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## **Doing Business in Romania**

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**MSI's guide on Doing Business in Romania provides current information about the financial, regulatory and legal considerations that could affect business dealings within Romania. For further assistance, please contact our MSI member firms in Romania.**

## Country overview

### Population

Romania has a population of 19.6 million people, which makes it the 7th most populous country in the European Union. (Estimated numbers for 2019).

### Government

Romania is a semi-presidential republic.

Romania is organized by the principle of separation and balance of the three powers - the Legislative, the Executive and the Judiciary - all within a constitutional democracy.

The President is elected by universal vote, for a 5-year term. The vote is equal, direct, secret and freely expressed by all citizens over the age of 18. The Presidential term can only be renewed once. The President designates the Prime Minister, after consultation with the parliamentary parties. Romania's current President is Klaus Werner Iohannis.

The Executive power is shared by the President and the Government. The President has direct attributions in regards to foreign policy and defence. For all other aspects, the Government hold the central role.

The Government is headed by the Prime Minister, and consists of ministries, as well as various subordinated institutions and agencies. The Government is the public authority of executive power that functions on the basis of the vote of confidence granted by Parliament, ensuring the achievement of the country's domestic and foreign policy and that exercises the general leadership of public administration.

The Legislative power is held by the Romanian bicameral (two Chambers) Parliament, which consists of a Senate and a Chamber of Deputies.

Romania has 41 districts, each with its own local authorities, and the capital Bucharest.

### Languages

The national language is Romanian, but people also speak English in the larger cities.

Romanian is a Romance language, belonging to the Italic branch of the Indo-European language family, and has much in common with languages such as Italian, French and Spanish.

Romanian is also the official language in the Republic of Moldova, a country situated at Romania's Eastern border, which has a population of 3.5 million inhabitants.

### Currency

The currency of Romania is the Romanian Leu (RON).

### Economic summary

GDP: € 203 billion  
Income per capita: €10,357

### Main sectors of the economy

Romania, as part of the European Union market, is a fast growing, mixed economy. It is a market with high potential, a strategic location, and a favourable business climate. Is the fastest growing economy in Eastern Europe, with a 4.8% growth in 2016, a 6.9% growth in 2017 and over 4% estimation for 2018. The main business developments have been in Automotive, IT, agriculture, petrol and real estate.

Romania is also the largest electronics producer in Central and Eastern Europe. Electronics manufacturing and research are among the main drivers of innovation and economic growth in the country. In the past 20 years, Romania has also grown into a major hub for mobile technology, information security, and related hardware research.

Romania is rich in iron ore, oil, salt, uranium, nickel, copper and natural gas. The country is a regional leader in multiple fields, such as IT and motor vehicle production. Bucharest, the country's capital, is one of the largest financial and industrial centres in Eastern Europe.

Romania's top 10 exports are vehicles, software, clothing and textiles, industrial machinery, electrical and electronic equipment, chemical goods, pharmaceuticals, transport equipment, basic metals and raw materials, and agricultural products. Since January 2012, European Union and European Economic Area (Iceland, Liechtenstein and Norway) citizens are able to buy land in built-up areas in Romania, for setting up residence or secondary headquarters. Also, since January 2014, foreign companies, as well as EU and EEA citizens, can acquire agricultural land and forest land, with no additional requirements.

### EU country/ Non-EU and its impact on businesses and investors

Romania is a member state of the European Union. That makes the EU the country's main foreign trade partner. Export growth in Romania was driven both by price competitiveness (especially in the first years after accession), and by

improvements in labour productivity (especially since 2012). Following EU membership, impressive developments have been seen in the Research and Development areas.

EU integration has also influenced Romania's regional relations. Consequently, Romania imposed a visa regime for several East European countries such as Moldova, Serbia, Montenegro, Russia, Ukraine, Belarus and Turkey.

Another major sector that has experienced positive effects after the EU accession is agriculture. Increase in foreign investment has allowed the introduction of new modern management technologies and practices in the field, which led to increased efficiency.

The most significant foreign investors in Romania are represented by enterprises from The Netherlands, Germany, Austria, France and Italy. Over 70% of Romania's trade is with EU member states.

## Setting up a business

In Romania, individuals and legal entities can associate and form companies with legal personalities, for the purpose of carrying out lucrative activities. In order to become an officially recognized business entity in Romania, one must register at the Trade Registry. In order to register the business, one must firstly choose a company name and to declare the location where that future company's activity will take place. Also, the company's main document will contain the articles of incorporation, where all the company information will be mentioned, such as: name, headquarters, name(s) of founders/shareholders, domain(s) of activity, financial conditions, timeframe of the entity.

Registration with the Trade Registry can also be done electronically, based on the Trade Registry's standardized forms. All that is needed is an electronic signature, and the entire procedure takes less than a week to be completed.

### Legal types of business entities

1. Limited liability company
2. Joint-stock company
3. Collective partnership
4. Limited partnership
5. Company limited by shares

In international business, the limited liability company (S.R.L.) and the joint-stock company are the most commonly used. The capital of an LLC cannot be less than 200 RON - 42,16 euros, and is divided into equal shares, which cannot be less than 10 RON - 2,11 euros. The number of associates cannot be greater than 50.

By law, limited liability company associates answer only to the extent of the social subscribed capital. Contracts between the limited liability company and the individual or legal person, the sole associate of the former, shall be concluded in writing, subject to absolute nullity.

The decisions of the associates are taken in the associates' general meetings.

Companies are managed by one or more directors, associate or non-associate, appointed by the constitutive act or by the general meeting.

Regarding the joint-stock company the capital requirements are higher, meaning it cannot be less than 90.000 RON, approximately 19.000 euros. The Government shall change once in 2 years at most the minimum value of the registered capital, taking into account the exchange rate, so that this amount be the equivalent in RON of 25.000 euros.

### Financial year of taxes and financial accounts

The financial year is equal to the calendar year. However, legal entities may choose for a different financial year if they wish. The limited liability company is subject to corporate income tax or profit tax, based on turnover and share capital size criteria.

### Accounting and auditing

When is a statutory audit required? A statutory audit is required when 2 out of the following 3 criteria are met:

1. Annual turnover > €7.9 million;
2. Total assets > €3.9 million;
3. Number of employees > 50

### Economic and fiscal incentives

The Romanian government offers a number of incentive schemes in various sectors to support companies in their business operations.

Romania has aligned itself to the European R&D support trend. Therefore, over time, several types of tax incentives have been implemented.

The companies carrying out exclusively innovation, research and development activities are exempted from the profit tax for the first 10 years of activity.

All individuals included in a R&D project and obtain wages from this activity are exempted for salary income tax. The same exemption is applied for employees who obtain wages as a result of the development of software for computer programs.

In the calculation of the tax result, for the R&D activities, the following tax incentives are granted:

- (a) an additional deduction of 50% for the eligible;
- b) application of the accelerated depreciation method in the case of equipment and equipment for R&D activities.

Starting with 2019, for the construction field employees were implemented a series of facilities, such as income tax exemption, health insurance exemption, deduction of 3.75% from social insurance.

### Incentives foreign investors/ local investors

Romanian Economic climate is friendly to foreign investors, being a rising market with a lot of potential of growth.

In the past years this economic growth was motivated by increase of foreign direct investments that allowed the creation of new production facilities for higher added value and superior quality, according to EU standards.

Important foreign investments are made in the energy sector, with a focus on green energy, IT and R&D industry, automotive, retail and agriculture, in many of those industries the Government by different means supports investors with incentives.

## Taxation

The tax system in any given country is invariably an extremely important criteria when it comes to companies finding a country of incorporation. The view taken by the Romanian government is for the tax system to provide clarity, transparency and a business environment for company development.

Being a member of the European Union since 2007, the Romanian Authorities have aligned the Taxation system to the European Directives, thus providing a modern and transparent taxation system, aligned with the common values of the Union.

In 2016, Romania made an important fiscal reform by reducing the total number of taxes to only 14, reform that aids the developing the private sector business, stimulating competition.

The Romanian government has signed over 85 double tax treaties with countries from all over the world, and future DDTs are in process of implementing, in order to ensure better collaboration with residency countries of the foreign investors.

### VAT

The general VAT rate is 19%.

On food, medical devices and products or agricultural products, the rate is 9%.

For new buildings – as part of social policies, books and education materials, the VAT rate applicable is 5%.

For hospitality industry, restaurants and tourism, VAT rate is also 5%.

Medical services, social services, education are activities VAT exempt.

### VAT Split System

Starting with 2018, in Romania was introduced the split VAT payment system, and it consists of the obligation for VAT tax-payers that have VAT liabilities overdue more than 60 days or taxpayers in insolvency procedure, to mandatory make all the payments and receive amounts related to VAT in a dedicated VAT Bank account, that will only be used for VAT transactions.

### VAT cash accounting system

Companies that in a calendar year have a turnover lower than RON 2,250,000 may opt for the application of the VAT cash accounting system (deduction or collection of VAT is made at the time of payment/cashing)

### Income tax

The tax rate for income tax is 10% for most individuals' income. There are a few exemptions:

- 5% for dividend incomes
- 16% for incomes obtained by non-residents
- Taxable income from the sale of real estate is taxed at a rate of 3%. A flat deduction of RON 450,000 is allowed when computing the taxable income.

### Corporate income tax

The companies with turnover under €1 million are taxed with 3% or 1%, if the company has employees, percentage applied to all taxable incomes.

Companies which exceed the turnover limit are tax with 16% profit tax. The companies that do not exceed the limit and own share capital above €10.000 can be profit tax payers by option.

### Registration procedures

Private persons and companies are registered with the tax authorities and are given a fiscal registration numbers. Communication with the tax authorities by way of tax returns and tax assessments is largely done in an electronic way.

### Withholding taxes

Withholding tax is applicable on income earned by non-residents from Romania, such as: dividends, interest, royalties,

management or consulting fees, income from services supplied in Romania, income earned from sports or entertainment activities, prizes granted as a result of competitions, gambling income, income earned by non-residents from the liquidation of a Romanian legal entity, income representing the remuneration received by foreign legal entities acting as administrators, founders or members of the administration board of a Romanian legal entity.

### Tax rates

- 16% - the standard tax rate.
- 5% for dividends.
- 1% for gambling income
- 50% - special tax rate

### Participation exemption

Participation exemption or substantial holding exemption is one of the main pillars of corporate income tax. The scheme was introduced to prevent double taxation. Profit distribution between group companies is exempted from tax.

A participation refers to a situation where a company (the parent company) is the owner of at least 10% of the nominal paid-in capital of a company that is based either in the Romania or abroad (the subsidiary), for a period greater than 1 year.

## HR/ Labour Law

### Employment law

Under Romanian legislation, an employment agreement can be made for a fixed period or an indefinite period of time, with a limitation on the number of times the fixed period can be extended, up to three fixed periods that can total up to five years, in some conditions.

To prevent abuse of the fixed period agreements and discrimination of employees, by law there are certain specific limitations to this clause as it applies especially in areas as: seasonal specific activities, replacement of medical leave personnel, senior

employment or project based employment.

### **Social security**

In the Romanian social insurance system, participation in the national pension fund is mandatory, as is also the contribution to the national health fund, for the most important categories of income, the social contributions are as follows:

Social security contributions rates for salary income are:

10% - Health Contribution (paid by the employee)

25% - Pension Contributions (paid by the employee)

2.25% - Work Insurance Contribution (paid by the employer)

For Independent Activities the rates are:

10% - Health Contribution

25% - Pension Contribution – at a chosen income, but not less than the minimum national wage contribution.

The general rule is that all social contributions are withholding taxes.

### **Wage tax**

Wage tax is a withholding tax and the rate is 10%. For some activities, exemption is applied, only in certain conditions (IT, R&D, Construction – Industries).

### **Exemptions to Social security and wage/income tax**

The Romanian Government in the effort to encourage additional forms of social security and also stimulate the business environment guarantees certain exemptions for taxpayers wishing to contribute to private pension funds and private health insurance, as follows:

Personal income tax and social security contributions are exempted for contributions to optional pension funds up to the limit of EUR 400 per year.

Contributions to voluntary health insurances up to EUR 400 per year paid

by the employers for the employees, or in the case of independent activities paid by the tax-payer, benefit of exemption for personal income tax and social security contributions.

### **Payroll**

Company payroll registration in Romania is made at the Territorial Labour Authority, and must be made one day prior to the first employment.

The Labour Authority manages the National Electronic Employees Ledger and grants an electronic account to each company for registration of employees directly on the platform, and for other labour related aspects (registration of changes to contracts, suspending or closing contracts, among other).

For Social Contributions and Wage tax, the companies register at the Local Tax Authority and pay the taxes on a monthly (over 3 employees) or quarterly base (up to 3 employees).

### **Visa and work permits**

All EU citizens can work freely anywhere in the EU without a special working permit or visa.

Persons who wish to work in Romania have to find an employer and pass the required tests (if any). If the employers decide to hire them, they will obtain the work permit from the territorial units of the General Inspectorate for Immigration from the district where their headquarters are. To do so, they will submit a number of documents.

Short-stay visas allow one to request entry on the Romanian territory for reasons other than immigration, for an uninterrupted stay or for several stays whose duration should not exceed 90 days within any period of 180 days preceding each day of stay in Romania. This type of visa can be issued with one or more entries.

A visa may be canceled in the following situations:

- at the time of application for the visa, the foreigners did not meet the conditions stipulated

by Ordinance 194/2002, republished, on foreigners in Romania

- the foreigners have obtained the visa based on false documents or information
- the foreigners have illegally introduced or tried to introduce other foreigners into Romania, or facilitated their transport or accommodation
- the foreigners violated the customs regulations or illegally crossed or tried to cross the state border
- the foreigners came to Romania during a previously imposed ban.

## Contact us

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The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Romania should seek professional advice from our member firms before making any business or investment decision.

### Contact our member firms in Romania to discuss your requirements:

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