

Bulgaria Adopts New Gambling Tax Regime

Article By:

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Bulgaria has a new gambling taxation regime effective January 1, 2014, which, together with the reasonable and balanced regulations currently in place, makes the country attractive for local licensing and gambling operations based upon a low corporate tax and highly qualified and low-priced technical specialists. One and a half years after the **Gambling Act (“Act”)** was introduced, the tax base for gambling has been changed and is now in line with good business practices: switching from a turnover base to a **Gross Gaming Revenue (“GGR”)** base.

On December 19, 2013, amendments in the Act (“Amendments”) for liberalizing gambling regulation in Bulgaria passed successfully the second reading in the Bulgarian Parliament amidst tense disputes. The Amendments were promulgated in the National Gazette on January 3, 2014, and came into force effective January 1, 2014.

The Amendments assure that as of January 1, 2014, the taxation of **any online games** in Bulgaria will be based on GGR with a 20% tax rate. For games in which fees and commissions are collected (such as poker), the tax rate will be 20% of the collected fees. In addition, there is a single fee for issuing and maintenance of a five-year license in the amount of approximately EUR 50,000 (BGL 100,000). No annual fee will be required during the five years’ validity of the license.

Offline bingo and keno will be taxed at a 10% corporate tax rate.

The GGR-based taxation is not a part of the common tax system, but rather it is an administrative fee regulated entirely in the Act instead of the tax laws. Nevertheless, any operator who decides to have an establishment in Bulgaria can take advantage of a favorable and stable corporate tax – only 10%. The low corporate tax rate would apply only to operators who decide to establish a local company in Bulgaria, which might be strongly supported from other economic arguments – for example, a very well-educated and qualified labor force at insignificant costs.

The Amendments introduce a new requirement for any licensed operator not established in Bulgaria but established in any other EU/EEA country or Switzerland. Such operators must have an authorized representative in Bulgaria, but this would not constitute having a local business in the country for purposes of obtaining the 10% corporate tax rate. An operator, in all events, is required to have a local representative in Bulgaria, who should be authorized for representation before Bulgarian authorities and courts.

From a regulatory perspective, the Bulgarian gaming regime is now one of the most balanced in Europe. It does not require a local establishment and main server in Bulgaria for any foreign operator who decides to obtain a local Bulgarian license (nevertheless, a local control server in Bulgaria is required). There are no specific requirements for performing payments through a local bank or to make certain investments in the country. The operators are not required to operate a dot bg domain. Foreign operators – registered, investing, and having a main server anywhere within EU, EEA, and Switzerland – can apply for a license. Nevertheless, the restrictions the Act imposes on an applicant whose shareholder is an offshore company should be carefully considered in light of provisions of the Act relating to economic and financial relations with companies registered in preferential tax regime jurisdictions and their actual shareholders.

A significant number of online gambling operators are expected to apply for a license in Bulgaria. The first online operators have already submitted applications. They are eager to enjoy not only reasonable taxation but also liberal regulation. The Bulgarian government has further stimulated the licensing of online operators by approving amendments that allow the operator to be removed from the blacklist even before being granted a license if the online operator applies for such removal not later than March 31, 2014.

The Amendments also permit the operators to perform any other business activity apart from organized gambling, which was not the case until now.

The efforts of the Bulgarian Parliament are of major significance. Instead of concentrating on blocking measures (such as ISP and/or payment blocking), the government has focused on best practices and introduced regulations that motivate the online gambling operators to get a license and work not only in a balanced regulatory environment but also under a favorable tax regime. These changes are aimed at balancing and optimizing the new sector regulation model that was introduced back in 2012. They give the online operators promising conditions to work legally in the Bulgarian market. At the same time, the new regulations impose stricter administrative sanctions on illegal online gambling operations.

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