

Bucharest,  
Sept. 30<sup>th</sup>, 2005

## **IT Associations Position Paper regarding the Zero Salary Tax for Software Developers**

At the initiative of companies in this industry, the Tech 21 Coalition comprising IT Romanian associations, is soliciting by the present document that the Government should renounce eliminating the tax zero salary tax exempt for the software developers at Jan. 1<sup>st</sup>, 2006.

We highlight that the IT sector produce high value added, based upon high tech and intelligence. The overall Romanian IT industry, and especially software and services, experienced a constant growth, at an average rate in the last years of 25%.

The development of foreign investments, due to relocation of multinationals divisions (such as Alcatel R&D Centre, Siemens Automotive Software Development Centre, or Oracle Support Centres that each employ hundred of Romanian experts), was also the result of governmental policies that encouraged the development of this industry; out of these policies the zero salary tax for software developers played a crucial role. Meantime, the zero salary tax for software developers had positive impact on the Romanian companies: direct impact – that is stabilising the labour force and increased employing capacity – and indirect impact – increased profits and implicitly higher investment budgets, the software companies being well known for their tendency to re-invest the profit to develop new products and services.

We so consider the timing for cancelling this exemption is not right, as the Romanian IT industry did not reach a minimum maturity level that could entitle it to compete successfully in the EU market. The IT expenses per capita in Romania were estimated in 2004 to 36 Euro, substantially lower when comparing to Hungary for instance (234 Euro) or to the West European average (714 Euro), number that indicates the IT sector in Romania is still in an emerging stage.

Cancelling the tax exemption would transmit a negative signal to the potential investors, because one of the main competitive advantages of the Romanian IT industry in attracting foreign investors was the fiscal regime. Also, this negative message might convince highly skilled software experts to leave Romania.

Without the tax exempt, and taking into account that the labour market evolution was envisaged a constant wages raise for the next 3-5 years, the companies could have been constrained to transfer the pressure of wages costs to

investment budgets. This process could have generated a reduction in the development rate of the industry itself and a reduced innovation capacity of the Romanian companies. If Zero tax was to be eliminated, companies would face a 5-12% cost increase, that would be covered mainly by reducing investment budgets. The Romanian software and services industry is focused on exports; export counts for 70% of total production, out of which 85% are exports to the EU. Thus, the software industry was heavily affected due to the Romanian Leu appreciation; due to this fact, the industry investment capacity decreased with 8-15%. Cumulating the two elements (RON appreciation and Zero tax elimination) would probably count for 13-27%, losses in the industry, and would generate bankruptcy for many companies in the field.

Also, the pressure on labour force costs would determine companies – foreign, as well as domestic – to search for more effective labour markets, such as Ukraine, Russia, Bulgaria or Republic Moldova.

We firmly believe that the zero salary tax for software producer, a fiscal incentive adopted at the initiative of the software industry supported by Mr. Varujan Pambuccian, is a measure that would enhance the development of the Romanian IT on medium and long term, whereby we uphold maintaining it for at least 5 years.

In order to support a sustainable development of the industry, and allow more companies to take advantage of this fiscal incentive, we believe its applicability should be extended.

### **Tech 21Coalition**

Represented by:

**ACC**  
President,  
Radu Petric

**ANIS**  
President,  
Florin Talpeş

**ANISP**  
President,  
Mihai Bătrâneanu

**APDETIC**  
President,  
Valentin Negoită

**ARIES**  
President,  
Alexandru Borcea

**ATIC**  
President,  
Vasile Baltac

ACC - Cable Communications Association

ANIS -Employers' Association of the Software and Services Industry

ANISP -National Association of Internet Service Providers

APDETIC -Association of Producers and Distributors of ITC Equipment

ARIES -Romanian Association for Electronics and Software Industries

ATIC -Association for IT and Communications