



Romania

International Tax Contact

Baker Tilly

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Baker Tilly is the trading name of Baker Tilly Klitou & Partners Limited.

Facts and figures as presented are correct as at 2 December 2016.

Corporate Income Taxes

Resident legal entities are defined as:

- Legal entities established in accordance with Romanian legislation
- Foreign legal entities that have their place of exercise of effective management in Romania, and
- Any legal entity established according to European legislation that has their registered office in Romania.

Resident legal entities are generally taxed on their worldwide income.

Other legal entities are generally taxed on their Romanian source income, subject to the terms of any relevant tax treaty.

The standard corporate income tax rate is 16% applied to taxable profit. Certain activities, including nightclubs, casinos, and sports betting, are subject to a minimum tax of 5% from the revenues derived from such activities. Qualifying microenterprises (as defined) are generally subject to microenterprise income tax on total revenues at the rate of 3% (if the business has no employees), 2% (one employee) and 1% (more than two employees and qualifying new microenterprises).

Dividends paid by a Romanian legal entity to another Romanian legal entity are exempt from withholding tax in the hands of the paying entity if the receiving entity holds at least 10% of the equity in the paying entity for a continuous period of one year; otherwise a 5% withholding tax applies. Dividends received from Romanian legal entities or from foreign entities are not included in the taxable income of the receiving entity if certain conditions are satisfied, including a minimum share capital holding requirement.

Taxable income must generally include any taxable capital gains. However, gains from the sale or transfer of shares are not included in taxable income if certain conditions are satisfied, including a minimum share capital holding requirement.

Unutilised losses can generally be carried forward for seven consecutive tax years. Losses cannot be carried back.

Group tax consolidation is not generally available in Romania (except in respect of multiple permanent establishments in Romania of a foreign legal entity); consequently losses cannot generally be offset against the profits of another company in the same group.

The fiscal year is the calendar year. Taxpayers may use an alternative fiscal year that matches their financial year.

Tax returns are generally due for filing by 25 March following the tax year for taxpayers using the calendar year as their fiscal year; otherwise by the 25th day of the third month following the fiscal year end. Different deadlines apply to certain taxpayers.

Corporate income tax is generally payable in advance on a quarterly basis for the first three quarters of the year. A final balancing payment is due with the submission of the corporate tax return.

Personal Taxes

Romanian resident individuals are generally subject to tax on their worldwide income. Other resident individuals are generally subject to tax on their worldwide income from the date they are assessed as being a resident in Romania.

Non-resident individuals are generally subject to income tax on their Romanian source income. However, Romanian resident individuals that change their state of residence to a country with which Romania does not have a double tax treaty are generally subject to tax on their worldwide income for the calendar year in which the change of residence occurs, and the following three calendar years.

The standard personal income tax rate for the taxable income of individuals is 16%, subject to personal allowances, deductions and exemptions. Income from gambling in excess of set limits is generally subject to withholding tax at the rate of 25%.

Taxable income must generally include any taxable capital gains. Gains from real property are generally subject to tax at rates of between 1% and 3%, subject to exemptions (eg for qualifying relatives).

Income or goods received by way of gift or inheritance are not generally subject to tax. However, inherited estates may be subject to tax at the rate of 1% if succession occurs more than two years after death.

There is no wealth tax in Romania.

Employment Related Costs and Taxes

Fringe benefits

There is no separate fringe benefits tax. Unless specifically exempt, taxable benefits-in-kind form part of the taxable income of individuals and are subject to personal income tax.

Social security costs

Employers and employees are generally subject to compulsory social security contributions.

The standard rates are as follows (subject to possible caps):

Contribution Category	Employer Contribution	Employee Contribution
Social security	15.8%, 20.8%, or 25.8%, depending on working conditions classification	10.5%
Health insurance	5.2%	5.5%
Holidays and health insurance benefits	0.85%	N/A
Unemployment insurance fund	0.5%	0.5%
Insurance for accidents at work and occupational diseases	0.15% to 0.85%, depending on risk class	N/A
Guarantee fund	0.25%	N/A

Withholding Taxes on Payments Abroad

The rates of withholding tax on the following payments made abroad by companies are generally:

	%
Dividends	5%; certain dividend payments are exempt
Interest	16; certain interest payments are exempt
Royalties	16
Services, commission fees	16

Dividend, interest and royalty payments made to recipients in EU countries are not subject to withholding tax if the terms of the EU Parent-Subsidiary Directive or the EU Interest and Royalties Directive are satisfied.

A 50% withholding tax rate generally applies to services fees, commission fees, dividend, interest and royalties paid to a recipient in a country which has not concluded a tax information exchange agreement (TIEA) with Romania, if the transaction for which the payments are made is found to be artificial by the tax inspectors.

For payments made to recipients in countries with which Romania has a double tax treaty, the rates of withholding tax may be reduced under the terms of the treaty.

Value Added Tax (VAT)

VAT is generally levied on the supply of goods and services in Romania, the intra-Community acquisition of goods, and on the importation of goods.

The standard VAT rate is 20% (set to be reduced to 19% from 1 January 2017). A reduced rate of 9% applies to certain supplies, including drugs, prostheses and related accessories, orthopaedic aids, hotel or similar accommodation, foodstuffs, non-alcoholic beverages, seeds and plants, restaurant and catering services, and water for drinking and irrigation. A reduced 5% rate applies to certain supplies including textbooks, books, newspapers and magazines (except those used solely or principally for advertising), admissions to castles, museums, exhibitions and cultural events, and social housing. VAT exempt supplies include medical care and dental services, certain financial and banking services, insurances and reinsurance services, and most exports.

The registration threshold is generally annual turnover of the RON equivalent of EUR65,000.

Registered traders can generally recover the VAT with which they themselves are charged on their purchases of goods and services, subject to conditions and possible exceptions.

Other Taxes

Fees

Fees are generally payable at varying rates for the issuance of certificates, permits and authorisations, (such as building permits and authorisations to dismantle buildings in whole or in part), subject to exemptions.

Property taxes

A local building tax is imposed on owners of buildings located in Romania, subject to exemptions. The rates for individuals and legal entities are generally 0.08% - 0.2% (residential use) or 0.2% -1.3% (non-residential use) of the taxable value of the building (as defined). The tax rate may be considerably increased if the taxable value can not be determined, or if a building has not been revalued for over three years.

A local land tax is levied on owners of land located in Romania, subject to exemptions. The land tax is determined by several factors, including the size of the land, the area where the land is located, and the land use category.

Excise duties

Excise duties are imposed at varying rates on certain goods, including energy products and electricity, cigarettes and tobacco products, and alcohol and alcoholic beverages.

Tax Incentives for Businesses

Research and development (R&D)

Eligible R&D expenditure is granted an additional 50% deduction from taxable income.

Salary income from carrying out eligible research and development and/or technological development activities is exempt from personal income tax.

Incentives for reinvested profits

From 1 July 2014 until 31 December 2016, a tax exemption is available for profits reinvested into qualifying technological equipment, machinery, and installation works that are used for economic activity.

Free trade zones

Businesses established in a free trade zone in Romania benefit from VAT and customs duty exemptions.

Industrial parks

Businesses established in an industrial park in Romania benefit from incentives, including exemptions from building tax and land tax.

Incentive for activity of creating computer programs

Income from salaries as a result of the activity of creating computer programs is tax exempt, under certain conditions imposed by the Minister of Labour, Social Solidarity and Family, the Minister of Communication and Information Technology and the Minister of Public Finance.