Real Estate in Romania

Tax and Legal Overview

Real Estate Tax Summary

Real Estate Investments

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The principle of free transferability of assets is enshrined in the Romanian law, with only few restrictions on the acquisition of real estate or a set of conditions to be met to this effect (eg, restrictions for non-EU foreign companies and individuals; the pre-emption right of the persons/state regarding certain property with special statute, etc).

Romanian individuals and legal entities (regardless of the citizenship of the shareholders) are free to acquire land. Foreign citizens, stateless persons and legal entities may acquire land ownership in Romania only under certain circumstances. European nationals, part of the EU or EEA, may freely acquire construction and agricultural land in Romania.

Foreign nationals outside the EU and the EEA will be able to acquire ownership in compliance with international treaties.

The income from the transfer of real estate is taxed differently depending on the period of ownership and the value of the real estate.

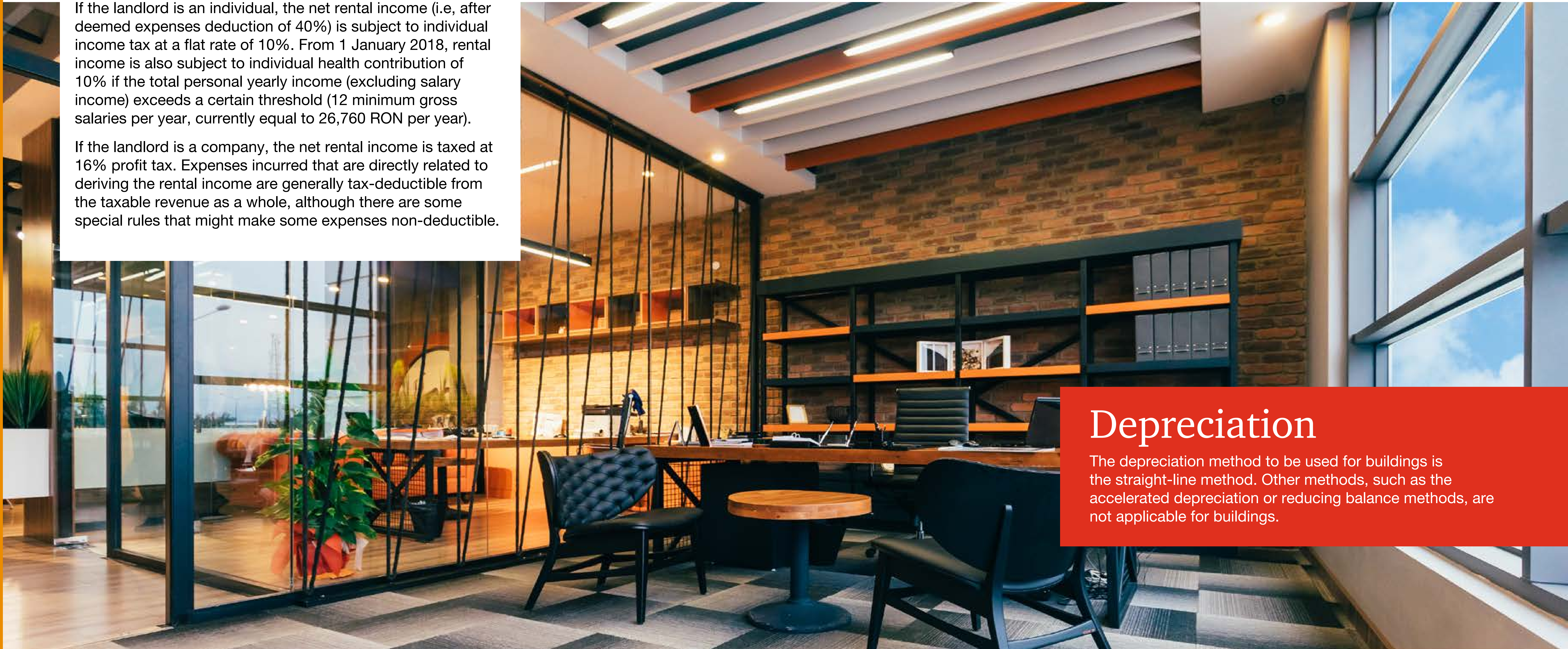
Capital gains from sale of shares obtained by legal persons are taxed in Romania at 16%, unless the participation exemption regime applies, whereby more than 10% of the shares are held for more than one uninterrupted year at disposal date. As from January 2018, according to the provisions of the Fiscal Code, individuals who realise income from the transfer of securities (shares, fund units owned by investment funds) owe income tax of 10% of their gains (the rate was 16% before the amendments).

Foreign individuals are generally subject to the same tax treatment as Romanian individuals, but depending on the fiscal residence of the individual, treaty relief may be available. As from 2018, capital gains obtained by individuals are also subject to individual health contribution (10%) if the income exceeds a certain threshold (at least 12 minimum gross salaries per year, currently equal to 22,800 Romanian leu (RON) per year).

In the event of a direct investment, under Romanian law, any profit (including capital gains) related to Romanian real estate earned by a non-resident company is subject to 16% profit tax. Under most of the currently applicable double tax treaties concluded by Romania, capital gains obtained by non-residents from real estate property located in Romania are generally taxable in Romania. Ownership of real estate does not necessarily constitute a permanent establishment (PE) in Romania.

If the landlord is an individual, the net rental income (i.e, after deemed expenses deduction of 40%) is subject to individual income tax at a flat rate of 10%. From 1 January 2018, rental income is also subject to individual health contribution of 10% if the total personal yearly income (excluding salary income) exceeds a certain threshold (12 minimum gross salaries per year, currently equal to 26,760 RON per year).

If the landlord is a company, the net rental income is taxed at 16% profit tax. Expenses incurred that are directly related to deriving the rental income are generally tax-deductible from the taxable revenue as a whole, although there are some special rules that might make some expenses non-deductible.



Depreciation

The depreciation method to be used for buildings is the straight-line method. Other methods, such as the accelerated depreciation or reducing balance methods, are not applicable for buildings.

Building tax

According to the Romanian Fiscal Code, buildings are classified based on their utilisation purposes, as follows:

- residential buildings, i.e. buildings which are used strictly for residential purposes;
- non-residential buildings, i.e. buildings which are used for economic purposes;
- mixed-purpose buildings, ie. those used for both residential and non-residential purposes.

In case of residential buildings owned by individuals and legal entities, the building tax is calculated by applying a rate ranging from 0.08% to 0.2%, to the taxable value of the building. In case of non-residential buildings owned by individuals and legal entities, the building tax is calculated by applying a rate ranging from 0.2% to 1.3% to the tax value of the building. In case of mixed usage, if the building address is registered as a fiscal residence (eg, for an individual or for a company) but at which no economic activity is performed, the tax is calculated according to the regulations applicable to the residential buildings. Where there is mixed usage with actual economic activity, the building tax is determined proportionally. There are also other rules concerning mixed usage.

In case of non-residential buildings, there is an obligation to perform a valuation (every three years for legal entities or every five years for individuals). The valuation should be performed by an independent Romanian valuator according to a specific valuation standard. If this requirement is not met, the building tax rate may be increased to 2% (for individuals) or even 5% (for legal entities).

The tax on buildings is due for the entire fiscal year by the person who owns those assets at 31 December of the previous fiscal year, irrespective of whether these assets are alienated during the reference year.

Building tax is paid twice a year, by 31 March and 30 September, in equal instalments. As a rule, if the building tax due for the entire year is paid in advance by 31 March, a reduction of up to 10% may be granted by the Local Council.

Land tax

Owners of land are subject to land tax established at a fixed amount per square metre, depending on the rank of the locality where the land is located and the area or category of land use, in accordance with the classification made by the Local Council.

The provision according to which for the surface of land, covered by a building, the tax land is not due was eliminated.

Likewise, the tax on lands is due for the entire fiscal year by the person who owns those assets at 31 December of the previous fiscal year, irrespective of whether these assets are alienated during the reference year.

Similar to building tax, land tax is paid twice a year, in equal instalments, by 31 March and 30 September. A 10% reduction is granted for full advance payment of this tax by 31 March.

Acquiring title to real estate in Romania

The principle of free transferability of assets, with the owner being free to dispose of property, is enshrined in Romanian law. The applicable law prescribes a few restrictions on the acquisition of real estate or a set of conditions to be met to this effect, for instance, the duty to observe interalia the pre-emption right of individuals, private and/or public entities and of the Romanian state for the sale of historical monuments, woodland and agricultural land.

Romanian and European nationals (nationals of the European Union and/or of the European Economic Area), natural persons and legal entities (regardless of the citizenship of the shareholders) are free to acquire land in Romania under the same conditions are Romanian citizens.

Non-EU/EEA citizens and entities are allowed to acquire land ownership in Romania, only under international treaties executed by the Romanian State and on reciprocity basis.

Notarisation and registration of title to real estate

Romanian law requires the notarisation of any transfer agreement regarding ownership of land or house located in Romania. Notarisation is compulsory for the validity of the ownership transfer.

The ownership transfer has to be recorded in the Real Estate Register (Land Register) in order to be effective against third parties. However, in some parts of Romania, the registration of ownership in the Real Estate Register has only recently been implemented and, therefore, it may be difficult to verify ownership when purchasing real estate property. It is advisable to conduct legal title checks on any property prior to acquiring it.

Mortgaging real estate

Mortgages are created under authentic deeds and must be recorded in the Land Register to have an effect towards third parties.

Mortgages are created over land/buildings as a whole or over the share owned by any of the co-owners. The creation of mortgages over a future asset is subject to compliance with specific regulations regarding mortgage credit for real estate investments, based on the prior registration with the Land Register of the building permit and the partial delivery and acceptance minutes.

General

Set out below are the main provisions within the Fiscal Code regarding real estate. The current definition of real estate property refers to land, buildings or constructions built or incorporated into a land area.

Taxation of investments through a Romanian company

On the sale of real estate by a local company the capital gain is included in the taxable profit of the company, subject to 16% profit tax (if in an overall profit position). Capital losses on sale of real estate may be offset against regular profits of that company.

The sale of shares in a Romanian company by another Romanian company is also subject to 16% profit tax, unless more than 10% of the shares are held for more than one uninterrupted year at disposal date. If the shares in a company are sold by a non-resident corporate shareholder, they are also generally subject to tax at 16%, with the exception of cases where more than 10% of the shares are held for more than one year. In order for such exemption to apply, a double tax treaty should exist with the jurisdiction of the non-resident corporate shareholder.

Capital gains obtained by non-residents from the sale of shares held in a Romanian company are also taxable in Romania. However, participation exemption applies for capital gains derived by a non-resident legal entity from participations of at least 10%, held for a minimum period of one year, in a Romanian company, provided there is a double tax treaty in place between Romania and the country od residence of the seller. Also, the income may be subject to treaty protection.

Taxation of income obtained from transfer of real estate by Romanian and/or non-resident individuals

Transfers of Romanian real estate property are subject to transfer tax. The tax transfer is calculated according to the sale price. The Fiscal Code provides a tax of 3% on taxable income. Taxable income is determined by deducting from the transaction value the non-taxable amount of 450,000 RON (approx. 92,000 EUR). The tax is calculated and charged by a public notary. The seller is liable for the payment of the tax.

No income tax is due for ownership over estates acquired under special laws, for donations between third-degree relatives, donations between spouses, and for inheritances, provided the procedure is finalised within two years (income tax of 1% is levied if the succession procedure is not completed within those two years).

Income tax due for transfer of ownership is calculated at the value declared by the parties in the transfer documents and withheld by the public notary. If the value declared by the parties is lower than the minimum value established through market research conducted by the Chamber of Notaries Public, the public notary notifies the transaction to tax authorities. The tax remittance deadline is day 25 of the month following the one when the income was withheld.

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Taxation of sale of shares in the case of Romanian and/or non-resident individuals

Capital gains obtained by individuals from sale of shares are taxed in Romania at 10%.

The obligation of calculating and paying the income tax from the transfer of securities lies with the taxpayer. As from 2018, income obtained by individuals is also subject to individual health contribution (10%) if the total personal yearly income (excluding salary income)exceeds a certain threshold (12 minimum gross salaries per year, which amount currently to 26,760 RON per year).

Any net loss resulting from the transfer of securities, other than shares and transferable securities in non-listed companies can be carried forward for up to seven consecutive tax years.

Foreign individuals are generally subject to the same tax treatment as Romanian individuals. However, based on the fiscal residence of the individual, treaty relief may be available. Depending on the details of the transaction, the taxpayer has the obligation to compute, withhold and pay the capital gains tax from sale of shares. To fulfil this requirement, non-residents may appoint a Romanian fiscal representative or a tax agent.

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Direct investment by foreign companies

In the event of a direct investment, under Romanian law, any profit (including capital gains) related to Romanian real estate earned by a non-resident company is subject to 16% profit tax. Under most of the currently applicable double tax treaties concluded by Romania, capital gains obtained by non-residents from real estate property located in Romania are generally taxable in Romania. Ownership of real estate does not necessarily constitute a permanent establishment (PE) in Romania, however, a case-by-case analysis should be undertaken.

Generally, all Romanian companies are subject to quarterly profit tax payments, with annual offset. Most companies (including those investing in real estate) may opt for a prepayment tax system (quarterly prepayments made, based on last year's profit tax adjusted by the inflation rate). However, in case of foreign companies, income from sale of shares and real estate located in Romania will be due by the 25th of the month following the quarter in which the transaction took place.

Foreign legal persons are required to submit annual profit tax returns, even if the profits is exempt from tax in Romania under the more favourable provisions of eligible double tax treaty. They may appoint a tax agent for meeting the above requirements for payment of profit tax and the submission of tax returns.

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Taxation of rental income

Individuals

If the landlord is an individual, the net rental income (ie, after a deemed expenses deduction of 40%) is subject to individual income tax at a flat rate of 10%. As from 1 January 2018, rental income is also subject to individual health contribution of 10% if the total personal yearly income (excluding salary income) exceeds a certain threshold (12 minimum gross salaries per year, which currently amount to 26,760 RON per year).

Individuals who derive income from more than five rental contracts in one year are obliged for the next fiscal year to treat such income as income from independent activities and pay income tax accordingly.

Individuals who earn rental income are required to submit the Romanian annual single return for the purpose of estimating the rental income within 30 days of the conclusion of the rental contract.

Companies

If the landlord is a company, the net rental income is taxed at 16% profit tax. Expenses incurred that are directly related to the obtainment of the rental income are generally tax-deductible from the taxable revenue as a whole, although there are some special rules that might make some expenses non-deductible. In their Articles of Association, companies should have “rental activity” listed as their object of business in order to let real estate property.

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Depreciation

The depreciation method to be used for buildings is the straight-line method. Other methods, such as the accelerated depreciation or reducing balance methods, are not applicable for buildings.

The Official Fixed Assets Catalogue, published under government decision, states the useful lives to be used for tax purposes. Ranges are provided for classes of fixed assets, from which the taxpayer can choose the useful life. The depreciation rates applicable to buildings vary according to the type of building. For office buildings, the depreciation period is between 40 and 60 years, while for other commercial buildings the depreciation period is between 32 and 48 years. Improvements made to buildings by the owner will generally follow the depreciation period of the building. Improvements in a leasehold property are generally depreciable over the remaining contractual period. It is possible to identify various components of the building, which can be depreciated separately.

Accounting revaluations are considered when computing the depreciable amount of fixed assets.

Land is not subject to depreciation.

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Revaluation of fixed assets

Companies are allowed to revalue their fixed assets at the end of each year, according to their own accounting policies. As from 1 May 2009, the step-up in value is not effective for tax purposes when calculating depreciation expense. The same principle applies when the building is sold or written-off. So, there is no longer a tax benefit for revaluations. This rule applies for all revaluations performed after 1 January 2004.

Companies need to keep separate records to reflect the distinct computation of the fiscal and the accounting regulations.

Loss carry forward

Fiscal losses can be carried forward for seven consecutive years (starting with losses incurred in financial year 2009).

Limitations on tax deduction of financing costs

Starting 1 January 2018, there is no distinction anymore between the tax regime of intra-group or bank financing, irrespective of the company capitalization or its debt to equity ratio, since the tax deduction rule has been normalized for all investors and all financing sources. Briefly, an "excess borrowing costs" rule applies currently to Romanian legal entities, which means that a company that seeks financing solutions for either investment purposes, working capital needs or finance hedge will deduct only EUR 1.000.000,00 plus 30% of a tax-adjusted EBITDA (for FY 2018 the threshold was of EUR 200,000 plus 10% of a tax-adjusted EBITDA). The non-deductible excess borrowing cost is carried forward and may be deducted in subsequent years (subject to applying the same cap annually). The excess borrowing costs include net interest expenses and net foreign exchange losses. The non-deductible exceeding borrowing costs can be carried forward indefinitely. The calculation base is determined as the gross accounting profit, minus non-taxable revenues, plus exceeding borrowing costs and deductible tax depreciation.

The above-mentioned interest deductibility rules also apply to financial institutions, but not to independent entities (i.e. entities that are not part of a consolidated group for financial accounting purposes and do not have related parties and PEs), which can fully deduct exceeding borrowing costs.

Equally important is that the above cap affects also all historical interest and net foreign exchange losses, which have accrued and were not deducted during development stages. Deduction of these costs may be postponed indefinitely or taken in immaterial amounts annually, depending on the company profitability.

Consequently, all real estate vehicles that become operational further to the investment stage or that undergo group buy-outs should update their medium to long-term budget simulations and consider their financing mechanisms or capital structures, to make sure that their deferred tax asset may be realized. Such tax costs may translate in higher cost of debt related to either inter-company, external bank lending or private equity funds.

Turnover tax

All newly set up companies and companies in Romania with a turnover less than 1 million RON as at the end of the previous year will automatically pay turnover tax of either 1% (if there is at least one employee) or otherwise 3% on their revenues. Once the threshold is exceeded, such companies become profit taxpayers and pay the regular 16% profit tax.

The implication for real estate special purpose vehicles is that development costs registered as expenses in the initial development period can no longer be carried forward and offset against future taxable profits.

Starting with 1st of April 2018, companies are allowed to opt out of the turnover tax regime, once, based on certain criteria (minimum share capital of 45,000 RON and at least two employees).

Real estate operations

VAT treatment

Under the current Romanian VAT law, rental/leasing of real estate property is deemed as a VAT exempt operation without deduction right. However, the landlord/lessor has the option to apply VAT for any such operations, by way of submitting a notification for taxation to the tax authorities.

The Romanian VAT legislation provides that the sales of plots of non-buildable land, based on the town planning certificate and of buildings qualifying as old from a VAT perspective are subject to the VAT exemption without deduction right. However, the owner has the option to apply the taxation regime for these types of transactions, by way of submitting a notification for taxation to the tax authorities in this respect.

The supply of plots of building land, based on the town planning certificate or buildings qualifying as new from a VAT perspective is subject to the taxation regime, as follows:

- Reduced VAT rate of 5% - for supplies of dwellings and houses delivered as part of social policy, including old people's homes, retirement homes, orphanages and rehabilitation centres for children with disabilities. This category includes also dwellings and parts thereof supplied as housing with a maximum useful surface of 120 square meters, excluding outbuildings. The reduced rate applies if the value of the house acquired by individuals is less than 450,000 RON, exclusive of VAT.
- Taxation under the reverse charge mechanism – for supplies of plots of building land or new buildings, if both, the purchaser and supplier, are registered for VAT purposes in Romania. More specifically, under this scenario, the supplier has the obligation to issue invoices without VAT, while the beneficiary will have to account for VAT under the reverse charge mechanism.
- Standard VAT rate of 19% - for supplies of plots of building land or new buildings, in case the conditions for the application of either the reduced VAT rate or reverse charge mechanism are not fulfilled.

From a VAT perspective, a building (or parts thereof) qualifies as new, if it is sold by the end of the year following its first usage/occupation. A construction that has been transformed, whereby the value of the transformation exceeds 50% of the building's value after transformation, is also considered a new building. Building land represents any unimproved/improved land on which constructions can be erected on, according to the town planning certificate.

The supply of land on which a building is erected, but where a demolition process is in progress would be treated from a VAT perspective as a sale of land.

VAT deduction right

Any taxable person registered for VAT purposes in Romania has the right to deduct the VAT related to its acquisitions, if the goods/ services are purchased for the purposes of performing taxable transactions.

Taxable persons performing acquisitions related to the construction of real estate envisaged to be used for performing operations both with and without deduction right will be able to fully deduct the input VAT during the investment process. Nevertheless, depending on the actual use of the investments with respect to the construction of real estate, the deducted input VAT has to be adjusted accordingly.

The VAT deduction right is also granted for the acquisitions of immovable assets performed from taxpayers within the enforcement procedure and/or from taxable persons that undergoing the bankruptcy procedure, provided that the supply is taxable by law.

Input VAT adjustment for real estate assets

Where the landlord/ lessor does not opt to tax the rental fees/ lease instalments, while input VAT was deducted on acquisition/ construction of the real estate property, VAT should be adjusted annually within the adjustment period for 1/20 of the VAT costs incurred on the acquisition, manufacture or construction of those goods.

If the real estate property is sold within the VAT exemption regime, while VAT was deducted upon acquisition/ construction, the input VAT should be adjusted one-off for a period of 20 years for the remaining adjustment period.

The adjustment should be performed in accordance with the percentage of the real estate property rented/ leased/ sold within the VAT exempt regime, insofar as such transactions are performed within the 20 years adjustment period.

VAT transfer of business

The partial or total transfer of assets performed during a spin-off or merger is outside the scope of VAT if the beneficiary is a taxable person established in Romania.

Under certain conditions, also the partial or total transfer of assets performed to a Romanian established company through a sale or contribution in kind qualifies as a VAT neutral transfer of business. Specifically, the operation is seen as a transfer of business if the transferred assets form, from a technical point of view, an independent structure capable of carrying out economic activities. Also, the beneficiary must continue the economic activity which was transferred to him and not immediately liquidate it or sell the assets which were transferred to him. In addition, the beneficiary is regarded as the assignor' successor for purposes of adjustment of the VAT deduction right.

In case the taxation regime is applied for transfer of business, the tax authorities will allow the VAT deduction if the taxation regime was not applied for tax optimisation reasons.

VAT refund

Established businesses in Romania

Although, based on the Romanian legislation the input VAT recovery should be performed within 45 days of the date of filing the VAT return or 90 days from their submission (in case the resolution of the application requires a tax inspection), in practice the VAT refund process is a lengthy procedure (especially in Bucharest), subject to a prior tax inspection. The company can benefit from a fast VAT refund, if it achieves a low score in the risk analysis performed by the tax authorities.

The VAT receivables could be offset against other payable taxes and social contributions due by the company or could be assigned to another taxpayer.

Non-Romanian businesses

A company established in another EU Member State could claim a refund from the Romanian tax authorities of the VAT paid for goods/ services acquired in Romania, based on the 9th EU Directive (VAT refund for taxable persons established in the EU). The VAT refund is granted under certain conditions and if the operations performed by the company in Romania do not entail a VAT registration requirement or a fixed establishment of the company in Romania.

In addition, Romania implemented the refund procedure based on the 13th EU Directive for VAT related to purchases performed in Romania by non-EU established businesses under reciprocity conditions. In principle, a non-EU business will be entitled to benefit from a VAT refund, under the 13th EU Directive, for the VAT paid on goods/ services purchased in Romania, if its operations herein do not entail a VAT registration requirement or a fixed establishment in Romania.

Domestic withholding taxes (WHT)

A 16% withholding tax rate generally applies on certain income sourced from Romania by non-resident companies, such as interest, commissions, services performed in Romania, management and consulting services (irrespective of where they are performed), etc.

According to the new provisions the tax rate applicable for dividends derived by non-residents from Romania, is reduced from 16% to 5%. The new tax rate is applicable to dividend income distributed starting on 1 January 2016.

The EU Parent-Subsidiary Directive is applicable to dividends distributed by Romanian companies to other Romanian companies or companies that are resident in other EU member states (holding for more than one year at least 10% of the share capital of the Romanian company distributing the dividends). This implies that dividend distributions to qualifying shareholders are no longer subject to dividend withholding tax.

The EU Interest and Royalties Directive is also applicable so that no withholding tax may be levied for interest and royalty payments made between related parties, provided the conditions of minimum 25% direct association and a two-year holding period are met.

The aforementioned domestic withholding tax rates can be reduced by double tax treaties provided the beneficiary of the payment makes a fiscal residence certificate available, its copy or any other document attesting to its tax residency, as well as a statement that it is the beneficial owner of the income (the latter applies to dividends, interest and royalty payments).

Other potentially material taxes and charges are due on the construction of buildings, as well as on the transfer of land from one designated category of usage to another. Reference is made to the separate section on local taxes.

Notary and cadastral fees

Notary fees are applicable on the transfer of real estate property, depending on the value of the transaction, but amount generally to aprox. 0.5% of the value of the transaction.

A fee is also due to the National Agency for Cadastre and Land Registration for changing the owner amounting 0.5% of the value of the agreement in case the buyer is a company and 0.15% in case the buyer is an individual.

Accounting requirements for Romanian companies

Accounting Law No 82/1991 (last republished in 2008) governs general accounting for Romanian companies. Legal companies, other than credit institutions, insurance companies and entities regulated by National Securities Commission, apply the Order No 1802/2014 approving Accounting Regulations regarding the individual annual financial statements and the consolidated annual financial statements. Order No 1802/2014 is in compliance with the 4th and 7th EU Directives.

Municipal tax system in Romania

Local taxes are established by the Fiscal Code. The local authorities are allowed to adjust local taxes annually.

Local/county councils and the General Council of the Municipality of Bucharest are allowed to set the tax rate a maximum of 50% in excess of the ranges provided by the Fiscal Code on an annual basis.

For agricultural land uncultivated for two consecutive years, as well as for untidy urban buildings and land, the local council may increase the land tax or the building tax up to 500%, in accordance with the conditions established by the decision of the local council.

The tax is adjusted annually with the inflation rate, until 30 April of the year in question and not once in three years, as it was previously performed. Late-payment interest accrues at 1% of the amount past due, calculated for each month or part thereof.

Building tax

Owners of buildings should pay building tax, except for cases where an exemption applies. The building tax rate is established by the local authorities with distinctions made between residential and non-residential destination.

For residential buildings owned by individuals or legal entities, the tax is computed by applying a rate between 0.08% and 0.2% on the taxable value of the building, determined according to the legislation in force. The taxable value of a building varies, depending on the surface area, type of construction, location, etc.

On the other hand, for non-residential buildings owned by individuals, the tax is computed by applying a rate between 0.2% and 1.3% on the taxable value of the building (ie, the acquisition value for buildings acquired within the past five years preceding the reference year; the value of the construction works, in the case of new buildings constructed in the past 5 years preceding the reference year; or the value from the valuation report, as the case may be).

In case of non-residential buildings, owned by individuals, for which the value of the building cannot be determined according with the aforementioned rules (eg., no valuation report) the building tax is determined by applying a 2% tax rate to the taxable base determined according to the law for residential buildings.

In case of mixed usage, the tax is either determined proportionally or at full residential rates (eg, where no economic activity, or other economic circumstances detailed by the law).

For non-residential buildings owned by legal entities, the tax is computed by applying a rate between 0.2% and 1.3% on the taxable value of the building (eg, the last taxable value registered in the fiscal authorities' records; the value from the valuation report; the acquisition value for buildings acquired during the previous year; the value of the construction works, in case of new buildings, constructed in the previous year).

In case the building owner, legal entity, did not update the taxable value of the building in the last three years, the building tax rate is increased to 5%.

For non-residential buildings owned by both individuals and legal entities, used for agricultural activities, the building tax is calculated by applying a rate of 0.4% to the taxable value of the building.

The tax on buildings is due for the entire fiscal year by the person who owns those assets at 31 December of the previous fiscal year, irrespective of whether these assets are alienated during the reference year.

Building tax is payable twice a year, by 31 March and 30 September. The payment in advance, by 31 March of the year, may lead to a tax reduction of up to 10%, based on a decision of the local council.

The Fiscal Code stipulates that building tax is applicable on the value assessed in the leasing contract and payable by lessee for buildings subject to a financial leasing contract.

Land tax

Owners of land are subject to land tax, which is established at a fixed amount per hectare, depending on location and rank. The provision stating that land tax was not due in relation to the surface of land, which is covered by a building, has been eliminated.

The tax on property is due for the entire fiscal year by the person who owns those assets at 31 December of the previous fiscal year, irrespective of whether these assets are alienated during the reference year.

Property tax is payable twice a year, by 31 March and 30 September. The payment in advance, by 31 March of the year, may lead to a tax reduction of up to 10%, based on a decision of the local council.

The Fiscal Code stipulates that for land subject to a financial leasing contract, land tax is payable by the lessee.

Charges for permits and authorisations for constructions

Certificate for urbanism

The certificate for urbanisation is priced at a fixed amount per square metre, depending on the location, and is payable at the beginning of the construction. The tax for obtaining the certificate for urbanisation for the countryside is 50% less than the one available in urban areas.

Construction authorisation tax

Construction authorisation tax is calculated as 1% of the authorised value of the investment. Residential buildings can benefit from a 50% reduction of this tax. This tax should be paid before the delivery of certificates, notices and authorisations for construction. When the assets are brought into operation, the local authorities reconcile the construction authorisation tax value by comparing the authorised value with the real value of the assets.

Tax for the authorisation of the organisation of construction site works. This tax is assessed at 3% of the value of construction organisation works.

Extension of availability tax

In order to extend the availability of the certificate for urbanism and construction authorisation, a 30% tax of the initially paid tax is due.

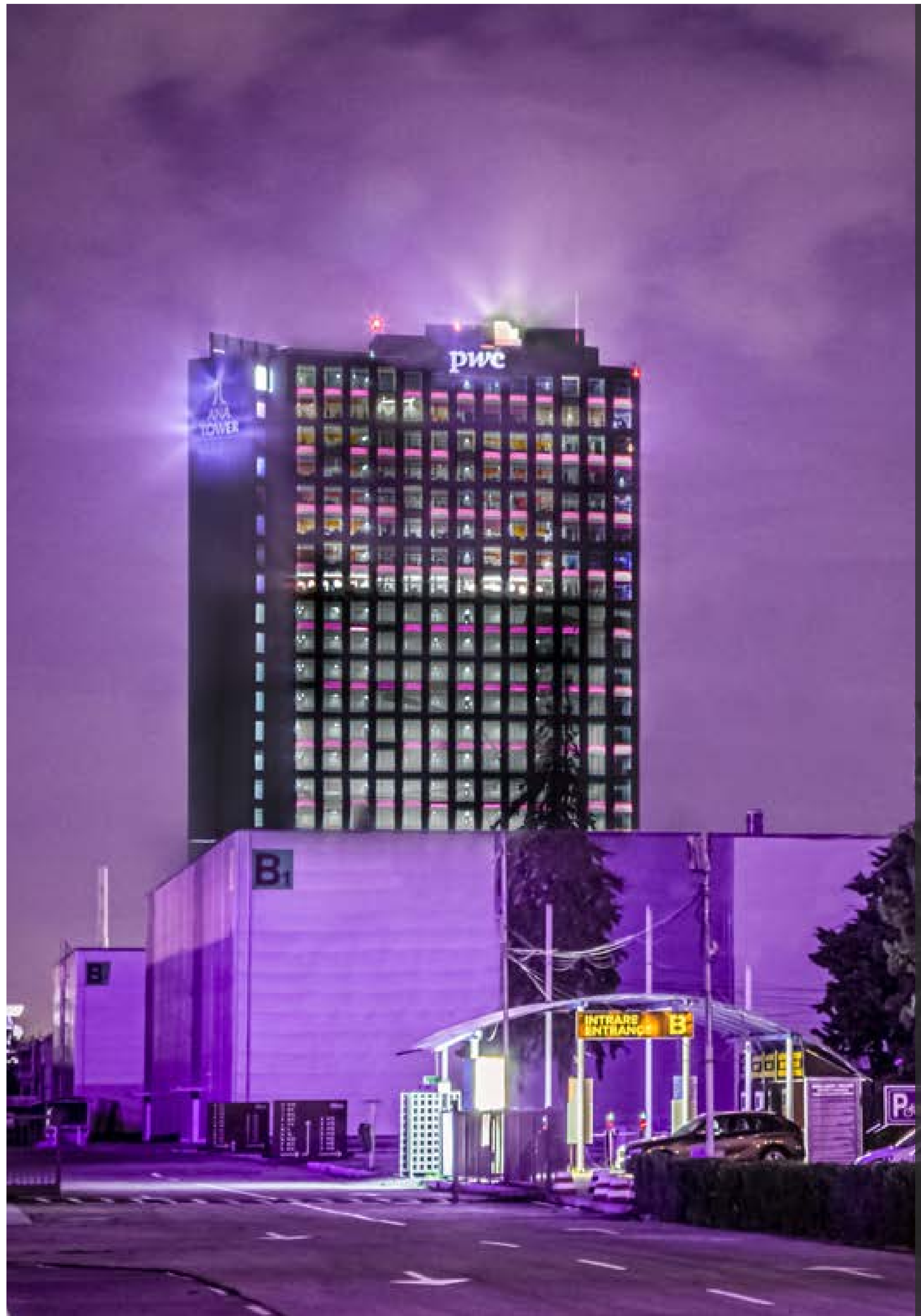
Other fees for constructions

- A fee to the Construction Inspectorate, amounting to 0.5% of the value of the expenses incurred for performing authorised constructions (ie. buildings and installations), as well as of the modernisation, transformation, consolidation and repair work on these constructions should be paid.
- A fee of 0.5% of the expenses incurred, as cited in the statement of works, needs to be paid to the Constructors’ Social Security House.
- A for representing the value of the stamp of the architecture of 0.50% of the value of the investment should be also paid

Incentives Policies granted for rental agreements negotiations

When negotiating or renegotiating an operating lease, the lessor may offer to the tenant certain incentives to conclude the contract. Examples of such incentives are the payment of a cash advance to the lessee or reimbursement or assumption by the lessor of the lessee ‘s costs (e.g. relocation costs, modernization of the leased asset and costs related to a previous lease commitment of the lessee, granting grace periods, Fit Out contribution).

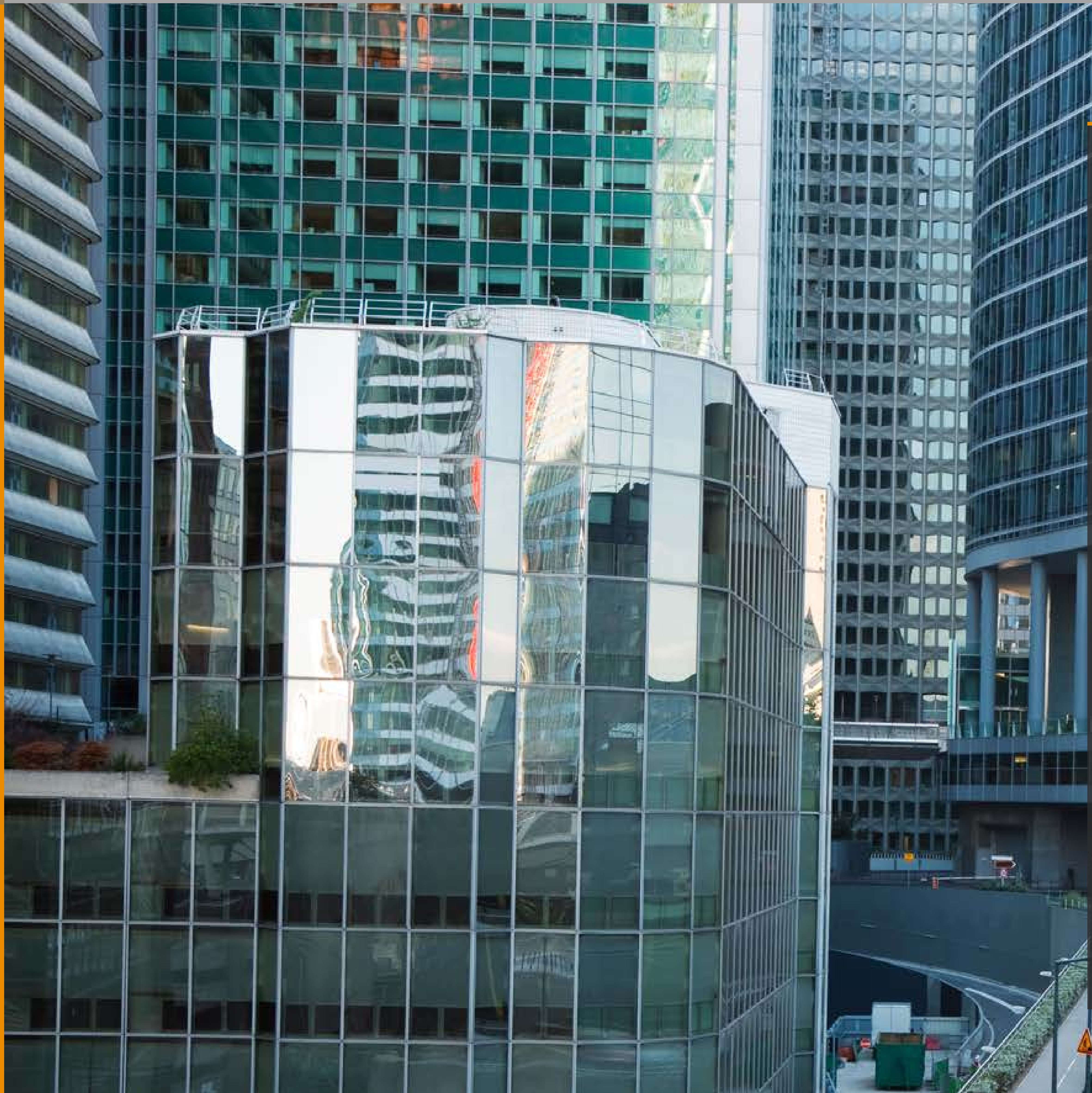
Both the lessor and the lessee will recognize the net value of consideration, over the term of the lease, using a single amortization period. The lessor should recognize the aggregate value of the cost of incentives as a decrease in leasing income during the lease, on a straight-line basis, unless which another systematic basis is representative for the timing of the benefit. Consequently, the lessee should recognize as a reduction of the rental costs during the lase period.



PwC in Romania

PricewaterhouseCoopers has been present on the Romanian market since 1991 and has developed a broad range of services which it continues to expand. With its in-depth knowledge of Romania ‘s business environment, PwC provides the highest level of professional services to international and Romanian enterprises. Overseen by fifteen partners and employing over 650 specialists and support staff, PwC operates in Romania and Moldova from a network of five offices in Bucharest, Timisoara, Cluj-Napoca, Constanta and Chisinau. The legal support is provided by D&B David si Baias, PwC’s correspondent law firm.

The combination of local experience and a one-firm culture enables PwC to provide advice that is consistent with its global standards yet responsive to local conditions and requirements. Engagements are generally staffed by a combination of Romanian specialists, with knowledge of local conditions and regulations, and international consultants, with expertise in tackling issues faced by international enterprises and practice in operating in the Romanian environment. The key element of PwC’ success in Romania is the quality of its staff, to whom the partners are committed to providing the most up to date management training throughout their careers.



Commitment to the real estate sector

PwC is devoted to the problems and developments of the real estate sector globally and in Romania in particular. We are the leading firm of auditors, advisors and lawyers who support the real estate companies, investment banks, investment funds, investment managers and other companies investing in real estate, developing and constructing real estate in Romania.

PwC has established a real estate services team in our Bucharest office to respond to the needs of the market. We have been the principal advisor on the major real estate projects involving foreign and domestic capital. The projects include tax and legal support, preparation of business plans, debt and equity finance raising, audit services, due diligence and transaction support.

Our team makes the most of our regional business model. We go to great lengths to make sure our knowledge and capabilities are consistently shared across Central and Eastern Europe. This enables us to add a further dimension to the way we approach the market and deliver insightful solutions to our clients in an efficient manner.

Service lines include

Assurance Services

- Audits in accordance to ISA or other generally accepted auditing standards,
- Compilation of financial statements in accordance to IFRS or other recognised accounting standards (US/UK GAAP);
- Compliance audits (Security Commission and National Bank of Romania);
- Internal audit;
- Financial and accounting reviews and investigations; regulatory consulting, Training in IFRS, Statutory Accounting Rules and others.

Advisory Services

- Deals: Business Recovery Services, Corporate Finance, Delivering Deal Value, Transaction Services, Valuations and Economics;
- Consulting: Strategy, Finance, Operations, Technology, People and Change, Risk, Dispute Analysis and Investigations (Forensic).

Tax Services

- All aspects of inbound investment into Romania, corporate structuring of investments and trading activities, international taxation, M&A, indirect taxation (customs and VAT), individual taxation and human resources advisory.
- Accounting and tax compliance, financial reporting, payroll and HR administrative services, property management support.

D&B DAVID SI BAIAS

A connected law firm of PwC

Legal Services

Provided by D&B David si Baias SCA, the correspondent law firm of PwC in Romania include legal transaction support for the acquisition/ sale of a real estate property or businesses as well as in connection with distressed assets or within insolvency procedure, legal assistance in construction projects, legal support for financing real estate projects as legal services tailored for the real estate market, but also for the production and retail industry that require an extensive knowledge of both real estate law and specificity of the business

Challenges

- **Increasing business transparency, providing additional control and comfort over your company’s performance**

How we can help

To develop and compete successfully in the real estate sector, companies constantly have to build up their business. This requires a corresponding growth in outside investment and internal management resources. PwC audits and advises a significant number of the major real estate players in Romania and through our integrated Assurance team, we offer the following services:

Audit and assurance services

- Audit and limited review of statutory/IFRS financial statements, Group Reporting Packages
- Regulatory reporting audits

Capital Markets and Accounting Advisory Services

- Asset Monitor for institutions issuing bonds
- Convertible securities
- Accounting advice
- Business combination accounting
- Preparation of Financial statements
- EU funds/State Aid audit
- Closing procedures
- Financial diagnosis
- IFRS solutions
- Support in the implementation of Accounting and financial tools
- Corporate Social Responsibility and Environmental financial reporting

Internal audit

- Internal Audit planning
- Internal Audit Quality Assurance Reviews and benchmarking
- Training programs
- Business systems / automated/IT general controls
- Corporate Governance structures
- Business process and internal control optimization
- Outsourcing contract risk and compliance review
- Reporting according to various standards
- Assessment of financial and non-financial performance

Data Assurance

- Data Governance and Quality
- Advanced Analytics
- Assurance over data collection and reporting
- Data migration and transformation assurance
- Independent verifications
- Process analysis and controls design assessment

Cyber Security, Industrial Control and Data Privacy

- Improve the fundamentals
- Transform the program/Enable the business
- Operate & Sustain
- Respond & Recover
- Data privacy

Project Assurance

- Project Risk Assessment
- Pre-Implementation Review
- Special-Purpose Reviews
- Go-Live Assessment
- Post-Implementation Review

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Challenges

How we can help

- **Maximising value from M&A Transactions**

We lead the sale or purchase of real estate or real estate companies as your lead, financial and commercial advisor from deal origination through to deal completion.

On the buy-side we:

- Identify acquisition opportunities in line with your investment criteria
- Approach targets' owners to assess their willingness to sell the property;
- Evaluate the strategic fit as well as the financial prospects;
- Conduct indicative valuation and provide assistance in the preparation of the non-binding offer(s)
- Run buy-side due diligence;
- Prepare and review legal documentation;
- Negotiate the transaction principles, valuation scheme, deal structure, conditions to closing, the risks identified in due diligence
- Assist to buyer to signing and closing the deal.

On the sell-side:

- Assist in the preparation of the marketing documentation which may involve more detailed segmental and transactional analysis then has been previously been undertaken;
- Conduct indicative valuation of the business and/or the property;
- Identify prospective investors
- Marketing the opportunity, by approaching to prospective investors;
- Perform vendor and sell-side due diligence;
- Prepare and review legal documentation;
- Negotiate the transaction principles, valuation scheme , deal structure, conditions to closing, the risks identified in due diligence;
- Assist the seller to signing and closing the deal.

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Challenges

How we can help

- **Tax Services**

How we can help

Understanding the relevant tax issues and getting the right structure in place can add significant value to a Romanian real estate investment and is often a critical factor for a successful deal.

Our dedicated team of experienced real estate tax advisors:

- Share both local and international experience in advising investors, managers, developers, operators and occupiers in the real estate sector;
- Help in identifying risks and alternatives to property holding structures and debt financing;
- Analysis of investment and exit strategies;
- Provide practical guidance on dealing with the VAT recovery issues commonly encountered by property developers and investors in Romania;
- Provide practical advice on the optimal VAT treatment applicable to real-estate transactions, under various circumstances (e.g. VAT exempt versus subject to VAT);
- Provide practical advice on real-estate specific day-to-day VAT issues (e.g. application of the correct VAT rate, management fees, recharge of utilities, collaterals, pro-rata computations, retroactive VAT adjustment etc.);
- Assist you in identifying and managing the tax risks of investing and operating in the current competitive market environment.

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Challenges — **How we can help**

- **Tax Reporting and Strategy**

Tax and Accounting compliance: accurate and timely reporting of financial performance that enhance the management decisions to drive profitable financing decisions and new investment opportunities.

How we can help

The Tax and Accounting compliance tools are the key to strategic and operational decision making, that drives result and profit improvement and set the company's strategic direction.

PwC Tax and Reporting Strategy provides valuable services such as:

Accounting and Tax compliance services including:

- Preparation of accounting records in accordance with local GAAP
- Preparation of tax compliance records/return including VAT, CIT, WHT and other tax related
- Assisting with standardized reporting for internal/management purposes: Real estate financial analysis, project bank financing & project budget follow up and analysis.
- Preparation of local statutory financial statements and annual tax returns
- Other related accounting and tax compliance services for real estate purposes: service charge computation, property management reporting, incentives policies such as Fit Out Contribution, granting grace period, etc.

Payroll and HR administration services – including:

- Gross to net calculations based on local legislation
- Preparation of tax and social security returns for local purposes
- Employer registrations and joiners' and leavers' administration
- Assistance with labor audits
- Other payroll and HR administration related services (salary tax review, employee personal file review, help desk services, etc.)

Tax Accounting Services comprise:

- Deferred tax remediation under US GAAP/IFRS
- Assisting with assessment of the completeness and accuracy of your deferred tax balances
- Preparation / review of annual or quarterly US GAAP/IFRS tax provisions
- Assistance with conversion from other GAAP to local GAAP for statutory purposes
- Accounting for uncertain tax positions (including FIN 48) assessment
- Assistance with conversion from other GAAP to local GAAP for statutory purposes
- Accounting for uncertain tax positions (including FIN 48) assessment
- Other specialised tax accounting services: mergers and business transfers fiscal and accounting support: merger protocols, accounting consolidation.

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Challenges

How we can help

- **Tax Reporting and Strategy**

Tax and Accounting compliance: accurate and timely reporting of financial performance that enhance the management decisions to drive profitable financing decisions and new investment opportunities.

Tax Technology: Benchmarking studies and Data Analytics, Taxolite for CIT filings, customized reporting and data analysis.

Tax Strategy & Operations aiming to assist with:

- Perform a current state review of tax management across their business using our Tax Management Maturity Model (T3M). T3M is an online tool that requires key stakeholders to select the maturity level of your tax management in relation to each relevant area of tax risk. The maturity levels in relation to each risk have been articulated in the model and so are easy to select. The areas of risk have been designed to cover all of your Tax Control framework
- Cash Extraction (reserves distribution) – identifying the best solution to accommodate shareholders remuneration by complying with relevant legislation
- State Aid reporting assistance aiming to ensure fulfilment of reporting requirement in light of data submission to Romanian authorities
- Financial infrastructure of group companies
- Managerial accounting and information systems
- Develop a tax strategy that’s aligned to organisation’s commercial goals and assist with its implementation

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Challenges

How we can help

- **Valuation Services**

How we can helpWe have a dedicated team of experienced real estate valuers that can provide a comprehensive array of valuation services and have the technical expertise, breadth and depth of industry knowledge to deliver complex arrangements. We are ready to offer the following services:

- Value analysis for financial reporting purposes in compliance with local and International Financial Reporting Standards and local and International Valuation Standards;
- Valuation for tax purposes; In compliance with the Romanian Fiscal Code, a revaluation of a building every three years maximizes the possible tax benefits.
- Develop value analysis models for real estate focused businesses as well as perform reviews based on agreed upon procedures of existing real estate value analysis models;
- Assist with real estate investment strategy pertaining to developments, acquisitions and disposals of real property;
- Conduct market feasibility studies;
- Develop highest and best use analysis.

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Challenges

How we can help

Legal Services

D&B David si Baias has a dedicated team of experienced real estate layers that provide top services in the real estate sector:

Real Estate Transactions

- Legal transaction support for real estate transactions (purchases / sales), drafting of contractual documentation and negotiation assistance;
- Performing title checks and legal due diligence analysis over real estate properties and business;
- Structuring complex transactions.

Constructions

- Legal advice during the development / construction of real estate projects and assistance in drafting and negotiating of construction contracts (including FIDIC);
- Legal advice in connection with the norms of urbanism and spatial planning, building permits and authorizations, reception, etc.;
- Drafting various contracts in connection with the development of real estate projects such as: service contracts, site management, architecture, mortgage, etc ;

Leases

- Drafting and negotiating lease agreements for commercial, office, industrial and logistics spaces;
- Legal advice on complex issues (indexation of rent, common expenses, arrangements, termination, etc.)

Real estate financing

- legal assistance for financing and refinancing real estate projects, reviewing and drafting documentation and assistance with negotiations;

Special projects

- Structuring the acquisitions of distressed assets and acquisitions within the insolvency procedure;
- Legal assistance regarding joint ventures and other types of partnerships specific for real estate investments;
- Legal assistance regarding the establishment, modification and operation of industrial parks.

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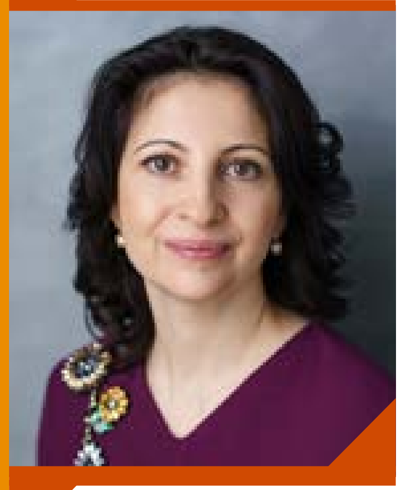

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