

## ROMANIA

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## 0- SYNOPTIC TABLE: TAXATION OF RESIDENTS AND NON-RESIDENTS

	RESIDENTS	NON-RESIDENTS
CORPORATE INCOME TAX	16% income	16% only on romanian income
TAXES ON CAPITAL GAINS	Taxed as ordinary income	
WITHHOLDING TAXES		
Dividends	0%, 8%, 50%	
Interest	0%, 16%	
Royalties	0%, 16%	
PERSONAL INCOME TAX	10%	
OTHER TAXES		
Pollution tax on vehicles	It depends on the pollution level of the engine; Euro 6, hybrid and electric are exempt	
Incorporation duty	300-400 Euros upon registration	
Real estate tax	From 0.08% to 1.3%	
Environmental fund contribution	Applied according to the company activity	
VAT	19%, 9%, 5% and 0%	
LOSSES		
Carried forward	7 years	
Carried back	Not applied	
DEPRECIATION		
Fixed assets	Buildings: 40 - 60 years Computers: 2 - 4 years Vehicles: 4 - 6 years Trucks: 4 - 8 years	
Intangible assets	Goodwill: not depreciable Software: 3 years Know-how and licences: period of the contract	

## 0- AN OUTLINE OF COMPANY LAW

BUSINESS ENTITY	MAIN TRAITS	FORMATION	FORMATION
<i>Limited liability company</i>	Liability is limited to the amount subscribed. It can be established by a single member and must have a minimum capital of 200 RON.		
<i>Joint stock company</i>	Liability is limited to the amount subscribed. It must be composed of at least two partners, and the share capital must be greater than 90,000 RON.		
<i>General partnership (SNC)</i>	The unlimited members are jointly liable. The capital is divided into interest rates.		An SNC has to be registered with the local Trade Registry.
<i>Limited partnership (SCS)</i>	The share capital of SCS is divided into interest parts. An SCS has 2 types of partners, namely limited partners and unlimited partners. The unlimited partners are liable for the operations of the SCS (similar to the unlimited partners of an SNC). The liability of the limited partners is limited to the amount each partner contributed to the subscribed registered capital of the SCS.	Only unlimited partners may be appointed as administrators	An SCS has to be registered with the local Trade Registry
<i>Limited partnership by shares (SCA)</i>	the share capital of the SCA is divided into shares. An SCA has 2 types of partners, namely limited partners and unlimited partners, which have similar powers and liability as described above for limited and unlimited partners of an SNC or SCS.	Only unlimited partners may be appointed as administrators of SCA.	An SCA has to be registered with the local Trade Registry.
<i>Silent partnership</i>	A silent partnership is an association between individuals or companies for a specific purpose.	A special contract is the base for this association. Each partner pays tax on their share of the profits. One of the partners is nominated an active partner and has the following obligations: <ul style="list-style-type: none"> <li>• to register the partnership with the tax authorities</li> <li>• to keep the accounting records of the partnership</li> <li>• to pay all the tax liabilities on behalf of the partnership</li> <li>• to fulfil any other requirements towards ANAF.</li> </ul>	

BUSINESS ENTITY	MAIN TRAITS	FORMATION	FORMATION
<i>Sole proprietorship</i>	A sole proprietor is an individual who owns and operates a business. The sole proprietor has unlimited liability for the debts and obligations of the sole proprietorship.		
<i>Branch</i>	It cannot acquire land, but it can acquire buildings.	A branch must register with the National Trade Registry Office. A branch does not have a legal personality : thus all agreements and documents will be signed on behalf of the non-resident company by the legal representative of the Romanian branch.	

## **2- WHEN ROMANIAN COMPANIES CAN BE CONSIDERED RESIDENT OR NON-RESIDENT?**

A company is a Romanian resident if it is incorporated in Romania or has its management and control in Romania. Thus, a foreign incorporated company is a Romanian resident for tax purposes if it has its place of effective management in Romania.

## **3- BUSINESS AND NON-BUSINESS ACTIVITIES (ADMINISTRATIVE OFFICES, LIAISON OFFICES, PURCHASING OFFICES, ETC.)**

Romania is a strategic location for companies wishing to trade with countries in Eastern Europe. It has access to the Black Sea, which facilitates trade by sea.

For this reason, representative offices are often established as a first step to operating in Romania. A representative office can undertake only auxiliary or preparatory activities, cannot trade in its own name, and cannot engage in any commercial activities. A representative office can perform only a limited range of activities without being considered a PE for corporate income tax purposes.

A tax on representative offices is due on annual basis by any foreign legal person with a representative office authorised to operate in Romania according to the law. The amount to be paid for a fiscal year is RON 18,000. If a representative office is set up or closed during a tax year, the tax due for that year is pro-rated for the months that the representative office was operational in that fiscal year calculated proportionally with the number of months of its existence in the respective tax year.

The representative office of a foreign legal person should declare and pay the tax to the state budget by the last day of February of the tax year.

## **4- WHICH FOREIGN LOCAL UNITS CAN BE OPENED IN ROMANIA: SECONDARY ESTABLISHMENTS, BRANCHES, SUBSIDIARIES OR PERMANENT ESTABLISHMENTS?**

A Romanian branch's taxable trading profits and capital gains are calculated on the same basis as those of a Romanian resident company.

Branch income is subject to corporate income tax at the same rate as Romanian resident companies.

Branch remittances abroad are not subject to withholding tax.

Dividends paid by the foreign company out of the profits of its Romanian branch are not subject to withholding tax.

In general, Romanian branches may carry forward losses according to the same rules that apply to Romanian resident companies. Carry-forwards can only be deducted from Romanian income.

In Romania, a permanent establishment is place of management, a branch, an office, a factory, a shop, a workshop, as well as a mine, a crude oil or gas well, a quarry or other place of extraction of natural resources, as well as the place where an activity continues to be carried out with the assets and liabilities of a Romanian legal entity that enters a reorganisation process provided for by legislation. A permanent establishment also includes a construction site, a construction project, an assembly, or related assembly or supervisory activities, if the site, project or activities last for more than 6 months. A non-resident is considered to have a permanent establishment in Romania, with regard to the activities that a person, other than an agent with independent status, undertakes on behalf of the non-resident, if the person acts in Romania in the name of the non-resident and if one of the following conditions is met:

- The person is authorised and exercises in Romania the authority to conclude contracts on behalf of the non-resident, or
- The person maintains in Romania a stock of products or goods from which products or goods are delivered on behalf of the non-resident.

A Romanian branch's taxable trading profits and capital gains are calculated on the same basis as those of a Romanian resident company.

Branch income is subject to corporate income tax at the same rate as Romanian resident companies.

Branch remittances abroad are not subject to withholding tax.

Dividends paid by the foreign company out of the profits of its Romanian branch are not subject to withholding tax.

In general, Romanian branches may carry forward losses according to the same rules that apply to Romanian resident companies. Carry-forwards can only be deducted from Romanian income.

## **5- CALCULATING TAXABLE INCOME**

Businesses are generally subject to Romanian corporate income tax on their income and capital gains, whether retained or distributed, at a flat rate of 16% in 2024 (same rate since 2005).

Trading profits are computed on an accrual basis in accordance with the Romanian accounting standards. For Romanian tax purposes, profits are adjusted for specific non-deductible expenses and non-taxable income.

Taxpayers that run night bars, discotheques, casinos or night clubs must pay a minimum tax of 5% of gross income. The threshold applies only to the profits/income derived from these activities. A special tax regime applies to micro-companies, under which micro-companies pay a concessionary tax rate on their turnover instead of the 16% corporate tax. The concessionary rate is 1%. To qualify, micro-companies must have at least one employee. Before 1 January 2023, a 3% concessionary rate was available to micro-companies with no employees. The Romanian Fiscal Code defines a micro-company as any Romanian legal entity that meets both of the following criteria:

-total annual income does not exceed €500,000 (€1 million before 1 January 2023)  
(at the conversion rate applicable at the end of the last financial period)

-the government or other Romanian authorities hold no shares in the company.

If a qualifying micro-company ceases to meet the criteria set out above, it reverts to the normal taxation regime in the following quarter.

As a general rule, a taxpayer may only deduct expenses that are incurred for business purposes. The deduction of expenses incurred in the disposal of receivables is limited to 30% of the value of the receivables.

For corporate tax purposes, the deduction of entertainment expenses is limited to 2%.

Daily allowances granted to employees travelling within Romania and abroad for business purposes are deductible within the limit of 2.5 times the legal level established for State-owned institutions. The main provisions and reserves that corporate taxpayers may deduct are summarised below:

- legal reserve: deductible within the limit of 5% of the accounting profit before tax
- provisions for quality warranties granted to customers
- provisions for bad debts: deductible within the limit of maximum 50% of the trade receivables

Interest expense and foreign exchange differences related to loans granted by non-financial

institutions are subject to certain deductibility criteria.

A business may deduct depreciation allowances for the assets it has acquired, produced or improved in accordance with the provisions of the Fiscal Code.

The corporate tax due, as well as any income tax paid abroad, any withholding taxes incurred at the expense of a Romanian company are also non-deductible.

Any fines and penalties payable to the Romanian authorities or to foreign authorities are non-deductible for corporate tax purposes. The same treatment applies to penalties arising from commercial agreements concluded with non-residents unless these expenses are treated as interest in the double taxation treaty concluded between Romania and the country of the non-resident. Management services, consultancy, assistance or other supplies of services are non-deductible if the taxpayer cannot justify the necessity of such supply for the purpose of carrying out business and has concluded no contracts for such supply.

Sponsorship and private scholarships expenses are non-deductible.

Expenses recorded for accounting purposes that do not have supporting documents as required by the legislation are not deductible for corporate tax purposes.

Dividends received from a Romanian legal entity are exempt from corporate income tax.

Dividends received from a subsidiary located in another EU member state are exempt from tax if the Romanian legal entity is a corporate taxpayer, holds at least 10% of the subsidiary's shares, and meets the minimum participation criterion for a period of at least one year. If the Romanian legal entity does not meet the holding period criterion, the dividends received are subject to Romanian corporate tax.

Income generated by write-off or recovery of non-deductible expenses, or reduction or write-off of non-deductible provisions, is not taxable.

Profits reinvested in the production or acquisition of technological equipment and (from 1 January 2023) used for production and processing activities or reinvested in assets representing refurbishment are not taxable.

Losses can be carried forward up to 7 years to offset taxable profits. Loss carry-backs are not allowed.

## **6- TREATMENT OF LOSSES**

Unutilised losses can generally be carried forward for seven consecutive tax years. In Romania, losses cannot be carried back.

## **7- IS INTEREST DEDUCTIBLE?**

Under Romanian tax law, interest is deductible on an accrual basis, irrespective of the date of payment. Interest expenses relating to non-taxable income or gains are not deductible.

Interest expenses, losses derived from foreign exchange differences, and borrowing costs are deductible for Romanian corporate tax purposes, subject to some limitations.

Income paid to a non-resident in respect of interest is subject to withholding tax of 50%, unless there is an applicable tax treaty or tax information exchange agreement (TIEA) in place between Romania and the recipient's country of residence.

Generally, interest income earned in Romania by a company resident in a country with which Romania has an applicable tax treaty or TIEA is subject to 16% withholding tax. This may be reduced by an applicable tax treaty.

The interest income earned in Romania by a legal entity that is a resident of another EU member state is subject to 0% withholding tax if the non-resident entity holds at least 25% of the shares in the Romanian company paying the interest for a continuous period of 2 years.

## **8- IS DEPRECIATION DEDUCTIBILITY ACKNOWLEDGED?**

Businesses may depreciate their assets using either the straight-line method (applied to buildings only) or the declining balance method. Accelerated depreciation is permitted for plants, machinery, computers and peripherals. Land is not a depreciable asset.

Under the accelerated depreciation method, up to 50% of the acquisition value is depreciated in the first year of use, followed by straight-line depreciation for the remaining life of the fixed assets.

Depreciation begins in the month after the month in which the taxpayer first places the asset into service. If a taxpayer places an asset into service during the year, the taxpayer may prorate the annual depreciation according to the number of full months in which the asset was used. The fiscal value of depreciable assets and land is represented by its purchase price increased by any revaluations performed in accordance with the accounting rules.

Depreciation is based on the limited useful life of the asset. Romanian legislation regulates



the range of normal useful lives. Below are some of the most common types of assets and their useful lives:

Asset type	Useful life (years)
Buildings (business centres)	40-60
Office equipment (computers)	2-4
Motor vehicles (except trucks)	4-6 *
Trucks	4-8
Software	3

\*Depreciation is limited to RON 1,500 per month for vehicles capable of transporting up to 9 people, unless they are used solely for the purposes of emergency response, sales or procurement, security, protection or courier services, or the carriage of persons for reward.

Goodwill is not a depreciable asset.

Other separate identifiable intangible assets are tax deductible and the applicable amortisation periods are as follows:

- software acquired or produced: 3 years
- the cost of acquiring know-how and licences, as well as development costs: over the period of the contract.

## **9- WHAT TAX TREATMENT IS APPLIED TO RESIDENT COMPANIES?**

Businesses are generally subject to Romanian corporate income tax on their income and capital gains, whether retained or distributed, at a flat rate of 16% in 2024.

The taxable income of a company is the difference between gross income and related expenses. Accounting profits must be adjusted for non-deductible expenses and non-taxable income to reach the taxable base for corporate income tax purposes.

Taxpayers that run night bars, discotheques, casinos or night clubs must pay a minimum tax of 5% of gross income. The threshold applies only to the profits/income derived from these activities.

A special tax regime applies to micro-companies, which pay a concessionary tax rate on their turnover of 1% for micro-companies with one or more employees, and 3% for micro-companies with no employees.

A micro-company is any Romanian legal entity that meets both of the following criteria: total annual income does not exceed €500,000 (at the conversion rate applicable at the end of the last financial period), and the government or other Romanian authorities hold no shares in the company.

If a qualifying micro-company ceases to meet the criteria set out above to qualify as a micro-company, it reverts to the normal taxation regime in the following quarter.

## **10- ARE GROUP COMPANIES CONSIDERED SINGLE COMPANIES FOR FISCAL PURPOSES?**

Group tax consolidation is available in Romania from 1 January 2021. Previously, group relief was only available with respect to VAT.

Taxable persons established in Romania that are connected from a financial, economic and organisational point of view can form a unique fiscal group for corporate income tax purposes, provided that the taxable persons forming the group have the same shareholders - with a direct or indirect participation of at least 75% - and the same fiscal year. A corporate income tax group provides for the pooling of profits and losses.

The group can be formed by 2 or more taxable persons and the option of forming a group should be exercised for a minimum period of 5 years.

To set up a group, participants should sign a written request submitted to ANAF. The application should be submitted at least 60 days before the beginning of the period from which the fiscal consolidation is to begin.

A member is required to leave the group prior to the end of this period if they no longer meet the qualifying conditions. The representative member must notify ANAF within 15 days of the date on which the entity no longer meets the qualifying conditions.

Taxable persons established in Romania that are connected from a financial, economic and organisational point of view can form a unique fiscal group for VAT purposes, provided that the taxable persons forming the group have the same shareholders - with a direct or indirect participation of more than 50% - and the same fiscal period. Profit and losses may not be shifted between affiliated companies. The group can be formed by 2 to 5 taxable persons. The option of forming a VAT group should be exercised for a minimum period of

2 years.

To set up a VAT group, participants should sign a written request submitted to ANAF, which should issue a decision with regard to the approval or disapproval of the VAT group within 60 days from the submission of the request.

Each member may leave the group prior to the end of this period, notifying ANAF at least 30 days prior to the withdrawal. The same notification procedure applies when the group ceases to exist.

#### **11- WHAT TAX TREATMENT IS APPLIED TO FOREIGN LOCAL UNITS AND NON-RESIDENT COMPANIES?**

A company is considered non-resident if it is not incorporated in Romania and it does not exercise management and control in Romania. Non-resident companies generally are subject to tax in Romania only on their Romanian-sourced income.

Non-residents are subject to Romanian corporate income tax only if they:

- have established a branch or PE in Romania
- earn income from or in connection with real estate located in Romania

#### **12- ARE CAPITAL GAINS TAXED?**

Romania taxes gains arising from the disposal of assets as ordinary income. It does not distinguish between ordinary income and capital gains. Capital gains are calculated by deducting the depreciated cost of an asset from its sale proceeds.

Foreign enterprises disposing of immovable property located in Romania or shares in a Romanian company with assets that consist mainly of immovable property located in Romania are also subject to the 16% corporate tax rate.

Capital gains arising from the disposal of shares in a Romanian or foreign company are characterised as ordinary income and subject to the 16% corporate income tax rate. However, gains on shares held by Romanian companies in Romanian companies, or in foreign companies with which Romania has a tax treaty, are exempt from taxation, if the taxpayer has held, for at least one year, 10% or more of the share capital of the company whose shares are being sold.

If the gain is taxed by another foreign jurisdiction, the Romanian enterprise (including PEs) will be entitled to a tax credit for taxes paid to foreign jurisdictions. The tax credit is limited to the amount of tax payable in Romania.

The transfer of assets in a company reorganisation (merger, spin-off, contribution in kind, exchange of shares, etc) is not a taxable event.

Following Romania's accession to the EU, reorganisations involving legal entities from 2 or more EU member states generally do not trigger capital gain tax.

#### **13- WHAT TAX TREATMENT IS APPLIED IN CASE OF COMPANY LIQUIDATION?**

Upon liquidation, a Romanian company will realise taxable liquidation profits based on its taxable profits earned during the year. Taxable profits include the gains derived from selling the assets of the business. The company may deduct fiscal losses brought forward from previous years.

The gain resulting from the liquidation distribution of a Romanian company is subject to 16% corporate income tax in the hands of a Romanian parent company.

#### **14- TRANSFER OR REPURCHASE OF SHARES: HOW ARE THEY TAXED?**

A Romanian company may acquire its shares directly or indirectly with the observance of the following cumulative conditions:

- The acquisition of its shares has to be authorised by the extraordinary general meeting of shareholders, who shall decide upon the conditions of this acquisition, the maximum number of shares to be acquired, the duration of the authorisation for this acquisition (maximum 18 months), and the maximum and minimum price to be paid.
- The nominal value of the shares held, and/or to be held, by the company should not exceed 10% of the share capital.
- The shares to be acquired are entirely subscribed and paid for by the shareholders.
- The price shall be paid from the distributable profit or available reserves (with the exception of legal reserves) that are provided in the last approved annual financial statement.

- If the shares are purchased in order to be distributed to employees, the respective shares must be distributed within 12 months from the acquisition date.

The shares purchased by the company without following the conditions noted above must be transferred within one year of the acquisition. If the shares are not transferred according to the terms mentioned above, the shares have to be cancelled and the company must reduce the share capital.

The rights related to the shares held by the company are limited. The company cannot cash dividends related to the shares and voting rights related to the shares are suspended.

## **15- WHAT OTHER TAXES ARE APPLIED IN ROMANIA?**

### **VAT**

The standard VAT rate is currently 19% and it applies to the supply of all goods and services.

A reduced rate of 9% applies to various goods and services, including bread, flour, wheat and rye, medicines for human and veterinarian use, prostheses and orthopaedic products, etc.

Since 11 June 2023, prostheses and orthopaedic products are exempt from VAT.

A reduced rate of 5% applies to social housing, tickets for cinemas, books, newspapers and periodicals in printed or electronic form, museums, sports games, amusement parks, historical monuments, fairs and exhibitions, hotel and camping accommodations, high-quality foodstuffs.

Some cases of zero rate vat: intra-community and international passengers transport, goods placed into free trade zones and free warehouses.

### **Withholding taxes**

Income paid to a non-resident in respect of any service, including dividends, interest, commissions and royalties, is subject to withholding tax of 50%, unless there is an applicable tax treaty or tax information exchange agreement (TIEA) in place between Romania and the recipient's country of residence.

Generally, dividends, interest and royalties income paid by a Romanian company to a company resident in a country with which Romania has an applicable tax treaty or TIEA is subject to final withholding tax at the following rates, unless a lower treaty rate applies:

- *Dividends:* 8% applies to dividends paid to non-resident legal entities, and 0% applies where an EU shareholder owns a minimum holding of 10% of the distributing company for a continuous period of one year ending at the date of the dividend payment.
- *Interest:* 16% applies to interest paid to non-residents. A rate of 0% applies to interest paid to an EU resident company that holds at least 25% of the shares in the Romanian company or is an associated company of the Romanian company for a continuous period of 2 years.
- *Royalties:* 16% applies to royalties paid to non-residents. A rate of 0% applies to royalties paid to an EU resident company that holds at least 25% of the shares in the Romanian company or is an associated company of the Romanian company for a continuous period of 2 years.

### **Capital transfer tax**

There is no capital transfer tax in Romania.

### **Loan duty**

There is no loan duty in Romania.

### **Land transfer tax**

Although Romania imposes no land transfer tax, it does impose a tax on gains from the sale of real estate at a rate of 16%.

### **Real estate tax**

Owners of buildings or parts of buildings located in Romania must pay tax on the buildings. The tax rates differ according to the purpose of the building, as follows:

- between 0.08% and 0.2% for residential buildings
- 0.4% for non-residential buildings in the agricultural industry, and
- between 0.2% and 1.3% for other non-residential buildings.

Landowners also must pay tax based on the surface of land, the rank of the locality where the land is located, and the category of the land (eg agricultural land). The payment terms are similar to those provided for tax on buildings.

Local authorities can offer a 7-year exemption from local real estate tax if the landlord

increases the building's energy efficiency.

### **Social security contributions**

Both employees and employers must make social security contributions.

The social security contributions are calculated on gross income, and are deductible for individual income tax purposes. The main contributions are as follows:

- health insurance: employee 10%
- social insurance: employee 25%, employer 4% or 8%
- work insurance: employer 2.25%.

### **Environmental fund contribution**

Depending on its activities, a business may be required to pay a contribution to the environmental fund. The main activities that require a contribution to the environmental fund include disposals of ferrous and non-ferrous waste, the sale of substances classified as dangerous for the environment, emissions of air-pollution through fixed sources and the introduction of packages and tyres on the market.

The contribution is calculated either as a percentage of the income derived or as a fixed amount per quantity.

### **Tax on insurance premiums**

Expenses representing contributions for insurance against labour accidents, illness, and professional risks are tax deductible and any remuneration received from damages represent non-taxable income.

### **Excise tax**

Romania imposes excise taxes on consumer goods such as alcohol, tobacco, fuel, luxury items and yachts.

### **Workers council tax**

Romania has a workers council tax. Large companies (defined here as a company that must conclude a collective labour agreement) must pay this tax at a rate of 1% of yearly wages. Pursuant to the provisions of The National Labor Contract issued for the years 2007 to 2010, large companies should calculate and pay 1% tax on wages in order to build up funds which will be allocated to the negotiation of respective collective labour contracts.

The funds are administrated by the entrepreneurial associations in charge of the negotiations.

### **Incorporation duty**

The registration of a new company with the National Trade Registry Office is subject to incorporation duty calculated as a fixed amount for each entry.

Taxes to be paid to the Trade Registry on the registration of a company amount to approximately €300 to €400. Other costs related to incorporation include notary, translation and lawyer fees.

### **Motor vehicles tax**

All owners of motor vehicles registered in Romania must pay tax on motor vehicles. The rate of tax is generally computed by reference to the type of the vehicle and its cylinder capacity.

### **Pollution tax on vehicles**

A pollution tax applies to cars registered before 2007. The amount of tax depends on the level of pollution emitted using European emission standards (measured as Euro 1, Euro 2, etc). Tax for Euro 3 and 4 cars has increased, while tax on Euro 2 and non-Euro cars has decreased. Euro 6, hybrid and electrical engines are exempt.

### **Tax on specific activities (hotels, restaurants and bars) (repealed)**

Before 1 January 2023 a special tax was levied on the activities of hotels, restaurants and bars. The tax was calculated based on factors such as the number of hotel beds, the area in square metres dedicated to the relevant business activity, the star rating of the establishment and the location of the business. A 180-day exemption from the special tax applied from 31 January 2022.

### **Solidarity contribution on the fossil fuel sector**

A temporary solidarity contribution applies to companies operating in the crude oil, gas, coal and oil refining industries. The contribution rate of 60% applied to the portion of profits in each of 2022 and 2023 that exceeds by more than 20% the average profits in the preceding 4 years (2018 to 2021). The contribution for 2022 was due by 25 June 2023 and the contribution for 2023 is due by 25 June 2024.

## **16- DIVIDENDS, INTEREST AND ROYALTIES: HOW ARE THEY CONSIDERED AND TAXED?**

Generally, dividends paid by a Romanian company to another Romanian company are subject to a withholding tax of 8%. Dividends paid to non-residents that are not subject to the exception for EU-parent companies are subject to withholding tax rates of 8% or 50%. A tax treaty can provide for a lower withholding tax rate.

Dividends paid by a foreign company out of Romanian profits are not subject to withholding tax.

Interest, royalties and fees for services provided in Romania by a person who does not have a PE in Romania are generally subject to 16% withholding tax.

No Romanian withholding tax applies to interest and royalties paid by a Romanian company to a legal entity resident in an EU member state if that entity holds at least 25% of the shares in the Romanian company paying the income for a continuous period of two years.

## **17- HOW ARE CALCULATED STOCKS OR INVENTORIES?**

A business may value its stocks and work in progress at cost. A business may apply the FIFO, LIFO or the cumulative weighted average pricing method (CMP).

There are no specific inventory deductions for inflation.

## **18- HOW ARE RESIDENT INDIVIDUALS TAXED?**

Generally, the income earned by individuals is subject to Romanian tax at a 10% flat rate.

Individuals earning income from independent activities (ie sole proprietors) usually must pay anticipated tax during the year in quarterly instalments, by the 25th day of the last month of each quarter.

Non-residents from a country with no tax treaty in effect with Romania, who become resident in Romania, are liable to Romanian income tax on their worldwide earnings from the date they become resident.

A non-resident from a country with a tax treaty in effect with Romania may have to provide a tax residence certificate from that country in order to establish the right to be treated in accordance with the provisions of the treaty.

Residents domiciled in Romania who become residents of another country with no tax treaty in effect with Romania remain liable to Romanian income tax on their worldwide earnings in the tax year in question and for the subsequent 3 years.

## **19- HOW ARE FOREIGN INDIVIDUALS TAXED? WHEN ARE THEY CONSIDERED RESIDENT?**

Generally, the income earned by individuals is subject to Romanian tax at a 10% flat rate.

Individuals earning income from independent activities (ie sole proprietors) usually must pay anticipated tax during the year in quarterly instalments, by the 25th day of the last month of each quarter.

Non-residents from a country with no tax treaty in effect with Romania, who become resident in Romania, are liable to Romanian income tax on their worldwide earnings from the date they become resident.

A non-resident from a country with a tax treaty in effect with Romania may have to provide a tax residence certificate from that country in order to establish the right to be treated in accordance with the provisions of the treaty.

Residents domiciled in Romania who become residents of another country with no tax treaty in effect with Romania remain liable to Romanian income tax on their worldwide earnings in the tax year in question and for the subsequent 3 years.

## **20- TERMS FOR TAX PAYMENTS: THE FISCAL YEAR IN ROMANIA**

The tax year and accounting year in Romania is generally the calendar year. However, companies may choose a tax year other than a calendar year. Changes must be notified to the tax authorities within 15 days.

Corporate tax declarations must be filed electronically through the tax authority's website.

The tax authorities impose penalties on legal entities who fail to submit their tax returns within the legal period. Fines of between RON1,000 and RON5,000 apply, depending on the number of days by which the tax return is late.

## **21- WHAT TAX INSPECTIONS ARE MADE?**

The Romanian corporate tax system is a self-assessment system. However, the National Agency of Fiscal Administration may audit taxpayer returns subsequently.

Tax returns are due, along with any tax due, on the 25th day of the third month following that in which the tax year ends.

Taxpayers must retain data for 10 years (50 years for financial statements and payrolls) in anticipation of a tax audit. The following data should be retained in anticipation of a tax audit: general ledger, journal entries, monthly trial balances, petty cash, invoices, receipts, bank statements, VAT journals, etc.

The statute of limitations for tax liabilities is 5 years, but may be extended to 10 years in the case of fraud or tax avoidance. The tax authorities may perform tax audits based on suggestions received or as a result of cross checking. Before commencing a tax audit, ANAF must provide advanced notice to the taxpayer (30 or 15 days).

Taxpayers that do not comply with tax laws are subject to fines ranging from RON1,000 to RON27,000 depending on the type of offence. Romania has specific legislation with respect to tax evasion and individuals can be sentenced to prison for tax evasion.

## **22- CAN TAXPAYERS AGREE IN ADVANCE THEIR TAX TREATMENT?**

Taxpayers registered with the Romanian tax authorities may apply for advance rulings by submitting a written request accompanied by the supporting documentation. A taxpayer can obtain a binding advance tax ruling from the Romanian Ministry of Finance.

An advance ruling may be requested on all tax matters, but it must concern the application of a specific rule to the taxpayer for future transactions.

All documents attached to the request must be in Romanian and must contain certain mandatory data. Any mandatory data missing from the documentation may result in the rejection of the request.

The Ministry of Finance issues advance rulings in a period within 6 and 18 months after the taxpayer files the request.

Advance tax rulings are binding on the tax authorities and the courts and applicable to the taxpayers for which the tax ruling has been released.

## **23- WHAT EXCHANGE CONTROLS ARE CARRIED OUT?**

Inbound investment into Romania is generally unrestricted, but taxpayers must notify the NBR of medium and long-term borrowings for statistical purposes.

Romanian legal entities (ie as beneficiary) must register with the relevant tax authority any service agreements concluded with non-residents for construction works, installation works, supervision activities, consultancy, technical assistance and similar activities.

Romanian legislation currently restricts non-residents from owning land located in Romania. However, a Romanian company with foreign shareholders can purchase land in Romania.

## **24- WHAT TAX RELIEFS AND INCENTIVES ARE GRANTED BY THE ROMANIAN GOVERNMENT?**

### **Subsidies and grants**

EU structural funds are granted to EU member countries for development purposes. The emphasis is to grant such funds to the new EU members to encourage and/or sustain further development. The goal of the program is to attain the standards of western countries. Funds have been granted under this program beginning in late 2007 and have been primarily directed towards environmental development. A company qualifies for structural funds if the following conditions are met:

- the company has been established in Romania for at least 2 years
- the company is capable of sustaining 2% self contribution
- the company's financial statements indicate that the applicant has the ability to implement the project (ie 2% self-contribution mentioned above) and implementation resources, such as people or project expertise. A Romanian company could establish a partnership with a foreign company that has knowledge of or expertise in the project.

The main areas of intervention are: transport, environment, competitiveness, education and training, local infrastructure, technical assistance, modernisation and training of central and local administration.

### **Free trade zones**

Investors licensed to operate in Romanian free trade zones are granted an exemption from custom and excise duties on the importation of equipment, raw materials and spare parts. A VAT exemption is also granted for goods introduced in free trade zones and related services. Foreign investors may repatriate all their profits without restrictions. Free trade zones include the ports of Galati, Sulina, Constanta Sud, Braila, Giurgiu, Curtici-Arad.

### Accelerated depreciation

Technological equipment and patents may be subject to accelerated depreciation of up to 50% of the acquisition cost, which is allowed in the first year, followed by straight-line depreciation for the remaining life of the assets.

Investments made to prevent work accidents or to set up medical units may be written off immediately.

Capitalised expenses relating to a company's establishment, R&D expenses, and computer software may be written-off over a maximum period of 3 years under the straight-line method.

### R&D and innovation activities

Companies that solely perform qualifying R&D and innovation activities are exempt from corporate income tax for a period of 10 years from the commencement of qualifying activities.

## 25- HAS ROMANIA SIGNED BILATERAL TAX AGREEMENTS WITH OTHER COUNTRIES? TABLE OF WITHHOLDING TAXES

Romania has concluded tax treaties with a number of countries. Non-treaty withholding tax rates apply when they are lower than the rate specified in the treaty. The following Romanian withholding rates apply to non-resident persons:

	<i>Dividends</i>	<i>Interest</i>	<i>Royalties</i>
	<i>%</i>	<i>%</i>	<i>%</i>
<i>Non-treaty countries</i>	8/50	16/50	16/50
<i>Treaty countries</i>			
Albania	8	0/10	15
Algeria	8	0/15	10
Armenia	8	0/10	10
Australia	8	0/10	10
Austria	0/5	0/3	0/3
Azerbaijan	8	0/8	10
Bangladesh	8	0/10	10
Belarus	8	0/10	15
Belgium	0/5/8	0/10	0/5
Bosnia and Herzegovina	5/8	0/7	5
Bulgaria	0/5	0/5	5
Canada	8	0/10	5/10
China	0/3	0/3	3
Croatia	5	0/10	10
Cyprus	0/8	0/10	0/5
Czech Republic	0/8	0/7	0/10
Denmark	0/8	0/10	0/10
Ecuador	8	0/10	10
Egypt	8	0/15	15
Estonia	0/8	0/10	0/10
Ethiopia	8	0/15	15
Finland	0/5	0/5	0/2.5/5
France	0/8	0/10	0/10
Georgia	8	0/10	5
Germany	0/5/8	0/3	0/3
Greece	0/8	0/10	0/5/7
Hong Kong	0/3/5	0/3	3
Hungary	0/5/8	0/15	0/10
Iceland	5/8	0/3	5
India	8	0/10	10
Indonesia	8	0/12.5	12.5/15
Iran	8	8	10
Ireland	3	0/3	0/3
Israel	5/8	0/10/15	10
Italy	0/5	0/5	5
Japan	8	0/10	10/15
Jordan	8	12.5	15
Kazakhstan	8	0/10	10
Korea	8	0/10	10
Kosovo	5	7.5	10
Kuwait	0/1	0/1	16
Latvia	0/8	0/10	0/10
Lebanon	5	0/5	5

Lithuania	0/8	0/10	0/10
Luxembourg	0/5/8	0/10	0/10
Macedonia	5	0/10	10
Malaysia	8	15	12
Malta	0/5	0/5	0/5
Mexico	8	0/15	15
Moldova	8	0/10	10/15
Montenegro	8	0/10	10
Morocco	8	0/10	10
Namibia	8	0/15	15
Netherlands	0/5/8	0/3	0/3
Nigeria	8	0/12.5	12.5
Norway	0/5/8	0/5	5
Pakistan	8	0/10	12.5
Philippines	8	10/15	10/15/16
Poland	0/5/8	0/10	0/10
Portugal	0/8	0/10	0/10
Qatar	3	3	5
Russia	8	0/15	10
San Marino	0/5/8	0/3	3
Saudi Arabia	0/5	0/5	10
Serbia	8	0/10	10
Singapore	0/5	0/5	5
Slovakia	0/8	0/10	0/10/15
Slovenia	0/5	0/5	0/5
South Africa	8	0/15	15
Spain	0/5	0/10	0/3
Sri Lanka	8	0/10	10
Sudan	5/8	0/5	5
Sweden	0/8	0/10	0/10
Switzerland	0/8	0/5	0/10
Syria	5/8	0/10	12
Tajikistan	5/8	10	10
Thailand	8	0/10/16	15
Tunisia	8	0/10	12
Turkey	8	0/10	10
Turkmenistan	8	10	15
Ukraine	8	0/10	10/15
United Arab Emirates	0/3	0/3	3
United Kingdom	8	10	10/15
United States	8	0/10	10/15
Uruguay	5/8	0/10	10
Uzbekistan	8	0/10	10
Vietnam	8	0/10	15
Zambia	8	0/10	15

#### Russia

Russia has suspended its tax treaty with Romania with effect from 8 August 2023.

Romania has signed TIEAs with the following countries, based on the OECD model convention: Guernsey, Jersey and Isle of Man.