



# Doing Business in Romania

Audit / Tax / Advisory

Smart decisions. Lasting value.

# Welcome

## to Doing Business in Romania

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Doing Business in Romania has been prepared by the Crowe Global member firm in Romania in order to provide general information for persons planning to do business with or in the country concerned and/or individuals intending to live and work in Romania temporarily or permanently.

This Guide includes relevant information about business operations and taxation matters. It is intended to assist organizations that are considering establishing a business in Romania either as a separate entity or as a subsidiary of an existing foreign company. It will also be helpful to anyone planning to come to Romania to work and live here either on secondment or as a permanent life choice.

Unless noted otherwise, the information contained in this Guide is believed to be accurate as of 1 January 2020. However, general publications of this nature cannot be used and are not intended to be used as a substitute for professional guidance specific to the reader's particular circumstances.

*All lasting business is built on friendship.*

*Alfred A. Montapert*



## About Crowe Global

Crowe Global is ranked among the top 10 global accounting networks with more than 180 independent accounting and advisory services firms in about 140 countries around the world. Crowe Global's member firms are committed to impeccable quality service, highly integrated service delivery processes and a common set of core values that guide decisions daily.

Each firm is well-established as a leader in its national business community and is staffed by nationals, thereby providing the knowledge of local laws and customs which is important to clients undertaking new ventures or expanding into other countries. Crowe Global member firms are known for their personal service to privately and publicly held businesses in all sectors and have built an international reputation in the areas of audit, tax and advisory services.

## General information

|   |                         |
|---|-------------------------|
| Local currency, Exchange rate to EUR as of 22/06/2020 | RON, 1 EUR = 4.8415 RON |
|---|-------------------------|

## Types of organization

### LLC

|  |  |
|--|--|
| Name in local language   | Societate cu Raspundere Limitata (S.R.L)                       |
| Registrable in commercial register / legal entity              | Yes  |
| Minimum capital  | 200 lei (41.31 Euro)   |
| Minimal number of shareholders/ Maximum number of shareholders | Minimum 1 - Maximum 50   |
| Capital tax / Registration fees                                | n/a  |
| Written form/ notarization                                     | n/a  |
| Registration with tax authorities                              | Mandatory for all companies conducting business within Romania |
| Statutory audit  | n/a  |

### Public company (joint-stock company)

|  |                                       |
|--|---------------------------------------|
| Name in local language   | Societate pe Actiuni                  |
| Registrable in commercial register / legal entity              | Yes                                   |
| Minimum capital  | 90,000 lei (18,589,28 Euro)           |
| Minimal number of shareholders/ Maximum number of shareholders | 2 - no maximum number of shareholders |
| Capital tax / Registration fees                                | n/a                                   |
| Written form/ notarization                                     | n/a                                   |

|                                   |     |
|-----------------------------------|-----|
| Registration with tax authorities | Yes |
| Statutory audit                   | n/a |

## Branch (permanent establishment)

|   |  |
|---|--|
| Name in local language  | Sucursala  |
| Registrable in commercial register / legal entity                 | A foreign company can set up a branch in Romania, as long as the branch only operates in the same field of activity as the parent company.   |
| Minimum capital   | Does not require minimum capital   |
| Minimal number of shareholders/<br>Maximum number of shareholders | The business entity remains dependent on the foreign or parent company. It does not have a distinct legal personality from the parent company, whether Romanian or foreign therefore any liability of the branch flows straight back to the foreign company abroad and impacts its business and balance sheet. |
| Capital tax / Registration fees                                   |  |
| Written form/ notarization  | n/a  |
| Registration with tax authorities                                 | Yes  |
| Statutory audit   | n/a  |

## Value added tax (VAT)

|   |  |
|---|--|
| Tax rates   | 19%, 9%, 5%  |
| Supply of goods                                     | Taxable  |
| Supply of services                                  | Taxable  |
| Special provisions (exemptions to the general rule) | For certain external transactions (e.g. intra-community deliveries, exports, etc.)   |
| Reverse charge on local supplies                    | Delivery of: certain waste and recyclable residue, wood, cereals and certain plants, green certificates, electric energy, constructions, mobile phones, PC, laptops, microprocessors |
| Import of services                                  | Reverse charge mechanism   |

|  |  |
|--|--|
| Deadline and conditions for VAT refund     | The refundable VAT expires after 5 years. The VAT should be requested by the taxpayer to be reimbursed.  |
| Major Tax exemptions                       | Financial services, health services, education, etc.   |
| Real Estate                                | Old buildings (over 2 years) and land that is not for construction (e.g. agricultural) are VAT exempt. For constructions land and new buildings the reverse charge mechanism may apply   |
| Foreign taxable persons (VAT registration) | The VAT registration obligations in Romania are in line with the EU legislation. The VAT legislation is not optional, only entities that have to register will be registered. The VAT registration procedure is relatively simple and takes 1-2 weeks. |

## Corporate tax

|   |  |
|---|--|
| Accounting rules  | Double entry accounting  |
| Tax rate  | 16%  |
| Tax base  | Total income - Total Expenses + Non-deductible expenses - Non-taxable income   |
| Tax assessment period   | Quarterly / Yearly   |
| Loss set-offs/ carry forwards   | Tax losses may be carried forward for 7 years  |
| Tax/ accounting depreciation  | There are differences between tax and accounting depreciation, depending on the type of assets and the company's accounting policies   |
| Tax deductibility of interest, Excessive interest rate rule, Thin capitalization rule | The excessive interest rules apply and the interest expenses under EUR 1,000,000 are fully tax deductible, while the excess is limited to 30% deductibility. The excessive interest costs that cannot be deducted in a tax period may be carried forward for an unlimited period |
| Reserves for bad debts, leaves, etc.  | Bad debts are usually 30% deductible if they don't belong to a related person, are not guaranteed and are unpaid for more than 270 days. They might be deducted fully if the debtor has opened the bankruptcy procedure. Certain exceptions apply.                               |

|   |  |
|---|--|
| Other Major tax adjustments<br>a) increasing and b) decreasing taxable profit | a) Non-deductible expenses: 50% of the car expenses for cars that are not used exclusively for business, missing inventory, sponsorship expenses<br>b) Non-taxable income: most dividends, income related to non-deductible expenses, deferred tax   |
| Transfer pricing, Transfer pricing documentation, Related parties             | Transfer pricing file requested for transactions between related parties that exceed EUR 100,000 for goods or EUR 50,000 for services or financial transactions. They are considered related persons entities/individuals if one owns or controls directly or indirectly at least 25% of the other, or if another person owns at least 25% of both |
| Withholding tax   | WHT rate of 16%, but subject to reduction/exemption if EU legislation or Double Tax Conventions are applicable   |
| Interest  | 16%  |
| Royalties   | 16%  |
| Services  | 16%  |
| Group taxation  | 16% / 0% for local or EU entities  |

## Personal income tax

|  |  |
|--|--|
| Taxable income                           | For tax residents the worldwide income is taxable  |
| Income from employment/ self-employment  | 10%  |
| Income from property and property rights | 3% of income over RON 450,000 from sales<br>10% on income from rent (certain deductions may apply) |
| Income from capital                      | 10%  |
| Other income                             | 10%  |
| Withholding tax for non-residents        | 16%  |
| Interest                                 | 10%  |
| Royalties                                | 10%  |
| Dividends                                | 5%   |

|              |     |
|--------------|-----|
| Capital gain | 10% |
|--------------|-----|

## Mandatory social contributions

|                                  |  |
|----------------------------------|--|
| Contribution rates               | SSC (Pension fund) = 25%, HSSC (Health fund) = 10%,<br>Work insurance contribution = 2.25%                           |
| Minimum and maximum contribution | n/a  |
| Self-employed individuals        | May choose to pay the above contribution rates using the minimum salary as a taxable base (i.e. RON 2,230 per month) |
| Employed individuals             | The above contribution rate apply to the gross salary  |

## BEPS implementation

|   |   |
|---|---|
| CFC                                     | The concept of controlled foreign company and new rules regarding the taxation of the income generated by it, are introduced.<br>Thus, under strict conditions, certain income categories non-distributed by the controlled entity (i.e., interest, dividends, royalties etc.) are included in the taxable base of the controlling entity.                  |
| DAC6                                    | YES. Applicable   |
| CRS                                     | YES. Applicable   |
| Profit shifting rule                    | Transfer pricing rules apply.   |
| GAAR/ other anti-abuse rules (PPT, etc) | For the purposes of calculating tax liabilities, the tax authorities may ignore arrangements which are, given the relevant facts and circumstances, not genuine and have been put into place with the main aim of, or having as one of their aims, obtaining tax advantages that contravene the object or purpose pursued by the applicable tax provisions. |



## Taxation of immovable property

|                              |  |
|------------------------------|--|
| Tax depreciation             | Applicable. May be different from accounting depreciation  |
| Depreciation categories      | Liniar depreciation  |
| Land                         | Non-depreciable  |
| Building                     | Liniar depreciation  |
| Tax base                     | Valuated amount of the property - accumulated depreciation   |
| Special depreciation         | n/a  |
| Real estate transfer tax     | Only for individuals and for values exceeding RON 450,000.<br>For legal entities the general corporate income tax rules apply  |
| Property tax (rate and base) | For non-residential buildings: yearly tax between 0.2% - 1.3% of the value of the building<br>For residential buildings: much lower, may vary depending on the owner, construction type and location |
| Real estate funds            | n/a  |
| Owner of the fund assets     | n/a  |
| Valuation                    | Performed by authorized valuers  |
| Investment                   | n/a  |
| Risk diversification         | n/a  |

## Other significant business-related taxes

|                      |  |
|----------------------|--|
| Micro-enterprise tax | <p>Applicable mainly to companies with a turnover under EUR 1,000,000.<br/>The tax rate:</p> <ul style="list-style-type: none"> <li>• 1% if the company has at least one employee</li> <li>• 3% if there are no employees</li> </ul> <p>The tax base: the company's turnover, with certain adjustments</p> |
|----------------------|--|

# Incentives

|  |  |
|--|--|
| Investment incentives  | <p>Reinvested profits - The profit invested in technological equipment, electronic computers and peripheral equipment, cash registers and machinery, control and invoicing machinery and devices, as well as in software, produced and/or acquired, including on the basis of the financial leasing contracts, and commissioned/used for the purpose of pursuing the economic activity, is tax exempt. The equipment subject to this incentive cannot be depreciated by using the accelerated method.</p> <p>In order to benefit from this incentive, the technological equipment should be used by the company for the purpose of carrying on the business activity for a period equal to half of its useful life, but for no longer than five years.</p> |
| R&D incentives   | <p>In the computation of the tax result, the companies can benefit from an additional deduction of 50% of the eligible expenses for these activities; the additional deduction shall be calculated on a quarterly/annual basis. Accelerated depreciation may be applied.</p> <p>The research and development activities eligible for being granted the additional deduction in determining the tax result should be included in the categories of applied research and/or technological development, relevant to the industrial or commercial activity performed by the taxpayers.</p> <p>The additional deduction for R&amp;D activities is not available if the R&amp;D project's objectives are not met.</p>  |
| Young employees, elderly employees   | n/a  |
| Educational incentives   | n/a  |
| Other special incentives/ tax regimes and opportunities for business models (where relevant) | <ul style="list-style-type: none"> <li>• 1%-3% micro-enterprise tax (applicable to the turnover)</li> <li>• 5% tax on dividends</li> </ul>   |

## Tax liabilities

|  | <b>For taxpayers</b>   | <b>For directors (chief officers)</b> | <b>For shareholders</b> |
|--|--|---------------------------------------|-------------------------|
| Binding opinion/<br>Advanced tax rulings | Applicable only for the specific case and the specific company for which it was issued   | n/a                                   | n/a                     |
| Penalties for late payment of tax        | <p>Generally, for late payments accessories totaling 0.03% per day will apply:</p> <ul style="list-style-type: none"> <li>• 0.01% represents penalties</li> <li>• 0.02 represents interest</li> </ul> <p>In case of a tax audit, for not declared amounts may be subject to a penalty of 0.08% per day</p> | n/a                                   |                         |
| Tax misdemeanor provisions               | n/a  | n/a                                   | n/a                     |
| Criminal provisions                      | n/a  | n/a                                   | n/a                     |
| Piercing the corporate veil              | n/a  | n/a                                   | n/a                     |
| Advanced pricing agreements              | Applicable only for future transactions. Must be compliant with local transfer pricing rules   | n/a                                   | n/a                     |

## Deadlines for reporting and payment of taxes and social contributions

| <b>Type of tax</b> | <b>Reporting deadline</b>  | <b>Payment deadline</b>  |
|--------------------|--|--|
| CPT                | 25th of the month following the end of the quarter   | 25th of the month following the end of the quarter   |
| PIT                | <ul style="list-style-type: none"> <li>• For salary tax: 25th of the month following the one in which the income was received</li> <li>• For other types of income: March 15 of the year following the reporting year</li> </ul> | <ul style="list-style-type: none"> <li>• For salary tax: 25th of the month following the one in which the income was received</li> <li>• For other types of income: March 15 of the year following the reporting year</li> </ul> |

|                      |  |  |
|----------------------|--|--|
| VAT                  | 25th of the month following the reporting month / quarter  | 25th of the month following the reporting month / quarter  |
| Social contributions | <ul style="list-style-type: none"> <li>For salary tax: 25th of the month following the one in which the income was received</li> <li>For other types of income: March 15 of the year following the reporting year</li> </ul> | <ul style="list-style-type: none"> <li>For salary tax: 25th of the month following the one in which the income was received</li> <li>For other types of income: March 15 of the year following the reporting year</li> </ul> |

## Double taxation treaties

| Country                       | Dividends | Royalties | Interest | Affected by MLI |
|-------------------------------|-----------|-----------|----------|-----------------|
| <b>Americas</b>               |           |           |          |                 |
| United States                 | 10        | 15- 10    | 10       | No              |
| <b>Asia/Pacific</b>           |           |           |          |                 |
| China                         | 3         | 3         | 3        | No              |
| <b>Europe</b>                 |           |           |          |                 |
| Belgium                       | 5- 15     | 5         | 10       | No              |
| <b>Middle East and Africa</b> |           |           |          |                 |
| Namibia                       | 15        | 15        | 15       | No              |



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## About Crowe in Romania

Crowe Romania is member of Crowe Global, ranked as the eighth largest global accounting network, developed for companies with crossborder commitments. Within the professional network, Crowe Romania has unlimited sources of information, assuring expert support from all over the world for best solutions to their clients. As a member of Crowe Global, we share a set of fundamental values, engaging in delivering impeccable services to our business partners in all of their locations.

## Our Global Reach

In addition to our local and regional services, as members of Crowe Global, we can draw on a worldwide network of independent professionals and their know-how. The Crowe Global network consists of more than 180 independent accounting and advisory services firms in about 140 countries around the world.

As member firm of Crowe Global we offer comprehensive, international expertise in a broad range of business consulting practices, including assurance, M&A, corporate finance, forensic services, human resources services, tax & regulatory.

This unique combination of our local and regional talent coupled with the global reach of our network provides us with the local expertise and global worldwide capabilities our clients expect and deserve.