

# Different Types of VAT Registration for Freelancers

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This post is designed for freelancers who provide professional services. If you're a freelancer, I recommend reading this post and consulting with your accountant to review your VAT status. From my experience with new clients, I've observed considerable confusion among accountants and their clients regarding the VAT treatment of cross-border services based on different VAT registration types, which can sometimes have negative consequences. It's crucial for freelancers to understand these aspects.

There are a total of 11 types of VAT registrations, each with its own set of rights and obligations for freelancers. In this post, I'll focus on the three most common types, aiming to simplify and explain them without delving too deeply into legal complexities.

## 1. Mandatory VAT Registration (Article 97a(1)(2) VAT Law)

Mandatory VAT registration without reaching a specific threshold applies if any of the following conditions are met:

1. **Services Received:** Services (including VAT-exempt services like financial and insurance services) used in the freelancer's main activity and received from EU or non-EU companies, regardless of the purchase amount. Services used for personal purposes do not trigger mandatory VAT registration.
2. **Services Provided to EU Companies:** Services provided to companies based in the EU.

### **Deadline for VAT Registration Application per Article 97a(1)(2) VAT Law:**

1. **For Services Received:** Register 7 days before receiving an invoice or making a payment, whichever comes first.
2. **For Services Provided:** Register 7 days before issuing an invoice or receiving a payment, whichever comes first.

### **VAT Reporting After Registration per Article 97a(1)(2) VAT Law:**

- **Monthly Reporting:**
  - o **Include in VAT Reports:**
    - Sales to EU-based companies (if applicable) with a 0% VAT rate.

- Services received from EU and non-EU companies related to the freelancer's main activity, charged with the 20% Bulgarian VAT rate, unless exempt.

o **Examples:**

- Broker commissions for share trading are reported only if share trading is the freelancer's main activity. The 0% VAT rate applies as financial instruments are VAT-exempt (Article 46 VAT Law).
- Online services from EU and non-EU companies (e.g., hosting, data management, cloud services, domain registration) are reported and charged at the 20% Bulgarian VAT rate.

o **Excluded from VAT Reports:**

- Sales to non-EU-based companies.
- Sales to Bulgarian, EU, and non-EU-based individuals.
- Services or goods received from Bulgarian companies.
- Services from EU and non-EU companies that are VAT-exempt (e.g., financial and insurance services), unless related to the freelancer's main activity.

**VAT Charging:**

- Services received from EU and non-EU companies are charged at the 20% Bulgarian VAT rate, unless VAT-exempt.
- Sales to Bulgarian, EU, and non-EU individuals are not subject to VAT.
- Sales to EU and non-EU-based companies are subject to a 0% VAT rate.

**VAT Reimbursement:**

- No VAT reimbursement is available under this registration type.

**Specifics of VAT Registration per Article 97a(1)(2):**

If a freelancer registered under Article 97a(1)(2) later reaches the threshold for VAT registration under Article 96(1), they must register under Article 96(1) regardless of their existing registration under Article 97a(1)(2). Once registered under Article 96(1), VAT reporting, calculation, and claims will change. Freelancers registered under Article 97a(1)(2) can also opt for voluntary registration under Article 100(1), which will alter the reporting and VAT treatment of their transactions.

**Conclusion for VAT Registration per Article 97a(1)(2):**

In my opinion, this type of registration offers minimal benefit to freelancers and primarily benefits the government by collecting 20% VAT on services paid to foreign companies. It may be advantageous if working exclusively for Bulgarian clients, as it allows freelancers to avoid charging VAT on transactions within Bulgaria. However, mandatory VAT registration under Article 97a(1)(2) can be avoided with voluntary registration under Article 100(1), as described below.

## 2. Mandatory VAT Registration Due to Reaching the Threshold (Article 96(1) VAT Law)

When a freelancer reaches the threshold of 100,000 BGN (threshold valid in 2024, from 1<sup>st</sup> Jan 2025 it changes to 166,000 BGN) in not more that 12 calendar months mandatory VAT registration should be done.

### Which Sales Count Towards the Threshold

#### 1. **Included in the Threshold:**

- o Sales to individuals based in Bulgaria and the EU.
- o Sales to companies in Bulgaria.
- o Services provided to non-EU individuals, except for those explicitly described in point 2.
- o Sales of financial instruments and crypto derivatives, but only if this is the main business activity.
- o Sales of insurance products (including commissions), but only if this is the main business activity.

#### 2. **Excluded from the Threshold:**

- o Sales to non-EU based companies.
- Sales to non-EU individuals if they involve: Provision or transfer of rights over licenses, patents, copyrights, trademarks, know-how, or other similar rights of industrial or intellectual property, as well as the transfer of rights over software products other than standard software; Advertising services; Services provided by consultants, engineers, consulting firms, accountants, lawyers, and other similar services, including those for the development, modification, or enhancement of software; Data processing or provision of information; Banking, financial, insurance, and reinsurance services (excluding the rental of safes); Provision of personnel; Rental of movable property (excluding all types of vehicles).
- o Sales of financial instruments and crypto derivatives if not the main business activity.
- o Services received from EU and non-EU companies.

### Deadline for VAT Registration Application per Art. 96(1) VAT Law:

- No later than 7 days after the end of the month following the 12-month period (or shorter) during which the threshold was reached, OR
- No later than 7 days from the date the threshold is reached if this period is less than 2 months

### VAT Reporting After Registration per Art. 96(1) VAT Law:

- Monthly Reporting: VAT reports must include all sales and purchases, regardless of where the client or provider is based, except for sales declared under the OSS (One Stop Shop) scheme.
- Quarterly Reporting: Freelancers registered under the EU OSS scheme, who charge VAT based on the client's location country, must submit an OSS declaration quarterly.

### **VAT Charging:**

- 20% Bulgarian VAT Rate Applies To:  
Sales to individuals and companies within Bulgaria.

Sales to individuals in the EU up to a threshold of €10,000 over a 12-month period. Once this threshold is reached, mandatory registration in the EU OSS scheme applies, and VAT must be charged according to the client's location country.

### **VAT Reimbursement:**

- Freelancers are entitled to reclaim VAT paid to Bulgarian suppliers for services or goods directly related to their main business activities.
- Services and goods purchased from EU suppliers are treated as intra-community transactions and are exempt from VAT.

## **3. Voluntary VAT Registration without reaching a Threshold (Article 100(1) VAT Law)**

As implied by the name, this type of VAT registration is initiated voluntarily by the freelancer.

- **VAT Reporting After Registration per Article 100(1) VAT Law:** Reporting requirements are the same as for VAT registration under Article 96(1) VAT Law.
- **VAT Charging:** The rules for charging VAT are the same as those for VAT registration under Article 96(1) VAT Law.
- **VAT Reimbursement:** The conditions for VAT reimbursement are identical to those for VAT registration under Article 96(1) VAT Law.

*This article is not exhaustive. For more detailed information, please consult your accountant.*