

Fundamentals Level – Skills Module

Taxation (Romania)

Monday 7 December 2009

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.

Tax rates and allowances are on pages 3–5.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (ROM)

ACCA

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The question paper begins on page 3.**

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings should be made to the nearest lei, unless instructed otherwise.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates, allowances and values are to be used in answering the questions.

Personal income tax

General tax rate	16%
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Income from employment – Personal deduction

Number of dependent persons for the taxpayer	Below 1,000	Monthly income (MI) – lei Between 1,000 and 3,000	Above 3,000
0 persons	250	$250 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0
1 person	350	$350 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0
2 persons	450	$450 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0
3 persons	550	$550 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0
4 persons and more	650	$650 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0

Note: The value of the personal deduction resulting from calculation should be rounded up to 10 (e.g. both 212 and 217 should be rounded to 220).

Income from the sale of immovable property owned by an individual

For immovable properties sold in less than three years from their acquisition

Income	Tax rate
Below 200,000 lei	3%
Above 200,000 lei	6,000 lei + 2% for what exceeds 200,000 lei

For immovable properties sold in a timeframe longer than three years from their acquisition

Income	Tax rate
Below 200,000 lei	2%
Above 200,000 lei	4,000 lei + 1% for what exceeds 200,000 lei

Income from renting

Lump sum deductible expenses quota	25%
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Copyright income

Lump sum deductible expenses quota for

– monumental works of art	50%
– other	40%

Self-employed income

The allowance accepted for public institution's employees

13 lei/day person

Investment income

Tax rate for capital gain from the sale of shares

– Prepayments	1%
– Final tax	
– For shares sold in less than 365 days after acquisition	16%
– For shares sold in more than 365 days after acquisition	1%

Prizes

Tax rate for prize income

16%

Non-taxable value

600 lei

Corporate income tax

General tax rate

16%

Reference interest rate set by the Romanian National Bank
for the loans denominated in lei

11% p.a.

Maximum accepted interest rate set by the Tax Code for loans
denominated in foreign currency

7% p.a.

Straight-line depreciation periods (for tax and accounting purposes)

Class of asset

Depreciation period (years)

Buildings

50

Machines and equipment

10

Corporate tax for very small companies

Tax rate 2007

2%

Tax rate 2008

2·5%

Social security and other insurance contributions

Employed persons

	Employee	Employer
Social security fund	9·5%	18%
Health care insurance fund	5·5%	5·2%
Unemployment fund	0·5%	1·0%
Work accident fund	–	0·4%–2%*
Health insurance indemnities fund	–	0·85%
The fund for guaranteeing salary payments	–	0·25%

Self-employed persons

Social security fund	27·50%
Health care insurance fund	5·50%
Unemployment fund	1·50%
Work accident fund	0·4%–2%*
Health insurance indemnities fund	0·85%

* The exact value shall be specified in the question, where necessary

Notes:

1. These rates should be used in answering the questions, irrespective of the time period the question refers to.
2. When computing the contributions paid by the employer or the self-employed person the labour book handling fee should be ignored.

Value added tax (VAT)

Standard rate	19%
Reduced rate	9%

Exchange rate

Euro/lei	€1 = 3·65 lei
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Penalties

Penalty rate for late tax payments	0·1%/day
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Note: certain other details may be included in the relevant question for ease of reference.

ALL FIVE questions are compulsory and MUST be attempted

- 1 Mrs Tomato is a sales person employed by Garden SRL, a company engaged in clothes manufacturing, which is taxed according to the corporate tax for very small companies. Garden SRL is registered for value added tax (VAT) purposes. The following information is available in respect of the revenues and benefits in kind received by Mrs Tomato in March 2009 from Garden SRL:
- (i) Basic salary: 900 lei;
 - (ii) Seniority bonus: 10% of her basic salary;
 - (iii) Gift on 1 March: 300 lei;
 - (iv) Gift on 8 March: a perfume with a price of 200 lei exclusive of VAT;
 - (v) Mrs Tomato uses a company car. In March 2009 she drove 1,200 km out of which 200 km were for personal purposes and 1,000 km for business purposes. The acquisition value of the car was 24,000 lei. The cumulated depreciation on the car up to 1 March 2009 is 10,000 lei;
 - (vi) An allowance of 100 lei for a two-day business trip in Romania;
 - (vii) Mrs Tomato eats every day in Garden SRL's canteen. The value of the meals she took in March 2009 is 800 lei;
 - (viii) Garden SRL faced difficulties in selling its products and decided to sell its products at a discount of 20%. Taking advantage of this promotion, Mrs Tomato bought from Garden SRL one skirt with a price of 95 lei (inclusive of VAT), instead of 119 lei (inclusive of VAT);
 - (ix) On 9 March 2009, because Mrs Tomato did not pay proper attention, two robes were stolen from the store. Their value was 300 lei. According to her employment contract and in agreement with Mrs Tomato, the manager of Garden SRL decided to withhold this amount out of Mrs Tomato's employment income.

Mrs Tomato is a member of the union within Garden SRL for which she pays 50 lei as a monthly union contribution. Mrs Tomato takes care of her mother and her mother-in-law. Mrs Tomato and her mother live in the same apartment. The mother has a monthly pension of 1,300 lei. Mrs Tomato's mother-in-law has a monthly pension of 200 lei. Due to differences in opinions, Mrs Tomato and her mother-in-law do not live in the same apartment.

Every day, after coming home from work, Mrs Tomato works as an independent tailor. She started this independent tailoring activity in January 2009. She estimated that in 2009 she would earn gross revenues of 12,000 lei and have deductible expenses of 8,000 lei, thus she decided to use the real system in determining the net income from this independent tailoring activity. Mrs Tomato did not register herself for VAT purposes. At the end of 2009, she recorded the following information regarding her independent tailoring activity:

- (i) Invoices issued in 2009 for tailoring: 20,000 lei. Mrs Tomato's customers paid her in 2009 only 18,000 lei of these invoices;
- (ii) Bought raw materials for 15,000 lei. Mrs Tomato paid to the suppliers only 10,000 lei in 2009;
- (iii) The tailoring atelier of Mrs Tomato is in one room of her house. This room occupies one-third (1/3) of the surface of her house. During 2009 Mrs Tomato paid 12,000 lei for the heating and energy of her house;
- (iv) In May 2009, Mrs Tomato bought and started using a sewing machine for 7,200 lei. The depreciation period for this sewing machine is five years, using the straight-line method. On 1 December 2009, Mrs Tomato decided that she needed a better sewing machine, so she sold the sewing machine she bought in May for the sum of 6,800 lei;
- (v) To buy the sewing machine in May 2009 Mrs Tomato took a loan of 7,200 lei from her husband. Her husband did not request interest;
- (vi) In October 2009 Mrs Tomato decided to sponsor a local contest of young tailors for the sum of 1,000 lei.

After the year 2009 ended Mrs Tomato decided that she would donate 2% of her income tax to a local non-profit organisation that helps children with disabilities.

Required:

- (a) State which of the revenues and benefits in kind received by Mrs Tomato should or should not be included in her gross employment income for the purpose of computing employment income tax and determine the value of her gross employment income for March 2009. (9 marks)
- (b) Calculate the income tax that Garden SRL must withhold from Mrs Tomato's March 2009 employment income. (5 marks)
- (c) Determine the prepayments of income tax due by Mrs Tomato in 2009 for her independent tailoring activity and state the dates when these prepayments are due. (2 marks)
- (d) Determine the final income tax due by Mrs Tomato for the year 2009 for her independent tailoring activity. (7 marks)
- (e) Explain how and when the final income tax calculated for the year 2009 (in (d)) will be settled against the prepayments made during the year. (3 marks)
- (f) State Mrs Tomato's tax declaration obligations in respect of the income she earns and the deadlines for submitting them. (4 marks)

(30 marks)

- 2** Seed SRL is a company in the field of advanced biotechnology established in Romania since 2004 and owned 100% by Mr Eggplant, an individual resident in Romania. When it started its business in 2004, Seed SRL decided to pay corporate income tax and not to apply the special scheme of corporate tax for very small enterprises. At the end of 2004 Seed SRL registered a tax loss of 10,000 lei and decided that starting with 2005 it would apply the special scheme of corporate tax for very small companies. At the end of 2008, Seed SRL no longer fulfilled the conditions needed to apply the special scheme of corporate tax for very small companies, so starting with the year 2009 it will pay corporate income tax again. Seed SRL is not registered for value added tax (VAT) purposes and does not have an obligation to register in 2009.

The following information is from the profit and loss account of Seed SRL for the year ended 31 December 2009.

	Note	Total 2009 Lei
Revenues		
Sales revenue		210,000
Revenue generated by the revaluation of long-term securities	1	4,500
Dividend revenue	2	20,000
Interest revenue	3	7,500
Revenue generated by the reimbursement of paid fine	4	2,000
		<u>244,000</u>
Expenses		
Raw materials		67,000
Royalties, management and other services	5	16,400
Withholding tax for royalty fees paid to non-residents	6	1,600
Salaries and social security contributions		20,000
Stolen tangible assets	7	25,000
Depreciation	8	12,000
Pleasure trip of Mr Eggplant in Dubai		25,200
Services rendered by an inactive taxpayer		10,000
Energy and heating	9	13,000
Corporate income tax expense	10	1,200
Fines	4	3,000
		<u>194,400</u>

Notes:

1 – Revenue generated by the revaluation of long-term securities

In April 2008, Seed SRL made some long-term investment in shares, as follows:

- in Salad SA, a Romanian resident company where it has a participation of 3%;
- in Oil SA, a Romanian resident company where it has a participation of 98%;
- in Soup Co, a company resident in Great Britain, where it has a participation of 18%.

On 31 December 2009, according to the accounting rules, Seed SRL valued these investments and booked positive differences for all three investments, as follows:

- 2,000 lei for the shares issued by Salad SA
- 1,500 lei for the shares issued by Oil SA
- 1,000 lei for the shares issued by Soup Co.

2 – Dividend revenue

Due to its long-term investments (as presented in note 1 above) Seed SRL received dividends for the financial year 2008, as follows:

- from Salad SA, 3,000 lei, in May 2009;
- from Oil SA, 5,000 lei, in June 2009;
- from Soup Co, the equivalent of 12,000 lei, in July 2009.

3 – Interest revenue

In 2009 Oil SA experienced some cash-flow difficulties. Thus, it asked Seed SRL to help it with a loan. On 1 July 2009, Seed SRL gave Oil SA a loan of 100,000 lei bearing interest of 15% per year. At the end of 2009, Oil SA paid Seed SRL interest for 2009 of 7,500 lei.

4 – Fine

In January 2009, Seed SRL was controlled by the Labour Protection Institute and was amended with 3,000 lei for not fulfilling its obligation in the field. Seed SRL paid the fine in January 2009, but contested it. The Labour Protection Institute partially accepted the contestation and, in July 2009, reimbursed 2,000 lei to Seed SRL, as it ruled that the fine should have been for only 1,000 lei. This amount was registered as revenue from the reimbursement of fine.

5 – Royalties, management and other services

In 2009, Seed SRL received the following services from its suppliers:

- royalty fees for services rendered by a company resident in the USA for which it paid an amount of 8,400 lei;
- management services rendered by a company resident in Romania for which it paid an amount of 5,000 lei;
- reparation services rendered by a company resident in Romania for which it paid an amount of 3,000 lei.

For the royalty fees and reparation services, Seed SRL had signed contracts with its suppliers, but for the management activities there is no contract between Seed SRL and its supplier. The management regards these as day-to-day activities.

6 – Withholding tax for royalties paid to non-residents

According to the royalty contract concluded between Seed SRL and the American supplier (mentioned in note 5 above), Seed SRL must pay to the latter an amount of 8,400 lei for the services provided. The management of the American company informed Seed SRL, that any Romanian taxes due for this income shall be paid by the Romanian company. The American company provided Seed SRL with a fiscal certificate of residence in USA.

Seed SRL applied the gross-up formula, using a tax rate of 16%, and computed the tax on the revenues received by non-residents as 1,600 lei and paid this amount to the Romanian tax authorities. According to the tax treaty between Romania and USA, the tax rate applicable to royalties is 10%.

7 – Stolen tangible assets

In November 2009, thieves broke into Seed SRL's premises and stole two items of equipment. The non-depreciated value of the two items at the time of the theft was of 25,000 lei. The items were not insured, and Seed SRL could not charge the value to any employee or other person.

8 – Depreciation

The depreciation booked in the accounts is the depreciation for the stolen equipment, registered during the period January to October 2009. The company uses the same useful life for both tax and accounting depreciation.

9 – Energy and heating

The offices of Seed SRL are rented from an individual, Mr Fennel. For the energy it uses, Seed SRL has signed a contract with the energy supplier, so the invoices are in Seed SRL's name. For the heating it uses, Seed SRL does not have a contract with the heating supplier, but Mr Fennel does. So, the invoices are issued by the heating supplier in Mr Fennel's name and sent to Seed SRL, which pays them. There is no contract between Seed SRL and Mr Fennel for heating services, and Mr Fennel does not issue any invoice to Seed SRL for the heating.

The energy invoices in 2009 totalled 6,000 lei and the heating invoices 7,000 lei.

10 – Corporate income tax expenses

During 2009, Seed SRL declared the following values of corporate income tax for 2009:

- 1st quarter: 300 lei
- 2nd quarter: 400 lei
- 3rd quarter: 500 lei
- 4th quarter: 0 lei

At each deadline, Seed SRL paid the above mentioned amounts.

11 – Net income distribution

At the end of 2009, Seed SRL will distribute 2,000 lei of its net income to its legal reserves. It is the first year in which the company has made a distribution to the legal reserves. The owners' equity of Seed SRL is 20,000 lei.

The rest of the net income will be distributed as dividends.

Required:

- (a) Calculate the final corporate income tax due by Seed SRL for the year ended 31 December 2009.**

Note: no reference should be made to minimum tax. (18 marks)

- (b) State, giving reasons, the deadline for declaring Seed SRL's final corporate income tax for 2009. (2 marks)**

- (c) Explain how and when the corporate income tax calculated for the year ended 31 December 2009 will be settled against the prepayments made during the year. (2 marks)**

- (d) Give THREE suggestions of measures that Seed SRL could take to transform some of its non-deductible expenses into deductible expenses. (3 marks)**

(25 marks)

- 3** Rice SRL is a company that specialises in organising events and it has three offices in Romania. It has been registered for value added tax (VAT) purposes since its establishment in 2004. In 2008, the company generated sales of 450,000 lei.

In March 2009, the company registered the following transactions:

1. Issued invoices of 20,000 lei, exclusive of VAT for conferences organised at different hotels located in Romania. The invoices were issued as follows: one of 10,000 lei, exclusive of VAT for a client established and registered for VAT purposes in Romania and one of 10,000 lei exclusive of VAT for a client established and registered for VAT purposes in Germany.
2. Due to financial difficulties, Rice SRL closed the business of one of its offices and rented the building to a bank. As Rice SRL did not make the option to tax these rental activities, the standard treatment will apply. The monthly rent is set at 5,000 lei, exclusive of VAT. Rice SRL issues the first invoice for the rent to the bank in March 2009. The rented building had been bought by Rice SRL in January 2008 at the price of 800,000 lei plus VAT. Rice SRL deducted all the input VAT in January 2008.
3. On 12 March 2009, the electricity bill for February was received for an amount of 1,190 lei inclusive of VAT. The date of the invoice is 25 February 2009. On 30 March 2009, Rice SRL received the electricity bill for March, for an amount of 1,428 lei, inclusive of VAT. The date of this invoice is 25 March 2009.
4. The general manager of the company participated in a conference on 'Events organising speciality' organised in France. He stayed at a hotel in Paris, which issued an invoice for EUR 300 plus VAT at 19·60% (VAT standard rate in France) in Rice SRL's name.
5. Rice SRL bought IT equipment from Poland, at a price of EUR 3,000, exclusive of VAT. The purchase was made from a company registered for VAT purposes in Poland which transported the goods from Poland to Romania.
6. Rice SRL bought cookies, candies and fruit juices which will be given to the Rice SRL's shareholders for entertainment. Their price was 2,000 lei, exclusive of VAT.
7. Two mobile phones used by Rice SRL's employees broke down. Rice SRL sent them back to the manufacturer in France to be repaired, the manufacturer repaired them and sent them back to Romania. The manufacturer issued an invoice for the repair service of EUR 200, with no VAT.
8. On 3 March 2009, one of Rice SRL's clients was declared insolvent, as the definitive and irrevocable Court decision for closing the procedure of insolvency was given. The decision was received by Rice SRL on 12 March 2009. During 2008 Rice SRL had issued invoices to this client of 12,000 lei plus VAT. Due to the client's insolvency, Rice SRL did not receive payment for any of these invoices.

Required:

- (a) **State, giving reasons, whether in 2009 Rice SRL should prepare quarterly or monthly VAT returns.** (3 marks)
- (b) **Determine the total input and the total output VAT arising from transactions (1) to (8) in the month of March 2009, clearly identifying any transactions that do not generate VAT.** (12 marks)
- (15 marks)**

- 4** Mr Cucumber is an individual resident in Romania. He is employed by Grocery SRL. As he is not very satisfied with his salary, he has sought other sources of income. His wife suggested he should invest on the stock market. He took her advice and made the following transactions:

Date	Transaction	Price/share
1 August 2007	Buy 1,000 shares CO1	10 lei
10 October 2007	Buy 2,000 shares CO2	5 lei
12 January 2008	Buy 1,500 shares CO3	8 lei
13 January 2008	Sell 500 shares CO1	12 lei
10 February 2008	Buy 800 shares CO4	11 lei
15 February 2008	Sell 600 shares CO2	4 lei
13 May 2008	Sell 500 shares CO3	13 lei
14 November 2008	Sell 1,400 shares CO2	8 lei
20 November 2008	Sell 500 shares CO1	9 lei
3 December 2008	Sell 800 shares CO4	13 lei
2 February 2009	Sell 1,000 shares CO3	4 lei

In addition, in 2008 Mr Cucumber participated in three quiz-shows on three different television channels, where he gained the following prizes for giving the best answers:

- on 13 July 2008 a prize of 1,000 lei
- on 13 October 2008 a prize of 20,000 lei
- on 14 December 2008 a prize of 500 lei.

All the prizes were in money and the amounts represent the gross revenues.

Required:

- (a) **Compute the prepayments of tax due by Mr Cucumber in 2008 for the income from the sale of shares. Explain how and when these amounts will be paid to the tax authority.**

Note: ignore all transaction costs. (5 marks)

- (b) **Compute the final income tax due by Mr Cucumber in 2008 for the income from the sale of shares.**

(4 marks)

- (c) **Explain how and when the final income tax for the income from the sale of shares in 2008 will be settled against the prepayments made during the year.** (3 marks)

- (d) **Compute the tax paid by Mr Cucumber on his winnings from the quiz shows.** (3 marks)

(15 marks)

5 Potato SRL is a company resident in Romania. Its shareholders are:

- Ground Co, a company based in Poland, which owns 20% of Potato SRL;
- Earth Ltd, a company based in France, which owns 50% of Potato SRL; and
- Land SRL, a company based in Romania, which owns 30% of Potato SRL.

Potato SRL has transactions with all three of its shareholders.

Potato SRL is registered for value added tax (VAT) purposes and pays corporate income tax. In May 2009, it recorded the following obligations due to the state and social security budgets:

	lei
– corporate income tax	20,000
– value added tax	10,000
– income tax on employees' salaries	3,000
– social security contributions for employees	2,000
– tax on dividends paid to shareholders in May 2009	1,500
– tax on royalties paid to non-residents	1,000

Required:

- (a) State which of the obligations due by Potato SRL to the State budget are direct taxes and which are indirect taxes. Explain briefly the difference between direct taxes and indirect taxes. (4 marks)
- (b) Explain which tax returns Potato SRL should use in order to declare the amounts that it has to pay to the tax authorities. Clearly identify the obligations that must be stated in each return and state the deadline for submitting these tax returns. (5 marks)
- (c) Compute the late payment penalties that will be charged if Potato SRL does not pay any of its obligations to the state and social security budgets until 8 July 2009. (2 marks)
- (d) State, giving reasons, with which of its owning companies Potato SRL is affiliated, according to the transfer pricing rules. (2 marks)
- (e) State, giving reasons in respect of which transactions carried out with its owning companies Potato SRL should apply the transfer pricing rules. (2 marks)

(15 marks)

End of Question Paper