Investment in Romania 2024

KPMG in Romania

Cazanele Dunării, Mehedinți county, Romania

Preface

Investment in Romania is one of a series of booklets published by KPMG in Romania to provide information to those considering investing or doing business in this country. Its purpose is to provide some general guidelines on investment and business in Romania.

A highly trained labour force, abundant natural resources, geographical advantages that facilitate transportation of goods and one of the largest markets in Central and Eastern Europe are attributes that make Romania an increasingly attractive destination for investment. Romania offers many interesting investment opportunities. However, legislation can change frequently, and the economic situation needs to be monitored closely. So we recommend that you seek further advice before making specific decisions. The information contained in this document was last updated on March 2024. KPMG in Romania, or your local KPMG contact, will be pleased to hear from you if you have questions about this publication or about doing business in Romania.

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General Information about Romania

Romania's annual GDP is currently over 300bn euros, double the level when the country entered the European Union in 2007. Romania has also enjoyed steady economic growth at a much higher rate than the EU average and offers numerous opportunities for investors, in a wide range of sectors.

Romania is the twelfth largest country in the EU in terms of size and has the sixth largest population (19.00 million in 2022).

One third of the Danube river flows through or alongside Romanian territory and Constanta port, the largest and deepest on the Black Sea, is a significant gateway, which can present particular advantages for the transport of goods to Europe from Asia.

Since accession to the European Union in 2007, Romania has been part of a single market of almost 500 million consumers, one of the largest markets in the world, providing unique advantages for companies seeking new opportunities for development and growth.

Romania is rich in natural resources. It has agricultural land and significant mineral deposits (e.g.: petroleum, natural gas, salt, coal, etc.). Soils in most parts of the country are fertile - chernozem or black earth, highly suited to cereal culture, predominates in the southern and eastern part of the country.

In recent years, Romania has gained a particular reputation as an IT hub, and has some of the fastest broadband speeds in Europe. It has a talented and well qualified workforce. English is widely spoken as a second language and many Romanians are also fluent in other languages.

According to CircleLoop's Digital Nomad Index, Romania is the third best country in the world to be a digital nomad. CircleLoop has also recommended Romania as being one of the fastest-growing information technology markets in Central and Eastern Europe.

Bigar waterfall - Caraș-Severin county, Romania

Passports, Visas and Residence Permits

Romanian visas are not required for nationals of EU/EEA countries, Switzerland, Canada, Japan and the USA.

Romanian short-stay entry visas are also not required for nationals of Argentina, Australia, the Bahamas, Barbados, Brazil, Brunei, Colombia, Chile, Costa Rica, El Salvador, Grenada, Guatemala, Holy See, Honduras, Hong Kong Special Economic Zone, Israel, Macao Special Economic Zone, Malaysia, Mauritius, Mexico, Moldova, Nicaragua, New Zealand, Panama, Paraguay, Saint Lucia, Saint Vincent and Grenadine, Saint Kitts and Nevis, San Marino, Seychelles, Singapore, South Korea, Tonga, Trinidad Tobago, Uruguay, United Arab Emirates, United Kingdom, Vanuatu and Venezuela, all of whom may stay in the country for up to 90 days within a six month period without the need to obtain any official permission.

However, a Romanian long-stay visa and a residence document are mandatory for stays of longer than 90 days.

With effect from 31 March 2024, Romania joined the Schengen area for air and sea travel, and consequently is part of the Schengen system for the purposes of length of stay and visa requirements.

Hotel and Long Term Accommodation

Romania offers a full range of hotel and long stay accommodation and most of the leading global brands are present. The country's Hotels, Restaurants and Catering (Horeca) sector has recovered well from the pandemic and 20 new four or five star hotels are now under development across the country.

Air transportation

Romania is well connected by air with Europe and beyond, not only from Bucharest but also from airports in other cities such as Cluj Napoca, Timisoara, Iasi, Bacau and the recently opened airport in Brasov.
There is also an extensive network of internal flights.

Ground transportation

Romania's motorway and high speed road network is currently quite limited, but is under development, with new motorways under construction. A major infrastructure project was completed in 2023 with the opening to cars of the Braila suspension bridge, which is over 2 km long and is the third longest in the EU.

Rail travel is generally slow, although the Brasov-Bucharest-Constanta route has recently been upgraded and now offers competitive journey times. Sleeping car services operate on long distance routes. Several private operators run services, as well as the state owned CFR.

Sea Ports

The biggest port in Romania and in the entire Black Sea region is Constanta. It can host vessels of over 150,000 tones. Mangalia and Sulina are free ports. There are also several river ports on the Danube: Turnu Severin, Giurgiu, Calarasi, Cernavoda, Orsova, Turnu Magurele and Oltenita. Braila, Galati and Tulcea are both sea and river ports.

Population

The most recent census, conducted in 2022, showed Romania's population to be 19,000,053 of which 89.3% are of ethnic Romanian origin. There is a significant ethnic Hungarian minority, mainly located in the Western province of Transylvania, representing 6% of the total national population, a Roma population of 3.4% and a small percentage of other ethnic groups. (2022 census figures).

Climate

Romania has a temperate continental climate which is in transition, with oceanic, continental, scandinavo-baltic, sub Mediterranean and pontic influences. In recent years, heatwaves have been more frequent, more intense, and last longer. The rate of precipitation is increasing, and the very cold winter temperatures which were often encountered in previous decades (-15 to -20 degrees) are now much rarer.

The average depths of snow have fallen, as have the number of days with snow (in many regions around half the average of the 1980s). In the south there have been years with only 3-4 days with settled snow. The average annual temperature is much higher, with a rise in the number of instances of extreme heat and a fall in instances of extreme cold.

Religion

Nearly all the population is Christian according to the 2022 census. Of those who declared a religion, a large majority is Orthodox (85.3%) and there are also significant numbers of other Christian denominations. Romania also has small Muslim and Jewish communities.

Official Language

The official language, spoken by the majority of the population, is Romanian.
It is the language taught in schools and spoken in national institutions. The Romanian language is derived from the Latin used in ancient times in the Roman provinces of Dacia and Moesia. It has a 31-letter Latin alphabet and is similar to French, Italian and Spanish, with some Slavic influences.

Hungarian is also used, mostly in the north-eastern part of the country. Other languages are also spoken by small numbers.
English is widely spoken as a second language, and many Romanians also speak other major European languages, e.g. French, Spanish, German etc.

Standard Time

The standard time is GMT + 2 hours (East European Zone Time). Summer time is GMT plus 3 hours, from late March to late October. The spring and autumn change is synchronised with the rest of Europe, so Romania is always one hour in advance of France, Germany, Austria etc.

National Day

1 December (the anniversary of the Great Assembly held at Alba Iulia in 1918, which brought about the union of all Romanians into a single state).

Legal Holidays

- 1 and 2 January;
- 6 and 7 January;
- 24 January;
- Good Friday (Orthodox);
- Easter Monday (Orthodox);
- 1 May;
- the Monday after Pentecost (normally 7 weeks after Orthodox Easter);
- 1 June (Children's Day);
- 15 August (Assumption Day);
- 30 November (St Andrew);
- 1 December (National Day);
- 25 and 26 December (Christmas).

National Currency

The national currency is the Leu (pl. Lei) with the subdivision Ban (pl. Bani). In economic and business circles the currency is generally referred to as the RON (New Leu). Approximate official rates in April 2024:

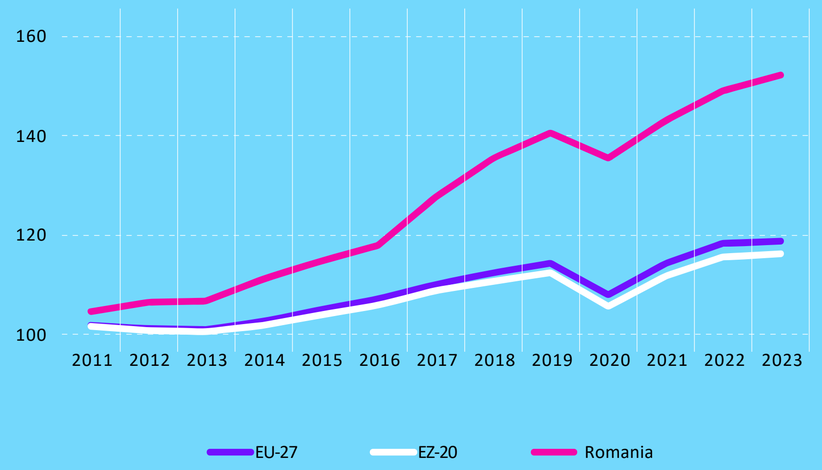
1 EUR = 4,97 RON;

1 USD = 4.57 RON

Macroeconomics

Romania is the 12th largest economy in the European Union. Over the last few years, Romania's economy has advanced at a rapid pace, as the convergence process with the EU average gained speed. This has led to an increase in both purchasing power and living standards. Between 2010 and 2023 Romania's real GDP grew cumulatively by 52%, compared to almost 19% for the EU-27 bloc.

Real GDP Growth, 2010=100



Viscri village, Romania

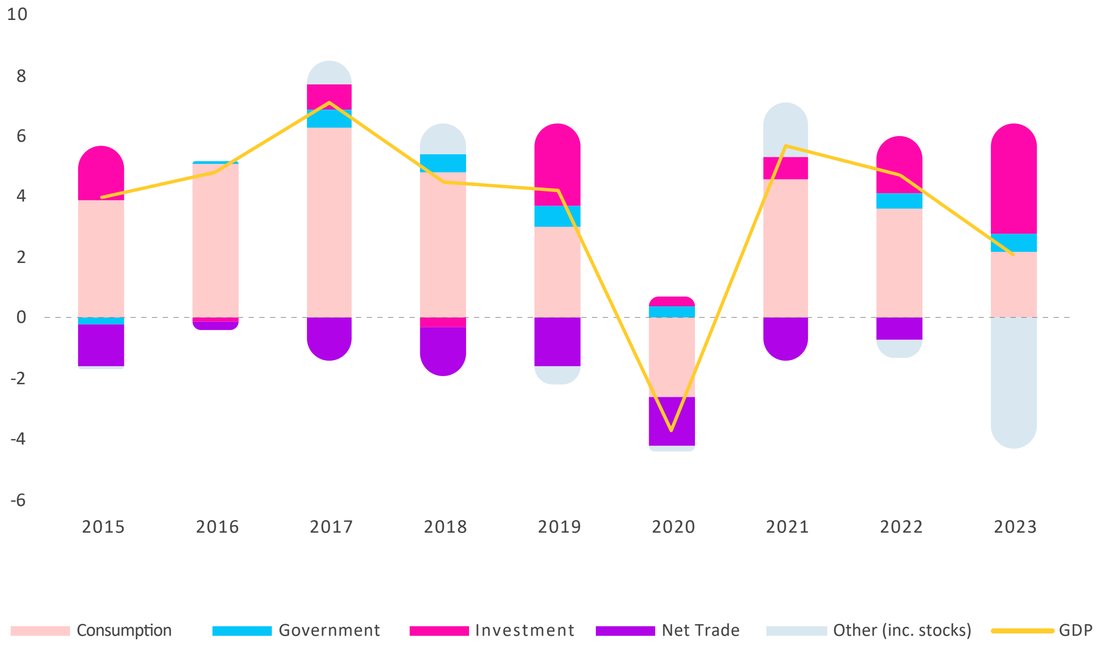
On average, Romania's economy expanded by 3.3% over the same period, compared to 1.4% in the EU as a whole and 1.2% in the Eurozone. Consumption has been the main driver of growth over the last few years.

This has been supported by wage increases in excess of inflation and productivity, which is a normal part of the convergence process. Nevertheless, hourly wage costs remain among the lowest in the EU.

However, more recently, notably after the pandemic, investment has been making an increasing contribution to growth. This has been spurred by both structural changes in the economy and by financing coming via the EU's Recovery and Resilience Facility (RRF).

Romania could potentially benefit from EUR 28.5 Bn. by 2026, available through the RRF in the form of loans and grants.

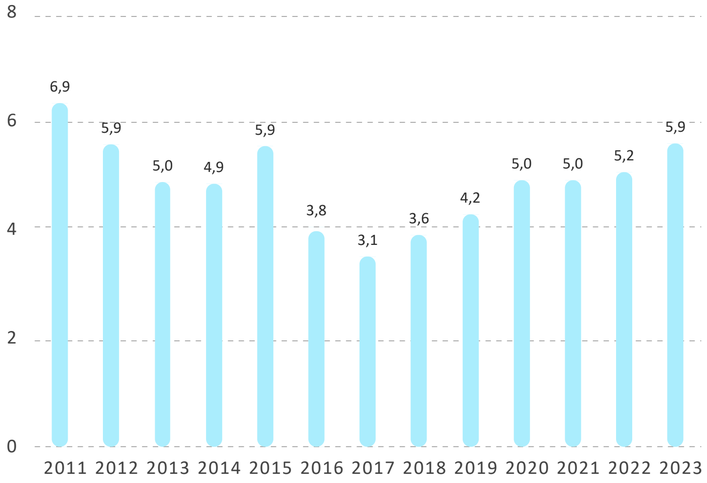
Contributions to annual GDP growth, percentage points



Source: INSSE and National Bank of Romania

Partly as a consequence of funding coming via the RRF, public sector investment has picked up noticeably over the last few years. In 2023 it amounted to 5.9% of GDP, a value reached almost a decade ago. Infrastructure in particular has been a large beneficiary of these funds.

Public Sector Investments, % of GDP

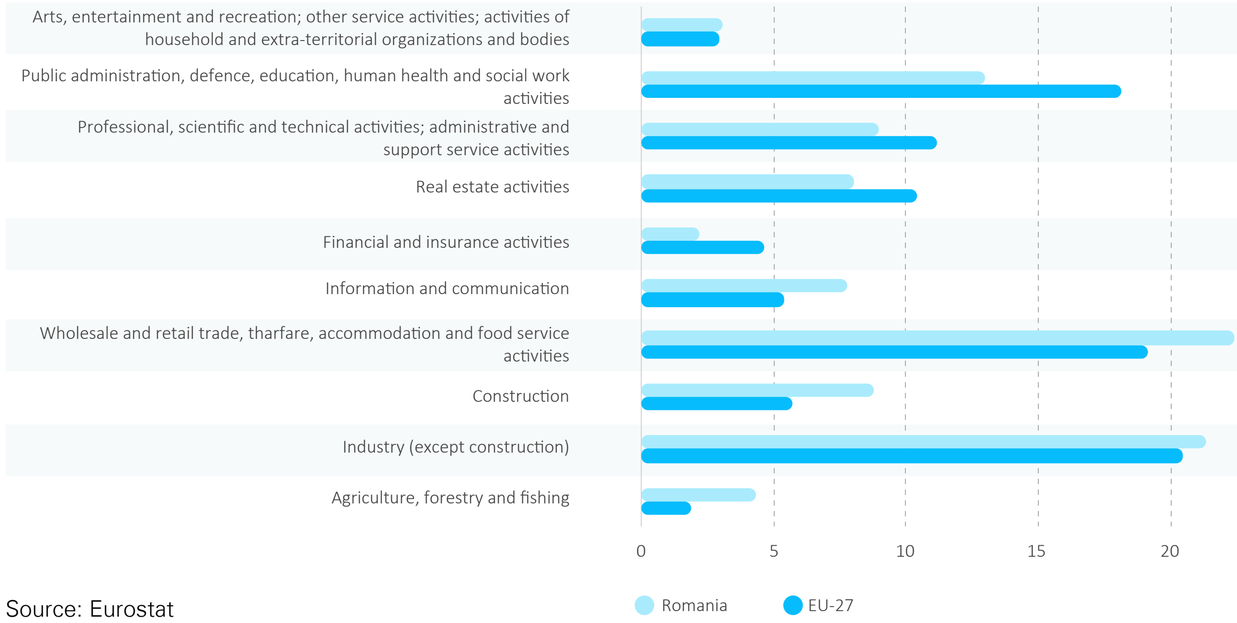


Source: The Government's Fiscal Budgetary Strategy (various years)

Industry and retail trade together generated almost 44% of the value added (the value of goods and services produced less materials and other direct related costs) in the economy in 2023.

Public administration, defence and education was the third largest sector in 2023. Construction's contribution to GDP remains strong in Romania, it was 50% higher than the value recorded at EU level in 2023.

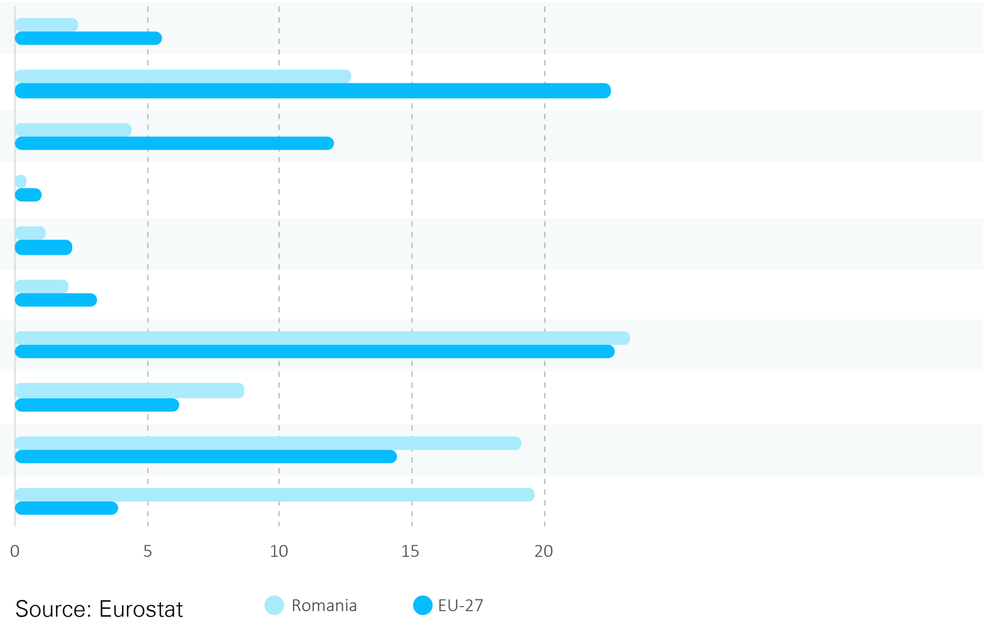
Share of Sectors Generating Gross Value Added in 2023



Source: Eurostat

Both IT and agriculture also have larger contributions to growth, compared to the EU average. Wholesale and retail trade, transport and logistics employ a quarter of the country's employees. Industry and agriculture together account for more than 40% of the country's workforce. The Romanian agricultural sector has several particularities, with a lot of self employed people recorded.

Share of Sectors in Employment in 2023

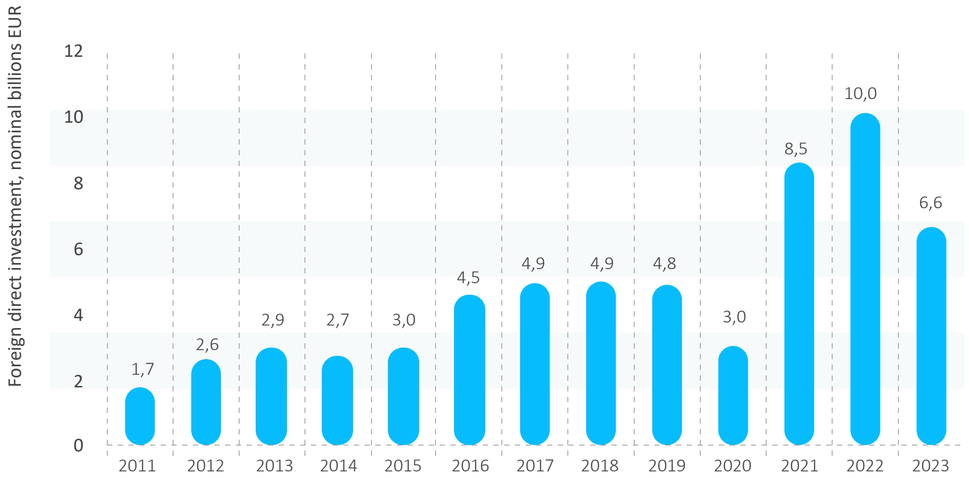


Source: Eurostat

The labour market remains relatively tight with the unemployment rate standing at 5.6% at the end of 2023. The rate has been relatively stable over the last few years.

Foreign direct investment has been picking up in absolute terms over the last three years. In 2022 Romania was the country with the highest annual rate of growth of FDI projects in the EU (86%), followed by Portugal (23%) and Poland (21%).

FDI in Romania, Bn EUR

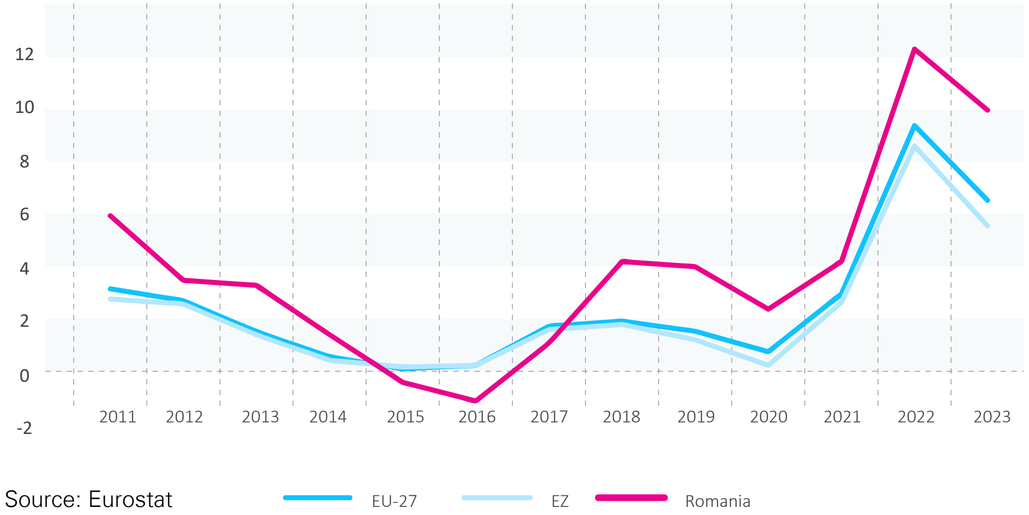


Source: National Bank of Romania

In 2022 Romania ranked fifth in terms of FDI inflows among EU countries, surpassing Germany, which recorded EUR 10.5 billion in FDI. Within the countries in the region, Romania was the second largest FDI beneficiary, surpassed only by Poland.

Annual average HICP inflation stood at close to 10% at the end of 2023. The NBR follows an inflation targeting regime within the 1.5%-3.5% range. The increase in recent years parallels that in many other countries and has been the result of global factors, such as the effects of the pandemic, including supply chain disruptions, and energy price shocks triggered by the conflict in Ukraine.

Annual Average Inflation (HICP), %



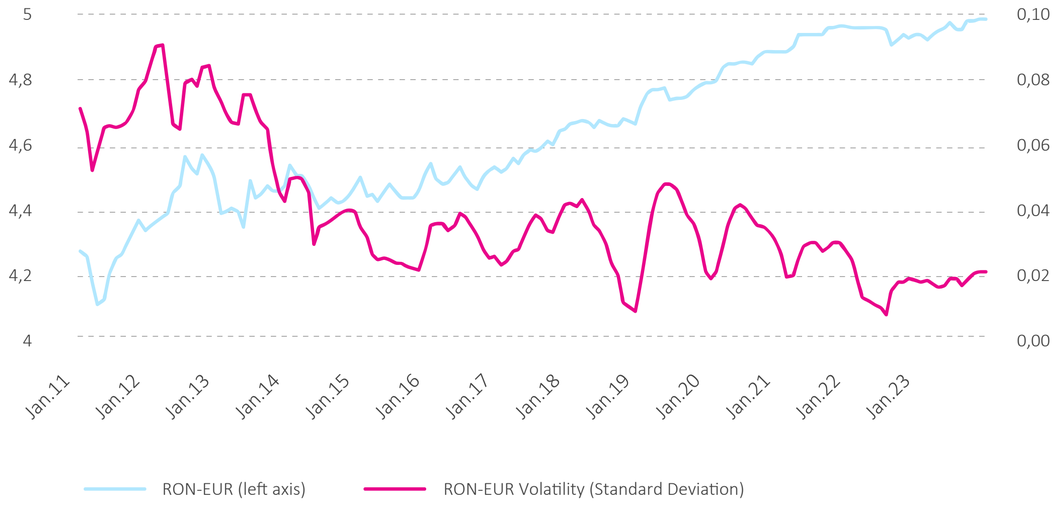
Source: Eurostat

As these negative shocks have faded away, inflation has started to trend downwards since mid-2022. Besides inflation, the NBR also pays attention to the RON-EUR exchange rate.

This has been remarkably stable over the last decade, with the NBR appearing to favour a gradual depreciation of the RON against the EUR.

RON-EUR volatility (measured as the monthly exchange rate standard deviation) has also been quite small, an important factor when it comes to assessing exchange rate risk.

RON-EUR Exchange Rate and Its Volatility



Source: National Bank of Romania

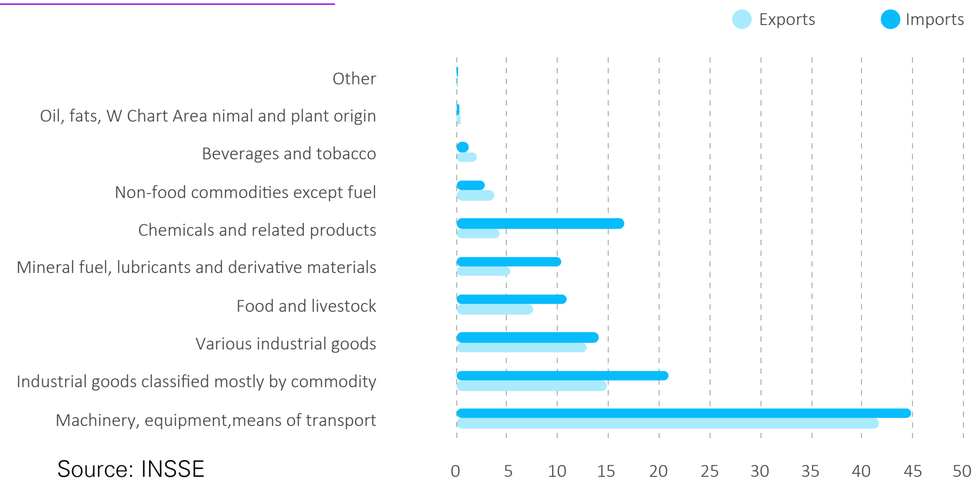
Past performance is not an indicator of future results

All three main international rating agencies give Romania investment grade status:

- S&P affirmed Romania's rating at BBB-/A3 for long-term and short-term government debt in foreign currency and a stable outlook in April 2024
- Fitch Ratings affirmed Romania's Long-Term Foreign-Currency rating at 'BBB-' with a Stable Outlook on March 2024
- Moody's maintained the outlook on Romania as 'stable' and affirmed the 'Baa3' foreign and domestic long-term issuer and senior unsecured ratings in April 2024

Romania's largest goods exports are machinery, equipment and means of transport. This category accounts for 36.8% of total imports of goods and 44.8% of exports.

Romania's Foreign Trade in 2023, Bn EUR



Source: INSSE

The chemical and related products sector recorded the largest deficit in 2023 (the difference between exports and imports), with a net value of EUR -12.3 Bn.

However, trade in services presents a better picture, as transport services had a net positive effect on the overall trade balance. In 2023 transport services had an export value of EUR 10.6 Bn., recording a net positive balance of EUR 6 Bn., almost 1.9% of GDP.

Forms of Business Organisation

Individuals and legal entities may freely enter into partnerships and set up companies to develop business activities. According to the Company Law (Law 31/1990, as republished and subsequently amended) there are five types of company:

Limited liability company; (in Romanian, “societate cu raspundere limitata” or “SRL”) whose obligations are secured with the company's assets. The shareholders’ liability towards third parties is limited to their contributions to the company’s share capital. Only under certain exceptional circumstances (e.g. in the case of fraud of the company's creditors if the shareholders abuse their limited liability and the distinctive legal status of the company), may they become liable without limitation ("piercing the corporate veil").

Joint stock company; (in Romanian, “societate pe actiuni” or “SA”) whose obligations are secured with the company's assets. Stockholders are liable only up to the value of their subscribed contribution to the share capital.

General partnership; (in Romanian, “societate in nume colectiv” or “SNC”), whose obligations are secured with the company's assets and the unlimited and joint liability of the partners.

Limited partnership; (in Romanian, “societate in comandita simpla” or “SCS”), whose obligations are secured with the company's assets and the unlimited and joint liability of the general partners. Limited partners are liable only up to the value of their subscribed contribution to the share capital.

Limited partnership by shares;

(in Romanian, “societate in comandita pe actiuni” or “SCA”), whose share capital is divided into shares and whose obligations are secured with the company's assets and the unlimited and joint liability of the general partners.
Limited partners are liable only up to the value of their subscribed contribution to the share capital.

The organisation of general partnerships and limited partnerships is governed by a contract of association, while joint stock companies, limited partnerships by shares and limited liability companies are organised under a contract of association and by-laws (which may be concluded as a single document "Constitutive Deed" or "Articles of Incorporation”).

Romanian Atheneum, Bucharest

According to the Company Law, as republished and subsequently amended, the notarisation of the Articles of Incorporation is compulsory only in the following instances:

- when real estate is brought as a contribution to the company's share capital;
- when a general partnership or a limited partnership is set up, and
- when a joint stock company is set up by public subscription.

All companies must be registered with the Romanian Trade Registry Office, under the registration procedure regulated by Law no. 265/2022 on the Trade Registry and for amending and supplementing other normative acts on Trade Registry registration, and they acquire a legal status as of their registration date. The setting-up is acknowledged through

- the registration certificate issued by the Trade Registry, which specifies the individual registration code granted by the Ministry of Public Finance, and
- the ascertaining certificate reflecting the activities which the company is authorised to carry out at its registered address or, as appropriate, at its places of business or those activities which may be carried out at third parties' premises.

The latter authorisation is issued based on a standard statement given by the legal representative of the company taking responsibility for legally carrying out the declared activities from the following standpoints:

environmental protection, labour protection, as well as health and veterinary health protection.

According to the Company Law, contributions to a company's share capital may be in cash, in kind or in receivables. A cash contribution is mandatory for the incorporation of any type of company.

The shareholders of each type of company must hold at least one meeting per year, after the end of the financial year, to approve the financial statements for the fiscal year which has just closed.

In general, the resolutions adopted in a General Meeting amending the Articles of Incorporation or adopted by a joint stock company must be registered with the Trade Registry within 15 days of their adoption in order to become opposable to third parties, with penalties being imposed for non-compliance with this timeframe or even rejection of the registration of the corporate amendments by the Trade Registry.

Companies, irrespective of type, are managed by one or several directors. In joint stock companies, if there is more than one director, the directors will form the Board of Directors. In limited liability companies, a Board of Directors will be organised only as a convention and the rules will be provided by the Articles of Incorporation.

Directors can be individuals or legal entities, appointed either under the Articles of Incorporation, or by the general meeting of shareholders.

Generally, in joint stock companies, directors and members of the Management Board and Supervisory Board may have a maximum 4-year term of office and they can be re-elected if the Articles of Incorporation do not state otherwise.

The mandate of the first directors or members of the Supervisory Board cannot exceed two years. Directors have the following main duties

- to ensure the timely payment of share capital contributions due by shareholders or partners;
- to comply with the rules on the distribution of dividends;
- to ensure that the company's statutory records are kept according to law;
- to ensure the enforcement of the resolutions adopted by the meetings of shareholders;
- to fulfil all the duties required by law and by the Articles of Incorporation.

There are no special requirements with respect to the citizenship of a company's director. However, individuals with acts and deeds registered in the fiscal record, as well as individuals convicted of certain criminal offences, such as the offences listed under the Law for the prevention and prosecution of money laundering as well as for the adoption of measures for preventing and fighting against the financing of terrorist acts may not be directors, managers, members of the Supervisory Board, members of the Management Board, founders, censors or financial auditors and if they have been appointed to such positions, they will be deprived of their rights.

All types of company must file their financial statements, on paper and in electronic format, or only in electronic format, with the local offices of the Ministry of Public Finance within the deadline set by the Ministry of Public Finance for the type of fiscal regime used by the company (e.g., microenterprise, tax on income etc.). The Trade Registry Office will publish for free on its website a notice concerning the registration with the fiscal authorities by companies of their financial statements.

Listed companies must also file their financial statements with the Financial Supervisory Authority, as well as reports by their directors, censors and financial auditors.

Limited liability companies and joint stock companies are the most common types of company and therefore we will present below the characteristics of these two.

As from November 2022, the new Trade Registry Law (Law no. 265/2022 on Trade Registry registration and for amending and supplementing other normative acts) has been in force, which repealed the former Law no. 26/1990 on the Trade Registry and other related normative acts. Law no. 265/2022 also amended the Company Law in terms of the necessary documents and the contents thereof for incorporation of companies, especially LLCs.

Although the procedure in terms of registration with the Trade Registry was not fundamentally amended, the requirement to provide certain documents was eliminated, while the rules on the contents of others were simplified.

A major improvement brought by Law no. 265/2022 is the possibility to submit with the Trade Registry sworn statements (such as directors' statements to accept their mandate, sworn statements on the fulfilment of the operating conditions/ performance of activity) signed by private signature, without the requirement for these to be signed in front of a notary public, as was the case under the previous legal framework.

Another significant change in terms of operational aspects for companies was the amendment made to the sworn statement on the fulfillment of the operating conditions/ performance of activity (NACE Codes statement), which now must contain all activities (as per the classification within the national economy – NACE) that the company carries out according to the Articles of Incorporation. Thus, the Articles of Incorporation should only contain the activities that the company actually carries out which must also be declared in the NACE Codes statement.

Another change to the Romanian corporate legal framework was brought as from mid-2023 by Law no. 222/2023 amending and supplementing the Company Law, as well as the Trade Registry Law (Law no. 265/2022), by transposing into national legislation Directive (EU) 2019/2121 (the "Mobility Directive") of the European Parliament and of the Council of 27 November 2019 amending Directive (EU) 2017/1132 on cross-border conversions, mergers and divisions.

The Mobility Directive aimed to remove certain barriers in the exercise of freedom of establishment within the EU by:

- Covering the lack of a legal framework for cross-border conversions and divisions involving the incorporation of new companies, while providing adequate protection for shareholders, employees, and creditors;
- Amending and supplementing the pre-existing directions on cross-border mergers, seen as a significant milestone in improving the functioning of the internal market for companies and their exercise of freedom of establishment.

In line with the Mobility Directive, Law no. 222/2023 establishes the national legal framework for the following corporate operations:

01. Cross-border mergers:

- with an existing recipient company, whereby one or more companies transfer all their assets and liabilities to another existing company, in exchange for the issue to their shareholders of securities or shares and, if applicable, a cash payment;
- with a new recipient company, whereby two or more companies transfer all their assets and liabilities to a company they form, in exchange for the issue to their shareholders of securities or shares and, if applicable, a cash payment;
- with the parent company, whereby a company transfers all its assets and liabilities to the company holding all the securities or shares representing its capital; or
- between companies with the same shareholding structure, whereby one or more companies transfer all their assets and liabilities to another existing company, without the issue of any new shares, provided that one individual or legal entity holds directly or indirectly all the shares in the merging companies or the shareholders of the merging companies hold securities and shares in the same proportion in all merging companies.

02. Cross-border divisions involving the incorporation of new companies:

- full divisions, whereby the divided company transfers all its assets and liabilities to two or more recipient companies, in exchange for the issue to the shareholders of the divided company of securities or shares in the recipient companies and, if applicable, a cash payment;
- partial divisions, whereby the divided company transfers part of its assets and liabilities to one or more recipient companies, in exchange for the issue to the shareholders of the divided company of securities or shares in the recipient companies in the divided company or in both the recipient companies and the divided company, and, if applicable, a cash payment;
- divisions by separation, whereby the divided company transfers part of its assets and liabilities to one or more recipient companies, in exchange for the issue to the divided company of securities or shares in the recipient companies.

03. Cross-border conversions,

i.e. operations whereby a company converts the legal form under which it is registered in a member state into a legal form of the destination member state, and transfers at least its registered office to the destination member state, while maintaining its legal status.

In order to fall within the scope of Law no. 222/2023, the reorganizations must involve at least one company of another member state that falls within the scope of the Mobility Directive and a Romanian company functioning under one of the following corporate forms:

joint stock company;

limited partnership by shares;

limited liability company;

European company with its registered office in Romania. Limited Liability Companies

A limited liability company (LLC, or SRL in Romanian) may be set up by not more than 50 shareholders. The Company Law allows for the incorporation of a company with one shareholder.

As from mid-2020 the following prohibitions/ obligations on LLCs were repealed:

- Prohibition for an individual or a legal entity to hold the capacity of sole shareholder in more than one LLC;
- Prohibition on an LLC to have a share capital of less than RON 200 (the equivalent of approximately EUR 41), and the obligation to divide the share capital into shares (in Romanian, "parti sociale") with a registered value of at least RON 10 each;
- Limitation on the functioning of more than one company at the same registered office/ headquarters;

Obligation to register in advance with the National Agency for Fiscal Administration providing a document proving the right of use of the registered office. The aforementioned amendments aimed to simplify the procedures and conditions for the registration of companies in order to stimulate the business environment.

The Company Law, as amended by the new Trade Registry Law no. 265/2022, regulates new mandatory provisions to be provided within the Articles of Incorporation of LLCs:

01 a clause stating that, by signing the Articles of Incorporation, the founders assume the liability for observing the capacity and compatibility conditions to incorporate a company;

02 the fact that general meeting of the shareholders resolutions are to be passed with a unanimous vote of all shareholders if an absolute majority cannot be established due to parity of the participation quotas to the share capital;

03 identification data of the ultimate beneficial owners and the way they exercise control over the company;

04 duration of the directors' mandate – a specific duration must now be provided considering that the directors of LLCs can no longer be appointed for an unlimited period of time, as per previous practice;

05 the methods for ensuring the settlement of the debt or its regularization in agreement with the creditors, in the case of dissolution without liquidation of the company.

In addition, the Company Law, as amended, no longer provides for the following documents to be attached to the incorporation file of an LLC:

01 proof of corporate name reservation (however the corporate name reservation must be made in advance);

02 documents concerning the ownership, in the case of assets which are contributed in kind to the company's share capital upon its incorporation; if real estate is contributed in kind, the ascertaining certificate concerning the encumbrances over such real estate is no longer necessary;

03 ascertaining documents of the operations concluded on the company's account and approved by the shareholders;

04 ultimate beneficial owner statement;

05 sworn statement of the founders and of the first directors stating that they fulfill the conditions provided by the Company Law to have this capacity;

06 specimen signatures of the company's representatives.

The general meeting of shareholders is the main decision-making body of the company. The main obligations of the general meeting of shareholders are:

- to approve the annual financial statements and the distribution of profits;
- to appoint the directors and censors or, as applicable, the internal auditors; to revoke them and to decide upon contracting a financial audit where this is not compulsory according to law;
- to decide upon the liability of directors and censors or, as applicable, of the internal auditors, for any prejudice caused to the company;
- to amend the Articles of Incorporation.

Directors may undertake any operations required for the business of the company, except for the restrictions or limitations set out in the Articles of Incorporation or by the general meeting of shareholders.

The Articles of Incorporation may provide for the election by the shareholders of one or several censors or of a financial auditor, but the appointment of censors or of a financial auditor is mandatory only in certain cases (e.g., if the company has more than fifteen shareholders).

According to the Company Law, an LLC must keep a register of shareholders, to record the shareholders' identity and any share related issues.

Joint Stock Companies

A joint stock company (JSC, or SA in Romanian) can be set up by at least two shareholders. The share capital of a JSC may not be less than RON 90,000.

Every 2 years, the Government can change the minimum value of the share capital by reference to the exchange rate, to keep this amount at the RON equivalent of EUR 25,000.

The share capital is divided into shares (in Romanian, "actiuni"), each with a value of at least RON 0.1. The initial capital paid by each shareholder may not be lower than 30% of the subscribed capital.

The remaining 70% of the subscribed share capital must be paid over a period which must not exceed 12 months from the incorporation date, where the shares have been issued in exchange for contributions in cash and 2 years where the shares have been issued in exchange for contributions in kind.

Ownership of nominal shares can be transferred under a statement made in the corporate register of shareholders.

The General Meeting of Shareholders may be ordinary or extraordinary. An ordinary meeting is called at least once every year and no more than five months after the end of the previous financial year in order to:

01. discuss, approve and modify the annual financial statements after presentation of the report by the Board of Directors, or by the Management Board or Supervisory Board, by the censors or, as applicable, by the financial auditors, and to establish the distribution of dividends;
02. appoint and revoke the members of the Board of Directors, or, as applicable, members of the Supervisory Board, and of the censors;
03. appoint or dismiss the financial auditor and to establish the minimum duration of the financial audit contract, within those companies whose financial statements are audited;
04. set the remuneration of the Board of Directors' members, or, as applicable, of the Supervisory Board's members and of the censors;
05. evaluate the performance of the Board of Directors, or of the Management Board, as applicable;
06. establish the budget and business plan for the next fiscal year;
07. decide on the pledging, leasing or dissolution of one or several of the company's business units;
08. discuss any other issues on the agenda.

In an ordinary general meeting, resolutions are adopted with the majority of the votes cast, on condition that the shareholders, whether present or represented at the meeting, represent at least ¼ of the total number of voting rights. The Articles of Incorporation may provide a higher quorum and majority.

If an ordinary general meeting is unable to adopt the resolutions because the minimum quorum has not been met, the meeting is called for the second time and may then decide irrespective of the quorum, with the majority of the votes cast. For the second calling, the Articles of Incorporation may not provide a minimum quorum or higher majority.

An Extraordinary General Meeting of Shareholders is called whenever it is necessary to adopt a resolution for the amendment of the company's Articles of Incorporation or to debate any resolution which requires the approval of an extraordinary general meeting.

As a rule, in an extraordinary general meeting, resolutions are adopted with the majority of the votes cast, on conditions that the shareholders, whether present or represented at the meeting, represent at least ¼ of the total number of voting rights on the first call, or at least 1/5 of the total number of voting rights on the following calls. The Articles of Incorporation may provide a higher quorum and majority.

However, a resolution to amend the company's main object of activity, to decrease or increase the share capital, to change the company's legal form or to merge, spin-off or dissolve the company can only be taken with a majority of at least 2/3 of the voting rights exercised by present or represented shareholders, if a higher majority is not stipulated within the Articles of Incorporation.

The Company Law provides certain protective measures for shareholders such as:

01 The right to challenge in court the resolutions of the General Meeting of Shareholders if irregularities have taken place (e.g. non-compliance with the procedures for the calling of the General Meeting of Shareholders, resolutions adopted without meeting the quorum requirements etc.).

02 The right of the shareholders who vote against a resolution of the General Meeting of Shareholders to withdraw from the company and to require the purchase of their shares by the company, where the object of such a resolution is related only to the amendment of the company's main object of activity, cross-border transformation of the company, change of the company's legal form, or a merger or spin-off, including of cross-border nature, of the company.

03 The right to consult, at the company's registered office, the annual financial statements, the Board of Directors' annual report, or, as applicable, the report of the Management Board and of the Supervisory Board, as well as any proposal concerning the distribution of dividends, starting from the calling date of the General Meeting. On request, shareholders can obtain copies of these documents.

04 Shareholders holding at least 10% of the share capital may apply to a court for the appointment of an expert to analyze certain activities of the company and to present the conclusions to the Board of Directors, the Management Board or Supervisory Board, as well as to the censors or the internal auditors of the company, as applicable, in order to propose appropriate measures.

05 Shareholders holding at least 5% of the share capital may raise complaints to the censors or internal auditors about facts which they believe need to be checked. If the complaint is well founded, the censors, the Board of Directors, or the Supervisory Board, as applicable, must call a General Meeting.

06 Shareholders who, individually or together, represent at least 5% of the share capital may lodge a compensation claim in court in their own name, but on behalf of the company, against the founders, directors, and managers, or against the members of the Management Board and Supervisory Board, or against the censors or the financial auditors, for any prejudice caused to the company.

Joint stock companies may choose between two alternative management systems, i.e., the one-tier or the two-tier management system, depending on which system best serves their interests.

01

The one-tier management system

The company's management consists of a sole director or a board of directors (at least 3 directors for companies subject to a mandatory financial audit), who can delegate the company's management to managers and/or the General Manager.

The board of directors may be formed of nonexecutive members, i.e. those who have not been appointed as managers, as well as executive members, who thus combine two offices; that of a director with that of a manager of a company.

02

The two-tier management system

Management is ensured by a supervisory board and a management board.

The management board bears exclusive responsibility for the management of the company and is formed of one or several members (always an odd number of members), with a minimum of 3 members for companies subject to a mandatory financial audit.

Common provisions for both types of management systems

Where a director, member of the Management Board or of the Supervisory Board has been designated to hold such a position from among the company's employees, the employment contract will be suspended during the respective person's term of office.

The directors and the members of the Management Board or of the Supervisory Board must conclude professional liability insurance agreements.

The managers of joint stock companies in the one-tier management system and the members of the Management Board in the two-tier management system must be individuals. Legal entities can be appointed as directors or members of the Supervisory Board of joint stock companies, but, in this case, they must appoint a permanent individual representative.

The Board of Directors may delegate the executive management of the company to one or several managers, with one of them appointed as general manager. Where the actual management of a joint stock company is delegated to one or several managers, most of the Board of Directors members will be non-executive members.

The delegation of a company's management is mandatory for companies whose annual financial statements are subject to mandatory financial auditing. Managers are responsible for the day-to-day operations of the company within the limits of the company's object of activity.

The Supervisory Board in the two-tier system, or the Board of Directors in the one-tier system may set up advisory committees formed of at least two members of the Supervisory Board/ Board of Directors who are in charge of making investigations and recommendations in areas such as audit, the remuneration of the Management Board and Supervisory Board members and of employees, or the nomination of candidates to management positions.

At least one member of the Audit Committee should be an independent director and at least one member should have financial accounting experience.

Joint stock companies managed in a two-tier system are always subject to mandatory financial audit as per the provisions of the Company Law.

Joint stock companies whose annual financial statements are not subject to financial audit by law or by resolution of the shareholders must appoint at least three censors (always an odd number) and one deputy, for a maximum 3-year mandate with possibility of re-election. Censors must certify the annual financial statements and present a report to the annual general meeting of shareholders.

The financial statements of companies subject to financial audit must be verified and certified by financial auditors registered with the Romanian Chamber of Financial Auditors, and in this case the provisions on censors' activity will no longer be applicable.

Self-employed individuals, individual undertakings or family-owned enterprises

A self-employed individual is merely an individual doing business independently. This individual is entitled to all the profits deriving from his or her business and is personally liable for all related debts and liabilities. The individual's liability to the business is therefore not limited to the assets used for carrying out his or her business and also includes the personal assets of the self-employed individual.

Government Emergency Ordinance 44/2008, (the "Ordinance") sets out the conditions under which individuals - Romanian citizens or citizens of EU member states and the member states of the European Economic Area - can carry out business activities in Romania, either as self-employed individuals, individual undertakings or family-owned enterprises. The Ordinance does not apply to individuals carrying out their activity under a special law (e.g., lawyers, public notaries etc.).

To carry out business activities, self-employed individuals who act independently as well as family-owned enterprises must register with the Trade Registry Office and the relevant tax authorities.

Carrying out of activities in the absence of the relevant registration with the Trade Registry Office or prior to registration is an offence and is punished according to the law.

Representative Offices

According to Government Ordinance no. 18/2022, foreign companies may set up representative offices in Romania. A Representative Office is not a distinct legal entity from the parent company, but acts in the parent company's name and on its behalf with a specific mandate in this respect.

Operating permits issued by the Ministry of Entrepreneurship and Tourism limit the activities of Representative Offices to the promotion and technical support of the parent company's business activities.

Thus, in practice, a Representative Office may carry out the following activities:

- Business operations such as: issuance and receipt of offers and orders, or participation in negotiations, without being allowed to conclude contracts.
- Marketing and advertising.
- Promotion.
- Supervision of dealers' activities.
- Any other economic and commercial activities meant to develop international exchanges, but without having the authority to issue invoices directly.

In order to obtain an operating permit, a Representative Office must pay a yearly fee of EUR 1,000, in RON, according to the exchange rate of the National Bank of Romania.

A tax on representative offices is payable by any foreign legal entity with a representative office authorised to operate in Romania. The tax is paid on an annual basis. The amount to be paid for a fiscal year is RON 18,000.

The representative office of a foreign legal entity is required to declare and pay the tax to the state budget by the last day of February of the tax year.

The legal framework on representative offices was recently changed in 2022 by means of Government Ordinance no. 18/2022 on authorizing and operating of representative offices of foreign companies and economic organizations in Romania.

Government Ordinance no. 18/2022 made changes in terms of the authorization process with the Ministry of Entrepreneurship and Tourism:

- Detailed procedures for obtaining and renewing of the operating permit of the representative office, as well as for closing of a representative office;
- Implementation of a dedicated electronic platform by the Ministry of Entrepreneurship and Tourism for interacting with the authority in relation to obtaining and renewing an operating permit, as well as for closing a representative office.

  However, as at the date of publication, the above-mentioned electronic platform is not yet operational.

Branches and Subsidiaries of Foreign Companies

A foreign company may do business in Romania through either a subsidiary or a branch. While a subsidiary has a legal status and is considered a Romanian entity, the branch is just an extension of the parent company and therefore has no legal status and no financial independence.

Legally, the branch has no separate status from the foreign company itself. It represents a mere secondary office of the parent company in Romania.

The foreign company is held liable to any creditors of the branch, employees included, as well as for any debts and obligations undertaken by its managers and agents on behalf of the branch. Branches can only carry out the activities for which the parent company has been authorised.

Unlike branches, a Romanian subsidiary of a foreign company is a distinct Romanian legal entity and, consequently, subject to Romanian law.

In practice, subsidiaries must fulfil the same registration formalities as companies, i.e., registration of the Articles of Incorporation with the appropriate office within the Romanian Trade Registry. A subsidiary must comply with the minimum capital requirements set out in the Romanian Company Law.

As a result of the recent changes in legislation brought by the new Trade Registry Law (no. 265/2022) the required documentation for setting up a branch of a foreign company headquartered in the EU was significantly reduced. Generally, only the following documents are required:

- Fiscal registration statement;
- NACE Codes statement;
- Decision of the appropriate corporate body of the parent company;
- Notarized translation into Romanian of the up-to-date articles of incorporation of the parent company;
- Notarized translation into Romanian of an up-to-date commercial excerpt concerning the parent company;
- Proof over the registered office of the branch;
- Sworn statement of the branch's manager.

Joint Ventures

Under the Romanian Civil Code, a joint venture (in Romanian, "Asocierea in participatie") is defined as an agreement under which an individual or legal entity grants to one or several other individuals or legal entities a participation share in the profit and losses generated from one or more operations that he/she/it is carrying out.

In accordance with the law, a joint venture cannot have legal status and, before third parties, it may not be deemed as an entity distinct from its partners. Partners (even when acting on behalf of the joint venture) fulfil contracts and undertake obligations on their own behalf before third parties. The term "joint venture" is a common term used to describe any forms of economic activity involving foreign investment, including:

- A joint stock or limited liability company whose shares are held by both Romanian and foreign investors.
- A partnership of two or more companies or individuals, including foreign investors.
- Cooperation agreements.

Economic Interest Group (EIG and EEIG)

Law 161/2003 on measures to ensure transparency in public office, public positions and the business environment and on the prevention and sanctioning of corruption, introduced two new forms of association for economic purposes, i.e. Economic Interest Groups and European Economic Interest Groups.

Economic Interest Group (EIG)

An EIG represents an association between two or more individuals or legal entities, set up for a fixed period of time for the purpose of facilitating or developing the economic activity of its members, and improving the results thereof.

The main characteristics of this form of association, as provided by Law 161/2003, are:

- An EIG is a profit-making legal entity, which may or may not be involved in business activities.
- An EIG may not have more than 20 members.
- The activities carried out by an EIG must be related to the economic activity of its members and must be an accessory thereto. An EIG may not carry out certain activities such as: (i) managing or supervising, whether directly or indirectly, the activity of its members or of another legal entity; (ii) holding shares, directly or indirectly, in any of the member business companies, with certain exceptions; (iii) employing more than 500 staff, etc.

An EIG may be set up under a notarised agreement signed by all its members, (in the form of articles of incorporation), and becomes a legal entity as from its registration with the Trade Registry Office. An EIG can be set up with or without share capital. If the EIG members decide to allocate a certain amount of capital for carrying out the EIG's activity, the contribution of its members does not need to have a minimum amount and it is not restricted to a certain type of contribution.

The Trade Registry Office ascertains the registration of the EIG as per the provisions of the Trade Registry Law (no. 265/2022). The EIG's headquarters registered in Romania can be relocated abroad, by unanimous decision of its members.

The operation of an EIG is very flexible, with its structure and operation being set out under the Articles of Incorporation.

The members of an EIG are fully and jointly liable for the EIG's obligations assumed towards third parties, unless otherwise agreed. The creditors of an EIG must first assert their claims directly to the EIG, and only if it does not make the due payments within a maximum of 15 days from notification of late payment may they assert their claims against the EIG's members.

EIGs may not generate profit for themselves. If profit is derived from an EIG's activity as reflected in the annual financial statements, this profit must be distributed, in full, among its members, in the form of dividends according to the quotas provided by the Articles of Incorporation, or in the absence of such quotas, in equal parts. Unlike business companies, EIGs may not allocate any part of their profits for the purpose of creating reserve funds.

If expenses exceed the income of an EIG, its members must cover the difference according to the quotas provided by the Articles of Incorporation, or in the absence of such quotas, in equal parts. The amounts distributed to the members from the EIG's profit are deemed as dividends and are subject to tax in accordance with the law.

The financial statements are subject to the provisions of the Accounting Law (82/1991), as republished. The annual financial statements must be prepared in compliance with the rules applicable to general partnerships.

European Economic Interest Group (EEIG)

Under Law 161/2003, a EEIG is defined as an entity with legal status which is organised and operates in Romania under the requirements set out under Council Regulation (EEC) 2137/85 of 25 July 1985 on European Economic Interest Groupings (Regulation 2137/1985).

Under Regulation 2137/1985, members of a EEIG may only be the following:

01 Companies as defined under Art. 58 para. 2 of the consolidated version of the Treaty establishing the European Community.

02 Public or private legal entities set up in accordance with the legislation of one of the EU member states whose headquarters or main office for the management and administration of their statutory activity is located in an EU member state.

03 Companies or other legal entities which, according to the legislation of a member state, are not required to have a registered office and which, for the purpose of managing their statutory activity, can locate their main office in an EU member state.

04 Individuals carrying out industrial, commercial, handcraft or agricultural activities or rendering professional or other services in an EU member state.

Moreover, an EEIG must include at least:

01 Two companies or other legal entities, which have their central administrations in different member states, or;

02 Two individuals, who carry out their main activities in different member states, or;

03 A company or other legal entity and an individual, of which the first has its central administration in one member state and the second carries out his or her main activity in another member state.

Further rules applying to EEIGs:

01 The organisation and operation of EEIGs is similar to that of EIGs.

02 EEIGs registered in Romania cannot have more than 20 members.

03 EEIGs registered in Romania cannot issue shares, bonds or other similar securities.

04 EEIGs' statutory office may be moved by unanimous decision of its members to another Member State.

05 EEIGs established abroad may set up subsidiaries, branches, and representative offices in Romania as well as other entities without legal status. The establishment of branches or subsidiaries in Romania is subject to all the requirements governing the incorporation, registration and publication of documents and details of Romanian EIGs without, however, being subject to the authorisation requirements provided by Government Ordinance no. 18/2022 on the authorisation and operation in Romania of representative offices of companies and foreign economic organisations, as amended.

Slănic salt mine, Prahova county, Romania

Taxation in Romania

Corporate income tax rate 16%

Taxpayers

- Romanian legal entities, except for taxpayers subject to the micro-enterprises tax, tax-transparent entities and certain institutions specifically defined in the Fiscal Code (Law no. 227/2015 as further amended).
- Non-Romanian legal entities that carry out activities through one or more permanent establishments in Romania.
- Non-Romanian legal entities according to their place of effective management.
- Non-Romanian legal entities which obtain income from the transfer of ownership, or any other rights related to immovable property located in Romania.
- Legal entities established according to European legislation that have their registered office in Romania.
- Non-Romanian legal entities operating in Romania through one or more elements treated as permanent establishments, with respect to situations involving the existence of non-uniform treatment of hybrid elements or non-uniform treatment of tax residence.
- Fiscally transparent entities, in situations that involve the existence of non-uniform treatments of the inverted hybrid elements.

Fiscal year

- The fiscal year generally follows the calendar year.
- Taxpayers which have opted for a financial year that is different from the calendar year, according to accounting legislation, may also choose to have a tax year which corresponds to the financial year.

Corporate income tax rate 16%

Tax returns / payment

- Quarterly (for quarters I-III) – by the 25th of the month following the relevant quarter.
- Annually:

  In general, by the 25th of the third month after the end of the tax year (25 March of the following year if the fiscal year follows the calendar year). Special cases must file by the 25th of the second month after the end of the tax year (25 February of the following year, if the fiscal year follows the calendar year). This deadline is valid, also, for not-for-profit organisations that record taxable income and for taxpayers that obtain the majority of their income from growing cereals, technical plants and potatoes, orchards and viticulture. However, during the period when the provisions of GEO no. 153/2020 apply, i.e. 2021-2025, the deadline for the submission of the annual corporate income tax return has been extended to 25 June of the following year (for the calendar fiscal year) or to the 25th of the sixth month after the end of the amended fiscal year.

Advance payments

- Banks are required to make quarterly advance payments based on the previous year's results.
- For regular taxpayers, the advance payment system is optional.

Tax losses

- From 2024 onwards, tax losses can be carried forward for a period of 5 years up to a limit of 70% of the taxable profits registered. Tax losses carried forward from periods before 2024 may be used within the same limit of 70% of realised taxable profits, but over a period of 7 years.

Corporate income tax rate 16%

Tax losses

- There is no carry back of losses.
- Changes in ownership do not affect carrying forward tax losses.
- Tax losses recorded by taxpayers which cease to exist as a result of reorganisations are transferred to the taxpayers which are the beneficiaries of these reorganisations.
- Taxpayers which have been subject to the micro-enterprises tax, having previously been corporate taxpayers and recorded tax losses, and which subsequently become corporate taxpayers once again, may carry forward their losses from the previous period as corporate taxpayers starting from the date at which they have begun again to be subject to corporate tax. This loss should be recovered over the period between the year in which the tax loss was incurred and the limit of years mentioned above, depending on the period in which the tax loss was incurred.

Deductibility of expenses

As a general rule, expenses are deductible only if they are incurred for the purpose of carrying out economic activity. Certain types of expenses are specifically set out in the Fiscal Code as being non-deductible or having limited deductibility.

Expenses with limited deductibility (examples)

Social expenses	Up to 5% of total salary expenses
Protocol expenses	Up to 2% of the gross accounting profit to which protocol expenses are added.
Vehicle expenditure	50% for expenditure related to acquisition, functioning, maintenance and repairs of vehicles (including leasing and rental), if the vehicles are not used exclusively for business purposes.
Expenses recorded in relation to the sale of receivables	30% of the net loss from the sold receivables
Operating, maintenance and repair costs relating to an establishment/ head office owned by individuals/ taxpayers and made available to or used by the taxpayer, as well as the related depreciation if not used exclusively for business purposes	50% deductible in the following cases: • Headquarters located in the personal residence of an individual; • Headquarters acquired by the taxpayer in residential buildings or individual residential buildings from residential complexes. 100% non-deductible if the headquarters, owned by the taxpayer, is used for personal purposes by the shareholders.

Provisions and reserves

Legal reserves	Deductible up to 5% of the gross accounting profit of the period (calculated and recorded until the reserves reach one fifth of the share capital).
Provisions for guarantees granted to clients	Deductible, only for deliveries of goods and services within the relevant tax period, as provided in contracts concluded with clients.
Allowances for doubtful debts	For receivables that are not guaranteed by a third party and are not due by related parties, allowances are deductible up to: • 30% of the receivables, if the due date has been exceeded by more than 270 days. This limitation only applies to trade receivables registered starting from 1 January 2024; • 100%, if the debtor is subject to bankruptcy (companies) or insolvency (individuals) proceedings.
Allowances for impairment of tangible assets	Impairment allowances are deductible if: • The tangible assets have been destroyed as a result of a natural disaster or force majeure, as detailed in application norms. • An insurance contract has been concluded for the event.
Specific provisions and reserves	Provision expenses and reserves recorded in accordance with legislation specific to certain activities are deductible, e.g. for credit institutions, non-banking financial institutions, insurance and reinsurance companies, private pension funds and private pension funds' administrators, airlines, companies in the natural resources or waste storage sectors etc.

Depreciation and amortisation

Calculation methods	• Straight-line. • Reducing-balance. • Accelerated depreciation (up to 50% in the first year).
Tangible assets	• Buildings – only the straight-line method. • Technological equipment and computers – accelerated, straight-line or reducing-balance method. • Any other fixed asset – straight-line or reducing-balance method. • Deductibility of depreciation expenses incurred for vehicles with a maximum of 9 seats, which are not used exclusively for business purposes, is limited to 1,500 RON/month.
Intangible assets	• Intangible assets (e.g. patents, licenses, copyrights, trademarks) – straight-line method over the period of the contract or the period of use, as appropriate. • Patents may be amortised through the accelerated or the reducing-balance method. • Software acquisition or production – straight-line or reducing-balance method, over a period of 3 years. • Goodwill is not a depreciable asset (amortisation is not tax deductible).

Interest expenses and other economically equivalent expenses

Deductibility of excess debt related costs.

Wholly deductible in the fiscal period when they are incurred by a taxpayer which is an independent entity, in the sense that it is not part of a consolidated group for financial accounting purposes and has no associated companies and no permanent establishment. Likewise, for these taxpayers, interest and net foreign exchange losses are also wholly deductible.

Exceeding borrowing costs with limited deductibility

- Starting from 1 January 2024, a cap of 500,000 euros has been introduced for the full deductibility level of excess costs related to loans with affiliated parties and that do not finance the acquisition/production of assets under construction/assets specifically provided for by the legislation. The total excess debt costs resulting from transactions/operations with both related and non-related parties are limited to 1,000,000 euros.
- The 500,000 euro threshold for excess debt costs with affiliated parties does not apply to credit institutions - Romanian legal entities, Romanian branches of foreign credit institutions, non-banking financial institutions, branches in Romania of non-banking financial institutions and investment entities as defined by law.
- Limited deductibility within the limit of 30% of the following calculation base: gross profit plus corporate income tax payable, plus excess debt related costs and tax depreciation, minus non-taxable income.
- If the tax base described above is 0 or negative, the difference between the excess debt-related costs and the deductible limit are treated as non-deductible for corporate

Interest expenses and other economically equivalent expenses

Exceeding borrowing costs with limited deductibility

income tax purposes during the current tax period, but can be carried forward indefinitely, under the same deductibility conditions.

- Excess debt related costs are exempted from applying these limits if they arise from loans used to finance a long-term public infrastructure project for the purpose of providing, improving, operating and/or maintaining a large asset, considered to be of general public interest, and if the project operators are registered in the European Union.
- The right to carry forward for taxpayers which cease to exist as a result of a merger or division is transferred to the newly established taxpayers, i.e. those who take over the assets of the absorbed or divided company, as appropriate, proportional to the assets transferred to the beneficiary legal entities under the draft merger/division.
- The right to carry forward for taxpayers which do not cease to exist as a result of a transfer of a part of their assets as a whole will be shared proportionally between those taxpayers and the ones that took over these assets.

Transfer of assets, tax residency or of economic activity carried out through a permanent establishment for which Romania loses the right to tax

Gains derived from the transfer of assets, of tax residency or of the economic activity of a permanent establishment for which Romania loses the right to tax, calculated as the difference between the market value and the tax value of assets transferred, are subject to a 16% tax.

If, upon the transfer of assets, of tax residency or of economic activity a loss is incurred, the taxpayer can offset this against gains derived from operations of the same nature during the next 5 years.

Taxpayers that apply the provisions described above can pay the tax in installments, provided that they fulfill the provisions of the Fiscal Procedure Code on the payment of tax in installments and that the transfer is made to an EU or EEA member state.

Anti-abuse general rule

For the purposes of calculating tax liabilities, the tax authorities may ignore arrangements which are, given the relevant facts and circumstances, not genuine and have been put into place with the main aim of, or which have as one of their aims, obtaining tax advantages that contravene the object or purpose pursued by the applicable tax provisions.

Rules on controlled foreign companies

An entity or a permanent establishment, which is considered a controlled foreign company (owns directly or indirectly more than 50% of the voting rights or owns directly or indirectly more than 50% of the share capital or is entitled to receive more than 50% of the profits of that entity), must apply the rules on controlled foreign companies if the income tax paid on its profits by the entity or the permanent establishment is lower than the difference between the corporate income tax that would have been charged on the entity or on the permanent establishment under the provisions of Title II and the actual corporate income tax paid on its profits by the entity or the permanent establishment.

If the entity or the permanent establishment is considered a controlled foreign company, the payer of corporate income tax that controls it should include in the tax base for its tax period (during which the tax period of the foreign controlled entity/permanent establishment closes) in proportion to the ownership of the taxpayer in the entity, the following undistributed revenues of the entity:

01 Interest or any other income generated by financial assets.

02 Royalties or any other income generated by intellectual property rights.

03 Dividends and income from the transfer of units.

04 Financial lease income.

05 Income from insurance activities, banking or other financial activities.

06 Income from companies that obtain it from goods and services purchased from associated companies and sold to them without any added value or with low added value.

Tax losses registered by a permanent establishment as a controlled foreign company are deducted only from the income earned by the permanent establishment, separately, on each source of income. Uncovered losses are carried forward and may be recovered over the next 5 consecutive fiscal years.

For the avoidance of double taxation, if the entity distributes profit to the taxpayer and this distributed profit is already included in the taxable income of the taxpayer, the amount of the income previously included in the taxpayer's tax base is deducted in the tax period in which the amount of tax due for the profit distributed is calculated.

For the avoidance of double taxation, if the taxpayer surrenders its holding of a controlled entity or the economic activity carried out through a permanent establishment and part of the proceeds of the disposal was previously included in the tax base of the taxpayer, that amount is deducted in the tax period in which the amount of tax due for the receipts is calculated.

The taxpayer deducts the tax paid to a foreign state by the controlled entity/permanent establishment from the income tax owed, in accordance with double taxation conventions.

Hybrid mismatch

"Hybrid mismatch" means a situation involving a taxpayer or an entity where:

01 A payment under a financial instrument gives rise to a deduction without inclusion outcome.

02 A payment to a hybrid entity gives rise to a deduction without inclusion and that mismatch outcome is the result of differences in the allocation of payments made to the hybrid entity under the laws of the jurisdiction where the hybrid entity is established or registered and the jurisdiction of any person or entity with a participation in that hybrid entity.

03 A payment to an entity with one or more permanent establishments gives rise to a deduction without inclusion and that mismatch outcome is the result of differences in the allocation of payments between the head office and permanent establishment or between two or more permanent establishments of the same entity under the laws of the jurisdictions where the entity operates.

04 A payment gives rise to a deduction without inclusion as a result of a payment to a disregarded permanent establishment.

05 A payment by a hybrid entity gives rise to a deduction without inclusion and that mismatch is the result of the fact that the payment is disregarded under the laws of the payee jurisdiction.

06 A deemed payment between the head office and permanent establishment or between two or more permanent establishments gives rise to a deduction without inclusion and that mismatch is the result of the fact that the payment is disregarded under the laws of the payee jurisdiction.

07 A double deduction outcome occurs.

To the extent that a hybrid mismatch results in a double deduction:
- the deduction of the payment/ expense will be denied; or
- the amount of the payment will be included in the taxable income.

Little girl in traditional Romanian folk costume with embroidery

Participation exemption rules

The following types of income are non-taxable for corporate tax purposes:

Dividends

received from a Romanian company.

Dividends

received from foreign subsidiaries which are subject to corporate income tax or a similar tax, located in a state with which Romania has concluded a Double Tax Treaty, provided that the receiving company has had a minimum holding of 10% in the share capital of the distributing company, for an uninterrupted period of at least 1 year.

Income from valuation/revaluation /sale/transfer of shares and liquidation proceeds,

whether the legal entities in which the company holds shares are Romanian or foreign entities from states with which Romania has concluded Double Tax Treaties (including those outside the EU). In order for this income to be non-taxable, the company receiving the income must have owned at least 10% of the share capital of the company in which a participation is held, for an uninterrupted period of 1 year on the date of the valuation/revaluation/sale/transfer or on the date when the liquidation process starts.

Income registered through a permanent establishment in a foreign state,

under the conditions in which the provisions of the double taxation convention concluded between Romania and the foreign state apply, and the convention provides as a method of avoiding double taxation the exemption method.

Fiscal consolidation for corporate income tax

Tax consolidation has been possible, optionally, since 1 January 2022, for corporate income tax, i.e. to offset the taxable profits of companies in a group against the tax losses of other jointly owned firms, directly or indirectly, if the member of the group which benefits from the offset holds a proportion of at least 75 % of the value/number of shareholdings or voting rights in the entity which incurs the tax losses, for an uninterrupted period of one year prior to the start of consolidation.

The period of application of the system is five fiscal years, after which the option may be renewed.

The application should be submitted at least 60 days before the beginning of the period for which the tax consolidation is requested, and the system will be applied from the tax year following the submission of the application.

One of the members should be designated as the responsible legal entity which will calculate, declare and pay corporate income tax for the group, determined by adding up the individual calculations of each member.

The tax losses incurred by a member of the group before the application of the system cannot be compensated at group level. If the group is abolished after five years, the losses incurred and not recovered during the consolidation will be recovered by the responsible entity/individual.

D THE MINIMUM TURNOVER TAX

Starting from the fiscal year 2024 or the amended fiscal year 2024, a minimum tax on turnover has been introduced for companies paying corporate income tax (excluding other entities such as foundations, associations, private schools/universities, tenant associations, etc.), if their turnover exceeds 50 million euros in the previous year.

Companies with a corporate income tax lower than the minimum turnover tax, are required to pay the corporate income tax at the level of the minimum turnover tax.

Companies registering fiscal losses are also required to pay the minimum turnover tax.

The minimum turnover tax is calculated quarterly/annually by applying a 1% tax rate to the turnover (total revenue), adjusted downwards with:

01 Exempt income categories, such as non-taxable income, unrealized income, compensatory income, or income representing concurrently reflected excise duties in expense accounts.

02 Investments - the value of assets in progress generated by the acquisition/production of assets, booked starting from 1 January 2024.

03 The accounting depreciation at historical cost of assets acquired/produced starting from 1 January 2024, excluding the accounting depreciation of the assets mentioned under point 2.

In determining the taxable turnover, the assets considered (investments and depreciation) are those specified by the Minister of Finance's order and these must be used in the taxpayer's economic activity and be connected to the taxpayer's business activity.

To determine the higher tax, the minimum turnover tax is compared with the quarterly/annual profit tax before deducting amounts according to the law, adjusted as follows:

01 Amounts representing sponsorship/ patronage, and other amounts deductible from corporate income tax according to current legislation, are deducted from the corporate income tax, and the reduction set out according to the provisions of Government Emergency Ordinance no. 153/2020 is also applied.

02 Amounts representing external tax credit, exempt profit tax according to Art. 22, and exempt profit tax according to Law no. 566/2004 on agricultural cooperatives are not deducted from this corporate income tax.

If the minimum turnover tax is payable, sponsorships are deducted at the minimum value between the amount calculated by applying 0.75% to the turnover and the value representing 20% of the corporate income tax.

The minimum turnover tax is calculated and paid on the same schedule as the corporate income tax (quarterly/annually).

For taxpayers which have opted for the annual system with advance payments, the quarterly minimum turnover tax is compared with the advance payments for quarters I, II, and III, with the final calculation upon filing the annual profit tax return (D101).

The law also includes special provisions for fiscal groups, stating that the total minimum tax of group members is compared with the profit tax owed at the group level.

Additionally, the 50 million euros turnover is calculated by the leader of the fiscal group by adding up the turnover of each member.

SPECIFIC TAX FOR THE OIL AND NATURAL GAS SECTOR

The specific tax for the oil and natural gas sector is applicable to legal entities operating in this field, as defined by Order of the Ministry of Finance No. 5,433/2023. If the turnover of such companies exceeds 50 million euros in the previous year, they are required to pay, starting from 2024, a specific turnover tax of 0.5%, in addition to the corporate income tax.

The calculation base for this tax is similar to the base of the minimum turnover tax mentioned earlier.

The specific turnover tax is calculated, declared, and paid quarterly by the 25th of the following month for each quarter (for quarters I-III). For the fourth quarter, payment must be made by the deadline for submitting the annual corporate income tax return.

Expenses related to this specific turnover tax are considered non-deductible when calculating the corporate income tax.

This tax is applicable from 1 January 2024 to 31 December 2025. For taxpayers with a modified fiscal year, it applies to the period between the modified fiscal year starting in 2024 and ending in 2026. After 1 January 2026, or after the fiscal year starting in 2026, taxpayers subject to this tax will calculate and pay the minimum turnover tax.

ADDITIONAL TAX FOR CREDIT INSTITUTIONS

Starting from 2024, a supplementary turnover tax has been introduced for credit institutions - Romanian companies and branches in Romania of foreign credit institutions in addition to corporate income tax.

The tax consists of a percentage of 2% in 2024 and 2025 and 1% from 2026 applied to the turnover which consists of elements such as income from interest, dividends, fees, gains, and losses from various sources as specified in the Fiscal Code.

These entities will also calculate a minimum turnover tax to determine the higher amount between the corporate income tax and the minimum turnover tax that needs to be paid.

The turnover tax is due by the 25th of the month following each quarter, with the last quarter payment deadline set at 25 March of the following year.

The additional tax is not deductible when calculating taxable profit.

GLOBAL MINIMUM TAX PAYABLE BY LARGE GROUPS OF COMPANIES

Starting from 1 January 2024 the provisions transposing into national law the requirements to calculate a global minimum tax on the basis of the OECD provisions and Directive 2523/2022 on minimum levels of taxation (Pillar Two) entered into force.

The Pillar Two rules apply to large groups of companies, both national and multinational, with a consolidated turnover (at group level) of at least 750 million euros in at least two of the four years preceding the reference year.

If the group of companies reaches the minimum turnover under the scope of the Pillar Two rules, the following steps should be taken to determine whether there is a potential top-up tax due under the new rules.

01. Identification of in-scope entities

If the group meets the minimum turnover requirements, the first step is to identify the types of entity in the group, specifically which are the constituent entities (i.e. those to which the rules will apply) and whether there are any excluded entities within the group.

02. Calculation of the effective tax rate (ETR)

The effective tax rate is calculated at jurisdiction level (and not at entity level). The ETR formula includes in the numerator the adjusted covered taxes ("covered taxes") of the constituent entities in a jurisdiction and the qualified net income ("GloBE income") of the constituent entities in that jurisdiction as the denominator.

Adjusted covered taxes and qualified net income are calculated based on the amounts included in the group's consolidated financial statements, to which certain fiscal adjustments need to be applied.

03. Top-up tax calculation

If the effective tax rate at jurisdiction level is below 15%, top-up tax needs to be calculated (at jurisdiction level as well) using the formula:

Top-up tax = top-up tax percentage x excess profit

The top-up tax percentage is the difference between the minimum rate of 15 percent and the ETR of the jurisdiction.

The excess profit is the positive difference, if any, between the GloBE income and losses of all constituent entities in the jurisdiction over a substance – based income carve out (SBIE). The formula for SBIE calculation takes into account the number of employees and the intangible assets in a certain jurisdiction.

04. Imposition and allocation of top-up tax

The top-up tax can be allocated to a certain jurisdiction under the three rules which need to be applied in the following order:

Qualified Domestic Minimum Top Up Tax (QDMTT).

The QDMTT is an option that some countries, including Romania, have implemented in their national legislation, whereby the top-up tax is calculated and paid in the jurisdiction in which the low taxed entities are located (where the effective tax rate is less than 15%). The system for calculating the top-up tax closely follows the principles of the GloBE rules and applies to group entities located in the jurisdiction applying the QDMTT.
The QDMTT has applied in Romania since 1 January 2024.

Top-up tax under the Income Inclusion Rule (IIR)

Under this rule, the top-up tax is calculated and paid in the jurisdiction of the ultimate parent entity (UPE) for the jurisdiction in which the low taxed entities are located.
The IIR has applied in Romania since 1 January 2024.

Top-up tax under the Undertaxed Profits Rule (UTPR)

The UTPR serves as a backstop to the QDMTT and IIR for calculating and collecting the top-up tax, if it has not been collected by the above-mentioned methods.

The top-up tax for a low taxed jurisdiction will be allocated through the UTPR to all jurisdictions applying the GloBE rules based on an allocation key that takes into account the number of employees and the value of fixed assets in a jurisdiction proportional to the total number of employees and total fixed assets in all jurisdictions applying the GloBE rules.

In Romania, the top-up tax will be payable as an additional tax of the amount of the top-up tax allocated under UTPR to the Romanian constituent entities. The UTPR will apply in Romania from 1 January 2025.

05. Administration and filing obligations

Reporting of the top-up tax

Any EU-based constituent entity is required to file an informative return on the top-up tax calculated at group level (GIR - Global Income Return). A reporting relief is available if the GIR is filed either by the ultimate parent entity or by another designated entity within the group, as long as there is an exchange of information agreement between the jurisdiction of the filing entity and the jurisdiction of the constituent entity.

The GIR must be filed within 15 months of the end of the financial year, except for the first year of application, for which the deadline is 18 months after the end of the financial year.

Reporting of the top-up tax calculated under QDMTT

Similarly to the above, the top-up tax calculated under the QDMTT rules needs to be declared and paid by Romanian based constituent entities within 15 months of the end of the financial year (18 months for the first financial year).

Safe harbours

As it is universally agreed that the Pillar Two rules are very complex and, in some cases, would create excessive administrative burdens for certain groups of companies or low tax risk jurisdictions, the OECD has adopted certain simplification measures.

Some simplification measures are transitional (i.e. Country by Country (CbyCR) transitional safe harbour rules, UTPR safe harbour) and some will be permanently available (i.e. QDMTT safe harbour).

TAX ON MICRO-ENTERPRISES

Starting from 1 January 2023, the micro-enterprise income tax system became optional for Romanian companies which have a turnover that does not exceed the RON equivalent of EUR 500,000.

Starting from 1 January 2024 the turnover limit of EUR 500,000 is calculated considering the income of the Romanian legal entity and its associated enterprises, as defined by Law no. 346/2004 on stimulating the incorporation and development of small and medium-sized enterprises.

The conditions for companies to opt for the micro-enterprise income tax application include:

- Generating over 80% of total income from sources other than consulting and/or management (except for income from tax consultancy, corresponding to CAEN code: 6920 - Accounting and financial audit activities; consultancy in the tax field).
- Having at least one full-time employee.
- Having associates/shareholders who hold, directly or indirectly, more than 25% of the value/number of participation titles or voting rights and being the only legal entity established by the associates/shareholders to apply this tax;
- Not being in dissolution, followed by liquidation, registered in the commercial register or in the courts, according to the law;
- Submitting the annual financial statements on time.

If a micro-enterprise no longer meets any of these conditions during a fiscal year, it becomes liable for corporate income tax starting from the quarter in which such conditions are no longer fulfilled.

Certain activities are excluded from applying the micro-enterprise income tax, such as:

- Banking;
- Insurance and reinsurance, capital market activities (except secondary insurance/ reinsurance intermediaries with up to 15% of total income from distribution);
- Gambling;
- Exploration, development

The tax rates are:

- 1% of turnover for micro-enterprises with revenues not exceeding 60,000 euros, which do not carry out activities related to certain NACE codes as specifically provided by the Fiscal Code and which mainly refer to the fields of IT, HoReCa, legal services and medical services.
- 3% of turnover for micro-enterprises with revenues exceeding 60,000 euros or carrying out the activities corresponding to the above mentioned NACE codes.

THE SPECIAL TAX ON HIGH-VALUE REAL ESTATE AND MOVABLE ASSETS

Starting from 1 January 2024, a special tax is applied in Romania on high-value real estate properties and vehicles, as follows:

- Individuals owning (including jointly) residential buildings in Romania with a taxable value exceeding 2,500,000 lei (approximately 500,000 euros) are taxed at 0.3% on the difference between the taxable value of the residential building and the 2,500,000 lei threshold. This tax must be declared and paid by 30 April of the applicable year.
- Both individuals and legal entities owning cars that need to be registered in Romania, with an individual acquisition value exceeding 375,000 lei (approximately 75,000 euros), are subject to a 0.3% tax on the difference between the acquisition value and the 375,000 lei threshold. This tax must be declared and paid by 31 December of the applicable year.

WITHHOLDING TAX

Withholding tax is generally applicable on income earned by non-residents from Romania, such as:

- Dividends
- Interest
- Royalties
- Commission fees
- Management or consulting fees (irrespective of where the services are supplied)
- Income from services supplied in Romania, except for international transport and related services
- Income earned from the supply of professional services in Romania, other than through a permanent establishment (e.g. by lawyers, engineers, doctors, dentists, architects, auditors)
- Income earned from sports or entertainment activities carried out in Romania[1]
- Prizes granted as a result of competitions organized in Romania
- Gambling income
- Income earned by non-residents from the liquidation of a resident
- Income representing the remuneration received by foreign legal entities acting as administrators, founders or members of the administration board of a resident.

Tax rates (for non-residents)

standard tax rate.

for income obtained by individuals resident in an EU Member State or in a state with which Romania has concluded a double taxation treaty.

for dividends.

special tax rate.[2]

[1] Non-residents (companies or individuals) earning income from sports or entertainment activities carried out in Romania have the option of registering for corporate/personal income tax purposes in Romania and paying tax on a net basis, by deducting expenses related to the carrying out of activities; otherwise, withholding tax is applicable on the gross income from these activities.

[2] If the income is paid in a state with which Romania has not concluded a treaty for the exchange of information and the payment is deemed to be related to an artificial transaction.

EU Directives

The EU Interest & Royalties and the Parent-Subsidiary Directives are fully applicable in Romania:

Dividends	Exempt under the EU Parent-Subsidiary Directive, subject to the condition of ownership of at least 10% for an uninterrupted period of at least 1 year that ends before the payment of the dividend.
Interest/ Royalties	Exempt under the EU Interest and Royalties Directive, subject to the condition of direct ownership of at least 25% for an uninterrupted period of at least 2 years.

Tax treaties

A wide network of Double Taxation Avoidance Treaties concluded by Romania may allow non-residents to be taxed at a reduced rate, or to be exempt, subject to certain conditions being fulfilled (e.g. presenting a certificate of tax residence). The following countries have concluded tax treaties with Romania:

Albania	Finland	Macedonia	Slovenia
Algeria	France	Malaysia	South Africa
Armenia	Georgia	Malta	South Korea
Australia	Germany	Morocco	Spain
Austria	Great Britain	Mexico	Sri Lanka
Azerbaidjan	Greece	Moldova	Sudan
Bangladesh	Hong Kong		Sweden
Belarus	Hungary	Namibia	Switzerland
Belgium	Iceland	Netherlands	Syria
Bosnia-Herzegovina	India	Nigeria	Tadjikistan
Bulgaria	Indonezia	North Korea	Thailand
Canada	Iran	Norway	Tunisia
China	Ireland	Pakistan	Turkey
Croatia	Israel	Philippines	Turkmenistan
Cyprus	Italy	Poland	Ukraine
Czech Republic	Japan	Portugal	United Arab Emirates
Denmark	Jordan	Qatar	United States of America
Ecuador	Kazahstan	Russian Federation	Uruguay
Egypt	Kuwait	F. R. Yugoslavia (applicable with Serbia and Montenegro)	Uzbekistan
Estonia	Latvia	San Marino	Vietnam
Ethiopia	Lebanon	Saudi Arabia	Zambia
	Liechtenstein [3]	Singapore	
	Lithuania	Slovakia	
	Luxembourg		

[3] This convention for the avoidance of double taxation will enter into force starting 1 January 1 2025.

On 10 January 2022, Romania ratified the Multilateral Convention to Implement Tax Treaty Related Measures to prevent BEPS (originally signed in Paris on 7 June 2017).

Ratification of the Convention enables changes to be made to the above-mentioned Double Taxation Avoidance Treaties in order to eliminate potential tax avoidance situations from which taxpayers could have benefited in a country with which a tax treaty exists.

In Romania, the provisions of the Multilateral Convention produce effects starting from 1 January 2024.

PERSONAL INCOME TAX

The standard income tax rate is 10% with a few variations as mentioned below.

Type of income	Tax rate	Comments
Dividends	8%	Taxable income = gross income
Capital gains	10%	In the case of transfers/operations carried out through intermediaries who are not Romanian tax residents or non-residents who do not have a permanent establishment in Romania that acts as an intermediary
Capital gains	Progressive rates	In the case of transfers/operations carried out through intermediaries who are Romanian tax residents or non-residents who have a permanent establishment in Romania that has the status of an intermediary, depending on the holding period • 3% (for holding less than 365 days) • 1% (for holding more than 365 days)

Type of income	Tax rate	Comments
Sale of real estate	Progressive rates	• 3% for properties owned for up to and including 3 years. • 1% for properties owned for more than 3 years.
Gambling and prizes	Progressive rates	• 3% for income up to 10,000 RON. • 300 RON + 20% on income exceeding 10,000 RON. • 11,650 RON + 40% on income exceeding 66,750[4] RON
Independent activities (including agriculture, forestry and fisheries)	10%	Income from liberal professions is taxed based on gross income minus deductible expenses. Income from trade/services is taxed based on notional income quotas or, optionally, based on gross income minus deductible expenses.
Sporting activities	10%	• Taxable income = gross income • The income is withheld at source by the income payer at the time of payment.

Type of income	Tax rate	Comments
Intellectual property rights [5]	10%	Taxable income = gross income – 40% of gross income Taxable income = gross income – deductible expenses, if the taxpayer has opted for the actual expenses system
Salary income	10%	• Taxable income = gross income,[6] less: Mandatory social security contributions. • Personal deduction granted for the respective month.[7] • Trade union fees paid for the respective month. • Contributions to private pension funds, paid according to the law, within the limit of 400 EUR/year/individual, paid by employees. • Voluntary medical insurance fees and expenses for subscriptions for medical services within the limit of 400 EUR/year/individual, paid by employees. The cost of subscriptions for the use of sports facilities for the practice of sport and physical education for maintaining fitness, prophylactic or therapeutic purposes, in accordance with the conditions stipulated in the Fiscal Code, borne by employees, up to the equivalent in RON of 400 EUR per year.
Rental income		Taxable income = gross income
Pensions		Non-taxable amount: 2.000 RON per month Taxable income = gross income - 2.000 RON per month
Interest from Investments	10%	Taxable income = gross income
Investments – capital gains		Taxable income = net income [8]
Other sources		Taxable income = gross/net income [9]

[4] Income from prizes under 600 RON and income from casinos, poker clubs, slot-machines and lottery tickets under 66,750 RON is non-taxable.

[5] The income tax is withheld at source by the income payer.

[6] Certain amounts (e.g. per-diems, indemnities granted according to the law, business expenses, etc.) are not included in the gross income.

[7] The personal deduction is granted to individuals who have a total gross income of up to RON 2,000 above the level of the minimum gross national basic salary guaranteed in payment approved by Government decision, in force in the month of realization of the lower income (at the date of issue of the document RON 5,300). The amount of personal deduction is calculated as a percentage of the value of the minimum gross national basic salary guaranteed in payment approved by Government decision, in force in the month of income, depending on the value of the income obtained and the number of dependents, and is degressive according to the table published in Article 77 of the Fiscal Code. Thus, in the case of employees who have dependants, employees may benefit from a personal deduction in the range of 0.05% (if there are no dependants and the gross monthly income is close to the maximum amount for which the deduction applies) and a maximum of 45% of the minimum wage (if the employee has four or more dependants and the gross monthly income is close to the minimum wage).

[8] For capital gains, bank/broker charges may be deducted if supported by documents. The losses incurred from transactions carried out through Romanian tax resident intermediaries, are not reported nor compensated, as they represent definitive losses for the taxpayer.

[9] The income tax due is calculated by applying the 10% rate on the taxable income.
In the case of income obtained from sale of receivables, the income is considered to be the amounts cashed-in and the monetary equivalent of income in kind, and the expenses are the payments made, in relation to each sale, irrespective of the payment date, based on supporting documents.
In the case of income obtained from the transfer of virtual currency, the taxable amount is determined as the positive difference between the sale price and the purchase price, including the transaction related costs. Capital gains below 200 RON/transaction are not taxable, provided that the total capital gain earned during the fiscal year does not exceed 600 RON.

Social Security Contributions

Salary incomes

Employee		Employer
Health contribution	Pension contribution	Work insurance contribution
10%	25%	2,25%

Other types of income

Source of income	Health insurance	Pension insurance [11]
Independent activities (including agriculture, sport activities, forestry and fisheries)	10% [10]	25% [11]
Intellectual property rights [12]	10% [13]	25%
Rental income	10% [13]	—

Other types of income

Source of income	Health insurance	Pension insurance
Investment (including dividends)	10% [13]	—
Sale of real estate	—	—
Gambling and prizes	—	—
Other sources	10% [13]	—

10 The social health insurance contribution is payable at the level of the net annual realized/gross income or the annual income norm, or the adjusted annual income norm, as appropriate, but not more than the level of 60 gross national minimum wages.
The social health insurance contribution is payable at the level of 6 gross national minimum wages in force at the time of submission of the single declaration, if the net annual income achieved/gross is less than 6 gross national minimum wages, and the individual has not obtained income from wages or the equivalent for which he/she owes the social health insurance contribution at a level at least equal to 6 gross national minimum wages in force during the period in which the income was made.

11 The pension insurance contribution is payable, as follows: a) in the case of earned income between 12 and 24 gross national minimum wages, the basis for calculating the pension contribution is at least 12 gross national minimum wages and b) in the case of earned income above 24 gross national minimum wages, the basis for calculating the pension contribution is at least 24 gross national minimum wages (the gross national minimum wage for 2023 is RON 3,000; the gross national minimum wage for 2024 is RON 3,300). For earned income of less than 12 gross national minimum wages, individuals can opt for the pension contribution for the current year at the level of at least 12 gross national minimum wages.

12 For individuals earning income from wages and salaries and for persons who are pensioners, social security contributions and health insurance contributions are no longer payable.

13 The social health insurance contribution is payable by individuals who have a cumulative annual income of at least 6 times the gross national minimum wage from one or more sources of income, such as rent, investments, other income, etc., as follows: a) in the case of earned income between 6 and up to 12 gross national minimum wages, the basis for calculating the health contribution is the level of 6 gross national minimum wages; b) in the case of earned income between 12 and up to 24 gross national minimum wages, the basis for calculating the health contribution is the level of 12 gross national minimum wages; and c) in the case of earned income equivalent to and above 24 gross national minimum wages, the basis for calculating the health contribution is the level of 24 gross national minimum wages (the gross national minimum wage for 2023 is RON 3,000; the gross national minimum wage for 2024 is RON 3,300).

VALUE ADDED TAX

VAT rates

- 19% - standard rate
- 9%
  - rate for food, with certain limitations related to products with added sugar;
  - medicines for human and veterinary use, water for irrigation in agriculture, water supply and sewerage, fertilizers and pesticides supply used in agriculture, seeds and other agricultural products for sowing or planting, as well as specific categories of services in connection with agriculture;
  - accommodation, restaurants and catering services;
  - supplies of real estate as part of social policy;[14]
  - supply and installation of solar panels, supply and installation of highly efficient low emissions heating systems for housing including installation kits, components or full solutions (the same also applies for public buildings[15]);
  - access to fairs, amusement parks, recreational parks,[16] exhibitions, cinemas;
- 5%
  - supplies of schoolbooks, newspapers and magazines (irrespective of the format – paper or electronic);
  - supply of wood for heating, supply of thermal energy during the cold season for specific types of consumer;
  - access to castles, museums, memorial houses, historical monuments, architectural and archaeological monuments, zoological and botanical gardens.

14 Starting from 2024 any individual may acquire a single dwelling whose value does not exceed 600,000 lei, with a reduced rate of 5% or 9%. The area is limited to 120 sqm.

15 Certain exclusions apply.

16 NACE code 9321 or 9329

VALUE ADDED TAX

Tax period 17 Calculated in RON based on the exchange rate as at 31 December of the previous year.	• Monthly, if the annual turnover is higher than 100,000 EUR[17] or if intra-community acquisitions of goods have taken place. • Quarterly, if the annual turnover is lower than 100,000 EUR or if intra-community acquisitions of goods have not taken place. • Twice per year/annually, with the approval of the tax authority
Submission of VAT return (300)	Electronic submission by the 25th of the month following the reporting period. Nil returns are required if no transactions.
Submission of Recapitulative return (390)	Electronic submission by the 25th of the month following the reporting period. No returns if no transactions.
Submission of Recapitulative return (394)	Electronic submission by the 30th of the month following the reporting period. Nil returns are required if no transactions are reported.
Intrastat	Monthly, by 15th of the month following the month when the movement of goods took place. Submission is required if the volume of intra-Community arrivals of goods exceeds 1,000,000 RON and/or the volume of intra-Community dispatches of goods exceeds 1,000,000 RON.
Small enterprises	VAT registration is optional for entities with a turnover lower than 300,000 RON (88,500 EUR based on the exchange rate on the date of Romania's accession to the EU).
Limitation of deduction right	The VAT deduction right is limited to 50% for expenditure related to acquisition, maintenance and repair of vehicles (including leasing and rental), if the vehicles are not exclusively used for business purposes.

VALUE ADDED TAX

Non-deductible VAT	Alcohol and tobacco products, except when used for business purposes (e.g., resale or supply of services)
Cash accounting system	Resident companies which obtain a turnover lower than 4,500,000 RON during the calendar year may opt for the application of the VAT cash accounting system (i.e. deduction/collection of input/output VAT at the time of payment/cashing of consideration to/from suppliers/customers).
Invoicing	Introduction of generalized electronic invoicing starting from 1 July 2024 (only reporting for the period January - June 2024). Starting from 1 July 2024, transactions carried out between taxable persons established in Romania must be carried out only on the basis of electronic invoices. Registration of other types of invoices than electronic ones will attract a fine of 15% of the invoice value.
SAF-T	Mandatory for large taxpayers. Starting from 1 January 2025 it will be mandatory for all taxpayer categories.
E-transport	Requirement to report shipments for some categories of transactions. Failure to report may attract a fine equal to the value of the transported goods.
High risk goods	Fruit and vegetables, clothing and shoes, beverages, certain construction materials, new buildings, certain ferrous products.

Other aspects:

Transfer of assets	Transfers of assets fall outside the scope of VAT. The recipient of the assets must also be established in Romania. In the case of spin-offs, payable/refundable VAT amounts or the related VAT refund right are taken over, as per the quotas allocated from the divided entity's assets and liabilities.
Deduction in relation to inactive taxpayers	Taxpayers acquiring goods/services from inactive taxpayers may exercise the VAT deduction right after the supplier re-activates its registration. Inactive taxpayers carrying-out economic activities during their inactivity period may exercise their deduction right for the incurred VAT upon their reactivation.
Adjustment for capital goods	Input VAT adjustments related to capital goods should be made annually within the period of adjustment, for 1/5 or 1/20 of the input VAT deducted on the purchase/construction of the goods, for each year when there is a change of purpose for which the goods are used. However, in cases where capital goods are supplied under VAT exemption, the adjustment should be made one-off for the full remaining adjustment period.
Adjustment of the taxable base	The taxable base may be reduced if the invoiced value cannot be recovered due to: • the opening of bankruptcy procedures against the client OR • due to the implementation of a reorganization plan permitted and confirmed by a court order, through which the claim of the creditor has been changed or eliminated. Starting from 2021, the adjustment of the tax base has also been possible for open invoices issued to individuals under certain conditions.

Other aspects:

Payment of import VAT

As a general rule, VAT on imports is paid to the customs authorities and deducted through the VAT return.

Companies will not be required to pay the import VAT (application of reverse charge) if:

- The import is declared through the centralized customs procedure;
- They hold an authorization for an entry in the declarant's records.
- They hold a VAT deferment certificate - imports with a value of at least 50 million RON within the last 6 calendar months.

Import VAT is not payable on importation for acquisitions of certain goods for which the domestic reverse charge (see below) is applicable, such as: cereals and technical plants, waste, raw wood, mobile phones, integrated circuit devices, games consoles, PC tablets and laptops.

Since 14 September 2023, the certificate of deferment from customs payment of import VAT has been issued for a period of six months.

Global fiscal representative

The Norms for the application of this concept have still not been published by the authorities.

VAT Group

The VAT grouping system rules do not exclude from the scope of VAT transactions carried out between the members of the group. Instead, the system simply allows the consolidation of the VAT returns of all members, possibly leading to an optimization of cash-flow.

Other aspects:

Taxpayers entitled to claim interest for late VAT refunds

If a VAT refund is delayed by the tax authorities, taxpayers are entitled to apply for late payment interest.

Domestic Reverse charge

As long as both the supplier and the client are VAT registered in Romania, the reverse charge mechanism is applicable for supplies of:

- Ferrous or non-ferrous waste, waste from paper, textiles, rubber, plastic, glass and broken glass;
- Raw wood and wood materials;
- Buildings, parts thereof and any type of land, if taxable, either by law or by option;
- Cereals and technical plants (certain categories);
- Transfers of emissions of greenhouse gases;
- Supplies of energy made to Romanian traders;
- Transfers of green certificates;
- Mobile phones, integrated circuit devices, games consoles, PC tablets and laptops[18].

[18] Certain conditions apply

Brexit

Taxable persons established in the UK and which need to register for VAT in Romania should appoint a Romanian fiscal representative. The refund of VAT paid in Romania by UK entities is not yet possible (no reciprocity agreement has been signed).

EXCISES

Harmonised excisable goods:

01 Alcohol and alcoholic beverages

02 Processed tobacco

03 Energy products (e.g. leaded and unleaded gasoline, diesel, kerosene, liquefied petroleum gas, natural gas, etc.) and electricity

Excisable products are subject to excise duties at the time of their production/extraction on EU territory or at the time of their import into the EU. The chargeability of the excise duties occurs at the time of their release for consumption. For processed tobacco, intermediate products and ethyl alcohol, with certain exceptions, there is a requirement to apply stamps issued by the fiscal authorities on to the products.

Production of excisable goods is subject to fiscal warehouse authorisation. No retail sales are allowed in the fiscal warehouse for production (except in cases permitted by law).

Establishment of storage tax warehouses is possible for energy products, processed tobacco as well as for ethyl alcohol and alcoholic beverages and the excise duties become chargeable at the time when the products are released from consumption (are dispatched from the fiscal warehouse).

Traders which sell, either in the wholesale or retail system, energy products – gasoline, diesel, kerosene, Liquefied Petroleum Gas and biofuels – as well as those which distribute and sell alcoholic beverages and/or manufactured tobacco, in wholesale, but which are not tax warehouse keepers or do not hold a Registered Consignee authorisation, may carry out these operations only after obtaining a certificate for distribution and sale in the wholesale/retail system for the products mentioned above.

In addition to the harmonised excise duties mentioned above, Romania also applies excise duties on:

- products containing tobacco, intended for inhalation without burning;
- liquids with or without nicotine, intended for inhalation without burning;
- products intended for inhalation without burning, containing tobacco substitutes, with or without nicotine;
- non-alcoholic drinks with added sugar for which the total sugar level is between 5 g-8 g/100 ml;
- non-alcoholic drinks with added sugar for which the total sugar level is over 8 g/100 ml.

Excise duties are generally payable by the 25th of the month following that when they become chargeable.

However, the supply of energy products like diesel gas, gasoline, kerosene and liquefied petroleum gas, as well as alcohol and alcoholic beverages (starting from 2024), can only be made if the supplier holds a document confirming the payment (by the supplier or by the buyer on the supplier's behalf) of the excise duties related to the goods that will be dispatched.

Exceptions/exemptions from excise duties are available for specific excisable products intended for particular uses, for instance energy products used in mineralogical processes or used to produce, in cogeneration, combined heat and electricity.

The level of excise duties (excluding alcohol and alcoholic beverages for 2024) is updated annually by the rate of inflation in the previous 12 months, calculated in September of the year before the new rates apply.

The updated level of excise duties is published every year on the website of the Ministry of Finance no later than 31 December for the following year.

CUSTOMS DUTIES

There are no customs controls, no formalities and no customs charges inside the EU, so European Union goods may be moved freely between Romania and other EU member states.
As an EU member state, Romania applies Union Customs Legislation, as well as the Common Customs Tariff and EU commercial measures on imports and exports.

Except for certain agricultural products, for which specific duties apply, customs duties are established as a general rule as a percentage, generally ranging between 0 and 22%.

The customs value is determined according to the principles set out in the Community Regulations, the main method used being the "transaction value method" (i.e. the price paid or payable for the goods).

Special customs regimes applicable within the European Union (such as inward processing relief, outward processing, internal transit, external transit, free trade zones, customs warehousing, end-use or temporary admission) are also available in Romania.

At present, the applicable legislation on customs duties is the Union Customs Code ("UCC" - Regulation (EU) No. 952/2013 of the European Parliament and of the Council), along with related acts: the Delegated Act (Regulation (EU) No. 2015/2446 of the Commission) and the Implementing Act (Regulation (EU) No. 2015/2447 of the Commission).

The above EU legislation included important amendments such as:

- Introducing new concepts and definitions such as permanent establishment, holder of the goods, self-assessment procedure consisting of the possibility for the customs authorities to transfer some of their attributes to importers or exporters, for example certain verifications/checks or the calculation of customs duties, the definition of the exporter of record, etc.
- The customs regimes, which are as follows: release for free circulation, export and special regimes such as transit, storage (bonded warehouses and free zones), special usage (temporary admission and end use) and processing (inward processing and outward processing).
- AEO authorisation, which although not mandatory, enables the holder to obtain certain customs facilities through the fulfilment of the criteria/conditions for obtaining AEO authorisation.

In addition to the EU regulations mentioned above, Romanian legislation is still applicable, e.g. Law No. 86/2006 on the Romanian Customs Code, and Government Decision No. 707/2006 approving the Implementing Norms of the Romanian Customs Code.

CBAM

Carbon Border Adjustment Mechanism

Companies importing products considered polluting - such as cement, iron and steel, aluminium, hydrogen, electricity and fertilizers - are subject to new obligations, regulated at European level by the Regulation on the establishment of a carbon border adjustment mechanism - "CBAM" ("Carbon Border Adjustment Mechanism").

The regulation applies to all economic operators established in the EU which import goods classified in one of the categories mentioned above and put them into free circulation on the territory of the EU.

It also applies to goods resulting from the inward processing customs regime. In the case of imports carried out by companies not established in the EU, the obligations fall on the indirect representative who carried out the customs import formalities. The identification of the products covered by the new obligations is based on the tariff classification of the goods (CN code)

The CBAM Regulation entered into force in May 2023 and provides for a transition period from October 2023 until December 2025. During this period, importers are required to register in the CBAM Transitional Register and to report quarterly the imported products covered by the regulation, within a maximum of one month from the end of that quarter.

In the CBAM quarterly reports, several items of information must be provided, such as the quantity and type of imported products that fall under the CBAM, their country of origin, the level of carbon emissions associated with their production - direct emissions, indirect emissions, the carbon price paid in a country of origin for the emissions incorporated in the imported goods, as well as other additional data depending on the category of the imported product.

PROPERTY TAXES

Local taxes

The most common property taxes payable to the local authorities are on buildings, land and vehicles. These are owed annually for assets held as at 31 December of the previous year and must be paid in two equal instalments per year, by 31 March and 30 September. If paid in advance before 31 March, a reduction of up to 10% may be granted on the annual tax payable (the exact percentage is established by each local council).

Tax on buildings (for legal entities)	• Residential buildings - 0.08% - 0.2% of the taxable value. • Non-residential buildings -0.2% - 1.3%, of the taxable value. • Mixed use – sum of the tax calculated for the area that is used for residential purposes and the tax calculated for the area used for non-residential purposes. For buildings used in agriculture, the tax rate is 0.4% of the taxable value. The taxable value is generally determined by valuation for tax purposes (carried out by an authorised valuator, at the owner's expense). If the taxable value of buildings has not been updated in the previous 3 years, the building tax rate is 5%.
Tax on land	Fixed amount per sqm, depending on factors such as: type of settlement; the land's location within the settlement (downtown / uptown / out of town); the land's use (e.g. for constructions, agriculture, fields, orchards, forests).
Tax on vehicles	Taxed on a rising scale for every 200cc with varying rates depending on the vehicle type.

Transfer duties

According to Romanian legislation, transfer of real estate properties by legal entities (e.g. land and buildings) is not subject to transfer taxes, except for notary fees and taxes for registration with the Real Estate Book. These fees are approximately 1% of the value of the property.

Specific provisions were introduced starting from 2020 for the sale of agricultural land from the unincorporated area.

Under certain conditions, these regulations could lead to an obligation to pay an 80% tax on the difference between the sale price and the purchase price or on the difference between the sale price and the value of the land according to the notarial grid.

ENVIRONMENTAL TAXES

The most common Environmental Fund contributions payable in Romania are in relation to:

- The packaging related to goods introduced on to the Romanian market by companies that produce and sell in Romania packaged goods, that purchase or import packaged goods from other EU member states, overpack individually packaged products for resale/redistribution, as well as that introduce on to the national market retail packaging and by companies that rent out packaging. Contributions are applied to the difference between the legal annual recycling/recovery targets and the quantities of packaging waste entering recycling facilities and/or recovery facilities. These targets can be fulfilled by concluding a contract with an organization that implements the extended liability of the producer or individually, but only by recycling/ recovering packaging waste related to its own products;
- Tires introduced on the national market for the difference between the quantities related to the minimum management objectives and the quantities actually managed.
- Environmentally hazardous substances.
- Semi-synthetic and synthetic mineral-based oils introduced on to the Romanian market.
- Emissions of pollutants from fixed sources (e.g. factories, energy plants), depending on the type of pollutant.
- Transport bags, except those made of materials that meet the requirements of SR EN 13432: 2002. Since the start of 2019, the commercialization of thin and very thin plastic shopping bags made from non-renewable materials has been prohibited.
- The sale of all types of waste.
- Contribution to the circular economy payable by owners or, as appropriate, administrators of municipal waste storage facilities, and facilities for construction waste and dismantling, which are destined for disposal by storage;
- Electrical and electronic equipment ("WEEE") and for batteries and portable accumulators ("WB&A") placed on the national market for the difference between the quantities corresponding to the minimum WEEE/WB&A collection legal targets and the quantities actually collected.

In 2021, restrictions on the placement on the market of certain products such as drinking straws, cotton swabs, cutlery or plates made out of plastic, etc. were introduced in order to reduce the amount of single use plastic.

Also, starting from 30 November 2023, the guarantee-return system (SGR) also became functional in Romania. This system involves the payment of a guarantee of 0.5 lei/packaging for the circulation of reusable packaging between retailers and between retailers and the final consumer.

These provisions cover reusable primary packaging, with volumes between 0.1 l and 3 l, used for products intended for public consumption (water, soft drinks, beer, cider, wine, spirits, etc.).

TAX INCENTIVES FOR COMPANIES

Sponsorship and / or patronage

Corporate income tax

Corporate income tax credit for sponsorship / patronage expenses may be granted, up to the lesser of:

- 

of net turnover;

OR

of the corporate income tax due.

If the sponsorships are granted to non-profit legal entities including religious organizations, the amounts relating to them are deducted from the income tax due, within the limits provided by law, only if the beneficiary is signed up, at the date of conclusion of the contract, in the Register of Entities/religious organizations for which tax deductions are granted. The register is organized by A.N.A.F, is public and can be found on A.N.A.F.'s website.

Sponsorship and / or patronage

Corporate income tax

- Starting from 1 January 2022 the following tax rules apply with respect to sponsorships granted by taxpayers: If the sponsorships granted during a financial year do not exceed the threshold mentioned above, within the limits of the positive difference, the taxpayer can redirect part of their corporate income tax for sponsorship purposes, until the submitting deadline of the annual corporate income tax return. The payments of the redirected amounts will be made by the relevant tax authority, to which the taxpayer has submitted the redirection form.
- If the sponsorships granted during a financial year exceed the threshold mentioned above, the amounts in excess may not be carried over to the following years; the last amounts which may be carried forward and used in the future are those for 2021

Incentives for supporting vocational and technical education and dual (practical and academic) pre-university and university education

Expenses incurred in relation to theoretical and/or practical training of students in vocational and technical education, as well as dual (practical and academic) pre-university and university education, including depreciation of fixed assets or investments used for this purpose, are specifically defined as being deductible for corporate tax purposes.

The profit invested in supporting dual (practical and theoretical) vocational education by ensuring the practical training and quality training of students is exempt from profit tax.

Corporate tax relief on reinvested profit

Corporate tax relief is available for profit reinvested in technological equipment, in assets used in production and processing activities, assets used for retooling, computers and peripheral equipment, machines and appliances, registers, control and invoicing devices and software, including the rights to use the software, produced/purchased and put into use in the relevant fiscal period.

Also, the profit invested in supporting dual (practical and theoretical) vocational education by ensuring the practical training and quality training of students is exempt from tax.

The accelerated depreciation method cannot be applied for these assets.

Equipment must also be kept for at least half its normal useful economic life in accordance with the applicable accounting rules, but for no more than 5 years. Otherwise, corporate tax is recalculated accordingly, and late payment interest and penalties are imposed.

Fiscal measures to maintain or increase the equity of companies

In order to encourage maintain/increase the equity of companies during the period 2021-2025, certain reductions in the annual corporate income tax/microenterprise tax are regulated to maintain a positive level or increased equity in the period mentioned above. If the conditions are fulfilled, the tax reductions can vary between 2% and 15% of the tax due.

In order to be able to apply this incentive, all taxpayers benefit from an extension of the deadline for submitting the annual corporate income tax return/the fourth quarter tax return (for micro-enterprise income tax payers) until 25 June of the following year. The same deadline is applicable for the payment of the related tax obligations.

For corporate income tax taxpayers which have opted for a financial year that is different from the calendar year, the deadline for submitting the annual corporate income tax return is extended until the 25th of the sixth month from the end of the financial year.

Sponsorship and / or patronage

Tax deduction for defensive driving courses

The legislation provides the option to deduct the cost of defensive driving courses from income tax or corporate income tax, depending on the conditions expressly provided by law.

Innovation, research and development– personal income tax exemption for salary income

Employees who are part of teams which carry out research & development and innovation projects as defined under Ordinance 57/2002, are exempt from paying personal income tax for the salary income earned from carrying out research & development and innovation activities in the above-mentioned projects. The incentive is granted subject to meeting certain conditions set out by law.

Innovation, research and development – corporate tax deduction

Additional deduction of 50% of the eligible expenditure for these activities; the additional deduction is calculated quarterly/yearly.

Fiscal incentives are granted, in compliance with the state aid law, for research and development activities carried out in order to obtain research results that can be capitalized by the taxpayer. The activities can be carried out both in Romania and in other Member States of the European Union; or in countries belonging to the European Economic Area.
R & D activities eligible for additional deduction in determining the tax result should fall within the categories of applied research and/or technological research activities relevant to the work carried out by the taxpayer.

Tax incentives are granted separately from the R & D activities of each project.
In addition, companies that carry out only innovation, research and development activities are exempt from tax payment in the first 10 years of activity.

Since 1 January 2023, large taxpayers have been required to obtain a certification of the R & D activity from an expert registered with the National Register of Experts for the certification of research and development activity.

Software development; personal income tax exemption for salary income

Until 31 December 2028, income of up to RON 10,000, obtained under an individual employment contract, resulting from the activity of creating computer programs, under the terms of the law, is exempt from income tax on salary income and benefits from a reduced rate of individual pension contribution of 20.25%, compared to the standard rate of 25%. The part of the income exceeding RON 10,000 does not benefit from tax relief.

Incentives for the construction industry

Until 31 December 2028, employees of companies operating in the construction sector who meet the conditions specified in the Fiscal Code, benefit from exemption from income tax on income up to RON 10,000, obtained under an individual employment contract, and a reduced rate of individual pension contribution, of 20.25%, compared to the standard rate of 25%. The part of the income exceeding RON 10,000 does not benefit from tax relief. The minimum gross wage for the construction industry in 2024 is RON 4,582.

Incentives for the agricultural and food industry

Until 31 December 2028, employees of companies operating in the agricultural and food industry who meet the conditions specified in the Fiscal Code, benefit from exemption from income tax on income up to RON 10,000, obtained under an individual employment contract, and from a reduced rate of individual pension contributions of 20.25% compared to the standard rate of 25%.

The part of the income exceeding RON 10,000 does not benefit from tax relief. The minimum gross wage for the agricultural and food industry for 2024 is RON 3,436.

Gift tickets

Exemption from personal income tax and social security contributions for gifts and gift tickets offered by employers to their employees and to their minor children for the Easter holidays, 1 June, Christmas, as well as gifts and gift tickets offered to female employees on 8 March- up to 300 RON for each individual and occasion.

Sponsorship and / or patronage

Meal tickets and holiday vouchers

Exemption from payment of individual pension contribution and work insurance contribution for meal vouchers and holiday vouchers, granted according to the law.

Nursery vouchers and cultural tickets

Exemption from compulsory social security contributions for nursery and cultural vouchers granted by law.

Tourist and/or medical treatment services during holidays[19]

Payments made during holidays for tourist and/or medical treatment services, including transport, covered by an employer for its employees and their family members (as provided in the employment contract), are not taxable for personal income tax purposes and are not included in the taxable base for social security contributions, up to the level of a gross average salary (as established by law).

Expenses incurred by the employer are deductible for corporate tax purposes within the limit for social expenses (i.e., up to 5% of the total salary expenses). This benefit cannot be combined with holiday vouchers.

Using a company car for personal purposes

The benefits relating to the personal usage of a company's cars by employees are exempt from personal income tax and social security contributions if the company deducts only 50% for corporate tax purposes.

The same applies, i.e., exemption from personal income tax and social security contributions, for micro-enterprise employees who use the company's car for personal purposes.

Additional allowances granted under the mobility clause[19]

The additional allowances granted under the mobility clause are not taxable for income tax purposes and are not included in the monthly basis for calculating social security contributions up to 2.5 times the legal level established for the delegation/secondment allowance, by Government decision, for staff of public authorities and institutions;

The cost of food provided by employers for their employees[19]

The value of the food provided by an employer for its employees, granted in accordance with the provisions of the employment contract or internal regulations, is not subject to income tax and is not included in the monthly basis for calculating social security contributions up to the value of one meal voucher/day/employee, excluding the days on which the employees are teleworking or home working or are on rest/medical leave/delegation.

Food is defined as food prepared in the employer's own establishments or purchased from specialised establishments. Favourable tax treatment does not apply to employees receiving meal vouchers.

Accommodation and rent for own employees[19]

Accommodation and rent for own employees is not taxable for income tax purposes and is not included in the monthly basis for calculating social security contributions up to a monthly limit of 20% of the national minimum wage, provided that the conditions stipulated in the Fiscal Code are met.

Epidemiological testing and/or vaccination of employees

Exemption from personal income tax and social security contributions for expenses incurred by a company for epidemiological testing and/or vaccination of employees in order to prevent the spread of diseases which endanger the health of employees and the public.

Early education of employees' children[19]

Amounts paid by employers for the early education of employees' children are exempted from personal income tax and social security contributions up to 1500 RON per month/child.

19 Starting with income for January 2023, a new cap on non-taxable income that employers can grant has been introduced. Thus, these benefits granted monthly by the employer to its employees are exempted from income tax and social contributions, cumulated, up to a monthly limit of 33% of the employee's basic salary.

Sponsorship and / or patronage

Optional pension funds [19]

Exemption from personal income tax and social security contributions for contributions to optional pension funds in accordance with Law no. 204/2006 paid by employers for their employees (or paid for the personal benefit of the taxpayer, in the case of independent activities), up to the limit of EUR 400 per year.

Voluntary health insurance premiums [19]

Exemption from personal income tax and social security contributions for voluntary health insurance premiums and subscriptions to medical services providers paid by employers for their employees (or paid for the personal benefit of the taxpayer, in the case of independent activities), up to a limit of EUR 400 per year.

Fitness/sports services [19]

The cost of subscriptions for the use of sports facilities for the practice of sport and physical education for maintaining fitness, prophylactic or therapeutic purposes, in accordance with the conditions stipulated by the Fiscal Code, paid by the employer for its employees, up to the equivalent in lei of 100 euros per year for each person, is exempt from income tax and social contributions.

Employment

Unemployment contribution incentives for hiring unemployed people; specific incentives for hiring unemployed people from certain social categories (e.g. recent graduates, single parents, older people, disabled people and students hired during summer vacations). The incentives are granted subject to the fulfilment of certain conditions set out by law.

Local tax

Exemption from the payment of land and building tax can be granted by local councils, subject to state aid legislation

TRANSFER PRICING

- The criteria for companies to be considered related parties under Romanian legislation is a minimum 25% direct or indirect shareholding and/or economic control.
- Transactions which take place between related parties (including those between domestic group companies) are required to be carried out on arm's length (i.e. market) terms.
  As a matter of principle, Romanian affiliates which are part of fiscal groups for corporate income tax purposes are still required to prepare a transfer pricing report for the transactions carried out with members of the fiscal group.
- Since January 2016, large taxpayers which carry out transactions with related parties over certain significance thresholds have been required to prepare their transfer pricing documentation files on an annual basis, no later than the legal deadline for submitting the annual corporate tax return, for each fiscal year. In this case, the deadline provided by law for presenting the transfer pricing documentation file to the Romanian tax authorities is a maximum of 10 days following a request. Large taxpayers carrying out transactions with related parties below the thresholds mentioned above, and all other taxpayers which carry out transactions with related parties over certain (different) significance thresholds, are required to provide their transfer pricing documentation files to the Romanian tax authorities in the event of a tax audit. In this case, the deadline for presenting the transfer pricing documentation file to the Romanian tax authorities is between 30 and 60 days, with the possibility of extension by another 30 days maximum.
- Even though Romania is not part of the OECD yet, the OECD Transfer Pricing Guidelines are, in principle, recognised by Romanian transfer pricing legislation. Nevertheless, the Romanian legislation also contains a number of specific elements related to transfer pricing, which prevail and which are carefully verified by the tax authorities during transfer pricing tax audits.
- In terms of documentation, the EU Masterfile and Countryfile concept has been broadly implemented into Romanian law.
- Advance Pricing Agreements (APAs) and the Mutual Agreement Procedure (MAP) are also possible under Romanian legislation. These aim to reduce the risk of transfer pricing adjustments.

Romanian legislation provides specific requirements on the submission of the Country by Country report and notification obligations relating to the identity and fiscal residence of the reporting entity, for companies that are part of a multinational group which has a total consolidated group revenue of at least EUR 750 million. These obligations result from the transposition of EU Directive 881/2016 on the mandatory automatic exchange of information on taxation, which follows the recommendations of BEPS Action 13 issued by the OECD. When the headquarters of this type of group is resident in a country outside of the European Union, a secondary filing of the report in Romania may be needed. The fines for late or incomplete submission of the report are significant.

On 7 September 2022, legislation to implement the EU Public CbyC Reporting Directive was published and will apply for financial years starting on or after 1 January 2023. Romania was thus one of the Member States which opted for an early adoption of the rules. The legislation will apply to groups with consolidated net turnover exceeding RON 3.7 billion (equivalent to approximately EUR 747.5 million), for two consecutive financial years. The provisions of the Directive and of the local legislation will require multinational groups operating in the EU (that exceed the threshold mentioned) to publish certain information on their tax affairs. When the headquarters of this type of group is resident in a country outside of the European Union, a report may need to be published in Romania.

FISCAL PROCEDURES

ADMINISTRATION

Communication of documents issued by A.N.A.F.

Since 3 September 2022, the communication of documents issued by A.N.A.F. has taken place only through electronic communication systems of remote transmission that are carried out through the "Virtual Private Space" (SPV) service.

Rulings

The legal deadline for the Romanian tax authorities to issue a non-binding ruling is within 45 days of the submission of documentation. This period can be extended to up to six months in special situations.

Advance Tax Rulings (ATRs) and Advance Pricing Agreements (APAs) are also available. An ATR (Romanian SFIA) subject is limited to a single future actual tax situation and a single main tax liability. Non-residents applying for ATRs pay an issuance fee of EUR 5,000. The legal deadline for issuing an ATR is up to six months from the date of application, while the deadline for issuing an APA is 12 months for unilateral APAs and 18 months for bilateral or multilateral APAs.

Statute of limitations

The statute of limitations period is five years, starting from 1 July of the year following that to which the tax obligation is related. However, in the case of fraud, the statute of limitations can be extended to ten years, starting from the date when the criminal offence occurred. The statute of limitations is suspended during a tax audit.

Interest and late-payment penalties

A combined system of late-payment interest and penalties is currently applicable:

Interest of 0.02% per day of late-payment.

Penalties of 0.01% per day of late-payment.

The imposition of penalties does not eliminate the late payment interest.

For tax obligations arising as from 1 January 2016, which were undeclared or under-declared by taxpayers and imposed by a decision resulting from a tax audit, non-compliance penalties of 0.08% per day are due, instead of the 0.01% late payment penalties and the potential fines for failure to file tax returns. (This does not eliminate late payment interest of 0.02% per day).

In the case of amounts to be refunded or reimbursed from the budget, the taxpayer has the right to claim interest within five years. The limitation period for this right starts on 1 January of the year following that in which the amounts to be refunded or reimbursed have been extinguished by any means provided by law, by final cancelation of the administrative tax document, or if the refund has been definitively granted.

Certification of tax returns

Certification of tax returns by a certified tax consultant (a member of the Romanian Chamber of Fiscal Consultants) is optional.

However, certification can present some advantages for businesses, as it constitutes a criterion in the risk analysis carried out by the tax authorities when they select taxpayers for tax audits.

Fiscal inspection

Starting from 2023, fiscal inspections take place, as a rule, at the headquarters of the relevant tax authority. As an exception and only on the initiative of the tax authorities or based on a reasoned request from the taxpayer, the fiscal inspection can be carried out at the taxpayer's workp

The fiscal inspection period for non-resident companies is a maximum of 180 days.

Starting from 2023, the taxpayer may request the issuance of a temporary decision from a tax audit after the completion of half of the legal period for carrying out the fiscal inspection as long as the taxpayer has not been informed by the tax authorities as to the completion of a fiscal period and of a type of tax liability.

Classification of taxpayers based on the risk levels

Tax administration procedures are carried out by A.N.A.F. based on a classification system, which divides taxpayers into specific fiscal risk classes/subclasses, based on a risk analysis carried out by the tax authorities.

Taxpayers fall into three main risk classes:

- Taxpayers with low fiscal risk.
- Taxpayers with medium fiscal risk.
- Taxpayers with high fiscal risk.

The general criteria according to which the fiscal risk class/subclass is determined are as follows:

- Criteria related to fiscal registration.
- Criteria related to filing tax returns.
- Criteria related to the level of declaration.
- Criteria related to the fulfilment of payment obligations to the general consolidated budget and to other creditors.

The risk analysis is carried out periodically, after which the tax authorities establish the taxpayer's risk class/subclass, which is published on the A.N.A.F website. The taxpayer cannot appeal against the way in which the risk is determined nor against the fiscal risk class/subclass in which it is categorized.

At the taxpayer's request, the tax authorities will communicate the tax risk class/subclass in which it falls, by any means of communication that provides proof of receipt of the information, except for cases where objectives of general interest justify restricting access to this information.

MANDATORY DISCLOSURE REQUIREMENTS (MDRs)

The EU Directive on Mandatory Disclosure Rules (MDR) also known as "DAC6" was implemented into Romanian law in February 2020. The reporting should be done within 30 days of the day after the reportable cross-border arrangement

- is made available for implementation,
- is ready for implementation or
- when the first step in its implementation has been made, whichever occurs first.

The start date for the 30 days reporting deadline was 1 January 2021, including for the cross-border arrangements for which the reporting trigger occurs between 1 July 2020 and 31 December 2020. Reporting according to DAC6 rules also involved the reporting of retrospective arrangements (i.e. those which took place between 25 June 2018 and 30 June 2020), the deadline for which was 28 February 2021.

In the case of marketable arrangements, the intermediary prepares a report every 3 months for ANAF in order to disclose the new information or to update the reporting information that has become available since the last report was submitted.

Romanian intermediaries and taxpayers are required to disclose to the Romanian tax authorities ("ANAF") information on reportable cross-border transactions which fulfill the hallmarks mentioned by the Directive. ANAF will subsequently exchange this information through automatic exchange of information with the tax authorities in the countries involved in each transaction.

An intermediary is only required to report to ANAF if it has a presence in Romania (local residency, permanent establishment, incorporation or professional registration).

An intermediary can be exempt from its reporting obligation if it obtains proof that the same information related to a certain reportable cross-border arrangement has already been reported by another intermediary. The intermediary must be able to demonstrate that the information in its possession is contained in the report submitted by the other reporting entities and must, at ANAF's request, provide the following:

- A copy of the information that was reported to the tax authorities in the country where the transaction was reported, including the number and date under which the reporting was recorded;
- Written confirmation of the identification code of the arrangement allocated in the country where the transaction was reported.

Intermediaries covered by legal professional privilege will be required to fulfil their reporting obligation to the Romanian tax authorities only if they are in the possession of a written agreement from the client, allowing them to do so.

In the absence of such an agreement from the taxpayer, an intermediary which is exempt from the reporting obligation is required to notify in writing the other intermediaries or the taxpayer itself (if no other intermediaries exist) that no data will be disclosed, and that the reporting obligation reverts to the taxpayer.

If no intermediaries exist, or if they are covered by professional privilege, the reporting obligation reverts to the taxpayer.

The following penalties will apply:

- ✓ Between RON 20,000 and RON 100,000 (approx. EUR 4,000 – EUR 20,000) – applicable to both intermediaries and taxpayers, if the information is not disclosed or it is disclosed after the relevant deadline.
- ✓ Between RON 5,000 and RON 30,000 (approx. EUR 1,000 – EUR 6,000) –for intermediaries covered by legal professional privilege which are exempt from the reporting obligation- if the intermediary does not notify other intermediaries involved or the taxpayer itself that no information will be disclosed and that the reporting obligation reverts to the other intermediaries or the taxpayer.

Further clarifications were provided by the DAC6 Guideline, published on ANAF's website. (https://static.anaf.ro/static/10/Anaf/AsistentaContribuabili_r/GHID_DAC6_13012021.pdf)

Reporting rules for platform operators (DAC7)

From 1 January 2023, digital platform operators have been required to report information about sellers active on their platforms to ANAF. The new requirement comes with the implementation of the DAC7 rules, the latest European Directive that aims to combat fraud, and to provide a dimension to the income generated through digital platforms.

Platform means any software, including a website or a part thereof and applications, including mobile applications, accessible by users and allowing sellers to be connected to other users. The term platform does not include software that exclusively allows the processing of payments in relation to a relevant activity, the listing or advertising of a relevant activity by users or redirecting or transferring of users to a platform.

Categories of digital services that could fall within the scope of the DAC7 analysis are marketplace platforms offering a wide range of products and services (such as clothing, consumer goods, furniture, electronics, etc.), platforms for car rental services (so-called car sharing platforms), platforms for catering services, as well as live streaming applications where various events can be accessed for a fee, accredited online course providers or digital hotel rental platforms.

A non-EU digital platform operator (foreign platform operator) is also required to register and report information under the DAC7 rules as long as the activity subject to reporting is carried out in the European Union. It also has the option to register in only one Member State.

The category of reportable sellers includes sellers who are registered on the platform during the reporting period, regardless of whether they are individuals or legal entities, given the widespread use of these digital platforms. There are, however, certain categories of excluded sellers, such as governmental entities, those listed on regulated markets, those for whom a platform operator has facilitated more than 2,000 property rentals or those facilitated through the platform that have not exceeded the threshold of €2,000 in a calendar year.

Reporting to the tax authorities must be done annually, by 31 January of the year following the year in which the seller was identified in the platform. The first reporting deadline was 31 January 2024 and included information for 2023. Penalties for non-compliance are significant, generally set in the range of between 20,000 lei and 100,000 lei, but there may also be other restrictions with an impact also on the commercial activity carried out (such as if a seller does not communicate the required information even after receiving two reminders sent after the initial request, but not before the expiry of a period of 60 days from the initial request, in which case the platform operator closes the seller's account and does not allow the seller to re-register on the platform or withholds payment of the consideration to the seller as long as the seller does not communicate the required information).

ACCOUNTING REGULATIONS

Romanian accounting regulations are compliant with EU accounting and audit directives (regulations approved by Order of the Ministry of Public Finance no. 1802/2014 implementing the provisions of Directive 2013/34/EU). Romanian GAAP draws many of its principles and rules from International Financial Reporting Standards (IFRS). However, differences remain and their impact on the financial statements of companies varies from one industry to another.

Credit institutions carrying out activities in Romania, including Romanian branches of foreign credit institutions and foreign branches of Romanian credit institutions, as well as listed companies, are required to apply International Financial Reporting Standards (IFRS) as a basis for accounting and reporting of financial statements.

The financial year generally corresponds to the calendar year. However, both Romanian entities and branches of a foreign company (except for credit institutions, non-banking financial institutions, as well as entities operating under the supervision of the Authority for Financial Supervision) may opt for a different financial year. Entities opting for a financial year which is different from the calendar year are required to prepare and submit annual accounting reports as at 31 December to the local offices of the Ministry of Public Finance, as well as, separately, the annual financial statements concluded on the date set as per the modified financial year, in compliance with the provisions of the Accounting Law (no. 82/1991, with subsequent amendments).

Micro-entities are those that, at the date of the financial statements, do not exceed the limits of at least two out of the following three criteria:

- ✓ **Total assets: 1.500.000 RON;**
- ✓ **Net turnover: 3.000.000 RON;**
- ✓ **Average number of employees during the financial year: 10.**

These entities are required to submit only condensed financial statements. Micro-entities are not required to prepare explanatory notes to the annual financial statements but are required to present information about the accounting policies adopted.

Small entities are those that, at the date of the financial statements, do not exceed the limits of at least two out of the following three criteria:

- ✓ **Total assets: 17.500.000 RON;**
- ✓ **Net turnover: 35.000.000 RON;**
- ✓ **Average number of employees during the financial year: 50.**

These entities are required to submit a condensed balance sheet, extended income statement and explanatory notes to the financial statements. The presentation of a statement of changes in equity and a statement of cash flows is optional.

Medium-sized and large entities are those that exceed the limits of at least two out of the following three criteria:

- ✓ **Total assets: 17.500.000 RON;**
- ✓ **Net turnover: 35,000,000 RON.**
- ✓ **Average number of employees during the financial year: 50.**

These entities and public interest entities are required to submit extended financial statements that also include information about payments to the Government and other specific information required by the Ministry of Public Finance.

The annual financial statements should be accompanied by the management report, the audit report or the report of the audit committee, as appropriate, and by the proposal to distribute the profit or to cover the accounting loss.

Companies are required to have their financial statements audited (statutory audit) if they are public interest entities or if they meet at least two of the three size criteria below for two consecutive years:

- ✓ **Total assets > 16.000.000 RON;**
- ✓ **Net turnover > 32.000.000 RON;**
- ✓ **Average number of employees during the financial year > 50.**

Entities with an average of more than 500 employees at the date of the annual financial statements are required to include in the Administrator's report a non-financial statement containing basic information about the entity's commitment to environmental protection, social responsibility, ethical employment policies, respect for human rights, and to combatting corruption and bribery.

Furthermore, companies that at the date of their annual financial statements for the previous year have a turnover in excess of 1.000.000 euros, equivalent in RON at the exchange rate valid for closure at the end of the year (published by the National Bank of Romania), are required to prepare and submit Half Yearly Accounting Reports for the current year.

Deadlines for submitting annual financial statements:

- ✓ SRLs and SAs -> 150 days from the end of the financial year
- ✓ NGOs -> 120 days from the end of the financial year
- ✓ Companies in the process of liquidation -> 90 days from the end of the calendar year
- ✓ Companies that have not carried out economic activity since their date of establishment must submit a declaration of inactivity within 60 days from the date of the end of the financial year.

Archiving deadlines

Since January 2023, users of computer systems for automatic data processing have been required to ensure the processing of data recorded in the accounts for a period of 5 years starting from 1 July of the year following that of the end of the financial year.

Thus, the general term for keeping justifying documents, payrolls, compulsory accounting registers, the fiscal memory of cash registers and the special register is 5 years, calculated from 1 July of the year following the end of the financial year in which they were drawn up.

The annual and interim financial statements are an exception, and have a retention period of 10 years from the end of the financial year.

Dambovita river in the center of Bucharest and buildings architecture

Accounting for interim dividends

The accounting by entities of amounts received as a result of the interim distribution of dividends during the financial year is made using account 467 "Debts related to interim dividend distributions".

Entities that have opted to distribute dividends during the financial year will recognize the relevant claims in account 463 "Receivables representing dividends distributed during the financial year".

The adjustment of the interim dividends is made at the beginning of the following year, based on the approved annual financial statements.

Capitalization of borrowing costs

The capitalization of borrowing costs must cease when most of the activities necessary for the preparation of the asset with a long manufacturing cycle are carried out, in order to use it for its predetermined use or sell it.

An asset is normally ready for its default use or sale when the physical construction of the asset is completed, even if some routine administrative work is still going on.

If only minor changes are to be made, such as interior decoration of a building according to the specifications of the buyer or user, then it is considered that most of the activities have been completed.

The start date for the capitalization of borrowing costs, for an asset with a long manufacturing cycle, is the date on which the entity meets for the first time, at the same time, all of the following criteria:

- ✓ It bears the expenses for the respective asset
- ✓ It bears the cost of the indebtedness
- ✓ It undertakes the activities necessary for the preparation of the asset for its intended use or for sale

An entity incurs expenses for an asset with a long manufacturing cycle only when those expenses have generated cash payments, transfers of other assets or the acquisition of interest-bearing debts.

The activities necessary to prepare the asset for its intended use or for sale do not include only the physical construction of the asset. They also include the technical and administrative work prior to the commencement of the physical construction, such as the activities associated with obtaining the approvals prior to the commencement of the physical construction.

However, such activities preclude holding of an asset when no production or development activity takes place that changes the condition of the asset. For example, borrowing costs incurred during the development of land are capitalized during the period in which the development activities are carried out. In contrast, borrowing costs incurred during a period in which land acquired for the purpose of constructing buildings is owned without being subject to associated development activities are not accepted for capitalization.

The accounting regulations specify the conditions under which an entity interrupts the capitalization of borrowing costs, when it does not actually work on the realization of the long-term manufacturing cycle asset.

However, the entity will not interrupt the capitalisation of borrowing costs during a prolonged period during which it temporarily discontinues activities for the purpose of preparing an asset for its predetermined use or for sale, or during a period in which it carries out significant technical and administrative work.

Accounting of intellectual property licensing contracts

The method of recognizing the income obtained from the assignment of intellectual property is determined by the contractual provisions, by the nature of the obligation to grant the license, whether or not the licenses granted are distinct from the transfer of a good or service, as well as other related obligations.

The entity must also determine the specific time at which the license is transferred to the customer. Thus, an entity accounts for the licensing and other goods or services together as a single operation, when an obligation to grant a license is not distinct from other contracted goods or services.

If the license is distinct from the other contracted goods or services and is a separate performance obligation, the entity determines whether the license is transferred to the customer at a given time or in time, analyzing and accounting differently the income corresponding to the granting of the license depending on the type of licensing

obligation

01. a right to access its intellectual property, as it exists during the license period;

or

02. a right to use its intellectual property, as it exists at a specific time, when the license is granted.

The recognition of revenues from royalties based on sales or on the basis of promised use in exchange for an intellectual property license is made by businesses only when or as the last of the events below occurs:

- the sale or subsequent use takes place; and
- the performance obligation to which part or all of the royalty has been allocated on the basis of sales or use has been fulfilled (or partially fulfilled).

The application of the above treatment should be used where the fee relates only to an intellectual property licence or where an intellectual property licence is the predominant element to which the royalty relates.

Cash collection and payment operations between professionals and professionals and individuals

Professionals:

legal entities, authorized individuals, sole proprietorships, family businesses, freelancers, self-employed individuals, associations and other entities with or without legal status

01. Caps on cash receipts and payments between professionals

- Receipts/payments within a daily ceiling of 5,000 lei/person; total payments cannot exceed the daily ceiling of 10,000 lei.
- Payments/receipts made by cash and carry stores, within a daily ceiling of 10,000 lei/person; (including amounts granted in the form of advances for settlement).
- Payments from advances for settlement within a daily ceiling of 5,000 lei/person.

02. Cap on cash receipts and cash payments between professionals and individuals:

- Receipts/payments representing the value of the delivery/purchase of goods/services, dividends, assignment of receivables or other rights, refunds of receipts/financing/loans within the daily limit of 10,000 lei/person.
- Receipts/payments with individuals as associates/shareholders/administrators/individuals/other creditors regardless of their nature and destination, are made only through non-cash payment instruments.

03. Cap on cash receipts and cash payments between individuals:

Receipts/payments between individuals made as a result of the transfer of ownership, the provision of services and granting/returning loans within the daily limit of 50,000 RON/transaction.

Other applicable cash transaction provisions:

- The amounts in the cash register cannot exceed the ceiling of 50,000 lei at the end of each day.
- Failure to comply with the ceilings is penalized with a fine of 25% of the amount received/paid, held in the cash register, which exceeds the ceiling established for each type of operation, but not less than 500 lei.

New accounting accounts applicable from reporting year 2023

The fiscal authorities introduced a series of new accounts in the Chart of Accounts during 2023, as follows:

01. From account 628 "Other expenses involving services carried out by third parties" the following distinct accounts are derived:

616 "Expenses related to intellectual property rights": keeps track of expenses related to intellectual property rights that do not meet the conditions for recognition as an asset. The involvement of an amount of money or of any other nature through which a person benefits from the use of goods created by an author, goods that are protected by various means of intellectual property, for a certain period of time (copyrights, brands, patents, licenses, industrial equipment, franchises, etc.).

Intellectual property licenses may include copyrights associated with intellectual activity in the literary, artistic and scientific fields (books, brochures, conferences, literary and musical works, films, media, entertainment, illustrations, computer and technological programs, scientific discoveries), as well as patented inventions (brands, franchises, models, designs).

617 "Management expenses": The inclusion in this category is made according to the contractual provisions and the nature of the services provided or to be provided in order to manage and organize the activity. These expenses assume direct involvement in the company's activity, the power to make decisions, supervision of the activities carried out, preparation of work reports, participation in meetings with the management team.

618 "Consulting expenses": are considered consulting expenses when certain advice, recommendations, and/or comments are offered, without a direct involvement in the execution of a project.

The highlighting of expenses related to management, consultancy and property rights must be carried out separately and in the relationship with the affiliated entities.

02. Accounting records from account 612 "Expenses involving royalties, management locations and rent" will be broken down into the following analytical accounts:

6121 "Royalties expenses ": the payment of a sum of money or of any other nature by which a person benefits from the use of movable tangible or immovable property for a certain period of time (for example the right to exploit natural resources, surface, concession etc.).

6122 "Management locations expenses": Expenses involving the transfer of the right to use a commercial fund for a certain period of time, of an entity/location such as restaurants, breweries, shops, workshops, etc.

6123 "Rent expenses": tangible fixed assets which are rented, based on the supporting documents (for example the rent of machinery, the rent of residential premises, office premises, the rent of technological equipment, etc.).

RO e-Invoice – Accounting impact

Between 1 January 2024 and 30 June 2024, companies are required to send the invoices issued in the national RO e-Invoice electronic invoice system, regardless of whether or not the recipients are registered in the RO e-Invoice Register, in parallel with the traditional invoicing rules. Starting from 1 July 2024, e-Invoice will become the only channel for sending invoices to recipients.

Companies have this obligation regardless of whether or not they are registered for VAT purposes in Romania.

The system is applicable for all operations that take place in Romania, carried out in B2B and B2G relationships.

If a recipient has objections to an electronic invoice issued in a B2B or a B2G relationship, the recipient notifies the issuer of the electronic invoice including in the national electronic invoice system RO e-Factura, or in the national reporting system — Forexebug, by sending a message.

The electronic invoice communicated to the recipient cannot be returned in the RO e-Invoice system. The correction of the electronic invoice communicated to the recipient in the RO e-Invoice system is carried out by reversal, and the corrected electronic invoice is transmitted within the same RO e-Invoice system.

Documents are kept in the ANAF system for 60 days. After this period they are archived, and companies must ensure that they keep the XML files sealed by the Ministry of Finance after uploading them to the system. The rules on the document archiving period are also applicable to e-Invoices.

The penalties for administrative offences set out in the Accounting Law (Law 82/1991), as updated according to Ordinance 115/2023 concerning the submission of Financial Statements are as follows:

- For presentation of erroneous or uncorrelated data, including in relation to the identification of the reporting person, the fine falls within the range of 1,000 lei - 3,000 lei
- For non-compliance with the provisions concerning the preparation of declarations on the assumption of responsibility for the preparation of annual financial statements => the fine falls within the range of 2,000 to 10,000 lei
- Failure to submit by the legal deadline is penalised by a fine calculated according to the number of days of delay:
  - ✓ 1,000 lei - 3,000 lei for a delay period of between 1 and 15 working days,
  - ✓ 2,000 lei - 4,000 lei for a delay period between 16 and 30 working days, and
  - ✓ 3,000 lei to 5,000 lei if the delay period exceeds 30 working days;

National Library, Bucharest, Romania

Banking & Finance

Romanian Banking System

The banking system is supervised by the central bank, the National Bank of Romania ("NBR").

A consolidation of the banking sector has been observed in recent years. As at the date of this report 23 banks were registered in Romania, down from 43 in 2009.

National Bank of Romania

The NBR's activity is governed by Law 312/2004 on the Statute of the National Bank of Romania. As an independent public institution, the NBR is run by a Board of Directors consisting of nine members appointed by Parliament. Its primary objective is to ensure and maintain price stability.

The NBR works on a permanent basis with the International Monetary Fund, the European Central Bank and specialised consultants from the World Bank, as well as with other organisations, in developing banking policies and procedures. The NBR is part of the European System of Central Banks (ESCB), and the NBR's Governor is a member of the General Council of the European Central Bank (ECB).

New regulatory requirements for Romanian banks

In recent years, Romanian banks have faced increased compliance costs as a result of the implementation of complex, new and far-reaching standards, including MiFID II, PSD 2, AML 2 and the GDPR.

National Bank of Romania

Limited deductibility of expenses incurred in disposing of receivables

According to the provisions of Law 72/2018 approving Ordinance 25/2017 amending the Fiscal Code (Law 227/2015), up to 30% of the difference between the consideration received and the nominal value of the receivable is deductible for corporate income tax purposes.

For banks, if the disposed receivables are covered by depreciation adjustments or if they are booked off-balance sheet, 70% of the difference between the value of the disposed receivables and the consideration received represents elements similar to revenues (taxable for corporate income tax purposes).

Regulations on Credit Institutions

Romania has transposed the provisions of European Directives on credit institutions. The NBR issued regulations transposing the provisions of Directive 2013/36/EU at the end of 2013 and the beginning of 2014.

The national legal framework is currently compliant with the capital and corporate governance requirements set out in the Directive and in Regulation 575/2013, (together, the CRD IV legislative package as modified by Directive 2019/878). Credit institutions that are Romanian legal entities, may be set up and operate as:

- banks,
- credit co-operatives,
- housing savings banks and
- mortgage loan banks.

Domestic Credit Institutions

Credit institutions that are Romanian legal entities may be established only as joint stock companies with at least two shareholders, (individuals or legal entities, either resident or non-resident) and may operate only with the authorisation of and under the supervision of the NBR. To be authorised, Romanian banks must have a minimum initial capital of RON 37 million. Banks which grant mortgage loans and housing savings banks must, upon authorisation, have a minimum initial capital of RON 25 million.

The shareholders' contribution to the share capital must be fully paid, in cash, as at the subscription date. All banks must open current accounts with the NBR and are required to maintain minimum reserves.

Romanian banks are mainly involved in the following activities:

- acceptance of deposits and other repayable funds,
- lending, including, inter alia: consumer credits, mortgage credits, factoring with or without recourse, financing of commercial transactions, including forfeiting,
- financial leasing,
- payment services,
- issue and administration of payment means such as cheques, bills and promissory notes and other similar means of payment
- issue of guarantees and undertaking of commitments,
- trading of financial instruments on their own behalf and on behalf of clients,
- keeping in custody and managing financial instruments,
- issuing electronic money etc.

Romanian banks are expressly prohibited from carrying out activities, such as:

- pledging the bank's own shares to secure its liabilities,
- granting loans secured with the bank's own shares, etc.,
- acceptance of deposits and other repayable funds when the bank is insolvent.

Supervision of the liquidity risk is ensured both by banks and the NBR. As such, all banks must submit financial statements to the NBR and other requested data under the terms and in the form established under current legal provisions.

In order to limit the liquidity risk, for each financial year banks must establish:

- a strategy for liquidity management, which must be reconsidered whenever the business environment makes it necessary
- a strategy for liquidity risk in the event of a potential crisis, and appropriate solutions for resolving the crisis. In order to meet these objectives, banks must have procedures in place for monitoring and limitation of liquidity risk.

Foreign Credit Institutions

Any credit institution licensed and supervised in an EU or an EEA member state is entitled to operate in Romania, through a branch or by directly rendering services, without any NBR license being required, provided that certain notification formalities are met and that the branch thus established operates within the framework set out in the banking license issued by the regulatory body in the credit institution's home-country.

Non-EU credit institutions may operate in Romania through branches, subject to NBR authorisation and within the framework set out in the banking license granted by the regulatory body in the home-country. Generally, foreign banks operating in Romania have the same rights and obligations as domestic banks.

Licensing

Upon applying for a license, foreign and domestic banks are subject to the same NBR licensing requirements. The main requirements involve:

Maintenance of a minimum share capital (endowment capital for branches).

- ✓ Reputation and financial reliability of significant shareholders.
- ✓ Evidence of a strong and professional management team.
- ✓ Presentation of a comprehensive three-year business plan.

Generally, the NBR authorisation process includes 3 stages:

- ✓ NBR approval for the setting up of the bank
- ✓ Incorporation of the bank (registration with the Trade Registry) and
- ✓ NBR authorisation for starting operations.

Individuals or legal entities or a group of individuals and/or legal entities which intend to become significant shareholders of an already existing credit institution, e.g., make a contribution to the share capital or have voting rights in the bank equal to or more than 10%, must obtain NBR approval.

To ensure the stability of the banking system, the NBR has introduced certain requirements to be met by the shareholders of a bank (individuals or legal entities), as follows:

- ✓ Sound reputation, analysed in terms of integrity and professional competency, including experience as a controlling shareholder or a director/manager of a financial institution
- ✓ Stable financial situation (the NBR has the authority to analyse the source of the funds used by individuals or legal entities to gain the position of a significant shareholder),
- ✓ Supply of the necessary information related to the group they belong to;
- ✓ Adequate supervision ensured by the relevant authorities in the country of origin of the individual or the legal entity.

Accounting Regulations

Credit institutions carrying out activities in Romania, including Romanian branches of foreign credit institutions and foreign branches of Romanian credit institutions, are required to apply International Financial Reporting Standards (IFRS) as a basis for accounting and reporting of financial statements.

Privatisation of State-Owned Banks

Most banks have now been privatised, and CEC Bank (in the top 10 banks by assets) is the only commercial bank still in state hands (100%). Although the government is committed in principle to the eventual privatisation of CEC, this has been postponed indefinitely. The state also owns EXIMBANK, which supports Romania's foreign trade through specialised financial banking and insurance instruments, both on the bank's behalf and account as well as on behalf of and for the benefit of the Romanian State.

Non-Banking Financial Institutions

Non-banking financial institutions are regulated by Law 93/2009. To qualify as a non-banking financial institution and to be authorised to conduct credit operations, a company is required to include in its main objects of activity only the activities permitted under Law 93/2009, e.g. granting of credits, financial leasing or pawnbroking activities.

Non-banking financial institutions must have a minimum share capital of the RON equivalent of EUR 200,000, or EUR 3,000,000 if they grant mortgage loans.

Non-banking financial institutions may also provide auxiliary and advisory services in relation to their main object of activity and may carry out operations on behalf of other non-banking financial institutions and credit institutions.

Law 93/2009 states that non-banking financial institutions must be registered with the NBR and included in a General Registry as well as, if applicable, in a Special Registry (depending on certain criteria relating to turnover, credit volume, debt-to-equity ratio, annual percentage rate, total assets and own capital - as established under NBR regulations).

As a general rule, non-banking financial institutions are allowed to carry out the activities included in their object of activity only after they have been recorded in the General Registry maintained by the NBR.

Payment Institutions

Payment institutions are licensed and regulated by the NBR. The legal framework is provided by Law 209/2019 on payment services and NBR Regulation 4/2019 on payment institutions, which were promulgated to implement the provisions of Directive

2015/2366 on payment services within the internal market ("PSD 2"). Regulation 4/2019 establishes the requirements for the provision of payment services in Romania and sets out the rules for the supervision of payment institutions by the regulatory authorities. It also lists the rights and obligations of users and providers of payment services.

A major feature of PSD 2 was the introduction of two new categories of Payment Service Providers ("PSPs", collectively known as "Third Party Providers"):

- ✓ Payment Initiation Service Providers ("PISP");
- ✓ Account Information Service Providers ("AISP").

PSD 2 requires Romania to impose authorisation conditions on undertakings which intend to operate as payment institutions providing payment services. Because PISPs and AISPs do not hold client funds when providing these services, there are no "own funds" requirements.

Nonetheless, PSD 2 sets out disclosure requirements that a prospective payment institution must comply with in order to be authorised to provide payment services.

Consequently, PSD 2 brought changes to the payments industry that affect financial services, together with the other players on the market. Among these changes, the following need to be considered:

- ✓ Creation of a legal basis for payments via the internet or mobile phones: Regulation of existing payment services by taking third party payment service providers into account, for example payment initiation services (direct payment release via third parties) or account information services (providing users' account information).
- ✓ Provision of EU-wide access to the payments market for third-party payment service providers: banks will have to grant direct access to their customers' account information to third-party payment service providers (if authorised by their clients).
- ✓ Increased customer protection and authentification: PSD 2 introduces more stringent security requirements for the initiation and processing of electronic payments, as well as for the protection of customers' financial data, for example through enhanced customer authentification. At the same time, consumer rights have been strengthened, e.g. by reducing liability for unauthorised transactions and by introducing an unconditional refund privilege for direct debits.
- ✓ Exemptions apply only for a limited number of payment services: Many providers with innovative business models have to obtain authorisation for their services under PSD 2.

Foreign Currency Regime

The main provisions currently regulating foreign currency operations are incorporated in NBR Regulation 4/2005, on the foreign currency regime and as supplemented by Regulation 6/2012.

Currency Convertibility

The national currency, (leu, pl. lei) has been convertible since 1998.

Inter-bank Foreign Exchange Market

The leu's exchange rate is determined on the inter-bank foreign exchange market, where foreign currency can be bought and sold in exchange for lei, at spot or forward exchange rates freely determined by the credit institutions authorised by the NBR.

Based on the currency exchange rates used on the inter-bank market, the NBR establishes the daily exchange rate.

Foreign Currency Operations

According to the applicable regulations, current and capital transactions between residents and non-residents may be carried out in both foreign and domestic currencies.

As a general rule, payments made between residents related to the trade of goods and services must be carried out in RON. In certain situations, such as those presented below, payments can also be made in foreign currency by the following categories of residents:

- ✓ Legal entities, for payments and cash receipts from cross-border trade of goods and services.
- ✓ Any individual or legal entity, for trading operations inside harbors, airports, customs or on external routes of international trains, ships or airplanes.
- ✓ Any individual or legal entity, for operations related to the organisation or supply of cross-border services.
- ✓ Individuals, for incidental operations.
- ✓ Any individual or legal entity, for operations carried out abroad.
- ✓ Any individual or legal entity, for operations not related to the trade of goods and services.

Residents and non-residents may hold financial assets in both foreign currency and lei. Non-residents may repatriate or transfer, locally and abroad, financial assets held in Romania.

However, where short-term capital movements of exceptional magnitude impose severe strains on the foreign exchange market and lead to serious disturbances in the conduct of monetary and exchange rate policies, which are reflected in particular in substantial changes in domestic liquidity and severe imbalances in the balance of payments, the NBR may take safeguarding measures with respect to capital transactions.

NBR regulations provide notification obligations with respect to certain transactions concluded between residents and non-residents, for statistical purposes, for the monitoring of the external private debt and the balance of payments at national level.

Consumer Credit Protection

Government Emergency Ordinance 50/2010 on credit agreements for consumers is the main regulation on consumer credit protection and implemented EU requirements on the obligations of creditors.

The Ordinance sets out consumers' rights to transfer credits from one creditor to another under more advantageous contractual conditions as well as to repay in advance the amounts contracted without paying excessive penalties. The Ordinance also sets out the framework for the operation of credit under conditions of transparent and free competition, thus establishing mechanisms that maintain a sufficient degree of solvency for both debtors and creditors.

A number of new draft laws in relation to consumer protection are currently under discussion

Giving in Payment Law

The Giving in Payment Law (in Romanian Legea Dării în Plată) regulates the debtor's right to extinguish a full claim, and any related charges/penalties, arising from a credit agreement by transferring real estate ownership which has been mortgaged to the lender.

The Constitutional Court has issued a decision clarifying and limiting the cases when this law can be applied.

Romanian Mortgage Credit Law

Law 190/1999 on mortgage credit for real estate investment regulates the parties' rights and obligations with regard to credit agreements for consumers on the sale and acquisition of immovable assets, loan agreements backed up by mortgages over immovable assets, aspects of the credit worthiness assessment, certain prudential and supervisory requirements, including for the establishment and supervision of credit intermediaries and companies which specialise in debt recovery, as well as aspects of the provision of accessory services.

Cazanele Dunării, Mehedinți county, Romania

Recovery and resolution of credit institutions and of investment firms

Law 312/2015 on the recovery and resolution of credit institutions and of investment firms, which amends and supplements certaain normative acts within tihe financial sector, is in line with the rules under Directive 2014/59/EU.

The Law provides for the setting up of a banking resolution fund similar to that existing under the current national legislative framework, established by Government Ordinance 39/1996 on the setting up and operation of the Deposit Guarantee Fund within the banking system, as republished.

In order to ensure the necessary funds to finance the resolution measures, and to avoid the use of public funds for these purposes, the law provides for the establishment of a resolution fund by correlated contributions from the financial sector, in principle prior to and independently from any resolution operations (ex-ante financing, with a minimum mandatory level at least until a critical ceiling of available resources is reached) and, if such financing proves to be insufficient, by supplementary contributions.

The banking resolution fund resources must reach 1% of the covered deposits of credit institutions authorised by the National Bank of Romania by 31 December 2024.

Covered Bonds

According to Law 233/2022 on covered bonds and for amending and supplementing certain financial regulations, banks may issue covered bonds under new rules.

Romanian Insurance Market

The Romanian insurance market has seen significant M&A activity in recent years, with all large players in the region now having a local presence, including Germany's Allianz, France's Groupama and Austria's Uniqa and Vienna Insurance Group.

The market is regulated by the Financial Supervisory Authority ("FSA"). The FSA was established in 2013 and took over the prerogatives of the former Insurance Supervision Commission, the National Securities Commission and the Private Pensions Supervision Commission.

Currently, the former Insurance Supervision Commission is a branch of the FSA.

Insurance activities may be carried out only by insurance companies set up and operating according to the general provisions of the Company Law (Law 31/1990), and Law 32/2000 on insurance undertakings and insurance supervision, which was amended by Law 237/2015 on the authorisation and supervision of insurance and reinsurance activities. As such, the setting up of an insurance company is subject to the following main rules:

- Insurance companies set up as Romanian legal entities must be organised as joint stock companies registered with the appropriate Trade Registry Office, whose shareholders can be resident or nonresident individuals or legal entities.
- Currently, the minimum capital is set according to the category of insurance provided (e.g. EUR 2,500,000 for general insurance activities, and EUR 3,700,000 for life insurance activities).
- Insurance companies established in an EU or an EEA member state may operate in Romania under a license issued by the supervisory authorities in their home-countries, by setting up a branch or by providing services directly, in accordance with the right of establishment and freedom to provide services.
- Non-EU insurance companies may carry out insurance activities in Romania by setting-up branches, subject to authorisation by the FSA and subject to supplementary requirements.

Insurance activities are divided into two categories: life and non-life, each with subsequent classes. Generally, an insurance company may not carry out both categories of insurance activities. However, life insurance activities can be cumulated with certain classes of non-life insurance. The registration of an insurance company with the appropriate Trade Registry Office is subject to prior authorisation by the FSA. Once registered with the Trade Registry Office, insurance companies must obtain their operating license from the FSA. The former Insurance Supervisory Commission has issued regulations on matters such as:

- Internal control and risk management of insurance companies
- Fees for insurance companies and insurance brokers
- Evaluation criteria for approval of significant shareholders and for authorising the setting up of insurance companies. Insurance companies must have adequate financial resources and insurance must be their sole object of activity.

They must have a corporate name which is not misleading to customers, as well as meeting minimal conditions related to share capital and reserves.

They must present comprehensive reinsurance and feasibility programs,

while foreign insurance companies must present evidence of similar activities carried out for at least 5 years in the country of origin. Companies must also meet requirements on significant shareholders and management.

Categories of insurance coverage that can be offered

Minimum solvency margin for insurance companies carrying out general insurance activities

Portfolio transfer

Law 246/2015 on the recovery and resolution of insurers sets out recovery and resolution planning measures, and states that insurers which play a significant role in the national insurance system must develop their own recovery plans and are subject to individual resolution plans:

- ✓ In terms of recovery plans, the insurers mentioned above must develop and maintain this type of plan, setting out measures to be taken to restore their financial situation in the event that the insurer's financial indicators undergo a significant deterioration.
- ✓ The resolution plan for an insurer should be prepared by the FSA and should provide the resolution measures that can be undertaken by the FSA in the event that the insurer meets the conditions required for the initiation of a resolution procedure.

IDD

Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution ("IDD") repealed and reformed Directive 2002/92/EC of the European Parliament and of the European Council of 9 December 2002 on insurance intermediation.

IDD completes the provisions on the sale of investment products in line with the provisions of Directive 2014/65 on Markets in Financial Instruments (MiFID II) and provisions on key information documents for structured and insurance based individualised investment products under Regulation (EU) 2014/1286 of the European Parliament and of the European Council (PRIIPs).

The legal framework of the IDD is aimed at strengthening consumer protection and harmonising the rules on the distribution of insurance products.

The IDD has an impact in the following ways:

- ✓ it creates a level playing field for all insurance distributors,
- ✓ it facilitates the application of MIFID II in harmony with other regulations,
- ✓ and it generates greater product oversight and governance, as well as regulating customer information requirements, inducements, cross-selling, etc.

The IDD was implemented into Romanian legislation under Law 236/2018.

Private Pension System

In 2007 the Romanian pension system underwent major restructuring based on the World Bank's multi-pillar model. Law 204/2006 on voluntary pensions and Law 411/2004 on mandatory pensions form the regulatory framework of the private pension system. Additional norms and regulations are issued by the former Private Pension System Supervisory Commission. The new system became mandatory for all employees aged under 35 and voluntary for employees aged 35-45.

Participation in a mandatory pension fund is only open to employees paying social security contributions (CAS). Contribution collection is centralised by the National Pensions Authority which collects and directs the contributions towards the pension funds. Since 2008, part of the social security contribution payable by individuals has been redirected from the state budget to the chosen private fund. The redirected contribution was 2% in 2008 and the initial aim was that it should gradually increase as a proportion of the total payment until it reached 6% in 2016. However, in practice, the increases have been repeatedly delayed. The private pension contribution reached 5.1% in 2017, but was reduced and is currently only 3.75%.

Mandatory pension funds are managed by pension management companies (administrators) which can manage no more than one fund.

Participation in a voluntary pension fund is open to everybody earning income – from employees to the self-employed (those with independent activities in liberal professions). For employees, collection of contributions is made by the employer, who must send the money to the voluntary pension funds. In all the other cases (self-employed, etc.), the participant can pay his or her own contributions directly to the private pension fund.

Voluntary pension funds are managed by pension management companies (administrators), life insurance companies or asset management companies.

However, there is only one type of product – 3rd pillar voluntary pension fund – regardless of the nature of the pension management entity. Each pension/ life insurance/ asset management company can manage as many funds as they wish.

A pension fund (either mandatory or voluntary) is unitized and functions similarly to an investment fund but its investments are strictly regulated (the law imposes percentage ceilings for different classes of assets). Before starting their activity on this market, operators must obtain several licences from the FSA.

Currently, there are only 7 mandatory pension funds (following several mergers in the last few years) and 10 voluntary pension funds.

Capital Markets

The development of Romanian capital markets is closely linked to privatisation. The Bucharest Stock Exchange ("BSE"), initially established in 1864, was re-established in 1995.

Law 24/2017

Law 24/2017 on financial instruments issuers and market operations created the prerequisites necessary to ensure the development of the capital market in order for the national market to be reclassified as an emerging market. It consequently sets out the following development goals:

- ✓ to enhance the implementing framework applicable to corporate governance principles for issuers, with favourable implications for transparency and relevant information reporting,
- ✓ to optimise the public bidding framework and the listing of securities,
- ✓ to strengthen the legal framework to ensure investors' rights, for example the right to vote in the general meeting of shareholders, the right to dividends etc.

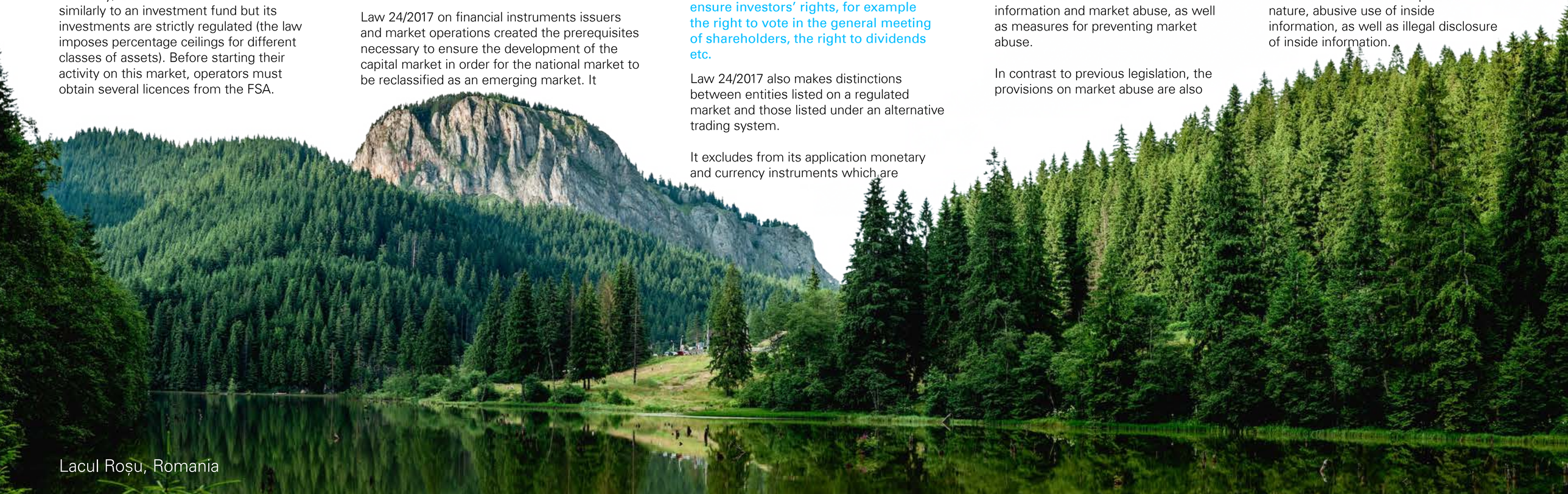
Law 24/2017 also makes distinctions between entities listed on a regulated market and those listed under an alternative trading system.

It excludes from its application monetary and currency instruments which are regulated and supervised by the NBR, as well as derivative instruments which have such instruments as active support, currency and interest rates. Law 24/2017 redefines the notions of shareholder, formal agreement, regulated information, trading place, regulated market, algorithmic trading, high frequency trading etc (updating previous legislation).

Law 24/2017 also sets out norms on abusive use of inside information, unauthorised disclosure of inside information and market abuse, as well as measures for preventing market abuse.

In contrast to previous legislation, the provisions on market abuse are also applicable to multilateral trading facilities, organised trading facilities and auction platforms authorised as regulated markets for emission certificates. Law 24/2017 also extends the concept of "person holding inside information" for example, to persons that have access to such information as a consequence of the nature of their working position, profession or professional duties.

In addition, Law 24/2017 defines the notion of information of a precise nature, abusive use of inside information, as well as illegal disclosure of inside information.



Lacul Roșu, Romania

Regulatory mechanisms and bodies

The Financial Supervision Authority ("FSA") is the regulatory and supervisory body of the capital market.

The FSA was established in 2013 and took over the prerogatives of the former National Securities Commission ("NSC"), the Insurance Supervision Commission and the Private Pensions Supervision Commission.

Currently, the former NSC is a branch of the FSA called the Financial Instruments and Investment Sector.

The FSA has certain extended prerogatives; it authorises investment firms, management companies and undertakings for collective investments in transferable securities and also provides the general listing requirements for issuers and regulates the securities exchange, including trading and settlement mechanisms.

Intermediaries

Generally, securities transactions may be carried out only through intermediaries, i.e.

- ✓ Investment firms authorised by the FSA,
- ✓ Credit institutions authorised by the NBR and
- ✓ Similar institutions authorised in an EU/EEA Member State to provide investment services.

Investment Firms

(in Romanian, "Societati de Servicii de Investitii Financiare") are set up in Romania as joint stock companies whose object of activity is to provide investment services. In 2015, the FSA issued a regulation allowing investment firms to carry out other activities such as insurance intermediation or credit intermediation.

Investment firms which are authorised and supervised in an EU Member State may provide in Romania the investment services they have been authorised for by the appropriate body in their country of origin, either directly or through branches set up for this purpose, without the FSA's authorisation.

Non-EU investment firms may set up branches in Romania subject to the FSA's authorisation.

MIFID II

MiFID II was implemented into Romanian legislation in 2018.
The core themes and key issues of MiFID II/MiFIR are the following:

- ✓ Investor protection;
- ✓ Transaction reporting;
- ✓ Commodity derivatives;
- ✓ Microstructural Issues;
- ✓ Market Infrastructure;
- ✓ Trading and Cleaning;
- ✓ Governance;
- ✓ Transparency;
- ✓ Regulatory.

The key impact and business challenges are the following:

- ✓ Advice – independence & inducements (suitability and advice statement; accountability to board), Product Governance – target markets, investor needs (focus on structured products and structured deposits – similar to TCF – Treating Customers Fairly – TCF) ;
- ✓ Appropriateness – type and complexity (If executing only, appropriateness check not required, client to be informed in writing.);
- ✓ Best Execution – additional monitoring, fewer incentives (Order handling policy to be reviewed. Best execution applies to all MiFID products. Publish top 5 venues);
- ✓ Strategy and composition – customer focus and diversity (No. of directorships to be limited. Technical standards will specify role, responsibilities and time commitment.);
- ✓ Authorization – Systematic Internalisers (SI) may be categorised as MTFs, requiring authorisation.

Credit institutions

authorized by and acting under the supervision of the National Bank of Romania (NBR), may provide investment services on the regulated markets, on their own account or on the account of third parties.

At the same time, these institutions can set up distinct investment companies.

Advisory services

related to investments in financial instruments (i.e. analysis of financial instruments, selection of the portfolio, and expressing opinions with regard to the sale or purchase of financial instruments) can be carried out only by authorised investment advisors (individuals or legal entities).

Issuers

Under Law 24/2017, the main listing conditions are:

- ✓ The issuer should have had a foreseeable market capitalisation of at least the RON equivalent of EUR 1 million for its capital and reserves, including profit and loss, in the last financial year
- ✓ The company should have been operating over the last 3 years prior to its application for admission and should have communicated all financial statements, according to current legislation.

An eligibility condition is that shares must be fully paid and freely negotiable.

Additionally, a sufficient number, as defined by Law 24/2017 (no less than 25%) of shares must be distributed to the public, unless the distribution is made through transactions on the regulated market.

Admission to a regulated market requires that an application should be addressed to the market operator after the publication of an information sheet approved by the FSA. All actions undertaken in this respect are made via intermediaries.

Law 126/2018, Law 24/2017 and other regulations also set out provisions with regard to protection of investors, information requirements, procedures to be followed where public offers for sale or purchase of shares are made, etc.

Regulated markets

Law 126/2018 sets out the conditions and procedures for setting up a regulated market, including provisions with respect to market operators.

Thus, a market operator must be a joint stock company with a minimum share capital of EUR 5 million in RON equivalent. None of the shareholders of this company can directly or indirectly have more than 20% of the total voting rights. Both the market operators and the regulated market must be authorized by the FSA.

Bucharest Stock Exchange

The Bucharest Stock Exchange (BSE) was established as a legal body in 1995 and transformed into a joint stock company by Law 297/2004 on capital markets.

The BSE regulated markets are:

- ✓ The regulated spot market and
- ✓ The regulated derivative market (futures).

The regulated spot market operated by the BSE is structured as follows:

- A Equity sector
- B Debt sector
- C Collective Investment Undertakings Sector
- D Structured Products Sector
- E Other International Financial Instruments Sector.

A

The equity sector is divided into:

- ✓ Premium Tier shares,
- ✓ Standard Tier shares,
- ✓ International Tier shares.

Premium Tier shares include the best performing companies.

In order to be listed in the Standard Tier shares category, a company must have a value of own capital from the last financial year of at least the equivalent in RON of EUR 1 million or the foreseeable capitalisation must be at least the equivalent in RON of EUR 1 million. Moreover, the free-float must be at least 25%.

B

The debt sector is divided into:

- ✓ Corporate bonds,
- ✓ Municipal Bonds,
- ✓ Treasury Bonds,
- ✓ International Bonds,
- ✓ Other debt.

Bonds and other debt securities

The bonds market is currently developing, in terms of both corporate and municipal bonds. In this respect, regulations have been adopted governing the securitization of receivables and mortgage-backed securities.

Additionally, the Ministry of Public Finance is empowered to issue treasury bills in national or foreign currency, for short, medium or long term periods.

These treasury bills can be issued in materialised or dematerialised form.

Dematerialised treasury bills with a maturity in excess of 12 months can be traded on the regulated market and can be bought by individuals and companies. The Ministry of Public Finance, together with the NBR and the FSA have issued Regulations governing the performance of these transactions.

Alternative Trading System (ATS) - AeRO

In 2015, a new improved alternative trading system called AeRO was launched. According to the BSE's presentation of this market, the alternative trading system is not a regulated market in the sense of the European Directives or European and Romanian capital market legislation, but it is regulated by the BSE's rules and obligations.

The alternative system was established by the BSE in order to provide a market with less reporting obligations from issuers, but at the same time with sufficient transparency for investors to encourage them to trade.

The AeRO market is dedicated to financing the companies that do not meet the size or history criteria for being listed on the regulated market. According to the new provisions, there may only be one share trading category for Romanian companies on AeRO.

Collective Investment Undertakings

GEO no. 32/2012 on undertakings for collective investment in transferable securities and investment management companies on the capital market regulates the authorisation and functioning of undertakings for collective investments in transferable securities ("UCITS") and investment management companies ("SAI").

UCITSs (Open-end Investment Funds and Investment Companies)

Open-end investment funds are non-incorporated collective schemes authorised by the FSA and managed by a management company that has the exclusive prerogative to set up an open-end investment fund. The funds issue fund units but are not allowed to issue other financial instruments.

A management company can be set up as a joint stock company, with an initial capital of at least the RON equivalent of EUR 125,000. The object of activity of a management company is to manage UCITSs and/or, subject to FSA prior approval, other collective investment undertakings.

Under certain conditions, management companies can also manage individual investment portfolios (including those of pension funds) on a discretionary basis, as well as other non-core services.

Subject to prior approval by notification to the FSA, management companies are allowed to delegate to third parties the managing activities related to collective investment portfolios. Investment companies:

i. are joint stock companies issuing nominative shares, fully paid upon subscription and

ii. are managed either by a Board of Directors, according to their Acts of Incorporation (self-managed investment companies) or by management companies. Their sole object of activity is to make collective investments in liquid financial instruments.

The minimum initial capital of self-managed investment companies is the RON equivalent of EUR 300,000. Additionally, an investment company needs to apply to be listed on a regulated market within 90 days of having been licensed. The common feature of UCITS is that their units (fund units or shares, as appropriate), must be repurchased from their owners, upon request.

Alternative investment funds managers (AIFMs)

Law 74/2015 on Alternative Investment Fund Managers transposed the Directive on Alternative Investment Fund Managers (AIFMD) into Romanian law.

The Directive aims to achieve a harmonised legal framework at EU level, for the authorisation and supervision of alternative investment fund managers.
Its transposition into Romanian legislation aims to regulate the activity of all alternative investment fund managers (AIFMs), other than undertakings for collective investment in transferable securities (UCITS) and which especially distribute titles to professional investors.

In this respect, authorization/ registration conditions, capital requirements, operational requirements relating to liquidity management and risk management, structural requirements including those relating to the evaluation of the assets of Alternative Investment Funds' (AIFs) portfolios, depository requirements, conditions for the delegation of alternative investment fund managers' responsibilities, as well as requirements relating to transparency, are established.

The law also provides certain exceptions from authorisation, if the AIFM manages assets below a certain level. In this case, these entities only come under the registration requirement.

For the implementation of the law, the FSA issued Regulation 10/2015 on alternative investment funds management. The regulation's provisions include rules on:

01 **Authorisation, registration and operation of alternative investment fund managers.**

02 **Appointment and duties of a depositary for alternative investment funds.**

03 **Necessary conditions for a registered AIFM to manage an AIF intended for retail investors.**

Horses, Letea Forest from Danube Delta

Depositaries

The assets of UCITSs must be entrusted to a depositary. According to current legislation, only Romanian credit institutions or branches of credit institutions registered in an EU Member State may provide depositary services. To carry out these activities, an operating permit from the FSA is required.

The competences and obligations of depositaries are set out under Government Emergency Ordinance 32/2012 and Regulation 15/2004 issued by the former NSC.

Crowdfunding

Law No. 244/2022, which came into effect in Romania on 6 August 2022, regulates the crowdfunding sector, providing legal clarity and a framework aligned with European legislation for crowdfunding platforms. The Financial Supervisory Authority (FSA) is designated as the competent authority for the oversight and authorisation of these platforms.

Investors and entrepreneurs can now benefit from two main types of crowdfunding services: equity financing and loan financing. To operate, crowdfunding platforms must obtain authorisation from the FSA, and demonstrate compliance with prudential requirements, governance, internal control, and leadership experience. The law also introduces detailed procedures for authorisation and legal deadlines for the FSA to analyze the files, thus providing a safer and regulated environment for investments in entrepreneurial projects through crowdfunding in Romania.

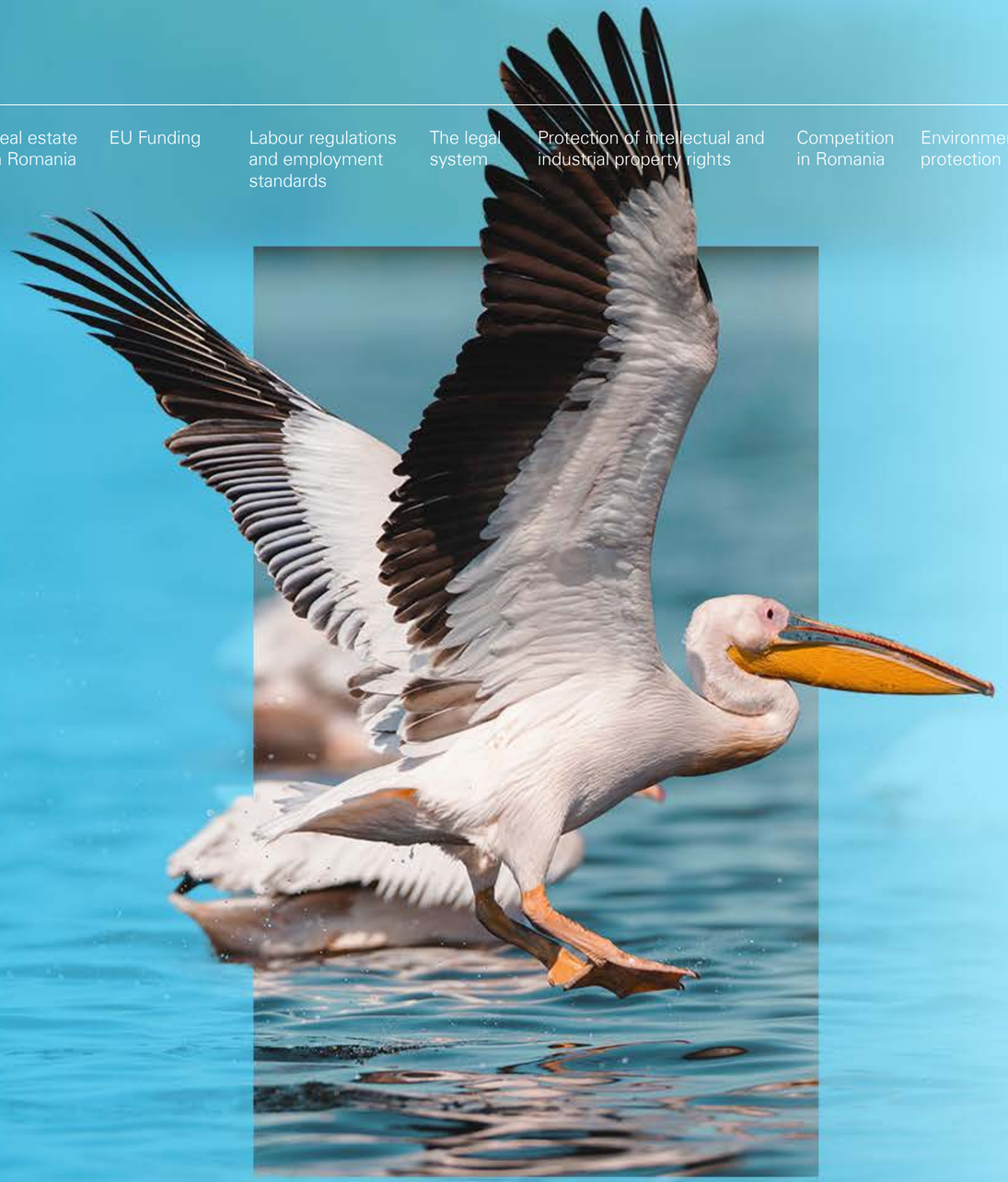
Old town of Bucharest

General commercial RULES

Domestic Commercial Transactions

Commercial Law

The contractual and commercial ("professional") rules are mainly set out under the Romanian Civil Code.
The main principle applicable to contractual matters is that contracting parties can freely choose the specific clauses that govern their relationship, except for those considered to be of public interest such as, for example, the legal status of the contracting parties.
To guarantee their contractual obligations, debtors and creditors may enter into suretyship contracts, issue letters of guarantee and comfort letters as well as set mortgages on immovable/movable assets and pledges. Additionally, creditors may introduce prior claims with regard to contract related receivables.
According to the Romanian Civil Code and Government Emergency Ordinance 99/2006 on credit institutions and capital adequacy (the "Banking Law"), mortgage or pledge agreements as well as any other agreements concluded for the purpose of securing credit agreements are deemed as writs of foreclosure (in Romanian, "titluri executorii"). As such, in order to enforce a pledge on a movable asset, the Law grants creditors the right to use the procedures governed by the Civil Procedure Code in relation to the enforcement of pledges.
However, based on the amendments brought by Government Emergency Ordinance 52/2016, the loans governed by its provisions lose their attribute as writs of foreclosure after assignment to debt recovery agencies.



Danube Delta, Romania

Finance and Bankruptcy

Law 85/2014 on Insolvency Procedures (referred to as the "Insolvency Law") applies to all professionals defined under Article 3 of the Civil Code, excepting those who exercise a liberal profession and those for which special legal provisions exist related to their insolvency.

Thus, the following entities may be deemed as professionals: companies, agricultural companies, economic interest groups, individuals who undertake commercial activities either individually or in family associations, or any private legal entity carrying out economic activities that can no longer meet its commercial debts/obligations and certain others (hereinafter referred to as the "debtor").

The Insolvency Law sets out a reorganization procedure which enables debtors in financial distress to continue their business or, if that is not possible due to their financial situation, to enter into a bankruptcy procedure which aims to liquidate debtors' assets so that the outstanding debts can be paid.

These procedures may be initiated at the request of the debtor or of its creditors, provided that their receivables meet certain requirements, mainly related to their value. Debtors are legally required to file for insolvency if they are insolvent.

Furthermore, Government Emergency Ordinance no. 88/2018 approved by Law no. 113/2020 made some changes to the Insolvency Law. For both debtors and creditors that are seeking to open insolvency proceedings, the new provisions extended the minimum amount of RON 40 000 to RON 50 000 for these cases.

Another measure issued which benefits debtors is that debtors are permitted to file for insolvency even if their debts to the state are higher than 50% of the entire amount of their debts. Furthermore, debts acquired during the insolvency procedure that are more 60 days old cannot be enforced. This legislation has also modified certain procedures.

The new provisions state that if debtors comply with their reorganization plan, the state may convert 50% of the receivables into shares under certain conditions.

Amendments were made through Law no. 49/2023 to approve Government Emergency Ordinance no. 62/2022, on the arrangement with creditors procedure. As a result of this legislation, entities involved in an arrangement procedure which was opened before 17 July 2022 have the right to request a 24 month extension of the deadline for the fulfillment of the debt claims.

Once the insolvency procedure has been initiated, any actions, either judicial or extra judicial, to recover the receivables held against a debtor or its assets are suspended. All creditors must register their receivables against the debtor with the courts of competent jurisdiction and will recover the corresponding amounts according to the rules set out in the Insolvency Law regulating priority of creditors.

The Insolvency Law states that after the closure of bankruptcy proceedings, individual debtors are discharged from their obligations, provided they are not guilty of any fraudulent payments, fraudulent transfers or fraudulent bankruptcy. With respect to corporate debtors, closure of bankruptcy proceedings will trigger the end of the corporate debtor's legal existence by its deregistration from the relevant trade registry.

To protect creditors whose receivables are not covered by a debtor's assets, the syndic judge may rule that any outstanding obligations must be partially paid by the management/ supervisory team members of corporate debtors or by any other legal entity that is liable for causing the insolvency of that entity.

With respect to commercial banks, the Banking Law states that the National Bank of Romania is entitled to impose special monitoring and administrative measures before bankruptcy is officially declared.

Law no. 209/2019 on payment services and for the amendment of certain legislative acts transposes into Romanian law Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) no. 1093/2010, and repealing Directive 2007/64/EC ("PSD 2").

Law 209/2019 came into force on 13 December 2019. The main purpose of the law is to improve the standards of the payment services provided by banks, payment institutions, electronic money issuers and, also, by the new players on the payment services market known as "third-party services providers" (i.e. payment initiation service providers and account information service providers). Furthermore, the law brought clarifications related to the services excluded from the application of the legal requirements on payment services.

Government Emergency Ordinance no. 111/2020 to amend Law no. 129/2019 on the prevention and combatting of money laundering and terrorist financing entered into force on 15 July 2020. It requires the National Agency for Fiscal Administration (ANAF) to organize and operationalize the electronic register for payment accounts and bank accounts identified by IBAN to allow timely identification of all individuals or legal entities that hold or control payment accounts and bank accounts identified by IBAN or securities held at a credit institution in Romania.

Disputes between professionals

The Civil Procedure Code does not make any distinction between civil disputes and business disputes (e.g. between "professionals").

As such, under the current legislative framework, no mandatory procedure for amicable settlement of disputes between professionals is regulated.

The New Civil Procedure Code sets out the possibility for the parties to pursue an alternative dispute resolution procedure.

Alternative Dispute Resolution (ADR) procedures

The Civil Procedure Code states that a court before which an action has been brought may invite the parties to use an alternative dispute resolution procedure or mediation. Moreover, the court invites the parties to attend a preliminary mediation briefing meeting on the use and benefits of mediation.

Law 192/2006 on mediation, as amended by Law no. 154/2019; (the "Mediation Law") states that any civil, commercial or even criminal minor disputes may be settled amicably by the parties through mediation.

Mediation is defined as a private procedure, conducted by a mediator, whose purpose is to facilitate the settlement of a dispute under private and confidential terms, upon the parties' agreement. The Mediation law and also the Civil Procedure Code set out the judges' duty to inform the parties, during each trial, that they can settle their dispute through mediation.

If the parties choose mediation, the court case is suspended and, if the parties reach an agreement, the court will only confirm their agreement under a decision that can be appealed against only for procedural reasons. Although the western world has applied the ADR procedure for the past 60 years, given that it ensures confidentiality, speed and reduced costs by comparison with traditional dispute resolution before public courts, the Romanian business environment is only just starting to use this method.

According to the amendments brought by Law no. 154/2019, personal rights, such as those relating to the status of the person, as well as any other rights that the parties cannot dispose of by using the law, cannot be a subject of the mediation procedure.

A mediation agreement should be verified and attested by the parties' lawyers, by the notary or by a lawyer or notary public chosen by the mediator (with the prior agreement of the parties) in order to represent enforceable title.

Written evidence

Under the Civil Procedure Code, documentary evidence plays, in principle, a more significant role. When filing a court claim, the complainant can be required to provide any document invoked to support his/her case (e.g. commercial registers may be used as evidence when the other party is also a professional).

Formal procedure for receivables collection

According to the Civil Procedure Code, the formal procedure for receivables collection is an alternative solution to the general applicable rules for asserting a financial claim.

This has the advantage of being less time consuming than normal judicial proceedings and being subject to a small value, fixed stamp duty. Thus, creditors may choose between the special procedure of payment ordinance (in Romanian, "ordonanta de plata") and filing an action in court.

Nevertheless, creditors who are unsuccessful in this formal procedure for the collection of receivables will be given the opportunity to continue to pursue their case in accordance with the general applicable rules.

The procedure for receivables collection begins with a mandatory notice of delay (sent through the enforcement officer or by registered letter) whereby the debtor is advised to pay the amount owed in a 15 day- period as of its receipt. Moreover, under the Civil Procedure Code, this notice of delay will interrupt the statute of limitations.

The formal procedure for receivables collection initiated by a creditor will be accepted provided that the receivables in question meet certain requirements, as follows. They must:

- ✓ Be certain (their existence should be legally unquestionable), liquid (their value should be determined/determinable) and payable (payment should have become due).
- ✓ Represent an obligation to pay an amount of money.
- ✓ Be stated in a written document such as an agreement, by-laws, regulation or another similar document, signed or undertaken by the parties in another manner accepted by law.

This procedure is also applicable for receivables deriving from agreements concluded with consumers.

If the debtor does not challenge the amount of the receivable claimed by the creditor, the payment ordinance should be issued within 45-days of the submission of the action in court by the creditor, given the rapid character of the payment of ordinance procedure.

The payment ordinance issued by the court represents a legal writ of execution and is immediately enforceable.

Personal insolvency law

On 1 January 2018, Law 151/2015 concerning the insolvency of individuals (herein after called the "Personal Insolvency Law") and Government Decision 419/2017 for the approval of the implementing rules of Law 151/2015 concerning the insolvency of individuals entered into force.

The purpose of these regulations is to create a collective procedure which aims to achieve the following:

- ✓ The financial recovery of individuals acting in good-faith;
- ✓ The satisfaction of their outstanding debts;
- ✓ Their release from debt, under certain conditions.

A state of insolvency occurs when an individual is unable to pay his/her outstanding debts, as they fall due, with his/her available funds. The Personal Insolvency Law assumes (this assumption may be rebutted) that an individual is in a state of insolvency when he/she has not paid his/her debts to one or several creditors within 90 days of the date of maturity.

There are three types of insolvency procedure, as regulated by the Personal Insolvency Law:

- ✓ Insolvency procedure based on a debt recovery plan.
- ✓ Insolvency procedure based on liquidation of assets.
- ✓ Simplified insolvency procedure.

Only those individuals who meet certain conditions may benefit from the provisions of the Personal Insolvency Law. The official bodies which implement the personal insolvency procedure are local insolvency commissions and the administrators of the procedures, courts of law and liquidators.

GDPR

The General Data Protection Regulation (GDPR) has been applicable within EU Member States as from 25 May 2018. GDPR is a strong piece of legislation and represents a clear shift from the previous Privacy regulatory environment in the EU.

GDPR applies to every company located in Romania which processes personal data. As an EU regulation, it has direct application in Romania (no transposition formalities required).

The administrative fines set out in the GDPR are huge:

- ✓ 2% of global turnover or €10m (whichever is higher) or
- ✓ 4% of global turnover or €20m (whichever is higher).

Consequently, companies need to strictly comply with the GDPR's provisions.

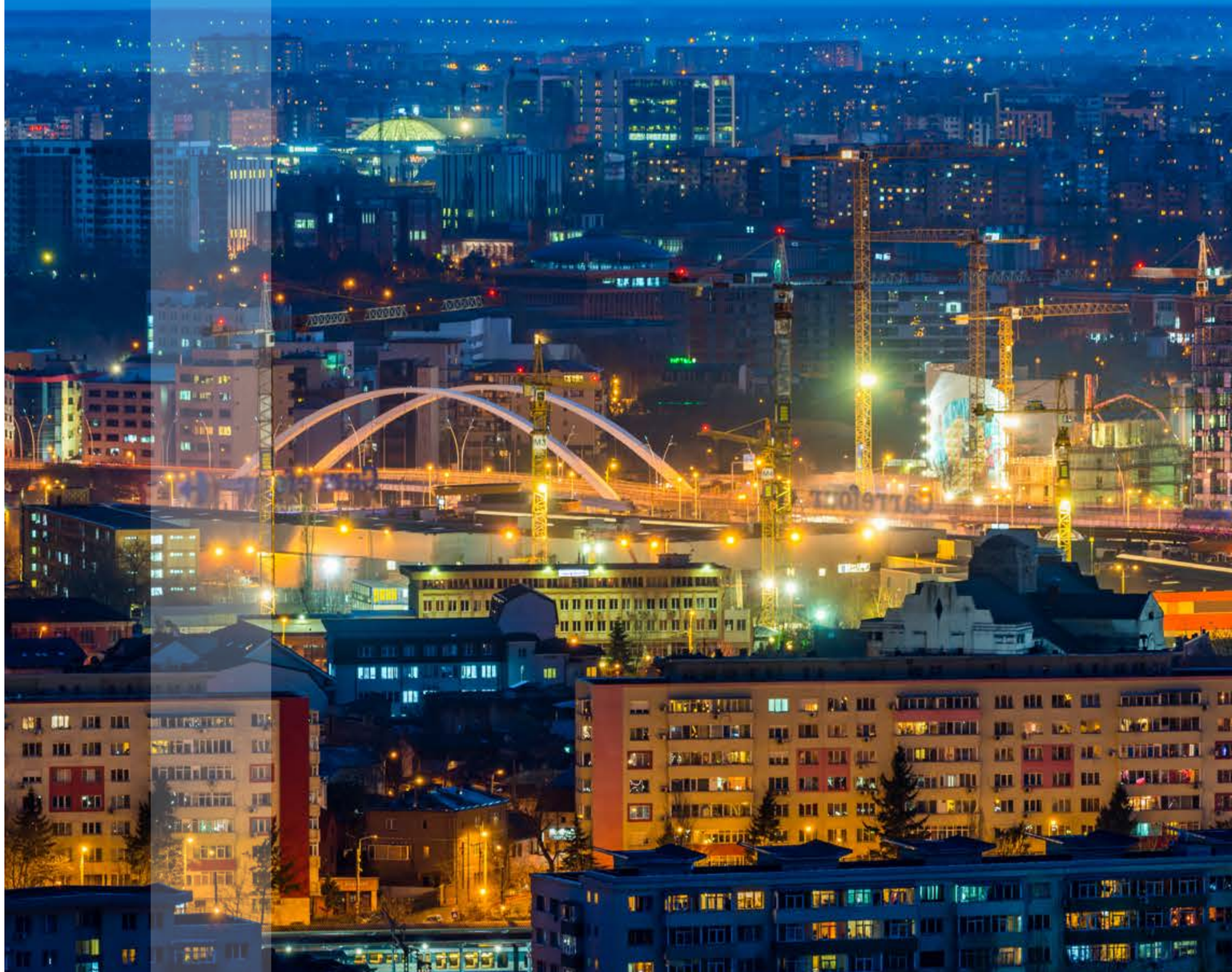
While fines under GDPR can be up to 20 million euros, or up to 4% of the total global turnover of the preceding fiscal year, whichever is higher, as mentioned above, the fines imposed by the Romanian Authority for the Processing of Personal Data to date have ranged between EUR 500 and EUR 150,000. The core elements of GDPR are the following:

- ✓ Strict conditions to obtain valid consent as a legitimate basis for data protection, as well as new rights for data subjects;
- ✓ The requirement for organisations with more than 250 employees to prepare and maintain a personal data inventory;
- ✓ The requirement to appoint a data protection officer, under certain conditions;
- ✓ The requirement to adapt the company's systems and IT applications which process personal data to the principles provided by GDPR ("privacy by design" and "privacy by default");
- ✓ The requirement to report data protection breaches to the data protection regulator (ANSPDCP) within 72 hours and, potentially, to the individual whose personal data were lost or accessed without authorisation;
- ✓ A specific contractual framework based on the relationship between the company and its outsourced service providers etc.

Companies are likely to have to do the following as a result of GDPR: data mapping to cover all processing activities; a gap analysis to evaluate where the company stands in terms of compliance with GDPR; possible further implementation of GDPR requirements, including evaluation of the need to appoint a data protection officer and make other appointments as appropriate; a review of the company's data protection policies and procedures (or the drafting of new policies and procedures); a review of processing agreements, including contracts concluded with outsourced service suppliers; review and adaptation of the company's systems and IT application to comply with GDPR requirements etc.

The GDPR was followed by rules aimed at implementing so-called "open clauses" in Romania via Law 190/2018 on implementing measures in relation to GDPR and various decisions adopted by the Romanian Authority for the Processing of Personal Data, such as the decision on its investigative activity and the list of activities for which a data protection impact assessment is needed.

Real estate in Romania



According to the Romanian legal system, private property may belong to individuals, legal entities and the state (or local administrative units) while public property may belong exclusively to the state or the local administrative units (counties and municipalities).

Public property may not be transferred to other legal entities or individuals and generally cannot be subject to any commercial transactions, but it may be granted for management purposes to state autonomous companies and public institutions under concession or it can be leased to legal entities or/and individuals, subject to the provisions of the Public Property Law 213/1998, as amended, and Government Emergency Ordinance 57/2019 on the Administrative Code.

Publicly owned land may not be transacted, while private land belonging to the state or to local administrative units can be traded provided that relevant procedures are carried out.

Transfer of real estate

Real estate in Romania may be freely transferred, subject to certain procedural formalities and legal restrictions.

Under the Civil Code introduced in 2011, the right to property or to any immovable assets may be acquired via registration in the Land Book (with certain exceptions expressly stipulated under the law).

The registration should be based on:

- ✓ Notarised written agreements attesting transfer of ownership,
- ✓ Irrevocable court rulings,
- ✓ An inheritance certificate or
- ✓ Other documents issued by the administrative authorities

These provisions on ownership registration in the Land Book become applicable only after completion of cadastral measurements in each local unit and after the creation of land books for the relevant immovable assets.

If real estate rights, other than a property right, are acquired, such as easements, usufruct, right of superficies etc., these rights may also be granted only under notarised documents and further to their registration in the Land Book.

Property rights may also be acquired:

- ✓ By "accession" i.e. anything that is added by another party to a landowner's property, for instance, planted in or built on the land in question, will be presumed to belong to that landowner
- ✓ by positive prescription, following the lapse of a certain period of time.

According to the Romanian Constitution, foreigners and legal entities are allowed to own land in Romania under the conditions set out following Romania's EU accession or resulting from international treaties, on a reciprocity basis, under the terms and conditions set out by internal laws, as well as via legal inheritance.

Since 1 January 2014, foreign individuals and legal entities from EU member states have been entitled to acquire and own farming land, forests and forest land in Romania (based on Law 312/ 2005, which stated that this right would apply seven years after Romania's EU accession).

On 1 January 2012, the 5-year term prohibiting the acquisition of land for secondary residences or offices by individuals and legal entities from EU member states who are not residents of Romania lapsed.

Nevertheless, it is still common practice for foreign individuals/legal entities to acquire land indirectly through corporate vehicles set up in Romania.

Following the lapse of the prohibition on the acquisition of agricultural land by individuals and legal entities from EU member states on 1 January 2014, the Romanian Parliament adopted a law on the measures governing the sale of agricultural land (Law 17/2014). The law stipulates that individuals and legal entities from EU/EEA member states and Switzerland may acquire agricultural land in Romania.

The law also sets out the specific procedures that should be followed for the sale of such lands as regards the observance of the pre-emption right of co-owners, lessees, neighbours, and the state under equal price and in equal conditions.

Law 17/2014 was recently amended through Law 175/2020 and new categories of pre-emptors were introduced. Thus, the following categories of pre-emptors were set:

1st category pre-emptors: co-owners and certain relatives.

2nd category pre-emptors: owners of agricultural investments for the cultivation of trees, vines, hops, exclusively private irrigation and / or agricultural lessees.

3rd category pre-emptors: the owners and / or agricultural lessees of agricultural land adjacent to the land subject to sale.

4th category pre-emptors: young farmers.

5th category pre-emptors: the Gheorghe Ionescu-Șișesti Academy of Agricultural and Forestry Sciences and agricultural research and development units.

6th category pre-emptors: individuals with domicile/ residence in the local administrative units where the land is located or in the neighbouring local administrative units.

7th category pre-emptor: the Romanian state, through the State Land and Property Agency.

Although the current form of Law 17/2014 provides for the free sale of agricultural land in the event that no preemptor exercises the right of preemption, the new provisions establish a series of conditions that must be met by individuals/ legal entities which do not fall into the category of preemptors.

These conditions involve:

i. Having had domicile / residence / a registered office / secondary office in Romania at least 5 years prior to the registration of the sale offer (in the case of legal entities this condition also applies to individuals who are associates, as well as to the legal entities controlling the company)

ii. Having carried out agricultural activities in Romania for a period of at least 5 years prior to the registration of the offer to sell,

iii. Fiscal registration in Romania for a period of at least 5 years, for individuals/ obtaining a minimum percentage of 75% of the total income of the last 5 fiscal years, from agricultural activities, etc.

Law 17/2014, as subsequently amended, also imposes on legal entities and individuals which want to sell agricultural land earlier than 8 years from its acquisition the obligation to pay a tax of 80% of the amount representing the difference between the sale price and the purchase price, based on the notaries' grid in force for that period.

The obligation to pay this tax does not apply in the case of reorganisation or reallocation of assets within the same group of companies.

Failure to comply with above-mentioned provisions is penalised with the absolute nullity of the transaction.

Also, after the acquisition, the agricultural land must be used exclusively for the purpose of carrying out agricultural activities.
However, there are no restrictions on the acquisition of buildings by foreign individuals and legal entities and, consequently, they have a right of use of the land on which the building has been erected (under the Civil Code the right to use the property may be granted for at most 99 years).

In addition, foreigners may also benefit from a usufructuary right to land located in Romania

Land registration

As mentioned above, under the Civil Code provisions, ownership right over any immovable assets (with certain exceptions expressly stipulated under the law), is acquired via registration in the Land Book. Similarly, ownership right over an immovable asset is extinguished via de-registration from the Land Book.

However, until the rule above becomes applicable, registration with the Land Registry is made for enforceability purposes. Thus, registration of property titles in the Land Books kept by the local offices of the Agency for Cadastre and Land Registration makes the ownership right public and enforceable against third parties, i.e. registration is presumed to be accurate and complete until otherwise proven. Registration with the Land Registry does not guarantee a potential invalidation/nullity of a deed of transfer.

Another role played by the Land Registry is to keep a record of all mortgages and other real estate collaterals and liens covering a certain property.

Under Law no 7/1996 on real estate publicity, any interested person is entitled to obtain a land book excerpt from the Land Registry for information purposes ("open door policy"). In order for sale purchase agreements to be notarised, authentication excerpts issued by the Land Registry must be obtained.

This document, which is valid for only 10 working days after it has been requested, typically provides such information as to who the owner is, the assets and surface owned, whether there are any mortgages, privileges, easements or encumbrances, etc.

However, this excerpt is not an absolute proof of ownership. Therefore, the performance of a legal due diligence to validate title to the property to be acquired is strongly advisable.

Fiduciary agreements

Fiduciary Agreements have been possible in Romania since 2011. These allow any individual or legal entity to transfer rights, property rights included, to one or several fiduciaries to exercise these rights for a predetermined purpose, for the benefit of one or several beneficiaries.

In order to be validly concluded, the agreement must be signed in notarised form and must give details about the rights transferred, term of transfer which cannot exceed 33 years from its conclusion, identity of the parties involved, as well as the purpose of the fiduciary agreement and the extent of the fiduciary's powers of administration and disposition of property.

The obligation to register the fiduciary agreement with the relevant tax authorities to enable them to assess the amounts due to the state budget falls to the fiduciary.

In order to be opposable to third parties, fiduciary agreements must be registered with the Electronic Archive for Secured Transactions. Property rights forming the object of fiduciary agreements must also be registered in the Land Book.

Restitution of land

Following the enforcement of the restitution laws, currently most agricultural land in Romania is privately owned and, according to some sources, the proportion is even higher for land located inside city limits.

The main legal provisions governing land restitution are Law 18/1991, Law 1/2000, Law 10/2001, and Law 247/2005, as subsequently amended.

The legislative framework for land restitution saw significant amendments during 2013 through the entry into force of Law 165/2013 on the measures for the finalisation of the restitution process, in kind or in equivalent, of immovable property abusively taken over during the communist regime in Romania, as subsequently amended.

As a general rule, former owners benefit from restitution in kind of their former properties. However, if restitution claims may no longer be solved by restitution in kind, the following compensatory measures apply: compensation through points (one point is valued at 1 RON) or compensation with assets of equivalent value.

The compensatory measures can be used by their beneficiaries within 3 years as of the issuance date of the compensation deed. For deeds issued before 1 January 2017, the 3 year period starts as of this date.

Even if claimants potentially entitled to file restitution claims under specific restitution laws (such as Law 10/2001) have not asserted such claims, under the Romanian Civil Code they are theoretically entitled to reclaim their former properties, without any statute of limitations being applicable.

Nevertheless, a high burden of proof is required in such legal actions and according to general rules; such claims are not admitted if previous claims have been filed by the same individuals/their successors under specific restitution laws.

Another solution adopted by the Romanian Government for property restitution was the establishment, under Title VII of Law 247/2005 and Government Decision 481/2005, of Fondul Proprietatea SA., to ensure the financial resources required for the compensation of individuals whose property was expropriated by the communist regime.

Compensation was in the form of shares issued by Fondul Proprietatea SA, representing the updated value of a property that cannot be returned in kind to the entitled persons who thus become shareholders in Fondul Proprietatea S.A. The market value of these shares was set after Fondul Proprietatea S.A. was listed on the stock exchange in January 2011. Fondul Proprietatea S.A. ceased to award shares from 2013.

Concession of Public Property

According to Government Emergency Ordinance 57/2019 on the Administrative Code, assets representing public property of the state or its administrative units can be subject to concession.

These concession rights can be acquired under a public tender or by direct negotiation and can be granted for a period of up to 49 years (in the case of assets), during which the concession beneficiary must make investments and develop the property under concession.

By way of exception, and only for a limited period, public authorities may grant non-profit making legal entities or public service companies the right to use public property, free of charge, under certain conditions.

Financing Real Estate Investments - Law 190/1999 on mortgage loans, as amended

This law lays down special rules on loans for real estate investments, derogating from the common rules. However, the provisions of the Civil Code and the Civil Procedure Code remain applicable as a general regulatory framework governing credits and security interests. Also, since the entry into force of Government Emergency Ordinance 50/2010 on consumer credit agreements, Law 190/1999 is wholly applicable only to agreements concluded with legal entities, only some of its provisions still being applicable to credit agreements concluded with individuals.

Thus, mortgage loans are granted by institutions authorised in accordance with the provisions of Law 190/1999.

Loans must be secured by a mortgage set on the building which is being financed. Moreover, a mortgage may also be set over future real estate.

This mortgage may be registered in the Land Book provided that the building permit has previously been registered in the Land Book. The law also sets out specific protection rules for borrowers, such as the possibility of an advance repayment or negotiation of the interest rate.

Developing Real Estate

Development of real estate projects is subject to specific legislation (mainly Law 50/1991 on the authorisation of construction works and its Application Norms) under which certain authorisations must be obtained from public authorities.

Thus, in the case of construction sites, developers must obtain an urban planning certificate and a building permit.

The urban planning certificate must be obtained before the building permit. In general, the urban planning certificate contains the list of special permits and/or approvals to be obtained before starting the project, as well as information concerning the location, current landowners, rights in favour of public utilities, zoning conditions and general conditions concerning the constructions to be built (such as air rights etc).

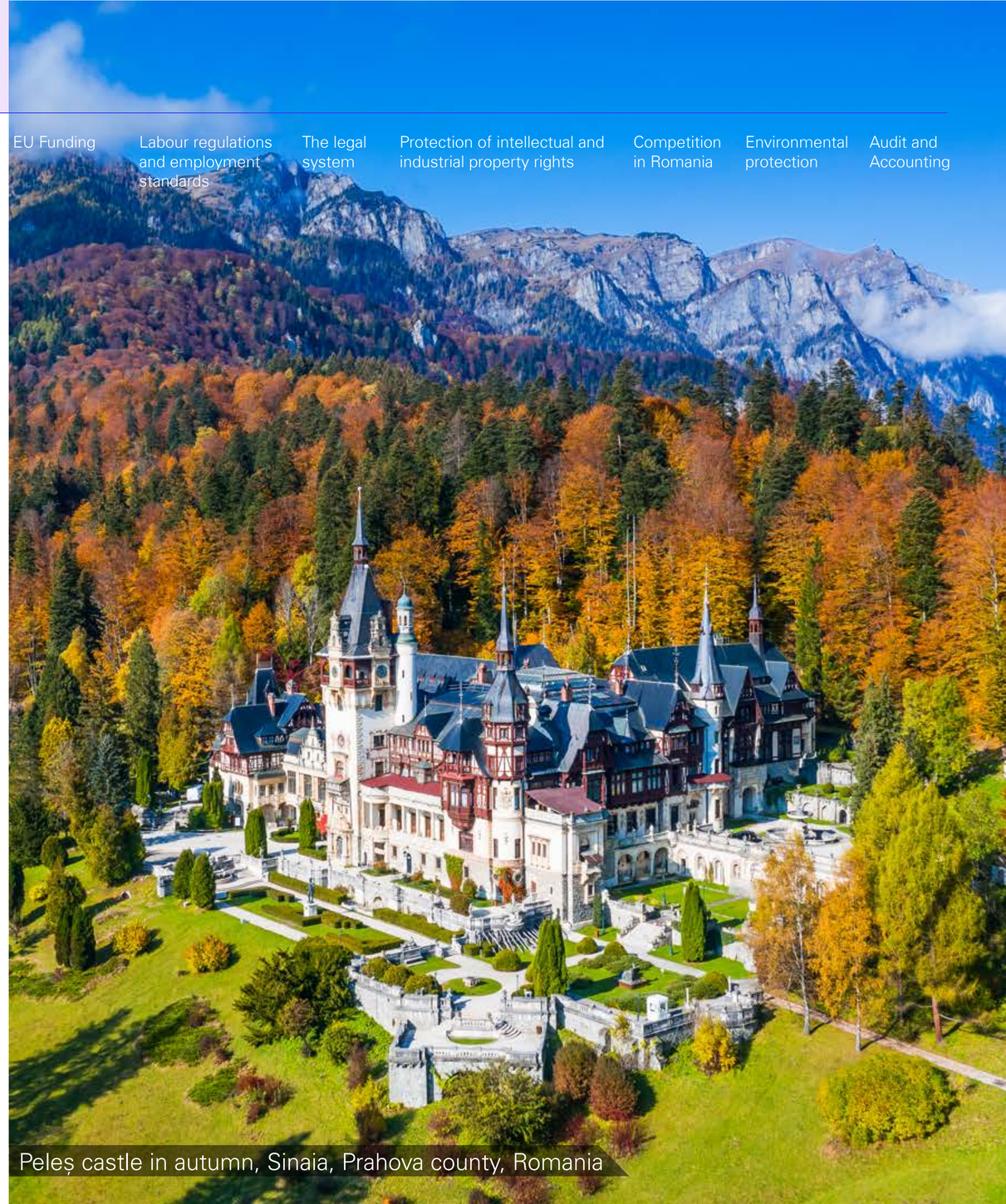
Once the urban planning certificate has been issued, a building permit must be obtained. The permit is issued by the local authorities and lays down the specific conditions for the construction site.

In addition, depending on the activity to be carried out in the built area, specific authorisations may be required (for utilities etc).

Other legislation with potential impact on the real estate market

A sale/acquisition/lease of buildings can be made only provided that an energy performance certificate is obtained. Absence of a certificate may invalidate the sale agreement. In general, the certificate is valid 10 years as of its issuance date.

Insurance of buildings against earthquakes, landslides and floods is mandatory. If a person is also interested in concluding an optional insurance policy, this cannot be concluded if the interested person does not also have a mandatory insurance policy.



Peleș castle in autumn, Sinaia, Prahova county, Romania

EU Funding

Since joining the EU in 2007, Romania has had access to Structural Funds (the European Regional Development Fund- ERDF, and the European Social Fund- ESF), Cohesion Funds as well as Agricultural and Fisheries Funds.

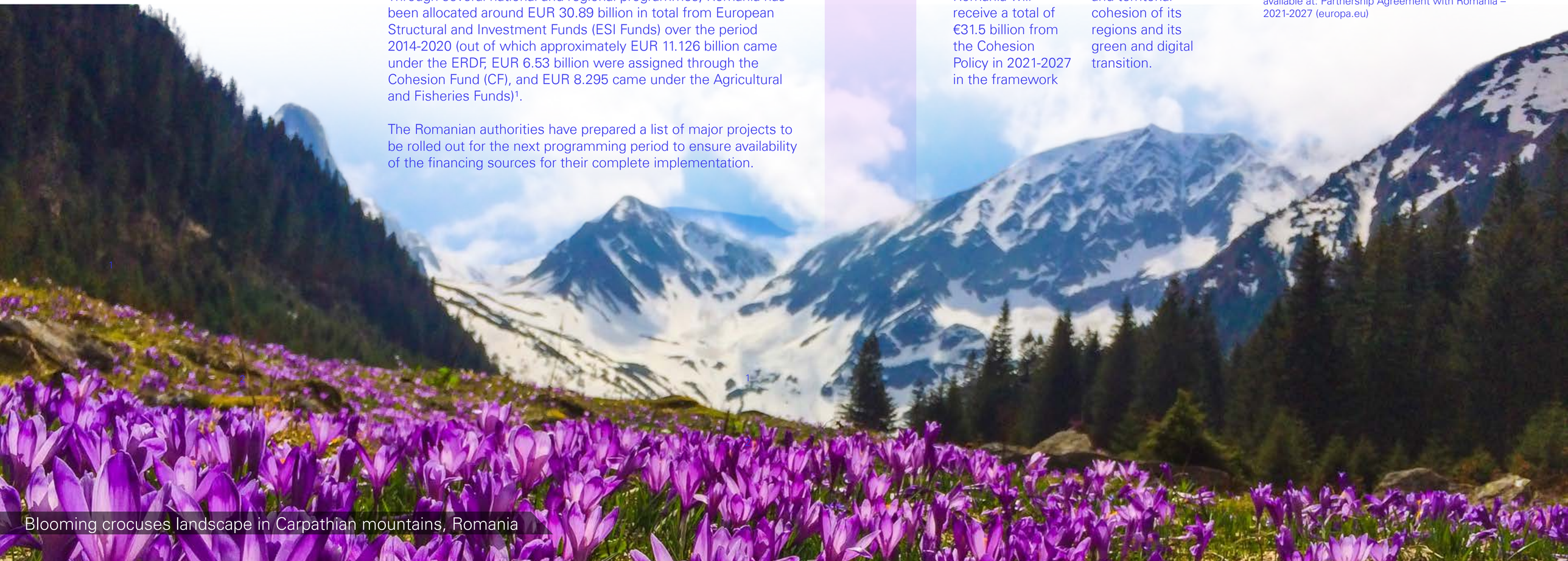
Through several national and regional programmes, Romania has been allocated around EUR 30.89 billion in total from European Structural and Investment Funds (ESI Funds) over the period 2014-2020 (out of which approximately EUR 11.126 billion came under the ERDF, EUR 6.53 billion were assigned through the Cohesion Fund (CF), and EUR 8.295 came under the Agricultural and Fisheries Funds)[1].

The Romanian authorities have prepared a list of major projects to be rolled out for the next programming period to ensure availability of the financing sources for their complete implementation.

According to a press release[2] provided by the European Commission, Romania will receive a total of €31.5 billion from the Cohesion Policy in 2021-2027 in the framework of its Partnership Agreement with the Commission to promote the economic, social and territorial cohesion of its regions and its green and digital transition.

[1]According to "Open Data Portal for the European Structural Investment Funds - European Commission | Data | European Structural and Investment Funds (europa.eu), Romania has been allocated 35.2 billion from ESIF for this time period.

[2]According to European Comission's press release, available at: Partnership Agreement with Romania – 2021-2027 (europa.eu)



Blooming crocuses landscape in Carpathian mountains, Romania

New Cohesion Policy – 2021-2027

The European Parliament and the Council agreed on the Commission's proposals for the instruments related to the cohesion policy for 2021-2027, including the Recovery Assistance for Cohesion and the Territories of Europe package (REACT-EU), the European Territorial Cooperation programmes ("Interreg"), the European Regional Development Fund (ERDF), the Cohesion Fund (CF) and the Just Transition Fund (JTF).

As a result of the effects of the pandemic, the EU has planned a new framework for Regional Development and Cohesion Policy.

The European Commission set the five objectives which will drive EU Investments in the period 2021-2027. The investments will focus on a Smarter Europe, through economic transformation and innovation, a Greener, carbon free Europe, a more Connected Europe, through strategic transport and digital networks and a more Social Europe, closer to its citizens. ERDF and CF will make available close to EUR 234 billion across the European Union.

The Just Transition Fund represents a new instrument with an overall budget of EUR 17.5 billion. The JTF is a crucial element for implementing the European Green Deal and it seeks to alleviate the economic and social costs arising from the transition towards a climate-neutral economy.

These instruments complement each other, supporting investments in innovation and entrepreneurship, a digital and green transition and the development of transport networks.

Allocation of funds, Partnership Agreements and OPs

During the programming period 2021-2027, which has been agreed upon and pending the final approval, Romania will receive an indicative total allocation of approximately EUR 31.96 billion from Structural and Cohesion Funds.

Out of this, EUR 19 billion will be allocated from ERDF and EUR 6.07 billion will come through the European Social Fund, which will support social inclusion, health, education and employment.

Furthermore, EUR 4.49 billion will be allocated from the Cohesion Fund, while EUR 1.76 billion will be made available through the Just Transition Fund.

The indicative financial allocation for the 2021-2027 period is outlined below:

Program	Financial allocation for 2021-2027 (EUR million)
Intelligent Growth, Digitization and Financial Instruments OP	2,143
Sustainable Development OP	4,615
Transport OP	8,300
Education and Employment OP	7,722
Inclusion and Social Dignity OP	2,594
Health OP	4,730
Regional OP	9,750
Just Transition OP	1,760
Technical Assistance OP	597
Aquaculture and Fisheries Program	162

Source: Ministry of Investments and European Projects

Several priorities were identified in the proposed Partnership Agreement, in correlation with the conditionalities brought in by the regulations: transport infrastructure, environment infrastructure, business environment, risk management and climate change, education, as well as social inclusion.

The institutional configuration corresponding to the 2021-2027 framework has been compressed:

- ✓ The Ministry of Investments and European Projects is the managing authority for the Intelligent Growth, Digitization and Financial Instruments OP, Education and Employment OP, Sustainable Development OP, Just Transition OP, Health OP, Inclusion and Social Dignity OP and the Technical Assistance OP.

- ✓ The Ministry of Agriculture and Rural Development is the managing authority for the Fisheries OP.
- ✓ The Ministry of Transport and Infrastructure will be the managing authority of the Transport OP, one of the biggest operational programmes with structural and cohesion funds.

The key features of several operational programmes covered by the New Cohesion Policy and implemented by Romania are summarized below:

OP Intelligent Growth, Digitization and Financial Instruments

The Intelligent Growth, Digitization and Financial Instruments Operational Programme (POCIDIF) proposes measures in the fields of research, development and innovation / smart specialization and in the field of digitization, financed either through grants or through financial instruments in compliance with state aid rules, as appropriate, in order to meet the challenges identified at national level.

One focus of the OP is bridging the gap and managing the disruptions of the market caused by the low level of public R&D investments, which for several years have remained relatively low compared to the EU average.

OP Transport

The general objective of this programme, as well as the biggest challenge, is to help solve the issue of the gap in development of Romania's transport infrastructure compared to that of other EU Member States. Moreover, these investments must be made keeping in mind the achievement of European carbon reduction targets and the transfer to sustainable and safe mobility.

OP Sustainable Development

The aim of this programme is to address the needs of several sectors. As such, it will focus on adapting to climate change by increasing energy efficiency and developing smart energy systems, storage solutions and energy adequacy; water and wastewater infrastructure; the circular economy; biodiversity conservation; air quality; decontamination of polluted sites and risk management.

Regional Operational Programme

This programme fosters the steady development of Romanian regions and the reduction of economic differences between them by improving the business environment and infrastructure. In general, these funds are intended for public authorities.

Agriculture Funds

Two agriculture funds are available to support the Common Agricultural Policy, as follows:

- ✓ The European Agricultural Fund for Rural Development (EAFRD), contributing to structural reform of agriculture and development of rural areas.; and
- ✓ The Operational Programme for Fisheries , funded by the European Maritime and Fisheries Fund, supporting structural measures in this field and "accompanying measures" of the Common Fisheries Policy (CFP).

The projects proposed for the agriculture sector will be integrated with the competitiveness strategy with the aim of supporting the economic growth model.

One example is the development of IT&C infrastructure in rural areas, to be financed from agricultural funds for rural development.

Labour regulations & employment standards

Relationships between employers and employees are governed by the Labour Code, and by collective bargaining agreements. In addition, there are other labour regulations which address specific issues such as health and safety at work, the social security system, social dialogue etc.

Employment documentation

Employment contracts

Generally, work in Romania is carried out under individual employment contracts concluded for an indefinite term (with prior notice periods for both parties). These contracts usually contain clauses setting out duties, work hours, rules related to the probation period, overtime (if applicable), benefits, holiday entitlement etc.

The contract also stipulates the gross monthly salary and any bonuses, allowances, increments or incentives awarded.

In addition to these clauses, the parties can negotiate and include other specific clauses in the contract, covering issues such as: professional training, mobility, confidentiality and non-competition.

Work can also be carried out under individual employment contracts concluded for a fixed term, temporary employment contracts concluded with a temporary job placement agency (staff hiring), part-time individual employment contracts as well as under work-from-home and teleworking conditions.

However, such contracts can be concluded only under certain specific conditions as provided by the Labour Code, as republished and further amended and the specific applicable legislation.

Registration formalities

According to the Labour Code, every employer is required to establish and send to the local Labour Inspectorate a General Employees' Registry and to present it to the labour inspectors, if so required. This Registry is kept in electronic format at the employer's headquarters.

Specific employees' data (such as date of employment, position, type of employment contract, etc.) must be registered in the General Employees' Electronic Registry and sent to the local labour inspectorates within certain legal deadlines set out in Government Decision no.905/2017- on the general employees` registry. Failure to fulfil this obligation leads to fines for the employer ranging between RON 5,000 and 8,000 (approximately EUR 1,020 – 1,632).

Employers must also keep in good condition a personal file for each employee, at their headquarters or, where appropriate, at a secondary location if the authority to employ staff is delegated through the conclusion of individual employment contracts, and present it to labour inspectors, if required.

Work Permits

All foreign nationals, except citizens of EU/EEA member states and Switzerland, require a work permit to be employed in Romania. The permits are issued by the Romanian General Inspectorate for Immigration in accordance with Government Ordinance 25/2014 on the employment and secondment of third-country individuals in Romania, amending and supplementing certain legislative acts concerning the status of foreigners in Romania ("GO 25/2014").

However, there are certain categories of foreigners listed under GO 25/2014 who may work for Romanian individuals and/or legal entities without obtaining a work permit.

With effect from 8 March 2024, the conditions for requesting work permits and the rules applicable to highly-skilled workers have been significantly amended. Specifically, Law no. 28/2024, published in the Official Journal of Romania (no. 176 of 5 March 2024) makes important changes to the legislation applicable to foreign citizens in Romania, previously set out in Government Emergency Ordinance no. 194/2002 concerning the regime of foreigners in Romania and Government Ordinance no. 25/2014 concerning the employment and posting of foreigners in Romania. Law no. 28/2024 also sets out details on the implementation of EU Directive 2021/1883.

Generally, employers that apply for work permits in Romania must observe several conditions. Firstly, the immigration legislation sets out a set of general conditions related to the employer and its activity in Romania, and secondly the legislation refers to specific conditions depending on the type of worker for whom the work permit is requested.

Therefore, foreigners (i.e. nationals of countries other than EEA countries or Switzerland) are only admitted to carry out work in Romania in limited numbers (quotas). The specific quotas are announced yearly by the Romanian government. The tight quotas in combination with high demand have led to very restrictive admission practices.

Consequently, only detailed and properly documented work permit applications based on solid reasoning have a chance of success.

The general conditions to obtain a work permit have been recently changed, as the work permit will only be granted if, among other things, the employer proves that it actually carries out in Romania activities compatible with the position for which a work permit is applied and the employer's activity was not established or is not carried out for the purpose mainly of facilitating the entry of foreign nationals into Romania.

Simplified conditions have been introduced for foreigners who change jobs with the same employer or who change employers, provided their single permit or EU Blue card is valid.

Foreigners in these categories are no longer required to provide proof of selection or proof of payment obligations to the state budget provided that they can submit a clean criminal record statement, issued by the Romanian authorities. There are different types of work permit issued to non-Romanian nationals, depending on their employment structure while in Romania. Specifically, work permits for permanent employees are issued for indefinite or definite periods of time to non-Romanian nationals who intend to conclude employment contracts with the Romanian employer.

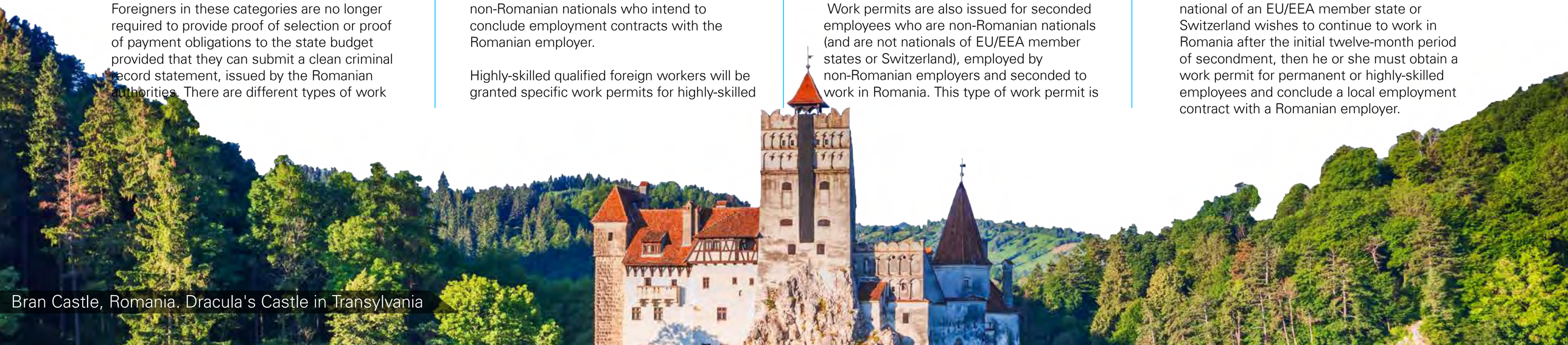
The employer needs to prove payment of all obligations to the state budget, not just those for the last quarter, as previously.
The new law specifies that in order to verify the above aspects, the General Inspectorate for Immigration can carry out checks at the headquarters of employers.

A work permit is a document granting an employer/beneficiary of services the right to employ/receive as an assignee a foreign individual to take up a specific position within the company. Based on a work permit and specific long-term visa for local employment/assignment, a national of a non-EU/EEA member state or Switzerland is entitled to work in Romania for a specific position, for one employer only, for up to a one month period, which can generally be renewed.
The validity of the work permit is determined by the employment contract and/or residence permit / EU blue card. However it cannot exceed 2 years, when the foreigner holds a residence permit, or 3 years, when the foreigner has an EU blue card. The work permit will be automatically extended along with the residence permit or EU blue card. The work permit is also automatically cancelled when the employment contract ceases.
Moving from one company to another involves obtaining a new work permit even if the existing one has a remaining validity period.

workers, which grant the right to be employed in Romania in a highly-skilled position based on a valid employment contract concluded for a minimum of six months.

Work permits are also issued for seconded employees who are non-Romanian nationals (and are not nationals of EU/EEA member states or Switzerland), employed by non-Romanian employers and seconded to work in Romania. This type of work permit is issued for a maximum of one year within a 5 year period based on a secondment decision issued by a foreign employer.

If a non-Romanian individual who is not a national of an EU/EEA member state or Switzerland wishes to continue to work in Romania after the initial twelve-month period of secondment, then he or she must obtain a work permit for permanent or highly-skilled employees and conclude a local employment contract with a Romanian employer.



Bran Castle, Romania. Dracula's Castle in Transylvania

Multinational companies may second management staff and specialists who are third-country nationals for a longer period (up to three years), instead of one year under the standard assignment procedure. Thus, the duration of the assignment can be up to 3 years for foreigners who occupy a management or specialist position and up to 1 year for foreigners who come as trainee workers and who are transferred within the same company (i.e. the so-called "ICT workers").

Certain conditions must be met by this category of assignees, such as: a foreigner who occupies a management or specialist position must have at least 6 consecutive months' experience with the same company or group of companies. Foreigners who hold ICT permits issued by other EU states, may carry out activities in Romania as ICT workers from the date when the Romanian company registers the application for the work permit, and do not have to wait until it is issued.

Under current Romanian immigration legislation, individuals who are not nationals of EU/EEA member states or Switzerland, who are employed by EU/EEA/Swiss-based employers and are assigned to work in Romania are no longer required to obtain work permits, provided that they have been issued residence permits in the EU/EEA member state from which they have been assigned to Romania (or in Switzerland).

In support of a work permit application, diplomas, certificates of competencies, as well as scientific titles obtained abroad must be first validated and recognised by the Romanian Ministry of Education, and must have either the Hague Convention Apostille or over-legalisation stamps, as appropriate.

The documents required to obtain a work permit include a formal application, original degree certificates / diplomas, medical certificate, clean police record, travel documents with a long-stay visa for employment or other purposes and numerous other formal documents. Once the filing formalities have been completed, an application for a work permit is normally approved within 30-45 days of its registration.

Nationals of EU/EEA member states or Switzerland are not required to obtain Romanian work permits to carry out dependent activities in Romania.

Other exceptions from the work permit requirement:

A new category of workers, called "mobile highly-skilled workers" has been recently introduced. Specifically, third-country nationals who are holders of a valid EU Blue Card issued by another EU/EEA member state may enter Romania and carry out economic activities for up to 90 days within any 180 days, without a work permit.

Third-country nationals who are holders of a valid EU Blue Card issued by another EU member state and who have resided in another member state for at least 12 months, or who have resided in more than one member state and have resided for at least six months in the last country of residence, may be able to enter Romania and work in the country, under exceptional rules, without a work permit or specific work visa. These categories of individuals may apply for an EU Blue Card in Romania within one month of entering the country. Their family dependents will be exempted from the family reunification procedure and may apply directly for a residence permit.

Foreign nationals holding the right of temporary residence for study purposes can be employed in Romania without a work permit only with a part-time individual work contract, for a maximum of six hours per day (as compared to four hours per day previously).

Stricter regulations on labour relations following Romania's entry into the Schengen area for air and sea travel, starting from 31 March 2024

The new legislation states that foreigners entering the country for the purpose of employment are extended the right of temporary stay only if they present a full-time employment contract, concluded within 15 working days from entering Romania or, as appropriate, from obtaining a new work permit, registered in the general register of employees, which shows that the salary is at least at the level of the minimum gross basic national salary.

For highly qualified workers, the salary must be at least at the level of the average national gross wage. The provisions on the deadline for conclusion of an employment contract do not apply if the non-conclusion of the employment contract is the employer's fault.

Another new element that will certainly help companies is the assignment of a personal numerical code to each foreigner for whom work permits or secondment notices have been issued, whose right of temporary stay has been extended or who has been granted long-term residence rights.

The personal numerical code will be assigned by the General Inspectorate for Immigration, and is entered in the residence permit or in the work or secondment notice.

Thus, while in the past, companies had to carefully calculate immigration and declaration deadlines, and not infrequently were unable to declare the foreigner because the personal numerical code had not been assigned, now organizations will be able to comply more easily.

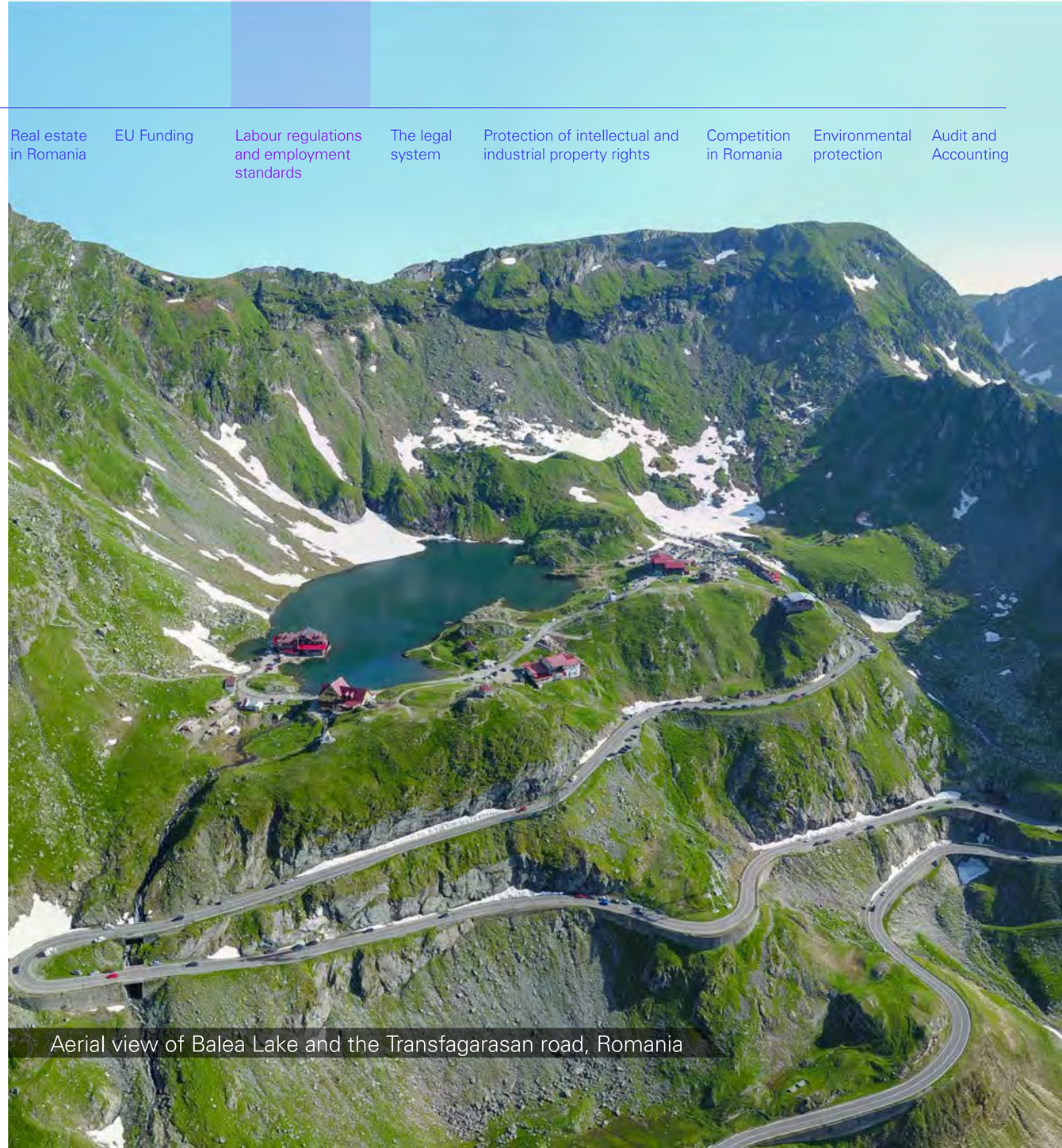
The new legislation also contains new requirements for employers, who will have to conclude the employment contract within 15 working days from the foreigner's entry into Romania or, as appropriate, from the date the new work permit is obtained, in the case of a long-stay visa for employment.

Employers which do not respect this deadline will be fined amounts between 5,000 and 10,000 lei. Failure by the employer to comply is not a criminal offence if the non-conclusion of the employment contract is the foreigner's fault.

The fine came into force 30 days after the Ordinance was published in the Official Journal of Romania, i.e. on 21 April 2024.

The Government has also modified the special conditions for issuing an employment notice for permanent workers. The legislation now states additionally that the employer must have been active in the field for which the employment notice is requested for a minimum of 1 year.

According to the authorities, "the proposed measure has a character of screening employers who request the issuance of employment notices, discouraging those individuals who establish commercial companies for the purpose of using them in the legal migration process, but with the real intention of facilitating illegal migration."



Aerial view of Balea Lake and the Transfagarasan road, Romania

Employment Standards

Employees' rights, i.e. working hours, minimum wages, statutory holidays, paid holidays and paid maternity leave are governed by the applicable Romanian legislation. The normal working program is 8 hours/day and 40 hours/week.

There are 17 legal holidays:

1 and 2 January,

6 and 7 January,

24 January,

Good Friday (Orthodox),

Easter Monday (Orthodox),

1 May,

1 June,

the Monday after Pentecost (normally 7 weeks after Orthodox Easter),

15 August,

30 November,

1 December,

25 and 26 December.

Employees who have religions other than Christianity may benefit from additional legal holidays.

At present, as from 1 October 2023, the minimum gross base salary is RON 3,300 (approximately EUR 663). This does not include bonuses, increments, incentives or any other allowances.

This amount is based on a full time working program for normal working hours averaging 165,333 hours per month, representing 19,960 lei/hour.

The establishment by the employer of a monthly base salary for its employees below the minimum wage can lead to fines of between RON 300 and 2,000 (approximately between EUR 61 and EUR 408).

Full-time employees over the age of 18 must be granted a minimum of 20 days paid holiday per year.

A higher number of paid holiday days per year may be granted by the employer if provided for under individual employment contracts, collective bargaining agreements or internal regulations.

Undeclared work

Under the provisions of the Labour Code, the following are defined as undeclared work:

receiving an individual for work in the absence of a written individual employment contract concluded the day before the commencement of the activity, at the latest;

receiving an individual for work without having registered the details of the individual employment contract with the employees' electronic general register the day before the commencement of the activity, at the latest;

receiving an individual for work during the suspension of his/her individual employment contract; and

receiving an individual for work outside his/her working programme as established within part-time individual employment contracts, except for the cases provided for by the Labour Code.

All the above breaches of the Labour Code represent administrative offences, and the first three are sanctioned with fines of RON 20,000 for each identified person, but capped at RON 200,000, irrespective of the number of identified persons.

The fourth is sanctioned with fines of between RON 10,000 and RON 15,000 for each identified person, but capped at RON 200,000, irrespective of the number of the identified persons.

Occupational health and safety

The regulations on occupational health and safety were issued in 2006 (under Law no. 319/2006 on health and safety at work and the corresponding application Norms), clarifying employers' obligations to assess the risks posed to workers' occupational health and safety and to develop a prevention and protection plan.

Under the Labour Code, an employer is legally required to periodically ensure the training of employees in work protection, health and safety. This training is mandatory under the Labour Code and Law no. 319/2006 on health and safety at work: for new employees, for employees changing their place of work/function or who are transferred to a new workplace, for new work equipment or for modifying the current equipment, when new technology or work procedures are introduced, when special work is carried out, or for employees who begin their activity after a work interruption of longer than 6 months or when the applicable legislation in the field of employment is changed. Under the law, the establishment of a Health and Safety at Work Committee is mandatory for employers which have at least 50 employees.

For employers with less than 50 employees, the law states that the duties specific to the Health and Safety at Work Committee should be fulfilled by the employee in charge of work safety designated for this purpose by the employer.
A number of regulations are applicable to specific fields of activity. These regulations ensure the implementation of relevant European directives and cover various areas of activities and risks (e.g. the extracting industry, fishing, risks posed by chemical agents, risks generated by electromagnetic fields etc.)

Termination of individual employment contracts

According to the Romanian Labour Code, employment contracts can be terminated only in cases specifically provided by law.

The provisions of the Labour Code governing individual employment contracts restrict the contractual freedom of the parties in certain cases, e.g. termination of the agreement by the employer.

If an individual employment contract is terminated by the employer in cases of the employee being physically or mentally unfit or professionally unsuitable, individual dismissal/collective dismissal for reasons not related to the performance of the employee, employers are required to give the employee a minimum of 20-working days prior notice.

In some circumstances set out under an individual employment contract and/or the applicable collective bargaining agreement, employers may also be required to give the employee additional severance payments.

Further, in accordance with the Labour Code, employees made redundant for reasons not related to the employee`s performance are entitled to benefit from active measures aimed at reducing unemployment, according to the conditions provided by the law and the applicable collective bargaining agreement.

Protective measures for employees subject to collective layoffs/ to transfers of undertakings

The Labour Code, as well as the applicable collective bargaining agreements (if they exist), and secondary legislation provide some specific measures aimed at protecting employees whose individual employment contracts are terminated due to collective layoffs.
In addition, Law no. 67/2006 on employees` protection in the case of transfers of undertakings, units or parts thereof ensures protection of employees where the undertaking, or a unit or part of it is transferred to another employer.

According to Law no. 67/2006 on protection of employees in the case of transfer of undertakings, units or parts thereof, a transfer does not represent in itself a valid reason for individual or collective redundancies by either the transferor or the transferee. The rights and obligations arising from the individual employment contracts or applicable collective bargaining agreement existing at the date of transfer are also transferred to the transferee.

Collective Bargaining Agreements and Trade Unions

Companies with at least 10 employees must carry out collective negotiations with their employees (represented in the negotiations by legally constituted and representative trade union organisations at the level of the unit/by the trade union federations representative at collective bargaining sector level, at the request and on the basis of the mandate of the non-representative trade unions in the unit affiliated to them/by the non-representative trade union federations in the collective bargaining sector which are members of the nationally representative confederations, at the request of and on the basis of a mandate from their affiliated non-representative trade unions in the unit/ all the non-representative trade unions in the unit/employees' representatives) on an annual basis but they are not required to actually conclude collective bargaining agreements.

The duration of collective negotiations cannot exceed 45 calendar days, unless otherwise mutually agreed by the parties.
Refusal by an employer to initiate negotiation of a collective bargaining agreement may trigger fines ranging between RON 15,000 and RON 20,000 (approximately between EUR 3,017 and EUR 4,023).

Collective bargaining agreements can also be concluded at different levels (i.e. unit level, group of units, collective negotiation sectors or national level).

Usually, collective bargaining agreements set out the mutual obligations and rights in connection with the following issues:

- ✓ setting minimum hierarchical coefficients by category of employees, taking into account the relevant occupational standards;
- ✓ measures adopted for the counselling and appraisal of employees;
- ✓ measures taken to harmonise family life with work objectives, working time and rest time;
- ✓ regulations on working conditions and those relating to the health and safety at work of employees;
- ✓ the arrangements for informing and consulting employees.

Collective bargaining agreements may also focus on other benefits, such as meal tickets and employees' events.

A collective bargaining agreement is concluded for a fixed period of a minimum of 12 months and cannot exceed 24 months, except for situations when the collective bargaining agreement is concluded for the duration of realization of a specific work project.

Upon expiry of the collective bargaining agreement, the parties may decide to extend its term only once, by at most 12 months, or may work out an entirely different arrangement.

Collective bargaining agreements and addenda to these contracts should be concluded in written form, should be registered with the local labour authorities, and are applicable as of their registration with the appropriate labour authority or as of a subsequent date as established by the parties.

A collective bargaining agreement cannot be unilaterally terminated.

Labour disputes

The Labour Code and Law no. 367/2022 on social dialogue set out the procedure to be followed in labour disputes. Labour disputes are divided into collective labour conflicts and individual labour conflicts.

The procedure for solving collective labour conflicts involves three steps as follows:

- ✓ In all cases where there are grounds for a collective labour conflict, as laid down by law, the parties must notify the employer/employers' organisation of the situation in writing, stating the demands of the employees/workers, the reasons for them and the proposals for resolving them (this requirement will also be deemed to have been met if the demands, reasons and proposals are presented at the meeting with the representatives of the employer/employers' organisation, if the discussions were recorded in minutes);
- ✓ The employer/employers' organisation or, where appropriate, the institution or public authority, is required to receive and register the complaint and reply in writing to the parties within three working days of receipt of the complaint, stating the reasons for rejecting each of the claims made;

- ✓ When a conflict has been openly declared, conciliation procedures are initiated by the ministry responsible for social dialogue, in the case of collective labour disputes at group, sectoral or national level, or the local labour inspectorate, in the case of collective labour disputes at unit level, who must designate a person to participate in the conciliation of the collective labour dispute and must communicate the details of the delegated person to both the trade union or the employees'/workers' representatives and the employer/employers' organisation.
- ✓ If the conciliation attempt fails, mediation can be sought, subject to the parties' mutual agreement.
- ✓ Arbitration can be resorted to at any time during a collective labour conflict, by mutual agreement of the parties. Arbitration and mediation is decided by the Mediation Office within the Ministry responsible for social dialogue.

The first step is compulsory, while the other two are left to the parties' choice. Nevertheless, mediation and arbitration of a collective labour conflict are mandatory, if the parties have agreed to them, prior to initiating a strike and during a strike.

As long as a collective bargaining agreement is in force, employees cannot initiate collective labour conflicts.

A strike (defined as a collective and voluntary work stoppage within a unit), can be declared only if the mandatory procedures provided by law for the settlement of a collective labour conflict have been exhausted, after the initiation of a warning strike and if the starting date of the strike has been communicated to the employer at least 2 working days in advance and for units set out in Article 173 of Law no. 367/2022 on social dialogue (for example, health and social welfare units, telecommunications, public radio and television, national energy system units etc.) at least 5 working days in advance. According to the law, there are 3 types of strike: warning strike, full strike and solidarity strike.

Individual labour conflicts are settled by the competent courts. Employees' demands are assessed under a special emergency procedure (the hearings cannot last for more than 15 days).

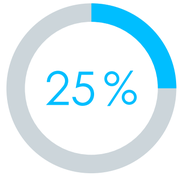
Nonetheless, in order to promote the amicable settlement of individual labour disputes, on conclusion of an individual employment contract or during its execution, the parties may include in the contract a clause establishing that any individual labour dispute should be resolved through a conciliation procedure.

In this case, the conciliation will take place with the help of an external consultant, who specialises in labour law, with respect for neutrality, impartiality, and confidentiality, and based on the free consent of the parties.

Social contributions and personal income tax

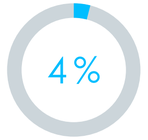
Social contributions due by employers and employees as set out below:

Pension contribution



due by employees, however withheld from the gross salary, declared, and paid by the employer

In addition:



payable by employers for special work conditions

payable by employers for special and other work conditions

Health insurance contribution

due by employees, however withheld from the gross salary, declared, and paid by the employer

Work insurance contribution

payable by employers

Personal income tax

due by employees, however withheld from the gross salary, declared, and paid by the employer.

The Fiscal Code provides for certain tax facilities for employees and employers in the construction industry, food industry, IT sector and agriculture sector, consisting of exemption from the payment of personal income tax and a reduction in the pension contribution. The facilities are applicable if certain specific criteria are met.

The legal system

Broadly, the Romanian legal system stems from the Roman branch of law, but it is also partly influenced by the Anglo-Saxon branch. Moreover, Romanian legislation has been mostly aligned with that of the EU, considering the country's accession as a Member State from 1 January 2007.

The Constitution

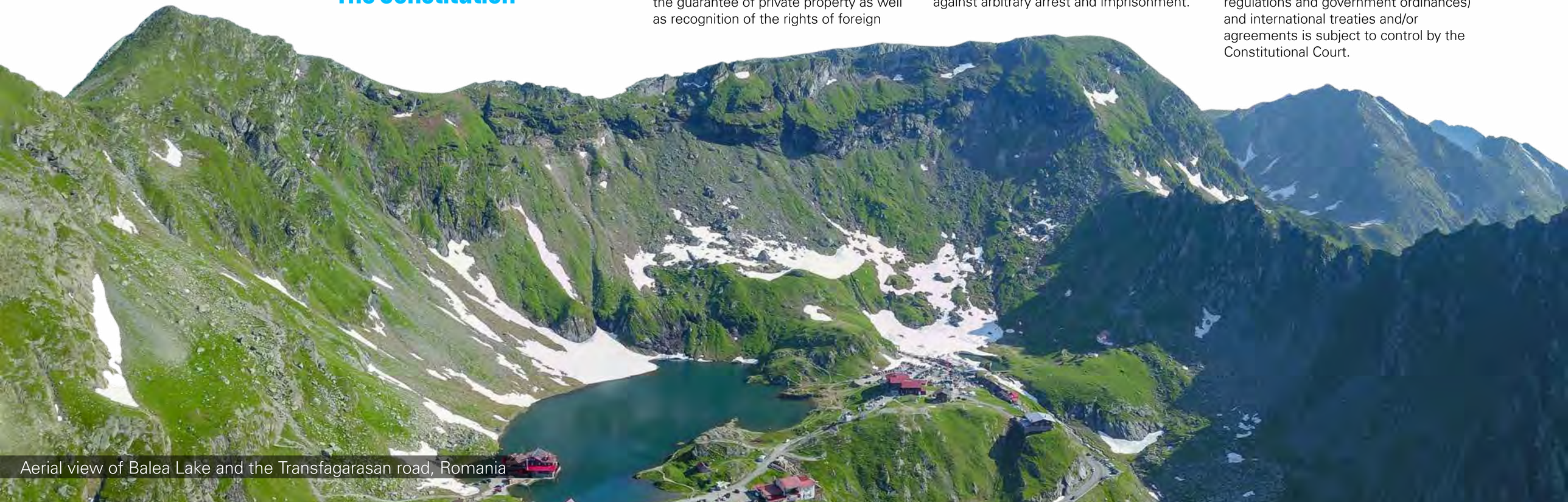
The Romanian Constitution took effect in December 1991 and was revised in 2003, in preparation for EU accession. The Constitution provides strong support for the fundamental principles of private property and free market exchange, as well as explicit limitation and control of powers vested in public authorities.

The amendments made in 2003 include the guarantee of private property as well as recognition of the rights of foreign citizens and stateless persons to privately own land in Romania under certain conditions, as well as by way of lawful inheritance.

Citizens' rights and duties set out in the Constitution are generally typical of those applying in democratic countries, such as freedom of speech, freedom of religion and movement as well as protection against arbitrary arrest and imprisonment.

The Constitution states that citizens of national minorities with a significant population in local administrative units are entitled, under special circumstances, to use their mother tongue in their relations with local public administration authorities and local public service providers.

The constitutionality of parliamentary legislation (i.e. laws, parliamentary regulations and government ordinances) and international treaties and/or agreements is subject to control by the Constitutional Court.



Aerial view of Balea Lake and the Transfagarasan road, Romania

Body of Laws

Civil Law

The Civil Code, which came into force on 1 October 2011, is based on multiple sources of inspiration from many systems of law, e.g. the civil codes of France, Italy, Quebec, and Switzerland, and Unidroit Principles.

For the first time in Romania, the 2011 Civil Code regulated certain institutions, such as trusts, parties' permission to set prescription terms for their obligations etc., and modified the effects of certain legal actions.

The 2011 Civil Code also repealed the distinction between civil and commercial matters, encompassing regulations for legal entities insofar as their establishment and operation are concerned, along with other important commercial rules.

Romanian law also closely follows the provisions of the Geneva Convention of 1930 with respect to negotiable instruments such as checks, drafts/bills of exchange and promissory notes. Since 1989, Romania has extensively expanded its body of laws concerning civil and commercial matters to ensure greater flexibility in the country's private law system and to adapt it to the market economy.

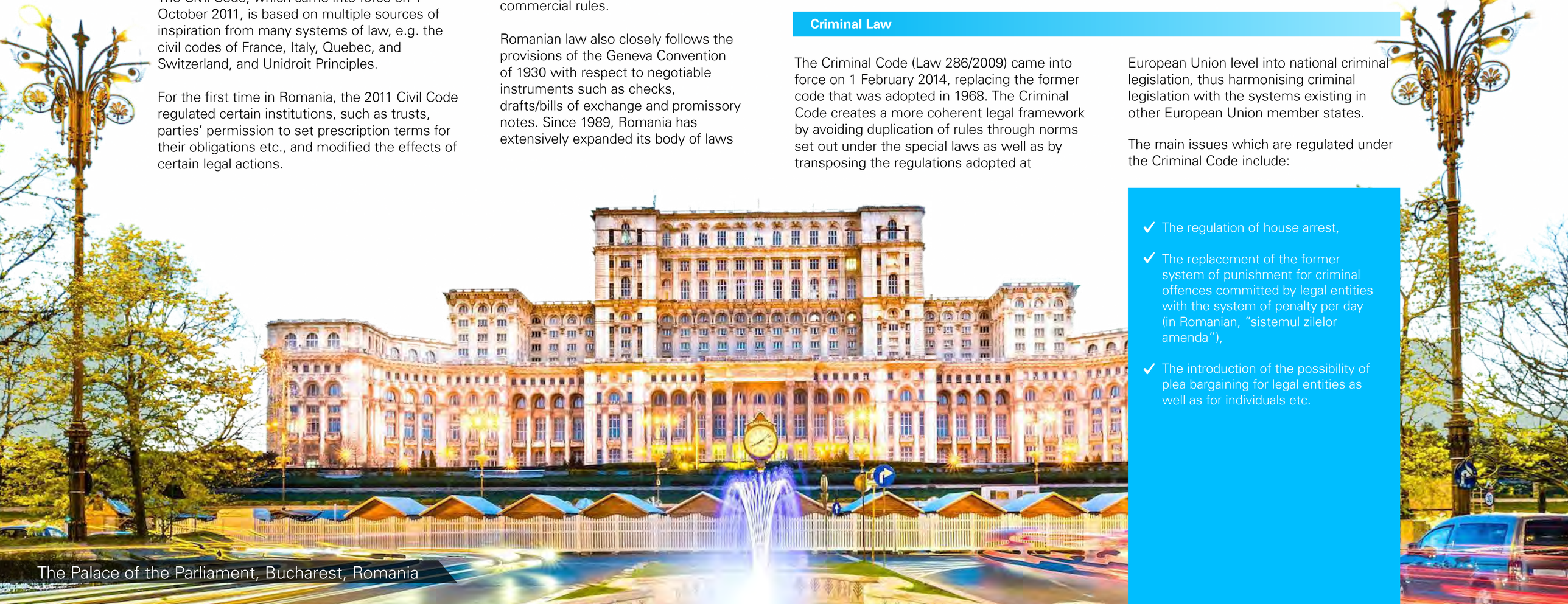
The Civil Procedure Code took effect on 15 February 2013. This included significant amendments to the procedural practices regulated by the former code, aiming to improve efficiency and the speed of legal proceedings.

Criminal Law

The Criminal Code (Law 286/2009) came into force on 1 February 2014, replacing the former code that was adopted in 1968. The Criminal Code creates a more coherent legal framework by avoiding duplication of rules through norms set out under the special laws as well as by transposing the regulations adopted at European Union level into national criminal legislation, thus harmonising criminal legislation with the systems existing in other European Union member states.

The main issues which are regulated under the Criminal Code include:

- ✓ The regulation of house arrest,
- ✓ The replacement of the former system of punishment for criminal offences committed by legal entities with the system of penalty per day (in Romanian, "sistemul zilelor amenda"),
- ✓ The introduction of the possibility of plea bargaining for legal entities as well as for individuals etc.



The Palace of the Parliament, Bucharest, Romania

The Criminal Procedure Code (Law 135/2010) came into force on 1 February 2014.

This included significant amendments to the procedural practices regulated by the former code, aiming to reduce the length of trials, simplify criminal judicial procedures, and protect fundamental human rights, observing the principles of fair criminal trials in line with international standards and the requirements of European Court of Human Rights case-law.

One significant amendment included in the Criminal Procedure Code involved the separation of judicial functions in a criminal trial, by the introduction of the notions of a preliminary chamber judge as well as of a judge of rights and freedoms, mainly with regard to situations when preventive measures need to be taken.

However, since the Criminal Procedure Code entered into force, the Romanian Constitutional Court has issued several decisions stating that several provisions of the Code are unconstitutional, such as authorisation of foreclosure proceedings by bailiffs.

Judicial System

According to the Constitution and the Civil Procedure Code, the Romanian judicial system comprises: local courts (in Romanian, "judecatorii"), district courts (in Romanian, "tribunale"), district courts of specialised jurisdiction (in Romanian, "tribunale specializate"), courts of appeal (in Romanian, "curti de apel") and the High Court of Cassation and Justice.

As a general rule, local courts and district courts act in first instances depending on the type and amount of money involved in the dispute, while the courts of appeal judge first or final appeals.

The High Court of Cassation and Justice is Romania's Supreme Court. It deals with final appeals against decisions made by the courts of appeal in first or second instances, as well as having a relevant role in providing a unitary and unifying interpretation of legislation at national level.

District courts of specialised jurisdiction are constituted for specific matters by Order of the Ministry of Justice. Upon the legal incorporation of these district courts, all pending legal cases on matters which fall under their jurisdiction are sent *ex officio.*

Commercial Arbitration

Romania is a signatory party to the New York Convention of 1958 on the recognition and enforcement of foreign arbitration awards. The Court of International Commercial Arbitration attached to the Chamber of Commerce and Industry of Romania functions in Bucharest and applies rules similar to the Rules of Arbitration or rules agreed by the litigating parties. Arbitration in Romania is regulated by the Civil Procedure Code, which is adjusted to the current requirements on arbitration initiation and organisation, as set out in European Union legislation.

Since 1 January 2018, the Court of International Commercial Arbitration has been attached to the Chamber of Commerce and Industry of Romania. In support of the business environment, the Court applies new Rules of Arbitration in order to improve the functioning of commercial arbitration.

These Rules of Arbitration are consistent with the best European and international practices in the field.

Recognition and enforcement of foreign courts' decisions

Since Romania's accession to the European Union on 1 January 2007, the recognition and enforcement of foreign judgements depends on whether they have been made inside or outside the European Union.

Judgements given in civil and commercial matters in another EU member state are recognised in Romania in accordance with Regulation (EU) 1215/2012 of the European Parliament and of the Council of 12 December 2012 on jurisdiction and the recognition and enforcement of judgements in civil and commercial matters as well as Council Regulation 805/2004 creating a European enforcement order for uncontested claims.

A judgement made in an EU Member State, enforceable in that state, is also enforceable in Romania, subject to fulfilment of certain specific procedures.

For judicial actions there is an automatic recognition of the capacity of writ of execution, as per the provisions of Regulation (EU) 1215/2012, whereby the rulings of any court of an EU Member State are deemed to be directly enforceable throughout the EU, without any further formalities.

The procedure for recognition and enforcement of judgements made in a non-EU country is set out under the specific provisions on international private law under the Civil Code and Civil Procedure Code. Under these legal provisions, Romanian courts may not examine a case or amend foreign awards issued by foreign judicial or arbitration courts.

A Romanian court may only verify the fulfilment of the conditions for recognition or enforcement of such awards.

Protection of intellectual and industrial property rights

Romania is a signatory to international conventions on intellectual and industrial property rights. The EU Accession Treaty lays down specific provisions that reaffirm Romania's commitment to internationally agreed rules in this field.

Trademarks

Romania is a signatory party to the 1894 Madrid Agreement on International Registration of Trademarks, to the 1883 Paris Convention for the Protection of Industrial Property, and to the EU Trademark System administered by the European Union Intellectual Property Office.

As an EU member, Romania is subject to directly applicable regulations in the field of protection of trademarks, such as Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trademark. At national level, trademarks are protected under Law no. 84/1998 on trademarks and geographical indications, which sets out the procedure for registering trademarks with the State Office for Inventions and Trademarks (the Romanian specialised government body with sole authority to ensure the protection of industrial property – OSIM), the priority rights recognised and the rights and obligations deriving from trademark protection.
Trademarks may consist of any sign capable of being represented graphically provided that such signs are capable of distinguishing the goods or services of one enterprise from those of other enterprises and can be represented in the Trademark Register in such a way as to enable the relevant authorities and the public to establish clearly and precisely the object of the protection conferred.

The right to the trademark is acquired and protected by its registration with OSIM and the right belongs to the applicant who first filed the trademark application.
A trademark is generally protected for 10 years, and its validity may be subsequently extended for equal periods.

This protection can also apply to international trademarks registered under the Madrid Protocol and the Madrid Arrangement. Likewise, trademarks registered in Romania may benefit from international and EU protection.

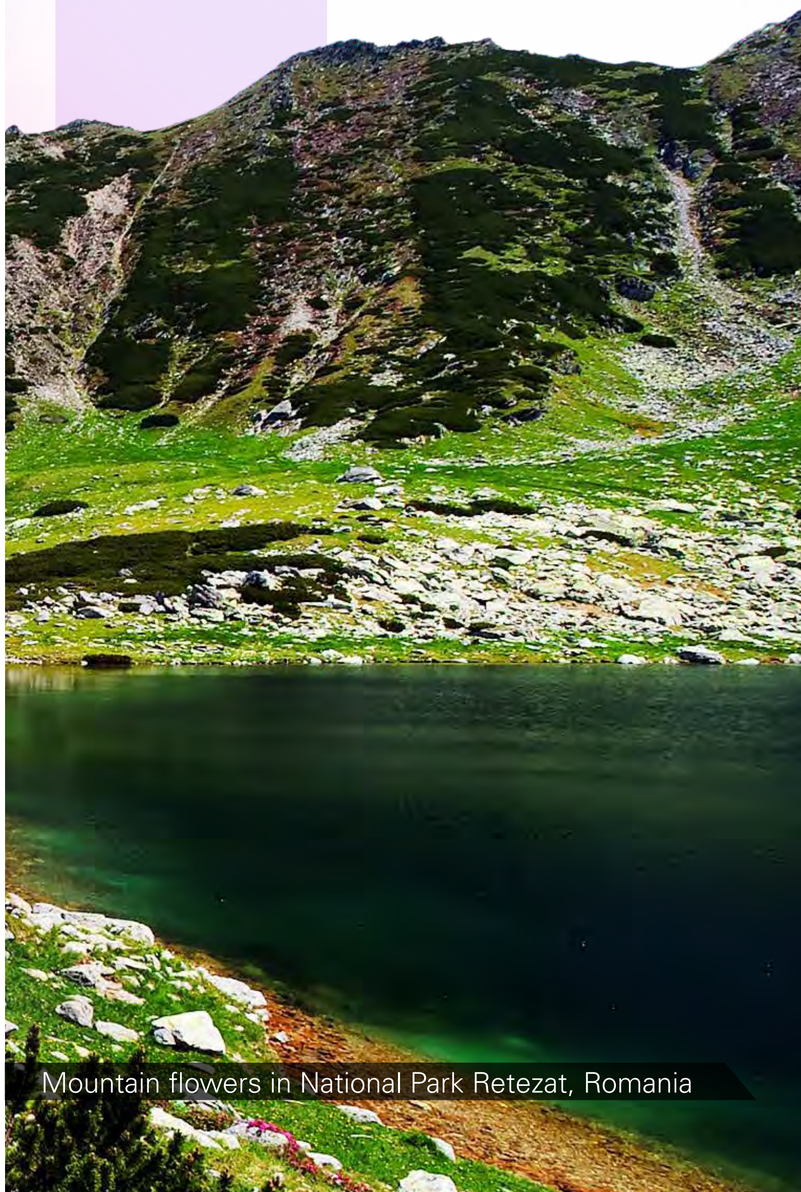
On 13 July 2020, Law no. 112/2020 which amends and supplements Law no. 84/1998 entered into force and is designed to align the national provisions on trademarks and geographical indications with European legislation, as well as with the jurisprudential tendencies of the Court of Justice of the European Union.

Law no. 112/2020 introduced shorter deadlines for trademark registrations, examinations, appeals and even priority claiming. At the same time, new deadlines for the opposition procedure were also introduced which are designed to ensure its coherence and speed.

In 2022, under Emergency Ordinance 169/2022 amending and supplementing Law 84/1998, a jurisdictional administrative procedure for the resolution of trademark cancellations and revocations at OSIM was implemented. Thus, users of the national trademark system can benefit from a new procedural framework for a special administrative procedure of a jurisdictional nature to deal with requests for cancellation of trademark registrations and requests for revocation of trademark rights at OSIM level.

Starting from 1 December 2025, Regulation (EU) 2023/2411 of the European Parliament and of the Council of 18 October 2023 on the protection of geographical indications for craft and industrial products and amending Regulations (EU) 2017/1001 and (EU) 2019/1753 will become applicable in all EU member states.

Its aim is to include the protection of geographical indications for a wide range of craft and industrial products such as natural stones, wooden objects, jewelry, textiles, lace, cutlery, glass, porcelain and leather.
Currently, the protection of geographical indications is in place for wines and spirits, as well as for agricultural products and foodstuffs.



Mountain flowers in National Park Retezat, Romania

Copyright

Romania is a member of the Bern Convention on Copyrights and a signatory party to the WIPO Copyright Treaty.

In Romania, copyright is regulated by Law no. 8/1996, which governs copyright issues relating to literary, artistic, scientific, or other similar works, including software, scientific projects and documentation, audio-visual works, architecture, graphic and plastic art works, digital art works, etc.

The most recent amendments to Law no. 8/1996 were made by Law no. 74/2018, Law no. 203/2018, Law no. 15/2019, Law no. 8/2020, Law no. 39/2022 and Law no. 69/2022, the latter transposing EU Directives 2019/789 and 2019/790 into national law.

Law no. 69/2022 introduced, among other things, a number of measures aimed at ensuring both a well-functioning market from a copyright perspective and modernization of copyright law, taking into account the increasing digital and cross-border uses of protected content.

Copyright is granted to the author of the work, irrespective of any formalities, from the moment the work is created, and it meets the criteria for protection, even if the work has not been finished or made public.

In general, for a work to be protected by copyright it must be 'the author's own intellectual creation', which in Romania means that a work needs to be expressed in a concrete form, be original (i.e. it should bear the mark of the author's personality) and be in a form that can be perceived by others.

The Romanian legal framework provides that some works are not protected for copyright, for example, simple facts and data, ideas, theories, concepts, scientific discoveries, etc.

The general rule is that the individual(s) who created the work is/are the author(s) thereof, except in the cases provided by Law 8/1996 in which legal entities and individuals other than the author may benefit from the protection granted to the author (for example, the employer, in cases when the employee creates computer software as part of his/her employment relationship).

The economic rights of copyright protection last for the author's lifetime and after his/her death are transferred by inheritance for 70 years.

Patents

Romania is a party to the 1883 Paris Convention for the Protection of Industrial Property, as well as to its related amendments, and to the 1973 European Patent Convention.

Currently, in Romania, patents are regulated by Law no. 64/1991, which governs the procedure for registering patents, as well as the rights and obligations deriving from them.

In order for an invention to benefit from legal protection, the inventor must obtain a patent certificate issued by the OSIM.

According to Romanian law, a patent may be granted for any technical invention which has as its object a product or process, provided that it is new, involves an inventive step and is susceptible to industrial application. The right to the patent belongs to the inventor or his/her successors in title.

By way of example, discoveries, scientific theories, aesthetic creations, or computer programs are not considered inventions and do not benefit from the legal protection afforded by patents.

Patents have a 20-year validity, except for those which cover the protection of plant species, also based on a patent certificate, which have a 25 year validity (based on Law no. 255/1998).

Utility models

The utility model, which forms part of the legal framework governing the protection of industrial property, was introduced into Romanian legislation in 2007 (Law no. 350/2007).

The utility model ensures the protection of technical inventions only, and only products benefit from this protection. Consequently, inventions consisting of procedures or methods are not covered. For a utility model certificate to be granted, the technical solution must be new, exceed the level of simple skill and be susceptible to industrial application.

According to Romanian law, the right to the utility model belongs to the inventor or his/her successors in title.
In order for a technical solution to benefit from legal protection, the inventor must obtain a utility model certificate issued by the OSIM.
A utility model can be protected for a maximum of 10 years consisting of a first 6-year term followed by renewal of protection for at most two consecutive 2-year terms.

On-the-job inventions

Since 2014 on-the-job inventions (in Romanian, "invenții de serviciu") have been regulated in Romania by Law no. 83/2014.
The law applies to inventions designed by an individual inventor or a group of inventors, provided that the individual inventor or at least one member of the group of inventors is an employee of a private or public legal entity.

Furthermore, the law is applicable where either

- ✓ (a) the technical solution is the result of work carried out by the inventor in the exercise of duties under an inventive mission, or
- ✓ the technical solution has been developed by using the employer's resources, as a result of the inventor's professional training and qualification at the employer's cost, etc.

The provisions of the law are applicable to technical solutions that can be protected under an invention patent or utility model.
An employee who creates an invention is required to communicate to the employer the presentation of the invention and the employer can then decide whether or not to classify an invention as an on-the-job invention and may claim the right to it.
As a general rule, the right to on-the-job inventions belongs to the employer. If the employer does not claim the invention, the right to the on-the-job invention can belong to the employee, in the case of inventions developed by using the employer's resources, as a result of the inventor's own professional training and qualification.

Under the law, employers are required to establish, under specific internal regulations, the criteria for setting inventor employees' remuneration.

Moreover, where on-the-job inventions have been developed by employees working for public legal entities whose object of activity includes research development, the law states that the inventor employee is entitled to a percentage of the revenues generated by the employer which may not be lower than 30%.

Drawings and models

The protection of drawings and models in Romania is governed by Law no. 129/1992, which transposes the provisions of Directive 98/71/EC on the legal protection of designs.

Council Regulation (EC) 6/2002 on Community designs is also applicable, ensuring the protection of EU designs and models in Romania. Under the regulations, EU protection of a design / model can be obtained via the filing of an application directly with the Office for Harmonization in the Internal Market or via OSIM.

Drawings or models represent the external appearance of a product or part thereof, rendered in two or three dimensions, resulting from the combination of the main features, in particular lines, contours, colours, shape, texture and/or materials of the product itself and/or its ornamentation, which are able to be submitted for registration as a model or drawing, and are distinct from all the existing products on the market.

In order for a drawing or model to benefit from legal protection, the drawing or the model should be registered with OSIM.

The right to obtain a registration certificate issued by the OSIM belongs to the author of the drawing or model or to his/her successors.

Drawings and models are protected for 10 years from the registration date. The term may be extended for three consecutive 5-year periods. The registration of drawings and industrial models is similar to the registration procedure for trademarks.

Topographies of semiconductor products

Topographies of semiconductor products are regulated in Romania by Law no. 16/1995, which transposes Council Directive 87/54/EEC and are protected in Romania by registration with the OSIM.

Palace of Culture, Iași, Romania

A topography of a semiconductor product represents a series of related images, whether fixed or encoded, representing the three-dimensional configuration of the layers making up a semiconductor product, in which each image reproduces the design or part of the design of a surface of the semiconductor product at any stage of its manufacture.

Original topographies are protected under the law and are those which are the result of the intellectual effort of their creators and which, at the time they were created, were not customary for topography creators and manufacturers of semiconductor products.

The right to protection of the topography of a semiconductor product belongs to the creator of the topography or his/her successor in title and if there are several creators, co-authors, the rights belong to them jointly.

If the topography was created by an employee in the course of his/her work, the right to protection of the topography belongs to the employer.

Should the topography be created on the order of an individual or legal entity, the right to protection of the topography belongs to the person or entity who commissioned it.

Topographies of semiconductor products are protected for 10 years and they can be transmitted, in whole or in part, by assignment, by succession or by granting exclusive or non-exclusive licenses.

Competition in Romania

Relevant legislation

Since Romania's accession to the European Union, competition has been governed by both domestic and EU legislation.

The relevant domestic legislation on merger control (control of economic concentrations), anti-competitive agreements, concerted practices and abuse of dominant position includes the Competition Law (Law 21/1996, as republished and further amended), as well as the secondary legislation issued by the Competition Council.

In addition, Government Emergency Ordinance 46/2022 on the implementation of EU Regulation 2019/452 establishing a framework for the screening of foreign direct investments into the Union (GEO 46/2022) currently regulates the regime applicable for the foreign direct investment (FDI) clearance procedure. Finally, the main regulatory document regulating national state aid procedures is Government Emergency Ordinance 77/2014, as further amended.

The Competition Law applies, subject to certain conditions, to all companies (regardless of their nationality) in connection with activities carried out in Romania or outside Romania, if these activities have an effect on competition in Romania, as well as to central or local public administration authorities involved in economic operations and influencing, directly or indirectly, competition on a certain relevant market.

Glacier lake in high mountains, Retezat National Park, Carpathians, Romania

Competition Authority

The Competition Council is an autonomous administrative authority responsible for secondary legislation in relation to competition and FDI, and the enforcement of competition and FDI regulations in Romania.

The Competition Council has been very active over the past few years, issuing a significant number of regulations and guidelines, frequently opening *ex officio* investigations on various competition related issues.

Main issues

The main issues to be considered with respect to competition are:

01 Merger control (control of economic concentrations)

02 Foreign direct investment (FDI) screening

03 Cartels and collusion (anti-competitive agreements between undertakings, decisions by associations of undertakings and concerted practices)

04 Abuse of dominant position

05 State aid

Merger control (control of economic concentrations)

The underlying principle is the prohibition of economic concentrations that would raise any significant obstacles to effective competition on the Romanian market or on a substantial part thereof, especially by way of creating or consolidating a dominant position.

According to the Competition Law, an economic concentration involves a lasting change of control resulting from operations such as the merger of two or more previously independent undertakings or parts thereof, or the acquisition of direct or indirect control by one or more undertakings or by individuals who already control at least one undertaking over other undertaking/s via shares/assets/contracts/etc.

Control may be exercised by one entity (sole control), or by two or more entities that agree to adopt important decisions in connection with the entity they control (joint control).

Internal restructuring within a group of companies/undertakings does not represent an economic concentration for the purposes of the Competition Law.

Concentrations exceeding certain turnover thresholds must be notified to, and assessed by the Competition Council.

The current thresholds, regulated under Competition Law 21/1996 and Order 431/2017 implementing the Regulation on economic concentrations, are as follows:

01 A worldwide aggregated turnover of EUR 10,000,000 in RON equivalent generated by the undertakings involved and

02 A turnover of EUR 4,000,000 in RON equivalent generated in Romania by each of at least two of the undertakings involved in the operation.

International transactions that produce effects in Romania must also be notified to the Competition Council if the above criteria on turnover thresholds are met. Turnover is assessed for the year preceding that in which the operation was carried out and the applicable exchange rate is that published by the National Bank of Romania for the last day of the same year.

As a general rule, a standstill obligation applies which means that a concentration which exceeds the above turnover thresholds may not be set up until the Competition Council has approved it. The levels of the thresholds can be subject to amendment by the Competition Council depending on market development.

Where there is an obligation to notify the Competition Council, this notification must be made:

- ✓ By each of the parties involved, in the case of mergers.
- ✓ By the party acquiring control, in any other case.

Economic concentrations are authorised to operate, provided that they are proved to be compatible with a normal competitive environment and the Competition Council has adopted a non-objection decision in this respect. The criteria for evaluating this compatibility are:

- ✓ The need to protect, maintain and develop effective competition on the Romanian market or part of it,
- ✓ The position on the market of the parties to the concentration and their financial and economic strength,
- ✓ The alternatives available to providers and users, their access to supply sources or markets and any other legal or other barriers to market entry, etc.

Economic concentrations may also be approved under certain conditions, subject to commitments to be undertaken by the parties involved, such as the assignment of an undertaking's activity to an adequate buyer, termination of an undertaking's contractual

relationships with its competitors, termination or amendment of exclusive clauses in certain contracts etc.

Additional procedural rules are enforced under regulations issued by the Competition Council.

Foreign Direct Investment (FDI) screening

The main piece of legislation regulating Foreign Direct Investment (FDI) is Government Emergency Ordinance 46/2022 on the implementation of EU Regulation 2019/452 establishing a framework for the screening of Foreign Direct Investments into the European Union, which entered into force on 18 April 2022. In addition, there is also a secondary piece of legislation which further details the role of the CEISD – the Regulation for the organization and functioning of the Commission for the Examination of Foreign Direct Investments.

Foreign Direct Investments (FDI) which meet certain criteria need to undergo the prior clearance procedure with the newly set-up Commission for the Examination of Foreign Direct Investments (CEISD), before the investment is made – a standstill obligation is applicable and no implementation can take place prior to clearance.

Foreign direct investments are broadly defined under the current legal framework and are considered to include the following:

01

Changes in control in the ownership structure of a company – similar to cases in which the merger clearance procedure, under the competition law regime, is applicable (however, note that FDI clearance is a separate and independent procedure, which can take place simultaneously, provided both merger and FDI clearance is required in a specific case; moreover, a merger clearance decision cannot be issued until the transaction is approved based on the FDI rules);

02

an investment made by a foreign investor for the purpose of establishing or maintaining long-lasting and direct links between the investor and an undertaking and/or a separate unit of an undertaking through funds which are made available for carrying out an economic activity in Romania and which allow the foreign investor to exercise control over the management of the business;

03

greenfield investment (new investment), i.e. cases in which existing investors in Romania intend to set-up or extend their current production capacity, diversify their production or otherwise make significant changes to their current production process.

To sum up the above, the FDI clearance procedure is aimed at both investments made in relation to already existing and set-up companies and activities, and new / greenfield investments. It consequently has a very broad scope of application.

Under current legislation, internal reorganization processes are caught by the FDI screening obligations, and they are not expressly excluded from the scope of application of GEO 46/2022 (as happens in the case of merger control legislation).

Following an amendment, which entered into force in December 2023, Romania became a catch-all jurisdiction, whereby both non-EU and EU investors (including domestic investors) can be subject to FDI screening.

In broad terms, there are two criteria taken into consideration and which could trigger the obligation to undergo the FDI clearance procedure:

01 a monetary threshold - the investment should have a value exceeding EUR 2,000,000 and

02 if the investment is in a particular sector/industry which is of importance to national security; on this last point, the legislation is drafted in very general terms and gives the authority a large margin of interpretation.

The FDI clearance process requires completion of a form in which detailed information is set out about

01 the investment made and

02 the need for the investment.

The form needs to be completed in bilingual format, in Romanian and English.

The requirement to fill-in and submit the FDI clearance form rests with the investor, who will act in the procedure as notifying party. The authorities involved in the process are the following:

- ✓ The Competition Council, through its Department for Foreign Investments (which act as a secretary of the CEISD);
- ✓ The CEISD; and
- ✓ The National Supreme Defence Council, which is consulted by the CEISD on a case-by-case basis.

Following its review of the notified investment, the CEISD may issue:

A

An unconditional approval of the investment, by issuing a binding notice to this effect (aviz conform in Romanian), for the attention of the Competition Council, the authority in charge of issuing the clearance decision in this specific case.

B

A conditional approval of the investment, subject to behavioural or structural commitments, by issuing a notice with a recommendation value (aviz consultativ in Romanian) for the attention of the Romanian government, which has the final say.

C

A notice prohibiting the investment, which has a recommendation value (aviz consultativ in Romanian) for the attention of the Romanian government, which has the final say.

Secondary legislation is expected to be issued by the Competition Council to further clarify the FDI legal framework.

Cartels and collusion

(with reference to anti-competitive agreements and concerted practices)

As a rule, agreements between undertakings, decisions by associations of undertakings and concerted practices that are aimed at or result in the restriction, prevention or distortion of competition on the Romanian market or on significant parts thereof (such as price fixing, limitation of or exercising control over production, technical development or investments, market sharing, etc.) are prohibited.

Exemptions

As a general rule, anti-competitive prohibitions do not apply in certain cases, for example:

If the cumulated market share of the parties to an agreement does not exceed

in any of the relevant markets affected by the agreement, when the agreement is concluded between undertakings that are competitors or potential competitors on one of these markets.

If the market share of each of the parties to an agreement does not exceed

in any of the relevant markets affected by the agreement, when the agreement is concluded between undertakings that are neither competitors nor potential competitors on any market, etc.

In addition, certain agreements, decisions and concerted practices can benefit from block-exemptions provided under the applicable EU regulations (e.g. certain categories of research and development agreements containing restrictions of competition falling within the scope of Article 101(1) of the Treaty, certain categories of specialisation agreements, etc.).

However, some categories of agreements between undertakings which would qualify for certain exemptions under the Competition Law, are prohibited, regardless of the cumulated market share held by the parties to the agreement in question, if they contain restrictions which, according to the Competition Law, are deemed to be serious (e.g. agreements between competitors to set the selling price of products to third parties; agreements between non-competitors imposing restrictions in terms of territory to be covered or clients to whom the buyer may passively sell goods or services etc.)

Abuse of dominant position

Holding a dominant position on the Romanian market or on a substantial part thereof is not prohibited by the Competition Law, but only the abusive use of this position through certain practices, such as the direct or indirect imposition of unfair purchase or selling prices or other unfair trading conditions and refusal to deal with certain suppliers or customers, the application of dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage, or making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the object of these contracts etc.

According to the Competition Law, an undertaking is presumed to hold a dominant position if its market share on the relevant market, in the period subject to investigation, exceeds 40%.

State Aid Control

The EU legal framework on state aid is directly applicable in Romania.

Consequently, as a general rule, granting and implementing state aid in Romania is now subject to the European Commission's prior approval, inasmuch as the state aid falls under the legal notification requirements.

The Competition Council plays the role of liaising authority between the European Union and the authorities/beneficiaries of state aid and provides professional assistance in relation to state aid (by drafting documents to ensure that the specific conditions are met, etc.).

According to Romanian legislation and EU law, state aid consists of any supportive measure that meets all of the conditions below:

- ✓ It is granted by the state from state resources, irrespective of form.
- ✓ It is selective.
- ✓ It ensures a benefit to the enterprise in question.
- ✓ It distorts or threatens to distort competition or affects trade among the European Union Member States.

According to Government Emergency Ordinance 77/2014 (amended by Government Emergency Ordinance 6/2020), state aid is defined as any economic incentive granted by the state by using state resources or resources managed by the state, in any form, which distorts or threatens to distort competition by favouring certain enterprises or production sectors, in a manner affecting the commercial exchanges between member states.

In principle, state aid is provided in a variety of forms such as grants, interest and tax relief, guarantees or the provision of goods and services on preferential terms etc.

The Treaty on the Functioning of the European Union generally prohibits state aid unless, for instance, it is justified by reasons pertaining to general economic development. In this respect, state aid granted in Romania is subject to the notification of and prior approval by the Commission (notification is made via the Romanian Competition Council).

However, not all state aid is subject to the notification requirements and the prior approval of the Commission. Thus, according to the de minimis rule, state aid not exceeding the equivalent of EUR 200,000 (cash grant equivalent) over three fiscal years is not subject to the notification of and prior approval by the Commission. (In the road transport sector the threshold is EUR 100,000). The ceiling applies to the total of all public assistance to any single recipient undertaking, which is considered to be **de minimis** aid.

The **de minimis** rule does not apply to undertakings acting in certain fields set out under the EU regulations, such as fishery aquaculture, the coal sector and primary production of certain agricultural products. In addition, certain categories of state aid may be exempted from the notification and authorisation requirements, provided that the conditions set out under the block exemption regulation are met.

This regulation creates exemptions for the following types of state aid: aid for small and medium-sized enterprises, aid to promote employment, aid in the form of risk capital, aid for environmental protection, aid for research, development and innovation, as well as aid for disabled and disadvantaged workers.

Penalties are provided by law for non-compliance with legal provisions on competition

Deliberate or negligent failure to notify economic concentrations or the implementation thereof without obtaining clearance from the Competition Council may lead, among other things, to fines of up to 10% of the total annual worldwide turnover for the year preceding the penalty.

Deliberate or negligent implementation of foreign direct investment without obtaining prior clearance is sanctioned:

- ✓ with an administrative fine up to 10% of the global turnover or
- ✓ for newly established undertakings, with an administrative fine between RON 10,000,000 (approx. EUR 2,000,000) and RON 50,000,000 (approx. EUR 10,000,000).

Deliberate or negligent failure to comply with the rules on anticompetitive agreements, decisions of undertakings and concerted practices may trigger fines of up to 10% of the total annual worldwide turnover for the year preceding the penalty.

In addition, individuals with management positions within a company who have a significant role in creating/implementing an anticompetitive agreement, a decision of an association of undertakings or a concerted practice may become subject, under certain conditions, to criminal penalties (leading possibly to up to 3 years imprisonment).

Under an amendment to the Competition Law (Law 21/1996) in December 2023, domestic legislation became harmonized with the European approach in relation to the liability of a parent company for the anticompetitive practices of its subsidiaries.

Consequently, the single economic unit doctrine is transposed into national law in terms of antitrust fines – i.e., in the event of an undertaking comprising several legal entities that have been engaged in an anticompetitive practice and therefore could be found liable for it, all of these legal entities may be held responsible individually for the conduct (for instance, a parent-company and its subsidiary, or all its other subsidiaries).

Moreover, this change exponentially affects the amount of the fines – as the upper limit of administrative fines has risen to 10% of the turnover of the relevant economic unit achieved in the financial year preceding the penalty. Additionally, it is expressly stated that the competition authority will apply the principles of economic and legal continuity, in line with European jurisprudence (e.g., where one of the undertakings under investigation has transferred its assets to another company pending the antitrust investigation).

Deliberate or negligent failure to comply with the rules on the abuse of a dominant position may trigger fines of up to 10% of the total annual worldwide turnover of the year preceding the penalty.

Any state aid illegally granted or abusively used must be reimbursed along with related interest.

Directive 2014/104/EU on actions for damages in the case of infringements of competition law is currently transposed into national legislation under

Government Emergency Ordinance 170/2020 (GEO 170/2020).

GEO 170/2020 regulates expressly the right of any entity or individual who has suffered harm, due to infringement of competition rules by an undertaking or an association of undertakings, to lodge claims with the appropriate courts of jurisdiction (i.e. the Bucharest Tribunal) for full compensation for the harm suffered.

The legislation refers expressly to infringements of the provisions of Article 101 or 102 of the Treaty on the Functioning of the European Union, as well as of Article 5 and 6 of Law 21/1996.

The legislation also gives additional definitions of concepts such as

action for damages", " direct purchaser", "leniency statement", "injured party" etc.

Under GEO 170/2020, any entity or individual which has suffered harm caused by an anti-competitive practice prohibited under the provisions of Law 21/1996 may claim and obtain reparation in full for the harm done. As such, it is stipulated that full compensation has to be paid to parties who have suffered harm to the status in which they would have been had the competition rules not been infringed.

Moreover, full compensation includes both the actual harm suffered and the profit of which the injured party is deprived, as well as the payment of related interest.

In terms of the quantification of harm, a new element brought into domestic legislation expressly introduces a legal assumption that cartel infringements cause an increase of 20% in the price of the products or services related to the cartel. This assumption can be rebutted by the author of the infringement.

According to GEO 170/2020 all claims for damages, irrespective of value, should be lodged with the Bucharest Tribunal.

Damages claims for competition law infringements will only become time barred after five years (as opposed to three years for regular claims for damages).

The limitation period will only begin when the claimant knows, or could be expected to know, the identity of the party responsible for the infringement, the relevant conduct, the harm being caused by that conduct and the fact that the conduct constitutes an infringement of competition law.

The limitation periods are suspended when a competition authority is investigating an alleged infringement. The suspension ends one year after the sanctioning decision is final or after the investigation procedures cease in any other manner.

The Voronet Monastery, Romania

Environmental protection

Romania has a comprehensive legal framework for environmental protection that is shaped by its European Union membership as well as its commitments to sustainable international goals.

The main environmental law is Emergency Ordinance (EO) 195/2005 on Environmental Protection, approved under Law 265/2006, with subsequent modifications, which sets out the general responsibilities and obligations of companies operating in Romania and also of the environmental authorities and individuals.

Before starting any new project, or for a change or extension of an existing project, an environmental permit must be obtained. The procedure for obtaining such a permit may be simple or complex, depending on the environmental impact of the project in question. Where the project is considered to have a significant environmental impact, an environmental impact assessment report must be prepared by a third party (accredited by the Ministry of the Environment) as part of the complete procedure. If a new project or the extension of an existing activity is subject to the EU Industrial Emissions Directive (IED), the related project holder should obtain an integrated environmental permit.

For on-going activities, an Environmental Authorisation is needed. This sets out the company's environmental discharge limits and obligations related to environmental protection and reporting. For activities subject to the IED, an Integrated Environmental Authorisation (IEA) must be obtained instead, which sets discharge limits, as well as the company's obligation to implement the Best Available Techniques in the industries in which it operates.

Obtaining permits can sometimes be a lengthy process, as, for example, an environmental authorisation may only be issued as much as 90 days after completion of the paperwork, while the period can be more than 180 days if the activity is subject to the Industrial Emissions Directive – IED (transposed into Romanian legislation by Law 278/2013, including subsequent amendments and additions) and the activity that is regulated needs an Integrated Environmental Authorisation.

The environmental regulations also require other permits and authorisations to be obtained (e.g. water management authorisation, waste management permit, fire permit, declaration on toxic substances, etc.).

The environmental authority at central governmental level is the Ministry of the Environment (MOE), which is in charge of national environmental policy and strategy development as well as the legal framework. The central implementation authority is the National Environmental Protection Agency (NEPA) which coordinates the local environmental authorities and ensures the necessary training process for all parties involved in environmental matters.

The Local Environmental Protection Authorities are located in each of Romania's 41 counties and in Bucharest Municipality. Each LEPA is responsible for the environmental regulatory (authorising) process for companies operating in that county. A special authority has been established for the Danube Delta area; the Danube Delta Biosphere Reserve Administration.

The National Environmental Guard (NEG) is the national environmental protection enforcement institution, subordinated to the MOE. The NEG is represented by a Local Environmental Guard (LEG) in each county and in Bucharest. The LEGs verify compliance with applicable environmental regulations and norms by companies located in the relevant county. For noncompliance, LEGs impose penalties, according to the amount of environmental damage or risk caused by the non-compliance.

Romania is also a party to various international conventions and treaties related to environmental matters, and companies may be affected by the provisions of these agreements. For instance, the country has ratified the UN Framework Convention on Climate Change (UNFCCC) and the Paris Agreement on Climate Change. Romania also contributes to developing and updating the Danube River Basin Management Plan, which focuses on reducing nutrient loads into the Danube basin and the Black Sea.

As a signatory to the United Nations Sustainable Development Goals, Romania prioritizes several Sustainable Development Goals (SDGs) with an environmental dimension. These include:

- ✓ SDG 6 (Clean Water and Sanitation): Improving water quality and access to water-supply infrastructure.
- ✓ SDG 7 (Affordable and Clean Energy): Transitioning from biomass to renewable energy for household heating.
- ✓ SDG 11 (Sustainable Cities and Communities): Enhancing the quality of life through smart technologies and sustainable development.
- ✓ SDG 12 (Responsible Consumption and Production): Promoting responsible use of natural resources

The institutional oversight for sustainable development is ensured by the Department for Sustainable Development (under the Prime Minister's office), which is responsible for implementing the 2030 Agenda, and the Interministerial Committee for the Coordination of Environmental Protection, led by the Minister of the Environment, which manages sustainable development initiatives.

At the beginning of 2024, the Ministry of Finance issued Order no. 85 for the transposition of the Corporate Sustainability Reporting Directive into national legislation. Together with Ministerial Order no. 1239, issued in 2021, these two documents introduce new environmental reporting requirements and considerations which companies will have to comply with. These increased transparency requirements may pose challenges for some companies, not only from an environmental perspective but also more broadly, from the point of view of all aspects of ESG policy.

In summary, Romania's environmental protection framework combines legal provisions, international commitments, and a focus on sustainable development to ensure a greener future for its citizens as well as its economy and ecosystems.

Statutory financial statements and reporting requirements. Accounting

Changes in Romanian accounting rules over the last few years have moved Romanian accounting closer to International Financial Reporting Standards (IFRS), although there are still some significant differences.

The Romanian accounting system is based on Accounting Law 82/1991, republished (the "Accounting Law"). The provisions of the Accounting Law are applicable to:

- ✓ Private companies
- ✓ State companies (in Romanian, "regii autonome"), as well as national research and development institutes
- ✓ Cooperatives
- ✓ Public institutions
- ✓ Non-profit organisations
- ✓ Other legal entities
- ✓ Individuals authorised to carry out independent activities
- ✓ Foreign branches and representative offices of Romanian legal entities
- ✓ Romanian branches and representative offices of foreign entities

Lake Izvorul Muntelui, Piatra Neamț, Romania

The Accounting Law serves as a framework, while detailed guidance, including on the content and form of the financial statements, applicable accounting principles, recognition and measurement rules for financial statement items as well as the chart of accounts to be used by legal entities, is provided by Order of the Ministry of Public Finance no.1802/2014 ("Order 1802") which approved the accounting regulations on annual individual financial statements and annual consolidated financial statements.

Order 1802 transposes European Directive 2013/34/EU of the European Parliament and of the Council and took effect from 1 January 2015.

Order 1802 is applicable to all companies, except for entities operating in the financial services sector and entities whose securities have been admitted for trading on a regulated market, for which specific accounting regulations have been issued as follows:

- ✓ Accounting regulations compliant with IFRS as adopted by the EU, approved by Order of the National Bank of Romania 27/2010 with subsequent amendments, applicable to credit institutions and non-banking financial institutions ("IFNs"),

• • •

- ✓ Accounting regulations compliant with IFRS approved by Order of the Ministry of Public Finance 2844/2016, applicable to entities whose securities have been admitted for trading on a regulated market.

• • •

- ✓ Accounting regulations compliant with European Directives approved by Order of the National Bank of Romania 6/2015 with subsequent amendments, applicable to payment institutions, electronic money institutions and to the Guarantee Fund for Bank Deposits.

- ✓ Accounting regulations compliant with European Directives approved by Norm of the Financial Supervisory Authority 41/2015 applicable to entities in the insurance/ reinsurance sector.

• • •

- ✓ Accounting regulations compliant with European Directives approved by Norm of the Financial Supervisory Authority 14/2015 with subsequent amendments, applicable to entities in the private pension system.

• • •

- ✓ Accounting regulations compliant with International Financial Reporting Standards approved by Norm 39/2015 with subsequent amendments applicable to entities authorised, regulated and supervised by the Financial Supervisory Authority in the Financial Instruments and Investments Sector.

Accounting Records

The main accounting principles are as follows:

Double-entry bookkeeping is generally applicable.

As an exception, single-entry bookkeeping is maintained by certain categories of entities such as individuals authorized to carry out independent activities and associations without legal status. However since 2015, these entities have been able to apply for double-entry bookkeeping.

In principle, the financial year starts on 1 January and ends on 31 December, with the exception of the first year of operation when the financial year begins on the date of formation.

Branches or subsidiaries of a foreign company may adopt the financial year of the parent company, except for credit institutions, non-banking financial institutions, insurance and reinsurance companies and other entities operating under the supervision of the Financial Supervisory Authority.

Accounts are maintained in the Romanian language and in RON; foreign currency transactions are accounted for both in RON and in the foreign currency.

Accounting records are recommended to be stored for a ten-year period, starting from the closing date of the financial period for which the documents were prepared, except for payroll statements/ records which are maintained for fifty years for periods until 31 December 2022 and 5 years for records starting from 1 January 2023. The HR files must still be kept for a period of 75 years.

Order 1802 details a specified chart of accounts to be used by reporting entities and includes directions for the mapping of individual accounts to the balance sheet and income statement templates. The accounts are grouped in the following categories:

- ✓ Class 1 – Equity accounts
- ✓ Class 2 – Non-current assets
- ✓ Class 3 – Inventories and work in progress
- ✓ Class 4 – Third party accounts
- ✓ Class 5 – Treasury accounts
- ✓ Class 6 – Expense accounts
- ✓ Class 7 – Revenue accounts
- ✓ Class 8 – Special accounts
- ✓ Class 9 – Management accounts

Annual Financial Statements

The Accounting Law states that the preparation of annual financial statements is compulsory. The form and content of the annual financial statements is indicated in the orders issued by the Ministry of Public Finance or by the other regulators for the entities under their supervision.

In general, companies are required to prepare their annual financial statements and to submit them to the local offices of the Ministry of Public Finance, in electronic format, within 150 days of the closing of their financial year.

Order 1802 establishes a set of size criteria according to which entities are required to submit either regular or condensed financial statements. The entities defined by Order 1802, in terms of size are:

01 Micro-entities; those that, at the date of the financial statements, do not exceed the limits of at least two out of the following three criteria:

- ✓ Total assets – RON 1,500,000
- ✓ Net turnover – RON 3,000,000
- ✓ Average number of employees – 10

These entities are required to submit only condensed financial statements.

02 Small entities; those that, at the date of the financial statements, do not exceed the limits of at least two out of the following three criteria:

- ✓ Total assets – RON 17,500,000
- ✓ Net turnover – RON 35,000,000
- ✓ Average number of employees – 50

These entities are required to submit a condensed balance sheet, extended income statement and explanatory notes to the financial statements. The presentation of the statement of changes in equity and the statement of cash flows is optional.

03 Medium-sized and large entities; those that exceed the limits of at least two out of the following three criteria:

- ✓ Total assets – RON 17,500,000
- ✓ Net turnover – RON 35,000,000
- ✓ Average number of employees – 50

These entities and public interest entities are required to submit extended financial statements that also include information about payments to the Government and other specific information requested by the Ministry of Public Finance.

For the purpose of Order 1802, public interest entities are national entities/ companies, entities controlled by the state and autonomous utilities (in Romanian,"regii autonome").

In all cases, the annual financial statements are accompanied by the administrators' report. This report provides comments on the entity's current year activities and on its financial position (including main financial performance indicators and, if applicable, of the relevant non-financial indicators for specific activities, including information on environmental and personnel matters), a presentation of the foreseeable development and description of the main risks and uncertainties faced by the entity as well as the entity's objectives and policies in relation to financial risk management and, if applicable, exposure to price risk, credit risk, liquidity risk and cash flow risk.

The principles of going concern, consistency, prudence, accrual basis of accounting, separate measurement of asset and liability items, intangibility, non-offsetting between asset and liability items, materiality, measurement at purchase price or production cost and substance over form must all be observed in the preparation of statutory financial statements.

Any departure from these principles is seen as being exceptional and requires disclosure in the explanatory notes to the financial statements, indicating the reason for departure and its impact on assets, liabilities, financial position and profit or loss for the period.

Consolidated Financial Statements

The requirements for preparation of consolidated financial statements are set out in Order 1802.

An entity is required to prepare consolidated financial statements and a consolidated administrators' report if that entity (a parent entity) is part of a group of entities and meets one of the following conditions:

A It has a majority of the shareholders' or members' voting rights in another entity named as a subsidiary.

B It is a shareholder in or member of a subsidiary and has the right to appoint or remove a majority of the members of the administrative, management or supervisory body of that subsidiary.

C It is a shareholder in or member of a subsidiary and has the right to exercise a dominant influence over that subsidiary, under a contract entered into with that entity or a provision in its memorandum or articles of association, where the law governing that subsidiary permits its being subject to such contracts or provisions.

E It is a shareholder in or member of a subsidiary and the majority of the members of the administrative, management or supervisory bodies of that subsidiary who have held office during the financial year, during the preceding financial year and up to the time when the consolidated financial statements are drawn up, have been appointed as a result of the exercise of its voting rights.

F It is a shareholder in or member of a subsidiary and controls alone, pursuant to an agreement with other shareholders in or members of that subsidiary, a majority of shareholders' or members' voting rights in that subsidiary.

A parent entity is exempt from the preparation of consolidated financial statements if the entity is part of a small or medium-sized group as defined below:

Small and medium-sized groups are groups that include a parent company and its subsidiaries that will be included in the consolidation process and, on a consolidated basis, do not exceed the limit of at least two out of the following three criteria:

- ✓ Total assets – RON 105,000,000
- ✓ Net turnover – RON 210,000,000
- ✓ Average number of employees – 250

The exemption above does not apply where one of the companies to be consolidated is a public interest entity.

However, a parent entity, including a public interest entity, unless the public interest entity has issued securities admitted to trading on a regulated market, which is also a subsidiary of a parent company headquartered in Romania, is exempted from preparation of consolidated financial statements in the following two cases:

A

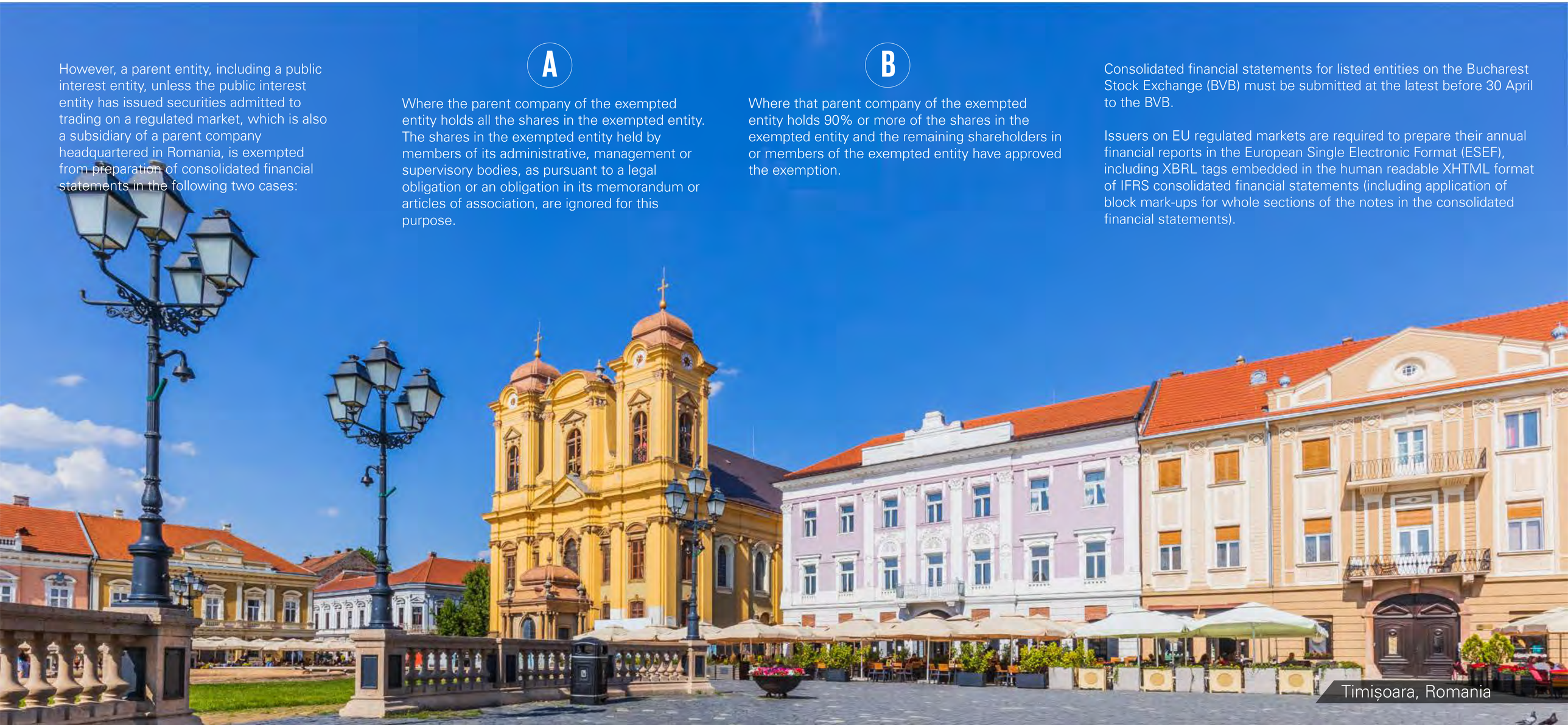
Where the parent company of the exempted entity holds all the shares in the exempted entity. The shares in the exempted entity held by members of its administrative, management or supervisory bodies, as pursuant to a legal obligation or an obligation in its memorandum or articles of association, are ignored for this purpose.

B

Where that parent company of the exempted entity holds 90% or more of the shares in the exempted entity and the remaining shareholders in or members of the exempted entity have approved the exemption.

Consolidated financial statements for listed entities on the Bucharest Stock Exchange (BVB) must be submitted at the latest before 30 April to the BVB.

Issuers on EU regulated markets are required to prepare their annual financial reports in the European Single Electronic Format (ESEF), including XBRL tags embedded in the human readable XHTML format of IFRS consolidated financial statements (including application of block mark-ups for whole sections of the notes in the consolidated financial statements).



Timișoara, Romania

Consolidated financial statements for other entities than those listed on the stock exchange must be submitted at the latest within 8 months from the end of the financial year.

Consolidated financial statements approved by shareholders must be submitted to the Ministry of Finance within 15 days of their approval.

Entities applying Order 1802 have the option to prepare their consolidated financial statements either under Romanian accounting regulations, as set out in Order 1802, or to apply in their consolidated financial statements the accounting regulations compliant with IFRS approved by Order of the Ministry of Public Finance 2844/2016.

Application of IFRS as adopted by the EU in Romania

Application of IFRS as adopted by the EU as the basis of accounting and preparation of financial statements compliant with IFRS is compulsory for credit institutions, non-banking financial institutions, entities in the Financial Investments and Instruments Sector, which are authorised, regulated and under the supervision of the Financial Supervision Authority and apply Financial Supervision Authority Norm 39/2015 for the approval of the accounting regulations compliant with IFRS as well as entities whose securities have been admitted for trading on a regulated market which apply IFRS as approved by Order 2844/2016 as the basis of accounting and in the preparation of their individual/ separate financial statements.

Additionally, according to Order 666/2015 issued by the Ministry of Public Finance, as from 1 January 2018 a number of state-owned entities have been required to apply IFRS as adopted by the EU as approved by Order 2844/2016 as their basis of accounting and to prepare their annual financial statements in accordance with IFRS as approved by Order 2844/2016.

Entities whose securities have been admitted to trading on a regulated market, as well as entities under the supervision of the National Bank of Romania or of the Romanian Financial Supervision Authority, are required to prepare their consolidated financial statements in accordance with IFRS, where applicable.

The relevant legislation includes:

Accounting regulations compliant with IFRS, approved by Order of the National Bank of Romania 27/2010 with subsequent amendments, applicable to credit institutions and non-banking financial institutions.

Accounting regulations compliant with IFRS approved by Order of the Ministry of Public Finance 2844/2016, applicable to entities whose securities have been admitted for trading on a regulated stock exchange.

Accounting regulations compliant with IFRS approved by Norm 39/2015 with subsequent amendments, applicable to entities authorised, regulated and supervised by the Financial Supervisory Authority.

Order 666/201 issued by the Ministry of Public Finance on application of accounting regulations conforming with International Financial Reporting Standards by certain state-owned entities.

Statutory audit is required for entities applying Order 1802 which exceed 2 of the following threshold criteria in two consecutive financial years (total assets: 16.000.000 lei; net turnover: 32.000.000 lei, average number of employees during the year: 50).

Statutory audit is also required for all public interest entities as defined by Law 82/1991 and Law 162/2017, irrespective of their size.

European Sustainability Reporting Standards (ESRSs)

Starting from January 2024, the first set of 12 European Sustainability Reporting Standards (ESRSs) applies for the first tranche of companies in the scope of the Corporate Sustainability Reporting Directive (CSRD).

They require reporting on a broad range of topics, using data from across the value chain. Their aim is for companies to provide sustainability-related performance information to multiple stakeholders, including investors, customers, suppliers, employees and regulators.

ESRSs will apply for years beginning on/after 1 January 2024 (reporting in 2025 - Assurance is mandatory for companies reporting under the CSRD) with a phased introduction, starting with the largest companies, as follows:

According to the transposition of the CSRD by the Romanian Ministry of Finance, starting with public interest entities (PIEs) and companies with listed securities on EU-regulated markets which are:

- **A** medium and large and have more than 500 employees and
- **B** large groups that have more than 500 employees.

Medium sized and large companies are those that, on the balance sheet date, exceed two of the following criteria: 50 employees, net revenue of RON 35m or total assets of RON 17.5m.

Large groups are those that, on the balance sheet date, exceed two of the following criteria: 250 employees, net revenue of RON 210m or total assets of RON 105m. More details here: **bit.ly/3UKXnU4**

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