



Recent changes in tax legislation

Summary

	2004	2005 (former)	2005 (new)
Standard rate of profit tax	25%	19%	16%
Taxation of micro-companies	1.5%	1.5%	3%
Income tax	18%-40%	14%-38%	16%
Dividend tax – individuals	5%	10%	10%
Social security contributions (capped)	31.5%	29.5%	31.5%
Insurance against work accidents and occupational diseases	0.5%	0.5 - 4%	0.5 - 4%
Average national salary	7.682.000	9.211.000	9.211.000
Minimum national salary	2.800.000	3.100.000	3.100.000

Standard corporate tax rate

Starting from January 2005 the standard rate to be levied on taxable profit has been lowered to 16% from 25%.

Tax on income of micro-companies

Starting from January 2005 the rate of tax on income of micro-companies has been raised to 3% from 1.5%. Micro-companies can opt for payment of profit tax from the following fiscal year.

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Income tax

- The tax brackets have been replaced by a flat tax rate of 16%;
- This flat rate is levied on income from:
 - independent activities;
 - salaries;
 - transfer of usage over goods;
 - pensions;
 - farming activities;
 - prizes;
 - other sources.
- The 16% flat rate is not levied on income from investments and gaming
- Taxpayers do not need to submit an annual income tax return if they:
 - only derive income from salaries for activity conducted in Romania;
 - only derive income from investments, pensions, farming activities, prizes, gaming, from other sources, whose taxation is final;
- Taxpayers can opt for allocating up to 2% of the annual income tax to sponsorship of non-profit entities; such amounts will be calculated, withheld and transferred by the tax authority concerned (the methodology will be subsequently established by order of the finance minister).

□ Income from salaries

- The new personal deductions vary with the gross monthly income and with the number of dependants a taxpayer has, as follows:
 - for taxpayers whose monthly income is up to ROL 10 million, deductions vary between ROL 2.5 million and 6.5 million.
 - for taxpayers with a gross monthly income ranging between ROL 10 million and 30 million, there will be degressive personal deductions to be established under a future order of the finance minister.
 - taxpayers with a gross monthly income higher than ROL 30 million are not entitled to personal deductions for purposes of calculation of the income tax.
- For the principal employment, the monthly tax is determined by deducting from the gross income:
 - the mandatory monthly contributions
 - the personal deductions allowed (if any)
 - the monthly trade union membership fee
 - the contribution to the optional occupational pension schemes (capped at EUR 200 a year)

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- For the other cases: the monthly tax is determined by deducting from the gross income the mandatory contributions per place where income is derived.

□ **Income from independent activities**

- Net annual income from intellectual property rights is assessed by deducting from the gross income 40% accounting for deductible expenses (as against 60% before). For income derived from the creation of monumental works of art, the 50% threshold is established for deductible expenses.
- The rate of income tax accounting for anticipated tax is of 10% for the following categories of income:
 - income from intellectual property rights;
 - income from sale of goods on consignment;
 - income from activities conducted under agency, commission or commercial mandate agreement;
 - income from activities conducted under employment/ civil agreements entered into pursuant to the Civil Code;
 - income from accounting and technical expertise work, judiciary and extra-judiciary work
- Annual net taxable income is determined by the tax authority based on the income tax return and the special statements which must be submitted by 15 May of the year following the one during which income is derived.

□ **Income from transfer of usage over goods**

- The taxable amount is determined by deducting a 25% expense quota from the gross income;
- Income from transfer of usage over goods, derived from abroad, is not subject to Romanian tax.

□ **Income from pensions**

Tax on income from pensions is determined by levying 16% on the taxable amount, with the tax thus calculated and withheld deemed as final.

Only income from pensions in excess of ROL 9 million/month is subject to tax.

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❑ Income from prizes

Tax on income from prizes is withheld at source and determined by levying 16% on income in excess of ROL 8 million per contest.

❑ Income from investments

- Income from dividends will be subject to 10% tax;
- For income from interest payments, tax will be determined by levying a 1% rate;
- Income from transfer of securities and from sale-purchase operations will be subject to 1% tax rate;
- Income from transfer of securities and from forward foreign exchange agreements will be subject to 1% tax rate;
- For taxable income derived by an individual further to liquidation/dissolution without liquidation of a legal entity, tax will be determined by levying a 10% rate.

Taxes on income from investments are withheld at source and are final.

The National Securities Commission (CNVM), with endorsement from the Ministry of Public Finance, will issue instructions on the calculation, withholding and remittance of tax on capital gains from transfer of securities, derived by natural persons.

Income from investments, derived from abroad by Romanian residents, is subject to Romanian tax and must be declared by 15 May of the year following the one during which the income was derived.

❑ Income from gaming

Tax on income from gaming is determined by levying 20% on the gross income.

The tax calculated and withheld upon disbursement is final.

Social security contributions

The social security contribution rate set for 2004 is reinstated, as follows:

- 31.5% (for standard working conditions)
- 36.5% (for particular working conditions)
- 41.5% (for special working conditions).

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The percentages apply to a base capped at five times the national average gross salary.

Other provisions

□ Gross average salary per month

The gross national average salary taken into account for purposes of calculation of the capped social security contribution was set at ROL 9.211.000 per month.

□ Minimum gross salary per month

The minimum gross national salary was set at ROL 3.100.000 monthly.

□ Insurance against work accidents and occupational diseases

Starting from 1 January 2005, the contribution rate of the insurance against work accidents and occupational diseases will be set depending on the risks in each economy sector, ranging between 0.5% and 4% (pursuant to the methodology of implementation of the relevant law, no 346/2002).

[Source: Official Gazette 1.128/2004, 1.228/2004, 1.280/2004, Official Gazette 1/2005, 5/2005]

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