25 March 2025

Positive preliminary assessment of the satisfactory fulfilment of milestone 206 related to the third payment request submitted by Romania on 15 December 2023, transmitted to the Economic and Financial Committee by the European Commission.

Executive summary

In accordance with Article 24(2) of Regulation (EU) 2021/241, on 15 December 2023, Romania submitted a request for payment for the third instalment of the non-repayable support and the third instalment of the loan support. The payment request was accompanied by the required management declaration and summary of audits.

On 15 October 2024, the Commission adopted its preliminary assessment of the third instalment of the non-repayable support and the third instalment of the loan support in accordance with Article 24(6) of Regulation (EU) 2021/241. In that assessment, the Commission considered that four out of the 43 milestones and targets related to the third instalment of the non-repayable support and two out of the 31 milestones and targets related to the third instalment of the loan support had not been satisfactory fulfilled. For the purpose of this assessment, the operational arrangements concluded between the Commission and Romania ([1]) in accordance with Article 20(6) of Regulation (EU) 2021/241, were taken into account.

On 31 December 2024, it has come to the Commission's attention that Romania has taken additional measures to ensure the satisfactory fulfilment of a milestone which was considered not satisfactorily fulfilled in that preliminary assessment. This concerns milestone 206 ("*Entry into force of amendments to the Fiscal Code gradually reducing the scope of the special tax regime for microenterprises"*). Romania provided the Commission with a summary document and evidence supporting the satisfactory fulfilment of milestone 206. On this basis, the Commission has adopted a positive preliminary assessment of milestone 206.

By the transmission of the positive preliminary assessment of milestone 206 and in accordance with Article 24(4) of Regulation (EU) 2021/241, the Commission asks for the opinion of the Economic and Financial Committee on the satisfactory fulfilment of this milestone.

([1]) Recovery and Resilience Facility Operational arrangements between the European Commission and Romania, entered into force on 25 May 2022; The amendment to the Operational arrangements entered into force on 15 March 2024.

Preliminary Assessment fiche

Number: 206	**Related Measure: Review of the tax framework**	
Name of the Milestone: Entry into force of amendments to the Fiscal Code gradually reducing the scope of the special tax regime for micro enterprises		
Qualitative Indicator: Provision in the law indicating the entry into force of the amendments to the Fiscal Code		**Time:** Q4 2022

Context:

Milestone #206 is part of reform C8.R4, which has the objective to review the tax framework to allow Romania to improve competitiveness, while supporting fiscal sustainability and environmental goals. Through this reform, the tax system should become fairer, more efficient, simpler and more transparent thereby capable of better supporting the economy and facilitating taxpayers' compliance.

Milestone #206 requires the entry into force of amendments to the Fiscal Code gradually reducing the scope of the special tax regime for microenterprises. The reform should follow a thorough analysis of the Romanian tax legislation, with support of technical assistance provided by an independent institution (milestone #205).

Milestone #206 is the first step of the implementation of the reform, and it is accompanied by milestone #205 in this payment request, which covers the comprehensive analysis of Romania's tax system and recommendation to ensure that the tax system contributes to promote and preserves sustainable economic growth. Milestone #206 will be followed by milestone #207, related to the entry into force of i) amendments to the Fiscal Code (Law No. 227/2015), to reduce and/or eliminate other tax incentives with the objective to simplify the tax system, make it more effective, transparent and fair by 2024; and ii) legislation to expand the green taxation. Milestone #206 will also be followed by milestone #208, which is related to the entry into force of amendments to the Fiscal Code (Law No. 227/2015) gradually reducing tax incentives for personnel employed in the construction sector.

The reform has a final expected date for implementation on 31 March 2025.

Evidence provided:

The following evidence was provided:

i. Summary document duly justifying how the milestone (including all the constitutive elements) was satisfactorily fulfilled;
ii. Copy of Government Ordinance No. 16/2022 amending Law No. 227/2015 on the Fiscal Code, the abrogation of some normative acts and other fiscal measures, published in the Official Journal No. 716 on 15 July 2022;
iii. Copy of Law No. 370/2022 of 20 December 2022 regarding the approval of Government Ordinance No. 16/2022 on the amendment of Law No. 227/2015 on the Fiscal Code, the abrogation of some normative acts and other fiscal measures, published in the Official Journal No. 1228 on 20 December 2022;
iv. Copy of Law No. 296/2023, on some fiscal and budgetary measures to ensure Romania's long term financial sustainability, published in the Official Journal No. 977 on 27 October 2023;
v. Copy of Government Ordinance No. 115/2023 regarding fiscal and budgetary measures in the field of public spending and for fiscal consolidation, published in the Official Journal No. 139 on 15 December 2023;

vi.	Copy of Government Emergency Ordinance No. 156/2024 on fiscal and budgetary measures in the field of public spending and for fiscal consolidation, published in the Official Journal No. 1334 on 31 December 2024;
vii.	"Report on the tax system in Romania, including benchmarking and recommendations to inform Client's reform of the tax framework", World Bank, March 2023, prepared in the context of the Reimbursable Advisory Services Agreement on Improving the Tax Framework in Romania in the context of the National Recovery and Resilience Plan (P178899)
viii.	Romania's National medium-term fiscal-structural plan, submitted in November 2024.[2]

Analysis:

The justification and substantiating evidence provided by the Romanian authorities cover all constitutive elements of the milestone.

Entry into force of amendments to the Fiscal Code gradually reducing the scope of the special tax regime for micro enterprises

Government Ordinance No. 16/2022 amending Law No. 227/2015 on the Fiscal Code, the abrogation of some normative acts and other fiscal measures (hereinafter referred to as "Government Ordinance No. 16/2022"), was published in the Official Journal No. 716 on 15 July 2022. According to the provisions in the Article 12(1) of Law No. 24/2000 on legislative technique rules for drafting legal acts, the Government Ordinance entered into force three days after its publication in the Official Journal.

Law No. 370/2022 regarding the approval of Government Ordinance No. 16/2022 on the amendment of Law No. 227/2015 on the Fiscal Code, the abrogation of some normative acts and other fiscal measures (hereinafter referred to as "Law No. 370/2022") was published in the Official Journal No. 1228 on 20 December 2022. According to the provisions in the Article 12(1) of Law No. 24/2000 on legislative technique rules for drafting legal acts, the Law entered into force three days after its publication in the Official Journal.

Law No. 296/2023, on some fiscal and budgetary measures to ensure Romania's long term financial sustainability (hereinafter referred to as "Law No. 296/2023") was published in the Official Journal No. 977 on 27 October 2023. According to the provisions in the Article 12(1) of Law No. 24/2000 on legislative technique rules for drafting legal acts, the Law entered into force three days after its publication in the Official Journal.

Government Ordinance No. 115/2023 regarding fiscal and budgetary measures in the field of public spending and for fiscal consolidation (hereinafter referred to as "Government Ordinance No. 115/2023") was published in the Official Journal No. 139 on 15 December 2023. According to the provisions in the Article 12(1) of Law No. 24/2000 on legislative technique rules for drafting legal acts, the Government Ordinance entered into force three days after its publication in the Official Journal.

Government Ordinance No. 156/2024 amending Law No. 227/2015 on fiscal and budgetary measures in the field of public spending and for fiscal consolidation (hereinafter referred to as "Government Ordinance No. 156/2024") was published in the Official Journal No. 1334 on 31 December 2024. According to the provisions in the Article 12(1) of Law No. 24/2000 on legislative technique rules for drafting legal acts, the Government Ordinance entered into force three days after its publication in the Official Journal.

[2] https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/national-medium-term-fiscal-structural-plans_en

The relevant provisions of the aforementioned legislation which establish a gradual reduction of the scope of the special tax regime for micro-enterprises are explained in the sections below.

In line with the description of the measure, **in carrying out this reform, Romanian tax legislation shall be subject to a thorough analysis, with support of technical assistance provided by an independent institution, in particular in the areas of (…) corporate tax (including special schemes which may benefit from the exceptions) (…). This systematic analysis shall be followed by the implementation of the recommendations stemming from it to ensure that the tax system better promote sustainable economic growth**.

In March 2023, the World Bank delivered a 106-page report (the "World Bank report") under the Reimbursable Advisory Services Agreement on Improving the Tax Framework in Romania in the context of the National Recovery and Resilience Plan (P178899), signed between the Ministry of Finance and the International Bank for Reconstruction and Development (IBRD) on 30 June 2022. The World Bank report provided a thorough analysis of the Romanian tax legislation, and covered areas including corporate tax applicable to microenterprises, which are subject to a special scheme that benefits from exemptions (pages 56 to 59 of the World Bank report).

On the special tax regime for microenterprises, the World Bank report recommended that Romania should: i) reduce the turnover threshold for eligibility to the microenterprise regime, in a staged manner to give businesses time to adjust,[3] to align it with the VAT registration threshold (currently EUR 88 500); ii) implement measures to prevent microenterprises splitting to access the regime; and iii) undertake an assessment of average profit margins of microenterprises to determine the appropriateness of the 1% rate.

Romanian authorities implemented the recommendations stemming from the World Bank report as follows:

The recommendation to reduce in a staged manner the turnover threshold for eligibility to the microenterprise regime to align it with the VAT registration threshold is explained below as part of the analysis of the requirement "**The reduction of the special provisions shall start in Q1 2023 and be completed by Q4 2024.**".

The Romanian authorities took the following actions:

- Government Ordinance No. 16/2022 included measures to gradually reduce the scope of the special tax regime for microenterprises. Among these measures, Article 1 and Article 47 establish a reduction of the eligibility threshold to the regime from EUR 1 000 000 to EUR 500 000 (total turnover), effective from 1 January 2023.
- In addition, Article LXIV of Government Emergency Ordinance No. 156/2024 on fiscal and budgetary measures in the field of public spending and for fiscal consolidation introduced further amendments to the Fiscal Code, reducing the eligibility threshold to the special tax regime for microenterprises from EUR 500 000 to EUR 250 000 as of 1 January 2025, and

[3] The World Bank report stipulated that: "to give businesses time to adjust, this reform could be implemented in a staged manner, starting with the already-agreed reduction to EUR 500,000 as of 1 January 2023; then to EUR 250,000 as of 1 January 2024, and reaching the (inflation-adjusted) VAT threshold as of 1 January 2025" (pages 11 and 79 of the report). The report also stipulated that "*There is a strong case for the reform to go further and match the microenterprise regime threshold with the VAT registration threshold (currently EUR 88,500). Acknowledging that this may be challenging to implement immediately, an alternative option would be to phase in the threshold reduction over the next 3-4 years, starting with the currently legislated reduction to EUR 500,000*" (page 58 of the report).

further to EUR 100 000 as of 1 January 2026. Entities with turnover above these limits are to be liable to corporation tax from the quarter in which that limit was exceeded. These limits are to be calculated taking into account cumulated revenue of the related entities.
- The entry into force of legislation providing for this progressive reduction demonstrates Romania's actions to implement the World Bank's recommendations.

In addition, to implement the recommendation to prevent microenterprises splitting to access the special tax regime, the Romanian authorities implemented the following actions:

- Article 47 (1) of Government Ordinance No. 16/2022 establishes that a microenterprise can benefit from the special tax regime only if a single shareholder or associate does not hold more than 25% of the participation or voting rights in more than three microenterprises.. To avoid abuse of the system, the Ordinance excluded from the regime legal entities carrying out activities in: banking, insurance and reinsurance, capital markets (including intermediation activities), gambling, as well as legal entities that carry out exploration, development and/or exploitation of oil fields and natural gas.
- Government Emergency Ordinance No. 115/2023, Article 47 (1) (h) further tightened consolidation rules. This Government Emergency Ordinance stipulates that the condition of direct holding by members/shareholders of more than 25% of the value/number of holdings or voting rights is extended to indirect ownership. In case of legal entities directly or indirectly owned by shareholders with more than 25% of the value of shares or voting rights, an analysis is to be carried out by the National Agency for Fiscal Administration (ANAF) so that only one entity can be eligible to the system.
- Furthermore, the same article stipulates that if a legal entity is in a "special relation" with another legal entity, which results in them being classified as "linked undertakings", as defined for tax purposes, the condition relating to the level of total income considered for eligibility to the microenterprises tax regime is checked against the aggregate income of all linked undertakings. If that aggregate income exceeds the threshold, then the micro-enterprise scheme is not to be applied by any of these legal entities, which are in turn liable to pay corporate tax.
- Finally, Article LXIV of Government Emergency Ordinance No. 156/2024 stipulates that eligibility thresholds are to be calculated taking into account the cumulated revenue of all related entities.
- The measures taken by Romania eliminate the differentiated tax rates of 1% (for those entities with a turnover below EUR 60 000) and 3% (for those with an annual turnover between EUR 60 000 and the EUR 500 000 eligibility threshold in force in 2024) introduced by Ordinance No 115/2023, replacing them with a single rate of 1% applicable to all microenterprises. The introduction of a single tax rate for microenterprises simplifies the tax system, in line with one of the objectives of the reform that this milestone represents, and reduces the risk of companies artificially splitting to qualify for the microenterprises tax regime. Furthermore, by introducing limitations on participation, excluding certain activities, tightening consolidation rules, and considering the cumulated revenue of all related entities, the authorities have significantly reduced the risk of abuse and ensured that the microenterprises tax regime is applied in a fair and transparent manner.

Finally, to implement the recommendation to assess average profit margins of microenterprises to determine the appropriateness of the 1% rate, the Romanian authorities implemented the following actions:

- The assessment of the average profit margins of microenterprises to determine the appropriateness of the 1% rate was included in section 5.3 (R2: Reform of the taxation of microenterprises) of Romania's Medium Term Fiscal Structural Plan (MTFSP). The MTFSP shows that the total tax burden for microenterprises with total turnover below EUR 100 000 is comparable to that of entities with a much higher turnover, even if the net profit is significantly lower for the former group. This indicates that the current tax rate of 1% is appropriate and should not be increased. This assessment also confirms the rationale of the reform – entities with large turnover should be subject to regular corporate taxation, and not be eligible to the concessionary microenterprises tax regime.

The new law shall amend the Fiscal Code with the aim of gradual reduction of the scope of the special tax regime for micro-enterprises

As indicated above, the following articles amend the Fiscal Code with the aim of gradually reducing the scope of the special tax regime of micro-enterprises:

- Articles 1 and 47 of Government Ordinance No. 16/2022;
- Article LXIV of Government Emergency Ordinance No. 156/2024;
- Article 47 (1) (h) Government Emergency Ordinance No. 115/2023;
- Article LXIV of Government Emergency Ordinance No. 156/2024.

The reduction of the special provisions shall start in Q1 2023 and be completed by Q4 2024.

The Council Implementing Decision required the completion of the reduction of the special provisions by Q4 2024 as well as the implementation of the recommendations stemming from the thorough analysis provided by an independent institution to ensure that the tax system better promotes sustainable economic growth. The Romanian authorities adopted the necessary legislation to ensure a gradual reduction of the scope of the special tax regime for microenterprises. This progressive reduction is consistent with the World Bank's recommendations with respect to the reduction of the turnover threshold for eligibility to the microenterprise regime to align it with the VAT registration threshold. In particular, Article 1 and Article 47 of Government Ordinance No. 16/2022 establishes that the reduction of the eligibility threshold to the special tax regime for microenterprises from EUR 1 000 000 to EUR 500 000 entered into force on 1 January 2023. Additionally, Article LXIV of Government Emergency Ordinance No. 156/2024, amending Articles 1 and 47 of Government Ordinance No. 16/2022, provides for the reduction of the eligibility threshold applicable to the special regime for microenterprises to EUR 100 000 as of 1 January 2026. This, however, leads to the completion of the reduction of the special provisions of the tax regime for microenterprises after Q4 2024.

Whilst this constitutes a minimal temporal deviation from the requirement of the Council Implementing Decision, the delay between the adoption of the Government Emergency Ordinance and the entry into force of the provisions of Article LXIV of this Government Emergency Ordinance are considered both limited and proportional. In particular, the delay in application of the reduced eligibility threshold to 1 January 2026 allows for a gradual and predictable reduction of the scope of the special tax regime of micro-enterprises, in line with the World Bank's suggestion to implement the reduction in a staged manner. This approach, in turn, allows entities that will no longer be eligible for the special tax regime sufficient time to prepare for the change in their status and be ready to comply with the obligations of the Corporate Income Tax regime, which is substantially more complex. The complexity of the newly applicable tax regime, coupled with the large number of entities concerned by the reform (according to the World Bank report, 95% of legal entities fell under the microenterprise regime before the reform), necessitates and warrants a delayed application of the relevant legal provisions, allowing for sufficient time to adapt and ensure a smooth transition. This approach also mitigates the risks of disruptions and difficulties for the affected entities and avoids undermining the overall objective of the measure, which is to ensure that the tax system better promotes sustainable economic growth. On this basis, it is considered that this constitutive element of the milestone is satisfactorily fulfilled.

Furthermore, the threshold set out in Article LXIV of Government Emergency Ordinance No. 156/2024 demonstrates a concerted effort by the authorities to align the micro-enterprises regime with the World Bank's recommendations, specifically to reduce the turnover threshold for eligibility to this regime and bring it closer to the VAT registration threshold. The progressive reduction of the micro-enterprise threshold from EUR 1 000 000 to EUR 500 000 and now to EUR 100 000 showcases a substantial and continuous effort to align the micro-enterprises regime with the VAT registration threshold. As such, Romania has brought the thresholds into closer conformity over time, taking into account the specific economic context and the need for a phased implementation, as well as the fact that the VAT threshold has not been updated since 2018, despite high inflation over the period 2018-2024.
Commission Preliminary Assessment: Satisfactorily fulfilled