

## Current Tax Risk in Romania and Possible Remedies

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**Abstract.** *Following the controls carried out by the National Agency for Fiscal Administration (ANAF), the income from unidentified sources of individuals will be taxed by 70% (not only by 16%), as of 1 July 2024, the measure introduced by Law 296/2023. The tax procedure code (FCP) in Article 138 regulates the verification of the personal tax situation by the central tax authority. This article requires the tax authority to carry out certain preliminary activities before the start of the control itself. Risk analysis, notification of compliance and selection are the preliminary tasks. Loans made to the company to which a person has the capacity of associate will attract the attention of the tax authority, if their value exceeds the declared revenues. The study proposes the analysis of situations in which, loans between different parties, revenues obtained from virtual currency trading and sponsorship under Article 6 of Law no. 32/1994, constitute facts with fiscal risk. To this end, the used research methodology involved the identification and interpretation of the nationally regulated texts. The study identified current tax risks related to the situations mentioned in the previous paragraph and also proposed certain solutions regarding the fiscal risk.*

**Keywords:** loan, affiliated company companies, limited liability company, regulation, non-deductible expenses, accounting registration

**JEL Classification:** M41, H21

### 1. Introduction

Loans between related companies are a common practice from a practical point of view due to low costs and reduced formalities. However, they are limited by the conditions under which they are carried out and can sometimes be retrained according to the economic substance<sup>1</sup>.

In some cases, loan structures may have criminal implications. Consequently, in a case at the High Court of Cassation and Justice<sup>2</sup>, it has been established that, while bank loans are granted to a corporate tax-paying entity and then transferred these loans to another related non-profit-taxing entity without refunding the amount borrowed, the non-perception of cumulative interest with the exercise of the right to deduct bank interest expenses in the first entity, is a case of tax evasion.

Thus, this study aims to identify some of the current tax risks and also, to provide possible solutions for the correct interpretation of the tax legislation in force regarding loans between affiliated companies vs. third companies, loans made by companies in favour of associates and also, and in the opposite sense, transfer prices, income made by individuals from the transfer of virtual currency, interpretation of the provision of art.6 of the Law no. 32/1994 of 19 May 1994 on sponsorship.

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<sup>1</sup> Pct.1.37 of the OECD Guide on transfer prices for multinational companies and tax administrations - Irecson Publishing House 2009.

<sup>2</sup> Decision no. 259/13 February 1997 of the High Court of Cassation and Justice.

## 2. Literature review

This paper aims to present information from the literature, highlight the publication year of the majority of the research, identify authors dedicated to analysing the relationship between universities and industry with an impact on sustainable development, identify collaborations between co-authors based on their countries, analyse research trends in this field using keywords, and ultimately, showcase the most cited works and rank journals with the most prolific publishing activity.

Within its fiscal control structures, the National Agency for Fiscal Administration carries out two types of activities involving remote communication with the taxpayer:

- „issuing the Notification of Compliance, which is a document by which the tax inspection body sends the taxpayers/payer presumed to be selected to carry out the tax inspection identified tax risks, which, in order to review the tax situation and fulfil the tax obligations according to the legal provisions, or to clarify the notified tax risks, as the case may be<sup>3</sup>”.
- „the performance of documentary verification actions, which consist in conducting an analysis of the taxpayer/payer's tax situation, based on existing documents on the taxpayer/payer's tax file, as well as on the basis of any information and documents submitted by third parties or held by the tax authority, which have relevance for determining the tax situation<sup>4</sup>”.

During January-May, 8.240 compliance notifications were issued for estimated fiscal risks of 3.075.102.504 lei, an increase of about 202% compared to the same period of 2023, according to the press release, when 2.724 compliance notifications were issued for tax risks estimated at 238.140.012 lei. 11.150 documentary checks have been completed, which means an increase of about 10% compared to the similar period in 2023, when 10.186 checks were completed, for which additional amounts of 313.615.481 lei were established<sup>5</sup>.

In the case of receivables administered by the central fiscal body, according to Article 7 (5) of the Fiscal procedure code, the following, the administration procedures are carried out according to the class or subclass of tax risk to which the taxpayers fall, according to a risk analysis carried out by the tax authority. In order to establish the fiscal risk class or subclass, the Order of the ANAF President no. 2.017/2022 approves the risk sub-criteria derived from the general criteria referred to in Article 7 (7) of the C. proc. fiscal. These include<sup>6</sup>: 1.8 risks associated with shareholders/associates/administrators/other persons, from the perspective of tax registration; 2.4 risks associated with shareholders/associates/administrators/other persons, from the perspective of tax returns; 3.5 risks associated with shareholders/associates/administrators/other persons, in terms of level of declaration; 4.4 risks associated with shareholders/associates/administrators/other persons, in terms of payment obligations”.

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<sup>3</sup> [https://mficante.gov.ro/presa-comunicate-de-presa/-/asset\\_publisher/vMeOfqIFpa30/content/activitatea-anaf-pentru-colectarea-veniturilor-c3-aen-perioada-ianuarie-mai-2024-controalele-antifraud-c4-83-au-avut-implicia-c8-9bii-fiscale-de-1-24-miliarde-lei](https://mficante.gov.ro/presa-comunicate-de-presa/-/asset_publisher/vMeOfqIFpa30/content/activitatea-anaf-pentru-colectarea-veniturilor-c3-aen-perioada-ianuarie-mai-2024-controalele-antifraud-c4-83-au-avut-implicia-c8-9bii-fiscale-de-1-24-miliarde-lei), [Accessed in November 2024].

<sup>4</sup> Ibidem.

<sup>5</sup> Ibidem.

<sup>6</sup> Order no. 2017/2022 regarding the approval of risk sub-criteria developed from the general criteria provided by Article 7 (7) of Law no. 207/2015 on the Tax procedure code, available at [https://static.anaf.ro/static/10/Anaf/legislatie/OPANAF\\_2017\\_2022.pdf](https://static.anaf.ro/static/10/Anaf/legislatie/OPANAF_2017_2022.pdf). [Accessed in November 2024].

### 3. Research methodology

In the construction of tax risk aspects, this study involved quantitative research by collecting, analysing and interpreting the texts of law regulated by the Tax Code, the Fiscal Procedure Code, the Civil and Criminal Code.

Also, the taking over, synthesis and interpretation of several articles and paragraphs regulated at national level by the Laws in force, several Decisions by some Tribunals and the High Court of Cassation and Justice have been the subject of this study.

### 4. Research results and discussions

#### 4.1 Loans between affiliated companies vs. third parties

Is it legal to grant assets between affiliated companies? According to Article 2 (1), (2) of Law 93/2009 on non-banking financial institutions, the practice is allowed provided that the loan is unprofessional, unsecured with deposits from third parties. The central problem in the loan agreements between the affiliated companies is the level of interest at which these loans are granted, which is a real test to verify the lack of artificiality of the transaction.

Thus, Law 93/2009 on non-banking financial institutions regulates by art. 1, par.(1), the minimum conditions of access to the lending activity and its development on the territory of Romania, through non-banking financial institutions, for the purpose of ensuring and maintaining financial stability<sup>7</sup> and by art. 2, paragraph (2) which prohibits the professional development of the lending activity by persons other than those provided in par. (1)<sup>8</sup>.

The tax code by Article 11 paragraph 4 establishes that transactions between affiliated persons are carried out according to the market value principle. In the context of a transaction, a group of transactions between related parties, tax authorities may adjust, if the market value principle is not respected, or they can estimate, the following, where the taxpayer does not provide the competent tax authority with the data necessary to establish whether the transfer prices charged in the situation under consideration comply with the market value principle, the following, amount of income or expense related to the tax result of any of the related parties based on the level of the central market trend” .

Methodological norms (5),(9) stipulate that when determining the market price of services in transactions between affiliated persons, the tax authorities examine first of all whether independent persons, with appropriate behaviour, such a transaction would have been concluded under the conditions established by the related parties, taking into account the usual tariffs for each type of activity or the standard tariffs existing in certain areas, as: transport, insurance. If there are no comparable rates, the cost plus” method is used.

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<sup>7</sup> LAW no. 93 of 8 April 2009 (\*updated\*) on non-banking financial institutions (updated until 19 December 2011\*) ISSUING PARLIAMENT, available on <https://legislatie.just.ro/Public/DetaliuDocument/136205>, [Accessed in November 2024].

<sup>8</sup> Ibidem.

or expense related to the tax result of any of the related parties based on the level of the central market trend<sup>9</sup> ”.

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*Case study no. 1: income and expenses generated by intragroup loans:*

At entity A are calculated extraaccountably:

- Interest receivables against affiliated entities, in the total amount of X1 lei, from affiliated entities, amounts that had to be highlighted on the balance sheet in row 06 „receivables”, column 2, as well as in the profit and loss account in row 47-48 766. Interest income column 2 as income, the lack of their registration having the effect of diminishing the result of the year and the position of the Company with the total amount of X2 lei;

- Interest liabilities towards affiliated entities, in the total amount of Y1 lei, being amounts to be highlighted in the balance sheet in row 13 „Duties to be paid in a period of up to one year”, as well as in the profit and loss account in row 56-57 766. Interest expenses, column 2, the lack of their registration having as effect the improper increase of the result of the year and of the Company's position with the total amount of Y2 lei; It is noted that in the credit agreements (received and granted) within the group were included clauses in accordance with which no interest is charged, which is contrary to the provisions of the Tax Code (Law no.227/2015) in accordance with which (art.11 para. 4) „Transactions between affiliated persons are carried out according to the market value principle<sup>11</sup>”;

*Case study no. 2: the principle of going concern in the context of intragroup relations:*

At 31.12.N company A has significant long-term liabilities, these debts, for the most part, did not have maturity in the following financial year, having no certain maturities in the loan contracts. Those debts consist of the following:

- Liabilities in the amount of X1 lei towards associates (account 4551 Shareholders/associates - current accounts);
- Liabilities in the amount of X2 lei to creditors (account 462 Creditors);

Those liabilities are mostly recorded against the affiliates, and there are also significant claims (even if not covering for those liabilities) within the – group so that in this context, even if, from the point of view of the existence of negative equity, the principle of business continuity was threatened, the risk of non-business continuity did not occur throughout year N. In addition, on 20.03.N+1, by the Decision of the Single Associate it is decided to increase the share capital of Company A by the amount of X3 lei by converting the loans made by it, the documents being submitted to the Trade Registry of County W. for the approval of specific operations.

*In conclusion, the granting of intra-group loans will be made taking into account:*

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<sup>9</sup> Law no. 227/2015 on the Tax Code last updated: Law no. 244/2024, Edition annotated with the Methodological Norms approved by GD 1/2016, last updated : Government Decision no. 451/2024, available at [https://static.anaf.ro/static/10/Anaf/legislatie/Cod\\_fiscal\\_norme\\_2023.htm](https://static.anaf.ro/static/10/Anaf/legislatie/Cod_fiscal_norme_2023.htm). [Accessed in November 2024].

<sup>10</sup> Ibidem.

<sup>11</sup> Law no. 227/2015 on the Tax Code last updated: Law no. 244/2024, Edition annotated with the Methodological Norms approved by GD 1/2016, last updated : Government Decision no. 451/2024, available at [https://static.anaf.ro/static/10/Anaf/legislatie/Cod\\_fiscal\\_norme\\_2023.htm](https://static.anaf.ro/static/10/Anaf/legislatie/Cod_fiscal_norme_2023.htm), [Accessed in November 2024].

1. *Compliance with the market value principle*, namely that the interest charged is, as the case may be:

- at the level of monetary policy interest of the NBR;
- at the level of interest charged by banks;
- at the level of the Company's own financing costs;

Also, as a recommendation for the aforementioned situations, the transfer pricing file will be prepared.

2. *Destination*: the loan must be granted in the interest of the beneficiary's activity - aspect that must result from the loan agreement;

3. *The contract provides for the duration of the loan*, the dates and conditions of repayment, the currency of payment, without any guarantees.

#### 4.2 Loans made by firms in favour of associates and vice versa

*Can an associate contract a loan from a limited liability company?* According to the applicable legal provisions, namely Law no. 31 of 16 November 1990 (\*\*republished\*\*) regarding companies:

- *in the case of joint-stock companies (SA)*/ Provisions regarding the administration of joint-stock companies, Art. 144<sup>4</sup> establishes that<sup>12</sup>:

„(1) *It is forbidden to credit the company's administrators through operations such as:*

- a) *the granting of loans to managers;*
- b) *the granting of financial advantages to administrators on or after the conclusion by the company of operations for the delivery of goods, provision of services or execution of works;*
- c) *direct or indirect guarantee, in whole or in part, of any loans granted to managers, whether at the same time or after the granting of the loan;*
- d) *direct or indirect guarantee, in whole or in part, of the performance by the administrators of any other personal obligations thereof towards third parties;*
- e) *the acquisition by onerous title or payment, in whole or in part, a receivable having as its object a loan granted by a third person to the administrators or another personal performance thereof.*

(2) The provisions of paragraph (1) are also applicable to operations in which the husband or wife, relatives or affines are interested up to the fourth degree including the administrator; also, if the operation concerns a civil or commercial company\*) to which one of the above-mentioned persons is the administrator or owns, alone or together with one of the above-mentioned persons, a share of at least 20% of the value of the subscribed share capital.

(3) The provisions of paragraph (1) do not apply:

- a) *in the case of operations whose cumulative chargeable value is less than the equivalent in lei of the amount of 5,000 euros;*
- b) *if the operation is concluded by the company under the current exercise of its activity, and the clauses of the operation are not more favourable to the persons referred to in par. (1) And (2) other than those which the company habitually practices towards third parties”.*

- *in the case of the Limited Liability Company*, Article 197, paragraph (4) provides that the provisions regarding the management of joint stock companies are

<sup>12</sup> LAW no. 31 of 16 November 1990 (\*\*republished\*\*) on companies, Issuer Parliament, Published in The Official Gazette no. 1066 of 17 November 2004, available at <https://legislatie.just.ro/Public/DetaliiDocument/56732>. [Accessed November 2024].

not applicable to limited liability companies, whether or not they are subject to the audit obligation<sup>13</sup>.

Also, Art. 272\*) admits that:

„(1) Shall be punished by imprisonment from 1 to 3 years the founder, administrator, director or legal representative of the company, which:

3. *borrow, in any form, directly or through an interposed person, from the company it manages, from a company controlled by it or from a company that controls the company it manages, the amount borrowed being higher than the limit provided for in Article 144<sup>4</sup> par. (3) letter a), or makes one of these companies give it any guarantee for its own debts<sup>14</sup>.*

- *in the case of the Company in a collective name:*

Art. 80 provides that the Associate who, without the written consent of the other associates, uses capital, the assets or credit of the company for its own benefit or that of another person is obliged to return to the company the resulting benefits and to pay compensation for the damage caused<sup>15</sup> ”.

Art. 81:

„(1) No associate may take more of the funds of the company than *he has been fixed for the expenses made or for those to be made in the interests of the society.*

(2) The associate who contravenes this provision is liable for the amounts taken and damages.

(3) *It may be stipulated, by the constitutive act, that the associates may take from the company house certain amounts for their particular expenses<sup>16</sup>.*

In conclusion, although there is a possibility for an administrator in an SA to take a loan within the limit of 5,000 euros from the company it manages, however, in a limited liability company we have the following restrictions:

- The same provisions as the SA (at least for administrators) on the possibility of taking a loan from the company are not applicable;

- There are no other legal provisions in Law 31/1990 that allow the associates in an LLC to borrow (as there is no SA); such provisions exist at the company collectively (so we deduce that there must be express provisions that allow this and the associates (or shareholders) to do so, or such express provisions do not exist in the legislation;

- Obviously, if the company has as its object of activity the granting of loans then the associate can also contract a loan (on terms no more favourable than the others). *In several areas (agriculture, all-food industry, construction, etc.), the loan made by associates/administrators in the firm remains significant.*

*There are potential risks related to:*

- Failure to draw up a loan agreement or with missing clauses (refund term, conditions, liabilities in case of default, etc.);

- Impossibility of justifying the origin of the borrowed amounts (control risk related to the personal situation);

- Failure to register correctly in the appropriate accounts in the accounting, depending on the term of the refund (short/medium or long term), respectively the erroneous completion of the balance sheet.

<sup>13</sup> LAW no. 31 of 16 November 1990 (\*\*republished\*\*) on companies, Issuer Parliament, Published in The Official Gazette no. 1066 of 17 November 2004, available at <https://legislatie.just.ro/Public/DetaliuDocument/56732>. [Accessed November 2024].

<sup>14</sup> Ibidem.

<sup>15</sup> Ibidem.

<sup>16</sup> Ibidem.

- Constitution of their non-refund within the limitation period and their re-qualification as revenue by the tax authorities, with the calculation of differences and related accessories.

- If the loan is granted with interest, it will be considered taxable income for the creditor.

*In practice, there may be discussions on:*

- conversion of these loans into capital items conf. art. 210 par. (20) of Law no. 31/1990, “by offsetting liquid and receivables receivable on the company with shares thereof”;

- these loans can be considered illegal or fraudulent (for example, fictitious or unjustified loans) by tax or criminal investigation bodies;

- these “conversii” are not expressly regulated for SRL –uri, although ORC–le have equated them.

#### 4.3 Transfer prices

According to the 2023 EY Tax Risk and Controversy Survey, companies anticipate a 79% increase in the number and intensity of tax controls over the next two years. Transfer prices (engl. transfer prices - TP) are identified as the main fiscal risk area, if we take into account that 53% respondents expect tax authorities to focus more on cross-border tax issues in the coming years<sup>17</sup>.

It is expected that in Romania the way these controls will be carried out will radically transform, against the background of information exchanges and the increase in data processing power that the Fisc will have.

Against this background of the dynamics of the economy, information and the evolution of technology, the transfer pricing controls carried out in two or three years from now will likely be very different from how they are now managed by the tax authorities.

*Example of a solution of the court of law (Civil Sentence no. 414/17.02.2021, pronounced by the Tribunal of Cluj, the Joint Section of Administrative and Fiscal Content, Labor Conflicts and Social Insurance; Civil Decision no. 983/24.09.2021, pronounced by the Court of Appeal of Cluj, Section III-th of Administrative and Fiscal Content: therefore, it follows that the tax authority has correctly re-framed interest-free lending or interest-free lending operations below the market price performed by the applicant, in interest rate lending operations and increased interest income/expenditure by using NBR statistical data to identify comparable, respectively the average interest rates for loans granted/received by financial institutions of companies published in monthly newsletters BNR.*

*The solution of the appeal court: the solution of the substantive court has been preserved.*

#### *Case study: transfer pricing adjustments*

- *Premise:* modification of D101 and correct fiscal adjustment in the context in which the Seller practiced prices outside the quartz for certain periods.

- *Answer:*

From a fiscal point of view, for the Seller (in Romania), there is a change of the 101 declaration for the respective years;

<sup>17</sup> [https://www.ey.com/ro\\_ro/insights/tax/2024/paradigma-inspectiilor-fiscale-in-domeniul-preturilor-de-transfer-este-in-plina-schimbare](https://www.ey.com/ro_ro/insights/tax/2024/paradigma-inspectiilor-fiscale-in-domeniul-preturilor-de-transfer-este-in-plina-schimbare), [Accessed in October 2024].

From an accounting point of view - issue an invoice to the Buyer (affiliate) and accounting for additional differences (income) through the retained result account: 411 = 117.

*Obs. 1:* for the Buyer, the operations take place in the mirror;

*Obs. 2:* in Romania there is no tax and accounting legislation on the situation of voluntary adjustment of income in the field of transfer prices.

*Hypothesis 1: the invoice to the Buyer is drawn up;*

This operation is recorded in the accounting as follows:

4511 "Constructions between affiliated entities" = 1174 "Results carried forward from correction of accounting errors".

*Hypothesis 2:* invoice is not made to the Buyer (according to the agreed accounting policies). Only statement 101 is amended, and the accounting registration concerns only corporate tax:

1174 "Result from correction of accounting errors" = 4411 "Profit tax".

*Obs.3.:* the most appropriate is Hypothesis 1 as both the highlighting of the claim and the adjusted profit take place. In addition, according to pct. 7.b) from the NM to the Tax Code, "income /additional expense representing a price difference of a previous transaction and not a new transaction.

*Obs.4.:* For both hypotheses the operations are based on:

- transfer pricing file;
- reference: chief economic director/accountant, approved by the legal office;
- the documentation showing how to determine the adjustments;
- CA decision on voluntary adjustment;

*In the transfer pricing approach, the following procedural aspects will be considered:*

- *Order 442/2016, art. 7:* The adjustment will be made for those transactions carried out with affiliated persons for which the taxpayer/payer has not documented that the established transfer prices have complied with the market value principle.

- *According to section 7 of the Methodological Norms to the Fiscal Code, in application of the provisions of Article 19 (1) and (6) of the Fiscal Code, based on the adjustment decision / estimation of the income or expenses of one of the affiliated persons, issued by the competent fiscal body, according to the provisions of the Fiscal Procedure Code, the adjustments /estimates of transfer prices thus established are taken into account, by the affiliated Romanian legal entity, when determining the fiscal result of the period in which the transaction was conducted, as follows:*

- *7.a) the income /expenditure set at the level of one of the taxpayers is the expense /income at the level of the other taxpayer;*

*Obs.:* the operations take place on the basis of the same fiscal administrative act (decision), without issuing a new decision for the other affiliate.

#### *4.4 Revenue made by individuals from the transfer of virtual currency*

The provisions of Cap are applicable. X „Venits from other sources” of Title IV - "Income tax" of the Tax Code (Art. 114 para. 2 lit. m) . Taxable income includes both cash income (which involves financial remuneration) and in kind income (eg products, services, trips, etc.) according to Article 10 of Law no. 227/2015b. Whereas, in the case of income in kind, its value is determined on the basis of the quantity and market price for the goods or services concerned, and, it is recommended to have an evaluation report at the market price of the goods. According to Article 7 item 32 of the Tax Code, the market price is the amount that would be paid by an independent customer to an independent supplier at the same time and place, for the same or similar good or service under conditions of fair competition.



*The timing and manner of making the cash income:* on the date of crediting the available account (regardless of currencies), or of cards issued by exchanges, or, that is, at the time when the virtual currency is monetized, that is, it turns into classical currency (fiat) - lei, euro, US dollars, etc.

*Evidence documents are referenced by:* bank statements, reports, emails, which can prove both initial investments and subsequent withdrawals; transactions made between cryptocurrencies are not taxed, as no winnings are made.

*The timing and manner of realization of income in kind:* on the date of entry into the patrimony (cars, real estate, other assets) or the use of services (tourism, travel, health services, etc.)

Evidence documents are represented by: The non-fungible token or NFT is, according to common acceptances, “a single data unit in a computer ledger called blockchain. Unfungible tokens correspond to files of various formats, depending on the nature of the creation process: photos, audio recordings, videos, etc. Although the files themselves can be copied, the infungible tokens that are associated with them are permanently recorded and monitored in the blockchain ledgers to which they belong, giving buyers proof of ownership<sup>18</sup>”. Transaction files may be copied as supporting documents, documents associated with account statements or market-priced goods valuation reports.

Losses are not carry-overable from one year to the next, and taxation is carried out as follows: 10% tax is due%. The non-taxable threshold is 200 lei/transaction, the condition being that in one year the gain does not exceed the amount of 600 lei. If there is an annual gain of over 600 lei (for example, 605 lei), the entire amount is taxable and not just the amount that exceeds that threshold. They are entitled CAS and CASS, under usual conditions.

There are no regulated structures for the professional conduct of these activities (authorized natural person, limited liability company, etc.), and the associated risk level is high risk. The income obtained by individuals from cryptocurrency transactions before the entry into force of Law 30/2019<sup>19</sup> was not expressly mentioned as non-taxable under the applicable tax legislation. Therefore, they had to be subject to income tax according to the rules of the right income category (IC CJ solution).

*The consequences in case of non-declaration of these incomes* are 10% tax, plus accessories, respectively plus undeclared penalty, as follows:

*Delay interest:* 0.02%/day (Art. 174 par.(5) of Law 207/2015));

*Delay penalties:* 0.01% for each day of delay (Art.176 para. (2) of Law 207/2015));

*Undeclaration penalties:* 0.08%/day (article 181 of the Law 207/2015 on the Tax procedure code).

*If we consider the amount of 15,000 euros we will get the following results:*

*Tax:* 10%

*Calculation:*

- 15.000 x (average course year 2023), resulting 15.000 x 4.9465 = 74.197,50 lei

- Tax: 74.197,5 lei x 10% = 7.420 lei

*CASS:* 10%

- Gross salary guaranteed on 25 May 2024:3.300 lei

- Amount: 15.000 euro (medium course year 2023), resulting 15.000 x 4.9465 = 74.197,50 lei

<sup>18</sup> Jeton nefungibil - Wikipedia, [Accessed in October 2024].

<sup>19</sup> LAW no. 30/2019 of January 10, 2019 approving Government Emergency Ordinance no. 25/2018 amending and completing certain normative acts, as well as approving fiscal-budgetary measures, O. M. no. 44 of 17 January 2019, [Accessed in November 2024].

-  $74.197,5 \text{ lei} < \text{than } 24 \times 3.300 = 79.200 \text{ lei}$ , a.i. result:  $\text{CAS} = 12 \times 3.300 = 3960 \text{ lei} \times 10\% = 3.960 \text{ lei}$

- Course: average annual exchange rate: the website of the National Bank of Romania: [www.bnr.ro](http://www.bnr.ro) or by accessing the following link: <http://www.bnr.ro/Home.aspx>  
CAS: not due

#### 4.5 Regime of economic activities of associations and foundations

In the case of associations/foundations there is no concept of profit-making activity, but there is a source of revenue, according to Article 46 (1) letter d) of Ordinance no. 26/2000, namely the income from direct economic activities, besides the classical ones, namely the membership fees, the interest and dividends resulting from the placement of the available amounts, the dividends of the companies established by these non-profit organizations, the donations, the sponsorship or ties.

For economic activities these entities owe profit tax on the part of the taxable profit corresponding to the income, other than those considered non-taxable income according to Article 15 para. (2) Fiscal code, on which the tax rate of 16% applies (for realized income, other than non-taxable income exceeding the equivalent in lei of 15,000 euros, and, in a tax year or 10% of total non-taxable revenue.

In addition to the risk of non-payment of the profit tax, under the conditions shown above, they can also be liable for VAT for economic activities, according to art. 269 Tax code that includes in the sphere of VAT taxable persons, any persons who carry out, in an independent manner and irrespective of the place, an economic activity consisting in the exploitation of tangible or intangible goods for the purpose of obtaining income with a continuity character (non-profit activities, not falling within the scope of VAT).

Tax authorities have started to reconsider the status of certain associations/foundations that carry out significant economic activities, or reconsider certain incomes, as follows:

- income from the placement of availability in government bonds or shares in the context in which according to Article 15 paragraph 2) letter f) Tax code, are non-taxable in the case of non-profit organizations, the following, "revenue from dividends, interest, as well as from exchange rate differences related to non-taxable assets and income <sup>20</sup>", the arguments invoked by the tax authority (current fiscal control) being the following:

- the revenues obtained from the transfer of these financial instruments (the gains obtained in the case of the sale of state securities on stock exchange) do not fall within the non-taxable types of income from art.15 paragraph.2) lit. f) Fiscal code - hence taxable;

- the non – profit entity is not authorised to conduct such transactions - according to the constituent act, among the sanctions discussed, apart from the contravention sanction, including the confiscation of the amounts acquired, based on:

- art. 3 of Law no. 12/1990 on the protection of the population against certain activities of production, trade or illicit services, repealed by LAW no. 222/2020 Of 30 October 2020 (and thus in force until this date), according to which the amounts of money and goods acquired by committing the contravention consisting in the

<sup>20</sup> Law no. 227/2015 on the Tax Code last updated: Law no. 244/2024, Edition annotated with the Methodological Norms approved by GD 1/2016, last updated : Government Decision no. 451/2024, available at [https://static.anaf.ro/static/10/Anaf/legislatie/Cod\\_fiscal\\_norme\\_2023.htm](https://static.anaf.ro/static/10/Anaf/legislatie/Cod_fiscal_norme_2023.htm), [Accessed in November 2024].

performance of production activities, trade or provision of services, as the case may be, without fulfilling the conditions laid down by law;

*Obs.:* Not all the amount collected as a result of the transaction with the reels is acquired (only the difference that represents the trading gain);

- Law on Tax Reform (Law no. 296/2023), in force starting with November 11, 2023, defines the notion of illicit economic activity as the economic activity carried out by persons not organized in accordance with the legal provisions, as follows:

- ART. LVI:
- letter b) illicit economic activity - economic activity carried out by persons not organized in accordance with the legal provisions in force, as well as economic activity carried out with goods not accompanied by documents of origin.
- The provisions of this section are not applicable to economic activities that are circumscribed to goods and areas subject to special regulations and which are sanctioned by these special regulations.
- It is forbidden to carry out economic activities by persons that are not organized in accordance with the legal provisions in force and to carry out economic activities during the period when they are suspended under the terms of the provisions aline. (13).

- (9) Constitutes contravention, if it was not committed in such conditions as to be considered, according to the criminal law, offense, non-compliance with the provisions of par. (4) And shall be sanctioned with a fine from 2,000 lei to 15,000 lei, if committed by individuals, respectively with a fine from 5,000 lei to 35,000 lei, if committed by legal persons.

- (10) Goods intended, used or resulting from the contravention provided in paragraph (9), as well as *the amounts of money and goods acquired by committing the contravention shall be confiscated.*

- Retraining of the activities carried out by an association/foundation, according to art.11 para.1) – sentence 2, Tax Code, by “reframing the form of a transaction / activities to reflect the economic content of the transaction /activity<sup>21</sup>” using that premise the provisions of Article 48 of GEO no. 26/2000, according to which “Associations, foundations and federations may carry out any other direct economic activities *if they have an accessory character* and are closely related to the main purpose of the legal entity<sup>22</sup>”, if there are entities with economic activities in which the economic activity is predominant (for example, in the medical field), and not accessory; the potential tax consequences are as follows:

- Calculation of profit tax for the entire limitation period, plus accessories, possibly with the reduction of the calculated and paid tax under the terms of Article 15 paragraph 2) letter f) Tax code.

- Contravention sanction of 5,000 to 35,000 lei, according to art. ART. LVI paragraph 9 of Law no.296/2023

<sup>21</sup> Law no. 227/2015 on the Tax Code last updated: Law no. 244/2024, Edition annotated with the Methodological Norms approved by GD 1/2016, last updated : Government Decision no. 451/2024, available at [https://static.anaf.ro/static/10/Anaf/legislatie/Cod\\_fiscal\\_norme\\_2023.htm](https://static.anaf.ro/static/10/Anaf/legislatie/Cod_fiscal_norme_2023.htm). [Accessed in November 2024].

<sup>22</sup> Ordinance no. 26 of 30 January 2000 on associations and foundations Issuer Government Published in Official Gazette no. 39 of 31 January 2000, [Accessed November 2024].

*Obs.:* although Law no.12/1990 included contravention sanctions, they can no longer be applied, being prescribed.

- the annulment of the tax deductions (to the profit tax and IVM) related to the sponsorships made by various economic agents, for the entire limitation period, based on the provisions of Article 4, par.1) letter a) of Law no. 32/1994 of 19 May 1994 on sponsorship, according to which “May be the beneficiary of sponsorship of any non-profit legal person”.

#### *4.6 Interpretation of the provisions of Article 6 of the Law no. 32/1994 of May 19, 1994 on sponsorship*

According to art. 6 “Facilities provided for in Law no. 32/1994 of 19 May 1994 shall not be granted if:

c) sponsorship of a non-profit legal person by another legal person who directs or controls the sponsored legal person<sup>23</sup>”.

*Note 1:* according to Article 8 of the Law no. 32/1994<sup>24</sup>:

(1) Romanian natural or legal persons, who carry out sponsorships in the areas referred to in Article 4, benefit from the reduction of the taxable base by the equivalent of sponsorships, but not more than 5% from the taxable base.

(2) Romanian natural and legal persons, who perform acts of patronage under this law, benefit from reducing the taxable base by their equivalent, but not more than 5% from the taxable base.

(3) The total of the discounts applied to the taxable base for the sponsorships made according to paragraph (1), cumulated with those related to the acts of patronage, may not exceed 5% of the income or of the taxable profit, or as applicable.

(4) Foreign natural or legal persons, who owe to the Romanian state, according to the legislation in force, a tax for an income made in Romania and who carry out sponsorships or acts of patronage, shall benefit from, also, by reducing the taxable base by the equivalent in lei of the sponsorship or of the act of patronage, calculated at the exchange rate of the day, at the date of the transfer of ownership, in the same rates applied to Romanian natural or legal persons, according to the preceding paragraphs.

*Note 2:* according to Art. 25, paragraph 4 lit.i) Tax Code, are non-deductible expenses “sponsorship and/or mecenate expenses, granted according to law<sup>25</sup> ”; taxpayers who carry out sponsorships and/or acts of patronage, according to the provisions of Law no. 32/1994 on sponsorship, with subsequent amendments and completions, and of the Law on libraries no. 334/2002, republished, with subsequent amendments and completions, decrease the related amounts from the profit tax due at the level of the minimum value of the following:

1. Amended on Feb 03, 2022 by OG 11/2022:

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<sup>23</sup> LAW no. 32 of 19 May 1994 on sponsorship ISSUER PARLIAMENT Published in OFFICIAL GAZETTE no. 129 of 25 May 1994, available at <https://legislatie.just.ro/Public/DetaliuDocument/4058>, [Accessed in November 2024].

<sup>24</sup> the last direct amendment was made by GEO no. 127 of September 10, 1999 on the establishment of fiscal measures and improvement of the realization and collection of state revenues.

<sup>25</sup> Law no. 227/2015 on the Tax Code last updated: Law no. 244/2024, Edition annotated with the Methodological Norms approved by GD 1/2016, last updated : Government Decision no. 451/2024, available at [https://static.anaf.ro/static/10/Anaf/legislatie/Cod\\_fiscal\\_norme\\_2023.htm](https://static.anaf.ro/static/10/Anaf/legislatie/Cod_fiscal_norme_2023.htm). [Accessed in November 2024].

(4)i)1. the value calculated by applying 0,75% to turnover; for situations where the applicable accounting regulations do not define the turnover indicator, this limit shall be determined according to the rules;

2. Amended on Feb 03, 2022 by OG 11/2022:

(4)i)2. the amount representing 20% of the corporate tax due.

*Find out 1:*

Law 32/1994 and the Fiscal Code have different provisions:

- Reduction of the taxable base by 5% - Law 32/1994;

- Diminishing the payment tax – Tax Code:

- Decrease in corporate tax (0.75% of CA vs. 20% of corporate tax);

- Decrease in value representing 20% of the income tax on micro-enterprises

(up to 31.12.2023)– Tax Code;

- Redirecting 3.5% of the tax due on the net income of individuals;

*Which regulation applies ?:*

In the relationship between the general law and the special law, the prevalence of the special rule (Fiscal code) is applicable;

In this framework, how does the provision of Article 6 of Law no. 32/1994 apply, according to which “Facilities provided for in this law are not granted in case :c) sponsorship of a non-profit legal person by another legal person who directs or directly controls the sponsored legal person<sup>26</sup>”.

*Answer:* whereas the facilities in Article 8 of Law No 32/1994 are not applicable anyway (consequence 1) since the special law (Fiscal Code) applies, it follows that, implicitly, the, nor is the restriction in Article 8 applicable, meaning that any number of associations/foundations can be set up to receive in a controlled manner (as destination) the amounts from sponsorships/mecenates (consequence 2).

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*Answer: whereas the facilities in Article 8 of Law No 32/1994 are not applicable anyway (consequence 1) since the special law (Fiscal Code) applies, it follows that, implicitly, nor is the restriction in Article 8 applicable, meaning that any number of associations/foundations can be set up to receive in a controlled manner (as destination) the amounts from sponsorships/mecenates (consequence 2).*

## 5. Fiscal risk remedies

The wave of legislative changes hitting the fiscal landscape nationwide redefines how tax risks are perceived and managed. In this landscape we identify as possible solutions regarding the fiscal risk the following:

*A. Tax risk insurance:*

*Tax code - Art. 25: Expenditure sets out:*

(1) For the determination of the fiscal result, are considered *deductible expenses* expenses incurred for the purpose of carrying out the economic activity, including those regulated by normative acts in force, as well as registration fees, and

<sup>26</sup> LAW no. 32 of 19 May 1994 on sponsorship ISSUER PARLIAMENT Published in OFFICIAL GAZETTE no. 129 of 25 May 1994, available at <https://legislatie.just.ro/Public/DetaliuDocument/4058>, [Accessed in November 2024].

contributions due to chambers of commerce and industry, employers' organisations and trade union organisations<sup>27</sup> ”.

*Section 13 of the Methodological Norms to the Tax Code:*

13.(1) In application of the provisions of Article 25 (1) of the Fiscal Code, there are expenses incurred for the purpose of carrying out the economic activity, *without being limited to them, the following:*

„13.(2)b) expenses for insurance premiums for professional risk insurance carried out according to specific legislation<sup>28</sup> ”.

According to the tax provisions, in Romania, there are some expenses expressly regulated with insurance premiums for business insurance, which can be tax deductible, for:

1. *Tangible or intangible assets of the business patrimony according to art. 25 (1) and (3) letter j) of the Tax Code*, provided that such assurances are necessary and justifiable for the activity of the company;

2. *Assets that serve as a bank guarantee for the credits used in the activity for which the taxpayer is authorized, according to Article 25 (1)), c of the Tax Code.*

*According to the phrase “without being limited to these”, there are also other types of deductible insurance, carried out for the purpose of carrying out economic activity, among which, without being nominated, there are other types of insurance, these fiscal risk policies also fall.*

Although there is no practice in Romania, in the EU, USA and other developed countries, there are such products that are designed to protect business against risks such as:

1. *Tax liability: Covers the costs associated with international tax disputes, including lawyer fees and any penalties or interest imposed by tax authorities.*

2. *Compliance risks: Protects against costs related to non-compliance with international tax regulations, which may include fines and penalties.*

3. *Professional liability insurance: Covers errors and omissions that may lead to tax problems, including defence costs and compensation awarded to third parties.*

These policies are known as Tax Liability Insurance (tax liability insurance) or Tax Indemnity Insurance. These policies are intended to protect companies against financial risks associated with tax rulings challenged by tax authorities, as well as risks related to tax audits and potential additional payment obligations.

What risks does it cover?

1. *Disputed tax rulings:* For example, if a complex transaction is subject to an assessment by tax authorities and is contested.

2. *Fiscal audit risks: Protects against possible financial penalties, penalties or interest imposed by tax authorities.*

3. *Possible errors in tax reporting:* Such as the interpretation of tax laws that could lead to the reintegration of certain income or deductions.

4. *Tax regulatory risk* - for protection against legislative changes that may affect taxes or other tax obligations.

*Among the insurance companies that offer solutions for tax risks, we mention:*

<sup>27</sup> Law no. 227/2015 on the Tax Code last updated: Law no. 244/2024, Edition annotated with the Methodological Norms approved by GD 1/2016, last updated : Government Decision no. 451/2024, available at [https://static.anaf.ro/static/10/Anaf/legislatie/Cod\\_fiscal\\_norme\\_2023.htm](https://static.anaf.ro/static/10/Anaf/legislatie/Cod_fiscal_norme_2023.htm). [Accessed in November 2024].

<sup>28</sup> Law no. 227/2015 on the Tax Code last updated: Law no. 244/2024, Edition annotated with the Methodological Norms approved by GD 1/2016, last updated : Government Decision no. 451/2024, available at [https://static.anaf.ro/static/10/Anaf/legislatie/Cod\\_fiscal\\_norme\\_2023.htm](https://static.anaf.ro/static/10/Anaf/legislatie/Cod_fiscal_norme_2023.htm). [Accessed in November 2024].

- *Marsh, Aon, Willis Towers Watson* - global insurance brokerage companies that offer solutions for tax risks, including Tax Liability Insurance (TLI) policies. They broker such insurance from insurance companies as:

- *Lloyd's of London*: He is a major player in the insurance and reinsurance industry, including in the field of insurance for tax risks.

- *Zurich Insurance, Chubb, Allianz*: These companies also offer insurance solutions for tax risks.

- *USA: Lockton and Aon offer such policies*. Lockton underlines the role of TLI in managing tax risks associated with M&A transactions, real estate and corporate taxes. Aon notes that TLI can reduce uncertainty and provide protection against unexpected tax claims by transferring risk to the insurer.

- *In Romania: Group Ama and Generali* – including tax risk insurance; Uniq and OmniaSig - offer policies mainly for business insurance.

*Tax risk insurance is not specifically regulated by a separate law for this type of insurance*. Generally, they are regulated under national insurance and reinsurance legislation in each country. For example, in the European Union, the Solvency II Directive regulates the operating framework of insurance companies, including niche products such as tax liability insurance<sup>29</sup>. In the United States, such policies are issued in accordance with the rules established by the insurance regulators of each state.

In Romania, in, *tax risk insurance and tax guarantee insurance* operate under the general umbrella of the legislation on insurance contracts and financial guarantees without specific legislation dedicated exclusively to this type of insurance, being regulated by a series of normative acts that provide the legal framework for insurance contracts, including specialized ones:

1. *Law no. 32/2000* on insurance activity and insurance supervision - establishes the general framework for insurance activities in Romania. It gives insurance companies the general framework and the freedom to develop new products, including fiscal risk policies „Errors and Omissions Insurance” (E&O) or Directors & Officers Insurance (D&O).

*Relevant articles from Law no. 32/2000:*

*Art. 2 (1) of Law no. 32/2000* stipulates that the insurance activity includes „covering some risks”, and the definition of risks is extended to different categories, offering insurers flexibility in designing new products, including for financial and professional risks.

*Art. 5 (1) refers to liability insurance and other insurance products for various risks*, allowing them to include in general, liability insurance for financial losses due to professional errors. This article is used to provide E&O and D&O policies.

*Art. 8 (2) letter e) allows insurance companies to offer products that include professional liability risks*. This article is essential for E&O and D&O products, which cover the risks related to professional errors or management decisions that may lead to damages for third parties.

*Obs.:* E&O and D&O type policies are classified, according to Law no. 32/2000, in the category of professional civil liability insurance, allowing their adaptation to the specifics of fiscal activities and risks. Depending on the company and field, they may cover losses caused by managerial or professional decisions, including tax risks such as controls and tax penalties, if explicitly stated in the contract.

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<sup>29</sup> DIRECTIVE 2009/138/EC of 25 November 2009 on the taking up and pursuit of the business of insurance and reinsurance (Solvency II) (recast) (Text with EEA relevance) ISSUER: The European Parliament and the Council, PUBLISHED IN: Official Journal no. L 335 of 17 December 2009, p. 1 - 155.

2. *Civil Code* - regulates insurance contracts, and Articles 2199-2220 of the Civil Code provide the legal framework for insurance contracts in general, including the rights and obligations of the parties involved in an insurance contract.

3. *Tax Code and Tax Procedure Code* - define the tax regime and legal procedures for taxpayers. Although they do not directly regulate tax risk insurance, they are fundamental, as they establish the tax obligations and the framework for the application of tax controls and disputes that may be subject to insurance.

4. *ASF (Financial Supervisory Authority)* - ASF issues rules and regulations governing the activity of insurers, including solvency requirements and policy issuance procedures, also applicable to fiscal risk policies.

*General principles and framework applicable in the EU:*

1. *European Directive 2006/112/EC* on the common system of VAT and other tax directives does not provide for specific rules for the deductibility of tax risk insurance, leaving it up to Member States to decide which types of expenditure are deductible in the national context.

2. *Deduction of expenditure by use*: at the level of the Member States, expenditure is deductible if it is incurred for the purpose of carrying out economic activities and contributes to the generation of taxable income, and, according to the provisions of the National Tax Codes and the European tax principles.

3. *Depending on the national legislation*, the expenses for fiscal risk insurance may be deductible, if they are considered necessary expenses to protect the assets and income of the company against tax risks and are strictly related to the economic activity carried out.

Insurers shall carry out a detailed analysis of specific tax transactions or problems in advance to assess the risks. The policy can cover up to a certain liability limit, set according to the identified risk and the insurance premium paid.

TLI can help companies manage potential challenges from tax authorities regarding a particular tax treatment and can cover expenses such as tax liabilities, interest, penalties and even defence costs.

These policies are usually tailored to the specific needs of a company and its tax exposure, which means they are not automatically renewable, they are designed for a particular situation or transaction.

*B. Another tax risk mitigation measure is aimed at providing tax risks*: creating provisions on non-tax-deductible expenses to cover any unforeseen tax liabilities or penalties, thus ensuring that, the company has sufficient funds in case of tax adjustments.

## 6. Conclusions

*Can an associate contract a loan from an limited liability company? What would be the likely consequences? We can mention as a finality: the retraining of the loan in taxable advantage for the associates (taxable income) – by the tax authorities (Article 76. Tax code and art. 5. Civil code) or involvement in financial crimes: possible accusations of fraud, and in this regard we mention:*

1. *Decision of the Bucharest Court of Appeal (Decision No 5100/2016)*: the court decided that the loans granted by shareholders without an interest corresponding to the market and without adequate documentation can be reclassified as taxable advantages;

2. *Decision of the Bacau Court (Decision no. 361/2015)*: established that a loan granted by an associate to the company, which has not been properly documented (without a written contract and without proof of the use of the amounts for commercial purposes), may be considered a taxable advantage for the associate.



3. *Decision of the Court of Appeal of Cluj (Decision no. 195/2014):* the court reaffirmed the principle of good faith and established that loans granted by the associates under illegality conditions can be reclassified as taxable income.

4. *ANAF case-law:* there is another approach in the sense that in the case of an interest-free loan granted to an associate, ANAF considered that the value saved by the associate represents a taxable income.

5. *Decision of the High Court of Cassation and Justice (Decision no. 1080/2018):* the court ruled that the loans granted by shareholders to the company, without complying with tax and commercial regulations, may be subject to retraining as taxable advantages, depending on the purpose and use of the funds.

*Decision of the Bihor Court (Decision no. 128/2017):* The General Court ruled that provisions made for litigation risks are tax deductible, provided that they are estimated on the basis of reasonable assessments. The court stressed that there must be clear evidence of the nature of the risks taken.

*Can tax disputes also be included in these categories?*

*Can the Court's solution be generalised, given that the Tax Code does not provide for deductions as provisions for disputes?*

*We can never be more vigilant than the fisc. More responsible, YES (authors).*

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