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The Romanian Parliament commissions for budget and finance adopted a series of amendments to the draft state budget, including ones that eliminated the minimum tax, applied a lower VAT to building construction and a 3% tax on micro-enterprise revenue.

The amendments were proposed by the Liberal Party, which also requested the penalty for delays in the payment of fiscal obligations be reduced from 0.1% per day to 0.03% per day. The request was rejected by the commissions, although they accepted a social democrat deputy's similar proposal, to reduce the penalty to 0.05% per day. Finance Minister Sebastian Vladescu said that the Government had already proposed eliminating the minimum tax. He was of the opinion that certain amendments should not have been approved, while others, which were rejected, would have supported the business environment had they been accepted.

The commissions approved an amendment to allow the deductibility of VAT in the case of automobiles. Finance Ministry state secretary Gheorghe Gherghina said eliminating the minimum tax would result in the budget earning 1 billion lei (EUR1= RON4.1679) less, the lower VAT applicable to building construction would cost the budget RON960 million and a further RON500 million would be lost because of deductible VAT in the case of cars.

Romania's tax regulator ANAF has taken on new powers, as of January 11, which consist, among others, in ascertaining the circumstances leading to breaches of financial and tax legislation, the regulator said in a press release.

The regulator's new powers were regulated via a government decision on the organization and functioning of the country's tax regulator, which came into effect on January 11.

The tax regulator has taken on new powers, which mainly consist in conducting fiscal checkups to ascertain the circumstances leading to breaches of financial and tax legislation and further inform the competent law-enforcement bodies; ascertaining deeds triggering tax evasion and fraud and further order the necessary measures, under the Fiscal Procedure Code, whenever there is the risk of a debtor evading criminal probes.

Tax regulator staff is also empowered to conduct monitoring and checkup operations needed to prevent, track and fight tax evasion. In 2010, the country's tax regulator undertakes to continue monitoring international purchases, mainly involving agri-food products (vegetables, fruit, cereals, meat etc.) and construction materials (cement, bricks etc.) to further prevent economic operators from evading the payment of the value added tax.

In 2009, the tax regulator drafted 252 criminal files for tax evasion which brought damages worth over 289 million lei (EUR1=RON4.1383), and it also seized goods worth over RON23 million.

Romanian President Traian Basescu Thursday promulgated the law allowing the Government to pass decrees during the Parliament's recess, the president's office said in a news release.

The draft law enabling the Government to pass decrees during Parliament's recess was adopted by the Chamber of Deputies Monday, after the Senate had adopted it on January 6 2010.

Liberal lawmaker Tudor Chiuariu asked fellow liberal lawmakers to challenge the law at the Constitutional Court saying the Chamber of Deputies introduced a new sector, administration and interior, in which the Government may issue decrees and the Senate, which had already adopted the draft, did not have time to discuss this. Chiuariu said this breaches the principle of a two-chamber Parliament.

The law enables the Government to issue decrees during the Parliament's recess in relation to the economy and public finance, justice, health, transports, environment, agriculture, administration and interior

Under the Constitution, if the first chamber notified on a draft law adopts a provision, that provision is definitively adopted if the second chamber also accepts it, whereas if the second chamber notified adopts a provision, the draft law must be returned to the first chamber, which is to decide on the respective procedure with urgency.

Romanian micro-companies will no longer benefit from a different taxation system in 2010, and will have to pay a 16% profit tax or a lump-sum tax, just like any other company, according to the Finance Minister Sebastian Vladescu.

As of January 1 2010, there will no longer be a differential taxation system for microcompanies, namely a 3% income tax, but there will be implemented the 16% profit tax or the minimum tax.

At the moment microcompanies were subject to a special taxation system, allowing them to opt between the payment of a profit tax or an income tax, which progressively rose to 3%. Thus, the term of micro company will no longer exist in the Tax Code. In 2009, there were registered 280,000-300,000 micro companies, firms with up to nine employees and annual revenues of maximum EUR100,000.

The lump sum tax will replace the minimum tax in the second half of the year and will be applied to services subject to tax evasion, such as restaurants and beauty salons, Friday said Mihai Gogancea-Vatasoiu, vice-president of Romania's tax administration agency ANAF.

Gogancea-Vatasoiu said that the minimum tax was based on the data showing that between 2005 and 2007, 242,000 of the total 617,000 registered companies declared they reported losses. He also said that most of the companies that suspended their operations last year, after the introduction of the minimum tax, had no activity since their establishment.

According to Trade Registry data, over 133,000 companies suspended their operations last year, over 11-fold higher on the year before.

In her turn, state secretary in the Economy Ministry Maria Parcalabescu said that the minimum tax was aimed at revealing the grey economy.

Romanian Prime Minister Emil Boc on Friday asked the Finance Ministry to have the lump sum tax clarified by February, mentioning the government has pledged to eliminate the current minimum tax levied on companies. Authorities have already drawn up a list of 26 services proposed for lump sum tax collection, which will be analyzed starting with next week.

According to the list, the services proposed for lump sum tax are hotels and similar accommodation units, trailer parks, camps, restaurants, catering services, other food services, bars, travel agencies, tour-operators, fitness centers, fairs, amusement parks, computer and home appliances repair services, and funeral homes, among others.

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Lump Sum Tax

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According to the list obtained by MEDIAFAX, the services proposed for lump sum tax are hotels and similar accommodation units, trailer parks, camps, restaurants, catering services, other food services, bars, travel agencies, tour-operators, fitness centres, fairs, amusement parks, computer and home appliances repair services, and funeral homes, among others.

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Romania's Finance Minister Sebastian Vladescu said he wants property to be taxed at its real value, which would lead to taxes of thousands of Euros, adding people with low income should be shielded from such taxation.

"Property should be taxed at its real value, which is not currently happening in Romania. This entails declaring the real value of property and that is avoided when it comes to homes and land," said Vladescu.

The minister said property needs to be reassessed and that could raise taxes to thousands of Euros. "Romania has this great quality that is at the same time a great flaw: we are a country of property owners. In Romania, nearly 80% of households own their homes. Many of these people have trouble paying their monthly household bills," Vladescu said. He said most apartments now have taxable values of thousands of Euros instead of tens of thousands, so taxes are set at dozens or hundreds of Euros. While taxing people's homes at their current market value would considerably boost local authorities' revenues and allow them to invest for the benefit of the community, most people wouldn't afford to pay such high taxes.

Vladescu said Romania should have a property tax that would not affect people with low income.

According to the Romanian Tax Code, individual owners pay an annual tax of 0.1% of their property's taxable value, which is calculated with respect to property size, location and age of the building, while companies pay 0.25% to 1.5% of their property's inventory value.

A social democrat lawmaker proposed a draft law earlier this week introducing a wealth tax whereby households should pay an annual 0.5% on net worth of more than half a million Euros.

The proposed tax would be levied on real estate, securities, income and other assets belonging to an individual, their spouse and underage children. The draft law also stipulates tax deductions for buildings in the national cultural patrimony, furniture (except antiques), copyright, intellectual property rights, financial investments (life insurance, treasury bills), annuity, private pensions, equity owned in the company where the taxpayer unfolds their core activity, farming machinery and equipment.

The lawmaker said he has already been harshly criticized for his Robin Hood initiative, adding he expects further rebuke from people targeted by such a tax or rich people who have anything to hide. He said the draft law is based on the principle of transparency and would oblige everybody to submit wealth statements, not just public officials and managers in state institutions.

The social democrat also said the wealth tax has little chance of being adopted by Parliament and called on the media to pressure politicians into passing it.

Romanian President Traian Basescu signed the decrees promulgating the state budget and the social security budget for 2010, the Presidency informed.

The two laws were enacted by the Parliament on January 14.

An IMF mission came to Bucharest between January 20 and 27, alongside representatives of the European Commission and the World Bank, to review the EUR 20 billion financial package, after Romania's parliament adopted the 2010 budget.

Romania and the IMF have signed a EUR13 billion standby arrangement in 2009, as part of a larger EUR20 billion package which includes funds from the EU, the World Bank and other international lenders.

Ambassadors to Bucharest of European Union member states told Romanian Prime Minister that foreign companies operating in Romania keep complaining about trials pending in court too long and about abusive auction proceedings by cancelling auctions not based on solid grounds.

People present at the talks said EU ambassadors complained about trials pending in commercial courts too long and about abusive public procurement auctions and called on Boc to tackle the issue.

"Based on the information provided by foreign companies, EU ambassadors complain about trials pending in court way long and about numerous auctions being cancelled not on solid grounds," the sources said. According to sources, Boc assured EU ambassadors that the Romanian government plans to amend public procurement laws again, in order to simplify and make auction proceedings highly transparent. Boc also said reforms in the country's legal system target, among others things reducing trial periods.

Sources said last week the government plans to amend public procurement laws again in order to simplify proceedings needed to absorb European Union funds, by introducing transparent auction scrutiny rules meant to wipe out the overlapping of attributions between institutions, namely the National Authority Regulating and Monitoring Public Auctions, on the one hand, and authorities managing sectoral programs, on the other hand.

In 2009, the Romanian authorities amended the public procurement legislation twice, following talks with European Commission experts, in order to simplify auction proceedings.

Romania's Prime Minister Emil Boc confirmed that the ceiling on general government guarantees will be increased by EUR 1 billion in 2010, the additional funds ensuring the necessary resources to co-finance European projects for local administrations and companies.

Finance Minister Sebastian Vladescu has stated that the International Monetary Fund has allowed Romania to increase the ceiling on general government guarantees by EUR1 billion in 2010.

In September last year, the IMF agreed to increase the ceiling on public guarantees to RON7.7 billion in 2009 and to RON8.6 billion in 2010, from RON6 billion initially allowed. However, the IMF insisted that the increase in guarantees be devoted exclusively to financing the counterpart payments of investment projects financed by the EU or other multilateral institutions.

Teams of the IMF, the World Bank and the European Commission arrived in Bucharest January 20 to review the Romania's performance under a EUR20 billion bailout loan, in view of disbursing new aid tranches totalling EUR3.3 billion. The IMF has concluded its evaluation of the country's progress under the agreement, so that the institution is expected to disburse another EUR2.3 billion to Romania mid-February, pending board approval.