

## **Fiscal Memorandum**

This memorandum aims to provide you with an overview of the tax implications applicable at the time of drafting this document. On request a more comprehensive tax memorandum is available. For detailed and updated information we could also introduce you to local specialized tax advisors.

- Rental of real estate is deemed as a VAT exempt operation without right of deduction. However, the landlord/lessor has the option to charge VAT for such operations, by way of submitting a notification for taxation to the tax authorities.
- The depreciation to be used for buildings is the straight-line method between 40 and 60 years.
- The tax rate on dividends distributed is 8%. Dividends distributed/paid to non-residents can be reduced/eliminated under the provisions of double tax treaties (DTT).

### **Taxation of investments through a Romanian company:**

- Romanian companies are subject to 16% profit tax.
- Rental income is business revenue. Expenses connected to the rental activity are generally tax deductible. Net income is taxed at 16%.
- Capital gain (selling price of real estate minus purchase price) is taxable at 16%. Note that the sales of the real estate involve other expenses that should be considered.

### **Taxation of investments through a foreign company:**

- Ownership or letting of a property does not constitute a fixed establishment (from VAT perspective) or permanent establishment (PE) in Romania.
- Any profit related to Romanian real estate earned by a non-resident (rental and capital gain) company is subject to 16% profit tax. Therefore, a non-resident company has the obligation to register for tax purposes in Romania.

### **Taxation of investments made by individuals/natural persons:**

- Rental income obtained by non-residents in connection to a real estate located in Romania is generally taxable in Romania, consequently non-residents must register with Romanian tax authorities and receive a tax identification number ("NIF").
- The rental income (taxable income) corresponding to long-term lettings is subject to individual income tax at a flat rate of 10%.

### **Example: Non-Resident company:**

If you own a company in another country in Europe, you can easily purchase real-estate in Romania. You will have to register your own company for tax purposes in Romania and therefore you must report your income related to real estate in Romania for VAT and profit tax. <sup>12</sup> This reporting can be easily done by a local accountant. In other words, you pay taxes in Romania and not in your home country for the income related to the activities in Romania. The rates applicable are 16% on profit. The dividend is taxed at your home country rates.

### **Example Non-Resident natural person (EU citizen):**

If you purchase as a natural person (for the first time) you will also have to register yourself to receive a NIF number, after your first purchase. The income tax is 10% on your brut rental income. You have the option to undertake the administration of the rented property (and you are obliged to do so in case of more than 5 rented properties) in such case the tax is 10% on the net rental income (profit). The profit tax will be lower when depreciation is considered. There are certain tax advantages in case of natural investors from certain countries such as The Netherlands. These profits are not taxable in your home country, but they are taxable in Romania instead.

#### **More info on Settlements received – Payments of income and relevant VAT**

Quarterly you will receive a settlement from The Valley with your rental income. You do not have to draft and send any invoices. We will do it for you (reversed invoicing). On that settlement you will see your rental income minus costs, the net payable result will be transferred to your account (this can be in your home country). You do not have to undertake any action. In case you have a Romanian VAT number, you will receive VAT on top of your income which is deductible for The Valley and payable by you on quarterly basis. If you do not have a VAT number, you will not receive the VAT and you won't need to pay this to the Romanian state budget. You will be able to see all invoices, overview, and information in your own platform within the system of ResortNet in your own favorite language. You only need to report the VAT (if any), pay these amounts to the state budget, and report your annual income. We can bring you in contact with local accountants willing to support and advise you. Our experienced team can help you out in your own language.

#### **More info on Local Tax – Notary costs and Land-book registration**

The local municipality decides on the amount of local tax (property tax), this is limited by law to a minimum and a maximum. The amount of local taxes is included in our calculations as part of the expenses. The notary costs and land-book registration depend on the value of the house and amount to around 1000 – 1500 Euro per transaction for a Romantic house type depending on a physical person or a company and the price of the house.

#### **This document was revised and approved by the following parties:**

ECONTEX S.R.L. and MONIQIT LEGAL & TAX.