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# Romania enacts taxpayer-favorable holding company tax regime

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## ***In brief***

The Romanian government recently enacted legislation which introduces a taxpayer-favorable participation exemption regime for Romanian companies that hold shares in entities located in countries with which Romania has a double tax treaty. Because Romania has an extensive treaty network – including an old treaty with the United States that has no limitation on benefits clause – the new measures may benefit both US multinational companies (US MNCs) and foreign investors with US operations.

The new regime will enter into force starting January 1, 2014.

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## ***In detail***

The new legislation introduces a participation exemption regime for Romanian holding companies. Under this regime, qualifying revenue is not taxable in Romania.

### ***Qualifying revenue***

The participation exemption will apply to the following income received by Romanian holding companies in relation to their 'qualifying participations':

- dividends
- capital gains
- liquidation proceeds.

### ***Qualifying participations***

A qualifying participation is defined as either (1) a Romanian legal entity, or (2) a foreign legal entity established in a country that has a double tax treaty with Romania and the Romanian holding company owns at least 10% of the share capital for an uninterrupted period of one year.

The one-year period must be completed by the date the dividends are recorded in the books of the Romanian parent company, the date shares are sold or transferred, or the date on which liquidation of a

subsidiary commences, as the case may be.

## ***The takeaway***

US multinationals, as well as foreign companies investing in the United States, should analyze whether participating in the new Romanian participation exemption regime may be beneficial.

## ***Let's talk***

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

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