

Quarterly dividends – regulations and approach

by Cornelia Vașoti,

The law Nr. 163/2018 has given companies the opportunity to distribute dividends quarterly. As this subject has been already tackled in an article from June 2018, we will clarify hereinafter important information disclosed by an ordinance¹, as well as practical details regarding the distribution of quarterly dividends.

Determination of quarterly dividends

Quarterly dividends are allocated, the same as the annual dividends, proportionally to the interest in the paid-up share capital. The allocation of quarterly dividends is made according to the net profit achieved in that quarter.

On the other hand, any losses from the previous years (if existing), as well as all reserves, will be deducted from the amount to be allocated. Before the distribution of dividends, it is mandatory to cover all accounting losses.

The adjustment of differences resulting from the distribution of dividends during the year is made in the yearly financial statement. The payment of any differences resulting from the adjustment will be made within 60 days after the completion of the yearly financial statement for the closed financial year.

Since the distribution of dividends is only allowed after the preparation of the financial statements, companies that decide to quarterly distribute dividends must prepare interim financial statements and submit them to the fiscal administration ANAF.

Rules for drafting interim financial statements

In practice there are 5 steps to be made in order to prepare the interim financial statements:

1. Inventory of the patrimony

In order to decide upon a quarterly distribution of dividends, a company must firstly perform an inventory of all assets and liabilities, as well as of its equity.

2. Preparation of the interim financial statements

Based on the inventory of the patrimony, the company can draft the interim financial statements, consisting of balance sheet and profit & loss account, as at 31st of March, 30th of June and 30th of September. When preparing interim financial statements, the company applies the current accounting principles; the essential accounting principles are attached to the interim financial statement.

¹Ordinance 3067/10.09.2018 on the completion of the accounting principles

3. Shareholders' decision

Once prepared, the interim financial statements must be approved by the Shareholders' assembly. The shareholders decide whether the dividends are allocated from the profit, the amount of the allocated dividends and the date of dividend payment.

Companies do not have to distribute the whole profit as dividends. They can decide to allocate only a part of the profit as dividends and retain another part for future investments or for balancing the less profitable quarters.

4. Submission of the interim financial statements

Interim financial statements must be submitted to the competent authorities, as all other financial statements. While the deadline for yearly and half-year financial statements submission is fixed, this varies when it comes to interim financial statements, since it depends on when they are approved by the company. Interim financial statements must be submitted to ANAF within 30 days from their approval by the Shareholder's Assembly.

5. Payment of the quarterly dividends and tax

The distributed dividends must be paid by the deadline set by the shareholders. In the same time, the company must also retain their corresponding dividend tax in the amount of 5%.

Conclusion

Quarterly dividends can be advantageous for shareholders, since it gives them the opportunity to withdraw money from the company easier and faster. Shareholders that have also been employees of the company to earn a monthly salary, can now resign from their employee status. This leads to a considerable decrease in salary related taxes, since the dividend taxes are significantly lower.

However, there are also disadvantages. If a company decides for a quarterly distribution of its dividends, higher accounting costs and efforts would be expected.

In the same time, it is necessary to have a good cashflow management in order to avoid potential negative impact caused by quarterly dividend payments.

Contact and further information:



STALFORT Legal. Tax. Audit.

Bucharest – Bistrița – Sibiu

Office Bucharest:

T.: +40 – 21 – 301 03 53

F: +40 – 21 – 315 78 36

M: bukarest@stalfort.ro

www.stalfort.ro