

Fundamentals Level – Skills Module

Taxation (Romania)

Monday 7 June 2010

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)

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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%

Income from employment – personal deduction

Number of dependent persons for the taxpayer	Monthly income (MI) – lei		
	Below 1,000	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 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
Up to 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
Up to 200,000 lei	2%
Above 200,000 lei	4,000 lei + 1% for what exceeds 200,000 lei

Income from renting

Lumpsum deductible expenses quota 25%

Copyright income

Lumpsum deductible expenses quota for:

– monumental works of art	50%
– other	40%

Self-employed income

The allowance accepted for public institutions' employees	13 lei/day/person
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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 prizes 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 the loans denominated in foreign currency	8% p.a.
Inflation rate for prepayments of corporate income tax in 2009	5.5% p.a.
The allowance accepted for public institutions' employees	13 lei/day/person
The maximum value of deductible expenses with voluntary pension contribution for employees	€400/tax year/employee
The maximum value of deductible expenses with private healthcare insurance contribution for employees	€250/tax year/employee
The maximum value of tax credit for sponsorship expenses	20% of the corporate income tax but no more than 3‰ of sales revenue

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

Class of asset	Depreciation period (years)
Buildings	50
Machines and equipment	10
Computers	3

Note: The straight-line depreciation method on the above periods should be used in all cases, except where a question specifically indicates another method and/or period is to be used.

Corporate tax for very small companies

Tax rates:

2008	2·5%
2009	3·0%

Minimum tax applicable starting from 1 May 2009 for both Corporate income tax and Corporate tax for very small companies

Annual revenues recorded in the previous year (lei)	Minimum annual tax (lei)
0 – 52,000	2,200
52,001 – 215,000	4,300
215,001 – 430,000	6,500
430,001 – 4,300,000	8,600
4,300,001 – 21,500,000	11,000
21,500,001 – 129,000,000	22,000
Over 129,000,000	43,000

Social security and other insurance contributions

Employed persons

	Employee	Employer
Social security fund	10·5%	20·8%
Health care insurance fund	5·5%	5·2%
Unemployment fund	0·5%	0·5%
Work accident fund	–	0·15%–0·85%*
Health insurance indemnities fund	–	0·85%
The fund for guaranteeing salary payments	–	0·25%

Self-employed persons

Social security fund	31·30%
Health care insurance fund	5·50%
Unemployment fund	1·00%
Work accident fund	0·15%–0·85%*
Health insurance indemnities fund	0·85%

* The exact value will 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 rates	9% and 5%

Exchange rate

Euro/lei €1 = 4·20 lei

Note: This rate shall be used in all cases except where a question specifically indicates another rate is to be used.

Penalties

Penalty rate for late tax payments 0·1%/day

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** Lions SRL is a company which manufactures pet food. Lions SRL is a Romanian legal person based in Bucharest which is owned 100% by Tropical Forest SA, another Romanian legal person, based in Cluj. Since its incorporation in 2002, Lions SRL paid corporate income tax and was registered for value added tax (VAT) purposes. In 2008, Lions SRL registered total revenues of 526,000 lei, out of which 400,000 lei were sales revenue, 26,000 lei were interest revenue and 100,000 lei were dividend revenue.

In the first quarter of 2009, Lions SRL registered the following values in its profit and loss account:

	Note	lei
Revenues		
Sales revenue		65,000
Revenue from selling shares on the Romanian Stock Exchange market	1	5,200
Interest revenue	2	7,100
Provision revenue	3	2,300
		<hr/>
		79,600
Expenses		
Raw materials		
– consumed	4	35,000
– depreciated	4	2,100
Gross salaries		6,000
Social security contributions for employees		1,665
Voluntary pension contribution for employees	5	3,780
Presents for employees	6	300
Book value of shares sold on the Romanian Stock Exchange market	1	10,500
Bad debts losses	3	2,737
Sponsorship	7	5,000
Equipment expense	8	3,600
		<hr/>
		70,682

The only additional revenues and expenses generated by Lions SRL in each of the following three quarters of 2009 are (the values are per quarter):

	Second quarter 2009 lei	Third quarter 2009 lei	Fourth quarter 2009 lei
Revenues			
Sales revenue	0	30,000	55,000
Expenses			
Consumed raw materials	0	28,000	48,000
Gross salaries	6,000	6,000	6,000
Social security contributions for employees	1,665	1,665	1,665
Voluntary pension contribution for employees	3,780	3,780	3,780

Notes:

- 1 Revenue from selling shares on the Romanian Stock Exchange market**
In 2008 Lions SRL had significant liquidity, which it invested on the Romanian Stock Exchange market. In December 2008 it bought shares, with an acquisition value of 10,500 lei. In the first quarter of 2009, the value of these shares had fallen, substantially and Lions SRL, sold them for 5,200 lei in order to avoid bigger losses.
- 2 Interest revenue**
In 2009 Lions SRL held deposits with three banks for which it received a total of 7,100 lei as interest.
- 3 Bad debts losses**
In March 2007, Lions SRL sold pet food to a customer for the amount of 2,300 lei plus VAT. During 2008 the amount remained outstanding. In December 2008, Lions SRL created a provision for this receivable, in the amount of 2,300 lei, when the procedure of bankruptcy was opened for that customer. The expense of this

provision was entirely tax deductible in 2008. In March 2009, the bankruptcy procedure closed and it became certain that the receivable would never be cashed in. Thus, Lions SRL recorded the entire value of the receivable, of 2,737 lei, including VAT, as an expense not knowing that the VAT could have been adjusted. At the same time, the provision of 2,300 lei was recorded to revenue.

4 Raw materials

For producing pet food, in the first quarter of 2009, Lions SRL consumed raw materials of 35,000 lei. Due to objective causes, which can be proved with documents, additional raw materials of 2,100 lei were depreciated. The loss could not be charged to anyone, and the goods were destroyed, so they cannot be introduced on to the market. Lions SRL was not insured for this type of loss. The loss may not be qualified as perishables (rom: 'perisabilități').

5 Voluntary pension contribution for employees

Lions SRL pays a contribution for a voluntary pension fund for two of its employees. In each month of 2009 Lions SRL paid 630 lei for each of these two employees.

6 Presents for employees

On the occasion of 8 March (mother's day) Lions SRL gave each of its two women employees a present of 150 lei. Thus the total value of presents made was 300 lei.

7 Sponsorship

In January 2009, Lions SRL sponsored a beauty contest for dogs for an amount of 5,000 lei. The sum was paid in cash.

8 Equipment expense

In February 2009 bought equipment for 3,600 lei, which it is estimated to be used by the company for at least 15 years. However, according to the accounting policy of Lions SRL, any equipment with a value of less than 4,200 lei shall be recognised, from an accounting point of view, as a current operating expense. The equipment functioned for the first time in February 2009.

Additional information:

(i) Reserves incorporation

In 2007, Lions SRL revaluated its fixed assets. The amount of the revaluation reserve was 5,000 lei. In 2008, these assets were sold and the surplus from the revaluation considered realised. In March 2009, Lions SRL incorporated these reserves, which previously were entirely tax deductible, into its equity.

(ii) 2008 tax loss

At the end of 2008, Lions SRL registered a tax loss of 8,000 lei. The company's final result for 2008 was established on 25 February 2009, when Lions SRL filed the tax declaration for 2008.

(iii) Finalisation of financial statements for 2009

Lions SRL has determined that it will not be possible for it to finalise its financial statements before 1 April 2010, when the audit for 2009 is due to be completed.

Required:

Calculate the amount of corporate income tax due by Lions SRL for each quarter of 2009 at each quarterly deadline, clearly identifying any quarter when minimum tax is payable and showing how you have computed the value of the minimum tax.

Notes:

1. You are not required to calculate the final corporate income tax liability for 2009.
2. You should assume that any benefits in cash/kind that may arise are not taxed at the employee level.

(30 marks)

2 Mrs Deer has been employed by Forest SA as an accountant, since 2005. She does not have any persons in her care.

According to her employment contract, she received monthly the following revenues and benefits in kind, which formed her monthly gross employment income, from Forest SA:

- Basic salary: 2,500 lei;
- Confidentiality bonus: 5% of the basic salary;
- Use of company car for business purposes;
- Use of company phone for business purposes;
- Subscription to a wellness centre: 500 lei per month.

Every month she uses the company car for 150 km. Only 100 km may be justified as being for business purposes. The input value of the car is 30,000 lei. Her monthly phone calls, using the company phone, amount to 150 lei (inclusive of VAT). All the phone calls may be proved to be for business purposes.

During 2006–2009 Mrs Deer studied to become a chartered accountant. She was sure that working as a self-employed chartered accountant would provide her with a higher income than just being employed. So, she terminated her employment contract with Forest SA on 30 June 2009 and began her own self-employed activity as a chartered accountant starting from 1 July 2009.

At the beginning of her self-employed activity, Mrs Deer estimated that in 2009 she would obtain gross revenues of 38,000 lei and record deductible expenses of 25,000 lei. She did not register for VAT as she made the option to apply the special scheme for very small companies. Starting from 1 July 2009, she had four clients whom she charges a monthly fee for accounting services of 1,000 lei per client. Starting with September 2009, she had two more clients to whom she charged 1,200 lei/month each. She issues invoices for the services rendered to all her clients on the last day of each month. The revenues are all cashed in the next month after invoicing, but all the expenses of the activity are paid in the month when they are incurred.

In 2009 the expenses in connection with Mrs Deer's self-employed activity were:

- Rent for the office: 1,200 lei/month. The office was rented starting 1 July 2009 for a period of one year.
- Expenses for materials (paper, pens etc): 300 lei/month for the period July to October and 360 lei/month from November onwards.
- Phone calls and internet services: 350 lei/month starting with July 2009.
- Electricity and water: 250 lei/month. The invoices for these expenses are all in the name of the owner from whom Mrs Deer rents the office.
- Contribution to the Organisation of Chartered Accountants that authorise Mrs Deer's activity: 1,500 lei. This contribution is compulsory for having the activity authorised. The contribution was paid in November 2009.
- Insurance for computer: paid in August 2009, 150 lei.

On 3 July 2009 Mrs Deer bought a computer to be used for her accounting services activity, at a cost of 8,280 lei. On the same day, she bought a desk for 200 lei, a chair for 150 lei and one cabinet for 350 lei. In order to buy these assets Mrs Deer took a loan of 8,980 lei from a bank. The entire loan, together with interest calculated at 10% per year, is repayable to the bank in July 2010. On 30 November 2009, thieves broke into Mrs Deer's office and stole the computer, which had been insured. In February 2010 the insurance company paid to Mrs Deer 7,360 lei as compensation.

On 1 July 2009, Mrs Deer declared a monthly income of 1,000 lei for social security contribution purposes. She will also pay the healthcare contribution and the health insurance indemnities contribution, but she will not pay any other social contributions. All her social contributions will be paid only at their maturity, not earlier. The maturities for these contributions are:

- For the social security contribution: the last day of each month for which the contribution is due;
- For the health care contribution: the 15th of the last month of each quarter for which the contribution is due;
- For the health insurance indemnities fund: the 25th of the month following the month for which the contribution is due.

Required:

- (a) Calculate the monthly income tax due by Mrs Deer in respect of her employment income from Forest SA in 2009. (6 marks)
- (b) Calculate the prepayments of income tax and the final income tax due by Mrs Deer for her self-employed activity in 2009. (13 marks)
- (c) State the declaration obligations of Mrs Deer as regards her self-employment income for both tax and social contributions purposes, together with the time limits for compliance. (6 marks)

(25 marks)

- 3** Bear SRL is a Romanian company acting in the field of the production and selling of chocolate products. Bear SRL was incorporated on 5 May 2009, when it estimated its turnover for the financial year 2009 at 95,000 lei. Therefore, it was decided to register the company for value added tax (VAT) purposes from the beginning of its activity, with VAT returns being submitted on a quarterly basis.

During the second quarter 2009 Bear SRL made no transaction that would generate VAT.

During the third quarter of 2009, Bear SRL registered the following transactions:

1. In July 2009, Bear SRL bought butter from Cow Co, a company established in Ukraine. The butter was transported from Kiev to Bucharest, where customs formalities were performed. The value of butter at customs was 13,000 lei.
2. In August 2009, Bear SRL bought from Witch-hazel Co, a company established in Greece, 100 kg of peanuts. The purchase price of the peanuts, exclusive of VAT, was the equivalent of 100 lei/kg. The peanuts were shipped by Witch-hazel Co from Greece to Romania directly to Bear SRL's warehouse. This was the first purchase ever made by Bear SRL from another European Community country.
3. Using the peanuts bought from Witch-hazel Co and other raw materials bought in June and July 2009, Bear SRL produced 2,000 kg of chocolate, which was deposited in Bear SRL's warehouse. The cost of 1 kg of chocolate computed according to accounting rules is 115 lei/kg.
4. In August 2009, 900 kg of chocolate was dispatched from Bear SRL's warehouse to the company's store in Bucharest, where it was sold to private individuals at a price of 200 lei/kg, exclusive of VAT.
5. In August 2009, an additional 500 kg of chocolate was dispatched from Bear SRL's warehouse to the company's store in Bucharest. During transport this chocolate was damaged due to improper transport conditions and had to be destroyed. Bear SRL charged the transport company for the damaged chocolate, which recognised its responsibility.
6. In September 2009, Bear SRL bought a car for its general manager. The car was bought from a German supplier, established and registered for VAT in Germany, which dispatched the car to Bear SRL from Munchen to Bucharest. The car will only be used by the general manager for business purposes (i.e. going to clients, to the bank, to Bear's store and to any other place of business interest of the manager). The car has five seats and weighs 2,000 kg. The car's value is 12,000 euro, exclusive of VAT. The VAT rate in Germany is 20%.
7. In September 2009, the remaining 600 kg of chocolate was sold to Child Co, a company established in Hungary and registered for VAT in Hungary. Bear SRL dispatched the chocolate from its warehouse in Bucharest direct to Child Co's store in Budapest.

Required:

- (a) State the threshold established by the Romanian tax law for a business not to register for VAT. Explain whether or not on the basis of its estimated turnover Bear SRL had to register for VAT purposes immediately it was incorporated.**

Note: The exchange rate to be used only for computing the VAT registration threshold is 1 euro = 3·3817 lei.
(3 marks)

- (b) For each of Bear SRL's transactions (1 to 7) listed for the third quarter of 2009 compute the output and/or input VAT. If you conclude that no VAT is applicable to any of the transactions, state why. Determine the VAT due to/from the tax authorities at the end of the third quarter 2009.**
(9 marks)

- (c) State, giving reasons, if Bear SRL should have prepared quarterly or monthly VAT returns during 2009 and state the deadlines for submitting the VAT returns.**
(3 marks)

(15 marks)

- 4 Tiger SA is a Romanian company, which provides accounting and auditing services. In 2008, Tiger SA was authorised by the Ministry of Education to provide education services, within the conditions set out in the Education Law. Tiger SA has been registered for value added tax (VAT) purposes since its incorporation.

In September 2009, due to some cash-flow difficulties, Tiger SA decided to sell both of its office buildings. The following information is relevant for the transactions:

Building A was sold for the price of 180,000 lei plus VAT to Lake Co, a company incorporated in Hungary, which owns 70% of Tiger SA. Building A had been bought in October 2005 for 240,000 lei plus VAT. In December 2007, Building A was revalued, the market-value resulting from revaluation being 246,820 lei. According to Tiger SA's accounting policy the cumulated depreciation registered before revaluation is to be eliminated from the gross value of the asset and the net value shall be recalculated so as to reflect the revaluated value of the asset. Also the surplus from a revaluation shall be considered realised only when the asset is sold or scrapped.

Building B was sold for the price of 400,000 lei plus VAT to Mountain SA, a company incorporated in Romania, which has no previous connection whatsoever with Tiger SA. Building B had been bought in December 2007, for 660,000 lei and Tiger SA had applied the reverse charge system. In August 2008, 20% of the building was allocated to the education service activities.

Required:

- (a) **For each building, A and B, state, giving reasons, whether any of the above mentioned events will generate a VAT adjustment requirement and, if so, compute the value of the VAT adjustment.** (6 marks)
- (b) **Compute the tax depreciation for Building A and Building B for all relevant years.** (5 marks)
- (c) **Explain the tax treatment of the revaluation reserve and compute the value of any tax deduction/tax revenue generated by the revaluation reserve for all relevant years.** (4 marks)

(15 marks)

- 5 (a) Bank SA is Romanian credit institution resident in Romania. During 2008, it registered total revenues of 5,430,000 lei and a corporate income tax liability of 9,600 lei. In 2009, Bank SA registered taxable revenues of 1,750,000 lei/quarter and deductible expenses of 560,000 lei/quarter.

Required:

Determine Bank SA's corporate income tax liability for each quarter of 2009 and its final income tax due for 2009. (5 marks)

- (b) Horseconsult SRL was incorporated on 1 August 2009 by Mr Horse, who is the company's sole shareholder. Horseconsult SRL has only one field of activity: consulting and management services. Also, on 1 August 2009, Mr Horse signed a contract of consultancy and management activities on behalf of Horseconsult SRL with Bank SA. From 1 September 2009, Mrs Goose was employed by Horseconsult SRL at a gross salary of 1,500 lei/month.

The only revenues that Horseconsult SRL had in 2009 were the ones from the contract with Bank SA, namely 20,000 lei per month. The only expenses recorded by Horseconsult SRL in 2009 were the ones related to Mrs Goose's salary. The entire net income of Horseconsult SRL is to be distributed as dividends. Mr Horse intends to cash in the dividends for 2009 on 10 May 2010.

Note: Disregard the legal reserve requirement.

Required:

- (i) **List the conditions that must be satisfied for a company to be able to opt to apply the special scheme of corporate tax for very small companies and state, giving reasons, whether or not Horseconsult SRL will be able to apply for this scheme in 2009;** (4 marks)
- (ii) **Determine the tax on dividends that should be withheld by Horseconsult SRL from the dividends paid to Mr Horse in May 2010;**

Note: The contribution to the work accident fund for companies in the field of consultancy and management services is 0.15%. (4 marks)

- (iii) **State the tax declaration obligations of Horseconsult SRL in respect of the dividends paid to Mr Horse, together with the time limits for compliance.** (2 marks)

(15 marks)

End of Question Paper