# *Tax exemption for reinvested profits*

*29 April 2014*

## *In brief*

Law no. 571/2003 regarding the Fiscal Code has been amended and supplemented by the publication of Government Emergency Ordinance no. 19 dated 23 April 2014, in connection to the profit tax exemption for reinvested profits.

This Ordinance abolishes art. 19^2 of Law no. 571/2003 regarding the Fiscal Code.

## *In detail*

- The tax incentive regarding the profit tax exemption for profits invested in new technological equipment (machinery, tools and working plant), as included in subgroup 2.1 of the Catalogue regarding the classification and the useful life of fixed assets, provided that the equipment is used for business purposes, has been reintroduced;
- The tax exempt invested profit is represented by the gross accounting profit cumulated as from the beginning of the year when the commissioning of the equipment was performed;
- The tax incentive applies for the profit reinvested in technological equipment manufactured and / or acquired as of 1 July 2014 and commissioned by 31 December 2016 inclusively;
- For investments in technological equipment manufactured and / or acquired and commissioned during the period 1 July – 31 December 2014, the incentive is applied by taking into consideration only the gross accounting profit recorded as of 1 July 2014;
- Taxpayers subject to microenterprise tax which become profit tax payers during the fiscal year benefit from this incentive for technological equipment commissioned as of the quarter in which they became profit tax payers, according to the law;
- The amount of profit for which this incentive is applied should be distributed at the end of the financial year, primarily for the setting up of reserves, but not before setting up the legal reserve. The reserves become taxable upon their utilisation and in the event of restructuring operations, if not re-built at the beneficiary level;
- The tax incentive is also granted for investments performed over a period of several consecutive years, based on partial work reports;
- In order to benefit from this tax exemption, taxpayers have to keep the equipment in their patrimony for at least half of the useful life, but for no longer than five years. Otherwise, the profit tax is recalculated and additional tax liabilities assessed, with the taxpayer being required to submit a rectifying tax return. The following equipment does not fall under the above-mentioned provisions:

- – transferred during restructuring operations;
- – alienated during bankruptcy / liquidation procedures;
- – destroyed, lost or stolen, provided the taxpayer has enough documentary evidence.

- Equipment subject to this incentive cannot be depreciated by using the accelerated depreciation method.

[Source: Romanian Official Gazette no. 308 dated 25 April 2014]

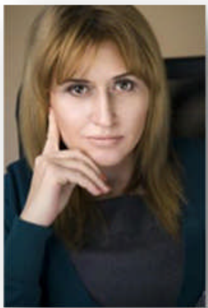
## *The takeaway*

- The profit invested in new technological equipment, manufactured and / or acquired and commissioned during the period 1 July 2014 – 31 December 2016 is exempt from profit tax;
- In order to benefit from this incentive, the technological equipment should be used by the taxpayer for business purposes for more than half of its useful life, but for no longer than five years;
- The technological equipment for which this tax incentive applies cannot be depreciated by using the accelerated depreciation method;

Reserves set up upon benefiting from this incentive become taxable at the moment of their utilisation and in the event of restructuring operations, if they are not re-built at the beneficiary level.

## *Let's talk*

For a deeper discussion of how this issue might affect your business, please contact:



Mihaela Mitroi, *Partner*
mihaela.mitroi@ro.pwc.com

Ionut Simion, *Partner*
ionut.simion@ro.pwc.com

Daniel Anghel, *Partner*
daniel.anghel@ro.pwc.com

***PwC Romania***

*Lakeview Building*
*301-311 Barbu Văcărescu Street*
*Sector 2, Bucharest*
*Tel.: + 40 21 225 3000*
*Fax: + 40 21 225 3600*