

This report provides helpful information on the current business environment in Romania. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.



Global Banking Service

Report on Romania

Contents

Important to Know	2
Types of Business Structure	2
Opening and Operating Bank Accounts	3
Payment and Collection Instruments	3
Central Bank Reporting	5
Exchange Arrangements and Controls	5
Cash and Liquidity Management	5
Taxation	6

RBC Royal Bank®



Important to Know

Official language

- › Romanian

Currency

- › Romanian leu (RON)

Bank holidays

2011	
January	1, 2
April	25
May	1
June	13
August	15
December	1, 25, 26
2012	
January	1, 2
April	16
May	1
June	4
August	15
December	1, 25, 26

Source: www.goodbusinessday.com.

Types of Business Structure

Under Romanian law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

Joint-stock company

SA (*Societate pe Acțiuni*). This is a company with its own trade name and with a predetermined amount of capital divided into shares of equal value. Shareholder liability is limited to their capital. Its shares are tradable on a public stock market. This requires a minimum subscribed share capital of RON 90,000 of which 30% must be paid upon incorporation (50% in the case of public joint-stock companies). The minimum value of a share is RON 1,000. An SA must have at least one director and at least five shareholders.

Limited liability company

SRL (*Societate cu Răspundere Limitată*). Participants own a percentage of its capital. A participant's liability is limited to their financial contribution. This requires a minimum paid up share capital of RON 200. The minimum value of a share is RON 10. An SRL can have as few as one shareholder.

General partnership

SNC (*Societate în Nume Colectiv*). In a general partnership, all partners have full and joint liability. This requires no minimum share capital. An SNC has a minimum of two partners.

Limited partnership

SCS (*Societate în Comandită Simplă*). In a limited partnership, some partners enjoy limited liability (silent partners), although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital. An SCS has a minimum of two partners.

Partnership limited by shares

SCA (*Societate în Comandită pe Acțiuni*). A partnership limited by shares allows some partners to limit their liability to the amount invested in the partnership (similar to a shareholder in a limited liability company), while general partners are fully liable. An SCA has a minimum of five partners.

Cooperative

A cooperative is a registered legal entity which is owned and controlled by its members, who have equal voting rights.

Other organizational types

Romanian companies are entitled to form unlimited liability European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)* member states. An EEIG performs particular activities on behalf of its member owners. It is also permitted to perform these activities with entities outside the EU. An EEIG has unlimited liability.

*The EU is an economic and political union of 27 European countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europaea* (SE) is a European public limited company, which can be established in any European Economic Area (EEA)* member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

Branches and representative offices

Non-Romanian companies are entitled to establish a branch or a representative office in Romania. A branch's activities are subject to Romanian company law, although it is considered part of the company's head office and therefore not a separate legal entity. It requires no minimum share capital. To open a branch, a company must file a number of documents, including head office accounts. While branches are permitted to make sales, representative offices may not sell directly in Romania.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must be incorporated in Romania.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (RON) accounts outside Romania and foreign currency accounts both within and outside Romania.

Non-residents are permitted to hold local currency and foreign currency accounts.

All local currency accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- › Account opening procedures require formal identification of the account holder. Legal entities are required to provide copies of their incorporation documentation together with evidence of the authority of the legal representatives to act on their behalf. Beneficial owners must also be identified.
- › Foreign legal entities are required to produce documentation showing the identity of the company, its address, nature and place of incorporation, along with the power of attorney for the person representing the company in the transaction. The documents must be translated into Romanian and certified by a public notary.
- › Where customers perform transactions on behalf of third parties, financial institutions must record the identity of both the customer and the third party.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at May 2010.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

In Romania, financial services are generally exempt from VAT.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in the EEA. They can be initiated using Internet and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments, with a number of enterprises using third-party payroll agencies. They are also the most common method of payment for business-to-business (B2B) transactions. Card payments are becoming more popular and are being used increasingly for consumer transactions, with debit cards more popular than credit cards. Direct debits are used primarily by utility and insurance companies to collect domestic payments. Cheque use is declining; cheques are primarily used for B2B payments.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (RON billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	11.4	10.6	- 7.1	75.3	88.8	17.9
Credit transfers	258.3	187.3	- 27.5	4,944.4	6,445.0	30.3
Direct debits	16.1	7.3	- 54.5	8.0	6.6	- 17.1
Debit cards	33.0	51.3	55.2	6.0	10.1	68.1
Credit cards	15.4	18.0	16.5	2.3	3.0	31.3
Other	0.14	0.44	214.3	2.1	6.6	219.5
Total	334.4	274.9	- 17.8	5,038.0	6,560.0	30.2

Source: ECB Payment Statistics, December 2009.

Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the EU.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed (RON-denominated)	Value dating rules	Cut-off time(s) in local Eastern European Time (EET)
High-value and urgent domestic transfers	Real-time settlement, immediate finality	16:00 EET
Non-urgent, low-value domestic consumer payments	Settlement either same-day or next-day	15:25 EET for same-day settlement
Non-urgent intra-EEA credit transfers and direct debits denominated in EUR	Settlement either same-day or next-day	Bulk credit transfers with a maximum value of EUR 50,000 = 23:00 EET for next-day settlement Individual credit transfers = 15:30 EET for same-day settlement SEPA credit transfers = 14:00 EET for same-day settlement or 02:00 EET for overnight/next-day settlement SEPA consumer direct debits = 12:00 EET for same-day settlement SEPA B2B direct debits = 13:00 EET for same-day settlement

Central Bank Reporting

The National Bank of Romania (NBR) requires that transfers between resident and non-resident bank accounts with a value exceeding EUR 50,000 (EUR 12,500 when involving non-residents from outside the EEA) are reported on an aggregated basis every month. Commercial banks report on behalf of their clients.

Resident companies must also report all transactions across bank accounts held outside Romania directly to the NBR every month.

Exchange Arrangements and Controls

Romania applies few currency exchange controls.

Cash and Liquidity Management

Although rule changes have made it easier to manage cash and liquidity in Romania, there are still some local restrictions, especially for managing liquidity across accounts held by different legal entities. Central bank reporting requirements also apply.

Physical Cash Concentration

Physical cash concentration is available from most large Romanian and international banks. Participants in the same structure must share a common ownership.

Pools can be denominated in local currency (RON) and some foreign currencies, although usually only non-residents are permitted to concentrate foreign currency

balances. Some banks offer cross-border, cross-currency physical cash concentration, although central bank reporting requirements apply.

Notional Cash Pooling

Notional cash pooling is available from some Romanian and international banks. Some leading banks offer cross-border and cross-currency notional cash pooling through margin pooling.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available. Banks offer time deposits in a range of currencies for terms from overnight to a year, although these are subject to a minimum investment requirement of RON 100,000. Banks also issue certificates of deposit (CDs) denominated in RON, EUR and USD, usually for terms ranging from one month to a year.

Non-bank instruments

Few Romanian companies issue commercial paper (CP).

The Romanian government issues Treasury certificates with maturities of three, six and 12 months. There is a minimum investment requirement of RON 100,000.

Romanian companies have limited access to European-based money market funds.

Short-term Borrowing

Bank

Overdrafts in RON and bank loans in RON and foreign currency are usually available in Romania to both resident and non-resident companies. Banks will usually charge a margin over ROBOR (the Romanian Interbank Offered Rate) for RON-denominated facilities and over Euribor (the Euro Interbank Offered Rate) for EUR-denominated facilities. Other commitment and arrangement fees will also be charged.

Non-bank

Few Romanian companies issue CP.

Trade bills are not commonly discounted.

Factoring is available, with and without recourse. It is normally arranged on a disclosed basis.

Taxation

Corporate Taxation

- › Resident entities are subject to tax on worldwide income. Non-resident companies are taxed only on their earnings in Romania through branches, permanent establishments (PEs) or associations with Romanian partners that do not create a new legal entity.
- › Corporate tax is chargeable at a flat rate of 16% on accounting profits prescribed by legislation, adjusted for certain items under tax legislation.
- › However, if the corporate income tax is less than the minimum annual tax established by the authorities, the taxpayers must pay the minimum tax. The minimum tax is based on minimum lump sums, depending on the level of the income derived as at December 31 of the previous year, and ranges between approximately EUR 500 and EUR 10,000.
- › Tax losses incurred may be carried forward for the next five consecutive years (seven years for losses arising in the fiscal year 2009 and onward) and are not adjusted for inflation. The carry back of losses is not allowed.

Financial instruments

- › There are no specific tax rules regarding the taxation of financial instruments. Whereas generally they are taxable, an analysis on a case-by-case basis needs to be performed.

Interest and financing costs

- › Other than transfer pricing and thin capitalization rules, no particular rules are in place disallowing the deduction of interest and financing costs. However, under the provisions of the Romanian Fiscal Code, the Romanian tax authorities can re-qualify the substance of a transaction so as to reflect its economic substance.

Foreign exchange

- › Generally, foreign exchange differences are treated as intrinsic to, and embedded in, the primary or underlying transaction. The revaluation of receivables/payables expressed in foreign currency should be performed on a monthly basis. Under the provisions of the Romanian legislation, accounting books should be kept in local currency (RON). The bookkeeping of transactions expressed in foreign currency should be maintained both in local and foreign

currency. From a tax reporting perspective, tax liabilities are computed and declared in the local currency (RON).

Advance Tax Ruling Availability

- › The National Agency for Fiscal Administration may issue advanced tax rulings (ATRs) at the request of taxpayers. The ATR is an administrative fiscal document referring to a future fiscal situation of a taxpayer and is binding for the tax authorities, provided that its terms and conditions have been complied with by the taxpayer.
- › The ATR is valid only as long as the relevant legal provisions are not amended.
- › ATRs are only available to entities registered in Romania for tax purposes.

Withholding Tax (subject to tax treaties and other exemptions)

- › Withholding tax of 16% is levied on royalties, interest, services and commission payments paid to a non-resident, unless a reduction under a double tax treaty is available. In order to invoke the benefits of the relevant double tax treaty (DTT), the non-resident income beneficiary should make available to the Romanian income payer a valid certificate of fiscal residence issued by the foreign tax authority, confirming that the foreign entity is resident in the respective country for the purposes of the DTT.
- › Dividends distributed to local companies or to foreign companies from EU member states or PEs of an EU company are subject to a withholding tax of 10%. Other dividends distributed to non-resident individuals or to other foreign companies (except those mentioned above) are subject to 16% withholding tax, unless a reduction under a double tax treaty is available. Dividends are exempt in certain cases, as described below.
- › Dividends received from a Romanian company are not included in the taxable income of Romanian recipients.
- › The EU Parent-Subsidiary Directive applies in Romania. Dividends paid by a Romanian company to an EU resident company will be exempt from 2009, if the beneficiary has a holding of 10% of the capital of the payer company and has retained the holding for at least two years.
- › The EU Interest and Royalties Directive also applies in Romania. Under the transitional period rules, Romania is

allowed to withhold tax at 10% on the interest or royalties paid between associated enterprises resident in the EU until December 31, 2010, provided that certain requirements are met. (The beneficiary of the income holds at least 25% of the participation titles of the paying company for a continuous period of at least two years.)

- › In order to claim the benefits of the EU Directives, the non-resident income beneficiary should make available to the Romanian income payer a valid fiscal residency certificate and an affidavit attesting the fulfilment of the conditions imposed by the relevant Directive (i.e. the holding percentage, minimum holding period, qualification within one of the legal forms provided and payer of corporate income tax, without the possibility of option or exemption).

Capital Gains Tax

- › There is no separate capital gains tax payable in Romania by resident companies. Companies record capital gains in the profit and loss account on which tax is payable on normal profits. Foreign companies that sell their interest in Romanian companies are taxable on the capital gains made, unless an exemption under a double tax treaty is available.

Stamp Duty

- › No stamp duties are levied in Romania.

Thin Capitalization

- › Romanian companies can generally deduct interest expense, subject to thin capitalization rules. The level of deductibility for loans obtained from companies other than banks, their branches, credit co-operatives or leasing and mortgage companies is limited to:
 - › the National Bank of Romania reference interest rate — for loans denominated in RON; and
 - › a 6% annual interest rate — for loans denominated in foreign currency. The government can update this level periodically.
- › Any interest exceeding the interest rate limitation is permanently non-deductible for corporate tax purposes.
- › In addition to the above capping rules, the deductibility of interest expenses is subject to limitations based on the computation of the debt-to-equity ratio. Interest expense

and net losses from foreign exchange differences are fully deductible where the debt-to-equity ratio is lower than or equal to 3:1. Otherwise, the interest and any net losses from foreign exchange differences are not deductible. Unlike the above-mentioned thresholds, the non-deductible interest expense can be carried forward to future periods, subject to the same thin capitalization test.

Transfer Pricing

- › Romanian tax law provides for transfer pricing rules and principles in line with the Organisation of Economic Co-operation and Development (OECD) guidelines. The law states that transactions between related parties should be carried out at arm's length prices. In determining the price, the following methods are recommended by the Romanian profits tax regime:
 - › the comparable uncontrolled price method (CUP);
 - › the cost plus method (CPM);
 - › the resale price method (RPM); and
 - › any other method accepted under the OECD guidelines.
- › Entities carrying out transactions with related parties must present a transfer pricing file to the tax authorities upon request.
- › Advance pricing agreements (APAs) are possible.
- › The Romanian tax legislation stipulates that transactions between Romanian legal entities are not to be reassessed by the tax authorities from a transfer pricing perspective; accordingly, the setting up of a transfer pricing file for these types of transactions should not be mandatory.

Sales Taxes / VAT

- › VAT is generally applied to transactions involving goods and services performed by taxable persons and which have a place of supply in Romania. Place of supply rules are also harmonized with the VAT Directive.
- › The current standard rate of VAT is 19%.
- › A reduced VAT rate of 9% is applicable to some transactions (e.g. entrance to museums and exhibits, drugs for human and animal use, books, newspapers, and magazines (other than those intended for publicity purposes)). There is also a

reduced VAT rate of 5% applicable to the supply of housing as part of the social policy (for residential properties, with a value not exceeding RON 380,000 – approximately EUR 90,500 – and a maximum surface area of 250 m²).

- › Exports of goods and other specific operations are VAT-exempt with right of deduction (zero-rated), based on specified documentation.
- › Financial services are generally exempt from VAT without the possibility of recovering the input tax incurred. Financial services performed for non-EU beneficiaries are VAT-exempt with right of deduction.
- › Taxpayers must file monthly VAT returns with the tax authorities. The tax return must be filed and the VAT paid by the 25th of the following month. Taxpayers with an annual turnover under EUR 100,000 can submit quarterly VAT returns, and make the related payments on a quarterly basis. Other VAT compliance requirements must be observed in relation to the intra-community transactions with goods and services (e.g. the sales and acquisitions list and Intrastat, which is the system used to collate trade statistics between the 27 EU member states).

Financial Transactions / Banking Services Tax

- › There are no financial transactions/banking services taxes in Romania.

Payroll and Social Security Taxes

- › There is no payroll tax borne by the employer in Romania.
- › Employers in Romania are liable to pay social security contributions as a percentage of the salary paid to employees as follows:
 - › CAS (social security contribution) — generally between 20.8% and 30.8% of the total salary fund, depending on the labour conditions (20.8% for normal working conditions);
 - › health fund — 5.2% of the gross salary fund;
 - › unemployment fund — 0.5% of the gross salary fund;
 - › Labour Chamber Commission — between 0.25% and 0.75% of the gross salary fund;
 - › insurance fund for work-related accidents and professional diseases — between 0.15% and 0.85% of

the gross salary fund, considering the core activity of the company;

- › a contribution for medical leave — 0.85% of the gross salary fund (capped);
- › guarantee fund for salary debts — 0.25% of the gross salary fund; and
- › disabled persons contribution — $4\% \times \text{number of employees} \times \text{National Minimum Salary} \times 50\%$; such contribution is payable by companies with more than 50 employees that do not hire disabled persons. (Alternatively, the contribution equivalent can be used by companies to purchase goods from institutions where disabled people work).

All tax information supplied by Deloitte Touche Tohmatsu (www.deloitte.com).
Data as at April 1, 2010.

Report prepared September 2010.

Take your business around the world with confidence.

Take advantage of our expert advice and global reach. With your trusted RBC® team in Canada as your single point of contact, you can take your business around the world with confidence.

For more information about our global capabilities and how we can help:

- › Call 1-800 ROYAL® 2-0 (1-800-769-2520) to contact an RBC Royal Bank® Business Banking centre
- › Visit us at rbccroyalbank.com/go-global to locate a specialist near you.



RBC Royal Bank®

The material provided by Royal Bank of Canada (RBC) and its contracted information supplier on this website or in this document if in printed form (the “Information”) is not intended to be advice on any particular matter. No reader should act on the basis of any Information matter provided by RBC and its contracted information supplier and third party suppliers in this document without considering appropriate professional advice. RBC and its contracted information supplier expressly disclaim all and any liability to any person in respect of anything and of the consequences of anything done or omitted to be done by any such person in reliance upon the Information of this website. The Information provided is frequently subject to change without notice. RBC and its contracted information supplier make no warranties, expressed or implied, with respect to the Information, and specifically disclaim any warranty, merchantability or fitness for a particular purpose. RBC and its contracted information provider do not represent or warrant the Information contained or on referred sites or sites accessible via hypertext links is complete or free from error and expressly disclaim and do not assume any liability to any person for any loss or damage whatsoever caused by errors or omissions in the data, whether such errors or omissions result from negligence, accident, quality, performance of the website, or any other cause. All rights reserved. No part of the material provided by RBC (including the Information) and its contracted information supplier and third-party suppliers may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of RBC and its contracted supplier.

® Registered trademarks of Royal Bank of Canada. RBC and Royal Bank are registered trademarks of Royal Bank of Canada.

© Royal Bank of Canada 2010.