

# 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. the authorities, employees, shareholders, customers, suppliers etc.). Sponsorship can also enhance a company's reputation and can hence contribute to its further development

### The tax benefits of sponsorship

The Sponsorship Law and the Romanian Fiscal Code allow companies to sponsor NGOs, 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.

The cumulative conditions, which should be met to benefit from this facility, are as follows:

- The company must be a corporate tax payer/ microenterprise tax payer. Since 1 April 2018, according to GEO 25/2018, microenterprises have been able to grant sponsorships and benefit from the related tax credit;
- 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 taxpayers, 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 (the United Way Romania Foundation has been registered since 8 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 provision is applicable to both corporate income taxpayers and microenterprise taxpayers.
- In the case of corporate taxpayers, the redirected amounts must fall within the lesser of the following two limits:
  - a) 0.75% of turnover;
  - b) 20% of the corporate tax due
- In the case of microenterprise taxpayers, the redirected amounts must be within the limit of 20% of the microenterprise tax due.

### Granting of sponsorships is also possible after the end of the fiscal year and after payment of tax, under certain conditions

The model, content, and instructions for completing Form 177 "Application for Corporate Income Tax/Microenterprise Income Tax Redirection" were approved with effect from 21 September 2022, in accordance with Order 1679/2022 approving the Procedure for Corporate Income Tax/Microenterprise Income Tax Redirection.

When sponsorships made during a financial year do not exceed the above-mentioned limitation (and there remains a positive unused difference) for this positive difference, the taxpayer can opt for "redirecting corporate income tax/microenterprise income tax" to grant further sponsorships, within a maximum of 6 months from the date of submission of the annual corporate income tax return/tax return for the fourth quarter in the case of microenterprises. Payments of the redirected amounts will be made by the appropriate Tax Authority to which the redirection form has been submitted.

Form 177 - Application for the redirection of corporate income tax/microenterprise income tax, allows companies, after closing the fiscal year and paying the corporate/microenterprise tax, to request the appropriate Tax Authority to redirect the amount left unused and paid to the state budget, for the sponsorship of non-profit legal entities, in accordance with legislation.

The deadline for submitting Form 177 is a maximum of 6 months from the submission of the annual income tax declaration, and the beneficiaries of the sponsorship should continue to comply with the provisions of the Fiscal Code (i.e. be registered in the Register of organizations/religious entities) and have contracts concluded according to the provisions of the Sponsorship Law.

When sponsorships made during a fiscal year exceed the above-mentioned limit and cannot be deducted from the corporate income tax due for that year, the exceeding amounts are no longer carried forward to subsequent consecutive years to be recovered by deduction from corporate income tax / microenterprise income tax. This is a change from previous legislation which applied before 1 January 2022.

Under transitional measures, sponsorships made before 1 January 2022 may, exceptionally, be carried forward to the following period, according to the terms existing at the time when such contracts were made, but no later than the year 2028. Thus, sponsorships made in 2021 which exceed the limitations for the fiscal and financial year 2021 are the last amounts of this nature which can be carried forward and used in the future until 2028.

**Example of calculation for corporate income tax payers, for which the fiscal year is the same as the calendar year, i.e. 1 January 1 – 31 December, including redirection example via Form 177**

Turnover	RON 1,000,000 for the period 1 January – 31 December 2022
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
The maximum amount of sponsorship which can be awarded during the year.	RON 3,264

- a) 0.75% of turnover = RON 1,000,000 \* 0.75% = RON 7,500
- b) 20% of the corporate tax due = RON 3,264

During the fiscal year (i.e. January - December) the company can grant sponsorships according to the Sponsorship Law, up to a total amount of RON 3,264. To do this, the company must have an estimated idea of the tax it will have to pay at the end of the year and allocate the relevant amounts for sponsorships from its own budget. Hence it will be eligible for a tax credit at the end of the year when it submits its annual corporate income tax return. The deadline for submitting the annual income tax return is the 25th of the sixth month after the end of the fiscal year (i.e. 25 June in the case of taxpayers whose fiscal year is the calendar year), and this deadline also applies to the information declaration detailing the beneficiaries of the sponsorship for the same period (i.e. D107).

The amount of sponsorship granted falls within the limits calculated above. Thus, if the company grants sponsorship of RON 2,000 to an NGO it reduces the corporate tax due to the state budget by the same amount.

In this case, the total amount provided in sponsorships would be below the permitted limit of RON 3,264, and hence there would be an unused amount of RON 1,264, which would be payable to the state budget as corporate income tax. The company's tax credit would be RON 2,000, i.e. the total value of the sponsorship.

Turnover	RON 1,000,000 for the period 1 January – 31 December 2022
Corporate tax (16%)	RON 16.320
Sponsorship deduction limit	RON 7,500 (0.75% of turnover)
The maximum amount representing the sponsorship that can be granted during the year.	RON 3,264 (20% of the corporate tax due)
Sponsorship expenses granted during the year	RON 2,000
Amount left unused and paid to the state budget – which could be redirected via form 177 for sponsorships	RON 1,264

Thus, for the amount left unused and paid to the state budget of 1,264 lei, it is possible to submit Form 177 – Application regarding the redirection of the profit tax/microenterprise income tax, after the closing of the financial year and the payment of the corporate tax, for the redirection of the respective amount in order to sponsor non-profit legal entities, under the law and within the legal terms mentioned above.

The relevant Fiscal Authority is required to pay the amount redirected from the corporate income tax paid.

**Example of calculation for microenterprise tax payers, including redirection example via Form 177**

Quarter IV	
Taxable base	281.788 lei
Turnover tax (1%)	2.818 lei
The maximum amount of sponsorship that can be granted during the year	563 lei
Actual expenses representing sponsorship granted in the quarter	100 lei
Microenterprise income tax after sponsorship	2.718 lei
Amount left unused and paid to the state budget - which can be redirected via form 177	463 lei

- a) 20% of the microenterprise income tax due for the quarter in which the respective expenses were recorded (quarter IV) = RON 563
- b) effective sponsorship expenses during IV quarter = RON 100

During the fourth quarter (i.e. October - December) the micro-enterprise can grant sponsorships, according to legislation, of RON 563. To do this, the company must have an estimated idea of the tax it will have to pay at the end of the quarter and allocate the relevant amounts for sponsorships from its own budget, and thus it will benefit from a tax credit at the end of the quarter for which it will submit the quarterly declaration. The deadline for submitting the declaration is 25th of the sixth month after the end of the quarter (i.e. 25 June in the case of taxpayers whose fiscal year is the calendar year), and this deadline also applies to the information declaration detailing the beneficiaries of the sponsorship for the same period (i.e. D107). Consequently, the micro-enterprise can grant sponsorships worth a maximum of RON 563 to NGOs and can benefit from a reduction in the income tax owed to the state budget up to that maximum amount.

During the quarter the company grants sponsorships but below the limit of RON 563. As described above, during the quarter the company only grants sponsorships worth RON 100, and hence benefits from a tax credit of the same amount, which is below the maximum limit of RON 563, thus generating an unused amount of RON 463 (resulting from subtracting the 100 actually granted from the maximum which can be granted of 563), which ultimately ends up being micro-enterprise tax paid to the state budget.

In this case, after closing the financial year and paying the tax, by submitting Form 177 on the redirection of corporate/microenterprise tax, the micro-enterprise can request the Fiscal Authority to redirect the amount left unused and paid to the state budget, of RON 463 to sponsorship of non-profit organizations, under the conditions set out in legislation (see the submission deadline in the previous example). The appropriate Fiscal Authority is required to pay the amount redirected from the corporate income tax paid.

### Example of calculation for microenterprise tax payers, without the possibility of redirection

Quarter IV	
Taxable base	RON 281,788
Turnover tax (1%)	RON 2,818
Turnover tax after the deduction of the tax credit for sponsorship granted in the quarter	RON 2,254

- a) Sponsorship expenses = RON 2,000
- b) 20% of the tax due = RON 564

During the fourth quarter, the company grants sponsorships worth RON 2,000, above the limit of RON 564.

In this situation, the micro-enterprise benefits from a maximum tax credit of RON 564, and the redirection of the micro-enterprise income tax for sponsorship will no longer be possible, given that the maximum limit of 20% of the tax due has been reached, and also the remaining amount of RON 1,436 representing sponsorships granted during the quarter may not be carried forward to the following consecutive quarters to be recovered by deduction from micro-enterprise tax.

### Conditions for granting sponsorship

To benefit from these tax incentives, sponsorship must meet the conditions set out in Law No 32/1994 on sponsorship, as subsequently amended, and must be carried out based on a sponsorship contract that can be made available to the Tax Authorities in the event of a tax inspection.

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, or 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 operating in the field for which the sponsorship is requested.

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