

Tax surprises at the turn of the year

By Adina Zdru

In Romania, it has become common to take tax-payers by surprise with legislative changes at the end of the year. 2018 was no exception. On 29th December a new Emergency Ordinance¹ ("EO 114") was published, which came into force on 1st January 2019.

The unannounced legal act has extensive and, in part, heavy effects on business. Below, you will find a first outline of the relevant subjects.

New taxes for financial institutions

First of all, the banks are affected. Starting from 1st January 2019 they are liable for tax on the financial assets found in their ownership at the end of the reference period. The tax rate ranges from 0.1% to 0.5%, according to the quarterly average of the ROBOR Interbank interest rate. The tax is due only if the ROBOR interest rate exceeds 2%. The payment deadline for the new tax will be the 25th of the month following the reference quarter.

Tax on gambling

As of January 2019, organizers of gambling games will have to pay a tax of 2% of total participation fees earned in the preceding year. The registration and payment deadline for this tax is 25th February of the following year. If gambling organizers start their activity in the course of the year, the tax will be calculated on participation fees in the previous month.

Extension of the deadline for applying the reverse charge regime

Art. 331 paragraph 6 of the Tax Code includes rules on the application of the reverse charge mechanism for supplies in Romania (this means that the beneficiary of goods and services is liable to pay VAT). For the following supplies, the application of the reverse tax mechanism was provided only until 31st December 2018:

- Grains and commercial crops,
- Gas and electricity to a reseller subject to taxation,
- Gas and electricity certificates and greenhouse gas emission allowances,
- Mobile phones, games consoles, tablet-computers and laptops in the case of turnover exceeding 22,500 RON.

For the these categories, the deadline has been extended until 30th June 2022.

It must be highlighted that for other object categories (e.g. scrap and waste material, and real estate), the application of the reverse charge mechanism is not time-limited.

Benefits in the construction sector

The construction sector will benefit from special conditions in the period between 1st January 2019 and 31st December 2028, according to EO 114. More exactly, the employees working for construction companies will be exempt from income tax if:

¹ EO no. 114/2018

- The employer carries out one of the legally provided² economic activities in the construction sector
- The employer achieves at least 80% of its turnover from these activities
- The monthly gross salary of the employee is 3,000 to 30,000 RON.

The pension contribution for such employees will be reduced by 3.75% (from 25% to 21.25%) and the employees are exempt from paying a contribution to a private pension fund.

This category of employees will also be exempt from the payment of health insurance contributions until the end of 2028, as long as the legal conditions for applying the benefits are relevant.

Employers will also enjoy certain benefits. They owe no employer's pension contribution, as long as they hire employees under special or exceptional conditions. The labour insurance contribution has been cut back from 2.25% to 0.3375%. This data will apply to the conditions and duration accordingly.

Miscellaneous

Other relevant measures apply to the energy sector; we will soon provide further information on this issue.

One of the important aspects to highlight is the standardisation of the fiscal treatment of vouchers and the express indication of cultural vouchers that can be used for various cultural activities. All vouchers are subjected to income tax of 10%, but not to social security contributions.

The activity fields in which day-labourers can be hired have been narrowed down.

In the field of excise tax, one must mention that as of 1st January 2019, the tax rate for cigarettes has increased.

Conclusion

The list of changes is not comprehensive. We will soon come back with news on other changes.

As always, this year's changes came as a surprise. In 2018, however, the changes were more drastic from an economic point of view and influenced the whole economy. Regardless of the massive criticism of these rules from all sides, companies and consultants must now take care to assess and implement them properly.

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²Art.60 paragraph1 point.5 of the Tax Code