

Romania

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

No recent developments to report.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
Salary tax exemption for software development activities	An income tax exemption is available to employees of software development companies	Exemption from 10% personal income tax (PIT) at the level of the employee on salary income	The exemption applies with respect to employment income associated with qualifying software development activities	It may be difficult to determine whether the activities carried out by the employee are eligible. In addition to the requirements in the law, substance-over-form requirements must be met
Tax and social security incentives for construction sector	Tax and social security incentives are available for employees of companies operating in the construction sector	Ten-year exemption from 10% PIT, 10% health insurance contribution, and reduction of the social security contribution rate from 25% to 21.25% at the level of the employee	The incentives apply with respect to employment income associated with qualifying activities	The conditions in the law as well as substance-over-form requirements must be met
R&D incentives	A super deduction is available on qualifying R&D expenditure, and an exemption from corporate income tax is available to entities that perform only R&D activities A salary tax exemption is available for employees carrying out qualifying R&D activities	Total deduction of 150% of eligible R&D expenditure Exemption from 16% corporate income tax for ten years for entities performing only R&D Exemption from 10% PIT tax at the level of the employee on salary income	The super deduction applies to eligible expenses relating to qualifying R&D activities The corporate income tax exemption applies only for entities performing solely R&D activities The salary tax exemption applies where certain conditions relating to R&D activities are fulfilled by both the employee and the employer	Only application-based research or technological development activities are considered qualifying R&D activities (fundamental research is not eligible); each R&D program must be documented in an R&D project containing specific information required by legislation
Large investments state aid scheme	Newly created companies or existing companies starting a new investment may receive a cash grant for the acquisition of tangible and/or intangible assets	10% to 50% of the initial investment costs, but no more than EUR 37.5 million, capped at total taxes to be paid to the state for five years after the investment is implemented Minimum investment value is EUR 0.94 million	The incentive applies to acquisitions of tangible and intangible assets, including construction costs and equipment; equipment must be new and purchased under market conditions	Several activities do not qualify The investment may not commence before the state aid application is submitted Companies that have terminated the same or similar activity in the EEA within the past two years or have plans to close such an activity two years after completion of the initial investment do not qualify

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Industries most often affected by government incentives in country

Technology, Media & Telecom	Financial Services
● Telecom, Media & Entertainment	Banking & Capital Markets
● Technology	Insurance
Consumer	Investment Management
Consumer Products	Real Estate
Retail, Wholesale & Distribution	Life Sciences & Health Care
● Automotive	● Health Care
Transportation, Hospitality & Services	Life Sciences
Energy, Resources & Industrial	Government & Public Services
Power & Utilities	Health & Social Care
Mining & Metals	Defense, Security & Justice
Oil, Gas, & Chemicals	Civil Government
● Industrial Products & Construction	International Donor Organizations
	Transport



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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
Research & development (R&D) super deduction	●	●	● ●	National: Arrears Local: No	Super deduction for qualifying R&D expenditure of entities performing R&D activities	Additional corporate income tax deduction of 50% of qualifying R&D costs	Additional corporate income tax deduction of 50% of qualifying R&D costs
Research & development (R&D) corporate income tax exemption	▨	▨	● ●	National: Arrears Local: No	Corporate income tax exemption for the first 10 years of R&D activities for entities performing exclusively R&D	Exemption from corporate income tax for qualifying entities	Exemption from corporate income tax for qualifying entities
Research & development (R&D) salary tax exemption	●	●	●	Not applicable	Exemption from income tax for employees on salaries derived from qualifying R&D activities carried out as part of an R&D or innovation project, if certain conditions are fulfilled by both the employee and the employer	Not applicable	Not applicable
Investment							
Capex	▨	▨	●	National: Advance	Cash grants for companies planning large investments (acquisition of assets), excluding several business sectors (e.g., agriculture, mining, production of military vehicles, weapons and ammunition, production of alcohol or tobacco, production of energy, real estate, financial services, transport). The scheme is valid until 2023, conditioned on annual allocation from national budget	Up to 50% of initial investment costs, but no more than EUR 37.5 million and capped at total taxes (income tax, profit tax, and local tax, salary contributions) to be paid to the state for five years after the investment is implemented	Up to 50% of initial investment costs, but no more than EUR 37.5 million and capped at total taxes (income tax, profit tax, and local tax, salary contributions) to be paid to the state for five years after the investment is implemented

Key: ● = PERMANENT INCENTIVE ▨ = TEMPORARY INCENTIVE ▨ = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

Notes:

- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
- If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.

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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Investment							
Employment				National: Advance	Reimbursements of salary costs for companies hiring more than 100 employees, excluding certain business sectors (e.g., agriculture, mining, production of military vehicles, weapons and ammunition, production of alcohol or tobacco, production of energy, real estate, financial services, transport). The incentive is closed for 2019 and 2020; open for 2021–2023	Up to 50% of salary costs for new employees for 24 months, but no more than EUR 37.5 million and capped at total taxes (income tax, profit tax, and local tax, salary contributions) to be paid to the state for five years	Up to 50% of salary costs for new employees for 24 months, but no more than EUR 37.5 million and capped at total taxes (income tax, profit tax, and local tax, salary contributions) to be paid to the state for five years
Reinvested profit			 	National: Arrears Local: No	Exemption from corporate income tax on profits invested in certain equipment	16% corporate income tax exemption calculated based on accounting profits	16% corporate income tax exemption calculated based on accounting profits
Other							
Salary tax exemption for software development activities				Not applicable	Exemption from income tax for employees on salaries derived from qualifying software development activities, if certain conditions are fulfilled by both the employee and the employer	Not applicable	Not applicable
Salary tax and social security incentives for the construction sector				Not applicable	Ten-year income tax and social security incentives for employees of companies performing certain activities in the wider construction sector with respect to employment income, if certain conditions are fulfilled by both the employee and the employer	Not applicable	Not applicable
Salary tax exemption for the employees of companies in hospitality and food service industry				Not applicable	Exemption from income tax for qualifying salary income of employees of companies that carry out certain seasonal activities in hospitality and food service industry if certain conditions are fulfilled by both the employee and the employer	Not applicable	Not applicable

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Country background

The general corporate income tax rate in Romania is 16%. Romania offers a super deduction for R&D expenses as well as other incentives.

Innovation Incentives

Research & development (R&D)

Nature of incentives

Romania offers a 150% super deduction for qualifying R&D expenditure. In light of the 16% corporate income tax rate, the additional 50% deduction provides a tax savings of 8% of qualifying costs.

Additionally, accelerated depreciation for equipment and machinery used in R&D activities of up to 50% of the fiscal value of the asset may be deducted during the first year of use. The remaining fiscal value is depreciated over the remaining useful life of the asset.

As from 6 January 2017, taxpayers that only carry out R&D activities may benefit from a corporate income tax exemption for the first 10 years of activity. The 10-year period begins on 1 January 2017 for qualifying companies that existed before that date.

Eligible industries and qualifying activities

The super deduction is granted to a Romanian taxpayer that conducts qualifying R&D activities. Taxpayers in any industry can qualify, including taxpayers that participate in collaborative R&D through partnerships or associations, provided they have the right to use the research results in their business, e.g., selling products developed through R&D, selling the results of the R&D, or exploiting the intellectual property (IP) in another way.

The R&D activities must be creative activities that bring a significant element of novelty in resolving scientific or technological uncertainty, i.e., the solution should not be obvious for a competent professional in the field. The following activities are considered qualifying research:

- Applied research undertaken to acquire new knowledge for the development of new products, processes, or services or for the significant improvement of existing products, processes, or services. This includes the creation of components for existing complex systems and may include the construction of prototypes or pilot lines for the industrial research or to be used for the validation of new processes, products, and services.
- Technological development work drawing on existing knowledge gained from research and/or practical experience that is directed at obtaining new materials, products, processes, systems, and services or at improving substantially those already in existence.

Eligible expenses incurred in qualifying activities

The following expenses are eligible for the R&D incentives where they are incurred in connection with qualified research activities:

- Depreciation and rental expenses of new tangible and intangible fixed assets for the period the assets are used in qualifying research (accelerated depreciation also may be taken on equipment used for R&D activities);
- Maintenance and repair costs for tangible and intangible assets used for R&D activities;
- Personnel expenses for employees directly involved in R&D and related activities (e.g., experiments, documentation, etc.);
- Operating expenses, including fees paid to vendors, contractors, and other third parties, as well as the costs of consumables, materials that are included in inventory, raw materials, animals used in experiments, and similar products used in R&D activities; and
- Utilities that can be allocated directly or proportionally to the results of R&D activities.



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The R&D deduction applies even if the R&D expenses are capitalized according to the accounting rules.

Where a third-party contractor carries out part of the R&D activities, the party paying for the research can treat the amount paid as a qualifying research expense. The contractor also may benefit from the incentive for the related expenses provided the party paying for the research does not use the incentive.

IP and jurisdictional restrictions

The R&D activities may be carried on in Romania or in other EU/EEA countries. There is no specific restriction on the IP.

Other concerns

Tax incentives for R&D activities are granted separately for each project.

Taxpayers must prepare documentation describing the research project, the intended objectives, the novel aspects of the research project, the period during which the research will be undertaken, the field of research, and financing. The documentation need not be submitted to the tax authorities for pre-approval, but the authorities will examine the documentation during a tax audit.

Additional deductions related to R&D expenses must be presented on a separate row in the annual profits tax return and separately in the corporate income tax register. There is no specific administrative requirement for the accelerated depreciation method.

The National Body of Experts was established by the Ministry of Education and Research for the purpose of analyzing and providing validation for projects that may qualify for the R&D tax incentives. The validation is not performed automatically by the experts, i.e., taxpayers must request the analysis.

Salary income tax exemption for employees performing software development activities

An income tax exemption is available for the salary income of employees carrying out qualifying software development activities,

provided they are employed by qualifying companies carrying out software development. Other requirements also apply (e.g., the creation of computer software must be one of the business activities of the Romanian employer and the employee must hold a certain position). The list of job positions eligible for the incentive has been expanded, and students can benefit from the incentive in certain circumstances.

The employer applies the exemption, i.e., no approval or confirmation is required from the tax authorities. In addition to the requirements in the law, substance-over-form requirements must be met.

Salary income tax exemption for employees carrying out eligible R&D activities

An income tax exemption is available for the salary income of employees of Romanian companies conducting qualifying R&D activities, as well as for individuals who are on international assignment to Romania and are carrying out qualifying R&D activities, provided that the conditions set out in the law are met. The salary income must be derived from qualifying R&D activities carried out as part of an R&D or innovation project, as defined by the law. Other requirements also apply (e.g., the activities must be included in an R&D project, the company must have relevant timesheets for the R&D projects, etc.). In addition to the requirements in the law, substance-over-form requirements must be met.

The employer applies the exemption, i.e., no approval is required from the tax authorities.

Competitiveness Program (EU grants for R&D)

Romania is implementing Priority Axis 1 of the Competitiveness Program during the period 2014 to 2020. The program finances R&D projects targeted at specific areas that have growth potential, which include healthcare and intelligent specialization (bio economy; information, communications, and technology (ICT); space and security; energy; environment; eco and nano technologies; and advanced materials). Eligible beneficiaries include public and private



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sector entities, with specific eligibility criteria applying to each type of beneficiary. A similar program is expected to be implemented for 2021–2027.

Select projects have received aid to finance the construction of new R&D departments or to modernize, expand, consolidate, or change the location of existing R&D departments.

Regional Operational Program (EU grants for R&D)

For the period 2014 to 2020, the Regional Operational Program is available to support SMEs.

Applications must be submitted in advance, and the evaluation process lasts about six months under both the Competitiveness Program and the Regional Program. Approved projects can last for three years, and costs are reimbursed every three months after the submission of the interim payment request.

The financing differs depending on the region, type of project, and type of applicant. The maximum that can be received is 50% of qualifying costs, and budgets for large companies range from EUR 200,000 to EUR 6 million.

A similar program is expected to be implemented for 2021–2027.

Construction sector

Salary income tax and social security incentives for employees in construction sector

Ten-year tax and social security incentives were introduced on 1 January 2019 for employees of companies operating in the construction sector, subject to the fulfillment of certain criteria. The employees performing activities in the wider construction sector can benefit from the incentives, provided that the employer operates in the field of construction, carries out certain categories of activities defined in the relevant legislation, and at least 80% of the employer's total turnover is derived from qualifying activities. The salary income to which the incentives apply is capped.

Eligible employees and employers can benefit from the following incentives:

- Exemption from salary tax due by the employee;
- Exemption from health insurance contributions (due at the level of the employee);
- Reduction of the social security contribution due by the employee, from 25% to 21.25%; and
- Reduction of the work insurance contribution due by the employer, from 2.25% to 0.27% in certain situations. This incentive, however, is not available at this moment.

Advance approval of the tax authorities is not required to apply the tax and social security incentives in the construction sector. The conditions in the law, as well as substance-over-form requirements must be met.

Hospitality and food service industry

Salary income tax incentive for employees in hospitality and food service industry

A salary income tax exemption is available to the employees of companies that carry out certain seasonal activities in the hospitality and food service industry, subject to fulfillment of certain criteria.

Horizon 2020

National EU financing programs, such as the Competitiveness Program and the Regional Development Program, support the creation of synergies between the programs and the Horizon 2020 initiatives with specific R&D grants.



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Investment incentives

Capex-reinvested profit

As from 1 January 2017, profits reinvested in certain assets (technological equipment, software, desktops, laptops, etc.) commissioned and used for business purposes are exempt from corporate income tax. The amount of exempt profits is limited to the gross accounting profit from the beginning of the fiscal year the assets were commissioned.

The taxpayer must hold the assets for at least half of their useful life, but not exceeding five years, and the assets cannot be depreciated using the accelerated depreciation method.

A reserve may have to be created at the end of the year, calculated as the portion of the accounting profits related to the incentive, less the legal reserve (however, the reserve is not necessary if the taxpayer is in a loss position at year end). The reserve will be taxable when utilized in any way, including in the case of a reorganization, if the beneficiary company does not maintain the reserve. If the reserve is kept until the taxpayer is liquidated, it will not be included in taxable income.

The incentive is granted in the year in which the reinvestment is made.

State aid scheme for employment

The government supports the creation of new jobs in targeted economic sectors (including R&D activities) by subsidizing part of the salary costs for new employees. Under this scheme, the cost of employer salary contributions (capped at certain gross salary amounts) are reimbursed at varying rates, depending on the region. The reimbursement can range from 10% to 50% of salary costs over 24 months for all new hires, and the total contribution cannot exceed EUR 37.5 million and is capped at the total amount of taxes (salary contributions, income taxes, profit tax and local tax) to be paid by the entity to the state for five years after the investment is implemented. The scheme is conditional on annual calls and the annual state budget.

State aid scheme for large investments

The government supports initial business investment by subsidizing capex costs. Most economic sectors are eligible (including R&D activities), but a few sectors are not eligible for financing under this scheme (agriculture, mining, production of military vehicles, weapons and ammunition, production of alcohol or tobacco, production of energy, real estate, financial services, transport, hotels, sports facilities, etc.). Companies that have discontinued the same or similar activity in the EEA within the past two years, and companies that intend to discontinue the same or similar activities in another EU member state within two years of completing the project, are not eligible for financing under this scheme.

Eligible costs (e.g., tangible assets, including construction costs and equipment) are reimbursed at varying rates, depending on the region. The reimbursement can range from 10% to 50% of qualifying costs, and the total value cannot exceed EUR 37.5 million and is capped at the total amount of taxes (salary contributions, income taxes, profit tax and local tax) to be paid by the entity to the state for five years after the investment is implemented. Minimum investment value is EUR 0.94 million. Equipment must be new and purchased under market conditions.

National plan for RDI (program period 2015–2020)

This includes five financing programs and sub-programs supporting investment in the following economic sectors:

- Intelligent specialization: Bio economy, ICT, space and security, energy, environment and advanced materials, eco and nano technologies, and advanced materials;
- Priority sectors: Healthcare, cultural identity, and new and emerging technologies.

Eligible applicants include private researchers, R&D public entities, and partnerships between public R&D entities and the private sector.

