

SETTING UP BUSINESS IN ROMANIA



General Aspect

Location: South - Eastern Europe

Area: 238.391 sq. Km.

Land: 230.340 sq. Km (12th in Europe)

Neighbours: Moldavia 450 km, Bulgaria 608 km, Hungary 433 km, Serbia 476 km, Ukraine (N), 362 km, Ukraine (E) 169 km.

Coastline: 225 km

Capital city: Bucharest 1,92 milion people

Other major cities: Iasi, Timisoara, Cluj-Napoca, Constanta, Brasov, Sibiu, Arad
Regions: Muntenia (S), Transylvania (Central), Moldova (N-E), Dobrogea (S-E)

Membership: in the European Union since 2007 and part of NATO since 2004

Population: 21.316.420 (according to the Romanian Institute of Statistics data as 1st of July 2012). Ethnicity: around 89% are Romanians, while 6,5% declare Hungarian ethnicity and Romani 3,2%. Religion: most Romanians are Christian Orthodox, minority of Roman Catholics and Greek Catholics.

Climate: temperate continental climate, cloudy winters with frequent snow and fog; sunny summers with high temperatures.

Natural resources: petroleum, timber, natural gas, coal, iron ore, salt, arable land, hydroelectricity.

Relief: mountains, hills, plains, meadows, sea and delta.

Form of Government: Republic, with a President and a Prime Minister, who runs the Government. It has a Parliament with two Chambers. Currency: **Leu- symbol:** RON, The Romanian currency has controlled floating and the exchange rates against the EUR. USD and other currencies are set daily by the country's National Bank (BNR).

Gross Domestic Product (GDP): the estimated GDP for the third quarter of 2016 was of 189008.6 million Lei current prices, registering an increase of 0.6% compared to the second quarter of 2016 and 4.5% compared to the third quarter of 2015, according to the data provided by the National Institute of Statistics.

Unemployment rate: The unemployment rate registered in the evidences of the National Agency of Employment (ANOFM) was 5.5% in December 2016 on national level, which is 0.2% lower than the rate registered in November 2016. The number of unemployed people aged between 15 to 74 years, recorded in December 2016, was 507,000 people.

Phone prefix: +40

National Holiday: December 1st, celebrating Unification Day.

Romania is situated in southeastern Europe, just north of the Balkan Peninsula. Romania is the second largest country in Central and Eastern Europe. Romania borders Ukraine and the Republic of Moldova to the north and northeast, on Bulgaria to the south, on Serbia to the southwest and on Hungary to the northwest. The Black Sea coast is its eastern border. The Danube River runs along Romania's southern border for 1075 km, and forms the Danube Delta before flowing into the Black Sea.

Legal Forms of Business Entities

The most frequently used forms of enterprise in Romania

Legal form	Feature	Remarks
Limited liability company (SRL)	<p>The shareholder's liability is limited to the amount subscribed as participation in the company's share capital. The share capital of a SRL must be at least 200 Lei, divided into shares with a nominal value of at least 10 Lei each. A SRL may be formed by at least one shareholder, but no more than 50.</p> <p>These shareholders may include individuals and/or legal entities. A person, either natural or legal, cannot be the sole shareholder of more than one SRL. If a person intends to form several companies, it would be necessary for a minimum of one share to be held by another person or entity. Moreover, a SRL, cannot have as sole shareholder another limited liability company that is also owned by a single shareholder according to Article 14 paragraph 2 of Law no.31/1990 on companies.</p>	
Joint stock company (SA)	<p>The stockholder's liability is limited to the amount subscribed in the company's share capital. The minimum required capital cannot be less than 90.000 Lei. The nominal value of a share cannot be less than 0,1 Lei. The number of stockholders of a joint stock company cannot be less than 2 (two). If the company has less than 2 stockholders for a period longer than 9 (nine) months, any interested person may request in court the dissolution of the company (Company Law Article 10, paragraph 3).</p>	
Branch Office	<p>Branches are corporate entities with no legal status, set up by Romanian or foreign companies subject to registration with the competent Trade Registry (Company Law, Art. 43).</p> <p>The legal status of the branch applies to any other secondary office (agency, secondary location, etc.) established by the foreign parent company. Branch Offices do not have their own legal identity or share capital. Being a unit of the parent company, branch activities cannot exceed the scope of the activity of the parent company.</p>	
Representative office	<p>A Representative Office can only undertake auxiliary or preparatory activities. A Representative Office cannot trade in its own name and cannot engage in any commercial activities. The Representative Office is only an intermediary between the mother company and its current contractual partners, and therefore exercising either mandatory or commission functions.</p>	Foreign company's representative offices are generally not recognized under Romanian law as a separate legal entity.
Consortium or Silent partnership	<p>Romanian legislation allows for the conclusion of a joint venture agreement ("<i>contract de asociere in participatiune</i>"). Under this agreement, parties act together for the accomplishment of a common business goal. This form of doing business in Romania does not create a legal entity with legal personality, and for third parties does not represent an entity distinctive to the associates. Generally, one party is in charge of the bookkeeping of the joint venture.</p>	

Societas Europaea (SE)	A SE may be created on registration in any of the EU member states in accordance with the EC Regulation 2157/2001. European law requires member states to treat a SE as if it were a public limited company, formed in accordance with the laws of the member state in which it has its registered office. By using the SE, business operating in several member states can establish themselves as a single company, rather than following different rules for each country in which they have subsidiaries. SEs are only suitable for large companies.
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Organizational Questions

Topic	Feature	Remarks
Commercial Register	Companies of all legal forms must be entered in the commercial register. The commercial register is administered in electronic form (www.onrc.ro).	
Trade Register Notification	Registration with the local trade office is required for all business forms also for authorized individuals. After the trade register notification, the trade office forwards the registration to the tax authorities.	Sometimes a license or an approval for the business registration is necessary, depending on the activity that will be performed.
Bank Account	To open a bank account, companies need an excerpt from the commercial register and the articles of association of the company.	For account deposits of more than EUR 10.000 cash, banks are required to check the identity of the depositor in order to prevent money laundering.
Transfer of Goods and Machinery	Within the EU goods and machinery can circulate freely. Imports from non-EU states to Romania cause customs, import turnover tax and in some cases special excise taxes.	There are several customs exemptions to be considered.
Transfer of Capital	Capital can be moved in and out of Romania without any restrictions.	However, the loans for a period longer than one year must be reported to the National Bank of Romania, for statistical purposes only.
Visa and Residence permit	All EU citizens can set up a business in Romania without any requirement of any permit. Most of the non-EU nationals need a visa to enter Romania, but there are several exceptions.	

Employment

Topic	Feature
Work permit	<p>A foreign citizen has to obtain work permit in order to work in Romania. The working permit can be obtained with a long term visa, for a list of cases, including:</p> <ul style="list-style-type: none">• Professional activities in Romania.• Work employment in Romania.• Business activities in Romania.• Commercial activities in Romania. <p>The foreign citizen has to obtain an approval for the following public authorities:</p> <ul style="list-style-type: none">• The Romanian Foreigners Authority – the specialized public institutions in the foreigners status in Romania, having a national competence, under Ministry of Interns and Administration.• The Romanian Labour Force Migration Office – the specialized public institution, with national competence, under Ministry of Labour, Social Solidarity and Family. <p>The process for obtaining visa for EU citizens is simplified.</p>
Labour law	<p>In Romania there are detailed employment regulations. A minimum of 20 days of paid holidays a year is guaranteed, if working 5 days a week, in addition to public holidays.</p> <p>Normal working hours are 8 hours per day and 40 hours per week. Statutory limits on working time are part of extensive health and safety regulations. The notice period for termination of employment depends on seniority of the employee.</p>



Social System	<p>Under a labour agreement at the individual's level, the employee owns the following Social Security Contributions (for normal labour conditions):</p> <ul style="list-style-type: none"> • Social Security Contributions - (10,5% of the monthly gross salary - capped at five times the national medium gross salary); • Health Fund Contributions – 5,5% applied on monthly gross salary; • Unemployment Fund Contributions – 0,5% applied on monthly gross salary. <p>Social Security Contributions owned by the employer are as follows:</p> <ul style="list-style-type: none"> • Social Security Contributions: ranging between 20,8% and 30,8% (depending on the work conditions) of the gross monthly income, which is capped at the level of five times the national average salary multiplied by the average number of employees; Health Fund: 5,2% of total salary fund; Unemployment Fund: 0,5% of total salary fund; • Contribution for Medical Leave and Indemnity: 0,85% of total salary fund – capped at twelve times the national minimum salary; • National Insurance Fund for Labour Accidents and Professional Diseases: the contribution will range between 0,15% and 0,85% of the total salary fund.
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Taxation

Tax	Feature	Remarks
Corporate Income Tax	The standard corporate income tax rate is 16% on all taxable earnings of the corporation.	A 3% tax is levied on the income of microenterprises that do not have any employees. Also, starting from February 1, 2017, the tax shall be 1% for microenterprises that have 1 or more employees.

Personal Income Tax	The rate of personal income tax is 16%. Special rates are applicable to income deriving from the transfer of the real estate.	Starting with January 1, 2016, for gross monthly income up to 1.500 lei the taxpayers are entitled to monthly deductions between 300 Lei for individuals without dependents to 800 Lei for individuals with four or more dependents.
Withholding Tax	<p>From incomes obtained from Romania by non-residents, taxpayers have the obligation to calculate, withhold and pay the tax to the state budget. The withholding tax shall apply to dividends, interests, royalties, management and consultancy fees, incomes from gambling, incomes from sportive or entertainment activities, incomes from liberal professions or other incomes from services delivered in Romania.</p> <p>A 16% withholding tax is imposed on dividends paid to resident or non-resident companies. However, dividends paid by resident companies to other resident companies may be exempt from tax if the recipient company has held at least 10% of the distributing company's share capital for an uninterrupted period of at least 2 years.</p> <p>Additionally, a 16% withholding tax is imposed on interest on royalties paid to non-resident companies, unless a lower treaty rate applies. In principle, the EU interest and Royalties Directive (2003/49) precludes any taxation on interest and royalty payments to associated EU companies (a minimum 25% holding for an uninterrupted period of at least two years).</p> <p>Interest on royalty incomes obtained in Romania by legal entities which are resident in EU member states or of the European Free Trade Association namely Iceland, Liechtenstein, Norway, are exempt from tax payment if the beneficiary of such interest on royalties holds a minimum of 25% of the value/number of shares in a Romanian legal entity, for an uninterrupted period of at least 2 years, ending on the date of payment of those interests on royalties.</p> <p>As a rule, withholding tax does not apply to payments made to Romanian legal entities since they, as payers of income tax, will include the respective incomes on their taxable base and will pay the related income tax.</p>	

Value Added Tax (VAT)

The operations included in the scope of VAT are those for which the following conditions are fulfilled:

- They represent the supply of goods or services in return for a payment or an operation assimilated thereto;
- The deemed place of supply is in Romania;
- They are performed by taxable persons;
- They result from economic activities.

Taxable persons with annual turnover of less than 65.000 EUR (namely 220.000 Lei) are not obliged to register as VAT Payers.

However, in order to benefit from the 0% VAT on intra-community transactions, the taxable person must register with the VAT authorities.

Starting from January 1, 2017, the standard VAT rate is 19.

A lower rate of 9% is charged for provision of services or delivery of goods, for example: delivery of medicine, orthopedic products, hotel accommodation, food and non-alcoholic beverages, supply of drinking water and water for irrigation in agriculture.

A reduced rate of 5% applies to museums, castles, botanical and zoological gardens access, school manuals, books and newspapers, immovable assets – if it is in compliance with several conditions.

Some services, including banking, healthcare and non-profit work, are VAT exempt. For certain services rendered by a foreign entrepreneur, the reverse-charge-system has to be applied.



Real Property Tax	<p>Every property owner in Romania is annually liable to real estate tax (local taxes). The tax rate depends on the category of real estate, the assessed value of the property and the municipal collection rate.</p> <p>Building tax ranges between 0.25% and 1.50% of the accounting value. If the building has not been revaluated for a period longer than three years, this percentage is increased to between 10% and 20%, while for buildings that have not been revaluated in the past five years the percentage varies between 30% and 40%.</p> <p>Owners of land are subject to land tax which is established at a fixed amount per square meter, depending on location. Land located outside urban areas will be subject to a tax of approximately 0.25 EUR/ha, irrespective of its category of usage and area. The land tax should be paid quarterly.</p> <p>If buildings will be used for performing economic activities, the income on real estate will be increased depending on various criteria: destination of the building – residential or non-residential, if the owner is an individual or a legal entity. For residential building used for performing economic activities, the income shall be calculated by applying a rate between 0.08% - 2% on the taxable value of the building. The rate shall be determined by local council's decision.</p>
Non-resident Taxation	<p>Non-resident individuals and companies in Romania receiving income generated in Romania are subject to Romanian Tax Code. Double taxation of this income is avoided by double taxation agreement concluded between Romania and other countries. In case of a non-resident company the tax treatment depends on its kind of income.</p>

This material has been prepared by Antea Alliance of Independent Firms. It is intended as general guide only. Accordingly, we recommend that readers seek appropriate professional advice regarding any particular problems that they encounter. This information should not be relied on as a substitute for such an advice. While all reasonable attempts have been made to ensure that the information contained herein is accurate, Antea Alliance of Independent Firms accepts no responsibility for any errors or omission it may contain whether caused by negligence or otherwise, or for any losses, however caused, sustained by any person that relies upon it.

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