

Fundamentals Level – Skills Module

Taxation (Romania)

Tuesday 6 December 2011

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 2–5.

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)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black rectangular background.

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

Personal income tax

General tax rate 16%

Income from employment

Benefits

Limit for non-taxable gifts 150 lei/person/occasion
 Limit for non-taxable voluntary pension contributions paid by the employer €400/year

Deductions

Deduction allowed for voluntary pension contributions paid by the employee €400/year

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% of the amount exceeding 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% of the amount exceeding 200,000 lei

Income from renting

Lump-sum deductible expenses quota 25%

Copyright income

Lump-sum deductible expenses quota for:	
– monumental works of art	25%
– other	20%

Self-employed income

The allowance accepted for public institutions' employees	13 lei/day/person
The limit of deductibility for protocol expenses	2%
The limit of deductibility for compulsory subscription expenses	5%
The limit of deductibility for subscription expenses other than the compulsory ones	2%
The limit of deductibility for social expenses	2%
Reference interest rate set by the Romanian National Bank for loans denominated in lei	7% p.a.

Investment income

Tax rate for capital gains from the sale of shares	16%
Tax rate for interest received by individuals	16%
Tax rate for dividends received by individuals	16%

Prize income

Tax rate for prize income	16%
Non-taxable value	600 lei

Pension income

Non-taxable pension income	1,000 lei
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Corporate income tax

General tax rate	16%
Minimum tax applicable to night clubs, discotheques, casinos or sport betting activities	5%
Reference interest rate set by the Romanian National Bank for loans denominated in lei	7% p.a.
Maximum accepted interest rate set by the Tax Code for loans denominated in foreign currency	6% p.a.
Inflation rate for prepayments of corporate income tax in 2010	3.5% p.a.
The allowance accepted for public institutions' employees	13 lei/day/person
Maximum value of deductible expenses for employees:	
– voluntary pension contributions	€400/tax year/employee
– private healthcare insurance contributions	€250/tax year/employee
Maximum value of deductible expenses for subscriptions to non-profit organisations other than those which are compulsory or due to chambers of commerce and to employers' organisations	€4,000/year
The limit of deductibility for protocol expenses	2%
The limit of deductibility for social expenses	2%
Maximum value of the 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	Period in 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.

Tax on dividends paid to legal persons

For dividends paid to Romanian legal persons	16% or 0%
For dividends paid to legal persons resident in other EU or EFTA countries	10% or 0%
For dividends paid to other non-residents	16%

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%
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	24%
Reduced rates	9% and 5%
Threshold for VAT registration	€35,000
Threshold for monthly tax period	€100,000

Exchange rate

Euro/lei	€1 = 4·20 lei
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Note: This rate should be used in all cases except where a question specifically indicates another rate is to be used.

Interest and penalties

Interest rate for late tax payments	0.04%/day
Penalty rate for late tax payments	
– for payments made in the first 30 days after maturity	0%
– for payments made between 31 and 90 days after maturity	5%
– for payments made more than 90 days after maturity	15%

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Question 1 begins on page 7.**

ALL FIVE questions are compulsory and MUST be attempted

1 Mrs Summer is a self-employed person and an investor on the Bucharest Stock Exchange market.

Mrs Summer's activity as an investor on the Bucharest Stock Exchange market commenced on 1 August 2011 when she bought 10,000 shares at 1 lei/share. These shares were sold as follows:

- 3,000 shares in September 2011 at 1.5 lei/share; and
- 7,000 shares in November 2011 at 0.85 lei/share.

Mrs Summer had no further dealings on the Bucharest Stock Exchange market in 2011.

Mrs Summer started her self-employed activity in October 2010 when she registered with the Trade Office as having a business in the field of trade with food products. Since the start of her business, Mrs Summer applied the real system in determining her personal income tax. In 2010, Mrs Summer registered total gross revenues of 80,000 lei and total deductible expenses of 20,000 lei. For 2011, Mrs Summer estimated her total gross revenues as 200,000 lei and total deductible expenses as 160,000 lei.

Mrs Summer did not contract the services of an accountant to keep her accounting books, but herself recorded in her accounting books the following actual values for her self-employed activity in 2011:

	Note	2011 Lei
Revenues		
Sales revenue	1	180,000
Loans	2	300,000
Interest revenue	3	1,250
Expenses		
Material expense	4	98,000
Salary expense	5	10,800
Social expense	6	300
Equipment expense	7	240,000
Protocol expense	8	2,000
Income tax expense	9	9,600
Interest expense	10	20,800
Social contributions	11	12,000

Notes:

1. Sales revenue

In 2011 Mrs Summer invoiced her clients for 180,000 lei, but she received only 160,000 lei in respect of these invoices during 2011. In 2011 she also received 10,000 lei for sales she had made and invoiced in 2010.

2. Loans

In 2011 Mrs Summer contracted two loans:

- The first loan was taken from an authorised bank on 1 March 2011 in an amount of 120,000 lei at an interest rate of 10% p.a. The interest is payable monthly at the end of each month. The principal amount is to be fully repaid at the end of 2013.
- The second loan was taken from a company owned by Mrs Summer's father on 1 April 2011 in an amount of 180,000 lei at an interest rate of 8% p.a. for a period of five years. The interest is payable monthly at the end of each month. The principal amount is to be fully repaid in 2016. The company owned by Mrs Summer's father is not specialised in giving loans, so it does not qualify as a professional lender.

3. Interest revenue

Mrs Summer has a current account which she uses only in connection with her independent activity and another current account used only in connection with her investment activity. In 2011 she received a total of 1,250 lei as interest, out of which 750 lei was for the first account and 500 lei for the second account.

4. Material expense

During 2011, Mrs Summer bought merchandise costing 75,000 lei. According to her contract with the supplier of the merchandise, Mrs Summer has to pay for all merchandise purchased in advance so the full sum of 75,000 lei was paid by her in 2011.

Mrs Summer also bought other materials costing 23,000 lei in 2011 for which she will make payment in February 2012.

5. Salary expense

Starting from 1 July 2011, Mrs Summer employed one person with a monthly gross salary of 1,800 lei. This person has only this one employment contract. The salary is paid monthly on the last working day of each month. Mrs Summer also paid the employers' social contributions monthly, on the 20th of the month following the one for which the salary is due, but failed to record these in her accounting books.

6. Social expense

In December 2011, on the occasion of Christmas, Mrs Summer gave her employee gift vouchers of 300 lei.

7. Equipment expense

Mrs Summer used the two loans (see note 2) to purchase equipment on 10 August 2011 at a price of 240,000 lei. Mrs Summer started using this equipment on 12 September 2011 and recorded the entire acquisition cost directly as an expense.

8. Protocol expense

Mrs Summer bought small gifts for Easter and Christmas and distributed them to her clients. Mrs Summer paid in full the amount of 2,000 lei for these gifts in 2011.

9. Income tax expense

Mrs Summer paid her income tax for the year 2010 of 9,600 lei in February 2011 and recorded this amount as a 2011 expense.

10. Interest expense

The interest expense is the total amount paid as interest for the two loans in 2011 (as detailed in note 2).

11. Social contributions

During 2011 Mrs Summer paid social contributions for herself in the amount of 12,000 lei and recorded them as an expense. Mrs Summer made no mistake when computing the social contributions due for herself.

Required:

- (a) **State the deadline(s) by which Mrs Summer must submit the final declaration of revenue for the tax year 2010 and, if applicable, declare the estimated net income for the tax year 2011, giving reasons.** (2 marks)
- (b) **Calculate Mrs Summer's prepayments of income tax for her self-employed activity for the tax year 2011, state the deadlines for making the prepayments of income tax and the amount due at each prepayment deadline.** (3 marks)
- (c) **State, giving reasons, AT LEAST TWO amounts included by Mrs Summer in her accounting books, which should not have been recorded as a revenue/expense.** (2 marks)
- (d) **Recreate Mrs Summer's accounting books so as to include only the gross revenues and deductible expenses according to the tax rules, and compute the final income tax due by Mrs Summer for the tax year 2011.**

Notes:

- 1. The work accident fund for Mrs Summer's trade activity is set to 0·15%.
 - 2. You should ignore any value added tax (VAT) implications. (15 marks)
- (e) **Compute the income tax due for Mrs Summer's employee for the month of December 2011, if the employee has no children and no other person in his care.** (4 marks)
 - (f) **Determine the prepayments of income tax due by Mrs Summer for her investment activity on the Bucharest Stock Exchange market in the tax year 2011, state the deadline(s) for declaring and paying the prepayments of tax and who should declare and pay these prepayments to the tax authorities.**

Note: you should ignore any share transaction costs. (4 marks)

(30 marks)

- 2 Winter Ltd is a company based in Romania operating in the field of weather research. Since 2000, Winter Ltd has been owned by two individuals and one company. Mr Snow and Mr Wind are both resident in Romania, each holding 30% of the share capital of Winter Ltd, and Ice Ltd is a company based in Austria which holds the remaining 40% of the share capital of Winter Ltd.

For the year 2011, Winter Ltd recorded a preliminary accounting profit before tax of 350,000 lei which includes the following:

1. On the occasion of Easter, Winter Ltd gave gift vouchers to its employees in an amount of 500 lei/employee. Winter Ltd has 25 employees and its gross salaries expenses in 2011 were 540,000 lei. Each employee has one child.
2. One of Winter Ltd's clients, Storm Ltd, went bankrupt in 2011 and the bankruptcy procedure was closed by a court ruling. Winter Ltd decided to record this definitive loss of 8,000 lei as an expense. In 2010 Winter Ltd had booked a provision of 7,000 lei for this receivable, which was non-deductible at that time, so in 2011 this provision was booked to revenue.
3. Analysing its other receivables, Winter Ltd decided on 30 December 2011, to book additional provisions, as follows:

Receivable due date	Receivable value (lei)	Provision expense (lei)	Bankruptcy procedure started against the client, according to a court ruling
20 May 2009	30,000	15,000	No
10 June 2010	20,000	20,000	Yes

Both receivables were fully booked in the taxable revenues of Winter Ltd; neither receivable is guaranteed by a third party or owed to an affiliated entity of Winter Ltd. Winter Ltd will deduct the maximum possible value of the provision expense.

4. Inventory of 7,000 lei was found to be missing and recorded as an expense. Winter Ltd insured only a part of this inventory, with a valuation of 2,000 lei. Thus, the insurance company covered this amount.
5. In 2010, Winter Ltd took two loans from its shareholders which generated interest expenses in 2011.

Loan 1 was for 200,000 lei from Mr Snow, for a period of five years and with an interest rate of 10% p.a. This loan has to be fully reimbursed at the end of the five year period.

Loan 2 was for €100,000 from Ice Ltd, for a period of three years and with an interest rate of 8% p.a. This loan has to be fully reimbursed at the end of the three-year period.

None of Winter Ltd's shareholders are credit institutions and Winter Ltd has contracted no other loans.

Note: You should ignore any foreign exchange differences due to changes in the euro/lei exchange rate.

6. During 2011, Winter Ltd recorded a corporate income tax expense of 10,000 lei and a penalty expense for not paying the corporate income tax in time of 200 lei. Winter Ltd also recorded contractual penalties for not paying its suppliers on time of 1,300 lei in 2011.
7. In December 2010, Winter Ltd recorded a revaluation reserve of 28,000 lei which increased the value of its assets from a net value of 260,000 lei to a net value of 288,000 lei as at 1 January 2011. This is the first revaluation to its assets ever made by Winter Ltd. Winter Ltd uses the straight-line method for both tax and accounting depreciation. When Winter Ltd bought its assets, it decided to use the same depreciation period for both accounting and tax purposes. On 30 December 2010 Winter Ltd decided to increase the remaining accounting depreciation period as it noticed a slower pace of physical depreciation. So, the remaining period of tax depreciation on 1 January 2011 was four years, while the remaining period of accounting depreciation on 1 January 2011 was six years.

Additional information:

Winter Ltd had recorded the following tax losses/taxable profits in the previous three tax years:

- 2008, a tax loss of 100,000 lei;
- 2009, a tax loss of 200,000 lei; and
- 2010, a taxable profit of 60,000 lei.

Winter Ltd's equity was 1,000,000 lei on 1 January 2011 and 1,500,000 lei on 31 December 2011.

Required:

- (a) Compute the final income tax due by Winter Ltd for 2011.**

Note: you should ignore any value added tax (VAT) implications and any legal reserve requirement.

(17 marks)

- (b) Explain the tax treatment(s) of the interest revenue received by Winter Ltd's creditors.**

Note: where more than one treatment is available your answer should refer to all possible alternatives.

(5 marks)

- (c) Give THREE examples of non-taxable revenues according to the corporate income tax legislation.**

(3 marks)

(25 marks)

- 3** Spring Ltd is a company established in Romania and registered for value added tax (VAT) purposes in Romania. Spring Ltd trades in electronic goods from a shop in Bucharest. Spring Ltd also has another building in Bucharest which it has rented out to Consultant Co. Spring Ltd is a monthly VAT payer and during December 2011 it registered the following transactions (all values are exclusive of VAT):
1. Spring Ltd imported television sets from Russia. Based on the documents provided by Spring Ltd, the Romanian customs office computed the value of the goods for custom duties purposes as 220,000 lei and issued the customs declaration on 3 December 2011, the same day on which Spring Ltd cleared all its tax obligations for the import. On 28 December 2011 Spring Ltd received a credit-note from the Russian supplier for a 10% discount. The goods will be sold in the store located in Bucharest in the following months.
 2. On 15 December 2011 Spring Ltd issued an invoice to Consultant Co for the monthly rent of 20,000 lei. Spring Ltd applies the standard tax treatment for rental services. Based on the rent contract, Spring Ltd also re-invoices Consultant Co for the electricity expenses for the building which are invoiced to Spring Ltd by the electricity company, as they are not included in the value of the rent. The electricity company is established and registered for VAT in Romania. On 5 December 2011 the electricity company issued an invoice for 3,000 lei to Spring Ltd and on 10 December 2011 Spring Ltd re-invoiced the same amount to Consultant Co.
 3. On 23 December 2011, Spring Ltd sold computers to a company established and registered for VAT purposes in Bulgaria. According to the sale contract, Spring Ltd is responsible for the transport of the computers from Romania to Bulgaria. Thus, Spring Ltd contracted a transport company, Transporter Co, established and registered for VAT purposes in Romania, to undertake the transport. Transporter Co transported the computers from Romania to Bulgaria and issued an invoice for 5,000 lei to Spring Ltd on 30 December 2011. Spring Ltd issued the Bulgarian company with an invoice for the value of the computers of 100,000 lei on 23 December 2011 and an invoice for the value of the transport of 5,000 lei on 3 January 2012.
 4. On 28 December 2011 Spring Ltd bought 20 air conditioning units from a producer established and registered for VAT purposes in Hungary, for a price of 2,000 lei per unit. The air conditioning units were transported from Hungary to Romania by the producer who invoiced the sale to Spring Ltd on 10 January 2012. Spring Ltd decided that only 19 of the air conditioning units will be sold through its shop in the following months and one air conditioning unit will be installed in the building rented to Consultant Co.

Required:

- (a) **For each invoice issued by Spring Ltd compute the VAT that should be charged or, if Spring Ltd should not charge VAT, explain why.** (4 marks)
- (b) **For each acquisition made by Spring Ltd compute the VAT that would have been charged and state whether or not this VAT amount can be deducted as input VAT by Spring Ltd.** (6 marks)
- (c) **For each transaction state if it should be reported in Spring Ltd's VAT return for December 2011 and if not state why.** (5 marks)

(15 marks)

- 4 In January 2010 Mrs Autumn bought eight apartments, all situated in Bucharest, with the intention of renting out six of the apartments and keeping two apartments for personal use.

Starting from 1 February 2010 Mrs Autumn rented out two apartments, as follows:

- Apartment 1: monthly rent €200 per month; and
- Apartment 2: monthly rent €350 per month.

Starting from 1 March 2010 Mrs Autumn rented out two further apartments, as follows:

- Apartment 3: monthly rent €400 per month; and
- Apartment 4: monthly rent €420 per month.

In May 2010 Mrs Autumn bought a car designed for passenger transport having two seats and weighing 1,000 kg for 21,000 lei. Mrs Autumn will use the car 50% for personal purposes and 50% for use in managing the apartments.

In June 2010 Mrs Autumn realised that it would be better to sell the apartments she intended to keep for personal use. She sold Apartment 5 on 15 July 2010 for a price of 135,000 lei, and she sold Apartment 6 on 10 October 2010 for 320,000 lei.

In November 2010 the tenant of Apartment 3 made some capital renovations to the apartment for 10,000 lei, that should have been made by Mrs Autumn as the owner. The tenant did not request Mrs Autumn to pay him the 10,000 lei, although the tenant did present Mrs Autumn with all the receipts and invoices for the expenses incurred.

Mrs Autumn rented out the remaining two apartments starting from 1 December 2010, as follows:

- Apartment 7: monthly rent €270 per month; and
- Apartment 8: monthly rent €340 per month.

All the rent contracts are for three years, with the rent being paid monthly on the last day of each month.

Although the contracts stated that the rent is fixed for the whole period of three years, the tenants in Apartments 3 and 4 succeeded in obtaining a renegotiation of their rent starting from 1 June 2011, to €370 per month for Apartment 3; and €390 per month for Apartment 4.

Additional information:

- (i) The following exchange rates are to be used:

Year	Estimated at the beginning of the year	Actually used for all payments made during the year
2010	3.9 lei/euro	4.3 lei/euro
2011	4.2 lei/euro	4 lei/euro

- (ii) Mrs Autumn will apply the tax treatment imposed by the law for her rental activities and will not make use of any option which may apply.
- (iii) During 2010 and 2011 Mrs Autumn had been employed by Leaf Ltd, a Romanian resident company.
- (iv) Based on the valuation reports, the six apartments and the car were registered in the business patrimony (inventory ledger) on 31 December 2010 on the following basis:

Asset	Market Value on 31 December 2010	Depreciation period remaining on 31 December 2010	Depreciation method
Car	20,160 lei	4 years	Straight-line
Apartments	176,400 lei/apartment	49 years	Straight-line

Note: you should ignore any value added tax (VAT) implications.

Required:

- (a) **Compute the prepayments of tax and the final tax due by Mrs Autumn for her rental income for the tax years 2010 and 2011.** (14 marks)
- (b) **Compute the tax due by Mrs Autumn from selling the two apartments.** (1 mark)

(15 marks)

5 Seasons Co Ltd (Seasons Co) is a company established and registered for value added tax (VAT) purposes in the UK. On 20 January 2011 Seasons Co bought 100,000 kg of cement from Fog SARL, a company established and registered for VAT purposes in France, at a price exclusive of VAT equivalent to 10 lei per kg. Fog SARL issued the invoice on 25 January 2011. According to the sale contract, in January 2011 Fog SARL dispatched the goods from France to Romania to a warehouse owned by Rain SRL, a company established and registered for VAT purposes in Romania.

In March 2011 Seasons Co signed a contract with Rain SRL, according to which Seasons Co will start to develop an office building for Rain SRL in Bucharest. The contract stipulates that the building will be finished in a maximum of eight months, starting on 15 March 2011, and that Seasons Co will invoice the works based on worksheets (*situatii de lucrari*) accepted by Rain SRL. Thus, on 15 March 2011, Seasons Co brought to Romania from the UK, 25 workers and two cranes, and started construction using the cement bought in January 2011.

On 30 June 2011 Seasons Co issued the first worksheet for a value of 1,000,000 lei, exclusive of VAT. The worksheet was accepted by Rain SRL the same day and on 10 July 2011 Seasons Co issued the invoice. The second and final worksheet was issued on 1 November 2011 for a value of 1,500,000 lei exclusive of VAT, it was accepted by Rain SRL the same day and the invoice was also issued on 1 November 2011.

On 15 November 2011 Seasons Co closed the construction site and brought all the workers and the two cranes back to the UK.

Required:

(a) Explain the value added tax (VAT) obligations in Romania of Seasons Co Ltd as regards:

- (i) buying the cement;**
- (ii) bringing the two cranes into Romania; and**
- (iii) invoicing the construction works to Rain SRL.**

Note: you are not required to calculate the VAT payable/recoverable in this part. (5 marks)

(b) For all the transactions made by Seasons Co Ltd having their place of supply in Romania, determine the VAT due to the tax authorities in Romania and state the deadline for paying any VAT due, if Seasons Co Ltd has a monthly tax period. (3 marks)

(c) Determine the interest and penalties payable by Seasons Co Ltd if the VAT calculated in part (b) above is not paid until 30 January 2012. (4 marks)

(d) State, giving reasons, whether Seasons Co Ltd will be considered to have a permanent establishment in Romania, and the corporate income tax consequences if Seasons Co Ltd is considered to have such an establishment. (3 marks)

(15 marks)

End of Question Paper