

# TAX|Briefing

Your Single Professional Contact in South East Europe

An independent member of **BKR** International



**EUROGLOBAL**  
**S.E.E. AUDIT LTD**  
(Formerly BKR Damianou)

## Proposed Tax increase in Romania- Corporate tax to 20% & VAT to 24%

Romanian authorities and officials of the International Monetary Fund are discussing several options to increase budget revenues, including possible increase of flat tax rate to 20% from 16% currently and the value added tax to 24% from 19% currently. Increase of taxes will lead to high fiscal pressure on active companies and could act as an obstacle in economic development, having significant negative effects, including possible relocation of businesses from Romania.

## ROMANIA: Interest rate for loans in foreign currency, lower than 2009

According to the Government Decision (no. 296/2010) which will have retrospective effect from January 1, 2010 - section 70<sup>1</sup> of the Methodological Norms for the application of Law no. 571/2003 regarding the Tax Code, and published in the Official Gazette of Romania no. 239 of April 15, 2010, the interest rate for loans in foreign currency taken into account in determining the taxable profit was decreased from 8% to 6%.

According to the provisions in force, interest on loans obtained from Romanian or foreign credit institutions, non-banking financial institutions and other similar organizations are fully deductible.

The interest rate for foreign currency loans, of 8%, was used for determining the deductible limit of interest expenses on loans obtained from other legal entities than Romanian or foreign credit institutions, non-banking financial institutions and other similar organizations. This interest rate will now be reduced to 6%.

The major impact of this reduction is the limitation on the deductibility of interest, for purposes of the thin capitalization rules, is also reduced accordingly.

Until present date, the Tax Code provided for express thin capitalisation rules in the form of debt to equity restrictions according to which interest expenses were fully deductible if the indebtedness degree of the capital is

Subscribe

Library

Our Website

### About us

Euroglobal S.E.E. Audit Limited (formerly BKR Damianou & Partners Ltd) is a regional certified public accounting company specialised in assurance services. Its headquarters and management are based in the Republic of Cyprus. Euroglobal operates in South Eastern Europe through fully fledged offices in Greece, Bulgaria, Romania, Serbia, FYR Macedonia, Albania and Montenegro. [Read more](#)

### Our Services

- Audit & Assurance Services
- Corporate & Personal Taxation
- Business Advisory Services

### Our Offices

#### Cyprus

Cypress Centre, 5 Chytron Str., 2nd floor,  
P.O. Box 24885, Nicosia 1305

#### Greece

5 Victoria Square (Kyriakou),  
3rd Floor, 10434 Athens

#### Bulgaria

22 Cyril and Methodius Str., fl.5, apt.12  
1202 Sofia

#### Romania

22 Lugoj Str., District 1, Bucharest

#### Serbia

Cika Ljubina Str. 12, 11000 Belgrade

#### Montenegro

112 Bul Sv Petra Cetinjskog, 81000 Podgorica

#### Albania

Rruga Deshmoret e 4 Shkurtit, Tirana

#### FYR Macedonia

Bul. "Jane Sandanski" No. 78/2, lok. 6  
1000 Skopje

[info@euglobal.eu](mailto:info@euglobal.eu)

[www.euglobal.eu](http://www.euglobal.eu)

Your Feedback

Unsubscribe

less than or equal to three times the value of the equity. In such case if the value of the loans acquired from non-banking institutions exceeds 3 times the value of the equity, then the interest expenses related to the above loans are non-deductible for the current year and will be carried forward to the next year.

Capital indebtedness degree is determined as the ratio between borrowed capital with repayment term over a year and equity, as the average of existing values at the beginning and end of the period for which income tax is determined.

Provided that the indebtedness degree of the capital is greater than three, the expenses with interest and net loss from exchange rate differences, related to loans taken into consideration in determining the degree of indebtedness, are non-deductible. The expenses are reported in the next period, until their full deductibility according to Article 23 paragraph 1 of the Tax Code.

In case the expenditures from exchange rate differences of the taxpayer exceed the income from exchange rate differences, the difference will be treated as deductible interest expense, this difference being subject to deduction limits. For instance, if you have exchange rate expenses related to the previous type of loan, than the same treatment will be applied to them as in the case of interest expenses.

Expenditures from exchange rate differences, which are limited, are the ones related to loans taken into account in determining the capital indebtedness degree.

The approval of this normative act is determined by the need of updating tax data, in accordance with the provisions of the Romanian Tax Code, according to which, in case of loans obtained from group companies, shareholders, partners, etc. the interest rate is updated by Government Decision.

The update is based on data shown by the National Bank of Romania on the average interest rates on new loans in Euro and U.S. Dollars granted by credit institutions to non-financial companies for the previous year. Thus, for the period January - November 2009, the average interest rates are 6.36% for new loans in Euro and 5.14% for new loans in U.S. Dollars. Therefore the impact will be minimum, taken into consideration that the interest rates from banks decreased during the last period.

**Contributors:**

Cozmina Avasaloaei  
cozmina.avasaloaei@euglobal.eu

Text version

Disclaimer

Smart advice,  
customised for you.



