

Forms of Business Organization

The establishment, functioning, dissolution, merge, division and liquidation of the commercial companies are regulated mainly by Company Law No.31/1990

Applicable legislation

- Law 31/1990 regarding companies, with subsequent amendments
- Law 29/1990 regarding trade register
- Norms of 1997 regarding the Internal Regulation of the Trade Register
- Legislation applicable to fiscal records
- Legislation applicable to micro-enterprises (excerpt from Law no. 571/2003 – Fiscal Code)
- Legislation regarding Value Added Tax (excerpt from Law no. 571/2003 – Fiscal Code)

The commercial companies may be established in one of the following forms:

- general partnership, "societate în nume colectiv" (SNC), whose obligations are guaranteed by the company's assets and the unlimited and joint liability of the partners
- limited partnership, "societate în comandita simpla" (SCS), whose obligations are guaranteed by the company's assets and the unlimited and joint liability of the general partners. Limited partners are liable only up to the value of their subscribed contribution to the share capital
- limited partnership by shares, "societate în comandita pe acțiuni" (SCA), whose share capital is divided into shares and whose obligations are guaranteed with the company's assets and the unlimited and joint liability of the general partners. Limited partners are liable only up to the value of their subscribed contribution to the share capital
- joint stock company, "societate pe acțiuni" (S.A.) whose obligations are guaranteed with the company's assets. Stockholders are liable only up to the value of their subscribed contribution to the share capital
- limited liability company, "societate cu răspundere limitată" (S.R.L.) whose obligations are guaranteed with the company's assets. Shareholders are liable only for the payment of their contributions to the share capital.

Limited Liability Company (SRL) - are the most popular vehicles for carrying on business activities in Romania by local and foreign investors, because of the

1. low administrative requirement
2. The greater flexibility compared to other types of companies;

3. Low initial capital requirements.

MINIMUM EQUITY CAPITAL: is currently RON 200 (aprox 54 euro at a rate exchange 1 euro = 3.7 RON) The maximum number of shareholders in such a company is 50. An SRL is managed by one / more administrators which may have full / limited powers and which may be Romanian / Foreign Nationals. Please note that there is no distinction in Romania between companies operating with / without foreign share capital.

Joint-stock company (SA) - the number of joint stock companies (SAs) and their attractiveness to investors is increasing in Romania.

MINIMUM EQUITY CAPITAL: is currently 25 000 Euro. There is no maximum number of associates.

One or more "Board of Directors" members, who may or may not be shareholders of the company, govern the daily operations of the SA.

Registration Procedure

The registration procedures for limited liability companies and joint stock companies requires are similar and consist of the following main steps:

1. The constitutive documents (by-laws) must be prepared, approved, and signed by the shareholders
2. The subscribed capital must be paid upon registration of the company. In the case of a joint stock company (SA), each shareholder must pay at least 30% of its subscribed capital. The registered capital may be subscribed and paid in by the shareholders by contributions in cash, in kind and/or in receivables;
3. The company is registered with the Trade Register by issuance of a Registration Certificate. This provides registration Code valid for both the Trade Register and the tax authorities. The Registration Certificate also includes in a certificate of acknowledgement stating that all conditions for carrying out commercial activities are fulfilled. The company legally exists and has the right to start and run its activities from the date of its registration with the Trade Register.

According to Law no. 359/2004 regarding the simplification of the registration procedure with the Trade Registry of individuals, family associations and legal entities, as well as the authorization of the functioning of legal entities, as further amended and supplemented, the Trade Registry shall issue the registration certificate and the mention registration certificate based on the statement on own liability given by the associate/director regarding:

- a. The legal entity does not perform operations at the head/secondary office;
- b. The legal person fulfilling the operating conditions provided by the legislation regarding the fire prevention and extinction, sanitary and sanitary-veterinary field,

environment and labor protection for the activities specified in the statement forms.

Pursuant to the Government Ordinance no.75/2001 on the Organization and Operation of the Fiscal Record (“Fiscal Record Ordinance”), as amended and supplemented, for incorporation and registration purposes, the company shareholders and its legal representatives are required to produce a fiscal record certificate. Foreign legal entities and individuals not fiscally registered in Romania have no obligation to produce the fiscal record. In this case, a mere fiscal statement given before the notary public stating that they have no fiscal debts towards the Romanian budgets replaces the requirement of such certificate.

A subsidiary’s registration procedure is essentially similar to the one described above.

Branches

Branches are corporate entities with no legal status, set up by Romanian or foreign companies subject to registration with the relevant trade registry. The legal status of the branch applies to any other secondary office (agency, working points, etc.) established as branch by the foreign parent company.

Branches must be registered using the same procedures for SRLs and SAs. The setting-up of a branch requires the following documentation:

- Record of the existence of the parent company (i.e. company memorandum and articles of association, setting-up certificate of foundation, trustworthiness letter from bank);
- Decision of the Board of Directors to establish a branch in Romania, listing the activities of the branch and appointing a General Manager.

Branches must have a General Manager appointed by the Board of Directors of the parent company, who will represent the branch in dealings with third parties in Romania. The General Manager can be a foreign citizen. Branches can only operate in the same field of activity as their parent companies.

Representative Offices

Representative Offices are established and operate in accordance with the provisions of the Law-Decree no. 122/1990 on the Authorization and Functioning in Romania of Foreign Companies’ Representative Offices and of Foreign Economic Entities, as further amended and supplemented.

Foreign companies and economic entities may open Representative Offices in Romania, subject to authorization by the Ministry of Economy and Commerce. Upon registration, an operation authorization is issued, stipulating, inter alia, the activity object, the terms and conditions for carrying out the activity, the duration and headquarters of the Representative Office.

Representative Offices are often established as a first step. The Representative Office may undertake on behalf of the parent company only transactions that are consistent with its object of activity and set forth in the authorization. A Representative Office cannot commit to any contractual engagements in its own name

Taxation

Romanian law provides for the following main taxes:

1. corporate income tax (tax on profit)
2. tax on dividends
3. income tax for micro enterprises
4. tax for representative offices
5. value added tax
6. excise duties
7. customs duties
8. individual income tax (tax on salary and tax on income of independent professionals);
9. withholding tax on income earned by non-residents
10. real estate taxes (on buildings and land)
11. local taxes.

Corporate Income Tax

Corporate profits are subject to taxation in accordance with the Romanian Fiscal Code as approved by Law 571/2003, in force since 1 January 2004. Taxpayers are:

- a) Romanian legal entities, subject to tax on their worldwide profit
- b) Foreign legal entities carrying out activities in Romania through a permanent establishment
- c) Public institutions subject to tax on the income derived from economic activities
- d) Non-Romanian entities carrying out activities in Romania through partnerships or associations that do not qualify as Romanian legal entities, on income derived from Romania
- e) Associations or partnerships formed by Romanian individuals in association with Romanian companies
- f) Non – resident companies which realize income in connection with immovable property located in Romania or from the sale of shares in a Romanian legal entity.

The fiscal year is the calendar year.

Tax rates are as follows:

- Standard rate of 16%
- Profits earned from nightclubs, casinos, discotheques and sports betting organizers, are taxed at the higher of (i) the standard rate of 16% or (ii) 5% of qualifying gross revenue earnings.

Taxable profits are determined by reference to accounting profits, recognized in accordance with Romanian accounting standards, subject to certain specific adjustments as provided by corporate tax law.

Tax losses can be carried forward and deducted from taxable profits recorded during the next five years on a FIFO basis.

Corporate income tax is payable quarterly by the 25th day of the first month of the following quarter.

An annual corporate tax return must be filed by 15 April of the following year.

A) Non-taxable income includes:

- Dividends received by a Romanian company from another Romanian company
- Dividends received by a Romanian company from its subsidiary in another EU member state or from a permanent establishment in another EU member state if the Romanian legal entity meets the following conditions:
 - it pays corporate income tax in Romania according to the Fiscal Code without any possibility of an option or exemption
 - The Romanian legal entity has held at least 15% (10% as from 1 January 2009) of the share capital of its subsidiary, for an uninterrupted period of at least 2 years.
 - Dividends received by a permanent establishment in Romania from an EU subsidiary of the parent company if certain conditions are met
 - If at the moment the dividends payment is made, the 2-year holding period has not been fulfilled, then the dividends may still be tax exempt, so long as the shares continue to be held for sufficient time so as to fulfil the 2-year holding period. In this case however, it is necessary for the dividends to be considered as taxable income for profit tax calculation purposes, and once the 2-year holding period is fulfilled, then it is possible to reclaim the additional tax paid to the authorities
- Income from the reversal of previously non-deductible provisions, as well as from reversal or recovery of expenses which were previously non-deductible.

According to the general principle for tax deductibility, expenses are deductible only if they are incurred with a view to generating taxable income.

B) non-deductible expenses :

- Corporate income tax due in Romania or abroad
- Fines or penalties due to Romanian and foreign authorities
- Expenses recorded in relation to the write-off of missing or damaged inventories and non-current assets (except in certain circumstances)
- Expenses which are not properly backed-up by supporting documents
- Expenses recorded in relation to the revaluation of investments (shares) in other entities (such expenses become deductible upon sale of the shares)
- Expenses related to management, advisory and other services, if such expenses are not backed-up by a written agreement and by documents which could prove that the services were actually rendered
- Expenses recorded in relation to bad debts written off (they may be partially or fully deductible under certain circumstances)
- Sponsorship expenses (a tax credit may be claimed for some sponsorship expenses up to a certain threshold)
- "Protocol" (entertainment) expenses exceeding 2% of gross profit
- Per diem allowances paid to employees are non-deductible if their level exceeds certain

thresholds.

Tax on Dividends

Dividends may be paid only out of profits determined in the annual financial statements, which need to be approved by shareholders

Romanian companies need to withhold the tax on dividends by applying the following tax rates upon payment of the dividends:

- 10% for dividends paid to another Romanian legal entity
- 16% for dividends paid to a Romanian individual
- 16% for dividends paid to non-residents (companies and individuals). This tax could be reduced or even eliminated, by virtue of a tax treaty concluded between Romania and the home country of the recipient of the dividends or by virtue of the EU parent subsidiary directive (which has been transposed into Romanian legislation). Dividends paid to an EU corporate shareholder are not subject to tax in Romania provided the recipient of the dividends has held at least 15% (10% starting 1 January 2009) of the shares of the Romanian dividend paying company for an uninterrupted period of at least 2 years.

Income tax for micro-enterprises

The “micro-enterprise” tax regime may apply to certain companies (such companies should have between one and nine employees, annual revenue should not exceed EUR 100,000 and no more than 50% of the annual revenue should be derived from the supply of management and advisory services).

Instead of paying the regular corporate tax (16% since 1 January 2005) on profit, micro enterprises may choose to pay a tax of 2.5% in 2008 (3% starting 2009) of the total gross revenue.

The calculation and payment of tax on incomes of micro-enterprises is made on a quarterly basis, by the 25th of the month that follows the quarter for which the tax is calculated.

Tax for Representative Offices

An authorized Representative Office opened in Romania by a foreign legal entity is liable to pay an annual tax of EUR 4,000 in RON equivalent.

The tax on representative offices is payable to the state budget in two equal instalments, i.e. by 20 June and by 20 December. An annual return also needs to be filed with the appropriate tax authority by 28 (or 29) February of that year.

Indirect Taxes

Value Added Tax

Trade between Romania and other EU Member States is regulated differently from trade between Romania and non-EU countries (for both customs procedures and VAT purposes) as customs barriers between EU Member States do not exist:

- An export of goods from Romania to another Member State is known as an intra community supply. Generally the place of supply in the case of intra-community supply is the place where the goods are located when the transport begins and the person liable to pay VAT in this case is the seller. However, if certain conditions are met, the intra community supply is VAT exempt.

Non-Romanian taxable persons making intra-community dispatches having the place of supply in Romania are required to register for VAT purposes with the Romanian authorities before carrying out such operations.

Transfer of own goods by a taxable person (or another person acting on its behalf) from one Member State to another, for the purpose of its activity are operations deemed as intra-community supplies, except for non-transfers (transfers of own goods made to an EU taxable person for the purpose of being used in the case of repair works, service supply, or assembly works, etc.) which are outside the scope of Romanian VAT.

- An import of goods from an EU Member State to Romania is known as an intra community acquisition. Generally, in the case of intra-community acquisitions the place of supply is the place where the goods are located when dispatch or transport of goods to the customer ends and the person liable to pay VAT (payment is made through the reverse charge mechanism) is the customer (the person making an intra-community acquisition).

Non-Romanian taxable persons making an intra-community acquisition taxable in Romania are required to register for VAT purposes with the Romanian tax authorities before carrying out such operations.

- Taxpayers will periodically have to submit recapitulative statements regarding intra community supplies and acquisitions (EC Sales and Purchases List) and Intra stat (if a certain threshold is exceeded).

Goods which enter Romania from a non-EU member state will be subject to normal import procedures upon entry to the country, but will then be considered to be in free circulation within the EU once import formalities have been complied with.

Registration as a VAT payer, through local tax administrations, is compulsory for all Romanian taxpayers established in Romania with turnover in excess of the RON equivalent of EUR 35.000, as from 1 January 2007.

For businesses with turnover under this threshold, the decision to become a VAT payer is optional.

Freelancers (including lawyers and public notaries) are liable to pay VAT (if the income obtained exceeds the EUR 35.000 threshold).

For businesses whose annual taxable income exceeds EUR 100,000, the VAT return must be filed with the Tax Office on a monthly basis, by the 25th of the month following that when the VAT became chargeable.

Businesses under this threshold must file quarterly VAT returns by the 25th of the first month following each quarter. If input VAT exceeds output VAT, VAT payers may apply for reimbursement of the VAT credit (i.e. if the VAT credit exceeds RON 5,000).

Operations subject to VAT fall into several categories:

- *Taxable operations* - Since 1 January 2007, new rules affecting different types of VAT taxable operations and services have been introduced; however certain simplification measures apply for operations like:

- Triangulations (a three party transaction where the parties involved are VAT registered payers with different Member States)

- waste and secondary raw materials, as defined by Emergency Ordinance no.16/2001 regarding the management of recyclable, industrial waste, re-published and modified

- supply of goods/services supplied by or to persons for whom insolvency procedures have been opened, except for goods supplied by retailers

- Consignment stock and call of stock, where the supplier is a taxable person established and registered for VAT purposes in another EU member state

- wood materials.

New rules applicable since 1 January 2007 for different types of VAT taxable operations also include:

- Intra-community acquisitions of new means of transport are always taxable in the country of arrival of the goods irrespective of the taxable position of the buyer (whether or not a VAT payer)
- Banking and insurance services, are generally VAT exempt without credit. Banks and insurance companies are allowed to deduct input VAT related to services rendered in close connection with goods that are to be exported outside the EU
- Leasing interest is no longer excluded from the taxable base for VAT purposes although an exception applies for leasing contracts concluded before 31 December 2006 and still in force after EU accession
- In the case of intra EU transport an important element is the place of supply for VAT purposes which is generally considered to be the place of departure of the transport, but some exceptions to this rule are provided. The place of supply for services ancillary to transport is where the service is physically carried out but there are some exceptions also
- The place of supply in the case of telecommunications, TV and radio broadcasting, as well as e-services is either where the client is established or has a fixed establishment to which the service relates (business to business), or the place of the supplier for EU customers and the place of enjoyment for non-EU customers (business to consumer)
- The place of supply in the case of gas and electricity supply (which is treated as a supply of goods) is the place of the customer, if the customer's business consists mainly of re-selling the gas and/or electricity to other clients and otherwise it is the place of enjoyment.
- *Exempt operations without credit (i.e. the related input VAT may not be deducted), include:*
 - Education
 - Health care/medical services
 - Insurance and re-insurance
 - Banking and financial activities: issuance and transfer of shares and other financial instruments, granting of credits
 - Rental, concession of immovable goods (with the exception of rental of equipment and machinery fitted in immovable goods, rental of safes, parking services).
- *Exempt operations with credit include:*
 - Intra-community supplies if the Romanian supplier can prove that the goods have been transported outside Romania and the buyer provides a valid VAT number issued by another Member State
 - Export of goods, transportation and services connected to export
 - International transport of persons and related services
 - Supply of services, including transport and transport-related services directly linked to export of goods or goods placed under suspensiv customs arrangements
 - Transport, transport-related services and other services directly linked to the import of goods provided that their value is included in the VAT taxable base of the imported goods
 - Supplies of services performed for the direct needs of ships and/or for their cargo
 - Supplies of goods and services for foreign embassies, consular offices and representative offices of other international organizations in Romania

- Supplies of goods and services for the armed forces of states which are NATO members.
- Exempt imports include:
 - Import of goods of which the supply by a taxable person would in all circumstances be exempt within Romania
 - Import of gas through the natural gas distribution system, or of electricity
 - Import of goods by the armed forces of foreign states which are NATO members
 - Import of goods by diplomatic missions and consular offices which are exempt from custom duties
 - Import of goods destined to be onward-dispatched to other EU member states; however starting 15 April 2007 companies benefiting from this VAT exemption will be required to guarantee the VAT related amount of goods, at customs, until they prove to the fiscal authorities that the goods have actually been dispatched to the other EU member state.

Deduction right is granted based on the following documentation:

- An invoice drawn up in accordance with art. 155(5) of the Fiscal Code
 - Import customs declaration for import-related exemptions
 - Specific documentation is separately set out in orders issued by the Ministry of Public Finance for applying the VAT exemptions with credit provided by law.
- Whenever business outputs are VAT exempt, input VAT paid cannot be deducted, except where the law expressly allows for this.

The standard VAT rate in Romania is 19%.

A reduced rate of 9% is applicable for certain supplies of goods and services, such as:

- Admittance to castles, museums, memorial houses, historical monuments, architectural and archaeological monuments, zoos, botanical gardens, fairs, exhibitions, cinemas
- Supplies of books, newspapers and magazines, and school text books, with the exception of those intended exclusively for advertising
- Supplies of prostheses of any type and accessories to them, with the exception of dental prostheses
- Supplies of orthopedic products
- Medicines for human use and veterinary use
- Accommodation within the hotel sector or within sectors with a similar function, including the rental of land prepared for camping.

Non EU entities which carry out taxable activities for which they are liable to pay VAT in Romania, other than those for which VAT is paid by the Romanian customer according to territoriality rules, and do not have a fixed place of activity or residence in Romania, should assign a fiscal representative who has residence in Romania. EU entities which carry out such taxable activities for which they are liable to pay VAT can register in Romania for VAT purposes either directly or through a fiscal representative.

In certain cases, if the foreign suppliers of services have not appointed a fiscal representative, the Romanian beneficiary will account for and pay the VAT for such operations (reverse charge).

For the following services taxable in Romania contracted by Romanian legal entities and supplied by foreign entities whose place of activity or residence is abroad, VAT is due in accordance with the reverse charge mechanism:

- The rental of tangible movable goods, except for means of transport

- Leasing operations of tangible or/and intangible movable goods, except for means of transport
- Cessions and/or concessions of copyright, patents, licenses, trademarks and other similar rights
- Marketing and advertising services
- Services of advisors, engineers, offices of studies, lawyers, chartered accountants and other similar services
- Data processing and/or information supply
- Banking, financial, insurance and/or reinsurance services
- Supply of staff
- Telecommunications
- Radio and television broadcasting services
- Electronically supplied services (i.e. web-site supply, web-hosting, distance maintenance of programs and equipment, the furnishing of software and the updating of software, the furnishing of images, text and information, and making databases available, the furnishing of music, films, and games, including gambling, the transmission and broadcasting of political, cultural, artistic, sporting, scientific, and entertainment events, and the provision of distance teaching)
- The obligation to refrain from carrying out or exercising, in whole or in part, an economic activity or a right among the above mentioned ones
- Supply of services via agents in respect of the aforementioned services.

For Romanian customers who are VAT registered and have full VAT deduction right, currently the reverse charge mechanism does not involve actual payment of the due VAT to the Romanian State Treasury. Instead, the Romanian VAT registered customer needs to account the corresponding VAT in its VAT books and returns.

Since 1 January 2007 certain incentives have been available for the purpose of VAT:

- VAT group /: a VAT group may be set up by a group of closely related companies (i.e. companies which are at least 50% owned, either directly or indirectly, by another company in the same VAT group), as long as the conditions are fulfilled
- VAT warehouses: a location situated in Romania which complies with certain conditions mentioned in the law. In the case of excisable products a tax warehouse is automatically also considered to be a VAT warehouse. For other cases, only certain goods qualify for being placed in a VAT warehouse (e.g. various foodstuffs, metals, products of the chemical industry, etc.).

From 1 January 2008 the simplification measures have no longer applied in the case of construction works and sale of buildings or part of buildings as well as any type of land for which VAT is applicable..

Excise Duties

The products currently subject to excise duties are:

- Beer
- Wines
- Fermented beverages other than beer and wines
- Intermediate products
- Ethyl alcohol
- Tobacco products
- Energy products

- Electrical power
- Other products subject to excise duty: green, roasted and soluble coffee; natural fur products; crystal articles; gold and/or platinum jewels; perfumery products; appliances (i.e. microwave ovens, air conditioning units); hunting guns and guns for personal use; yachts and motor boats for recreation. Since 1 January 2007 no excise duty has been due for cars but a special tax is due for the first registration of each car in Romania. This tax is higher for used and polluting cars.

Excise duty is payable by:

- Companies – legal entities, family associations and authorized individuals – which produce or import products subject to excise duties
- Companies bringing coffee into Romanian territory.

A registered operator is an entity which has been granted a licence to acquire excise goods from another Member State under excise-suspension procedure and the non-registered operator is an entity which is authorized occasionally to carry out the same operations as the registered operator.

Excise duties are generally payable by the 25th of the month following that when they become chargeable. Exceptions from this rule are provided for registered operators and authorized suppliers of electrical energy or natural gas.

Excise duty is generally chargeable at the moment of release for consumption (i.e. taking out of the suspensive regime, production outside the suspensive regime, use of excisable products other than raw material inside the fiscal warehouse) or at the moment when stock minuses are noticed.

Chargeability of excise duty on imports is the moment of registration of the customs declaration, except for cases when the excisable products are placed under a suspensive regime (i.e. in a fiscal warehouse) or under an import regime with exemption from all import duties (i.e. customs duties, VAT, excise duties).

Exports of excisable products are not subject to excise duties if they are delivered from the EU fiscal warehouse directly to another country, based on adequate supporting documentation.

The Fiscal Code provides for a series of exemptions from the payment of excise duties, such as:

- Ethyl alcohol used for production of vinegar
- Ethyl alcohol used for medical purposes in hospitals and drug stores, and in the production of medicines
- Electrical energy produced by regenerable energy sources
- Fossil fuels.

Fiscal warehouses

As from 1 January 2004 a “fiscal warehouse system” has been applicable in Romania. The fiscal warehouse regime is applied to alcohol (including alcoholic beverages), tobacco products, mineral oils and electricity.

The fiscal warehouse is a place under the control of the relevant tax authorities where “excisable products” are produced, transformed, held, received or dispatched under a suspension regime, by the authorized warehouse-keeper, in carrying out its activity, under certain conditions provided by the Fiscal Code and its Application Norms. The production of excisable products outside fiscal warehouses is prohibited. Holding of any

excisable product outside of fiscal warehouses, if excise duty related to that product has not been paid, is prohibited.

The fiscal warehouse may operate only on the basis of a valid authorization issued by the appropriate tax authority and be used only for production and/or storage of excisable products.

Production and/or storage of excisable products for which the excise duty has not been paid, is possible only in a fiscal warehouse.

The fiscal warehouse cannot be used for retail selling of excisable products. An exception to this rule exists for fiscal warehouses which deliver energy products to airplanes and ships, or which supply excisable products from duty-free shops.

Requirements for obtaining fiscal warehouse authorization:

- A place may be authorized as a fiscal warehouse if it is to be used for production, bottling, packaging, receipt, holding, storage and/or dispatch of excisable products
- The quantity stored in a fiscal warehouse has to be greater than a certain threshold provided by the norms for each category of excisable products
- The administrators of the company which is to be a warehouse-keeper must have not been convicted of fiscal evasion, abuse of trust, forgery or use of false documents
- The warehouse must be properly placed, built and equipped.

Once such authorization has been revoked, renewal is possible only after a 6- month period. Any authorized warehouse-keeper has to deposit a guarantee with respect to the distribution of such products.

Customs Duties

Inside the EU there are no controls and no custom charges between Member States so goods on the territory of Romania are subject to free movement within the EU. Romania, like any other Member State, applies the Community Customs Code and the common customs tariff for goods coming from outside the EU. Duties are set as a percentage applied to the import price or customs value of goods.

The EU also has a common trade policy ("Common Commercial Policy"). In other words, where trade matters are concerned, the EU acts as one single actor, where the European Commission negotiates trade agreements and represents European interests on behalf of the Union's 27 Member States, including Romania. Goods introduced into Romania from outside the EU may be treated under one of the following procedures by customs:

- Placement under a customs regime
- Free warehouses
- Re-export of the goods outside Romania
- Destruction of the goods
- Surrender of the goods to the state.

The customs regimes under which goods may be placed are the following:

- Release for free circulation
- Transit
- Customs warehousing
- Inward processing
- Processing under customs control
- Temporary import
- Outward processing

- **Export.**

Release for free circulation and export are so-called “definitive” regimes, while the rest of the customs regimes are temporary arrangements. The essence of the temporary arrangements is that they result in suspension of payment of import duties for the period while the regime lasts. However, the customs authority asks for a guarantee (in local currency) enabling it to collect the import duties which may be due, if the suspensive status changes.

The approved temporary customs arrangement comes to an end when the commodities are given a “definitive” customs status (i.e. release for free circulation or export) or when they are replaced with another temporary arrangement, for another purpose accepted by customs.

Employee Taxation

Monthly income from salary is subject to tax at a rate of 16%.

Individuals earning only salary income do not have to file a tax return. It is the employer who has to withhold and pay all salary taxes and social contributions to the state. Besides the monthly personal allowance (which depends upon the level of the gross income as well as number of dependent family members), trade union contributions, as well as the employee's contributions to optional pension funds up to an annual level of EUR 200, are also deductible.

Taxation of Other Income

Income from independent activities (including income earned by freelancers, copyrights and similar revenue) is subject to taxation by the application of the 16% flat tax rate. The taxable base is calculated differently, as specific deductions are applicable, depending on the type of income.

The following types of income are subject to withholding taxes:

- dividends distributed to an individual are subject to a 16% tax at company level for both Romanian resident individuals as well as non-resident individuals
- interest income received on deposit accounts, savings instruments and civil law agreements set up or acquired after 1 January 2007 is subject to 16% withholding tax to be withheld by the payer; no tax is due in respect of interest income earned on sight deposits or current accounts by residents and non-residents, regardless of the level of the interest rate
- income from prizes is subject to a 16% tax rate applied to gross income above RON 600
- income from gaming is subject to a 20% tax rate for net income below (or equal to) RON 10,000 and 25% for net income in excess of RON 10,000
- capital gains from disposal of securities of listed companies are subject to a 1% tax rate if the securities are held for more than 365 days or 16% tax rate if they are held for less than 365 days
- capital gains from disposal of any other securities (including shares in limited liability companies) are subject to a 16% tax rate. Income from sale of real estate properties is taxable at 3% of the value of the property if sold within 3 years of purchase or 2% if sold more than 3 years from the purchase date, regardless of whether or not the property increases in value. For sales with a value over RON 200,000, the tax payable above this threshold is reduced to 2% for sales within 3 years of purchase and 1% if sold after more than three years

- gains on forward foreign currency transactions and other similar operations are subject to a 16% tax rate. Where gains are realized from foreign exchange forward contracts other than those traded on a regulated market, i.e. authorized and supervised by the National Securities Commission (CNVM), an advance payment of income tax of 1% must be made during the year for each transaction. The final amount of income tax due on the annual net income is then established at the end of the year, by applying a 16% rate
 - income from liquidation/dissolution without liquidation of a company (i.e. distributions in cash or in kind in excess of the contribution to the share capital) is subject to a 16% tax to be withheld by the legal entity distributing the income
 - income from insurance premiums borne by an independent individual or entity in relation to an activity with which the beneficiary does not have an employment relationship, is subject to a 16% tax rate
 - from 2009, taxpayers who derive income from agricultural activities will be required to pay a 2% tax on their gross income (no deduction for expenses). Currently most income from agricultural activities is tax exempt.
- Other income not expressly mentioned in the law is subject to a 16% withholding tax.

Local Taxes and Duties

Local taxes and duties are regulated by the Fiscal Code and its application Norms.

From 1 January 2007, tax on land, buildings and vehicles is payable twice a year instead of quarterly. Real estate owners pay an annual tax on buildings, except for some specific cases provided by the Fiscal Code.

For buildings owned by individuals, the rate for calculating the tax is 0.1%. The rate applies to the taxable base established by the law according to the type of building. From 1 January 2004, the tax on buildings for individuals who own more than one building for residential purposes, which are not rented to other persons, was increased, as follows:

- by 15% for the first building, except that at which domicile is registered
- by 50% for the second building
- by 75% for the third building
- by 100% for the fourth and subsequent buildings.

A lower building tax is due for buildings which are fully depreciated. No taxes on buildings are due on certain buildings and special constructions.

Starting 2008, the local council may grant exemptions on local taxes on buildings and land to legal entities under the conditions of implementing state aid schemes with the purpose of regional development and in compliance with the provisions of OUG no. 117/2006 regarding state aid, as further amended and completed by Law no. 137/2007.

Taxes on Land

This tax is calculated annually per square meter. The tax varies in accordance with the location of the land.

Tax on Vehicles

Owners, whether individuals or legal entities, pay a tax on their own means of transport, calculated according to engine cylinder capacity.

From 1 January 2007, a new system was introduced whereby tax levels rise with every 200cc. and the amount of tax payable also varies depending on the type of vehicle concerned, with lower rates applying to motorcycles and scooters, while higher rates will apply to buses, minibuses and lorries.

Taxes on Advertising, Promotion and Display Facilities

Users of advertising and promotion and display facilities have to pay the following taxes, according to the size of the area covered:

- taxes on promotion and advertising services (between 1% and 3% of the value of the contract, excluding VAT). Mass-media advertising is exempt from payment of this tax
- taxes on signs displayed at the taxpayer's headquarters
- taxes for the use of advertising by display, panels and other similar advertising means.

Other Taxes and Duties

Stamp duties (conformity marks)

Stamp duties were abolished with effect from 1 January 2007.

Contributions to special funds

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