

Fundamentals Level – Skills Module

# Taxation (Romania)

Monday 1 June 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 3–4.

**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

**This is a blank page.**  
**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%

### Income from employment – personal deduction

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

\* The value of the personal deduction resulting from this 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

Lumpsum expenses quota 25%

### Copyright income

Lumpsum expenses quota for	
– monumental works of art	50%
– other works of art	40%

### Self-employed income

The allowance accepted for public institution employees 13 lei/day/person

### 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.  
Accepted interest rate set by the Tax Code for the 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 rates:  
2007 2%  
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 will be specified in the problem, if 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

Standard rate 19%  
Reduced rate 9%

### Rate of exchange

Euro/lei €1 = 3.65 lei

**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 Green SRL, a company resident in Romania, was established in 2004 in the field of ice-cream production and sale. Green SRL has always been owned by the same two shareholders: Five Co, a company resident in France (55%) and Mr Six, a Romanian resident (45%). Green SRL is registered for value added tax (VAT) purposes since 2006. In 2008 it registered the following revenues and expenses:

	Note	TOTAL 2008 Lei	Quarter 1, 2008 Lei	Quarter 2, 2008 Lei	Quarter 3, 2008 Lei	Quarter 4, 2008 Lei
Revenues:						
Sales revenues		103,000	25,000	17,000	21,000	40,000
Revenue from selling a tangible asset	1	2,500	2,500			
Revenue from dividends	2	7,000		5,000	2,000	
		<u>112,500</u>	<u>27,500</u>	<u>22,000</u>	<u>23,000</u>	<u>40,000</u>
Expenses:						
Material expenses		(52,000)	(20,000)	(6,000)	(15,000)	(11,000)
Salary expenses	3	(15,750)	(3,150)	(3,150)	(4,725)	(4,725)
Expenses for insurance premiums for employees	4	(3,300)			(3,300)	
Protocol expenses	5	(6,100)			(3,500)	(2,600)
Social expenses	6	(3,600)				(3,600)
Expense for the non-depreciated value of a sold tangible asset	1	(1,000)	(1,000)			
Tangible asset depreciation	7	(1,200)	(300)	(300)	(300)	(300)
Expense for the decrease in value due to the revaluation of a tangible asset	8	(3,000)				(3,000)
Expenses generated by unfavourable exchange rate differences	9	(610)				(610)
Interest expenses	10	(10,170)				(10,170)
		<u>(96,730)</u>	<u>(24,450)</u>	<u>(9,450)</u>	<u>(26,825)</u>	<u>(36,005)</u>

Notes:

1 – Revenue and expense from selling a non-depreciated asset

In January 2008 Green SRL sold the equipment EQ01 for a price of 2,500 lei. The non-depreciated value of the equipment in January 2008 was of 1,000 lei. The equipment had been revalued in December 2006, when a revaluation reserve of 3,000 lei was constituted.

2 – Revenue from dividends

Green SRL invested in two companies in 2005; One Co and Two Co:

- One Co is a company resident in the UK, and Green SRL's holding is 25%;
- Two Co is a company resident in France, and Green SRL's holding is 5%.

In April 2008 Green SRL received 5,000 lei in dividends from One Co. In August 2008 Green SRL received 2,000 lei in dividends from Two Co.

3 – Salary expenses

Salary expenses include gross salaries and employer's social contributions. 20% of the total salary expenses represent employer's social contributions.

#### 4 – Expenses for insurance premiums for employees

Green SRL has three employees. The company decided to pay the following insurance premiums for its employees in 2008:

- 900 lei for each employee as voluntary health insurance; and
- 200 lei for each employee as life insurance.

#### 5 – Protocol expenses

Green SRL's management is aware that maintaining a good business environment with its clients is very important. In September 2008 it invited its clients to a business dinner. Green SRL paid 3,500 lei, exclusive of VAT for this dinner. In December 2008, Green SRL bought sweets and cookies as gifts for its clients, for 2,600 lei, exclusive of VAT. In both September and December 2008, Green SRL considered the input VAT for the protocol expenses as VAT deductible.

#### 6 – Social expenses

In October 2008, a child of one of Green SRL's employees needed treatment for a very serious medical problem. Green SRL decided to support its employee and pay for part of this medical treatment. It paid 3,600 lei in order to cover 70% of the cost of this medical treatment.

#### 7 – Tangible asset depreciation

In December 2007, Green SRL bought equipment (EQ02) for 12,000 lei. According to the company's policy, the accounting depreciation was computed using the straight-line method and the tax depreciation was computed using the accelerated method.

#### 8 – Expense for the decrease in value due to the revaluation of a tangible asset

In December 2008, Green SRL revalued the equipment EQ02 bought in December 2007 and found a decrease in value of 3,000 lei. The 3,000 lei was registered as an expense in order to reflect the fair value of the asset.

#### 9 – Expense generated by unfavourable exchange rate differences

In December 2008, Green SRL registered an expense for exchange rate differences due to a loan taken from Three Co, a company not specialised in the granting of loans. The sum of the loan is €20,000. The loan was granted in 2007 for three years with an interest rate of 6·5% p.a. Green SRL's debt-to-equity ratio is 2·75.

#### 10 – Interest expense

The interest expense is generated by two loans taken out by Green SRL in 2007:

- the loan of €20,000 from Three Co, as described in note 9 above;
- a loan from Four Bank, a Romanian bank, authorised by the Romanian National Bank. The value of this loan, which was given in 2007 for five years with an interest rate of 12·5% p.a., is 43,400 lei.

#### Other information:

##### (i) Revaluation reserve incorporation

In December 2008, Green SRL decided to transform into equity the revaluation reserve of 3,000 lei constituted in December 2006 for the equipment EQ01 (see note 1 above).

##### (ii) Dividend distribution

All of Green SRL's net profit will be distributed as dividends in 2009. These dividends will be paid in May 2009.

##### (iii) Financial statements

Green SRL did not finalise its financial statements for 2008 until 15 February 2009.

##### (iv) Corporate income tax payer

Green SRL has always paid corporate income tax, ever since its establishment in 2004.

**Required:**

- (a) Calculate the corporate income tax liability of Green SRL for each quarter of 2008. (10 marks)
- (b) Calculate Green SRL's total corporate income tax liability for the year ended 31 December 2008. (12 marks)
- (c) Explain how and when Green SRL's corporate income tax liability for the year ended 31 December 2008 will be settled. (2 marks)
- (d) Determine the tax on dividends that must be withheld by Green SRL when distributing the dividends for 2008. (4 marks)
- (e) Explain the impact of the revaluation on the computation and calculate the amount of the tax depreciation for the equipment EQ02 for the year 2009. (2 marks)

**(30 marks)**

**2** Mr Red is resident in Romania. The following information is available in respect of his incomes earned in 2008:

(1) Employment income

Mr Red is employed full-time by Seven SRL, which is his basic activity. He is also employed by Eight SRL where he has a part-time employment contract (2 hours/day). The following information is available in respect of Mr Red's employment contracts:

	Lei, monthly values	
	Seven SRL	Eight SRL
Basic salary	2,000	800
Seniority bonus	300	–
Other bonuses	200	150
Union contribution	100	100
Contribution to facultative pension schemes	40	50

(2) Rental income

Mr Red bought two apartments in Bucharest in 2003. In 2006 he bought another four apartments. He has been letting all six apartments since May 2007. In December 2007, Mr Red negotiated with his tenants a monthly rent of 1,100 lei/month/apartment for the entire year 2008. In June 2008, Mr Red decided to increase the rent. Starting from July 2008, the rent became 1,300 lei/month/apartment.

(3) Other income

In October 2008, Mr Red sold the two apartments he bought in 2003 at the following prices: 150,000 lei for the first apartment, and 255,000 lei for the second apartment. Also in October 2008 he sold one of the apartments he bought in 2006 for the price of 325,000 lei. Mr Red allowed his tenants to use all three of the apartments until the end of October 2008.

(4) Expenses incurred in connection with the above income

At the beginning of 2008 Mr Red estimated that he would not incur any expenses in connection with his income. But, during 2008 he actually incurred the following expenses in this respect:

- 9,000 lei for gasoline. Mr Red used his personal car, as follows: 20% for administrating his rented apartments and 80% for going to his two employments.
- 1,800 lei for the gifts he bought for his tenants on the occasion of Easter.
- 2,500 lei for the gifts he bought for his colleagues at Seven SRL and Eight SRL on the occasion of Easter.
- 8,500 lei for whitewashing one of the rented apartments.

In March 2008 Mr Red decided that he needed assistance with the administration of the apartments. Thus, starting from April 2008 he employed a person as administrator. Mr Red paid this person a monthly gross salary of 1,200 lei.

Other information

- (i) Mr Red has under his care his child and his mother. His child is 14 years old and has a scholarship of 350 lei per month. Mr Red's mother's only income is the dividends she obtains from Nine Co. In July 2008 she received 1,000 lei as net dividends.
- (ii) Having in mind that he has more than five rental contracts, Mr Red opted for the real system for taxing his rental income.
- (iii) The work accident fund contribution rate for employees in the renting business is 0.526%



**Required:**

- (a) Calculate the income tax that should have been withheld during 2008 by Seven SRL and by Eight SRL respectively from Mr Red's monthly employment income. (8 marks)
- (b) Calculate the prepayments of income tax due by Mr Red on his income from rents in 2008 and state the deadline for making these prepayments. (4 marks)
- (c) Determine the final tax due on Mr Red's income from rents for 2008. (7 marks)
- (d) Calculate the income tax paid by Mr Red on his income from selling the three apartments and state who has the obligation to calculate and pay this income tax to the state budget. (3 marks)
- (e) State and explain the systems that can be used for determining the tax base of a self-employed person (a person who carries out an independent activity). (3 marks)

**(25 marks)**

- 3** Purple SRL is a company resident in Romania and registered for value added tax (VAT) purposes in Romania, which specialises in manufacturing computers. The production cost of one computer is 2,000 lei and the selling price is 2,300 lei. Both these prices are exclusive of VAT. For all its acquisitions, Purple SRL considers the input VAT as VAT deductible.

**Required:**

**(a) Calculate the amount of input/output value added tax (VAT) that should be registered by Purple SRL (if any) for each of the following actions:**

- (i)** Purple SRL sponsors a local school with five computers. The computers are granted to the pupils who obtain the best results each year in the informatics Olympics. Purple SRL's turnover during 2008 is 600,000 lei. (2 marks)
- (ii)** Thieves stole 10 computers that were insured with an authorised insurance company. After the theft Purple SRL requested from the police an official document proving the theft. The police issued the requested proof. Subsequently, Purple SRL presented the proof to the insurance company, which accepted it and compensated fully the company's loss. (2 marks)
- (iii)** Purple SRL decided to scrap one of the items of equipment previously used for assembling computers. The equipment was bought in February 2007 and Purple SRL scrapped it in March 2008. The purchase price of the equipment was 23,000 lei, exclusive of VAT. Purple SRL used the straight-line method over a period of 10 years for depreciating this equipment. (2 marks)

**(b) Explain the VAT treatment of the following complex transactions:**

- (i)** In order to promote its products, Purple SRL sent three computers from Bucharest (Romania) to a three-day exhibition in Hamburg, Germany. At the end of the exhibition a German company (registered for VAT purposes in Germany), bought one of Purple SRL's computers. The other two computers were brought back to Romania. (3 marks)
- (ii)** Nine Co, a company based and registered for VAT purposes in Bulgaria, bought 20 computers from Purple SRL three years ago. Five of the computers broke, Nine Co sent them from Bulgaria to Romania to be repaired by Purple SRL. The cost of the repair service (exclusive of VAT) was 500 lei/computer. After the repair was completed three of the computers were sent back to Bulgaria, but two of them are to remain in Romania as Nine Co decided to keep them as a deposit in Romania. (3 marks)
- (iii)** Purple SRL received a mail order from Mr Ten in Russia who is interested in buying a computer. Purple SRL agreed to sell the computer to Mr Ten. The computer was dispatched by Purple SRL to Mr Ten's private residence in Russia. (3 marks)

**(15 marks)**

- 4 Mrs Pink started her own self-employed activity in 2000, in the field of fashion design. Since then her business has grown continuously. In 2008, according to her accounting books, she recorded the following receipts and payments in connection with her activity:

	Lei
Receipts	
Sales revenue	250,000
Credit from Twelve Bank	125,000
Sponsorship from a large manufacturing company	10,000
Payments	
Raw materials	130,000
Salary expenses	23,000
Allowance expenses, for a five-day visit to Ploiesti (Romania), made by two employees. (Allowance/day/person of 200 lei)	2,000
Gross royalty expense paid to an EU company	24,000
Prepayments of income tax for 2008	4,000
Social security and health contributions for Mrs Pink	5,000

In 2008 Mrs Pink discovered that she is also very talented in writing stories for children. In April 2008 a publishing house convinced Mrs Pink to publish her stories in a popular magazine and they signed a contract of copyright cede. According to the contract Mrs Pink will receive gross revenue of 5,000 lei for each story she publishes. The amount shall be collected by Mrs Pink in the month when the story is published. Up until the end of 2008, Mrs Pink had published three stories, in July, October and December, respectively. The stories Mrs Pink published may not be considered monumental works of art. Mrs Pink did not opt to use the real system for taxing her copyright income.

**Required:**

- (a) Calculate Mrs Pink's total income tax liability for 2008. (8 marks)
- (b) State the deadline for Mrs Pink to submit her income tax declaration for 2008. (1 mark)
- (c) Calculate the difference of income tax to be paid by/refunded to Mrs Pink when she settles her final income tax liability for 2008. (2 marks)
- (d) Explain which withholding tax rate should be used for the royalty Mrs Pink pays to the EU company, together with her reporting obligations in respect of this payment. (4 marks)

**(15 marks)**

- 5 Blue SRL is a limited liability company acting in the field of food production, which trades and has premises across Romania. For 2008 Blue SRL applied the special scheme of corporate tax for very small companies. The revenues and expenses incurred each quarter in 2008 are as follows:

	TOTAL 2008 Lei	Quarter 1, 2008 Lei	Quarter 2, 2008 Lei	Quarter 3, 2008 Lei	Quarter 4, 2008 Lei
Revenues:					
Sales revenue	527,000	125,000	108,000	158,000	136,000
Revenue generated by inventories variation	80,000	10,000	15,000	25,000	30,000
Interest revenue	5,500	1,200	1,100	1,500	1,700
	<u>612,500</u>	<u>136,200</u>	<u>124,100</u>	<u>184,500</u>	<u>167,700</u>
Expenses:					
Material and salary expenses	447,000	115,000	127,000	98,000	107,000
Cash sponsorship expenses	2,500			2,500	
	<u>449,500</u>	<u>115,000</u>	<u>127,000</u>	<u>100,500</u>	<u>107,000</u>

Blue SRL did not finalise its financial statements for 2008 until 15 February 2009.

**Required:**

- (a) **State ANY THREE situations that may cause Blue SRL to cease to apply the special scheme of corporate tax for very small companies. For each situation explain when the shift from corporate tax for very small companies to normal corporate income tax will take place.** (3 marks)
- (b) **Calculate Blue SRL's corporate tax for very small companies/corporate income tax liability for each quarter of 2008.** (12 marks)

**(15 marks)**

**End of Question Paper**