

The image features a repeating geometric pattern of interlocking diamonds in shades of blue, light blue, and cream, set against a light orange background. A dark blue rectangular box is positioned in the top-left corner, containing the law firm's name and the date. A larger dark blue rectangular box is at the bottom, containing the main title.

DJINGOV
GGOUGINSKI
KYUTCHUKOV
VVELICHKOV
ATTORNEYS AND COUNSELLORS AT LAW

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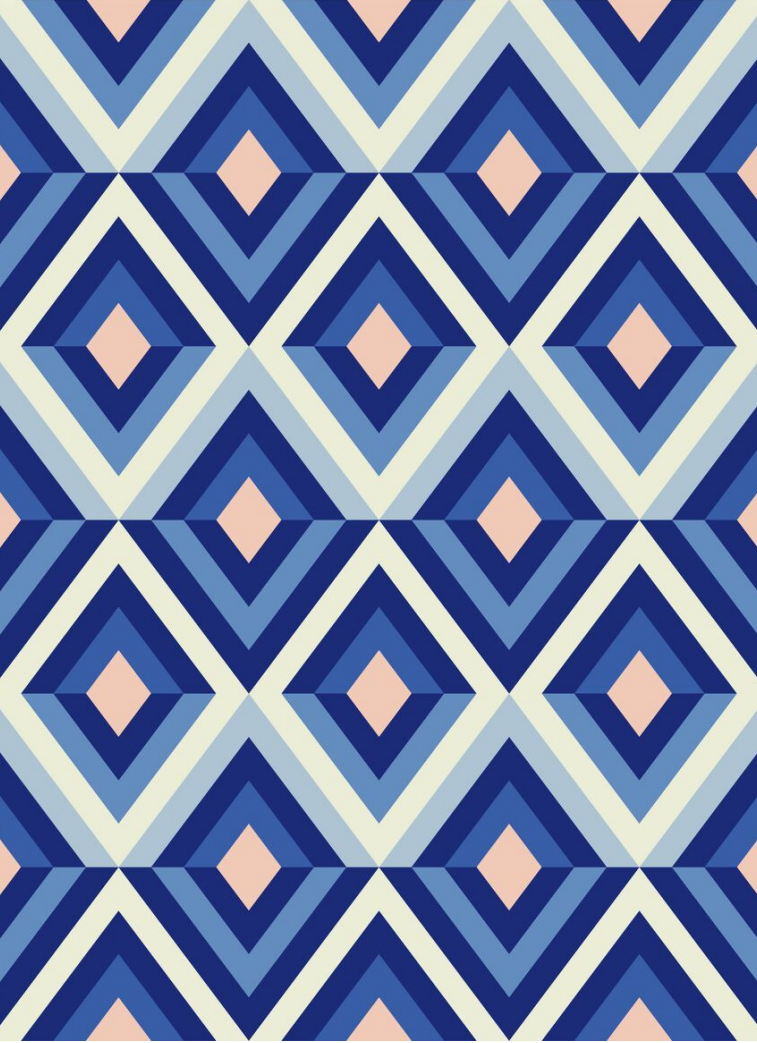
**TRANSFER PRICING DOCUMENTATION
TO BECOME OBLIGATORY**



WHAT'S NEW?

Such obligation is also valid for unincorporated partnerships which for the purposes of the new regulations are treated as companies.

Domestic related party transactions would not be covered by said regulations, nor transactions, a party to which is a physical person (except for sole traders).



Transfer pricing documentation should be already a serious consideration for Bulgarian companies or foreign investors having Bulgarian presence, following the promulgation on August 13th, 2019 of entirely new regulations and requirements for preparing obligatory transfer pricing documentation (as per recent amendments to the Tax and Social Security Procedure Code). As a result, starting from 2020, your company, if an obligated one, should verify each contemplated international related party transaction whether necessary to ensure compliance with the new regulations and prepare such documentation, not later than March 31st, 2021.



THE BENCHMARK THRESHOLDS

A related party transaction would trigger obligation for preparation of transfer pricing documentation if the value of that transaction for the respective year (net of VAT and excise duties), exceeds:

- BGN 400,000 (approx. EUR 204,516) for sale of goods; *or*
- BGN 200,000 (approx. EUR 102,258) for all other types of transactions, (excluding loans);
- BGN 1,000,000 (approx. EUR 511,291) for loans; *or*
- BGN 50,000 (approx. EUR 22,564) for interest or other loan related costs.

Certain specifics apply for the calculations if more than one transaction of a similar type is concluded in the course of the year or there are several transactions of different type with the same related entity.

OBLIGATED PERSONS

A company would be obligated under these regulations, if as of December 31st of the year preceding the current one its balance sheet value of assets exceeded BGN 38,000,000 (approx. EUR 19,429,091) and either net sales revenue exceeded BGN 76,000,000 (approx. EUR 38,858,182) or the average number of personnel exceeded 250. Accordingly, for 2020 the values to be considered would be those as of December 31st, 2019.



THE TRANSFER PRICING DOCUMENTATION

The transfer pricing documentation required consists of a local file and a master file with statutory prescribed content. These should be prepared on annual basis. Whenever the obligated person is also part of a multinational group, in addition to the local file, it should procure for a master file as well, prepared by its parent or other group entity.

Once prepared, such documentation should be stored by the obligated persons and provided to the revenue authorities upon their request in the course of tax audits and inspections.

The new provisions do not prescribe a specific term for which obligated companies should store the transfer pricing documentation. Hence, the general term for storage of documents necessary for the purposes of tax control will apply. Storage term for the transfer pricing documentation would be 5 years after expiry of the prescription period for the tax related to the respective transaction.

An obligation for updating of the transfer pricing documentation is also introduced. In this regard research of comparable transactions and/or entities made during the transfer pricing analysis shall be updated at least once every three years, or even more often if significant changes occur in the comparability factors of the controlled transactions.

SANCTIONS

An administrative sanction of up to 0,5% of the total amount of the respective transactions could be imposed if a local file has not been prepared. Lack of a master file could be subject to sanction in the range of BGN 5,000 to BGN 10,000 and stating false or incomplete data in the files – a sanction ranging between BGN 1,500 to BGN 5,000. Sanctions would be doubled in case of repeated violations.

KEY TAX CONTACTS



Viara Todorova, Partner
viara.todorova@dgkv.com

Head of the Taxation Practice Group
Highly recommended by the reputable international legal guides Chambers and Partners and World Tax



Ivan Punev, Senior Associate
ivan.punev@dgkv.com

Ivan Punev provides expert advice and comprehensive tax legal advice on a wide range of business matters in various industries.



Martin Dimitrov, Associate
martin.dimitrov@dgkv.com

Martin Dimitrov provides full legal services on tax and regulatory matters.

**DJINGOV
GOUGINSKI
KYUTCHUKOV
VELICHKOV**
ATTORNEYS AND COUNSELLORS AT LAW



SOFIA

10 Tsar Osvoboditel Blvd. | Sofia 1000 | Bulgaria
☎ +359 2 932 1100 | 📠 +359 2 980 3586 | ✉ dgkv@dgkv.com



BERLIN

Schlegelstrasse 29 | 10115 Berlin (Mitte) | Germany
☎ +49 30 2758 1561 | 📠 +49 30 2758 1562 | ✉ dgkv@dgkv.com

🌐 www.dgkv.com **LinkedIn** **f** **▶**

We Care

