

## VAT in Property Purchases in Bulgaria

An important consideration when buying new-built Bulgarian property is the payment of (and the ability to recover) the VAT component that a developer will be obliged to add to the base price of the property.

Unlike other EU member states, including the UK, Bulgarian property sales done on a commercial basis are chargeable to VAT at the rate of 20% (ie, VAT represents approximately 16.7% of the total purchase price). VAT is charged over the whole of the purchase price of a property and there is no threshold which needs to be exceeded before it becomes applicable. VAT can therefore be a substantial element of the cost in your purchase.

EU VAT-registered undertakings are able to recover input VAT to the extent that the input VAT is attributable to (that is, used to produce) its taxable outputs. Input VAT is recovered by setting it against the output VAT for which the business is required to account to the government, or, if there is an excess, by claiming a repayment from the government. Individuals, unless VAT-registered, will not be able to recover the VAT paid. Individuals can however become VAT-registered undertakings provided they fulfil certain conditions.

In practice, the possibility to be registered for VAT in an EU country other than Bulgaria and still recover Bulgarian VAT arising on the purchase of a Bulgarian property arises only in relation to the ownership of flats or when ownership is in a non-absolute form (by way of a right of use of a 'construction right'). At present, only Bulgarian-registered businesses (albeit owned by foreigners) can be the owners of Bulgarian land.

The VATable supplies do not have to arise in relation to the house or flat in question (assuming that the business is not established with view to exploiting a single business opportunity connected with a single property). In the event that the business makes VATable supplies in any event - either through other trading or through the exploitation of other land - these supplies can serve as a basis for establishing and maintaining registration for VAT.

Even so, there may be circumstances under which the business (even if established in another member-state) will be required to register for VAT also in Bulgaria.

This allows acquisitions of new-built property to become subject to a recovery of up to 16.7% of the purchase price. Given the cost of setting up and administering such an approach, it is economical to do so for properties of above €20,000 (which covers most new-built properties). For further advice and information, or to instruct New Balkans Law Office, please contact us on +359 2 403 1900 or on [sofia@newbalkanslawoffice.com](mailto:sofia@newbalkanslawoffice.com)