

Romania

taxes for freelancers



In this article, we discuss the legal and tax environment of Romania from the perspective of a remote employee. The latter is understood as a co-worker who is not bound by an employment contract with his/her employer. Some important questions that we answer are:

- are freelancers obliged by the law to register a business?
- how and when should income be reported and what are the tax rates?
- finally, is it a competitive system comparing it to the rest of Europe?

We're talking about a medium-sized country, with 19.5 million inhabitants. At least 17,000 people of Romanian nationality are registered on freelancer websites, which gives the country 5th position on the Old Continent. This is more than in large countries such as Germany, Poland or Italy.

We already wrote about the popularity of freelancing in Europe, where you can see some interesting statistics.

Freelancer must register a business

How many Romanians work remotely?

Romanian law explicitly states that everyone with regular income (except for full-time employment) should register their gainful activity (Article 269 of the Fiscal Code). There are no flexible solutions, such as a contract of result, as in the case of some other European countries, e.g. Bulgaria, North Macedonia, Germany, Poland, Finland, to name a few.

Go ahead and read more:

[Freelancers' taxes in Bulgaria](#)

[North Macedonia: tax obligations of freelancers](#)

So you have to open a company. Freelancers have a choice of two rational options: self-employment and a limited company. Both solutions have their pros and cons. Let's take a closer look at both of them

Self Employment (PFA)

The simplest form of activity is a PFA
(Persoana Fizica Autorizata), i.e. sole proprietorship.

Key questions...	...about aPFA (Romanian sole proprietorship)
<ul style="list-style-type: none">obligation to register a company when freelancing	<ul style="list-style-type: none">Yes – either sole proprietorship or a limited liability company
<ul style="list-style-type: none">income tax (PIT)	<ul style="list-style-type: none">10% of taxable income
<ul style="list-style-type: none">compulsory social security contributions	<ul style="list-style-type: none">If income >24 960 RON/year then there's a flat rate of 8736 RON/year (CAS–social insurance + CASS–health insurance)
<ul style="list-style-type: none">social charges-free allowance	<ul style="list-style-type: none">24 960 RON/year
<ul style="list-style-type: none">obligation to register as a VAT payer	<ul style="list-style-type: none">- always, if a freelancer works for foreign, EU based clients, or- if sales exceed 300 000 RON (from local clients)
<ul style="list-style-type: none">How often do you need to report income and pay taxes?	<ul style="list-style-type: none">Income tax: once a year. Declaration must be submitted by March 15th of the following year and up to 30 days after the start of business activity.VAT: every quarter or month (depends on the type of VAT code (local or European) and the level of income).

Advantages of a PFA – simplicity

Taxes, accounting, and finances as such, are maximally simplified. We can freely dispose of company funds, i.e. you can withdraw any amount of money at any time and do not justify it with accounting documents. Accounting is almost as easy as noting transactions in a spreadsheet.

The advantages of a PFA include the simplicity of settlements with the tax office. It is enough to submit once a year (30 days from the start and then to mid-March for the previous year) the so-called "Declaratia unica". So there is even no need to pay for the accountant's services throughout the year if we are organized enough.

Income tax is only 10% and deductibles apply

The tax rate is 10% and there is no income tax-free allowance. There is, however, a different threshold, connected to the obligation to pay social charges. Up to yearly income of 24 960 RON these charges are zero. In practice, if the income does not exceed the minimum salary, only income tax must be paid.

Disadvantages of a PFA – personal liability and flat charges

There are some costs for simplicity and flexibility. First of all, a self-employed person is liable with all his property for the company's liabilities.

In addition, after exceeding the minimum income, one must pay pension and health contributions. They are fixed and have been set as 25% and 10% of the annual minimum salary respectively. In practice, the sum of charges in 2019 is RON 8736 / year (~ EUR 1800).

Income simulation for a PFA

Finally, let's consider the case of a remote employee who earns average income in Romania (RON 3116 netto monthly, or EUR 650). In addition, we assume that such a person works remotely using a computer, so the deductibles are low and amount to 20% of income (for the sake of simplicity). In the case of a PFA, the annual sum of the charges will be ~ 11 100 RON, which accounts for 30% - so nearly a third part of the salary! It's quite a number.

Limited Liability Company (SRL)

SRL, i.e. Societate cu raspundere limitata, is a financially more advantageous and safer solution. However, as a more advanced form of doing business, it comes with additional responsibilities.

Advantages of an SRL - very low taxes and no personal liability

Responsibility for liabilities and claims only up to the value of the company's assets is one of the biggest advantages of an SRL, but not the only one. When it comes to taxes, it would be hard to find lower rates in Europe, if not in the whole world. Let's take a look at the tax burdens and costs incurred by freelancer running a limited company in Romania.

In practice, they will be:

- income tax of 3%,
- dividend tax (i.e. withdrawn profit) of 5%,
- RON 2496 per year as health care contribution. Applies to each owner, if the sum of dividends exceeds the minimum salary - see table,
- bookkeeper's fee – starting from EUR 50 per month.

It's easy to notice that if we refrain from withdrawing money from the company, then the only cost will be accounting, and the only tax would be 3% on profit. In addition, what is very interesting, if a company employs at least one employee under an employment contract, the tax rate drops to 1%!

As a formality, we present this data in the table below.

Key questions...

- obligation to register a company when freelancing
- income tax (PIT)
- compulsory social security contributions
- **social charges-free allowance**
- obligation to register as a VAT payer
- How often do you need to report income and pay taxes?

...about a Romanian limited liability company (SRL)

- Yes – either sole proprietorship or a limited liability company
- 3% of taxable income and 5% of dividend tax on withdrawn money
- If dividends >24 960 RON then there's a only flat rate of 2496 RON/year for health insurance (CASS) to be paid
- If dividends <24 960 RON/year there are no social charges
- - if a freelancer works for foreign, EU based clients (regardless the income),
or
- if turnover exceeds 300 000 RON
- Income tax: quarterly.
VAT: every quarter or month (depends on the type of VAT code (local or European) and the level of income.

Disadvantages of an SRL - no tax-free allowance

If one were to search by force, it can be said that the absence of a free quota is a disadvantage. However, it is offset by very low tax rates.

In addition, it should be noted that the mere fact of the obligation to establish a business may appear as a defect in the Romanian system. For less experienced freelancers opening a limited company may seem daunting, especially if they are not sure of their source of income. If however such individuals won't register their activity then such freelancing will mean breaking the law.

Obligation to pay VAT

Everyone who performs services for foreign companies is obliged to register as a VAT payer. This requirement exists regardless of the income generated. A company will be assigned a European VAT number.

However, if we work only with local customers, the registration obligation only occurs after exceeding 300,000 RON (~ 63,000 EUR).

Is the Romanian system competitive?

It is impossible to state clearly because as usual, the rulers used the carrot and stick approach.

In the case of self-employment (which is a dedicated solution for freelancers):

- on the one hand, we have low taxes and the possibility of running a business (PFA) cost-free but only if the income is really low (e.g. when freelancing is just a way to earn on the side).

- On the other hand, once we start earning more than the minimum wage, there is an obligation to pay flat pension and health contributions regardless of the level of income.

Opening an SRL is a bit of a different story and is recommended by tax consulting professionals. However, as we said, for many people it might seem too big of a hassle to open and run a serious limited liability company.

Are you thinking about hiring a Romanian freelancer?

Do you have a remote worker from Romania or are you pondering how to legally hire one? Consider Useme - with us the whole HR process is completely non-engaging, and thus simple and trouble-free for both sides.

Propose your remote co-worker to issue an invoice as an individual or use our API to account a whole team of Freelancers. Useme will take care of the formalities, payment security, transaction history, file storage and more.

Questions? Don't hesitate to drop a message on **info@useme.eu**.
