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Romania: legislative challenges for tax system in 2013

March 2013

Contents

Current political and economic environment

I. Current political and economic environment

- December 2012 Parliamentary elections: the Social Liberal Union (USL) won a decisive majority; possible risk of tensions / disagreements over the medium term.

- Government's macroeconomic programme for 2013 – 16:
  - Continued fiscal consolidation & reforms to improve revenue collection;
  - Management of public funds;
  - Absorption of EU funding.

I. Current political and economic environment

- **Next parliamentary election scheduled for November 2016.**

- **Approval of the final review of the IMF stand-by agreement delayed until end-June 2013; need for a new IMF deal?**

- **NBR kept monetary policy at 5.25%.**

- **Adoption of the euro in 2015? Not feasible.**

I. Current political and economic environment

- **Recovery from recession in 2013 – 14 still uncertain. We are unlikely to see a strong recovery in FDI in 2013.**

- **Improvement in absorption rate of EU funds is essential and would boost recovery.**

- **The envisaged reform to the debt-ridden public sector and privatisation and restructuring of state-owned companies likely to face opposition and delays.**

I. Current political and economic environment

2013 forecast OS

- Growth – 1.6%
- Budget deficit – 2.1% of GDP
- Inflation (projection year-end) – 3.5%
- Public debt – 34.7% of GDP (€ 51 bn)
- EU funding absorption rate (2007 – 13) – 12%

Tax background

II. Tax background

• Romania has embraced a flat tax system (low tax policy) followed in much in CEE region.

• Concept built on low taxes, simple and stable tax system, as a way to minimise tax evasion and avoidance and attract investors.

• Tax system still complicated with substantial uncertainties and frequent changes at short notice. However, authorities increasingly encourage consultation with business community and stakeholders.

II. Tax background

Tax rate %	Romania	Hungary	Croatia	Serbia	Montenegro	Albania	Macedonia	Bulgaria	Slovakia	Poland	Czech Republic	Russia
Profit	16	10 / 19	20	10	9	10	10	10	19	19	19	20
VAT	24	27	23	18	17	20	18	20	20	23	20	18

- **Romania compared with other CEE countries: medium CIT rate; high VAT rate.**

- **Tax collection rate in Romania generally assessed as much lower than in more developed western European economies.**

II. Tax background

- **No specific GAAR in place yet. However, “Artificial Transactions” concept recently introduced into domestic fiscal law (“tranzactii artificiale”), together with increased exchange of information.**

- **No CFC rules, no foreign exchange control restrictions; however, thin cap and safe harbour rules and TP rules.**

- **Tax audits: strong focus on supporting documentation, substance-over-form, reclassification of contractual arrangements, TP compliance.**

Trends in taxation and fiscal policy – what we are likely to see

III. Trends in taxation and fiscal policy

In general

• Constantly expect the unexpected!!

In particular

• The “rewriting” of the fiscal code and fiscal procedural code. An ambitious deadline.

- Draft no later than 30 June;
- Expected implementation by year-end;
- No foreseeable substantial changes on provisions, but rather an internal reorganisation of titles / chapters.

III. Trends in taxation and fiscal policy

The pressure to increase tax revenues.

- More aggressive tax audits;
- Broadening taxable base;
- Developments in GAAR and exchange of information;
- Increase in collection of taxes and frontal combat to tax evasion.

III. Trends in taxation and fiscal policy

The desire to reduce the VAT rate from 24% to 19% and other related measures.

- **Pilot programme: reduction of VAT rate for bread from 24% to 9%;**
- **Amendments to VAT cash accounting system: extension of deadline for chargeability and optional implementation of system;**
- **Extension of simplification measures applicable to cereals (expire May 2013).**

III. Trends in taxation and fiscal policy

The difficulty of raising corporate tax rates.

- **Competition within CEE to attract FDI and Romania rate is not low at present ;**
- **Lack of political consensus;**
- **However, might be imposed as a condition for further lending - financing, e.g. IMF, EU, etc., (see recent case of Cyprus).**

- **The possibility of progressive taxation.**
  - **Precedent of other CEE countries moving from flat to progressive (e.g. Slovakia);**
  - **However, local political tensions over this.**

III. Trends in taxation and fiscal policy

- **Not clear position of Romania towards FTT at EU level (although it already delayed plans for any implementation in short term).**

- **Migration of tax compliance, reporting and audit systems to electronic environment.**

III. Trends in taxation and fiscal policy

- **Major reorganisation of health system, together with regulatory bodies for insurance, pension funds and listed companies (AFS, Financial Surveillance Authority).**

Trends in taxation and fiscal policy – what we would like to see

V. What would we like to see?

- **Commitment to consultation and proper procedures in writing tax law (but recent energy tax changes not a good precedent).**
- **Expanded, expedite and more comprehensive tax ruling system.**
- **Swift refund process and reduction of bureaucratic obstacles.**
- **Stable tax legislation without major changes at short notice.**
- **Greater understanding of tax authorities.**

V. What would we like to see?

- Tax consolidation regime (tax grouping) and holding company regime (full participation exemption rules).

- Introduction of a cap for the computation of social health insurance contributions (CASS).

  - Currently 5.5% for employee and 5.2% for employer; computed at realised income although services benefits are the same irrespective of amount of contribution paid;

  - In contrast with basis for pension contribution (CAS) which is already capped.

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