

# Sponsorship

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## Reducing the tax due by supporting NGOs. What are the conditions that must be met?

### Tax benefits of sponsorship

The tax treatment of sponsorship expenses is provided by the Fiscal Code.

Legal entities registered as corporate income tax payers that grant sponsorships in accordance with the relevant legislation may benefit from tax credit (deduction from the corporate income tax due) for these sponsorship expenses, which means that part of the tax due to the state budget is redirected towards the entities sponsored.

According to the law, the tax credit for sponsorship expenses is granted up to the value of the lower of:

- 0.75% of net turnover; or
- 20% of the corporate income tax due.

If sponsorship expenses exceed these limits, the unused tax credit can be carried forward over the next 7 consecutive years. In other words, in such a situation the tax incentive is carried forward and available to be used when the company's profitability allows it.



Also, legal entities registered as **microenterprise tax payers**, that grant sponsorships, may benefit from the same tax incentive by deducting the sponsorship expenses from the turnover tax due, up to the threshold of 20% of the tax due.

Similarly to the carrying forward mechanism applicable to corporate income tax payers, if the sponsorship exceeds the 20% threshold in one quarter, microenterprise tax payers can carry forward the amounts exceeding the threshold in order to deduct them in the following 7 years.

In order to benefit from a tax credit, the sponsorship must be *actually granted* within the fiscal period. In other words, it is not sufficient just to conclude a sponsorship contract but the sponsorship must be actually paid or granted.

In addition, in order to benefit from a tax credit, in the case of sponsorships granted to NGOs, it is mandatory for the NGO to be registered in the Registry of non-profit legal entities.

Also, at the end of the year, legal entities that have granted sponsorships must file an informative statement detailing the sponsorships granted and the related beneficiaries.

From a **VAT** perspective, sponsorships granted in cash are not subject to tax. Goods offered or services rendered free of charge as sponsorship are not subject to VAT, if their total value in a year is within a limit of 0.3% of the annual turnover, as per the VAT returns submitted in the relevant year (sponsorships made in cash as well as sponsorships in the form of goods/services granted, for which no VAT was deducted, are not subjected to this limitation). For any part which exceeds this limit, VAT is collected and is included in the VAT return for the last tax period of that year.

## Conditions for granting sponsorship

To qualify for the tax credit, sponsorship must fulfill the conditions set out in Law no. 32/1994 on sponsorship, as further amended, and it must be supported by a sponsorship contract which should be made available to the fiscal authorities in the event of a tax audit.

### Sponsorship can be granted to:

- a. Non-profit legal entities, engaged or planning to engage in an activity in Romania in the following fields: culture, art, education, science (fundamental and applied research), humanitarian aid, religion, charity, sports, human rights protection, healthcare, social services and assistance, environmental protection, social and community activities, professional association representation, as well as maintenance, restoration, conservation and enhancement of historic monuments;
- b. Public institutions and authorities, including public administration bodies for the activities mentioned above in letter a);
- c. Broadcasts or shows broadcast by television or radio organizations, as well as books or publications relating to the categories set out in subparagraph a);
- d. Any individual residing in Romania who carries out activity in one of the fields described in subparagraph a) and is recognized by a not-for-profit legal entity or by a public institution that operates in the field for which the sponsorship is required.

### The following are not permitted:

- a. Mutual sponsorship between individuals or legal entities.
- b. Sponsorships of relatives or in-laws up to the fourth degree.
- c. Sponsorship of not-for-profit entities managed or directly controlled by the sponsor.

Tax relief is also not available for sponsors that seek to influence or control the activity of the recipient of the sponsorship directly or indirectly.

## Contacts

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