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# Answers

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Section B

Marks

1 PFA Mihai Aur

(a) Procedures for declaring and paying compulsory social contributions

Social security contributions

- Within 30 days from starting the activity PFA Mihai Aur has to file a declaration to confirm that his estimated monthly net income for 2016 will be higher than 35% of average monthly earnings. 1/2
- Based on the above declaration, the tax authorities will issue a decision for the computation of pre-payments of social security contributions. 1/2
- The pre-payments have to be paid quarterly, by the 25th of the last month of the quarter, except for the last quarter when the payment must be made by 21 December. 1/2
- PFA Mihai Aur has to submit the annual declaration of realised net income by 25 May 2017. 1/2
- Based on the annual declaration of realised net income, the tax authorities will calculate the final value of the social security contributions due and issue a decision for settling this final value, taking into account the pre-payments made during the year. 1/2
- Any difference established by this decision has to be paid within 60 days from the date the decision has been communicated to PFA Mihai Aur. 1/2

Health insurance contributions

- Within 30 days from starting the activity PFA Mihai Aur has to file a declaration to declare his estimated net income. 1/2
- All of the remaining procedures and deadlines relating to decisions, pre-payments and final settlement are the same as those for social security contributions (as described above). 1/2

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(b) Pre-payments of social contributions

Social security contributions

- Monthly estimated net income =  $(180,000 - 125,000)/12 = 4,583$  lei 1/2
- $35\% \times \text{Average monthly salary} = 35\% \times 2,415$  lei = 845 lei 1/2
- ==> As the monthly estimated net income is higher than  $35\% \times \text{Average monthly earnings}$ , PFA Mihai Aur is liable to pay social security contribution for 2016.
- Pre-payments of social security due each quarter =  $10.5\% \times 35\% \times 2,415 \times 3 = 266$  lei 1/2
- Total pre-payments of social security due for 2016 =  $266 \times 4 = 1,064$  lei 1/2

Health insurance contributions

- Monthly estimated net income = 4,583 lei (as calculated above)
- Pre-payments of health insurance contribution due quarterly =  $5.5\% \times 4,583 \times 3 = 756$  lei 1/2
- Total pre-payments of health insurance contribution due for 2016 =  $756 \times 4 = 3,024$  lei 1/2

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(c) Final values of social contributions and difference on settlement

Social security contributions

- Monthly realised net income =  $(190,000 - 145,000)/12 = 3,750$  lei 1/2
- $35\% \times \text{Average monthly earnings} = 845$  lei (as in (b))
- $5 \times \text{Average monthly earnings} = 5 \times 2,415 = 12,075$  lei
- As monthly realised income >  $35\% \times \text{Average monthly earnings}$  AND monthly realised income <  $5 \times \text{Average monthly earnings}$
- ==> Monthly taxable base for social security contribution = Monthly realised income = 3,750 lei 1/2
- Total final social contribution due for 2016 =  $10.5\% \times 3,750 \times 12 = 394 \times 12 = 4,728$  lei 1/2
- Difference of social contribution due on settlement =  $4,728 - 1,064 = 3,664$  lei 1/2
- ==> PFA Mihai Aur has to pay a difference of 3,664 lei for social security contributions.

**Health insurance contributions**

Monthly realised net income = 3,750 lei (as calculated above)

Total final health insurance contribution due for 2016 =  $5.5\% \times 3,750 \times 12 = 206 \times 12 = 2,472$  lei

Difference of health insurance contribution due on settlement =  $2,472 - 3,024 = (552)$  lei

=> PFA Mihai Aur has to be reimbursed with 552 lei for health insurance contributions.

 $\frac{1}{2}$  $\frac{1}{2}$ 

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10**2 Silver SRL****(a) Output/input value added tax (VAT) for each transaction**

Date	Transaction	Output VAT	Input VAT	
10 December 2015	Invoice issued for advance payment received for laptop	$7,000 \times 24\% = 1,680$ lei		$\frac{1}{2}$
15 December 2015	Invoice received for purchase of laptop		$12,000 \times 24\% = 2,880$ lei	$\frac{1}{2}$
21 December 2015	Sale of mobile phone – no invoice issued	–	–	$\frac{1}{2}$
28 December 2015	Invoice issued for advance payment received for repairing computer	$2,000 \times 24\% = 480$ lei		$\frac{1}{2}$
5 January 2016	Invoice issued for repairing computer for which advance payment was received on 28 December 2015	$(2,000) \times 24\% = (480)$ lei $4,200 \times 20\% = 840$ lei		$\frac{1}{2}$
7 January 2016	Laptop bought on 15 December 2015 returned to supplier		$(12,000) \times 24\% = (2,880)$ lei	$\frac{1}{2}$
	Invoice issued for replacement laptop received	$25,000 \times 20\% = 5,000$ lei	$25,000 \times 20\% = 5,000$ lei	$\frac{1}{2} + \frac{1}{2}$
11 January 2016	Invoice issued for mobile phone sold on 20 December 2015	$3,700 \times 24\% = 888$		$\frac{1}{2}$
12 January 2016	Invoice issued for laptop for which advance payment was received on 10 December 2015	$(7,000) \times 24\% = (1,680)$ lei $7,000 \times 20\% = 1,400$ lei		$\frac{1}{2}$
	No VAT on balance of 23,700 lei as the reverse charge mechanism is applicable			$\frac{1}{2}$
				<hr/> 1
				<hr/> 7

**(b) VAT to be paid/reimbursed for each tax period****December 2015**

Output VAT =  $1,680 + 480 + 888 = 3,048$  lei

 $\frac{1}{2}$ 

Input VAT =  $2,880 = 2,880$  lei

 $\frac{1}{2}$ 

VAT to be paid for December 2015 =  $3,048 - 2,880 = 168$  lei

 $\frac{1}{2}$ **January 2016**

Output VAT =  $(480) + 840 + 5,000 + (1,680) + 1,400 = 5,080$  lei

 $\frac{1}{2}$ 

Input VAT =  $(2,880) + 5,000 = 2,120$  lei

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VAT to be paid for January 2016 =  $5,080 - 2,120 = 2,960$  lei

 $\frac{1}{2}$ 

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## 3 Andrei

## (a) Income tax on employment revenue for December 2016

## Forest SRL

	lei	
Basic salary	1,200	
Use of company car	0	1/2
Present vouchers (W1)	330	1
Voluntary pension contribution (W2)	0	1/2
Voluntary health insurance premium (W2)	100	1/2
Life insurance premium	300	1/2
Allowance (W3)	72	1/2
<b>Gross salary</b>	<b>2,002</b>	
Social contributions due	(330)	1/2
Voluntary pension contribution paid by Andrei (W4)	(1,800)	1/2
Voluntary health insurance premium paid by Andrei (W4)	(500)	1/2
Personal deduction (W5)	(270)	1
<b>Taxable income</b>	<b>0</b>	
<b>Personal income tax</b>	<b>0</b>	1/2

## Tree Co

	lei	
Basic salary	3,500	1/2
Profit participation	1,200	
<b>Gross salary</b>	<b>4,700</b>	
Social contributions due	(776)	1/2
Voluntary pension contributions and voluntary health insurance premium paid by Andrei	0	1/2
Personal deduction	0	1/2
<b>Taxable income</b>	<b>3,924</b>	
<b>Personal income tax at 16%</b>	<b>628</b>	1/2
		<b>9</b>

## WORKINGS

## (1) Present vouchers

Presents made to employees and to minor children of employees on the occasion of Christmas are non-taxable up to 150 lei/person, whether the present is given in money, goods or present vouchers.

Taxable present given to Andrei = 350 – 150 = 200 lei

Taxable present given to Andrei's child = 280 – 150 = 130 lei

Total taxable presents = 200 + 130 = 330 lei

## (2) Voluntary contributions and premiums paid by the employer

Non-taxable voluntary pension contribution = 400 euro \* 4.5 lei/euro = 1,800 lei

Voluntary pension contribution paid by Forest SRL = 700 lei

==> Taxable voluntary pension contribution = 0 lei.

Non-taxable voluntary health insurance premium = 400 euro \* 4.5 lei/euro = 1,800 lei

Voluntary health insurance premium paid by Forest SRL = 1,900 lei

==> Taxable health insurance premium = 100 lei.

## (3) Allowance

Non-taxable allowance = 3 days \* 17 lei/day \* 2.5 = 128 lei

Taxable allowance = 200 – 128 = 72 lei

## (4) Voluntary contributions and premiums paid by Andrei as employee

Maximum voluntary pension contribution which may be deducted at computation of income tax = 400 euro \* 4.5 lei/euro = 1,800 lei

Voluntary pension contribution paid by Andrei = 2,000 lei

==> Voluntary pension contribution which is deducted in computation of income tax = 1,800 lei.

Maximum voluntary health insurance premium which may be deducted in computation of income tax = 400 euro \* 4.5 lei/euro = 1,800 lei

Voluntary health insurance premium paid by Andrei = 500 lei

==> Voluntary health insurance premium which is deducted in computation of income tax = 500 lei.

**(5) Personal deduction**

Andrei has one minor child in his care and a gross revenue of 2,002 lei for December 2016 ==>  
Deduction =  $400 * (1 - (2,002 - 1,500)/1,500) = 266 = 270$  lei.

**(b) Obligation to pay and declare the income tax due**

For the employment contract with Forest SRL, the obligation to pay and declare the income tax due lies with Forest SRL.

1/2

For the employment contract with Tree Co, the obligation to pay and declare the income tax due lies with Tree Co, unless there is a written agreement with Andrei for him to declare and pay the tax.

1/2

110**4 Safirul SA****Corporate income tax for 2016**

	lei	
Total revenues (360,000 + 250,000 + 160,000)	710,000	1
Total expenses (210,000 + 175,000 + 112,000 + 10,000 + 9,000 + 5,000 + 2,000 + 3,000)	(526,000)	1
Accounting profit	184,000	
Non-taxable revenues – Country B	(160,000)	1
Non-deductible expenses	136,940	
Expenses related to non-taxable revenues (112,000 + 3,000)	115,000	1
Protocol expenses (W1)	14,940	1
Penalties and fines to the state (5,000 + 2,000)	7,000	1
<b>Taxable income</b>	<b>160,940</b>	
Corporate income tax at 16% (before any tax relief)	25,750	1/2
Tax relief (W2)	(11,766)	3 1/2
Final corporate income tax due	13,984	<b>10</b>

**WORKINGS****(1) Protocol expenses**

Limit of deductibility =  $2\% * (184,000 + 19,000) = 4,060$  lei

Protocol expenses = 19,000 lei

==> Non-deductible protocol expenses =  $19,000 - 4,060$  lei = 14,940 lei

**(2) Tax relief**

The profits obtained in Country B are given relief by exemption, thus the revenues in Country B are considered non-taxable and the expenses non-deductible.

For the activity in Country A relief is given by credit.

The available relief = min (corporate tax paid in Country A; corporate tax computed in Romania for values registered in Country A) = min (12,000; 11,766) = 11,766 lei

**Corporate tax computed in Romania only for the values registered in Country A**

	lei
Total revenues	250,000
Total expenses (175,000 + 9,000 + 2,000)	(186,000)
Accounting profit	64,000
Non-taxable revenues	0
Non-deductible expenses	9,540
Protocol expenses	7,540
Penalties and fines to the state	2,000
<b>Taxable income</b>	<b>73,540</b>
Corporate income tax at 16%	11,766

Limit of deductibility for protocol expenses =  $2\% * (64,000 + 9,000) = 1,460$  lei

Non-deductible protocol expenses =  $9,000 - 1,460$  lei = 7,540 lei

## 5 PFA Cristina Smarald

## (a) Pre-payments of income tax, final tax and difference on settlement

Net estimated income for 2016 = Realised income for 2015 = 40,000 lei		1/2
Pre-payments of tax = 16% * 40,000 = 6,400 lei		1/2
	lei	
Revenues from selling products (21,000 * 10 months)	210,000	1
Revenues from donations	0	1/2
<b>Total gross revenue</b>	<b>210,000</b>	
Expenses relating to products (12,000 * 11 months)	(132,000)	1
Video-projector depreciation (6,000/10 * 10/12)	(500)	1
Laptop depreciation	(0)	1/2
Subscription [min (20,000; 4,000*4.5)]	(18,000)	1
Sponsorship (W1)	(2,875)	1
Missing goods	(0)	1/2
Protocol (W1)	(1,150)	1
Arbitration fee	(2,000)	1/2
<b>Total deductible expenses</b>	<b>(156,525)</b>	
<b>Net income</b>	<b>53,475</b>	1/2
<b>Personal income tax at 16%</b>	<b>8,556</b>	
<b>Pre-payments (as above)</b>	<b>6,400</b>	
<b>Difference of tax to be paid on settlement</b>	<b>2,156</b>	1/2
		<b>10</b>

## WORKINGS

## (1) Sponsorship and protocol

The computation base for the limitation of protocol and sponsorship expenses = 210,000 – (132,000 + 500 + 18,000 + 2,000) = 210,000 – 152,500 = 57,500 lei

Limit for sponsorship deductibility = 5% \* 57,500 = 2,875 lei

Sponsorship expenses = 5,000 lei

=> Deductible sponsorship expenses = 2,875 lei

Limit for protocol deductibility = 2% \* 57,500 = 1,150 lei

Protocol expenses (party for customers) = 4,000 lei

=> Deductible protocol expenses = 1,150 lei

## (b) Value added tax (VAT) registration

Monthly invoices = 21,000 lei

Threshold for VAT registration = 220,000 lei

=> The threshold will be reached during November 2016. 1

=> PFA Cristina Smarald must ask for VAT registration by 10 December 2016. 1/2

=> PFA Cristina Smarald will receive her VAT registration number on 1 January 2017 and start to charge VAT from that date. 1

=> No output VAT should be charged by PFA Cristina Smarald in 2016. 1/2

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## (c) Income tax for Mr Gabriel Popescu

The income received by Mr Gabriel Popescu falls under the 'other income' category. 1

The income tax must be withheld by PFA Cristina Smarald and paid to the state budget by her. 1

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## 6 Platinum SA

## (a) Pre-payments of corporate income tax (CIT) due at each quarterly deadline for 2016

As Platinum SA recorded a tax loss in 2015, and 2016 is the second year of the mandatory period for applying the prepayments system, it will compute its quarterly prepayments for corporate income tax in 2016 for the first three quarters only, based on the quarterly accounting profit.

	Quarter 1 (Q1) 2016 lei	Quarter 2 (Q2) 2016 lei	Quarter 3 (Q3) 2016 lei	
Total revenues	860,000	1,230,000	1,320,000	1
Total expenses	(807,000)	(925,000)	(1,017,000)	1
Accounting profit	53,000	305,000	303,000	
Pre-payment of CIT due per quarter at 16%	8,480	48,800	48,480	1
				<u>3</u>

## (b) The final tax due for 2016 and the difference to be paid/reimbursed at settlement

	lei	
Total revenues	4,320,000	1/2
Total expenses (including CIT of 105,760 from part (a))	(3,588,760)	1/2
<b>Accounting profit</b>	<b>731,240</b>	
<b>Non-taxable revenues</b>	<b>(30,000)</b>	
– dividend revenues	(30,000)	1/2
Elements similar to revenues (W1)	80,000	1
Tax depreciation (120,000/10 * 2/12)	(2,000)	1/2
Legal reserve	10,000	1
Non-deductible expenses	132,510	
– provisions (W2)	1,000	1
– accounting depreciation	2,000	1/2
– sponsorship	8,000	1/2
– interest (W3)	15,750	1 1/2
– pre-payments of CIT (from part (a))	105,760	1/2
<b>Annual taxable income</b>	<b>921,750</b>	
<b>Fiscal loss brought forward</b>	<b>(30,000)</b>	1/2
<b>Taxable base</b>	<b>891,750</b>	
<b>CIT at 16% before exemptions and credits</b>	<b>142,680</b>	1/2
Investments made in 2016	120,000	
Reinvested exempted income	120,000	
CIT at 16% on exempted income	(19,200)	1
CIT after reinvested profit exemption	123,480	
Tax credit for sponsorship expenses (W4)	(18,000)	1 1/2
<b>Final corporate income tax due</b>	<b>105,480</b>	
Pre-payments of CIT (from part (a))	(105,760)	
<b>Difference of corporate income tax on settlement</b>	<b>(280)</b>	1/2
		<u>12</u>
		<u>15</u>

## WORKINGS

## (1) Elements similar to revenues

The loan of 4,000,000 lei granted by Platinum SA to its subsidiary should follow the transfer pricing rules. As the market interest rate is 3% per annum, and the loan was granted at an interest rate of 1% per annum, the 2% difference should be considered as an element similar to revenues.

Element similar to revenues = 4,000,000 \* 2% = 80,000 lei

**(2) Provisions**

Provisions may be deducted in a maximum percentage of 30%. Thus:

Client	Value of account receivable	Value of provision	Deductible provision	Non-deductible provision
Client A	80,000	20,000	24,000	0
Client B	30,000	10,000	9,000	1,000

=> Total non-deductible expenses with provisions = 1,000 lei

**(3) Interest expenses**

As the loan is taken from a non-specialised institution, the following limitations apply:

- Limitation at the level of the NBR interest rate  
Interest expenses computed using the NBR interest rate =  $700,000 \times 1.75\% = 12,250$  lei  
Interest expenses registered into accounting = 28,000 lei  
=> Fully non-deductible interest expenses =  $28,000 - 12,250 = 15,750$  lei
- Limitation at the level of debt-to-equity  
As the debt-to-equity is positive and below 3, the value of interest expenses within the NBR interest rate shall be deductible.  
=> non-deductible interest expenses = 15,750 lei

**(4) Tax credit for sponsorship expenses**

Previously reported sponsorship expenses = 10,000 lei

Current sponsorship expenses = 8,000 lei

Total sponsorship which may be deducted = 18,000 lei

Limits for deductions:

$0.5\% \times \text{Sales revenues} = 0.5\% \times 4,250,000 \text{ lei} = 21,250$  lei

$20\% \times \text{Corporate income tax} = 20\% \times 123,480 = 24,696$  lei

=> total tax credit for sponsorship = 18,000 lei