

**DOING
BUSINESS
IN**

ROMANIA



HLB

Contextpert Consulting SRL

*doing business
in Romania*

foreword

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general information

Location and Climate

Romania is located in Southeastern Europe, in the Northern part of the Balkan Peninsula, inside and outside the Carpathians Mountains, on the Danube lower course, bordering the Black Sea.

Situated in Central Europe, Romania covers 238,391 square kilometers and lies between 43°37'07" and 48°15'06" Latitude North and 20°15'44" and 29°41'24" Longitude East.

Romania lies between Ukraine and Bulgaria and adjoins the Black Sea to the east. Romania has a border with Bulgaria (naturally created the Danube River) to the South, Serbia to the Southwest, Hungary to the West, Republic of Moldova and Ukraine to the East and North.

Because of its position on the Southeastern portion of the European continent, Romania has a climate which ranges from temperate to continental. Climatic conditions are somewhat modified by the country's varied topography. The Carpathians serve as a barrier to Atlantic air masses, limiting their oceanic influences to the west and center of the country, which have milder winters and heavier rainfalls as a result. The mountains also block the continental influences of the vast plain to the north in the Ukraine, which results in frosty winters and less rain to the south and southeast. In the extreme southeast, Black Sea influences offer a milder, maritime climate. The average annual temperature is 11 °C in the south and middle-south and 8 °C in the northeast.

Romania's territory features splendid mountains, beautiful rolling hills, fertile plains and numerous rivers and lakes. The Carpathian Mountains traverse the center of the country bordered on both sides by foothills and finally the great plains of the outer rim. Forests cover over one quarter of the country and the fauna is one of the richest in Europe. The legendary Danube River ends its eight-country journey at the Black Sea, after forming one of the largest and most bio diverse wetlands in the world, the Danube Delta. About a third of the country consists of the Carpathian Mountains (also known as the Transylvanian Alps). Another third is hills and plateaus, rich with orchards and vineyards. The final third is a fertile plain, largely devoted to agriculture.

Based on its varied topography and climate Romania offers good conditions for leisure and tourism.

The standard time in Romania is GMT + 2 hours.

Population, language and infrastructure

The official name of the country is Romania, since 1862.

Romania has a population of 19,042,936 million (settled population) according to the census dated 2011. According to the last census, it seems that the number of inhabitants had decreased by more than 2.6 million. The ethnic structure is: Romanians 88.9%, Hungarians 6.5%, Roma 3.3%, Ukrainians 3% Germans 0.19%; other ethnic minorities 0.27%. The religious pattern is: Orthodox 86.8%, Roman-Catholic 4.7%; Reformed 3.2%; Pentecostal 1.5%; Greek Catholic 0.9%; Uniate 0.3%; Muslim 0.3%

Official language – The Romanian language is the mother tongue of around 91% of the country's population. The roots of the Romanian language, a Latin language, can be traced back to the Roman colonization of the region. The basic vocabulary has a Latin origin, although there are some substratum words that are assumed to be of Dacian origin. The literacy rate in Romania is 98%.

All schools in Romania have foreign language programs. Students must study at least one language to an advanced level and a second one at a more basic level. Many schools also offer bilingual courses. According to the results of 2008's "Key Data on Teaching Languages at Schools in Europe" published by The Education, Audiovisual and Culture Executive Agency, the top language taught in Romania nowadays is English. According to the same study, the second most popular language is French and the third is German. Italian and Spanish are the next most commonly taught languages. In the areas highly populated with minority groups, languages like Hungarian, Ukrainian, Serbian, Slovak, Czech or Croatian are taught too.

From the administrative point of view, the country is divided: 42 counties (including Bucharest), 319 towns. The capital of Romania is Bucharest (2 million inhabitants). 46 % of Romanians live in rural areas: 2,868 communes and 13,285 villages. The main ten cities, by number of inhabitants are: Bucharest, Timisoara, Iasi, Cluj-Napoca, Constanta, Craiova, Galati, Brasov, Ploiesti, Braila.

Romanian airports are located in: Bucharest – Otopeni, Bucharest – Baneasa, Constanta, Timisoara, Bacau, Baia Mare, Caransebes, Cluj-Napoca, Craiova, Deva, Iasi, Oradea, Satu Mare, Târgu Mures, Tulcea, Suceava, Arad, Sibiu.

Constitution and Legal System

The form of government of the Romanian State is the Republic, with a two-chamber Parliament: the Chamber of Representatives and the Senate, elected by universal vote for a 4 year term. It is the people's supreme representative body and the sole lawmaking authority. The Constitution stipulates the separation of the three public authorities: the legislative, the executive and the judiciary. The legal system is based on European models and the Constitution of 1991.

The President of Romania, elected by direct universal vote, for a 5 year term, representing the Romanian State, watches over the activity of public authorities, fulfils the office of Supreme Commander of the Armed Forces and Chairman of the Supreme Defense Council. Romania's president is allowed to serve two five-year terms.

The Government is led by the Prime Minister, confirmed by the Parliament on the nomination of the President of Romania.

The Government ensures the fulfilment of the country's domestic and foreign policies and provides general management of public administration. Public administration in territorial administrative units is grounded on the principles of local autonomy and decentralization of public services.

The principles, structure and organization of the Romanian judicial system are based on the Constitution and Law 304/2004 on judicial organization. Justice is administered in the name of the law and is carried by the following courts: The High Court of Cassation and Justice, courts of appeal, courts, specialized courts, military courts and judges.

The legal system is based on civil law, and its provisions are stated in the Civil Code.

Currency

The currency in Romania is the Leu and domestic convertibility of the national currency was introduced in November 1991. It is subdivided into 100 bani. On 1 July 2005, Romania underwent a currency reform, switching from the previous leu (ROL) to a new leu (RON). 1 RON is equal to 10,000 ROL. Romania joined the European Union on 1st of January 2007 and is expected to adopt the Euro currency in 2019.

Economy and Economic arrangements

The crisis which started in 2007 affected Romania, as well as all of the countries of the EU. At the present time (2015), Romania is struggling to maintain a macro-economic balance, with support

from the IMF and the European development banks. Currently, Romania is the 17th largest economy in the European Union by total nominal GDP and the second to last, based on purchasing power parity, according to information for 2013. Romania entered the 1990's a relatively poor country by European standards, largely a result of the failed economic policies in the 1970's and of the failures of privatization in Romania during the 90's, which decreased the GDP by almost 50%. However the collapse of the Communist regime in 1989, reforms in the 2000's and its accession to the European Union have led to an improved economic outlook. Romania has experienced growth in foreign investment with a cumulative FDI totaling more than \$100 billion since 1989. Until 2009, Romanian economic growth was among the fastest in Europe (officially 8.4% in 2008 and more than three times the EU average). In 2013, the official economic growth rate was of 3.5%, the second one in the EU and the expected growth rate to be achieved for 2014 is of 2,9%, in real terms.

After joining the European Union (EU) in 2007 and after an initial period that witnessed a considerable amount of foreign investment in the country, Romania is still feeling considerable effects from the recession that has taken its toll on the area and its markets. In contrast to the position at the end of 2011, there has been an upturn in direct foreign investment (FDI). In 2013, DFI increased by 29% compared to 2012, amounting to €2.7 billion in real terms. Another positive aspect was unemployment, which was 7.0% in 2013 and dropped to 6.4% at the 31st of December 2014. Regarding inflation, the rate in Q4 2014 was of 0.8%, well below the National Bank's target of 2,5%.

The structural funds (including the cohesion funds) allocated to Romania as part of the EU budget for the period 2007-13 amounted to €19.6 billion, plus national co-financing of around €9 billion. More than 7 years from joining the EU, Romania has a low structural fund and cohesion fund absorption rate: 8.36% of the total financing allocated in the period 2007-13. In real terms, the total amount absorbed is only €1.65 billion (including refinancing). However, during 2012 and 2013 the absorption rate has significantly improved, reaching 25% at the end of October 2013.

The country is a regional leader in multiple fields, such as IT and motor vehicle production. Bucharest, the capital, is one of the largest financial and industrial centers in Eastern Europe.

Romania is member of international organizations such as: the United Nations (UN), the North Atlantic Alliance (NATO), the International Monetary Fund (IMF), the World Bank (WB), the International Bank for Reconstruction and Development (IBRD), the European Bank for Reconstruction and Development (EBRD), the International Financial Corporation (IFC), Organization for Security and Co-operation in Europe (OSCE), the Organization for Economic Co-operation and Development (OECD), World Trade

Organization (WTO). The country is also taking part in different agreements, such as: the General Agreement for Trade and Tariffs (GATT), the Central European Free Trade Agreement (CEFTA), etc.

The daily working time is 8 hours, 5 days on a week. The standard working week is Monday to Friday.

The official non-working days in Romania are:

- January, 1st and 2nd – The New Year
- January, 24th – The Union of the Romanian Principalities (1859)
- Easter (April/May) – Sunday and Monday
- May, 1st – Labor Day
- May/June – 50th and 51st days after the Easter, Pentecost
- August 15th – St. Mary
- November 30th – St Andrew's Day
- December 1st – The National Day of Romania
- December 25th and 26th – Christmas

investment factors

Foreign Investments

Romanian legislation in force stipulates that all investors developing their projects in Romania have the same rights and the same obligations, it does not matter whether they are Romanian or foreign citizens, residents or non-residents. Also, Romanian legislation allows foreign farmers to invest in Romanian agriculture and buy land here, starting from 2014.

Foreign direct investment in Romania has increased continuously for a long period. In 2006 the net foreign direct investment was around Euro 9.1 billion. Foreign direct investment in Romania fell by 48.4% in 2009 compared to 2008, reaching Euro 4.9 billion. For the year 2013, the net value of foreign investments was of 2.7 billion Euros, meaning a 29% year on year increase.

In 2013 the sectors receiving direct foreign investment were as follows: processing industry 31.1%, within this industry the most represented industries are: petroleum, chemicals, rubber and plastic products (5.9 % of total FDI), the transport industry (5.7 %), metallurgy (4.1 %), food, beverages and tobacco (4.0 %) and cement, glass, ceramics (2.7 %). Other industries that attracted FDI are: mining (5.9%) production of electricity, gas and water (11.1 %)

In addition to industry, other activities have attracted significant FDI financial intermediation and insurance (representing 14.2 % of total FDI), trade (11.1 %), construction and real estate (9.8 %), technology information and communications (6.9 %).

Investing in Agriculture

In 2014, law 312/2005 came into force, according to which citizens of European Union States, non-residents in Romania may acquire ownership of agricultural land, forests and forestry land. This law applies to both natural and legal persons.

Government Incentives

According to the provisions of Government Ordinance no. 85 dated June 2008, certain types of investments benefit from State incentives, for example: agro-industrial processing, production of electrical and thermal energy, production of equipment for raising energy efficiency, information and communication, research, development and innovation, new product development, water distribution, sanitation, waste management, activities related to the labor force, protection and improvement of the environment.

In order to stimulate investment, the Romanian State can provide different types of facilities to ensure compliance with award criteria in a transparent way and ensure compatibility with Community legislation on state aid: providing grant money towards the purchase of tangible and intangible assets, providing financial contributions from the state for newly created jobs, providing an interest subsidy for receiving bank loans.

According to Government Decision no. 1165, dated September 2007, the conditions which investors must fulfill in order to be eligible for State incentives are the following:

- They are commercial enterprises registered according to the Romanian Company Law;
- They have a Romanian headquarter and are active in Romania;
- They are not considered companies in financial difficulty;
- No decision to recover State Aid has been issued against the company;
- They are not newly created small enterprises (with some exceptions);
- They have not received State Aid for the same initial investments;

Romania offers fair and equal treatment for Romanian and foreign investors, residents or non-residents in Romania. Any type of investors can benefit from the right of choosing a competitive trial or Arbitration Courts for solving disputes. Investors have the right to convert, the profit obtained from an investment, into the same currency that the investment was made. They also have the right to transfer the currency to the country of origin. Any investor, resident or non-resident legal person can enjoy rights over fixed assets and movable assets. There is an exception for legal entities without Romanian nationality (headquartered abroad) which may not own land in Romania. Companies established in Romania may own land even though their share capital owned is 100% foreign.

As guarantees, the Romanian State offers the non-resident investors:

- If a specific law entitles an investor to a more favorable treatment, the investor shall enjoy that treatment;
- Non-resident investors enjoy the right to transfer abroad the following income, in free currency, without any restrictions, after the payment of taxes: the dividends or profit obtained by a company where they have shares, the profit from a branch of a company, the income obtained by a partnership type of association, the

amounts obtained from a company liquidation, the amounts obtained as compensation against expropriation;

- As a result of measures to liberalize capital operations, non-residents are entitled to hold and use financial assets denominated in foreign currency and national currency. The amounts held by non-residents can be converted through the foreign exchange market. Non-residents may open and maintain accounts in foreign and national currency to credit institutions and may repatriate and transfer of financial assets owned.

Sources of Finance and Banking System

The Romanian banking system consists of the National Bank of Romania and a large number of private commercial banks, credit institutions and specialized banks. The National Bank of Romania is the central bank of Romania, it was established in April 1880 and it is located in the capital city, Bucharest. The main tasks of the National Bank of Romania are the following: to define and implement monetary policy and exchange rate policy, to conduct the authorization, regulation and prudential supervision of credit institutions and to promote and oversee the operation of the payment systems with a view to ensuring financial stability, to issue banknotes and coins as legal tender on the territory of Romania, to set the exchange rate regime and to supervise its observance, to manage the official reserves of Romania.

Other operators in the Romanian financial system are:

- Banks – beside The National Bank of Romania, a large number of national and foreign banks operate in Romania;
- Leasing companies, insurance companies and brokers – have to comply with special requirements in order to be incorporated;
- Bucharest Stock Exchange – its role is to provide an organized market for securities trading, to help increase liquidity in the securities market by concentrating a larger volume of securities, to contribute to the formation of prices that reflect properly the relationship between demand-offer and to disseminate these prices to the public;
- Financial aids from the European Union – they are available for small and medium sized entities;
- Financial aids from the Romanian Government.

Foreign Exchange Controls

The National Bank of Romania decided that, starting April 11th 2005, commercial companies are free to exchange their liquidity sources in any currency. Natural or legal foreign persons can deposit cash using any currency. Although this decision was implemented, certain limitations still exist. Transactions representing trading of goods and services between local companies must be made in the national currency – Leu, there are only a few exceptions.

Employment Regulations

Labor force regulations are comprised in the Labor Code that stipulates all the rights and obligations for both employers and employees. For companies that record more than 21 employees, a collective labor contract between the management and the employees' representatives must be agreed. A collective labor contract sets the work relations between management and personnel concerning mutual obligations, working time and free time, salaries and other rights, working conditions and safety measures, concluding, executing, changing, suspending and ending an individual labor contract. Usually, the working day is eight hours a day, five days in a week. According to the law a minimum wage is set for a full working program, meaning 170 hours/month. A labor contract can be concluded for an unlimited period of time or for a determined period of time. The following contributions must be paid both by company and employees:

- Unemployment fund – 0.5% for both company and employees.
- Health insurance contribution – 5.5% for employees and 5.2% for the company.
- Social Security contribution – 10.5% for employees; the company pays as follows: for normal labor conditions 15.8%; for distinct labor conditions 25.8%; for special labor conditions 30.8%.
- Guarantee fund for salary debts – 0.25% for the company.
- Sick leave contribution – 0,85% for the company.
- Labor accidents fund – Between 0.15% and 0.85% for the company.
- Income tax – 16% for employees.
- Solidarity fund – This contribution is only paid by companies with over 50 employees, which do not have employees with disabilities a percentage of at least 4% from the total number of employees.

An employee can be hired for a full time job (eight hours a day) or for a part time job

Legal reasons for signing a labor contract for a determined period of time:

- a) Replacing an employee in case of suspension of work contracts, except when that employee participates in a strike;
- b) Growth and / or temporary modification of the structure of the employer's activity;
- c) Rendering of seasonal activities;
- d) If the contract is signed in order to employ certain categories of persons who are temporarily unemployed;
- e) hiring a person who, within five years from the date of employment, fulfills the retirement age limit;
- f) employment of eligible positions in the trade unions, employers or non-governmental organizations, during the term;
- g) employing pensioners;
- h) in other cases specifically mentioned by special laws or for the conduct of works, projects or programs.

Individual labor contract for a definite term may be concluded for a maximum period of 36 months. If there is no justification for extending the contract, the initial contract will be terminated and another contract of limited duration can be signed. There can be 3 successive fixed-term contracts, the initial 36 months and 2 successive contracts for a period of 12 months each. So the maximum hiring under a definite term contract is 5 years.

Teenagers (under 18 years) cannot be hired without their parents' written consent, given in front of a Public Notary.

Ending an individual labor contract can be done, complying with the conditions set by the Labor Code, as follows:

- a) Common agreement of both sides;
- b) A one sided initiative.

For breaking the rules concerning specific issues such as: work safety measures, preventing fires, stealing goods from the company, bringing in alcohol or drinking alcohol during work hours, and so on, the sanction is the immediate end of the individual labor contract without any prior warning. However, the employee's guilt must be proved.

Work Permits for Non-Residents

Emergency Ordinance 56 /2007 on the employment and deployment of foreigners in Romania, and Emergency Ordinance 194 /2002 on the regime of foreigners in Romania republished.

The law defines a foreigner as a person who does not have Romanian citizenship, citizenship of another member state of the European Union or the European Economic Area or the Swiss Confederation and a work permit as – an official document, issued under the terms of the law, which grants the holder the right to be employed in Romania. A foreigner is allowed to be employed in Romania by a single employer, either natural person or legal entity, who will obtain the work permit from authorities, instead of the foreigner.

A work permit may be requested only by employer, for one labor contract, and is available only for the period of the labor contract it was issued for.

A work permit may be issued on request, to foreigners who fulfill the conditions provided by the Romanian legislation and who have a long term visa.

A work permit may be issued, subject to the observance of the regulations in force, without being necessary to obtain a long term visa for employment, to foreigners that are in some specific situations such as:

- They benefit from the right of temporary residence for study purposes.
- They are family members – husband, wife, or children – of Romanian citizens with their domicile in Romania.
- They come from states with which Romania has concluded agreements, conventions or understandings for the cancellation of the visas for crossing the border for this purpose or for which Romania unilaterally gave up the obligatory character of the visas.

A work permit is granted for the term of the labor contract, and it is available only for the labor contract it was requested for. The types of labor contracts are:

- Work permit for permanent workers.
- Work permit for seconded workers.
- Work permit for seasonal workers.
- Work permit for trainees.
- Work permit for athletes.
- Nominal work permit.
- Work permit for cross-border workers.
- Work permit for highly skilled workers.

A refusal of a work permit may be contested to the appeal court in whose jurisdiction the official body that refused to give the work permit is, under Law no. 554/2004.

A work permit grants the holder the right to be employed, by concluding an individual contract between him and a natural or a legal person in Romania or an authorized representation from Romania of a legal person with its head office abroad.

The Ministry of Labor, Family and Social Protection for the Elderly, in accordance with the policy regarding the migration of the labor force decide the annual number of work permits that can be issued to foreigners.

At the issuing of a work permit the holder shall pay a fee in lei, equal to the equivalent of 200 USD depending on the official rate of exchange of the National Bank of Romania on the date of the payment.

When issuing the work permit, the employer will pay the equivalent in RON of EUR 200 compared to the official rate of the National Bank of Romania to the date of payment. For issuing work permits to students, as well as work permits for seasonal workers, the employer will pay the equivalent in RON of 50 euros, compared to the official rate of the National Bank of Romania to the date of payment.

The employment without a work permit or the maintaining of the employment of a foreigner who does not have a valid work permit, is considered an offence and shall be sanctioned with a fine from 3,000 RON to 4,000 RON for each foreigner.

types of business organizations

Main types of Businesses

The most important piece of legislation concerning commercial enterprises is Law No. 31 of 1990, which was amended as early as 1 December 2006 (by Law No. 442/2006) in view of Romania's forthcoming membership of the EU. Other important amendments have subsequently been introduced by Law Nos. 515/2006 and 71/2011 and Emergency Orders Nos. 52/2007, 82/2008 and 54/2010

The various types of companies and partnerships are:

- General Partnership
- Limited Partnership
- Limited Partnership with Share Capital
- Joint Stock Company Limited by Shares
- Limited Liability Company

Romanian law allows also foreign investors to form in Romania branches, permanent establishments or representative offices.

Approximately 98% of the businesses in Romania are conducted via limited liability companies (the most common legal form of company), or joint stock companies. Investors, either domestic or foreign, usually prefer a limited liability company when they decide to set up a small or a middle sized business in Romania, especially if the company will be managed by its shareholders, while the joint stock companies are usually, but not always, large companies with more widely dispersed ownership. Irrespective of its legal form, a company becomes a legal entity upon its registration with the Romanian Trade Register Office, where certain legal formalities have to be followed, including a delegated judge's decision and obtaining the tax code.

General Partnership – It can be founded by at least 2 associates, and all partners are jointly liable on an unlimited basis. The law does not require for this type of company any minimum capital. The associates have the liberty to establish, according to their own interests, the value of the share capital, and all associates must participate. It can be founded on the bases of a company contract that must contain: form, company name, company office address (main headquarter), the share capital, indicating in detail the contribution of each associate, partners that represent and manage the company, their identification data, the powers they are being granted; secondary office addresses; duration of the company and method of liquidation.

Limited Partnership – It can be founded by 2 categories of associates: active partners (have unlimited and joint liability for

social debts to the state budget; manage the company; have the right to include their name into company's name) and passive partners (have a limited responsibility only up to the initial subscribed capital; not entitled to include their name in the company; not entitled to perform acts of directors in the company). The law does not require a minimum amount of capital for this type of company. It can be founded based on a company contract that must contain the same information as for general partnership.

Limited Partnership with Share Capital – Liability in a limited partnership with share capital follows the same rules as those for a general partnership company or a limited partnership company, on the basis of the shares held by each individual shareholder. As far as limited liability companies and joint stock companies limited by shares are concerned, shareholders are liable to the extent of the value of their shares or capital shares held, respectively. As limited liability companies and joint stock companies limited by shares are the most common forms of company used by foreign investors as a means of investing in Romania, the following is limited to a consideration of these two only. Share capital for limited partnership with share capital cannot be less than 90,000 RON. The Government may change at most once every two years, the minimum capital, taking into account the exchange rate, so this amount is the equivalent in RON of EUR 25,000. Shares should have a nominal value not less than RON 0.1 and at least 30% of their value should be paid upon the company's registration (50% for companies incorporated by public subscription); the shares' value should be fully paid within 12 months from the company's registration with the Trade Register Office. In case of a share capital increase, the maximum period for paying the newly issued shares is 36 months.

Joint Stock company Limited by Shares – A joint stock company limited by shares is formed by signing a memorandum of association. It can be founded by at least 2 associates. If the company has less than 2 associates for more than 9 months, any interested person can claim, in a court the company's dissolution. The Company will not be dissolved if, by the final judgment of dissolution, the minimum number of shareholders required by this law is reconstituted. The establishment of the company must be ratified by the Director of the Trade Register. The decision of the Director that the company should be enrolled in the Register is immediately enforceable and must be appealed within 15 days. Unless the company is transformed into another type of company, the share capital cannot be reduced under the minimum amount stated in the Companies Law.

Limited Liability Company – A limited liability company is formed by the shareholders signing a memorandum of association. The memorandum of association has similar content to the one for a joint stock company limited by shares, but must in addition state the division of the capital into capital shares, which cannot be represented by marketable securities. The maximum number of shareholders is 50, and a limited liability company can be formed with just one sole shareholder (who can be a foreigner). Attention should be drawn to a particular restriction: an individual or a legal entity can be a sole shareholder only in a limited liability company in Romania. In addition, a limited liability company having a sole shareholder cannot in turn be a sole shareholder of a Romanian limited liability company. Share capital must be ≥ 200 RON, divided into equal shares having a minimum value of 10 RON.

For carrying out some specific activities such as: bank operations, insurance, leasing some specific requirements must be fulfilled and a minimum level capital is needed in order to incorporate these types of companies.

The incorporation of a new company is published in the Official Gazette of Romania and also announced to the Tax Office that manages the area where the company was established.

Generally, the period needed to set up a new company in Romania is around two weeks. Foreign trading companies may set up branches in Romania, according to the provisions of Romanian laws, as well as subsidiaries, agencies, representations.

Listed companies

A joint stock company may become listed on the Romanian Stock Exchange (BVB), following the formal approval of CNVM (the Romanian Stock and Exchange Commission), under the conditions of a capitalization of minimum EUR 1,000,000. CNVM may grant an exemption from the above conditions, on a case-by-case basis.

Branches

An alternative solution for doing business in Romania, commonly used for short term investments, is the establishment of a branch structure. Under Romanian laws, branches are deemed to be working units with no legal personality, and are subject to registration with the Trade Register prior the commencement of their activity. Branches should have at least one representative in charge with the management of the entity and they should keep their own accounting records, separated from those of the parent company. An overseas company may also operate in Romania via a permanent establishment, subject to registration with the tax authorities, for tax purposes.

Representative Offices

Foreign corporations are entitled also to set up representative offices in Romania. However, a representative office is not a valid option for conducting business, since they cannot carry out commercial activities and have their purpose restricted to advertising and promoting the business of their parent company.

formation procedures, financial year and balance date

Whatever the form, running a legal business is not possible without registration in the Trade Register. The following steps are the minimum requirements for starting a business:

- Setting up the activities that the company will carry on;
- Selecting the type of the company (limited liability company, stock exchange company, etc.);
- Choosing the company's name;
- Checking the company's name, to see whether any other company has chosen it;
- Drawing up the company's by-laws
- Depositing the capital in the company's bank account;
- Filing the documents for authorization at the Trade Register Office;
- Publishing the judge's decision in the Official Gazette;
- Receiving the legal documents for the company;

The estimated time needed to incorporate a company is usually 5 days. The estimated cost depending on certain aspects (number of the activities that will be carried out, subsidiaries, and branches, etc.) is around 700 RON~ 160 Euros (the value of the share capital is not included). There are some exemptions, like setting up a bank, when some other requirements must be fulfilled (for setting up a bank, approval from National Bank of Romania needs to be obtained – the time limit for this approval is usually 4 months).

The Romanian accounting law sets out the general accounting and financial reporting principles and regulations. Thus, the records should be kept in Romanian language and denominated in Romanian RON, while reports should be submitted under standard formats provided by the legislation.

The Financial year usually coincides with the calendar year, and in this case reporting starts at 1 of January and ends 31 December. But, starting with 2015, all companies may also opt for a different financial year than the calendar year. When opting for a different financial year, legal entities must inform authorities with minimum 30 calendar days before the beginning of the chosen financial year.

Any legal entity must submit the financial statements within 150 days from the end of the financial year; exception is made by some collective investment, voluntary pension funds and private pension funds that must submit the financial statements within 120 days from the end of the financial year or for the companies

without activity who must submit a declaration within 60 days of financial year end. During liquidation, businesses, according to law, must submit the financial statements within 90 days of the end of each calendar year.

Stamp duty

A stamp duty is payable on most judicial claims, issue of certificates and licenses, and documentary transactions which require authentication.

There are two types of stamp duty:

- Judicial stamp duty;
- Extra-judicial stamp duty.

Judicial stamp duty is levied on claims and requests filled with courts and the Ministry of Justice, depending on the value of the claim. Quantifiable claims are taxed under the regressive tax mechanism. Non-quantifiable claims are taxed at fixed amount levels. A judicial stamp duty may also be levied at the transfer of real estate property under certain circumstances.

Extra-judicial stamp duty is charged for the issue of various certifications such as identity cards, car registrations, etc.

legal, accounting and audit requirements

Romanian accounting legislation comprises of law 82/1991 (Accounting law) and Order 1802/2014 (Accounting regulations).

From January 1st 2011, all laws and regulations governing social security contributions for pensions and welfare were brought under the umbrella of the Tax Code.

It is compulsory that commercial companies organize and maintain their own accounting records, according to the provisions of the Accounting law. Accounting rules state that both income and expenses are recognized at the date when they were incurred, regardless of the moment of payment.

The accounting records are meant to reflect and measure the assets, the liabilities, the capital as well as the results obtained from activities.

Records are kept in Romanian using the national currency unit. At a special request, these records can also be kept in another currency. The official documents that reflect the financial situation of a company are the annual financial statements, including the balance sheet, the profit and loss account statement and explanatory notes. The financial statements must offer a clear view of the financial position of the financial performance and all the information relevant to the activity of the company.

In case of a group of companies, the holding company has to submit beside its own statements also a consolidated financial statement for the entire group.

The documents can be processed by using computers on condition that the accounting software program is in accordance with the rules established by the Ministry of Public Finance. The responsibility for bookkeeping is of the company's administrators. The books can be maintained either through a distinct department of the company, led by a graduated accountant or can be subcontracted to an authorized-chartered accountant or a specialized accounting company.

Possessing goods of any kind, bonds, shares, and cash or other assets and liabilities, and carrying on economic activities without recording them in the accounting records are forbidden.

The following accounting records are compulsory:

- Journal – records the chronological order of all the operations carried out by the company;
- Counting Register– records the assets and the liabilities of the company;
- General Ledger– based on which the monthly Balance sheet is drawn-up;

The Accounting law requires that all these documents are stored for 10 years with the exception of some documents which may be stored for 5 only years, whilst payrolls must be stored for 50 years.

An independent audit is mandatory for insurance companies, banks and listed companies, as well as for companies that at the end of the two consecutive years complied with at least two of the following three criteria:

- The annual turnover was greater than 7.3 million Euros;
- The company had more than 50 employees;
- The net value of the total assets exceeded 3.65 million Euro.

In such cases, the legal entity in question will present an annual Balance Sheet, a Profit and Loss Account Statement, a statement of changes in capital, a cash flow statement, accounting policies and explanatory notes. Legal entities that conduct their accounting activity based on double-entry bookkeeping are obliged to go public with their financial situation. Breaking the provisions of the Accounting law is subject to penalties and sanctions set by the law. Companies for which an audit is required are also bound to report in accordance with International Accounting Standards.

Except for companies who voluntarily suspended their activities, all companies are bound to submit their annual financial statements to the tax authorities, while companies with turnover exceeding RON 10.000.000 should also publish extracts from their annual financial statements in the Official Gazette.

taxation

General Structure

The Romanian Tax Code (Law 571/2003) governs:

- Taxation of legal entities;
- Taxation of resident and non-resident individuals;
- Taxation of income earned by non-residents and by representative offices;
- VAT;
- Excise duties;
- Local taxes;
- Social security contributions;

Where taxation is concerned, the provisions of the Code prevail over all other provisions relating to tax, and in the event of conflict the provisions of the Tax Code are the authoritative provisions. However, where a provision of the Code is in breach of an international treaty to which Romania is a party, the provision of that treaty applies.

Corporate Taxation

Two types of corporate taxation are applicable under Romanian laws, respectively profit tax and income tax.

Subjects of profit tax are:

- Romanian legal entities – for profits obtained worldwide,
- Resident or non-resident individuals – for profits obtained via partnerships with no legal personality established with legal entities,
- Non-resident companies – for income obtained in Romania via a branch office or a permanent establishment, for capital gains derived either from/in connection with real estate properties situated in Romania or from assignment of participations of capital in Romanian legal entities, as well as for profits obtained via partnerships with no legal personality.

Public institutions, the National Bank of Romania, legal entities constituted under Romanian law that are classed as micro-enterprises and charitable foundations/religious organizations are exempt from income tax.

Non-profit organizations, trade union organizations and charities are exempt from tax on income arising from contributions and enrolment fees, sponsoring, donations, resources obtained from public funds or financing by way of grants, income earned through events and conferences, etc. Such organizations are also exempt from tax on profits resulting from any trade or business activities carried on up to a maximum of €15,000 but for no more than 10% of the total exempt income.

Profit tax

Fiscal Year

Usually, the fiscal year coincides with the calendar year. When a tax payer comes into existence or ceases to exist during the fiscal year, the taxable period is the period of the calendar year for which the taxpayer existed. As an exception, taxpayers who have opted, in accordance with the applicable accounting law, for a financial year different from the calendar year may also opt for the fiscal year to correspond to the financial one. When changed, the first fiscal year also includes the calendar period from the 1st of January to the day before the first day of the fiscal year. In order to change the fiscal year taxpayers submit to territorial tax offices their option with at least 30 calendar days before the beginning of the changed fiscal year. For annual tax reporting, these taxpayers are required to file an annual tax declaration and pay the tax for the fiscal year up to the 25th of the third month including the closing of the fiscal year change.

The current rate of profit tax is 16%. Special rates are provided for companies that carry out activities such as night-bars, night clubs, discos, casinos or sporting bets.

The taxable profit is equal to the difference between the realized revenues, regardless of their source, and the realized expenses made for obtaining those revenues, for a fiscal year, from which the taxpayer subtracts non-taxable revenues and add non-deductible expenses.

Only expenses incurred for the purpose of obtaining taxable income are considered deductible.

When calculating the taxable profit for research and development, there are additional deductions in calculating taxable income of 50% of eligible expenditure for these activities; this additional deduction is calculated at every tax computation.

Also, according to the Government Emergency Order no. 19/2014, starting July 1st 2014, a tax exemption for reinvested profit is applicable for profit reinvested in technological equipment, machines, work equipment and installations used for business purposes. The tax incentive is applicable for new equipment produced or bought after 1 July 2014 and commissioned before 31 December 2016.

To benefit from this incentive, taxpayers must maintain the equipment for a period of at least half of its useful life. However, this period cannot exceed 5 years. Otherwise, profit tax is recalculated and interest and late payment penalties are applicable. Certain exceptions are applied in the case of reorganizations, liquidation or other situations (e.g., theft). In addition, those assets subject to this facility cannot be depreciated using an accelerated depreciation method.

For reinvested profit, taxpayers have to make a “reserve” at the end of the year. Such a “reserve” is taxable when utilized in any way, including in the case of reorganizations, if the beneficiary company does not maintain it in his accounting.

The following expenses are **non-deductible** when we determine the taxable profit:

- The taxpayer’s own expenses with the profit tax.
- Interest and late payment penalties, fines, confiscations and the late payment penalties, owed to Romanian and/ or foreign authorities according to laws.
- Expenses with the writing off of stocks that is missing or deteriorated, for which no insurance policies were signed.
- VAT for the goods granted to employees as benefits in kind, if this value has not been taxed accordingly.
- Expenses made in favor of shareholders or associates.
- Expenses registered in accounting that have no justifying documentation.
- Expenses incurred for non-taxable revenues.
- Expenses with social contributions which exceed the percentages in the Tax Code.
- Expenses on the insurance premiums paid by the employer in the employee’s name, which have not been included in the employee’s wage.
- Expenses for management services, legal advice (legal assistance) or other services of whose necessity cannot be justified by the beneficiary, and also for which no contracts are concluded.
- Expenses on insurance premiums that are not made paid for the taxpayer’s assets, except payments relating to assets representing bank guarantees for loans used in the activity.

- Loses registered from the write off of bad debts, for the amount that is not covered by provisions.
- Sponsorship expenses and/or the expenses on private scholarships, given according to the law; the taxpayer can deduct from their profit tax the amount relating to these expenses within a limit of 3% from the total turnover, but not more than 20% of the profit tax. The amounts that are not deducted from the profit tax can be carried forward for the following 7 years. The recovery of these amounts will be in the order of their registration under the same conditions at the time of each payment of income tax.
- Expenses registered in the accounting, received from an inactive tax payer.
- Expenses with taxes and subscriptions towards the non-governmental organizations or professional associations that are tied to the activity carried on by the tax payer and that exceed the equivalent in RON of 4.000 euro per year.
- Expenses representing the depreciation of fixed assets, in case the expense are incurred following a re-evaluation of the asset.
- 50% of the cost of cars not used exclusively for business purposes, with a maximum authorized weight not exceeding 3,500 kg and with not more than 9 seats, including the driver's seat in owned or used by the taxpayer. These expenses are fully deductible for situations where such vehicles fall under any of the following categories:

1. vehicles used exclusively for emergency services, security and protection services, and courier services;
2. vehicles used by sales agents and acquisition agents;
3. vehicles used to transport persons for payment, including taxi services;
4. vehicles used for the provision of paid services, including the lease to 3rd parties or instruction by a driving school;
5. vehicles used as commercial goods.

Expenses covered by these provisions do not include expenditure on depreciation.

- Expenses related to stock option plans granted to employees, if they are taxed with the personal income tax.

Limited deductible costs:

- Expenses in relation with entertainment of business partners up to a limit of 2% of the gross profit;
- Social and welfare expenses, up to a limit of 2%, applied gross salary cost;
- Expenses with perishable goods, within the limits set by the law;
- Expenses representing meal vouchers provided by employers, within the limits set by the law;
- Provision for legal reserves up to a limit of 5% of gross profit but no more than 20% of the value of the share capital;

- Provision for bad and doubtful debts up to a limit of a 30% and only where specific conditions are met; 100% in the event the court declares the client bankrupt;
- Depreciation of assets – some expenses are partially deductible;
- Expenses incurred on behalf of an employee for voluntary pension schemes, to an amount equivalent in RON of EUR 400 a year for each participant;
- Costs of voluntary health insurance premiums, up to an amount equivalent in RON of EUR 250 a year for each participant;
- Travel allowance for employees and directors up to 2.5 times the allowance established for public sector employees;

Losses

Annual losses, computed in the income tax statement, can be recovered from the taxable profits earned in the following 7 years. In the case of mergers or divisions, losses incurred by an absorbed company can be carried forward by the absorbing company. However, tax losses cannot be used by other members of a group of companies. In the case of foreign legal entities the loss carried forward applies solely with regard to the income and expenses attributable to their permanent establishment in Romania.

Thin capitalization

Interest paid to banks and other financial institution is fully deductible, while interest paid to other entities is deductible only if the indebtedness degree is less than 3. If the indebtedness degree is bigger than 3 or is negative, the interest will be non-deductible but will be carried up forward until the indebtedness degree is less than 3. The interest paid to other entities exceeding NBR's reference rate for loans in RON (1.75% per annum, in May 2015) or 6% for loans in foreign currencies, is not deductible.

Interest payable on loans can be deducted if the loans are: loans made directly or indirectly by international development banks or similar organisations, loans guaranteed by the state, loans made by Romanian or foreign banks or by branches of foreign banks, credit cooperatives, leasing companies (for leasing transactions), mortgage companies and other legal entities that grant credit in compliance with the law.

Depreciation

Fixed assets, including low value additions and improvements, are deductible under the rates provided by law by reference to the type of asset.

Due date

Profit tax is calculated for the year and is payable on a quarterly basis. Payments are made by the 25th day of the month following the reporting quarter.

Income tax for micro-enterprises

A micro-enterprise is a company that satisfies all the following conditions:

- Annual revenue is less than 65000 euro;
- Its income from providing management and consulting services account for less than 20% of the total revenue;
- All share capital is privately held;
- Not engaged in banking, insurance and reinsurance, gambling, capital market, with the exception of legal entities conducting brokerage activities in these areas;

Micro-enterprises pay tax at 3% of revenue; costs, therefore, are not taken into account in calculating taxable income (but must in any event be properly entered in the accounts and documented, as required by law). The current taxation treatment of microenterprises is compulsory for all companies that meet the mentioned conditions, with no possibility of option. An exception is made for newly established Romanian legal persons which subscribe, at the date of registration in the trade register, a share capital representing at least the equivalent in RON of EUR 25,000. These legal persons can opt to pay tax. The option is final, provided that the capital value of the registration is maintained for the entire period of existence.

In the event that, during the course of the year, the company should no longer satisfy one of the conditions set out above (other than the condition relating to revenue), the company becomes a profit tax payer.

If, during a fiscal year, a micro-enterprise obtains revenue higher than 65,000 euros or if the revenue from management and/or consulting represents at least 20% of the total revenue, it will pay tax on profit.

The tax rate on incomes obtained by micro enterprises is of 3% applied to all incomes irrespective of their source, out of which are discarded the following:

- Income related to costs of products inventories;
- Income related to costs of work in progress services;
- Income related to productions of tangible and intangible fixed assets;
- Income from subsidies;
- Income from subventions of exploitation;
- Income from provisions and adjustments for depreciation or losses in value;
- Income from restitution or cancellation of some interests and/or penalties for late payment which were non-deductible expenses when calculating taxable profit;
- Income from compensations from insurance/reinsurance companies, for damages caused to goods of stocks nature or to their own tangible assets;
- Income from foreign exchange;
- Financial income as a result of the settlement of claims and liabilities in lei on a currency different from that to which they were originally recorded;
- Trade discounts granted after invoicing;

In determining the tax base, the following income will be added:

- Trade discounts received from suppliers after billing;
- In the fourth quarter, the positive difference between income from foreign exchange / financial income as a result of the settlement of claims and liabilities in RON on a currency different from that to which they were originally recorded and expenditure of foreign exchange / financial expenses related cumulative registered early;

Calculation, payment and declaration of income tax on micro-enterprises are made on a quarterly basis until the 25th inclusively of the month following the quarter for which tax is calculated.

Transfer Pricing

Under Romanian law, the tax authorities can adjust payments that are not in line with the market price, this being determined according to methods adopted by the Organization for Economic Co-operation and Development/OECD (mainly the price comparison, the re-sale price and the cost plus). The new provisions state that, where asked to do so, resident companies shall present the financial authorities with all information relating to transactions carried out with 'related' foreign companies and the method used to establish the price.

An application can be made to the National Agency for Tax Administration for a pre-emptive ruling regarding the transfer price – known as an „Acord de pret in avans” (advance pricing

agreement). The response is enforceable against the tax authorities and binding on the taxpayer, although the taxpayer has the right to give notice of dissent in writing, within 15 days. A taxpayer agreeing with the response issued by the financial authorities is to lodge a written report on an annual basis, setting out how the tax ruling has been applied.

Dividend Tax

Dividends paid to individuals

Dividends paid to individuals, including amounts received in consideration of the participations held in closed investment funds are taxed with 16% withholding tax.

Dividends paid to legal entities

After Romania's accession to the EU, dividends paid by a Romanian legal entity to another Romanian company are tax free if the beneficiary has held a minimum 10% of the payer's equity for a minimum period of 1 year up to the payment date. Under the same conditions, dividends paid by a Romanian legal entity to a legal entity from a Member State or to a permanent establishment of a foreign entity from a Member State will be exempted from withholding tax. The income received from dividends by a Romanian legal entity in the conditions mentioned above is also exempt from tax.

In all other cases, the dividends distributed by Romanian legal entities are subject to a withholding tax of 16%, unless different rates are provided in double taxation treaties. Also the income received from dividends is taxable. The due date for paying the dividend tax is the 25th day of the following month in which the dividends have been paid;

Value Added Tax

Standard and reduced VAT rates

The standard VAT rate is of 24%. A lower rate of 9% is applied to, food and beverages intended for human and animal use, daily newspapers, magazines, books, medicines, hotel accommodation, bread and supply of some assortments of bread, flour and cereals. Another lower rate of 5% is applied to buildings intended for social purposes, while several services of public interest are VAT exempted. Supplies (of goods and services) and acquisitions (of goods and services) from the European Union are VAT exempted, as follows

- supplies of goods are exempt with deduction right if certain conditions are met;
- supplies of services are non-taxable in Romania if certain conditions are met;
- acquisitions are taxed applying the reverse charge mechanism.

Exports from Romania are also VAT exempted.

Registration for VAT purposes

Companies with an annual turnover below 220,000 lei (approx. 50,000 euro) are not required to register for VAT purposes; however they are able to request VAT registration.

Non-resident entities rendering a service or supplying a good subject to VAT in Romania should also register in some conditions for VAT purpose in order to charge VAT, directly or by appointing a fiscal representative. Failure to comply with this obligation will bring about the automatic registration for VAT purpose, initiated by the fiscal authorities.

Due date

Companies with an annual turnover up to 2.250.000 lei (round about 500,000 euro) can opt to pay VAT when cashing-in the invoices.

The due date for the VAT return and the VAT related statements is the 25th of the next month/quarter following the one to which the VAT statement is referring.

Refund of input VAT

VAT input can be set-off as follows:

- by offset against the amount remaining unpaid from the previous month's statement or the next month's statements, whichever is the case, without the prior approval of fiscal authorities being necessary;
- by offset against other taxes owed, or;

- by reimbursement.

Custom Duties and Excises

Custom duties apply to imported goods, with the rates set up by the import custom tariff of Romania. Goods imported from the EU or from countries member of CEFTA (Central European Free Trade Agreement) are exempted from custom duties, as well as goods entering Romania under a loan regime.

Excise duties are a consumption tax and are payable on import and sales of locally produced items on the domestic market and are determined as a fixed amount per unit or as a percentage of a specified taxable base. In Romania there are two categories of excise duties:

- Harmonized excise duties: beer, wine, fermented beverages other than beer and wine, intermediate products, ethyl alcohol, tobacco products, energy products, electrical power;
- Non-harmonized excise duties: green, roasted and soluble coffee, natural fur products, gold and/or platinum jewelry, guns (including hunting guns), cars with a capacity over 3,000 cm³, yachts and other boats for recreation with or without engines, engines with a capacity over 100 HP for yachts and other boats for recreation.

Local Taxes

The most important local taxes are the tax on buildings and the tax on land.

Tax on buildings

For individuals tax on building is computed by applying a rate of 0.1% on the taxable value of the building. The taxable value depends on the materials used to erect it, its surface and location. Unless rented, individuals holding more than one building suitable for accommodation are subject to an increased tax, respectively a 65% increase for a second building, 150% for a third building, 300% for a fourth building or more.

For legal entities the amount of the tax ranges between 0.25% and 1.50% of the building's accounting value (usually 1.50%). If the buildings have not been revalued in the past 3 years, the tax rate applicable is 10% to 20% of the building's accounting value and if they have not been revalued in the last 5 years, the tax rate applicable is 30% to 40%.

Tax on land

In case of land the tax also varies depending on the surface, the location and the type of land (the category of use attributed to the land).

Vehicle tax

This tax is payable by owners of land/water vehicles registered in Romania. The tax depends on the engine capacity and is computed as a fixed amount per cubic centimeters. The tax is payable annually, in two equal instalments on 31 March and 30 September.

Other local taxes

Other local taxes and duties include fees for the issuance of certificates, permits and authorizations, fees for using advertising and publicity materials and hotel fees.

Tax on constructions

Starting with 2014, all legal entities registered in Romania are required to pay tax on construction, with some exceptions (public institutions, non-profit organizations, R&D institutes)

In the case of financial leases, the user is obliged to pay the tax, while in the case of operational leases, the lessor is obliged to pay the tax.

For the computation of the tax, a 1% tax rate is applicable to the value of existing buildings in at 31st of December of the previous year, without taking into consideration the registered depreciation. The tax is paid only for buildings which are not subject to the buildings tax presented earlier in this section.

Personal Taxation

Incomes subject to taxation

The following categories of income of individuals are subject to taxation:

- Salaries;
- Pensions;
- Income from independent activities;
- Income from intellectual property rights;
- Income derived from renting movable and immovable property;
- Income derived from investments (interest, dividends, capital gains from selling shares or from winding up of legal entities);
- Income derived from agricultural activities;
- Income from the transfer of ownership in real estate located in Romania;
- Income from prizes and gambling;

Tax rates

With the exceptions shown below, currently all income obtained by individuals is subject to a 16% flat tax.

For salary income there is a personal deduction allowed by the law. Expenses considered deductible from the salary tax are: insurance premiums for private pensions (up to 400 EUR/year), and union fees. 2% of the salary tax may be directed of for sponsoring non-profit organizations, cultural and religious entities or for granting scholarships.

Pensions are subject to withholding tax only if they exceed RON 1.000, on the specific amount exceeding this threshold.

Taxpayers that obtain income from independent activities are not entitled to any personal deductions, but are allowed to deduct protocol expenses within 2% of the total computation basis, sponsorships within 5% of the total computation basis etc., while for income obtained from intellectual property rights, expenses amounting to 20% or 25% of the gross income are deductible, besides the compulsory social insurances,.

Deductible expenses are also provided for lease-hold derived incomes, respectively 25% of the gross income obtained.

Income derived from investments is taxed as follows:

- interest – 16% withholding tax;
- capital gains for sale of shares and for transfer of equity in case of non-public companies – 16%;
- all transfers of participations other than shares and equity of non-public companies – 16%;
- income from the earnings from the winding up of a company – 16%;
- sale of real estate assets, including both land and buildings, the tax will vary based on the time elapsed from the moment of the acquisition of the real estate as follows:
 - a) for real estate owned for less than 3 years: 3% on transactions of up to RON 200 000 and, for transactions exceeding this amount: RON 6 000 + 2% of the amount exceeding RON 200 000;
 - b) for real estate owned for more than 3 years: 2% on transactions of up to RON 200 000 and, for transactions exceeding this amount: RON 4 000 + 1% of the amount exceeding RON 200 000;No tax is levied on real estate recovered from the state and on real estate donated between spouses as well as relatives up to the 3rd grade.

The tax on transfer of ownership in real estate is due at the moment of the deed being notarized.

Income from prizes and gambling is taxed only if it exceeds RON 600 /day/payer/game. Over and above this amount, prizes from one game are taxed with a 16% withholding tax on the net amount, while incomes derived from gambling are taxed with 25%.

Taxation of non-residents

Non-resident individuals

For income derived from salaries and other incomes of similar nature, nonresident individuals are subject to taxation in Romania (at the standard 16% rate), if any of the following conditions are met:

- the non-resident is present in Romania for more than 183 days during a 12 month period
- the salary is paid by or on behalf of a resident employer
- the salary represents a deductible expense of a Romanian based permanent establishment/branch.

For pensions, lease-derived incomes, capital gains on the sale of shares, winding up of companies or real estate assets there are no special rules applicable to non-residents, which are taxed the same as Romanian residents (please check the section 'on Taxation of individuals for details).

The domestic law provides also a 16% withholding tax for interest and royalties, for dividends, commission fees and income from sports and leisure.

Except for income subjected to withholding tax, non-residents have the obligation to fill in tax returns in Romania and pay the taxes corresponding to the category of income obtained, either personally or through a tax representative.

Non-resident legal entities

Dividends, interest, commission and royalties received by a non-resident legal entity are subject to taxation in Romania either under domestic law rates or the rates of double taxation avoidance treaty. Services provided by non-residents in Romania and outside Romania are also subject to taxation here, with a 16% quota, while capital gain resulted from sale of real estate properties situated in Romania are subject to a 16% tax.

Starting with 2011, for U.E. members, interest and royalties are exempt from tax, if the beneficiary holds minimum 25% in the share capital of the company which pays the income, for a minimum 2 years, ended at the time of the payment.

Dividends are subject of a 16% deduction. However, if the beneficiary holds minimum 10% in the share capital of the company which pays the income, for minimum 1 year, the dividends paid are exempt of tax in Romania.

However, the provisions of double taxation avoidance treaties apply under the condition of providing the payer with the relevant certificate of fiscal residency. It has to be underlined that where the double taxation treaty provides a higher rate than the domestic law, then domestic law prevails, and the other way round, for the benefit of the non-resident provided a fiscal residence certificate is produced by the taxpayer.

Romania has managed over the years to establish a wide network of double tax treaties enabling businesses to avoid being taxed twice on the income earned from dividends, interest and royalties.

In order to receive tax credit in the country of their residence, the Romanian tax authorities may issue for non-resident taxpayers a formal certificate attesting taxes on the same category of income already paid in Romania.

The following table shows the states with which Romania has concluded a Double Avoidance Taxation Treaty:

| | | | | | |
|---------------------|----------------|------------|-------------|--------------------|----------------------|
| Albania | Cyprus | India | Macedonia | Poland | Switzerland |
| Algeria | Czech Republic | Indonesia | Malaysia | Portugal | Sudan |
| Armenia | Denmark | Iran | Malta | Qatar | Syria |
| Australia | Ecuador | Ireland | Mexico | Russian Federation | Thailand |
| Austria | Egypt | Israel | Moldova | San Marino | Tunisia |
| Azerbaijan | Estonia | Italy | Montenegro* | Serbia* | Turkey |
| Bangladesh | Ethiopia | Japan | Morocco | Singapore | Turkmenistan |
| Belarus | Finland | Jordan | Namibia | Slovakia | Ukraine |
| Belgium | France | Kazakhstan | Netherlands | Slovenia | United Arab Emirates |
| Bosnia-Herzegovina* | Georgia | Kuwait | Nigeria | South Korea | United Kingdom |
| Bulgaria | Germany | Latvia | North Korea | South Africa | United States |
| Canada | Greece | Lebanon | Norway | Spain | Uzbekistan |
| China | Hungary | Lithuania | Pakistan | Sri Lanka | Vietnam |
| Croatia | Iceland | Luxembourg | Philippines | Sweden | Zambia |

* - Treaty concluded with F.S.R. Yugoslavia, in force since 1989, applies to Bosnia-Herzegovina, and the treaty concluded with F.R. Yugoslavia, in force since 1998, applies to Serbia and Montenegro.

Withholding tax rates for companies in some representative Double Tax Treaties

| Country | Commissions (%) | Dividends (%) | Interest (%) | Royalties (%) |
|---------------------------------------|-----------------|---------------|--------------|---------------|
| Non Treaty | 16 | 16 | 16 | 16 |
| EU – Parent-Subsidiary Directive | X | 0* | X | X |
| EU – Interest and Royalties Directive | X | X | 0* | 0* |
| Australia | X | 5/15 | 10 | 10 |
| Austria | X | 0/5 | 0**/3 | 3 |
| Belgium | 5 | 5/15 | 10 | 5 |
| Bulgaria | X | 10/15 | 15 | 15 |
| Canada | X | 5/15 | 10 | 5/10 |
| Cyprus | 5 | 10 | 10 | 5 |
| China | 5 | 10 | 10 | 7 |
| Czech Republic | X | 10 | 7 | 10 |
| Denmark | 4 | 10/15 | 10 | 10 |
| Estonia | 2 | 10 | 10 | 10 |
| Finland | X | 5 | 5 | 2.5/5 |
| France | X | 10 | 10 | 10 |
| Germany | X | 5/15 | 0**/3 | 3 |
| Greece | 5 | 25/45 | 10 | 5/7 |
| Hungary | 5 | 5/15 | 15 | 10 |
| Ireland | X | 3 | 0 / 3 | 3 |
| Israel | X | 15 | 5/10 | 10 |
| Italy | 5 | 10 | 10 | 10 |
| Japan | X | 10 | 10 | 10/15 |

| Country | Commissions (%) | Dividends (%) | Interest (%) | Royalties (%) |
|----------------|-----------------|---------------|--------------|---------------|
| Korea | 10 | 7/10 | 0/10 | 7/10 |
| Luxembourg | 5 | 5/15 | 0/10 | 10 |
| Malta | 10 | 5/30 | 5 | 5 |
| Moldova | X | 10 | 10 | 10/15 |
| Netherlands | X | 0/5/15 | 0**/3 | 0**/3 |
| Norway | 4 | 10 | 10 | 10 |
| Poland | 0**/10 | 5/15 | 10 | 10 |
| Portugal | X | 10/15 | 10 | 10 |
| Russia | X | 15 | 15 | 10 |
| Singapore | X | 5 | 5 | 5 |
| Slovakia | X | 10 | 10 | 10/15 |
| South Africa | X | 15 | 15 | 15 |
| Spain | 5 | 10/15 | 10 | 10 |
| Sweden | 10 | 10 | 10 | 10 |
| Switzerland | X | 10 | 10 | 0 |
| Turkey | X | 15 | 10 | 10 |
| Ukraine | X | 10/15 | 10 | 10/15 |
| United Kingdom | 12.5 | 10/15 | 10 | 10/15 |
| United States | X | 10 | 10 | 10/15 |

X - Not applicable

* - If certain conditions are met

** - Based on the Protocol to the Double Tax Treaty

HLB in Romania

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Contexpert Consulting provides the following services:

- Accounting;
- Tax advisory including tax litigation;
- Transfer prices;
- Independent financial audit services;
- Audit and monitoring of projects financed from European funds;
- Payroll and HR;
- Recruitment and personnel outplacement;
- Training;
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