

Fundamentals Level – Skills Module

Taxation (Romania)

Monday 6 June 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)

ACCA

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 ALL the questions.

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 euro/year

Deductions

Deduction allowed for voluntary pension contributions paid by the employee 400 euro/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 institution's employees	13 lei/day/person
The limit of deductibility for protocol expenses	2%
The limit of deductibility for subscription expenses other than the compulsory ones	2%
The limit of deductibility for compulsory subscription expenses	5%

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 the 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.

Minimum tax applicable for corporate income tax starting from 1 May 2009 until 30 September 2010

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

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 the EU or EFTA	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:

- These rates should be used in answering the questions, irrespective of the time period the question refers to.
- 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%

Note: Certain other details may be included in the relevant question for ease of reference.

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Question 1 begins on page 7.**

ALL FIVE questions are compulsory and MUST be attempted

- 1 Peach Ltd and Apricot Ltd are two companies based in Romania. Peach Ltd was established on 1 January 2010, in the field of management consultancy services, with a share capital of 2,000 lei. Apricot Ltd shall be established on 1 October 2010, in the field of marketing services, with a share capital of 4,500 lei. Neither Peach Ltd nor Apricot Ltd is registered for value added tax (VAT) purposes. Peach Ltd's shareholders are two individuals, both Romanian citizens, resident in Romania: John Tree with a participation of 60%, and Michael Arbour with a participation of 40%. Apricot Ltd is owned entirely by Peach Ltd. The income statements prepared by Peach Ltd and Apricot Ltd for the years 2010 and 2011, before finalising and settling the annual corporate income tax, shall be as follows:

Peach Ltd			
	Note	2010 Lei	2011 Lei
Revenues			
Sales revenue	1	100,000	120,000
Dividend revenue	2	–	5,000
Interest revenue	3	4,500	–
		<u>104,500</u>	<u>125,000</u>
Expenses			
Materials expense	4	8,000	10,000
Salary expense	4	14,400	30,000
Compulsory social contribution expense	4	4,100	8,700
Birth benefit expense	5	–	900
Accounting depreciation	6	–	2,000
Allowance expense	7	600	–
Meals for business partners	8	–	3,000
Sponsorships	9	2,000	–
Corporate income tax expense	10	1,200	4,300
		<u>30,300</u>	<u>58,900</u>
Apricot Ltd			
	Note	2010 Lei	2011 Lei
Revenues			
Sales revenue		30,000	60,000
		<u>30,000</u>	<u>60,000</u>
Expenses			
Materials expense	11	10,000	15,000
Interest expense	12	4,500	20,000
Service expense	13	–	40,000
Corporate income tax expense	14	0	2,200
		<u>14,500</u>	<u>77,200</u>

Notes:

1. Peach Ltd's sales revenue

Peach Ltd's sales revenue is obtained entirely from management consultancy services. In 2011 Peach Ltd performed management consultancy services for Apricot Ltd for 40,000 lei. If Apricot Ltd had bought these services from an independent company and not from its sole shareholder the market price of these services would have been 25,000 lei. Peach Ltd informed Apricot Ltd that it will tax the whole value of 40,000 lei to corporate income tax.

2. Peach Ltd's dividend revenue

In 2011 Apricot Ltd distributed its net profit from 2010, as a legal reserve, dividends and other reserves. The 5,000 lei dividend recorded by Peach Ltd is the cash amount of dividends actually received from Apricot Ltd.

3. Peach Ltd's interest revenue

On 1 October 2010 Peach Ltd granted a start-up loan to Apricot Ltd of 100,000 lei with an interest rate of 18% per year, for a period of three months. Apricot Ltd refinanced the loan on 30 December 2010 from a bank and repaid to Peach Ltd the total amount of the loan and the three months interest on 30 December 2010.

4. Peach Ltd's materials, salary and compulsory social contribution expenses

Peach Ltd's materials, salary and compulsory social contribution expenses are all made for the purpose of obtaining taxable revenues, and are supported by proper documentation.

5. Peach Ltd's birth benefit expense

One of Peach Ltd's employees gave birth to a baby in July 2011. In accordance with her employment contract, Peach Ltd gave her a birth benefit of 900 lei.

Note: Ignore any social contributions that might be due for the birth benefit.

6. Peach Ltd's accounting depreciation

In June 2011 Peach Ltd bought a building for 120,000 lei, and immediately brought it into use as its offices. Peach Ltd estimates that the building will generate economic returns during the next 30 years after which the building will be scrapped and have no residual value. For tax depreciation purposes Peach Ltd decided, based on the official catalogue of normal useful lives, that the tax depreciation period of the building should be 40 years.

7. Peach Ltd's allowance expense

In July 2010 one of Peach Ltd's employees went on a business trip to Romania for ten days. For this trip Peach Ltd gave its employee an allowance of 600 lei.

Note: Ignore any social contributions that might be due for the allowance expense.

8. Peach Ltd's meals for partners expense

In 2011 Peach Ltd gave two meals to its business partners in order to improve relationships with them. At these meals only vegetables and soft drinks were served.

9. Peach Ltd's sponsorship

Peach Ltd decided to sponsor two events in 2010: a student's ball and a school contest on economic issues. Peach Ltd gave 1,800 lei for the students' ball and 200 lei for the school contest. Peach Ltd has signed a sponsorship contract according to the sponsorship law only for the school contest.

10. Peach Ltd's corporate income tax expense

The quarterly corporate income tax declared and paid by Peach Ltd totalled 1,200 lei for 2010 and 4,300 lei for 2011.

11. Apricot Ltd's materials expense

Apricot Ltd's materials expense is made for necessary bureau materials and is supported by proper documentation.

12. Apricot Ltd's interest expense

As stated in note 3, on 1 October 2010 Peach Ltd granted a start-up loan to Apricot Ltd of 100,000 lei with interest at the rate of 18%. On 30 December 2010 Apricot Ltd took out another loan of 200,000 lei from a Romanian bank authorised by the National Bank of Romania, for a period of five years at an interest rate of 10%. Apricot Ltd used part of this loan to repay the loan and interest for the three months to Peach Ltd on 30 December 2010. In December 2011 Apricot Ltd paid the bank interest on its loan for the year 2011 of 20,000 lei.

13. Apricot Ltd's service expense

In 2011 Apricot Ltd bought management consultancy services from Peach Ltd for 40,000 lei, as stated above in note 1. Apricot Ltd's tax adviser mentioned to Apricot Ltd that an expense made for services/goods bought from the sole shareholder may be treated as expenses in the favour of the shareholder. Apricot Ltd appreciated the tax adviser's opinion and decided to minimise any possible tax risk involved by this transaction.

14. Apricot Ltd's corporate income tax expense

Apricot Ltd did not record any amounts of corporate income tax 2010 at the quarterly deadlines for 2010. The quarterly corporate income tax declared and paid by Apricot for 2011 totalled 2,200 lei.

Additional information:

(i) Legal reserve

Both Peach Ltd and Apricot Ltd have decided that in each profitable year they will deduct a legal reserve of 5% of the accounting profit before corporate income tax, but not exceeding the legal limit of 20% of share capital.

(ii) Corporate income tax payment

To decide the deadline for corporate income tax payments the following should be considered: Peach Ltd finalised its financial statements for both 2010 and 2011 after 25 February of the following year; but Apricot Ltd finalised its financial statements for both of these years before 25 February of the following year.

Peach Ltd did not pay the difference in corporate income tax that resulted from settling its income tax for the tax year 2011 until 15 July 2012.

Required:

(a) Compute the corporate income tax liability for Peach Ltd for the years 2010 and 2011.

Notes:

1. You should ignore minimum tax.
2. You should ignore the legislation which requires split year treatment for 2010, and treat 2010 as one period. (13 marks)

(b) Compute the corporate income tax liability for Apricot Ltd for the years 2010 and 2011.

Notes:

1. You should ignore minimum tax.
2. You should ignore the legislation which requires split year treatment for 2010, and treat 2010 as one period. (7 marks)

(c) Calculate the differences in income tax to be paid by Peach Ltd and Apricot Ltd respectively when settling their annual corporate income tax and state the deadlines for paying these differences. (4 marks)

(d) Calculate the interest and/or penalties that Peach Ltd is liable to pay as a result of paying the difference of corporate income tax for the tax year 2011 on 15 July 2012. (2 marks)

(e) (i) State, giving reasons, whether or not Apricot Ltd will be exempt from withholding tax on the dividend paid to Peach Ltd in 2011; (2 marks)

(ii) Assuming that Apricot Ltd is not exempt, calculate the tax that must be withheld from the dividend paid to Peach Ltd in 2011. (1 mark)

(f) Explain the period for which tax losses can be carried forward. (1 mark)

(30 marks)

- 2 Mr Melon is an agricultural engineer who has been employed since January 2000 by Water Ltd, a company acting in the field of agriculture. For his employment activity in April 2011 he received the following remuneration from his employer, based on his employment contract:

	Lei
Basic salary	1,300
Fidelity bonus	100

In addition to this, the following information regarding Mr Melon's benefits is available:

- (1) Gift vouchers (*tichete cadou*) for Easter of 300 lei, nominal value.
- (2) Mr Melon has a contract for a voluntary pension scheme under which both Water Ltd and Mr Melon pay contributions. In April 2011 Water Ltd made a payment of 2,480 lei to this voluntary pension scheme and booked it on its expenses. This was the first and only payment made by Water Ltd in this respect during 2011. In addition, in April 2011 Mr Melon paid 2,000 lei to his voluntary pension scheme directly. This was also the first and only payment made by Mr Melon in this respect.
- (3) In April 2011 Water Ltd paid 3,000 lei for Mr Melon to attend a two-week course in 'Advanced engineering in agriculture'. Planning to expand his competencies, Mr Melon wanted to attend a course in painting. Water Ltd's management appreciated that such a course would increase employee satisfaction, thus in April 2011 Water Ltd also paid 200 lei for Mr Melon's course in painting.
- (4) Water Ltd has no company cars. Therefore, on 1 January 2011, Water Ltd concluded a written contract for a five-year period with Mr Melon specifying that Mr Melon would use one of his two personal cars for business purposes in exchange for a monthly gross sum of 1,700 lei to be paid by Water Ltd to Mr Melon. The sum remained unchanged throughout 2011. Water Ltd did not record any expenses for the car, which would have been the owner's responsibility. Mr Melon used this car only for business purposes, as for personal purposes he used his other car. Mr Melon did not exercise the option to tax this income other than using the standard tax treatment.
- (5) Mr Melon has one 14-year-old child in his care. Mr Melon's wife is retired and has a gross pension of 900 lei per month received from the public pension system. In April 2011 Mrs Melon also receives a gross revenue of 400 lei as intellectual property revenue for publishing an article in a fashion magazine. Mrs Melon did not exercise any option for the taxation of intellectual property revenue, so the standard tax treatment shall apply.
- (6) The savings made by the Melon family are kept in a bank deposit made in Mr Melon's name on 1 February 2011. On 30 April 2011 the bank paid gross interest of 2,000 lei to Mr Melon.

Required:

- (a) **Compute Mr Melon's income tax liability for his employment activity for April 2011 and state who is liable to pay this income tax to the state budget.** (10 marks)
- (b) **Briefly explain the alternative systems for the taxation of an individual's income from rents. Clearly identify any conditions that apply.** (4 marks)
- (c) **Calculate Mr Melon's income tax liability for the revenues received in 2011, other than his employment revenue. State who has the obligation to pay and declare the tax for these revenues, together with the deadlines for paying and declaring the tax.** (8 marks)
- (d) **Compute Mrs Melon's income tax liability for the revenues she received in the month of April 2011.** (3 marks)

(25 marks)

- 3** Mr Strawberry is a self-employed architect. He started his activity on 1 October 2010, estimating his sales for the rest of the year 2010 at 110,000 lei. Mr Strawberry intends to observe all of his tax obligations but he cannot afford a tax adviser so he reads the tax legislation by himself. Reading the value added tax (VAT) chapter of the Tax Code, he realises that any taxable person carrying on taxable transactions must register for VAT purposes if the total sales figure in a year exceeds €35,000. Mr Strawberry does not understand the meaning of the concepts used, but based on his estimated sales he decided to register for VAT. He also read in the tax legislation that Romanian VAT should be charged only when the place of supply is in Romania. His office is in Bucharest, Romania and he has three clients: X based in Cluj (Romania), Y based in Sofia (Bulgaria) and Z based in New York (United States of America). Mr Strawberry sells the same project, which he created without linking it to a specific location or immovable property, to all of his clients. The clients are free to use the projects at a location of their choice. The invoiced price of the project, exclusive of VAT, is 10,000 lei in each case.

Clients X and Y are registered for VAT in Romania and Bulgaria respectively. The United States of America does not use the value added tax system.

Required:

- (a) Explain to Mr Strawberry the meaning of 'taxable person', 'non-taxable person', and 'taxable transactions' as used in relation to value added tax (VAT), giving ONE example for each concept.** (5 marks)

- (b) Based on his estimated sales figure for 2010 determine whether or not Mr Strawberry had the obligation to register for VAT and if so, which tax period he should use.**

Note: The following lei/euro exchange rates are applicable:

1 January 2007 = 3,3817 lei/euro;

31 December 2009 = 4,2296 lei/euro.

(4 marks)

- (c) (i) Set out the general rules for establishing the place of supply for Mr Strawberry's architectural services;** (3 marks)

- (ii) State, giving reasons, the place of supply of the invoices issued to each of Mr Strawberry's three clients, X, Y and Z, and calculate the value of any VAT payable by Mr Strawberry.** (3 marks)

(15 marks)

- 4 (a) Pineapple Ltd is a company acting in the field of building construction. During 2010 the company's accountant recorded the following expenditure amounts:

- (1) Contractual penalties due to a supplier for not paying their invoices in due time of 1,000 lei
- (2) Provisions for performance warranties (*garanție de bună execuție*) granted to clients of 2,000 lei
- (3) Meal vouchers for 20 employees of 3,488 lei
- (4) Repairing the company's cars used by the administrative personnel of 1,700 lei
- (5) The impairment of an asset due to a revaluation that decreased its value under the acquisition cost by 800 lei
- (6) Tax consultancy services, performed on a monthly basis of 2,500 lei
- (7) Stolen raw materials of 4,300 lei.

Required:

- (i) **State, giving reasons, which of the above expenditures are or could be deductible (entirely or partially) for corporate income tax purposes.** (7 marks)
 - (ii) **For ANY TWO of the above expenditure items state what measures Pineapple Ltd can take in order to maximise the amount that can be deducted.** (2 marks)
- (b) Pineapple Ltd is registered for value added tax (VAT) on the basis that its activity is only the constructing and selling of new buildings. In October 2010 Pineapple Ltd took final receipt of one of its buildings constructed during 2009–2010 and, although initially it was designated for sale, Pineapple Ltd decided to use it as an office building as it had difficulties in selling it. Starting 1 January 2011 Pineapple Ltd decided that the building is to be used as follows:
- (1) 50% would be used for the storage of raw materials which will be traded by Pineapple Ltd and
 - (2) 50% of the building would be rented to a bank.

Pineapple Ltd applies the standard VAT rules for both trading activity and rent services.

In 2010, when the building was constructed, Pineapple Ltd had deducted the whole of the input VAT charged by its suppliers, amounting to 245,100 lei.

The selling price of the building, exclusive of VAT, would have been 1,720,000 lei in 2010 and 1,600,000 lei in 2011.

Required:

Explain the value added tax (VAT) implications (if any) of each of the two decisions taken by Pineapple Ltd in October 2010 and January 2011 regarding the building and where relevant compute the effect.

(6 marks)

(15 marks)

- 5 Mrs Almond is a chartered accountant authorised to perform accounting activity in Romania. She would like to develop the business opportunities available to her and has analysed the existing options to act as an accountant as: working as an employee in an accounting company; to start her own self-employed activity as an independent accountant; or to become the sole shareholder of her own accountancy company.

On 1 January 2011, Mrs Almond prepared the following estimates of revenue and expenses under each of the three scenarios:

- (1) If she were an employee of an accounting company, starting from January 2011 she would earn a monthly basic salary of 2,800 lei, and she would also have the use of a company car and a company phone. Both the car and the phone will be used 50% for business purposes and 50% for personal purposes. She estimates the car's accounting value at 20,000 lei and the monthly phone bill at 300 lei. The salary will be paid monthly on the final day of the month in which it is earned.
- (2) If she were a self-employed independent accountant starting from 1 January 2011 she would have five clients paying a monthly fee of 700 lei and the following operating expenses:
 - office rent: 400 lei/month;
 - office stationery: 100 lei/month;
 - compulsory annual subscription to the Organisation of Chartered Accountants that authorises her activity: 2,200 lei;
 - annual compulsory social contributions: 5,346 lei (social security: 3,756 lei, health-care contribution: 1,529 lei, unemployment contribution: 60 lei)

All revenues will be cashed and all expenses will be paid in the month they refer to. Also, the compulsory subscription and contributions will be paid in full in 2011. The final values registered in her self-employed accounting books shall be the same as the estimated ones.

- (3) If she were the sole shareholder in her own accountancy company starting from 1 January 2011 her only income from the company will be the profits distributed as dividends by the company. She estimates that for 2011 the company will have an annual gross profit before tax of 35,000 lei. All the company's revenues will be taxable and all the expenses deductible.

Required:

- (a) **Compute the total income tax due for the income earned and received in 2011 by Mrs Almond under each of the above three scenarios and state how, when and who is to pay the income tax to the state budget.**
(12 marks)
- (b) **Based on your calculations in (a) determine Mrs Almond's tax and social security burden for the employee and self-employed scenarios only, and identify TWO other factors that she should consider when deciding between all three alternatives.**
(3 marks)

Note: You may ignore any VAT implications when answering this question.

(15 marks)

End of Question Paper