



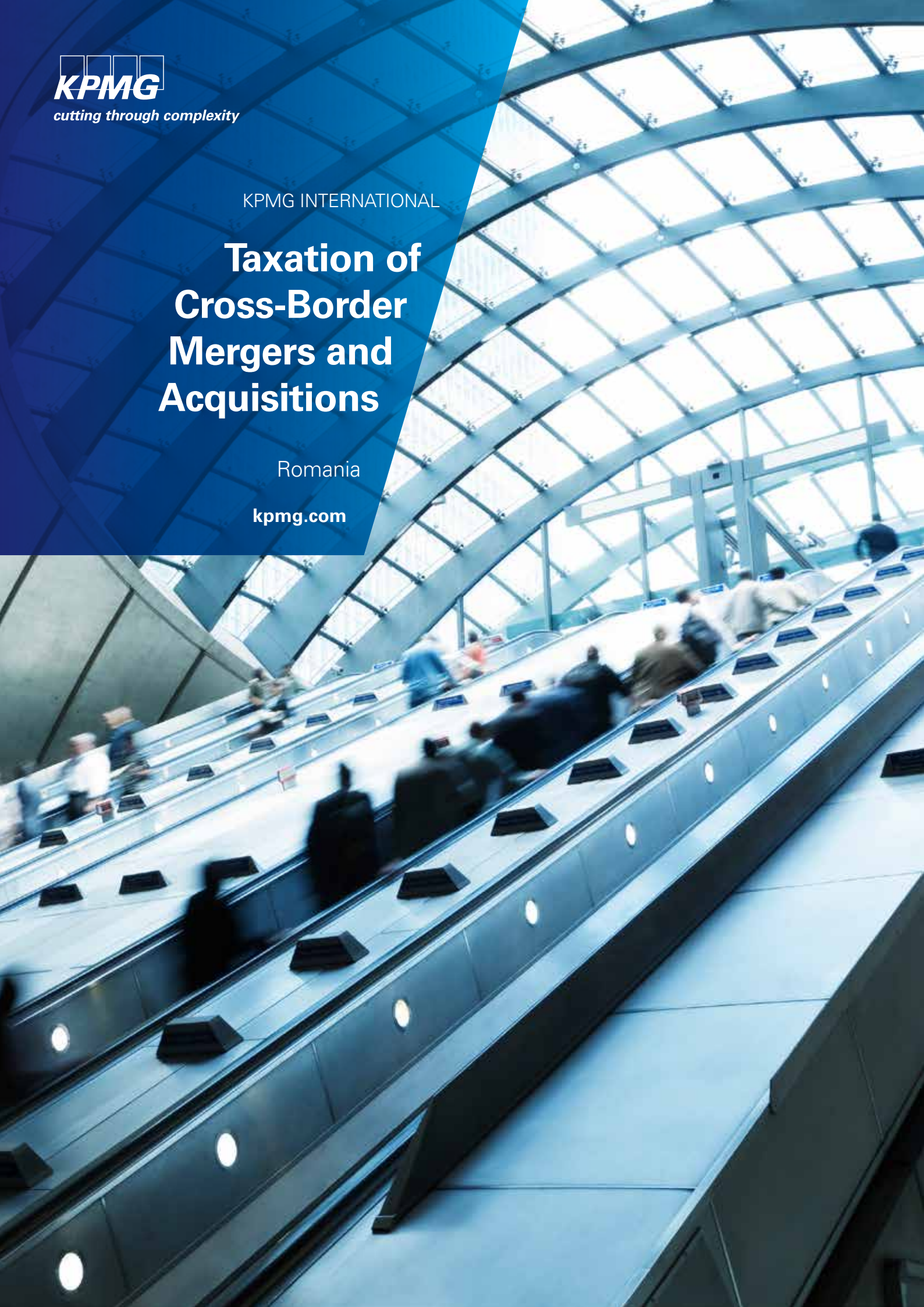
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KPMG INTERNATIONAL

Taxation of Cross-Border Mergers and Acquisitions

Romania

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Romania

Introduction

The chapter addresses three fundamental decisions that face a prospective purchaser undertaking a merger and acquisition (M&A) transaction from a Romanian perspective:

- 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 the chapter, but some of the key points that arise when planning M&As in Romania are summarized later in the chapter.

Recent developments

Dividend tax

Generally, a 16 percent dividend tax rate applies on dividends paid to non-residents (whether individuals or companies).

However, dividend payments made by a resident legal entity to a European Union (EU) legal entity are exempt, provided certain conditions are fulfilled (e.g. minimum 10 percent shareholding, minimum one-year holding period).

Tax on dividends also may be reduced where payments are made to a company in a country with which Romania has a tax treaty. Romania has concluded approximately 85 tax treaties with other countries.

Taxation of interest and royalties

Payments of interest and royalties made by a Romanian company to a non-resident are subject to withholding tax (WHT) at 16 percent. Under the EU Interest and Royalty Directive, interest and royalties paid by a Romanian resident company to a company resident in an EU Member State are exempt from WHT as from 1 January 2011, subject to certain conditions and qualifications (e.g. 25 percent shareholding, minimum 2-year holding period).

Tax on interest and royalties could also be lowered where payments are made to a company in a country that has a tax treaty with Romania.

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 (although the number of asset deals is increasing). 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 (subject to specific considerations). 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 usually results 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 to 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, where the seller is declared insolvent (due to unpaid debts to the state), the purchaser may be held liable for such debts where the insolvency was caused by the transfer of assets.

Purchase price

Where the transfer takes place between related parties and at below market value, there is a technical risk of a transfer pricing adjustment.

Goodwill

As noted above, 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. Where 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

Value added tax (VAT) is levied at the rate of 24 percent on a large number of goods and services, although goods dispatched outside 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 of 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 (i.e. no step-up in tax depreciation basis).

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

Significant amendments were made to the tax exemption of capital gains as of 1 January 2014 (discussed below).

Tax indemnities and warranties

In a share acquisition, the purchaser is taking over the target company together with all related liabilities, including contingent liabilities. Therefore the purchaser normally requires more extensive indemnities and warranties than in the case of an asset acquisition.

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 7 years (5 years for tax losses recorded prior 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.

Starting October 2012, tax losses recorded by companies that cease to exist due to a merger or demerger operation may be recovered by newly established taxpayers or by those that take over the assets of the absorbed or spin-off company, as applicable, proportional to the assets and liabilities transferred to the beneficiary legal entity, according to the merger/spin-off project.

Where a taxpayer does not cease to exist as a result of a transfer of part of its assets, the fiscal loss, transferred as a whole, is recovered by the taxpayer itself or by those that partially take over the assets of the transferring company, as applicable, proportional to the assets and liabilities transferred to the beneficiary legal entity, according to the merger/spin-off project or proportional to those maintained by the legal entity.

Pre-sale dividend

In certain circumstances, the seller may prefer to realize part of the value of their 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.

Generally, a 16 percent dividend tax rate applies on dividends paid to non-residents (whether individuals or companies).

However, dividend payments made by a resident legal entity to an EU legal entity may be tax-exempt (subject to conditions).

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 fees do not depend on the value of the share capital and are modest (less than 1,000 Euros – EUR).

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 (e.g. more requirements for audit and board oversight). Therefore, a joint stock company generally

is a suitable legal form for a business with a dispersed shareholder base. 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 (e.g. associations in participation) has the advantage of not being liable for tax on profits paid 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, so it has no legal personality and no financial independence. Where 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 venture

The Romanian law provides for a form of partnership, somewhat similar to the joint venture, called *asociere in participatiune* (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). Special requirements in the law for partnerships may apply, depending 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 generally subject to 16 percent corporate tax.

The tax treatment of associations depends on the nature of the particular association and needs to be carefully investigated before implementation.

Choice of acquisition funding

A purchaser using a Romanian acquisition vehicle to carry out an acquisition for cash needs to decide whether to fund the vehicle with debt, equity or a hybrid instrument combining characteristics of both. 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 this chapter's section on 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.

Where 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 loan period is subsequently extended beyond one year.

Where 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 to offset the interest payments. The following comments assume that the purchaser wishes to offset 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.

A Romanian company may be used as the acquisition vehicle, funding the purchase with debt either from a related party (i.e. debt pushdown) or directly from a bank. In principle, interest paid can be deductible for corporate tax purposes in Romania (see this chapter's section on deductibility of interest).

Where 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 (i.e. the debt-to-equity ratio falls between one and three).

Deductibility of interest

Where a company is financed by debt, two basic Romanian thin capitalization rules should be considered:

- Deductibility of interest is restricted to 6 percent for loans that are not denominated in Romanian new leu (RON) and to the level of the NBR interest rate corresponding to the last month of the quarter for RON-denominated loans. (In December 2013, the NBR interest rate was 4 percent per year; as of 9 January 2014, the NBR interest rate is 3.75 percent per year). This limitation is applicable to each loan. The restriction on deductibility is determined before calculating the debt-to-equity ratio. Amounts of interest non-deductible after application of this rule are permanently non-deductible.
- Interest expenses are wholly deductible where the debt-to-equity ratio of the borrowing company is within the range of zero and 3:1. Where 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 this purpose, 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 loans and credits owed by the taxpayer that 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.

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

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

Where foreign exchange losses relating to any monetary item suffered by a company exceed 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 a monthly basis and are taxable or deductible (subject to potential thin capitalization deductibility restrictions).

Checklist for debt funding

- The use of bank debt may avoid thin capitalization and transfer pricing problems.
- 16 percent WHT applies to interest payments to non-Romanian entities unless a lower rate applies under a relevant tax treaty or EU directive.

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.

Generally, no capital duty or stamp duty tax is applicable to issues of new shares. Domestic law applies a 16 percent WHT tax on dividends paid by a Romanian company, but lower rates might apply under a relevant tax treaty or EU directive.

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

- Where the target is loss-making, it may not be possible to obtain immediate tax-deductibility for interest expenses and foreign exchange losses.
- Where 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.

For mergers and demergers, the following tax rules apply:

- By virtue of the Merger Directive, which has been incorporated in Romanian law, mergers and demergers are generally tax-neutral; in other words, the transfer of assets from one company to another company in a merger or

demerger is not a taxable transfer. Likewise, the transfer of previously untaxed reserves (reserves created from gross profit) is not taxable, provided the reserve is booked in the same account in the absorbing company.

- Assets transferred from one company to another company in a merger or demerger are recognized for tax purposes (including future tax depreciation purposes) at their tax base value on the transferring company's books.
- As of 1 January 2014, the right to carry forward interest expenses and net foreign exchange losses for taxpayers that cease operations due to a merger or de-merger operation may be transferred to newly established taxpayers, or to those that take over the assets and liabilities of the absorbed or divided company, as appropriate, proportionally with the assets, equity and liabilities transferred to the beneficiary legal entities, as provided in the merger/de-merger plan.
- For taxpayers that do not cease operations as a result of a merger or de-merger operation, the right to carry forward interest expenses and net foreign exchange losses must be divided between them and the taxpayers that partially take over the assets and liabilities of the transferor, proportionally to the transferred assets, equity and liabilities, according to the de-merger plan.
- Under an anti-avoidance rule, tax neutrality may not be achieved in cases where tax avoidance is the principal objective for the merger/demerger.

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 demergers. However, contributions in kind should be part of a transfer of a going concern in order to qualify as outside the scope of VAT. Otherwise, such operations fall within the scope of VAT and should follow the general VAT rules.

Where 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.

Where 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.

No Romanian law specifically applies to 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 its economic substance.

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 where the transaction involves real estate.
- Capital gains realized by individuals from transfers of real estate are subject to lower tax rates, depending on the value of the transaction.
- Where 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, so it may fall outside the scope of VAT.

Sale of shares

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

Where 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, whether or not the companies are listed.

As of 1 January 2014, gains obtained by companies from the sale of shares in Romanian companies are generally non-taxable, provided that certain conditions are fulfilled (e.g. minimum 10 percent shareholding, minimum one-year holding period).

Further, non-Romanian vendors may be entitled to claim Romanian tax exemption under a tax treaty (subject to the treaty's conditions).

Company law and accounting

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

Under this 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 demerger 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 is treated as a separate entity.

VAT position consolidation is permitted in Romania (under specific conditions)

Transfer pricing

Romanian corporate tax law contains transfer pricing rules closely resembling the international principles of the Organisation for Economic Co-operation and Development (OECD). 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 were set and demonstrate that the prices were set following 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 EUR10,000 to EUR20,000. The fee for amending a completed APA ranges from EUR6,000 to EUR15,000. To date, APAs have been uncommon in practice.

Comparison of asset and share purchases

Advantages of asset purchases

- Generally, no previous liabilities are inherited.
- 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.
- Unattractive to seller, so purchaser likely to pay premium.

Advantage of share purchases

- More likely to be attractive to seller, so the price may be lower.
- May gain benefit of existing supply or technology contracts.
- May be simpler and 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.

Romania – Withholding tax rates

This table sets out reduced WHT rates that may be available for various types of payments to non-residents under [country's] tax treaties. This table is based on information available up to 17 January 2014.

Source: International Bureau of Fiscal Documentation, 2014

	Dividends		Interest ¹ (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies ² (%)		
Domestic rates				
Companies:	16/50	0	0/16/50	0/16/50
Individuals:	16/50	N/A	0/16/50	16/50
Treaty rates				
Treaty with:				
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

	Dividends		Interest ¹ (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies ² (%)		
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 ¹²
Israel	15	15	5/10 ¹³	10
Iceland	10	5	3	5
Italy	10	10	0/10 ⁶	10
Japan	10	10	10	10/15 ⁹
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	0/1 ¹⁵	0/1 ¹⁶	20
Latvia	10	10	10	10
Lebanon	5	5	5	5
Lithuania	10	10	10	10
Luxembourg	15	5	10	10
Macedonia (FYR)	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 ¹⁷
Morocco	10	10	10	10
Namibia	15	15	15	15
Netherlands	15	0/5 ³	0/3 ^{18,19}	0/3 ¹⁸
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 ²⁰	10/15/25 ²¹
Poland	15	5	10	10

	Dividends		Interest ¹ (%)	Royalties (%)
	Individuals, companies (%)	Qualifying companies ² (%)		
Portugal	15	10 ²²	0/10 ⁶	10
Qatar	3	3	3	5
Russia	15	15	15	10
San Marino	10	0/5 ²³	3	3
Saudi Arabia	5	5	5	10
Serbia ²⁴	10	10	10	10
Singapore	5	5	5	5
Slovak Republic	10	10	10	10/15 ²⁵
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	10	5	5	5
Sweden	10	10	10	10
Switzerland	15	0 ²⁶	5	0/10 ²⁷
Syria	15	5	10	12
Tajikistan	10	5	10	10
Thailand	20	15	10/20/25 ²⁸	15
Tunisia	12	12	10	12
Turkey	15	15	10	10
Turkmenistan	10	10	10	15
Ukraine	15	10	10	10/15 ²⁵
United Arab Emirates	0/3 ²⁹	3	3	3 ²⁵
United Kingdom	15	10	10	10/15 ¹²
United States	10	10	10	10/15 ⁹
Uzbekistan	10	10	10	10
Vietnam	15	15	10	15
Zambia	10	10	10	15

Notes:

1. Many treaties provide for an exemption for certain types of interest, e.g. 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.
2. 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 treaty.
3. This rate applies to participations of at least 10 percent.
4. The lower rate applies if and as long as the treaty partner (Austria or Germany) under its domestic law does not levy WHT on interest paid to a resident of Romania.
5. The treaty concluded with the former Socialist Republic of Yugoslavia (Socialist Rep.).
6. The zero rate applies to interest paid by public bodies.
7. The lower rate applies to copyright royalties (excluding films), computer software, patents and know-how.
8. The lower rate applies to royalties for computer software and industrial, commercial or scientific equipment.
9. The higher rate applies to industrial royalties.
10. This rate applies to participations of at least 40 percent.
11. The higher rate applies to copyright royalties (excluding royalties related to films).
12. The lower rate applies to copyright royalties (including royalties related to films).
13. 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.
14. The lower rate applies to industrial royalties, patent royalties, know-how and equipment leasing.
15. The zero rate applies if the beneficial owner of the dividends is the government of Kuwait or a company in whose capital the government owns directly or indirectly at least 51 percent, and the remaining capital of such company is owned by residents of Kuwait.
16. The zero rate applies if the beneficial owner of the interest is a company including a bank or a financial institution which is a resident of Kuwait and in whose capital the government owns directly or indirectly at least 25 percent, and the remaining capital of such company is owned by residents of Kuwait.
17. The lower rate applies to copyright royalties and know-how.
18. 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.
19. 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.
20. The lower rate applies for interest paid on any loan granted by a bank and in respect of public issues of bonds, debentures or similar obligations.
21. 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.
22. A minimum holding period of two years applies.
23. The zero rate applies to participations of at least 50 percent; the 5 percent rate applies to participations of at least 10 percent.
24. The treaty concluded between Romania and the former Yugoslavia (Fed. Rep.).
25. The lower rate applies to industrial royalties.
26. This rate applies if the beneficial owner of the dividends is, inter alia, a pension fund (or other similar institution providing pension schemes) or a (local) government.
27. The zero rate applies as long as the Swiss Confederation in accordance with its domestic legislation, does not levy a withholding tax on royalties paid to non-residents.
28. The 10 percent rate applies to interest paid to financial institutions; the 20 percent rate applies to interest on credit sales.
29. The zero rate applies to dividends paid to the government or any governmental institutions or to a company the capital of which is owned directly or indirectly (at least 25 percent) by the government or governmental institutions.

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Designed by Evalueserve.

Publication name: Romania – Taxation of Cross-Border Mergers and Acquisitions

Publication number: 131036

Publication date: May 2014