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Register as a Bulgarian company to own land; you'll save taxes, too

Foreigners form a Bulgarian firm to circumvent a law that bars them from buying land and also end up paying 15% tax on any eventual sale, against 25% payable by individual owners

Matthew Brunwasser/International Herald Tribune

Sofia, Bulgaria: Bulgaria has modern laws governing the buying and selling of property, more or less the same as those found throughout the European Union (EU), yet rough spots remain in their administration. After all, the country's transition from communism to a multi-party free market system has been long and bumpy, and is still not quite finished.

Foreign citizens are free to own buildings, but only Bulgarians can own land. So foreign citizens buying properties with land—including apartments, most of which include partial land rights—usually register as a Bulgarian firm, most often a limited liability company, in whose name the purchase is then made. A Bulgarian lawyer would handle the work for about \$600 (Rs24,600).



Snapshots of A piece of dream: Bulgarian towns and squares. European Union citizens will have the right to own land in Bulgaria when its accession to the EU treaty takes effect. But there is a seven-year moratorium, intended to stop Western Europeans from making big acquisitions.

According to recent changes in the Bulgarian Constitution, EU citizens will have the right to own land when Bulgaria's accession treaty takes effect, as it was scheduled to do on 1 January 2007. But there is a seven-year moratorium, so the right will not take effect until 2014. The measure, similar to those enacted by other new EU member-states from Eastern Europe, is intended to stop Western Europeans from making big acquisitions of cheap land right after accession.

"It's all really absurd because anyone can buy land," said Kalina Milanova, a senior lawyer responsible for the real estate dealings at CMS Cameron McKenna in Sofia.

She recommends that anyone intending to buy should form a company to save taxes on any eventual sale. Legal entities pay a corporate income tax of 15% on sales while individual owners are charged about 25%.

Most foreign buyers, especially those acquiring property on the Black Sea and around the ski slopes of Bansko, buy new properties directly from developers. These are straightforward deals usually completed through a real estate office in the buyer's home country.

Any complications generally are the result of foreign buyers "parachuting" into the country to buy older properties and then neglecting to check on the reliability of their local contacts.

Bulgarians with all kinds of backgrounds are trying to profit from the real estate "gold rush", the recent swell of foreign interest in the country's property market. Frauds are a small minority of problems; the much greater risk is doing business with people who have little or no professional experience in real estate.

"It used to be that every Bulgarian knew everything about politics and soccer," said Georgi Dutchev, editor-in-chief of *Properties Xpress*, a magazine published in English and Bulgarian in Sofia. "Now every Bulgarian is also an expert about real estate."

Professional agents automatically check the titles of older properties, but those new to the business sometimes do not realize the need.

Thorough checks will help avoid fraud, corruption and poor administration of paperwork, and will uncover any complex ownership problems connected to post-communist restitution among family members and their descendants. Title insurance is not available.

Nor is there a national property registry. One is being constructed with EU help, but it is still years from completion. So, all transactions must be done where the property is located, a lot of travel for agents if the property is on the Black Sea and the buyer is in Sofia.