

Practical information for incorporating a company in Romania

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Romania presents an enticing landscape for investment, characterized by low corporate taxes, affordable labor and living costs, and a European-centric mindset among its populace.

However, some Romanian peculiarities are sometimes surprising for foreign persons. Below are some key considerations related to establishing a company in Romania.

Profit tax vs. microenterprise tax

Typically, Romanian companies are subject to a 16% tax on their taxable profits. Alternatively, some businesses may qualify for the microenterprise tax, which levies only a 1% tax on generated income.

The microenterprise tax is being steadily restricted; as already indicated in its name, it applies only to small enterprises or those in the start-up phase.

Value added tax (VAT)

Romanian VAT policies align with the EU VAT Directive and correspond with regulations across EU countries. However, distinct elements exist, particularly in procedural aspects.

Obtaining a VAT ID may be difficult; VAT refunds are not automatic; audits are time-consuming and delayed due to the formalistic approach of the authorities.

Accounting, payments

Companies operating in Romania are required to maintain their accounting records in Romanian language and in the local currency (RON). These records should be organized chronologically and comprehensively. Romanian accounting standards and a designated chart of accounts must be followed. Financial statements should also be periodically generated.

Payment flows with other residents must generally be conducted in RON. There are only a few legally defined exceptions in which payments between residents are allowed in EUR.

The responsibility for proper accounting lies with the management. Incidentally, with regard to accounting obligations, there is practically no leniency for small businesses.

Employees / Salaries

Despite wage costs in Romania being competitive, it's essential to note that employees end up with a reduced net salary due to high contributions. Consequently, salaries are often negotiated in net terms but are documented as a gross monthly figure in RON in employment contracts. Specific sectors, like IT, R&D, and construction, may offer employees income tax exemptions.

Employers are mandated to maintain an electronic register that contains all employment contracts and any modifications thereof, which must then be reported to labor authorities within the stipulated timelines.

It should be noted that Romanian labor law is relatively strict and bureaucratic.

Authorities

While there is evident progress in digitization, Romanian public authorities still have room for improvement in that area. This is also true for the Romanian tax administration “ANAF”, which communicates electronically with companies but requires a series of formalities to access its online portal. Companies must acquire and maintain an 'audit register' (*registrul unic de control*) from the tax office, recording all official audits in it.

Control reports

From its inception, a company is obligated to adhere to tax regulations, thus debunking the myth that non-active companies have no tax obligations. Even if no activity occurs, tax returns, even with zero values, must be filed to avoid sanctions. This also implicates shareholders and managing directors.

Conclusion

This was a non-exhaustive summary of aspects that often generate questions and a need for clarification for prospective investors. Specific circumstances may present additional nuances that should be carefully evaluated before company formation to mitigate initial obstacles and eliminate unnecessary administrative costs.

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