



ROMANIAN MINISTRY OF PUBLIC
FINANCE



TAX TREATMENT OF SELF EMPLOYED INCOME VERSUS WAGE INCOME

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General Directorate for Macroeconomic Analysis and
Financial Policies

Taxpayers

The following persons are *taxpayers*:

- resident individuals;
- non-resident individuals who carry out independent activities through a permanent establishment in Romania as well as dependent activities in Romania.

Income Tax

For **individuals** resident in Romania the *income tax* applies to the income earned from any source, both in and outside Romania;

For any other individuals, residents in Romania, income tax applies only to the income earned in Romania, taxed at the level of each source from the income categories

In case of non-resident individuals income tax applies to the net income earned out of independent activities achieved through a permanent establishment in Romania;

For non-resident individuals who carry out dependent activities in Romania, tax applies to the net salary income earned from such dependent activities.

Categories of income subject to the income

tax:

Income from independent activities;

Income from salaries;

Income from granting of the use of the goods;

Income from investments;

Income from pensions;

Income from agricultural activities;

Income from prizes and from gambling;

Income from sales of real estate properties from the personal patrimony;

Income from other sources.

Tax rate

- **Until 2005 the tax system, having rates ranging from 18 to 40%, has been replaced by the flat rate of 16%.**

The tax rate of 16% is applied to the taxable income corresponding to each source from the respective category for the computation of tax on income generated from:

- **independent activities;**
- **salaries;**
- **the grant of the use of goods;**
- **investments;**
- **pensions;**
- **agricultural activities;**
- **prizes;**
- **other sources;**

The taxable period is the fiscal year that corresponds to the calendar year.

Income from independent activities

Income earned from independent activities is represented by: commercial income, income from free professions, income from intellectual property rights, individually achieved and/or in the form of an association, including income from related activities.

Commercial income is income earned from trading activities, from supply of services, as well as from practicing a certain trading activity.

Income earned from free professions is income obtained from the exercise of professions such as: physician, lawyer, notary, financial auditor, tax consultant, expert accountant, certified accountant, consultant for investments in securities, architect or other professions, carried out in an independent manner, in accordance with the legal conditions.

Incomes earned from the sale in any manner of intellectual property rights which are derived from patents, drawings and models, samples, production marks and trademarks, technical procedures, know-how, copyrights and rights connected with copyrights and other similar rights.

Specifically, for the types of income bellow, out of the total 16% income tax, the payers are required to compute, withhold and remit the 10% tax withheld at source, representing anticipatory payments, following to make the final settlement by the end of December month:

- intellectual property rights;
- the sale of goods under a consignment regime;
- activities carried out on the basis of agency contracts, commission contracts, or trade mandates;
- activities carried out on the basis of civil contracts/conventions concluded as provided in the civil code;
- activities of accounting and technical expertise, judicial expertise and extra-judicial expertise.

Income from independent activities

The net income earned from independent activities is to be determined as the difference between the gross income and the expenses related to the realization of the income, deductible, on the basis of the data from the simple entry accounting system.

Some expenses have limited deductibility:

- protocol expenses, within the limit of 2% of the computation base;
- expenses for luncheon coupons granted by the employers, as provided by legislation in force;
- contributions effected on behalf of employees to optional occupational pensions schemes, in accordance with the legislation in force, within the limit of the equivalent in ROL of 400 euro annually for a person etc.

Income from salaries

Income earned from salaries represents the income in money and/or in kind, obtained by an individual who carries out an activity based on an individual work contract or on a special statute as provided by the law, irrespective of the period to which it refers, of the denomination of the income or of the manner it is granted; allowances granted for temporary work incapacity it is also income from salary.

Some amounts which may be received by the individuals are not included in the salary income and are not taxable for purposes of the income tax, such as:

- assistance for funerals, assistance for losses produced in people's homes and court yards, as a result of natural disasters, assistance for serious and incurable diseases, assistance for child birth, income in the form of gifts for the employees' children, gifts granted to female employees, the counter-value of transport to and from the place of work of the employee, the cost of supplies for treatment and rest, including transport, for own employees and their family members, granted by employers for own employees or other persons, as provided by the labour contract.

Income from salaries

Beneficiaries of income from salaries owe a monthly tax, which is to be computed and withheld at source by the payers of incomes.

The monthly tax is to be determined as follows:

- by applying the 16% tax rate to the computation base, which is determined as the difference between the net income from salary, computed by deducting from the gross income of the taxpayer the monthly mandatory contributions, as follows:**
- personal deduction allowed for that month;**
- union dues paid in that month;**
- contributions to the funds for optional occupational pensions, so that for the whole year the amount does not exceed the equivalent in RON of 400 Euros.**

Payers of salaries and incomes assimilated to salaries are required to compute and withhold the tax related to the income of each month, on the date of payment of such incomes, as well as to remit it to the state budget on, or before the 25th of the month that follows the month for which such incomes are paid.

Incomes from investments

Is also taxed the income from investments which include:

- dividends;
- taxable incomes from interest;
- gains from the transfer of securities;
- incomes from sale-purchase operations of foreign currency on deadline, based on a contract, as well as any other similar operations;
- incomes from liquidation of a legal person.

A security is any security, participation title in an open investment fund or any other financial instrument that is qualified as such by the National Commission of Securities, as well as social parts.

Incomes from investments

Incomes in the form of dividends, including amounts received as a result of holding participation titles in closed investment funds, are to be taxed with a rate of 16% of the amount of such incomes. Legal persons are required to compute and to withhold tax on incomes in the form of dividends at the same time as the payment of such dividends to shareholders or partners.

The deadline for the remittance of the tax is on or before the 25th day of the month that follows the month in which the payment is made. In the case of distributed dividends that were not paid to shareholders or partners by the end of the year during which the balance sheet is approved, the deadline for the payment of dividend tax is on or before December 31st of such year.

Incomes from investments

Incomes in the form of interest for the deposits set up, saving instruments acquired or civil contracts are to be taxed with a rate of 16% of the amount of such incomes. For incomes in the form of interest, the tax is to be computed and withheld by the payers of such incomes, at the moment of recording in the current account or deposit account of the titular, respectively the moment of redemption, in the case of saving instruments.

In situations where the amount received in the form of interest for loans is granted based on civil contracts, the computation of tax payable is to be made at the moment of the payment of interest.

The remittance of tax for incomes from interest is to be made monthly, on or before the 25th day of the month that follows the recording/redemption in the case of saving instruments, respectively, at the moment of the payment of interest for incomes of such nature based on civil contracts.

Social contributions

- Social security contributions are payable at a combined rate for the employer and the employees. As of February 2009 employees with normal working conditions must contribute for social security at 10.5% calculated on the gross income earned without any ceiling. Employers contribute at a rate of 20.8%. In the case of particular and special working conditions, higher rates for the employers apply.
- In addition, employees must contribute at 5.5% to the health insurance fund and at 0.5% to the national unemployment fund. Employers in particular have to contribute to the health insurance fund at a rate of 5.2% in the unemployment fund (rate 0.5%) and the work accidents insurance fund (rate from 0.15 to 0.85%).

	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>
Total revenue out of income tax from salaries - % in GDP	2.07%	2.35%	2.50%	2.78%
Total revenue out of income tax from independent activities - % in GDP	0.12%	0.16%	0.18%	0.16%