

# Sponsorship

## Tax incentives for community projects

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From the perspective of corporate social responsibility, sponsorships, which are governed by specific legal provisions, demonstrate involvement and support for the community in which a company operates. They have become increasingly popular among all parties involved (i.e. authorities, employees, media, shareholders, customers, suppliers etc.), since they demonstrate an active commitment by businesses to the communities in which they operate. Sponsorship can also enhance a company's reputation and can contribute to its further development.

### Sponsorship's tax benefits

The Sponsorship Law and the Romanian Fiscal Code allow companies to sponsor charities, for which they can benefit from a tax facility within certain limits. The tax incentive is granted through the tax credit mechanism and, in practical terms, allows the sponsor to redirect a part of its corporate tax / microenterprise tax due to the state budget to sponsor a non-profit organization or institution.

Cumulative conditions should be met in order to benefit from this facility, as follows:

- The company must be a corporate tax payer/ microenterprise tax payer (\*);
- Sponsorships must be justified by contracts concluded in accordance with the legal provisions and the amount must be paid in the period for which the profit tax is paid or, in the case of microenterprise tax payers, by the end of each quarter for which this tax is paid;
- **The beneficiaries of the sponsorships must be registered, at the date of conclusion of the contract, in the Register of organizations/religious entities for which tax deductions are granted (\*\*).**

- In the case of corporate tax payers, the redirected amounts must fall within the lesser of the following two limits:
  1. 0.75% of turnover (until 28 July 2019, the limit was 0.5% of turnover (\*\*));
  2. 20% of the corporate tax due.
- In the case of microenterprise tax payers, the redirected amounts must be within the limit of 20% of the microenterprise tax due.

Companies can also grant sponsorships exceeding the limits mentioned above, since according to the legal provisions, the amounts above these limits can be carried forward for the next consecutive 7-year period (applicable for corporate tax payers) or for a period of 28 consecutive quarters (applicable for microenterprise tax payers).

The recovery of these amounts is made in the order of their registration (chronologically), under the same conditions, at the time of each tax payment deadline (quarterly/yearly).

In principle, certain companies grant sponsorship at the end of the financial year, at which point they have an overview of the level of both their turnover and the corporate tax they owe (the criteria according to which the maximum level of the tax benefit for the sponsorships granted can be determined). However, even if during the year, sponsorships are granted for which tax credits cannot be claimed for the entire amount (reduction of profit tax), they can be reported and used as tax credit over the next 7-year period. For microenterprise tax payers, it is favorable to grant sponsorships on a quarterly basis, in order to have the possibility to reduce the tax for the quarter in which the sponsorship is granted.

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(\*) Starting 1 April 2018, according to OUG 25/2018, microenterprises may grant sponsorships and benefit from the related tax credit.

(\*\*) **As from 1 April 2019, according to Law 30/2019, taxpayers which can benefit from the tax credit related to sponsorship, may only do so if the beneficiaries of the sponsorship are registered, at the date of conclusion of the contract, in the Register of organizations/religious entities for which tax deductions are granted. The new provision is applicable to both corporate income taxpayers and microenterprise taxpayers.**

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(\*\*\*) Starting 1 January 2020, the applicable turnover threshold will be 0.75%.

### Example of calculation for corporate tax payers as at 30 September 2019

Turnover	RON 800,000 for the period 1 January – 28 July 2019 and RON 200,000 for the period 29 July – 30 September 2019
Total expenses	RON 900,000 (of which RON 2,000 are sponsorship expenses)
Taxable gross profit	RON 102,000
Corporate tax (16%)	RON 16,320
Tax on profit after sponsorship	RON 14,320

1.  $0.5/0.75\%$  of turnover = RON 800,000 X 0.5% + RON 200,000 X 0.75% = RON 5,500
2. 20% of the corporate tax due = RON 3,264

Therefore, it turns out that the company can redirect RON 2,000 to a charitable organization (such as the AISB) by granting sponsorship and reducing the corporate tax due to the state budget.

### Example of calculation for microenterprise tax payers

Taxable base	RON 281,788
Turnover tax (1%)	RON 2,818
Turnover tax after sponsorship	RON 2,254

20% of the profit tax due = RON 564

Therefore, it turns out that the microenterprise tax payer can redirect RON 564 to a charitable organization (such as the AISB) by granting sponsorships and reducing the microenterprise tax due to the state budget.

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### Conditions for granting sponsorship

In order to benefit from these tax facilities, the sponsorship should meet the conditions set out in Sponsorship Law, as subsequently amended, and should be granted on the basis of a sponsorship agreement that can be made available to the tax authorities in the case of a tax audit.

Sponsorship can be granted to:

- a. a non-profit legal entity, which operates in Romania or is about to carry out an activity in the following fields: cultural, artistic, educational, scientific research, humanitarian, religious, philanthropic, sports, human rights protection, medical and health related, assistance and social services, environmental protection, social and community, representation of professional associations, as well as maintenance, restoration, conservation and enhancement of historical monuments;
- b. public institutions and authorities, including specialized bodies of public administration, for the activities mentioned in point a);
- c. tv shows or programs of television or radio broadcasting organizations, as well as books or publications in the fields mentioned in point a);
- d. any individual domiciled in Romania whose activity in one of the fields provided at point a) is recognized by a non-profit legal entity or by a public institution active in the field for which the sponsorship is requested.



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