



MERGERS AND ACQUISITIONS

Romania

Taxation of Cross-Border
Mergers and Acquisitions

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TAX

Romania

Introduction

The chapter proceeds by addressing three fundamental decisions which face a prospective purchaser.

- What should be acquired: the target's shares, or its assets?
- What will be the acquisition vehicle?
- How should the acquisition vehicle be financed?

Company law governs the legal form of a transaction and accounting issues are also highly relevant when selecting the optimal structure. These areas are outside the scope of this chapter, but some of the key points that arise when planning mergers and acquisitions (M&A) in Romania are summarized later in the chapter.

Recent Developments

Dividend Tax

- Sixteen percent on dividends paid to non-residents (whether individuals or companies), but limited to 10 percent on dividends paid to corporate shareholders resident in the European Union (EU) or European Free Trade Association (EFTA) countries.
- Under the EU's Parent Subsidiary Directive, dividend payments made by a resident legal entity to an EU legal entity which holds at least 10 percent of the Romanian entity's shareholding for a period of at least two years are exempt.

Asset Purchase or Share Purchase

In Romania, an acquisition usually takes the form of a purchase of the shares of a company, as opposed to its business and assets. However, the benefits of asset acquisitions for the purchaser should not be ignored, particularly given that a step-up in the value of the assets can be recovered through depreciation. Goodwill is not depreciable under the Romanian tax law. Some of the tax considerations relevant to each method are discussed later in the chapter. The relative advantages are summarized at the end of the chapter.

Purchase of Assets

A purchase of assets will usually result in an increase in the base cost of those assets for both capital gains tax and capital allowances purposes, although this increase is likely to be taxable in the hands of the seller.

However, goodwill is not recognized for tax purposes in Romania. In addition, historical tax liabilities generally remain with the company and are not transferred with the assets.

In principle, if the seller is declared insolvent (due to unpaid debts to the state), the purchaser may be held liable for such debts if insolvency has been caused by the transfer of assets.

Purchase Price

If the transfer takes place between related parties and is carried out at below market value then there is a technical risk of a transfer pricing adjustment.

Goodwill

Amortization of goodwill is not tax deductible.

Depreciation

Fixed assets purchased are usually booked at their acquisition cost and depreciated for tax purposes over their remaining useful life. When assets are acquired for which the history is unknown, or which have exceeded their normal life, new useful life must be established by a technical committee or expert. The useful lives of each category of assets are set by the government.

Tax Attributes

Tax losses are not transferred on an asset acquisition. They remain with the company or are extinguished.

Value-Added Tax (VAT)

VAT is levied at the rate of 19 percent on a large number of goods and services, although goods exported from Romania are not subject to VAT. The transfer of a business as a going concern is outside the scope of VAT, provided certain conditions are met.

Transfer Taxes

Transfers of real estate may result in land/building registry taxes and notary fees falling due amounting to up to 1 percent of the value of the transaction.

Purchase of Shares

Where shares of a company are purchased, there is no change in the base value of its assets for tax purposes (that is, there is no step-up in the tax depreciation basis).

Capital gains derived by non-residents from a sale of shares are generally subject to 16-percent tax.

Tax Indemnities and Warranties

In a share acquisition, the purchaser is taking over the target company together with all related liabilities, including contingent liabilities. The purchaser will, therefore, normally require more extensive indemnities and warranties than in the case of an asset acquisition. An alternative approach is for the seller's business to be dropped down into a newly-formed subsidiary with a view to the purchaser taking a clean company. However, for tax purposes this may crystallize any gains inherent in the underlying assets (this tax charge would crystallize in the subsidiary to which the assets had been transferred when it was acquired by the purchaser).

Where significant sums are at issue, it is customary for the purchaser to initiate a due diligence exercise, which would normally incorporate a review of the target's tax affairs.

Tax Losses

Tax losses may be offset against future profits for a maximum of five years (seven years for tax losses recorded from 2009). There is no withdrawal of the tax losses carry-forward right on a change of ownership or activity. Tax losses can only be carried forward not carried back.

Pre-Sale Dividend

In certain circumstances, the seller may prefer to realize part of the value of his/her investment as income by means of a pre-sale dividend, because the dividend may be subject to no, or only a low effective rate of Romanian tax. This reduces the proceeds of the sale and thus any gain on the sale, which may be subject to a higher rate of tax.

The withholding tax (WHT) on dividends under the Romanian tax law provisions is as follows:

- Sixteen percent on dividends paid to non-residents (whether individuals or companies), but limited to 10 percent on dividends paid to corporate shareholders resident in the EU or EFTA countries.
- Under the EU Parent Subsidiary Directive, dividend payments made by a resident legal entity to an EU legal entity which holds at least 10 percent (starting 2009) of the Romanian entity's shareholding for a period of at least two years at the moment of distribution are exempt. If the holding period condition is not fulfilled at the moment of distribution, the dividend tax paid may be reclaimed when this condition is fulfilled.

Transfer Taxes

Trade registry fees are due on the issue of share capital by a resident company or on registration of ownership of shares, but these do not depend on the value of the share capital and are modest (less than EUR 1,000).

Choice of Acquisition Vehicle

Most foreign investors carry out business in Romania via either joint stock or limited liability companies.

Joint stock companies involve more extensive and formalized corporate governance structures than limited liability companies (more requirements for audit and board oversight). A joint-stock company is, therefore, generally a suitable legal form for a business with a dispersed shareholder base, and only a joint-stock company may be listed on a Romanian stock exchange.

For closely-held businesses, the limited liability company is usually more suitable, because of its simpler corporate governance structure, and thus lighter administrative operating burden.

Investment via branches or unincorporated, tax transparent entities (such as associations in participation) has the advantage of not being liable for dividend WHT on payments of profits to the head office or shareholders/partners.

Local Branch

As an alternative to the direct acquisition of the target's trade and assets, a foreign purchaser may structure the acquisition through a Romanian branch.

A branch is an extension of its parent company and, therefore, has no legal personality and no financial independence of its own. When a foreign company has a branch in Romania, the foreign company may be held liable to any creditors of the branch, including

employees, for any debts and obligations incurred by the branch. A branch may undertake only those activities that its parent company has been authorized to carry out under its constitutional deed.

Romanian branches of foreign companies are subject to Romanian corporate tax on their profits.

Joint Ventures

The Romanian law provides for a form of partnership, somewhat similar to the joint venture, called *asociere in participatie* (association), with its own legal and tax regimes. An association in participation is a form of unincorporated and unregistered business partnership that may consist of two or more partners (individuals or legal entities). There are special requirements in the law for such a form of partnership, which may depend on the agreement between partners, the tax residence of the partners (foreign or Romanian) and other matters.

From a tax perspective the profits derived from an association are subject to 16 percent corporate tax. An association in participation is a tax-transparent entity. Its profits are subject to tax at the level of each of the partners. Payments of profits from the association in participation to the partners are not treated as dividends and are, therefore, not subject to dividend WHT. Note that for VAT purposes, an association in participation may be considered a distinct entity from its partners unless all partners are Romanian taxable entities.

Note also that the tax aspects of associations depend on the nature of the particular association and would need to be carefully investigated prior to implementation.

Choice of Acquisition Funding

A purchaser using a Romanian acquisition vehicle to carry out an acquisition for cash will need to decide whether to fund the vehicle with debt or equity, or even a hybrid instrument combining the characteristics of debt and equity. The principles underlying these approaches are discussed below.

Note that company law includes specific restrictions on financing the acquisition of shares in certain types of companies by third parties.

Debt

The principal advantage of debt is the potential tax-deductibility of interest (see *Deductibility of Interest*). Another potential advantage of debt is the deductibility of expenses such as guarantee fees or bank fees in computing trading profits for tax purposes.

When a long-term loan (granted for a period exceeding one year) is made by a non-resident lender, the National Bank of Romania (NBR) must be notified within 30 days of signing the loan agreement. No such notification is required for short-term loans (granted for periods less than one year) unless the period for which the loan is granted is subsequently extended beyond one year.

If it is decided to use debt, a further decision must be made as to which company should borrow and how the acquisition should be structured. To minimize the cost of debt there must be sufficient taxable profits against which interest payments can be set. The following comments assume that the purchaser wishes to set the interest payments against the Romanian target's taxable profits. However, consideration should be given to whether relief would be available at a higher rate in another jurisdiction.

Typically, a Romanian company is used as the acquisition vehicle, funding the purchase with debt either from a related party (a debt push-down) or directly from a bank. Interest paid can, in principle, be deductible for corporate tax purposes in Romania (see *Deductibility of Interest*). If interest cannot be deducted immediately, because the conditions set out below are not fulfilled, the resulting losses can be carried forward until the conditions are fulfilled (that is, the debt-to-equity ratio falls between one and three).

Deductibility of Interest

Where a company is financed by debt, there are two basic Romanian thin-capitalization rules to be considered:

- Deductibility of interest is restricted to 8 percent for non-RON denominated loans and to the level of the interest rate of the NBR corresponding to the last month of the quarter for loans denominated in RON (in September 2009 the NBR interest rate was 8.5 percent per year). This limitation is applicable to each loan. The restriction on deductibility is determined before the calculation of the debt-to-equity ratio. Amounts of interest non-deductible after the application of this rule are permanently non-deductible.
- Interest expenses are wholly deductible if the debt-to-equity ratio of the borrowing company is within the range between zero and 3:1. If the debt-to-equity ratio is 3:1 or greater (or the equity is negative), interest expenses are non-deductible (but not permanently non-deductible). For the purposes of computing the thin-capitalization restriction, the debt-to-equity ratio of a company is calculated as

the ratio between the average debt and the average equity (computed as the average of respective values at the beginning and the end of the fiscal period). The law expressly provides that the debt element of the debt-to-equity ratio includes the total of payables and loans owed by the taxpayer, which mature after more than one year. The equity element of the debt-to-equity ratio should include share capital, legal reserves, other reserves, non-distributed profit, and current year profit, as well as other elements of equity as provided for under legal provisions.

Note however that interest and foreign exchange losses relating to loans received from Romanian or foreign banks, non-banking financial institutions (including leasing companies), mortgage credit companies, and other regulated lending institutions are exempt from the scope of thin-capitalization rules.

Any amounts of interest which are not deductible can be carried forward to be deducted against income earned in future periods, if and when the company's debt-to-equity ratio falls below the relevant thresholds.

If foreign exchange losses relating to any monetary item suffered by a company exceed the foreign exchange gains, then the deductibility of net foreign exchange losses is subject to the same restrictions as interest.

Under Romanian law, unrealized foreign exchange differences on monetary items are recognized on an annual basis and are taxable or deductible (subject to potential thin-capitalization deductibility restrictions). Foreign exchange losses recognized during the year are deductible only at the year-end corporate tax computation.

Withholding Tax on Debt and Methods to Reduce or Eliminate

Payments of interest by a Romanian company to a non-resident are subject to WHT at 16 percent. Under the EU Interest and Royalty Directive, interest paid by a Romanian resident company to a company (subject to certain conditions and qualifications) resident in an EU Member State will be exempt from WHT as from 1 January 2011. Under the Romania-EU Accession Treaty's transitional rules, a 10-percent tax would apply on interest received by EU resident entities until 31 December 2010.

In most cases it will be clear, either because of the provisions of a relevant double-tax treaty or because of the EU directive, Romanian WHT will not apply to

payments of interest to companies in other EU Member States.

If the lender would not qualify for an exemption from, or a reduced rate of WHT, an intermediate company resident in a more favorable treaty territory may be preferred, or other structures or loan instruments that do not attract a WHT liability may be considered.

Exemptions from WHT on interest are available for certain financial instruments.

Checklist for Debt Funding

- The use of bank debt may avoid thin-capitalization and transfer pricing problems.
- WHT of 16 percent will apply on interest payments to non-Romanian entities unless a lower rate applies under the relevant double tax treaty/EU directive, or if structured as Eurobond or deep discount security.

Equity

A purchaser may use equity to fund its acquisition, possibly by issuing shares to the seller in satisfaction of the consideration or by raising funds through a seller placing. Further, the purchaser may wish to capitalize the target post-acquisition.

Romania has no capital duty, and neither stamp duty nor stamp duty reserve tax generally applies to new share issues. As a matter of domestic law, there is 16-percent WHT tax on dividends paid by a Romanian company, but lower rates might apply under the relevant double tax treaty/EU directive. Dividends are not deductible for Romanian tax purposes.

The use of equity, although offering less flexibility should the parent subsequently wish to recover the funds it has injected, may be more appropriate than debt in certain circumstances, such as the following:

- When the target is loss-making it may not be possible to obtain immediate tax deductibility for interest expenses and foreign exchange losses.
- If the company is thinly capitalized, it would be disadvantageous to increase borrowings without also obtaining an injection of fresh equity. A tax-efficient structure normally requires an appropriate mix of debt and equity so that debt-to-equity and interest cover are adequate for Romanian tax purposes.

There may be non-tax grounds for preferring equity. For example, in certain circumstances it may be desirable for a company to have a low debt-to-equity ratio.

As to the mergers and de-mergers, the following tax rules apply:

- By virtue of the Merger Directive, which has been incorporated in Romanian law, mergers and de-mergers are generally tax-neutral, meaning that the transfer of assets from one company to another company in a merger or de-merger is not a taxable transfer. Likewise, the transfer of previously untaxed reserves (reserves created from gross profit) is not taxable, as long as the reserve is booked in the same account in the absorbing company.
- Assets transferred from one company to another company in a merger or de-merger are to be recognized for tax purposes (including future tax depreciation purposes) at their tax base value on the transferring company's books.
- Tax losses recorded by companies that cease to exist as a consequence of a merger or de-merger cannot be taken over by the surviving company after the merger or de-merger.
- The anti-avoidance rule applies, such that the tax-neutrality may not be achieved in cases where tax avoidance is the principal motive for the merger/de-merger.

In principle, contributions in-kind are not taxable for the person making the contribution. Such contributions are accorded tax-neutral treatment, similar to that applied to mergers and de-mergers. However, for the contribution in-kind to qualify for VAT exemption, they should qualify as a transfer of going concern.

Note that the individuals contributing real estate to the companies' share capital are required to pay a special income tax on transfer of real estate (up to around 2 percent of the value of real estate exceeding EUR 47,000, depending on the ownership period).

When a company receives an asset from another company via a contribution in-kind, the asset is recognized for tax purposes (including future tax depreciation purposes) at its tax base value on the transferring company's books before the contribution.

If a company contributes an asset to another company via a contribution in-kind, the tax base value of the shares received in the second company are assumed to

be the same as the tax base value of the assets contributed.

Hybrids

In practice, Romanian companies tend to issue ordinary share capital. More complex equity structures are unusual. There is no Romanian law relating to special treatment for hybrid instruments, but debt may be re-characterized as equity, or vice versa, according to general anti-avoidance rules based on the principle of substance over form; that is, the tax authorities may disregard a transaction that does not have an economic purpose or may re-characterize the form of a transaction to reflect the economic substance of the transaction.

Discounted Securities

Under Romanian law, interest is taxable or deductible (subject, however, to thin-capitalization restrictions) on an accrual basis, in line with the accounting treatment.

An advantage of discounted securities is that a discount, unlike interest, does not give rise to WHT.

Other Considerations

Concerns of the Seller

Sale of Assets

- The sale of assets may create a taxable capital gain for the vendor.
- Capital gains realized by corporate entities are deemed to be corporate profits and are taxed at 16 percent. Transfer taxes (of up to 1 percent of the value) are also applicable, if the transaction involves real estate.
- Capital gains realized by individuals from transfers of real estate are subject to lower tax rates.
- If all assets have been allocated to a specific line of business (which technically is a standalone unit capable of carrying out separate economic activities) the transaction could be viewed as a transfer of a going concern, and may, therefore, be outside the scope of VAT.

Sale of Shares

Any capital gain arising on the disposal of shares is subject to tax for the outgoing shareholder (individuals or companies).

If the seller of the shares is an individual, the tax rate applicable to the realized gain is:

- 16 percent of the gain earned on a disposal of shares in a so-called closed (unlisted) company;
- 16 percent of gains earned on disposals of shares in listed companies if the shares have been owned for less than 365 days at the moment of the disposal; and
- 1 percent of gains earned on disposals of shares in listed companies if the shares have been owned for more than 365 days at the moment of the disposal.

If the seller of the shares is a company, the gains would be subject to corporate tax at 16 percent.

Note that non-Romanian vendors may be entitled to claim Romanian tax exemption by virtue of the provisions of double taxation treaties.

Company Law and Accounting

The Company Law (Law 31/1990) prescribes how Romanian companies may be formed, operated, re-organized, and dissolved.

Under the provisions of the Romanian Company Law the term merger includes both acquisitions (fuziune prin absorbtie) and mergers (fuziune prin contopire). As such, a merger may be carried out as an absorption of the assets and liabilities of one or more companies by another company, or as a transfer of the assets and liabilities of two or more existing companies to a newly formed company. A de-merger involves the division of a company into two or more companies (whether existing and/or newly formed).

Group Relief/Consolidation

There are no corporate tax consolidation rules in Romania. It is not possible for the losses of one company to be offset against the profits of another group company or for companies in a group to offset the tax liabilities of one group company against the tax receivables of another group company. Each member of the group will be treated as a separate entity.

Transfer Pricing

Romanian corporate tax law contains transfer pricing rules closely resembling international Organization for Economic Co-operation and Development (OECD) principles. Adjustments to the tax base are possible, based on the arm's length principle (but they are unlikely for domestic transactions).

The Romanian Fiscal Procedure Code requires taxpayers who carry out transactions with affiliated parties (as defined in the fiscal code) to prepare a transfer pricing file with proper documentation and present it to the

fiscal authorities on request. The purpose of a transfer pricing documentation file is to illustrate how the transfer prices used by the taxpayer in transactions with affiliated persons have been established, and to demonstrate that these have been done in accordance with the arm's length principle.

Taxpayers who carry out transactions with affiliated parties may approach the tax authorities for an advance pricing agreement (APA). An APA is an agreement between a taxpayer and the tax administration for a fixed number of years that specifies the methods for determining transfer prices for future transactions between related enterprises. The fee for granting the APA ranges from EUR 10,000 to EUR 20,000. The fee for amendments to an already granted APA ranges from EUR 6,000 to EUR 15,000.

Comparison of Asset and Share Purchases

Advantages of Asset Purchases

- In general, no previous liabilities inherited.
- No double duty on asset transfer.
- More flexibility in funding.
- Possible to acquire a part of the business.
- Step-up in taxable base of assets.

Disadvantages of Asset Purchases

- Need to re-negotiate supply, employment, and technology contracts.
- Higher capital outlay.
- Unattractive to seller, so purchaser likely to pay premium.

Advantage of Share Purchases

- Lower capital outlay (purchase net assets only).
- More likely to be attractive to seller at a relatively lower price.
- May gain benefit of existing supply or technology contracts.
- May be simpler and may involve lower transaction-related fees.

Disadvantage of Share Purchases

- Liable for any claims or previous liabilities of the entity.
- No step-up in taxable base of assets.

Withholding Tax Rate Chart

Romania has concluded double-taxation treaties with more than 80 countries. The provisions of the treaties override the provisions of domestic law and generally provide for reduced WHT rates. Note that for the purpose of benefiting from tax treaty protection, non-residents earning income from Romania must provide to the Romanian paying company a fiscal residency certificate issued by the tax authority of the country of residence. Such certificates must be presented during the year in which the income is realized or in the subsequent year. Until the moment the fiscal residence certificate is received, the payer shall withhold the tax rate provided for by domestic legislation. On receipt of the fiscal residence certificate, the tax liability should be recalculated in accordance with applicable treaty provisions.

Please find a table summarizing the provisions of the double tax treaties concluded by Romania. The rate information and footnotes contained in this table are from the 2009 IBFD/KPMG Global Corporate Tax Handbook.

Country	Dividends		Interest ¹ (%)	Royalties (%)
	Individuals, Companies (%)	Qualifying Companies ² (%)		
Albania	15	10	10	15
Algeria	15	15	15	15
Armenia	10	5	10	10
Australia	15	5 ³	10	10
Austria	5	0	0/3 ⁴	3
Azerbaijan	10	5	8	10
Bangladesh	15	10 ³	10	10
Belarus	10	10	10	15
Belgium	15	5	10	5
Bosnia and Herzegovina ⁵	5	5	7.5	10
Bulgaria	15	10	15	15
Canada	15	5 ³	0/10 ⁶	5/10 ⁷
China (People's Rep.)	10	10	10	7
Croatia	5	5	10	10
Cyprus	10	10	10	5
Czech Republic	10	10	7	10
Denmark	15	10	10	10
Ecuador	15	15	10	10
Egypt	10	10	15	15
Estonia	10	10	10	10
Ethiopia	10	10	15	15
Finland	5	5	5	2.5/5 ⁸
France	10	10	10	10
Georgia	8	8	10	5
Germany	15	5 ³	0/3 ⁴	3
Greece	20	20	10	5/7 ⁹
Hungary	15	5 ¹⁰	15	10
India	20	15	15	22.5
Indonesia	15	12.5	12.5	12.5/15 ¹¹
Iran	10	10	8	10
Ireland	3	3	3	0/3 ¹¹
Israel	15	15	5/10 ¹²	10
Iceland	10	5	3	5
Italy	10	10	0/10 ⁶	10
Japan	10	10	10	10/15 ¹³
Jordan	15	15	12.5	15
Kazakhstan	10	10	10	10
Korea (Dem. Rep.)	10	10	10	10
Korea (Rep.)	10	7	10	7/10 ¹⁴
Kuwait	1	1	1	20
Latvia	10	10	10	10
Lebanon	5	5	5	5
Lithuania	10	10	10	10

Country	Dividends		Interest ¹ (%)	Royalties (%)
	Individuals, Companies (%)	Qualifying Companies ² (%)		
Luxembourg	15	5	10	10
Macedonia	5	5	10	10
Malaysia	10	10	15	12
Malta	5	5	5	5
Mexico	10	10	15	15
Moldova	10	10	10	10/15 ¹⁵
Montenegro ¹⁶	10	10	10	10
Morocco	10	10	10	10
Namibia	15	15	15	15
Netherlands	15	0/5 ³	0/3 ^{17,18}	0/3 ¹⁷
Nigeria	12.5	12.5	12.5	12.5
Norway	10	10	10	10
Pakistan	10	10	10	12.5
Philippines	15	10	10/15 ²⁴	10/15/25 ¹⁹
Poland	15	5	10	10
Portugal	15	10 ²⁰	0/10 ⁶	10
Qatar	3	3	3	5
Russia	15	15	15	10
San Marino	10	0/5 ²¹	3	3
Serbia ¹⁶	10	10	10	10
Singapore	5	5	5	5
Slovak Republic	10	10	10	10/15 ²²
Slovenia	5	5	5	5
South Africa	15	15	15	15
Spain	15	10	10	10
Sri Lanka	12.5	12.5	10	10
Sudan	15	10	10	10
Sweden	10	10	10	10
Switzerland	10	10	10	0
Syria	15	5	10	12
Thailand	20	15	10/20/25 ²³	15
Tunisia	12	12	10	12
Turkey	15	15	10	10
Ukraine	15	10	10	10/15 ²²
United Arab Emirates	3	3	3	3
United Kingdom	15	10	10	10/15 ¹¹
United States	10	10	10	10/15 ¹¹
Uzbekistan	10	10	10	10
Vietnam	15	15	10	15
Zambia	10	10	10	15

Notes

- Many treaties provide for an exemption for certain types of interest, such as interest paid to the state local authorities, the central bank, export credit institutions, or in relation to sales on credit. Such exemptions are not considered in this column.
- Unless otherwise indicated, recipient companies qualify for the reduced rates if they hold at least 25 percent of the capital or the voting power in the Romanian company, depending on the applicable treaty.
- This rate applies to participations of at least 10 percent.
- The lower rate applies if, and as long as, the treaty partner (Austria or Germany) under its domestic law does not levy WHT tax on interest paid to a resident of Romania.
- The treaty concluded with the former Yugoslavia.
- The zero rate applies to interest paid by public bodies.
- The lower rate applies to copyright royalties (excluding films), computer software, patents, and know-how.
- The lower rate applies to royalties for computer software and industrial, commercial, or scientific equipment.
- The higher rate applies to industrial royalties.
- This rate applies to participations of at least 40 percent.
- The lower rate applies to copyright royalties.
- The 5-percent rate applies to interest paid in connection with the sale on credit of any industrial or scientific equipment, or of any merchandise by one enterprise to another enterprise or on a loan granted by banks.
- The 10-percent rate applies to cultural royalties and the 15-percent rate to industrial royalties.
- The lower rate applies to industrial royalties, know-how, and equipment leasing.
- The lower rate applies to industrial royalties (excluding patent royalties) and know-how.
- The treaty concluded between Romania and the former Yugoslavia (Fed. Rep.).
- The lower rate applies if, and as long as, the Netherlands does not levy a withholding tax on interest/royalties paid to a resident of Romania.
- Interest paid to a bank or financial institution (including an insurance company) and interest paid on a loan made for a period of more than two years are exempt.
- The 10-percent rate applies to royalties paid by companies registered at the Romanian Agency for Development and carrying on specific activities. The 15-percent rate applies to film royalties.
- A minimum holding period of two years applies.
- The zero rate applies to participations of at least 50 percent; the 5-percent rate applies to participations of at least 10 percent.
- The lower rate applies to industrial royalties.
- The 10-percent rate applies to interest paid to financial institutions; the 20-percent rate applies to interest on credit sales.
- The 10-percent rate applies to interest in connection with the sale on credit of any industrial, commercial, or scientific machine or equipment, or similar installation, or on any loan of whatever kind granted by a bank, or in respect of public issues of bonds, debentures or similar obligations. The 15-percent rate applies to interest in connection with the sale on credit of any means of transport.

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