

# **TAXES PAID BY FIC MEMBER COMPANIES AND THEIR EMPLOYEES IN ROMANIA**



Foreign Investors Council

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**In recent years, the community of foreign investors has faced a public discourse suggesting that companies with foreign capital do not pay their taxes according to the law and they do not contribute properly to welfare development in Romania.**



It must be said from the beginning that the FIC does not speak on behalf of all companies with foreign capital in Romania but only for its member companies.

We do, however, consider that this public discourse cannot remain unanswered, so we have carried out an analysis among the FIC members and we asked them to give details of the total amount of all the taxes they pay to the state budget, the local budgets and the social insurance budgets.

The analysis was prepared by collecting data from 46 groups of companies (about 68 entities) registered with the National Trade Register.

We would have liked to analyze the entire business environment, that is, all Romanian companies, including those with foreign capital, in terms of the taxes they paid. Unfortunately, the data needed is not public, and it is owned by the National Agency for Fiscal Administration.

*The data used for this analysis is for 2017 and was collected from the FIC member companies.*

## The analyzed companies

1	Atos	24	KPMG
2	Banca Românească	25	L'Oreal
3	BCR/Erste Bank Group	26	Lowe Group
4	BRD-Groupe Societe Generale	27	Metro
5	British American Tobacco	28	Michelin
6	Can-Pack	29	MOL
7	Carrefour	30	NN Pensii & Asigurări
8	Coca Cola	31	OMV Petrom
9	Deloitte	32	Orange
10	Ductil/Lincoln Electric	33	OTP Bank
11	eMAG (Dante International)	34	Philip Morris
12	Enel	35	PricewaterhouseCoopers
13	Engie	36	Provident Financial
14	E.ON	37	Raiffeisen Bank
15	Ericsson Telecommunications	38	Renault/Dacia
16	Ernst & Young	39	Rompetrol/KMGI
17	GlaxoSmithKline	40	Saint-Gobain Glass
18	Heineken	41	Sodexo Pass
19	Holcim	42	Tenaris Silcotub
20	Honeywell Garrett	43	Total
21	ICME ECAB/Steelmet	44	UPC
22	ING Bank	45	Ursus Breweries
23	JT International	46	Vienna Energy Forța Naturală

Are large companies with foreign capital/corporations (20 of which are among the top 60 largest companies in Romania by turnover and 5 of them are among the top 15 banks by value of their assets).

Their investments started, on average, at the end of the '90s, which highlights the long-term commitment of these companies to Romania.

They have been registered in Romania for more than 20 years and throughout this period have been paying taxes to the Romanian state.

They are from sectors such as energy, automotive, financial services, telecommunications, IT, tobacco and alcohol production, trade, consultancy and others.

They employ approximately 130,000 people, representing 2.6% of the average number of employees in Romania.

They have contributed significantly to the development/modernisation of the Romanian economy and its integration into the European economy, as well as boosting Romania's exports and the development of production chains.

They have brought technology and know-how to the internal market, contributing to an increase in productivity and corporate governance, through which they promoted the importance of fairness, transparency and accountability within companies.

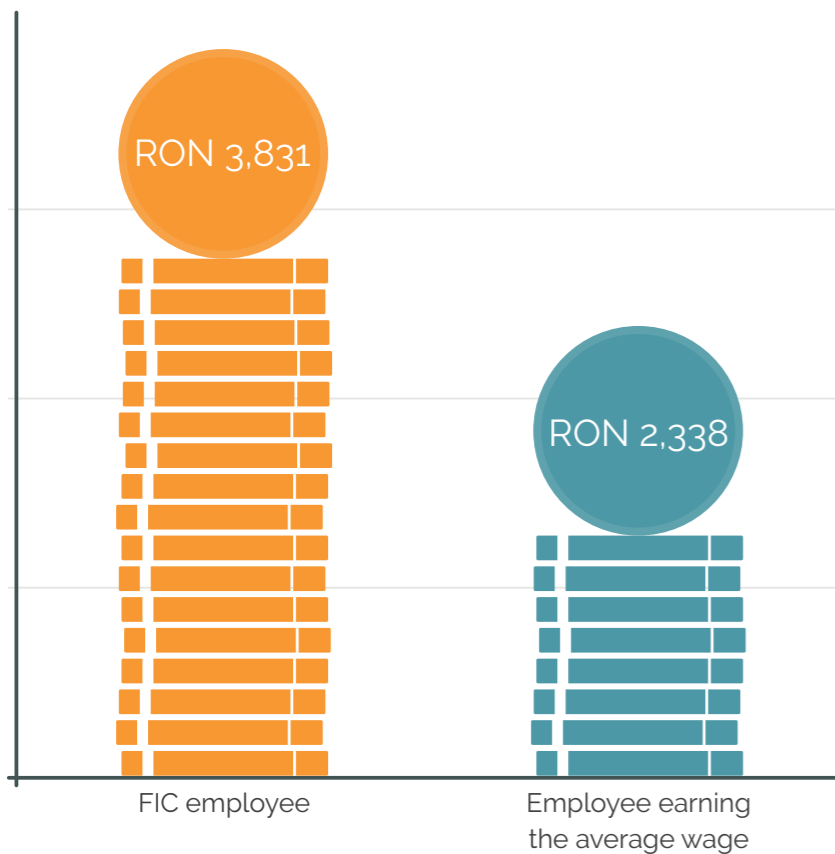
They have contributed directly to Romania's economic growth through their investments and wages paid to employees and indirectly through their supply chains.

For ease of reference, in our analysis, we will generically name these companies as „FIC companies”, and their employees will be „FIC employees”.

In 2017, a FIC employee – working for one of the 46 companies analysed – earned, on average, a net wage of RON 3,831 per month; 60% higher than the net average wage in Romania of RON 2,338

Average net wage per month 2017

Source: Calculations based on FIC and the National Institute for Statistics (INS) data



In 2017, in order to pay the net average wage in Romania of RON 2,338, an employer had a total cost of RON 4,100; for a FIC employee, the total cost of a net average wage of RON 3,831 was RON 6,700.

These amounts included both taxes and contributions paid by the employee as well as those paid by the employer on the employee's<sup>1</sup> gross salary.

Average wage per month 2017

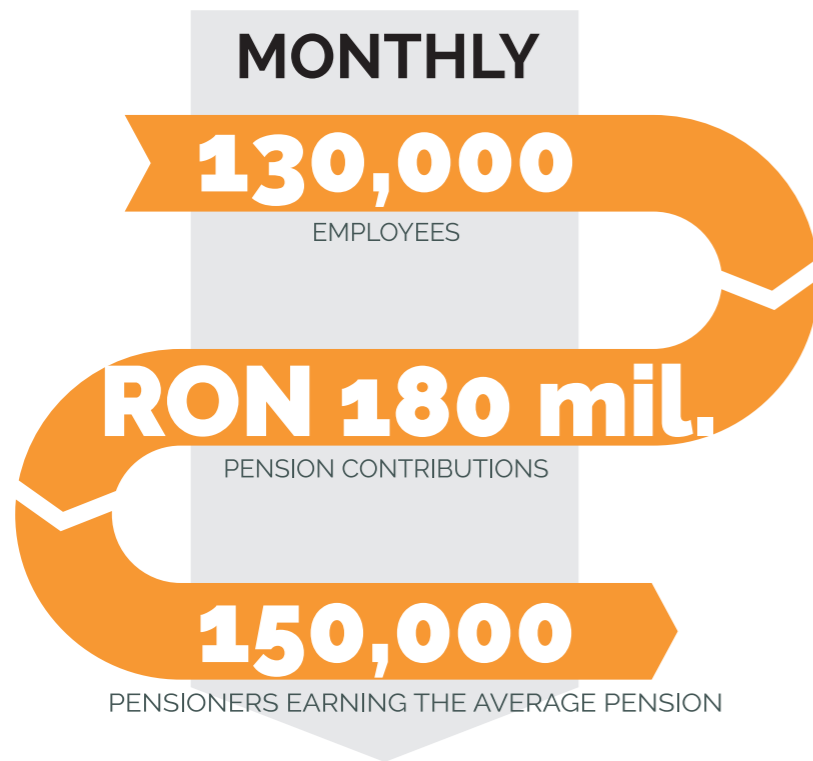
Source: Calculations based on FIC and the National Institute for Statistics (INS) data



<sup>1</sup> Starting from 2018, social contributions were transferred from the employer to employee through the Emergency Ordinance 79/2017 adopted by the Government.

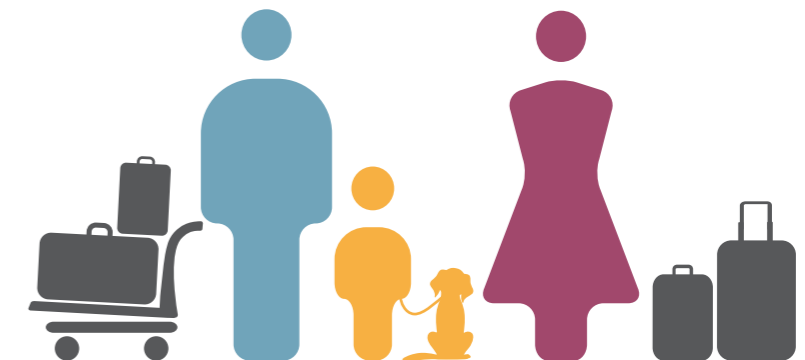
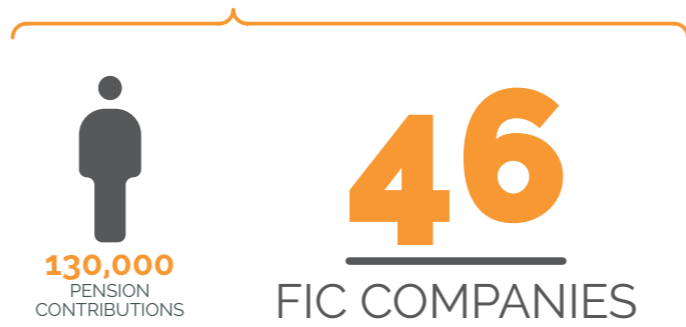
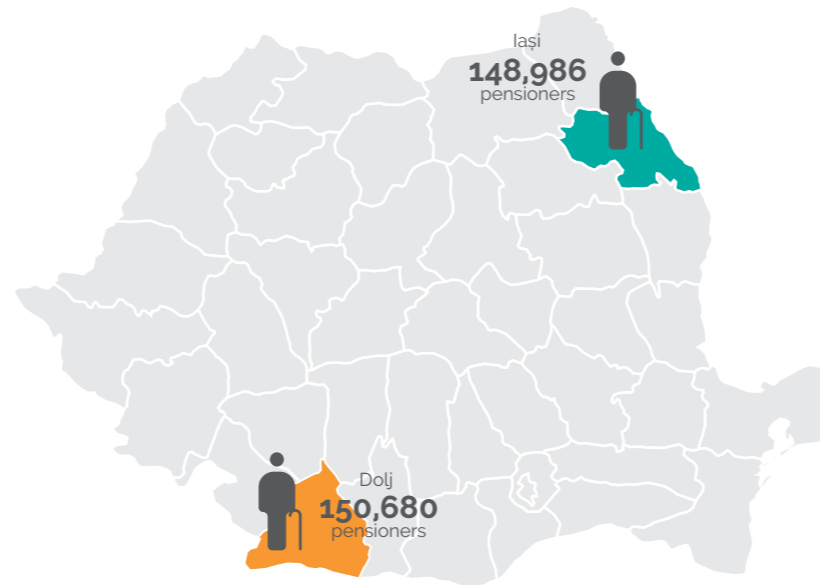
The monthly pension contribution of each FIC employee exceeded RON 1,069, which was the average pension in Romania in 2017.

The FIC companies paid contributions to the state pension fund of more than RON 180 million per month for the 130,000 employees. This amount could cover the average pension in Romania for more than 150,000 pensioners.



## A FIC employee supports 1,2 pensioners who receive the average pension in Romania

For example, if all pensioners in Dolj county or Iași county (both counties have approximately 150,000 pensioners: 150,680 and 148,986 respectively) were to receive the average pension in Romania, we could say that all the pensions in one of the two counties are paid from the pension contributions of the FIC employees.



Romania is experiencing a decline in the working age population (15-64 years) due to the fall in the birth rate and significant migration<sup>2</sup>, so that it risks reaching a critical ratio between the employed population and pensioners, as the generation of „decreței”<sup>3</sup> approaches retirement age.

Foreign investment has generated competition among well-trained workers, leading to a gradual increase in Romanian wages, which also has an indirect impact on social security services.

<sup>2</sup> According to the International Migration Report 2017, Romania was in 17th place worldwide for the number of its nationals who have migrated to other countries (3.6 million persons in 2017).  
<sup>3</sup> Decree children or decreței – the Romanians born in the late 1960s and 1970s, shortly after the communist regime of Nicolae Ceaușescu issued Decree 770, aimed at the creation of a younger and larger Romanian population by restricting abortion and contraception.

**In order to pay a net wage of RON 3,831 for a FIC employee, the company transfers RON 2,800 to the state.**

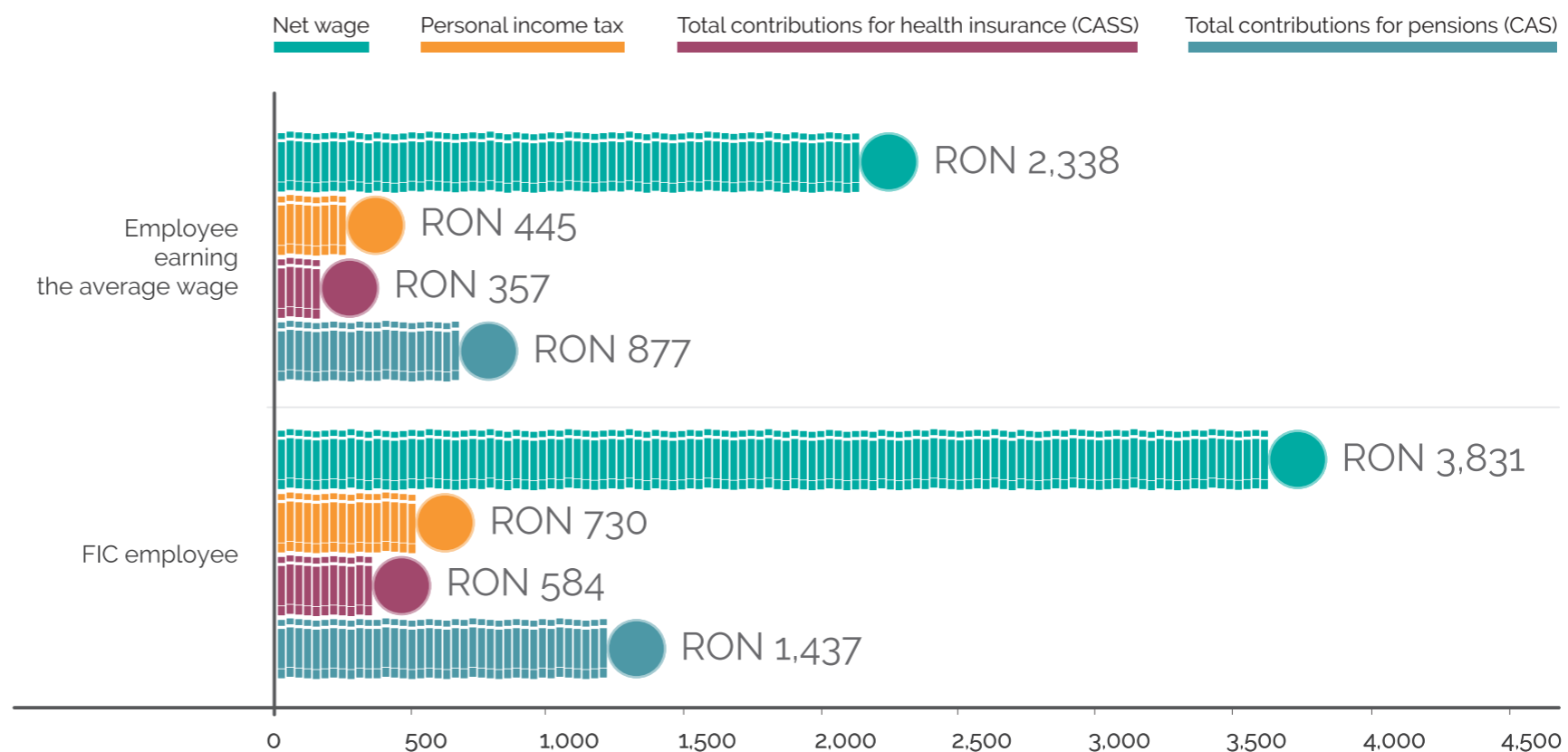
**Total monthly contributions paid for the pension fund, health insurance and income tax compared to the average net wage, 2017**

For a FIC employee who earned a net wage of RON 3,831 per month in 2017, the company paid over RON 2,800 to the state, consisting of all the taxes and contributions.

This was more than the average net wage in Romania in 2017.

The state collects RON 2,800 from each FIC employee in order to create/develop public goods and services for all its citizens. On average, each FIC employee contributes approximately RON 35,000 per year to the state budget, without counting the excises and the VAT he or she pays when shopping or local taxes.

These revenues would not exist without the economic activity of the companies with foreign capital for which these people work.



Source: Calculations based on FIC and INS data

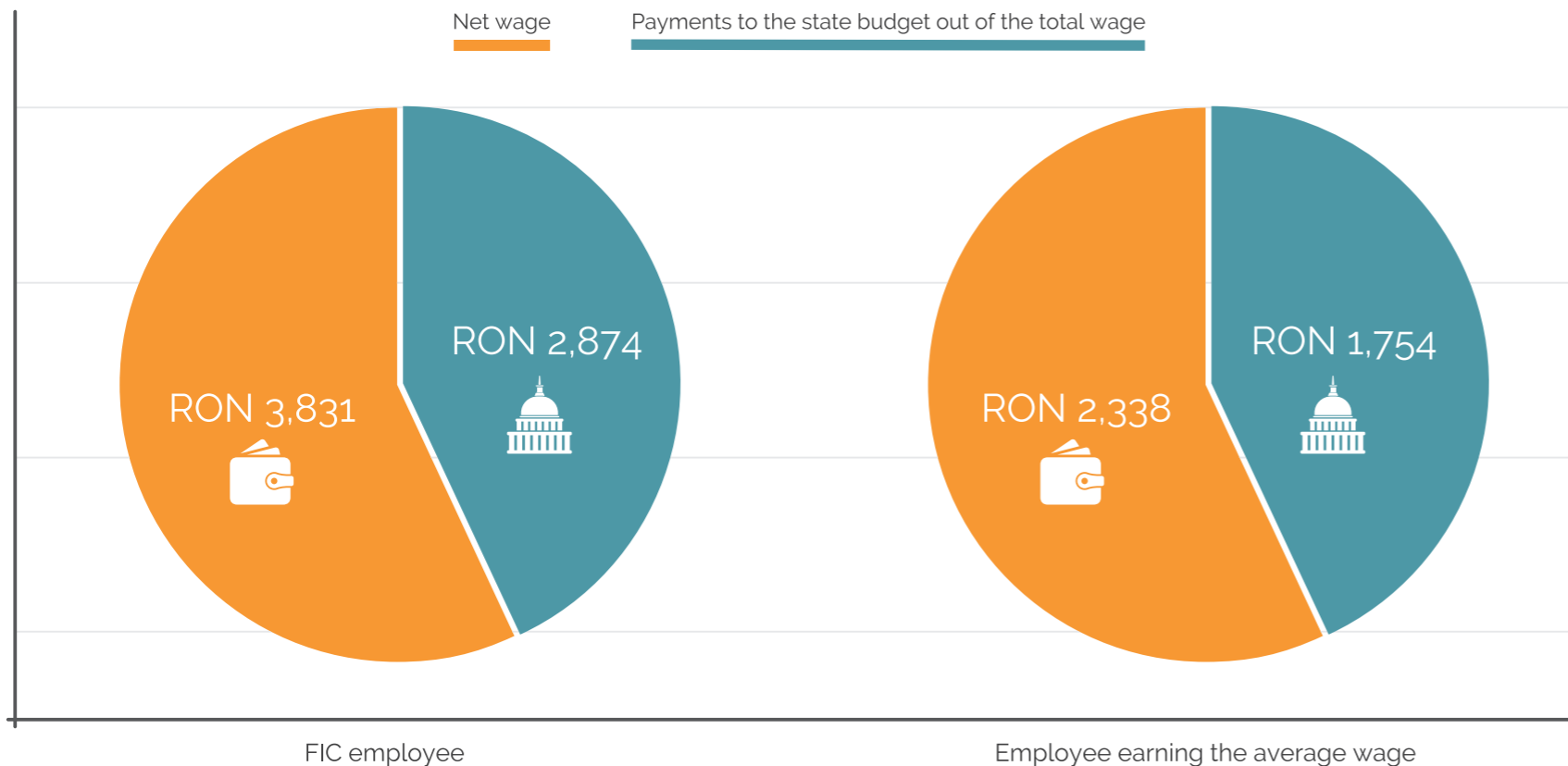
**The contributions and taxes paid monthly for a FIC employee exceeds the net average wage in Romania.**

Corporations are often blamed for „exploiting” their employees - for paying them low wages - but this is a distortion of reality. First of all, we see that in FIC companies, the average wage is far above the minimum wage. **In addition:**

**Corporations pay both the salaries and the social contributions of their employees on time;**

**The work environment in a corporation is competitive, provides employees with numerous opportunities and is a source of know-how/professional training. This statement is supported by the fact that in all surveys issued by employment platforms in Romania, corporations are always at the top of job seekers’ preferences;**

Source: Calculations based on FIC and INS data



**In addition to good wages, FIC employees benefit from medical subscriptions to private health clinics, private pensions (Pillar III) and discounts for gyms/nutrition programmes/reading club subscriptions, etc.;**

**All FIC employees receive their wages and bonuses in bank accounts. Thus, corporations contribute to reducing the „grey economy” in Romania;**

**FIC employees are „bankable” customers, both because of their net earnings and their companies’ strong financial position. Thus, they can easily access a consumer loan or a mortgage.**

The objective of public policies should be to attract investment in industries with high added-value, where wages are also higher.



# Value added to the economy

When we talk about companies' turnovers and profits, we have to choose the angle we look from.

On the one hand, at macro level it is important to put together all the companies with all their employees. On the other hand, it is quite difficult to make comparisons between companies.

In Romania there are companies with tens of thousands of employees and turnovers of billions of RON and companies with 1-3 employees and turnovers of several tens of thousands of RON. How do you justify such a comparison? Even similar sized companies are hard to compare. How do you compare profits of a car manufacturer, with those of an energy or telecoms company? We speak of different industries that face different challenges (local or global) and cannot be compared.

One way to see how productive or how profitable companies are is to look at these indicators per employee. Depending on what resources an employee has on average, as a share of the company's turnover, we can observe he or she is more or less productive.

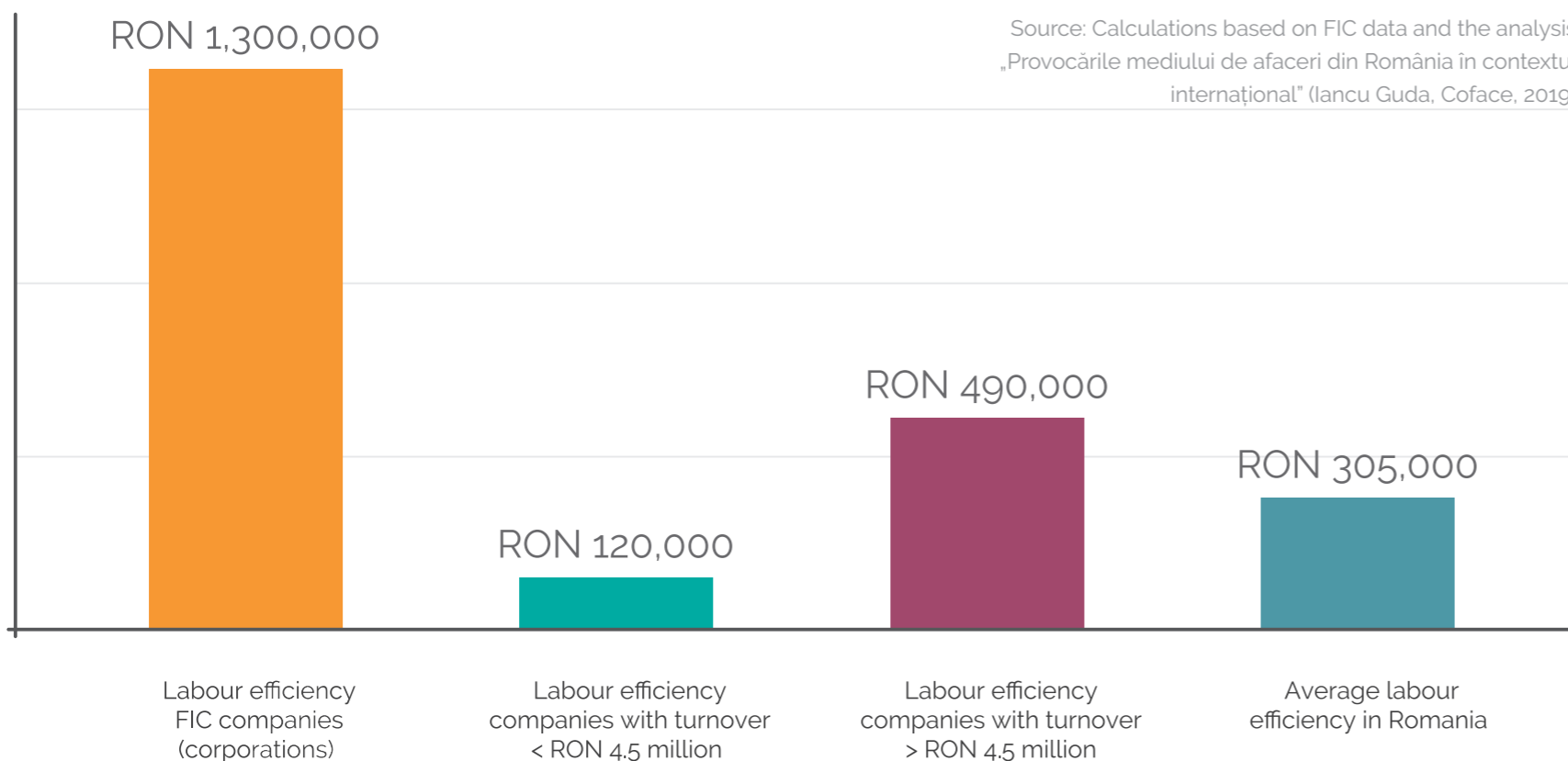
Thus, we note that in the FIC companies, the turnover for each employee is **RON 1.3 million**, much higher than the average of all companies in Romania.





**“Labour efficiency” in the 46 FIC companies is more than 4 times higher compared to the average efficiency of all companies in Romania.**

### Labour efficiency calculated as turnover/employee (RON mil.) 2017



Corporations perform well because they focus on all three components that generate output: capital investment, labour (their employees are well trained and receive higher wages than the average in Romania) and higher total factor productivity. In addition, all these corporations operate in open markets, and are competitive at European or global level.

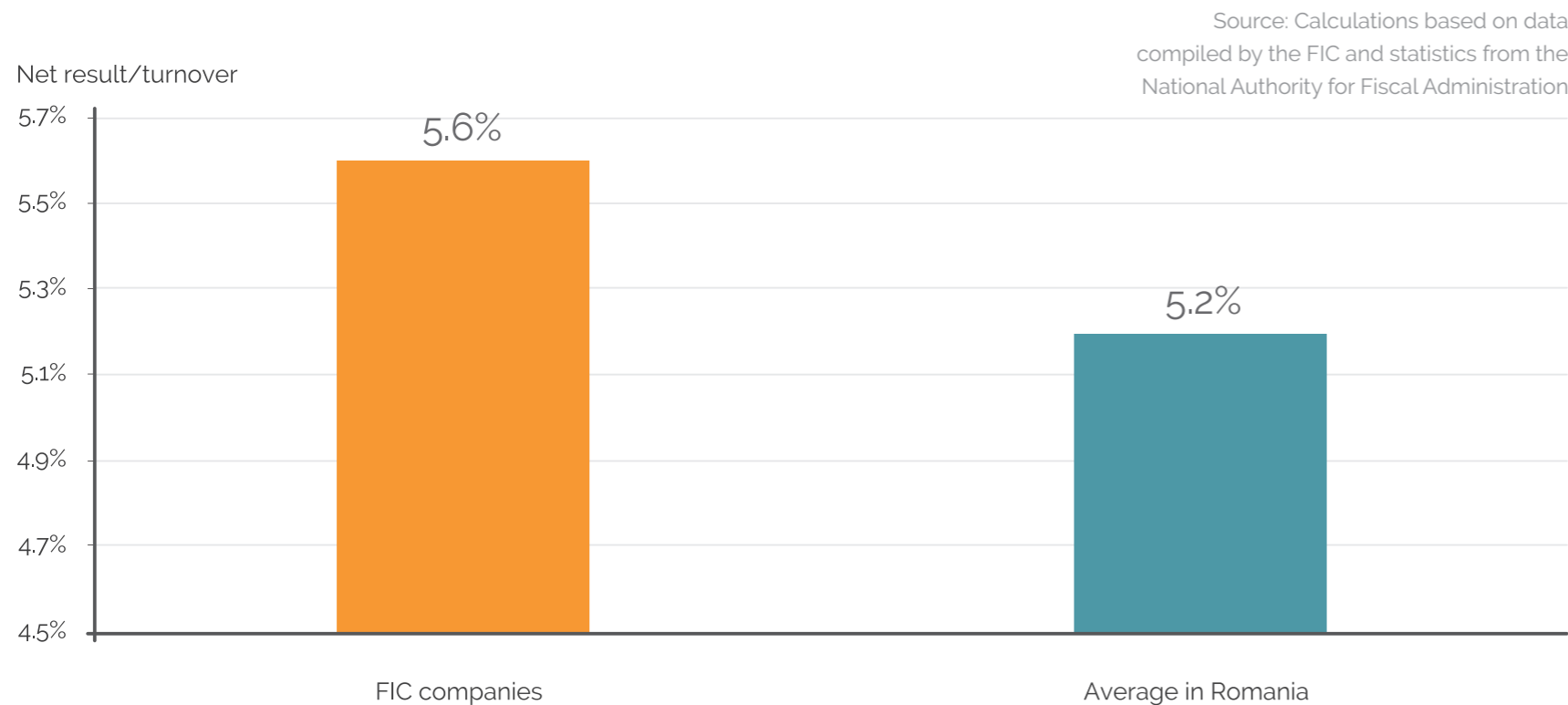
An important factor that determines some of the differences in labour productivity/efficiency between the FIC companies and the average of all companies in Romania is economies of scale. This enables the FIC companies to make higher profits by purchasing raw materials more cheaply. They also have higher production levels, which allows specialisation among employees and they gain from selling higher volumes. Economies of scale also allow companies to pay higher wages than the average.

Legal entities in Romania with incomes less than or equal to EUR 1,000,000 are micro-enterprises. The value of RON 4,500,000 was used for ease of reference. The exchange rate is the one at the end of the financial year in which the revenues were recorded.

**The commercial profitability<sup>4</sup> of FIC companies was higher than the average of all Romanian companies in 2017.**

**Although these figures are public, the theme of profits is often used tendentiously and is distorted.**

If the so-called „foreign companies” - in fact, they are Romanian companies with foreign capital /shareholding - have low profits, they are accused of hiding them in order to „outsource” them. If they have high profits, they are accused of doing so to the detriment of their employees, and are then criticised for supposedly offering very low wages. But many other voices accuse the same companies of offering wages which are too high and thus of absorbing the entire workforce at the expense of local companies.



**Our analysis highlights the following:**

— The public discourse against companies with foreign capital suggests that their profits as a share of turnover are very small and accuses them of outsourcing profits, but an analysis of real data contradicts this.

For example, in 2017, the commercial profitability of FIC companies was 5.6%, which is higher the commercial profitability of all companies in Romania (5.2%).

This highlights that if there are cases of „outsourcing” profits, these are isolated examples and the National Agency for Fiscal Administration has all the legal instruments to check them and apply penalties.

<sup>4</sup>Commercial profitability was calculated as the ratio between net results and turnover of the FIC's non-financial companies

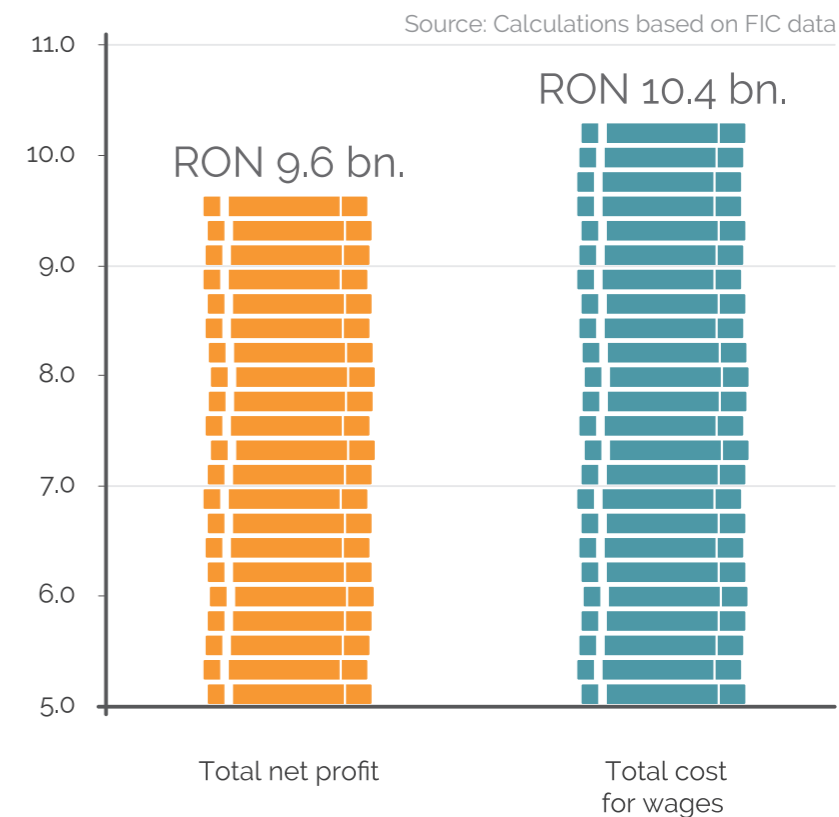
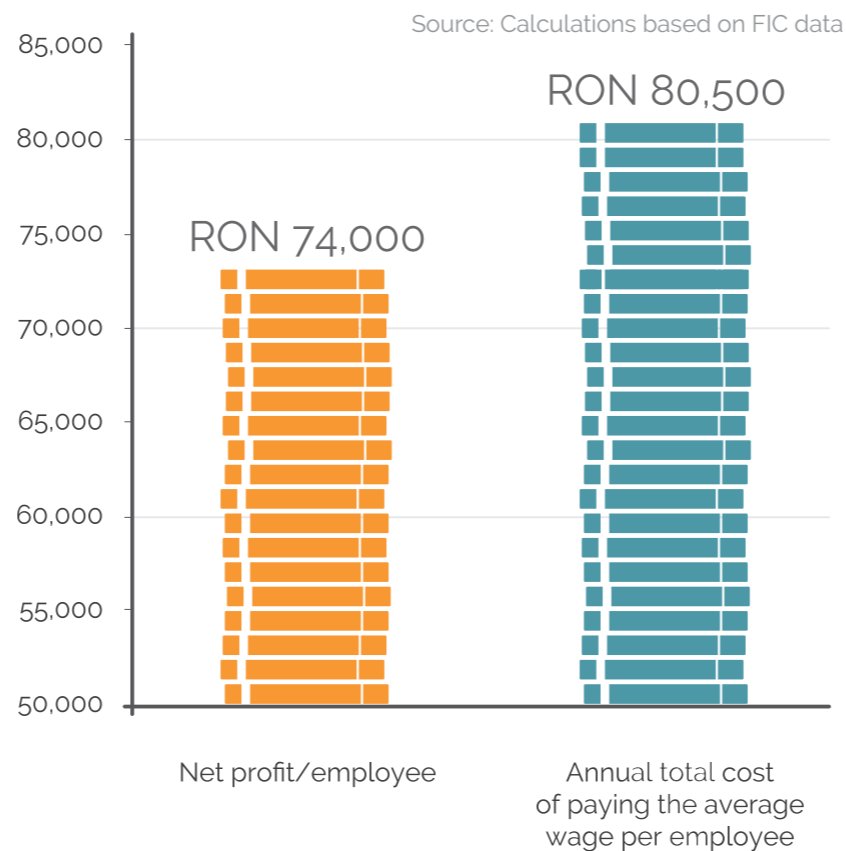
**In 2017, the annual net profit for each FIC employee was approximately RON 74,000, but at the same time the total cost for the average net wage of RON 3,831 of a FIC employee was RON 80,500.**

**Net profit per employee in FIC companies and the total annual cost of paying the average wage per employee, 2017**

**Total net profit earned by FIC companies and the total cost of wages in 2017**

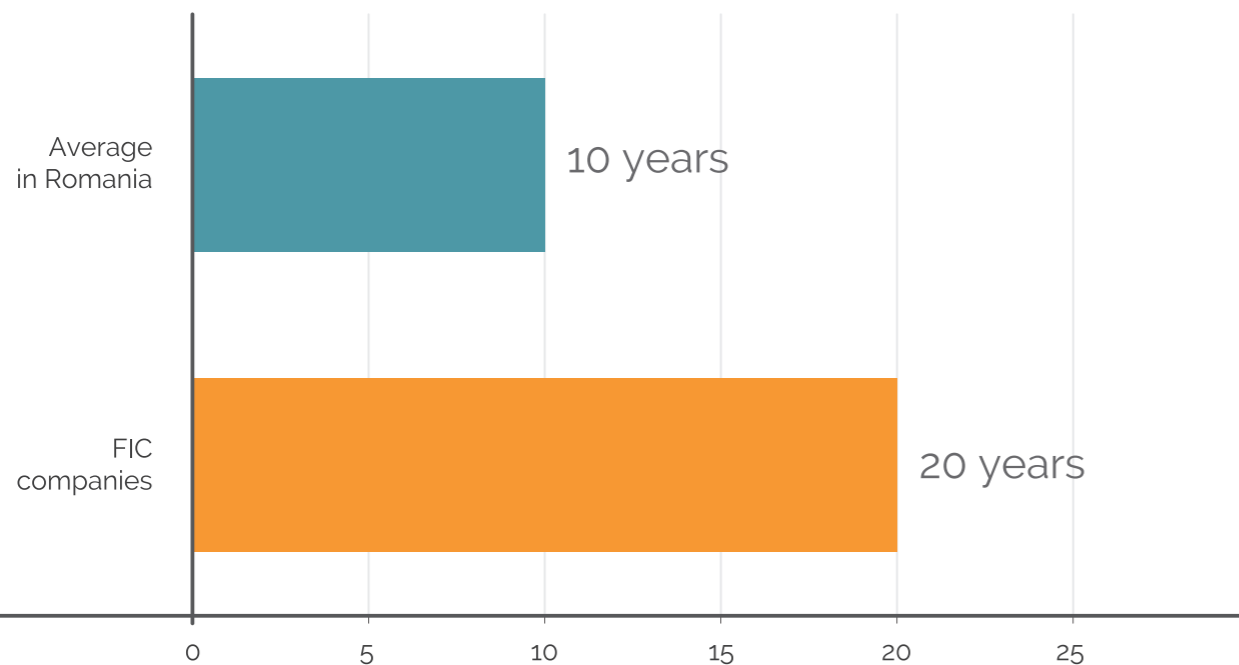
Large companies are more productive, have advanced technology and management and thus are more profitable than the average. At the same time, they incur higher costs for employees.

If we look at the total figures for the 46 FIC companies, we can see that there is no imbalance between profits and wages. In 2017, these companies earned RON 9.6 billion in profits and paid their employees RON 10.4 billion.



**On average, FIC companies have been operating in Romania for twice as long as the average Romanian company.**

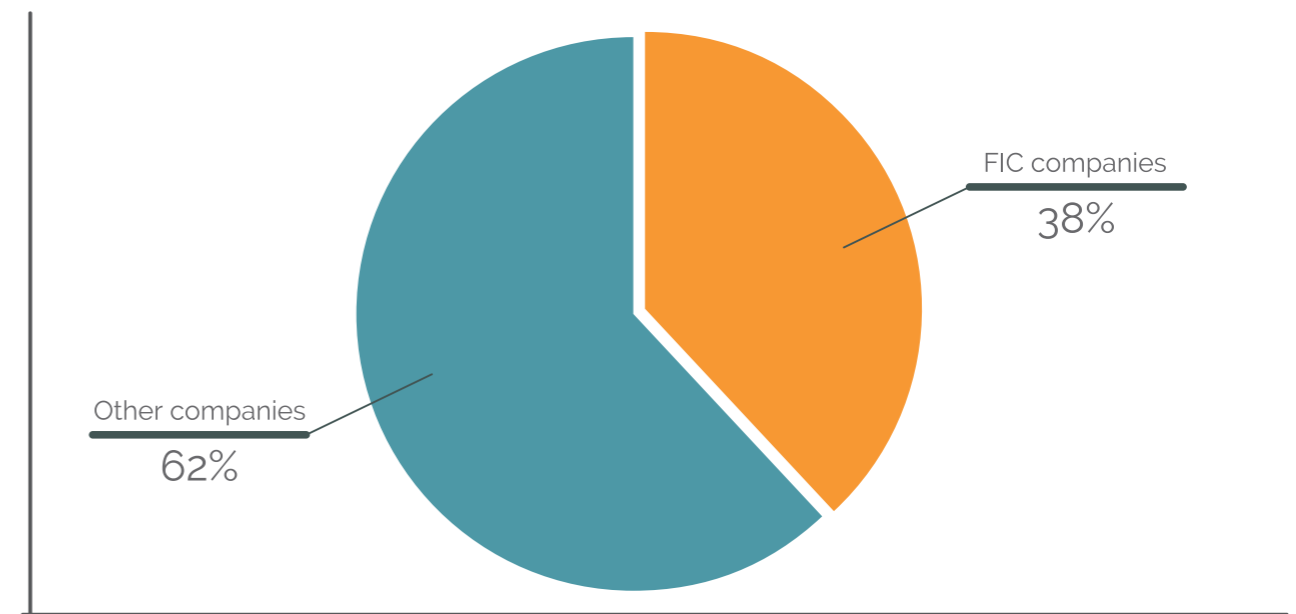
Source: Calculations based on FIC and the analysis „România SRL, Oportunități și Provocări” (Iancu Guda, Coface, 2019)



The length of time that FIC companies have been operating for clearly suggests that they have come to Romania to do business for the long term. They are closely linked to the growth of a large middle class, to an increase in productivity and well-being and to the development of Romania, in general.

**The FIC companies paid VAT and excise duties of RON 30 billion to the Romanian budget, representing about 40% of the total VAT and excises collected by the state (RON 80 billion), 2017.**

Source: Calculations based on FIC and the Ministry of Public Finance data



The state relies heavily on the efficient and transparent systems of companies that collect excise duties and VAT. We see that they do it without engaging in fraud and without delays. The state can be assured that these companies will always collect excise duties and VAT and will transfer them to the state budget. Public expenditure in Romania depends to a large extent on the efficient functioning of this mechanism/system.

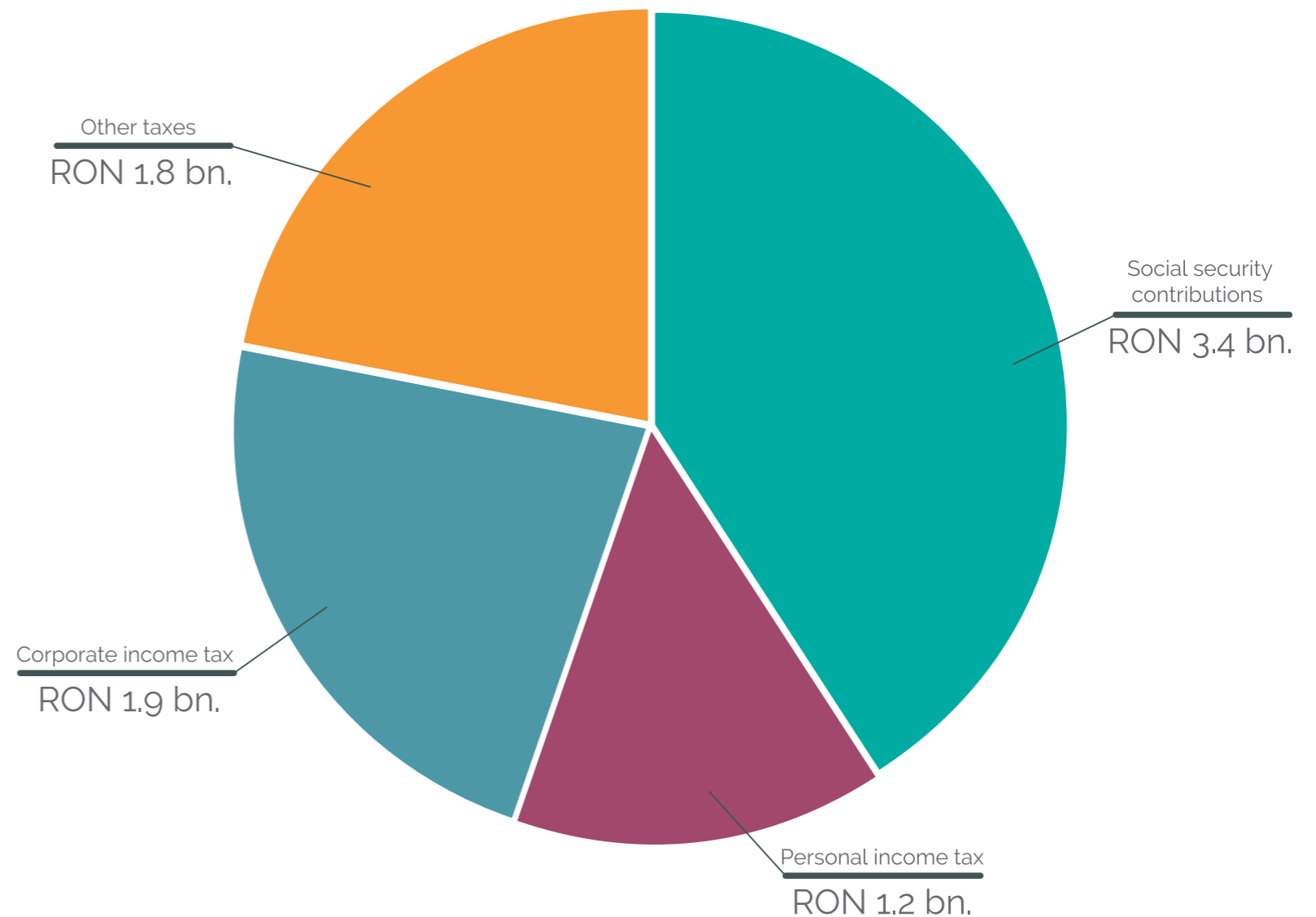
**In 2017, FIC companies paid RON 8.3 billion to the Romanian budget, more than half representing social contributions and personal income tax.**

Besides the VAT and excise duties that these companies alone collect for the state, we can see that in 2017 they also contributed RON 8.3 billion to the state budget.

Out of these funds, corporate income tax is not even a quarter of the total amount, and that is not because it is not paid in full.

The Romanian state collects many more taxes from these companies and their employees.

Source: Calculations based on FIC data



# WITH THIS AMOUNT OF MONEY, THE STATE COULD:

What does the RON 8.3 billion paid by the 46 FIC companies in 2017 represent in concrete terms?

**1**

Build the Braşov – Bacău highway (160 km) – the cost has been estimated by CNAIR at RON 8.3 billion (without VAT).

**RON 8.3 bn.**

160 km of highway



**2**

Build the three projected regional hospitals; Iaşi, Cluj and Craiova without using EU funds – the cost has been estimated at about EUR 1.2 billion (RON 5.6 billion).

**RON 5.6 bn.**

3 regional hospitals



**3**

Build the M5 subway line - the cost has been estimated at about EUR 730 million (RON 3.4 billion).

**RON 3.4 bn.**

M5 subway line





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