUT ON ADMINISTRATIVE TERMS	✓	✓	✓
NO TENDER OR COMPETITION FOR ACQUISITION OF STATE / MUNICIPAL LAND	✓	✓	✓
FINANCING VOCATIONAL TRAINING	✓	✓	✓
SOCIAL SECURITY CASH BACK	✓	✓	✓
INDIVIDUAL SERVICES	✓	✓	
FINANCING TECHNICAL INFRASTRUCTURE	✓	✓	
PUBLIC-PRIVATE PARTNERSHIP	✓		
NO TAX ON GUARANTEE LAND STATUS	✓		
BUYING PUBLIC LAND ON FAVOURABLE PRICES	✓		
CASH GRANT	✓		

Source: InvestBulgaria Agency

First row indicates the threshold range in terms of investment in fixed assets or created new jobs (optional). Only Priority class certification requires a combination of both. For more details on the investment range please refer to Annex III.

Shortcut on administrative terms

This incentive measure could be exercised once the certificate has been approved and issued. This incentive instrument is usually utilized in the case of tight schedules that investors need to meet for their project implementation. In particular, local and central authorities could cut the statutory waiting period for specific administrative service with up to one-third. Some potential areas of application could be related to the terms for change or elaboration of Detailed Development Plant, change of land status, issuance of building permit or environmental screening procedures.

Acquisition of land or limited rights *in rem* over immovable property without tender procedure

The acquisition of land or other limited *in rem* rights without tender procedure is one of the most requested incentive measures and could be initiated for immovable property which is owned by the state or by the municipality.

The feasibility depends on the compliance and nature of the project. Once the public operator, managing the property, approves and agrees with the positive economic and community effect of the project, independent market evaluation is assigned which should determine the indicative price.

Important rule is that the magnitude of the investment adheres

to the 5 to 1 rule, i.e. to be 5 times bigger than the assessed land price (in the case of acquisition).

In order to mitigate the risk of adverse consequences, the investor should bear in mind that the disposal with the land is correlated to the project implementation deadline and its subsequent minimum maintaining period.

Financing of vocational training

Upon request and acting on a proposal by the Ministry of Innovation and Growth, resources for training and attainment of professional qualification of employees, including interns, could be allocated to the investor.

The project should either fall in the scope of the high-tech/knowledge intensive sectors or be implemented in the disadvantaged regions specified and highlighted in green under Annex II.

The costs that may be covered under this incentive are related to the hours spent by the selected training team, operating costs incurred by the training team and the trainees (e.g. travel expenses, rent, materials and stationary, depreciation cost of equipment due to the training, consulting services, etc.). The intensity of the aid could range between 25% - 45% from these costs, depending on the size of the company, and up to an amount of EUR 2 M.

Social security cash back

The social security cash back option is a distinctive financial incentive in the form of recovered social security and health insurance contributions made on behalf of the employer in respect of the newly hired factory and office workers. It is applicable for the compulsory monthly social and health insurance contributions per employee for a period of 12 or 24 months (24 months for disadvantaged regions as per Annex II).

In practice, the investor should be able to make indicative calculation of the requested amount for reimbursement based on the planned and reported wages in the application form. In this connection, the investor should keep in mind that each year the state approves and stipulates the annual maximum base that could be used for the calculation of the social security and health insurance contributions. For 2022 this monthly base is approximately EUR 1 738. Further on, the ration of contributions on behalf of employer and on behalf of employee is approximately 18.5% to 13.8%. This should mean that the maximum indicative amount of social security and health insurance contributions for 12 months per employee on behalf of the employer could reach up to EUR 3 859 (or up to EUR 7 718 per employee for 24 months).

Individual services

Individualized administrative services are provided by the experts of the Agency in dealings with the central government authorities.

These are usually activities which require the provision of accurate and complete information with respect to issues of the

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Agency's competence and activities that should facilitate the implementation of the project. For example, the Agency could assist with queries in connection with the requisite procedures and address these queries to the administrative authorities.

In principle, this incentive should be used to solve coordination and organizational issues in dealings with the central authorities.

Financing of technical infrastructure

Infrastructure has always been a key element and integral part for the efficient function of an undertaking. For this reason, the financial support for construction of physical infrastructural elements, identified as relevant for the complexity and thoroughness of the project, is offered by the state.

In the general case, this would be related to financing of construction works on new or repair of impaired road infrastructure owned by the municipality or other public/governmental body. Once the funds are approved they should be directly distributed to the owner of the infrastructure (usually the municipality) and spent accordingly.

Priority class specific incentives

There are a few additional incentive measures offered, in particular, to investors who have decided to realize considerably larger investment projects with significant socio-economic impact. Due to their complexity and magnitude, these projects would usually require a specific set of supplementary incentive measures that would provide the extra thrust and support to achieve the completion in compliance with the law and the set schedule.

Such specific incentive measures are:

- Public-private partnership – institutional support in the form of a working group between the relevant/involvement public bodies (ministries, governmental agencies, municipalities, other). This should also include cooperation with the academic community in order to secure the sufficient flow of skilled labor force;
- Local taxes and fee exemption related to the change of land status;
- Cash grants – up to 25% or 50% (depending on the region under Annex II) maximum intensity aid for investments in the manufacturing industry (as per Annex I) and up to 50% maximum aid intensity for investments in education and R&D sectors (regardless of the region).

Key concepts

- *The planned economic activity, amount of capital and new jobs determine the class of certification*
- *The class of certification determines the package of incentive measures*
- *The incentive measures could be in the form of non-financial or financial support*
- *Incentive measures in the form of financial support could be direct (social security, vocational training and cash grant) and indirect (infrastructure)*
- *Priority investors could benefit from specific incentive measures such as cash grants*

Annex I

1. List of all eligible economic activities:

- Manufacturing -
https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=EN&IntPcKey=18496334&StrLayoutCode=HIERARCHIC ;
- Software publishing – in particular,
https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=EN&IntPcKey=18514454&StrLayoutCode= ;
- Computer programming, consultancy and related activities -
https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=EN&IntPcKey=18515204&StrLayoutCode= ;
- Information service activities -
https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=EN&IntPcKey=18515384&StrLayoutCode= ;
- Accounting, bookkeeping and auditing services; tax consultancy -
https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=EN&IntPcKey=18516944&StrLayoutCode= ;
- Architectural and engineering activities; technical testing and analysis -
https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=EN&IntPcKey=18517184&StrLayoutCode= ;
- Education -
https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=EN&IntPcKey=18520274&StrLayoutCode= ;
- Human health activities -
https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=EN&IntPcKey=18520874&StrLayoutCode= ;
- Residential care activities -
https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=EN&IntPcKey=18521144&StrLayoutCode= ;

- Warehousing and storage -
https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=EN&IntPcKey=18513284&StrLayoutCode= ;
- Office administrative and support activities -
https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=EN&IntPcKey=18519524&StrLayoutCode= ;
- Activities of call centers -
https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=EN&IntPcKey=18519614&StrLayoutCode= ;
- Business support service activities -
https://ec.europa.eu/eurostat/ramon/nomenclatures/index.cfm?TargetUrl=LST_NOM_DTL&StrNom=NACE_REV2&StrLanguageCode=EN&IntPcKey=18519734&StrLayoutCode= .

Note:

All economic activities related to the implementation of large investment projects, **classified as Priority projects as per BIPA**, except:

- activities in fishery and aquatic sectors;
- primary production of agricultural products;
- coal sector;
- steel sector;
- shipbuilding sector;
- production of synthetic fibers;
- transport and infrastructural sectors;
- generation and distribution of electricity, gas, steam and air-conditioning and energy infrastructure,

shall be eligible for certification.

2. Priority economic sectors (incl. in p.1):

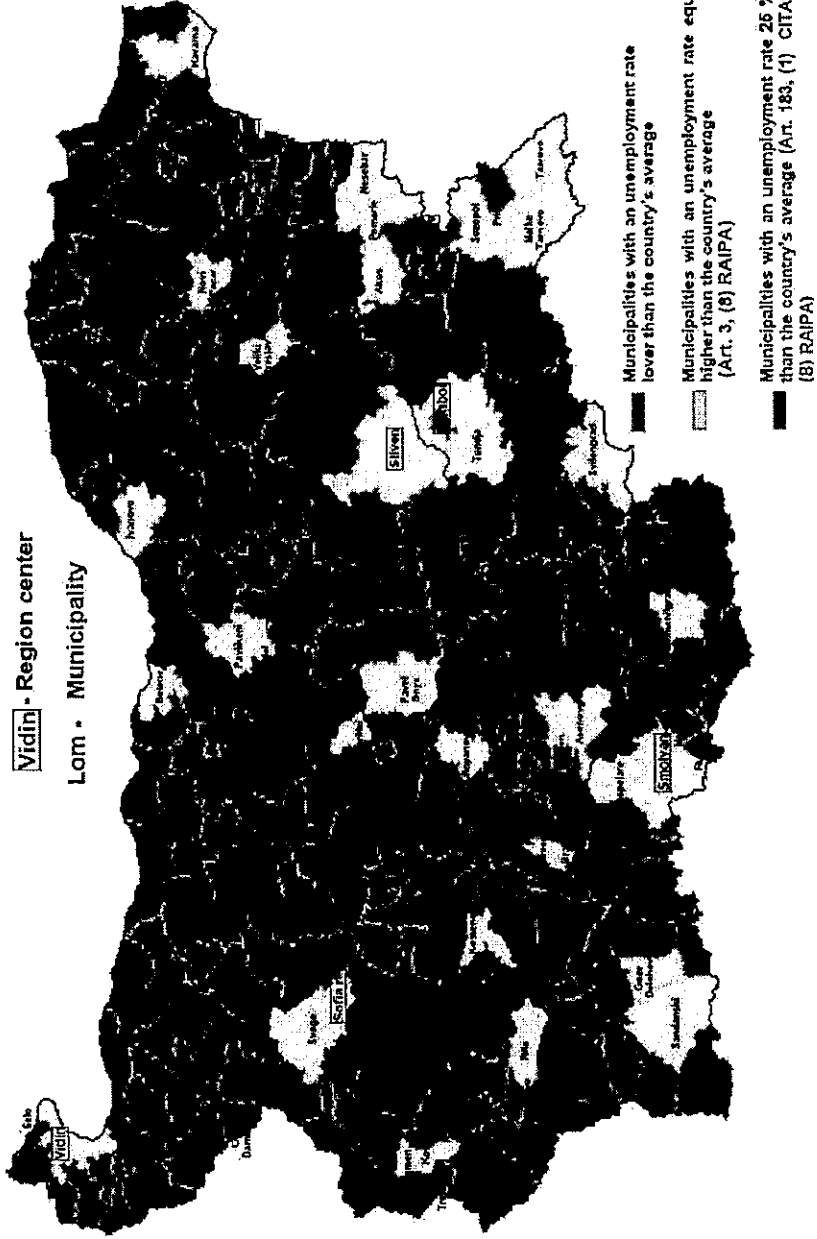
- High-tech manufacturing industries -
https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:High-tech_classification_of_manufacturing_industries ;
- Knowledge-intensive services -
[https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Knowledge-intensive_services_\(KIS\)](https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Knowledge-intensive_services_(KIS)) .

Note:

The economic activities under p. 2 should be considered with cross-reference to the list under p.1.

Annex II

MUNICIPAL LEVEL OF UNEMPLOYMENT



[illegible]

**The 'Technological Park' should meet the requirements for industrial zone with prevalence of underlining in the R&D sector, of and academic sector, of and information technologies sector, of and innovative activities for technological update of the production facilities and implemented technologies.

About us

Invest Bulgaria agency is a government organization, established to attract investments to Bulgaria, to assist project set-up and to ensure successful project development resulting in new jobs, exports and know-how transfer for the Bulgarian economy.

We help potential and existing investors explore the investment opportunities in Bulgaria and carry out greenfield investment projects in the country.

Contacts

InvestBulgaria Agency

Headquarters

Vrabcha 23

1000 Sofia

Bulgaria

T +359 2 9855500

F +359 2 9801320

iba@investbg.government.bg

investbg.government.bg

