

Romanian taxes: New Year – new changes

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On December 6th 2016, Romania had introduced significant changes in the tax legislation, which became effective with January 1st 2017. However, in the first days of the New Year the new Romanian government already became very busy, adopting Emergency Ordinance 3/2017 which (again) considerably amends the tax legislation. Besides this, Law 1/2017 regarding the elimination of certain fees and duties has been promulgated by the President. Both acts have been published on January 6th. The most important changes they bring are highlighted hereinafter.

Emergency Ordinance 3/2017 referring to changes in the Fiscal Code:

1. Contributions to the national pension insurance (effective as of February 2017)

So far, the assessment basis for the contributions to the national pension insurance had been capped at max. 5 monthly average Romanian salaries. This cap has been cancelled for salaries and salary-like incomes, affecting both employers' and employees' contributions. Contributions for a natural persons' income from self-employed activities or from intellectual property continue to be capped.

2. Contributions to the national health insurance (effective as of February 2017)

With regard to the assessment basis for the contributions to the national health insurance, a cap had been introduced at max. 5 average monthly Romanian salaries as of January 1st 2017. Such cap has already been eliminated again for salaries and salary-like incomes as well as for income from investment.

For investment incomes as well as for "sundry incomes" (as per art. 114 of the Romanian Tax Code) no contributions to the national health insurance have to be paid in case the taxable person obtains additional incomes (from salaries, self-employment, pensions, etc).

3. Tax exemption for R&D

Companies the only business purpose of which consists of Research & Development (R&D) activities are exempted from the payment of Corporate Income Tax (CIT) within the first 10 years after their incorporation. Already existing companies which fulfil this condition are exempted for 10 years as of publication of the Emergency Ordinance). Additional requirements for state subsidies have to be respected.

4. Increase of threshold for the classification as micro-enterprise

The sales threshold up to which a company is subject to a special taxation for so-called “micro-enterprises” has been increased from 100.000 EUR to 500.000 EUR. Additionally, the tax rates have been set at 1% (in case the company has at least one employee) and 3% (in other cases). The other conditions for this taxation (e.g. max. 20% income from management and consulting services) remain unchanged.

Law 1/2017 for the abrogation of certain fees and duties:

This law, already widely discussed in the past, will become effective with 1 February 2017. It affects more than 15 other laws and regulations – with the following main tax impacts and:

1. Abrogation of broadcast fees (Law 41/1994)

Article 40 of law 41/1994, which placed an obligation for individuals and legal entities to pay broadcast fees for radio and TV, has been abolished.

2. Abrogation of environmental duty (Emergency Ordinance 9/2013)

The obligation to pay emission-based fees for new and second-hand cars at the time of their first registration in Romania was eliminated.

3. Abrogation of extrajudicial fees (Law 117/1999)

For extrajudicial documents and certifications (e.g. related to cars and vehicles, ID documents, etc.) no fees will be due anymore.

4. Abrogation of registration fees with the Trade Registry (Law 26/1990)

For the registration of company incorporations or changes to their articles of incorporation with the Trade Registry, no registration fees will be levied any more.

Conclusion

The changes in the tax legislation decided by the new government came surprisingly fast. On the one hand, the measures taken by the Emergency Ordinance include incentives for entrepreneurship (such as the increase of the threshold for micro-enterprises, the exemption from CIT for R&D, etc.) and could make Romania more attractive as a business location. On the other hand (possibly due to budget considerations), they also entail burdens, e.g. in the area of social insurance for earners of high salaries and salary-like incomes – for both the employee and the employer.

The elimination of various fees and duties is, generally speaking, welcome, as it represents another step towards a simplification of the administration. Especially, the environmental duty for the first registration of cars had been heavily discussed and disputed.

Finally, the very short time between the changes may create a certain degree of confusion and uncertainty. It remains to be seen whether the reliefs will (have to) be compensated by future counter-measures due to financing considerations.

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