

Fundamentals Pilot Paper – Skills module

Taxation (Romania)

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Rates of tax and tables are printed on pages 2–4.

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)

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

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%
Personal deduction				
Number of persons that are in the care of the taxpayer	Below 1,000	Monthly income (MI) – lei Between 1,001 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 calculus should be rounded up to 10 (eg both 212 and 217 should be rounded to 220).

Corporate income tax

General tax rate	16%
The allowance accepted for public institution employees	13 lei/day/person
Straight-line depreciation periods (for tax and accounting purposes)	
Class of asset	Depreciation period (years)
Buildings	50
Machines and equipments	5

Social security and other insurance contributions

Employed persons	Employee	Employer
Social security fund	9.5%	19.5%
Health care insurance fund	6.5%	5.5%
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	29.00%
Health care insurance fund	6.50%
Unemployment fund	1.50%
Work accident fund	0.4% – 2%*
Health insurance indemnities fund	0.85%

* The exact value shall be specified in the problem, if necessary.

Note: These are the rates valid until 1 July 2008 and they should be used in solving the problems

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.

- 1 On 15 July 2003 Alfa Co, a Romanian resident company, started business as a producer of furniture. The company's profit and loss account prepared on 31 December 2007, before establishing the final corporate income tax for the year ending 31 December 2007, showed the following revenues and expenses:

	Note	Lei
Operating revenues		
Sales revenues		95,000
Revenue from provisions for uncertain clients	1	1,000
Revenue from selling a tangible asset	2	1,900
		<u>97,900</u>
Operating expenses		
Material and salary expenses	3	(50,000)
Expenses for services received	4	(20,000)
Protocol expenses	5	(2,300)
Sponsorship expenses	6	(2,000)
Allowance expenses	7	(620)
Penalties and fines	8	(2,500)
Expense for provisions for uncertain clients	1	(3,000)
Expense for the non-depreciated value of a sold tangible asset	2	(2,700)
Tangible asset depreciation	9	(8,148)
		<u>(91,268)</u>
Financial expenses		
Interest expenses	10	(2,250)
		<u>(1,600)</u>

Notes:

- Revenue and expense for provisions for uncertain clients**
In September 2007 Alfa Co registered a non-deductible expense for provisions for uncertain clients of 3,000 lei. In December 2007, 1,000 lei of that provision was registered to revenue, as the client's debt was partially cashed in.
- Revenue and expense generated from the sale of a tangible asset**
On 7 December 2006, Alfa Co bought a sewing machine for 3,000 lei. In 2007 the company registered depreciation of this machine of 300 lei. Realising that the machine is no longer adequate to the company's needs and its maintenance will incur more expense than the revenue it can produce, the company decided to sell it. The market price obtained from selling the machine, on 19 June 2007, was 1,900 lei.
- Material and salary expenses**
In July 2007 Alfa Co made an additional investment in its buildings of 2,400 lei. According to the company's policy the expenditure was recognised for accounting purposes directly in the profit and loss account, as part of the material and salary expenses category. The tax depreciation for this investment should be computed over a period of five years
- Expenses for services received**
Of the 20,000 lei expenses for services received, 1,500 lei was for expenses for services received on a regular basis but for which Alfa Co does not have contracts with the suppliers.
- Protocol expenses**
These expenses were for food and non-alcoholic drinks for the entertaining of customers.
- Sponsorship expenses**
In October 2007, Alfa Co gave a sponsorship in cash of 2,000 lei to a non-governmental organisation that protects forests.
- Allowance expenses**
Allowance expenses are represented by the sums given to two employees who made a three day visit to Cluj (Romania) for the purpose of signing a contract with a client.

8 Penalties and fines

Penalties and fines were made up as follows:

	Lei
Fines levied by the Ministry of Public Finance	2,000
Penalties paid to a supplier for late payment, according to the contract	500

9 Tangible asset depreciation

This comprises the value of the depreciation registered for accounting purposes.

Alpha Co's tangible assets depreciated for accounting purposes are:

- (i) Building A bought on 12 June 2004 for 120,000 lei. This building was revaluated on 15 December 2005 and the plus-value resulting from the revaluation was 30,264 lei.
- (ii) Building B bought on 10 September 2004 for 60,000 lei.
- (iii) Two cutting machines, bought on 2 December 2004 for 7,500 lei each.
- (iv) A sewing machine bought on 7 December 2006 for 3,000 lei and sold on 19 June 2007 for 1,900 lei (see note 2).

Alfa Co uses the straight-line method for both accounting and tax depreciation purposes.

All the company's tangible assets have been used since their acquisition for generating revenues, with no interruptions.

When the company bought building B, it immediately depreciated 20% of the building's value for tax purposes, according to the legal provisions existing at that time.

10 Interest expenses

Interest expenses are made up as follows:

	Lei
Interest paid for a loan of 20,000 lei from an authorised Romanian bank	1,500
Interest paid for a loan of 10,000 lei from a shareholder	750

Both these loans are long-term loans (for 10 years) contracted at an annual interest rate of 7.5%.

The relevant reference rate established by the National Romanian Bank is 6% per year. The company's debt to equity ratio is 2.

11 Income tax expenses

During the year, Alfa Co registered a corporate income tax expense of 1,600 lei in respect of the year 2007. This amount was paid to the state budget in due time. The company did not finalise its financial statements until 15 February 2008.

Required:

- (a) Calculate the non-depreciated tax values of Alfa Co's tangible assets on 1 January 2007.** (7 marks)
- (b) Calculate Alfa Co's taxable income for the year ended 31 December 2007.** (17 marks)
- (c) Calculate Alfa Co's total corporate income tax liability for the year ended 31 December 2007.** (3 marks)
- (d) Explain how and when Alfa Co's corporate income tax liability for the year ended 31 December 2007 (calculated in (b)) will be settled.** (3 marks)

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

(30 marks)

- 2 Mr Ionescu has been an employee of Beta Co since 2005. In February 2007 he started an independent activity in the field of financial consultancy. For this consultancy activity he will determine the taxable base using the real system. He is not registered for value added tax (VAT) purposes.

At the beginning of his consultancy activity Mr Ionescu estimated that he would earn a gross income from the activity of 35,000 lei and that the deductible expenses would be 30,000 lei. At the end of 2007, based on the data registered in his books, Mr Ionescu's consultancy activity revealed the following data for 2007:

	Note	Lei
Receipts		
Revenues from consultancy		25,000
Interest earned	1	1,300
Loan from his wife	2	11,000
Payments		
Expenses for materials and services		(7,300)
Purchase of fixed asset	3	(19,200)
Expenses for gasoline	4	(2,100)
Professional fees	5	(4,600)
Interest paid	2	(605)
Loan repayment	2	(11,000)
Protocol expenses	6	(3,100)
Energy and heating expenses	7	(6,000)
Salary payments	8	(6,360)
Voluntary health insurance	9	(1,700)

Notes:

- 1 **Interest earned**
Of the 1,300 lei interest earned 1,000 lei is from the current account used for the consultancy activity and 300 lei is from the account where he receives the salary from his employer, Beta Co.
- 2 **Loans received**
On 30 June 2007 Mr Ionescu received a loan of 11,000 lei from his wife in order to enable him to buy a car, which he needed in order to perform his consultancy activity as a self-employed person. The loan was given at an annual interest rate of 11%, payable at the end of each month. The relevant reference rate established by the National Romanian Bank is 9% per year. The loan was repaid in full on 31 December 2007.
- 3 **Tangible assets**
On 16 July 2007 Mr Ionescu bought the car he needed to perform his consultancy activity for 19,200 lei. The car is used 70% for his consultancy activity and 30% for personal purposes. The useful life of this car is five years.
- 4 **Gasoline**
The total sum paid in 2007 for the gasoline bought by Mr Ionescu for fuelling his car was 2,100 lei. This fuel was used for both the consultancy activity and his personal purposes.
- 5 **Professional fees**
Mr Ionescu's consultancy activity must be authorised by the Body of Expert and Licensed Accountants in Romania. For the year 2007 Mr Ionescu paid 2,400 lei to this professional body in order to be authorised. Mr Ionescu also joined an international professional organisation so as to be fully informed of any news in his field of activity, for which he paid a fee, in 2007, of 2,200 lei.
- 6 **Protocol expenses**
Mr Ionescu bought sweets and postal cards for his clients for Christmas, for a total cost of 3,100 lei.
- 7 **Energy and heating expenses**
Mr Ionescu uses the house, where he lives with his family, as the premises from which he carries on his consultancy activity. 20% of the surface area of the house is allocated to his consultancy activity. For the entire year 2007 (January to December) Mr Ionescu paid 6000 lei for the energy and heating of the whole of the house (500 lei/month).

8 Salary payments

At the beginning of July 2007 Mr Ionescu employed an assistant. The salary payments for this assistant in 2007 totalled 6,360 lei, which comprises both the assistant's gross salary and the compulsory social security payments.

9 Voluntary health insurance

Mr Ionescu paid voluntary health insurance for his assistant of 1,700 lei in 2007.

10 Asset depreciation

Depreciation is to be computed using the straight-line method.

Required:

(a) Calculate Mr Ionescu's estimated prepayments of income tax for his independent consultancy activity in the year 2007 and specify the dates when these must be made. (3 marks)

(b) Calculate Mr Ionescu's final income tax liability for his independent consultancy activity for the year 2007. (18 marks)

(c) State the deadline by which Mr Ionescu must declare the income from his independent consultancy activity for the year 2007 (calculated in (b)) to the tax authorities. (1 mark)

(d) Explain how and when the final income tax liability for the year 2007 from Mr Ionescu's independent consultancy activity (calculated in (b)) will be settled. (3 marks)

(25 marks)

- 3 Fancy Co, a Romanian resident company operating in the field of food trading, was established in 2006, when it also registered for value added tax (VAT) purposes in Romania.

The following information relates to Fancy Co's activities in February 2007:

Acquisitions of goods

- 3,000 kg of meat, with a unit price (exclusive of VAT) of 12 lei/kg. The acquisition was made from ABC SRL, which is established and registered for VAT purposes in Romania, and the goods were dispatched from ABC SRL's warehouse in Buzau (Romania) to Fancy Co's warehouse in Bucharest (Romania).
- 100,000 labels, with a unit price (exclusive of VAT) of €0.1 each. The acquisition was made from Santos, which is resident and registered for VAT purposes in France, and the goods were dispatched from Santos's warehouse in Lyon (France) to Fancy Co's warehouse in Bucharest (Romania).
- 3,451 kg of sausages, with a unit price (inclusive of VAT) of 10 lei/kg. The acquisition was made from XYZ SRL, which is registered for VAT purposes in Romania, and the goods were dispatched from XYZ SRL's warehouse in Bucharest (Romania) to Fancy Co's warehouse in Bucharest (Romania).
- A car was purchased from a local dealer in Romania on 20 February 2007, at a price of 25,200 lei (exclusive of VAT).

Acquisitions of services

- Due to the changes in the tax legislation, further to Romania's European Union (EU) accession, Fancy Co required specific tax consultancy services from Delta Co a company established and registered for VAT purposes in Portugal. For the services rendered Delta Co issued an invoice to Fancy Co for €30,000, (exclusive of VAT).
- Fancy Co received an invoice for the water and heating of its warehouse for the first six months of 2007 for 35,700 lei (inclusive of VAT). The invoice was issued on 10 February 2007 by Utilus SRL, a company established and registered for VAT purposes in Romania.

Supply of goods

- 1,000 kg of meat, with a unit price (exclusive of VAT) of 15 lei/kg. The customer, Lamda, is established and registered for VAT purposes in Hungary, and the goods were dispatched from Fancy Co's warehouse in Bucharest (Romania) to Lamda's warehouse in Oradea (Romania).
- 20,000 kg of sausages, with a unit price (exclusive of VAT) of 17 lei/kg. The customer Gama is established and registered for VAT purposes in Hungary, and the goods were dispatched from Fancy Co's warehouse in Bucharest (Romania) to Gama's warehouse in Budapest (Hungary).

Other information

- For the birthday of one of the partner's in the company on 18 February 2007, Fancy Co granted him, free of charge, 300 kg of meat.
- The car purchased on 20 February 2007 is expected to be used as follows:

Year	Use of car
2007	100% for business purposes
2008	70% for business purposes; and 30% for the personal purposes of one of the partners
2009	100% for business purposes
2010	The car will be scrapped.

Required:

- (a) Calculate Fancy Co's input VAT for the month of February 2007.** (4 marks)
- (b) Calculate Fancy Co's output VAT for the month of February 2007.** (3 marks)
- (c) State which of the transactions made by Fancy Co in the month of February 2007 should be declared in its intra-community supplies and acquisitions recapitulative statement for the first quarter of 2007.** (3 marks)
- (d) Explain and compute the adjustments (if any) that will need to be made to the input VAT due by Fancy Co in each of the years 2008, 2009 and 2010 because of the way in which the car is to be used.** (5 marks)

Note: the following standard VAT rates are applicable in the countries, other than Romania, referred to in this question:

France	19.6%
Hungary	20%
Portugal	21%

(15 marks)

- 4 Mrs Georgescu is employed by Capa SRL, a limited liability company. This is Mrs Georgescu's only employment contract. According to the employment contract, she is entitled to receive a basic salary of 1,500 lei per month and a monthly fidelity bonus of 10% of this basic salary.

The following information relates to Mrs Georgescu for the month of June 2008:

- 1 Capa SRL gave Mrs Georgescu 20 meal vouchers, valued at 7.88 lei/voucher.
- 2 Mrs Georgescu uses the company telephone both for business and personal purposes. The total value of the invoice received by Capa SRL for Mrs Georgescu's June telephone calls was 454 lei (exclusive of VAT). One third of the calls made were for personal purposes.
- 3 Mrs Georgescu is a member of a union, and she pays a monthly contribution to this union of 50 lei.
- 4 In order to assure her retirement plans, Mrs Georgescu contributes to a facultative pension scheme, for which she pays a monthly contribution of 100 lei.
- 5 For her good work performance Capa SRL gave Mrs Georgescu a bonus of 500 lei.
- 6 Having literature as her hobby, Mrs Georgescu had an article published in the June 2008 Literature Revue, for which she received copyright gross income of 2,000 lei.

Other information:

Mrs Georgescu has two children under her care. The first child is 13 years old and because of his very good results at school he receives a monthly scholarship of 500 lei. The second child is 17 years old and is also employed by Capa SRL, having a monthly basic salary of 600 lei.

Required:

- (a) **Calculate Mrs Georgescu's gross employment income for the month of June 2008.** (3 marks)
- (b) **Explain how the value of the personal deduction that Mrs Georgescu is entitled to for the month of June 2008 will be determined and calculate the value.** (4 marks)
- (c) **Calculate the taxable base from Mrs Georgescu's employment for the month of June 2008.** (5 marks)
- (d) **Determine the amount of money that Mrs Georgescu will actually receive for her article from the Literature Revue.** (1 mark)
- (e) **State, giving reasons, whether or not Mrs Georgescu should pay the health care insurance contribution on the copyright income received from the Literature Revue.** (2 marks)

Note: there were 21 working days in June 2008.

(15 marks)

- 5 Cathy SRL is a limited liability company established in Romania since 2004. It is also registered for value added tax (VAT) purposes in Romania.

Cathy SRL's equity is owned by five associates:

Associate	Percentage of equity owned
Mr Popescu, a Romanian resident	20%
Algam SRL, a company established in Romania	20%
Grama SRL, a company established in Romania	6%
Elsa Ltd, a company based in Great Britain	49%
Itu Co, a company established in France	5%
TOTAL	100%

Cathy SRL has had the same five associates ever since its incorporation.

The following information relates to the transactions of Cathy SRL in 2008:

- 1 On 19 June 2008 Cathy SRL paid dividends for the year 2007. Cathy SRL's net profit for the year 2007 was 100,000 lei. According to Cathy SRL's dividend policy, only 20% of the net profits are transferred to retain earnings, and the remaining (80%) are distributed as dividends. Both Elsa Ltd. and Itu Co. provided a certificate of their fiscal residence in Great Britain and France, respectively, for the year 2008, to Cathy SRL on 1 June 2008.
- 2 In February 2008, Cathy SRL signed a royalty contract with Elsa Ltd. According to this contract the annual royalty that must be paid by Cathy SRL to Elsa Ltd. is of €25,000. Cathy paid the annual royalty for 2008 to Elsa Ltd. on 5 May 2008.
- 3 On 15 March 2008, Cathy SRL signed a five year loan contract with Lowe Co., a company based in France, which is not a company specialised in according loans. The amount of the loan is €300,000, and the annual interest rate is 11%. For the nine months of 2008, Cathy SRL will have an interest expense of €24,750. Lowe Co. provided Cathy SRL with a certificate of residence in France, for the year 2008, on 25 July 2008. The payment of interest is due to be made on 31 December 2008.

Other information

- According to the tax treaty between Romania and Great Britain, the tax rate for royalties is 15% and the tax rate for dividends is 15%.
- According to the tax treaty between Romania and France, the tax rate for interest is 10% and the tax rate for dividends is 10%.

Required:

- (a) Calculate the tax that must be withheld on the dividends paid to each of the five associates by Cathy SRL on 19 June 2008. (9 marks)
- (b) State, giving reasons, the tax rate that should be used in computing the withholding tax on the royalties paid to Elsa Ltd by Cathy SRL on 5 May 2008. (3 marks)
- (c) State, giving reasons, the tax rate that should be used in computing the withholding tax on the interest to be paid to Lowe Co by Cathy SRL on 31 December 2008. (3 marks)

(15 marks)

End of Question Paper

Answers

1 Alfa Co

(a) The non-depreciated tax value of the company's assets on 1 January 2007

Item	Building A Lei	Building B Lei	Cutting machines (2 pieces) Lei	Sewing machine Lei
2004				
Purchase value for tax purposes	120,000	60,000	15,000	
Tax depreciation	1,200 (W1)	12,240 (W2)	–	
Non-depreciated tax value at 31 December	<u>118,800</u>	<u>47,760</u>	<u>15,000</u>	
2005				
Non-depreciated tax value at 1 January	118,800	47,760	15,000	
Purchase value for tax purposes	–	–	–	
Tax depreciation	2,400 (W1)	960 (W2)	3,000 (W3)	
Non-depreciated tax value at 31 December	<u>116,400</u>	<u>46,800</u>	<u>12,000</u>	
2006				
Non-depreciated tax value at 1 January	116,400	46,800	12,000	
Purchase value for tax purposes	–	–	–	3,000
Tax depreciation	2,400 (W1)	960 (W2)	3,000 (W3)	–
Non-depreciated tax value at 31 December	<u>114,000</u>	<u>45,840</u>	<u>9,000</u>	<u>3,000</u>
2007				
Non-depreciated tax value at 1 January	<u>143,640</u> (W1)	<u>45,840</u>	<u>9,000</u>	<u>3,000</u>

(b) Taxable income for the year ended 31 December 2007

	Lei
Total revenues	97,900
Total expenses	(95,118)
Non-taxable revenues	(1,000)
Revenue from provisions for uncertain clients	(1,000)
Tax depreciation (W4)	(7,484)
Non-deductible expenses	23,349
Expense for provisions for uncertain clients	3,000
Material and salary expenses	2,400
Expenses for services received	1,500
Protocol expenses (W5)	2,126
Sponsorship expenses	2,000
Allowance expenses (W6)	425
Penalties and fines	2,000
Accounting depreciation	8,148
Interest expenses (W7)	150
Income tax expense	1,600
Taxable income	17,647

Note: no adjustment is required in respect of the disposal of the sewing machine, as the total non-depreciated value of a sold tangible asset qualifies as a deductible expense.

(c) Total corporate income tax liability for the year ended 31 December 2007

	Lei
Taxable income	17,647
Income tax before sponsorship expenses (17,647 x 16%)	2,824
Sponsorship expenses (W8)	(285)
Total corporate income tax	<u>2,539</u>

(d) Settlement of the corporate income tax liability

During 2007 the company has made quarterly payments of corporate income tax of 1600 lei.

The final corporate income tax for the entire year 2007 as computed at the end of the year will be settled first against the payments made during the year. Thus, the company will subtract from the sum of the corporate income tax calculated for the entire year 2007 (2,539 lei) the sums paid during the year (1,600 lei) and pay the difference (939 lei).

The settlement must be made by 15 April 2008, at the latest, when the company must also present its corporate tax return for the year ended 31 December 2007.

Note: the company will pay the same amount for income tax in the forth quarter as for the third quarter.

WORKINGS

1 Non-depreciated tax value for building A on 1 January 2007

Purchase value = 120,000 lei

Number of years for depreciation = 50 years

Number of months for depreciation = 600 months (July 2004 to June 2054)

Monthly depreciation = 120,000 : 600 = 200 lei

2004: months of depreciation = 6

Tax depreciation = 6 x 200 = 1,200 lei

2005: months of depreciation = 12

Tax depreciation = 12 x 200 = 2,400 lei

The building was revaluated on 15 December 2005, but the revaluation cannot be depreciated for tax purposes in 2006

2006: months of depreciation = 12

Tax depreciation = 12 x 200 = 2,400 lei

2007: The non-depreciated tax value of the building at the beginning of the year

= non-depreciated tax value of the building on 31 December 2006 + non-depreciated accounting value of the revaluation on 31 December 2006

= 114,000 + 29,640 = 143,640 lei

The computation of the non-depreciated accounting value of the revaluation on 31 December 2006

Date of revaluation: 15 December 2005

Revaluation value = 30,264 lei

Number of years of accounting depreciation = 48.5 years (period of remaining use for building A)

Number of months of accounting depreciation = 582 months (January 2006 to June 2054)

Monthly depreciation for accounting purposes = 30,264 : 582 = 52 lei

Months of accounting depreciation in 2006 = 12

Accounting depreciation of the revaluation in 2006 = 12 x 52 = 624

The non-depreciated value of the revaluation on 31 December 2006 = 30,264 - 624 = 29,640

2 Non-depreciated tax value for building B on 1 January 2007

Purchase value = 60,000 lei

20% depreciation facility = 60,000 x 20% = 12,000 lei registered on September 2004

Tax value to be depreciated after the depreciation facility = 60,000 - 12,000 = 48,000 lei

Number of years for depreciation = 50 years

Number of months for depreciation = 600 months (October 2004 to September 2054)

Monthly depreciation = 48,000 : 600 = 80 lei

2004: months of depreciation = 3

Tax depreciation = 12,000 + 3 x 80 = 12,240 lei

2005: months of depreciation = 12

Tax depreciation = 12 x 80 = 960 lei

2006: months of depreciation = 12

Tax depreciation = 12 x 80 = 960 lei

3 Non-depreciated tax value for the cutting machines on 1 January 2007

Purchase value = 15,000 lei

Number of years for depreciation = 5 years

Number of months for depreciation = 60 months (January 2005 to December 2009)

Monthly depreciation = 15,000 : 60 = 250 lei

2005: months of depreciation = 12

Tax depreciation = 12 x 250 = 3,000 lei

2006: months of depreciation = 12

Tax depreciation = 12 x 250 = 3,000 lei

4 Tax depreciation in 2007

Item	Building A	Building B	Cutting machines (2 pieces)	Sewing machine	Investments
	Lei	Lei	Lei	Lei	Lei
2007					
Non-depreciated tax value at 1 January	143,64	45,840	9,000	3,000	
Purchase value					2,400
Monthly depreciation	252	80	250	50	40
Number of months depreciation in 2007	12	12	12	6	5
Tax depreciation in 2007	<u>3,024</u>	<u>960</u>	<u>3,000</u>	<u>300</u>	<u>200</u>

Total tax depreciation = 3,024 + 960 + 3,000 + 300 + 200 = 7,484 lei

5 Protocol expenses

The deductibility of protocol expenses is limited to 2% x (Taxable revenues – Expenses related to taxable revenues less protocol and corporate income tax expenses)

	Lei
Taxable revenues	96,900
Expenses related to taxable revenues	(92,118)
Protocol expenses	2,300
Corporate income tax expenses	1,600
	<u>8,682</u>
Deductibility limit for protocol expenses (2%)	174
Deductible protocol expenses	174
Non-deductible protocol expenses (2,300 – 174)	2,126

6 Allowance expenses

The deductibility of allowance expenses is limited to 2.5 x the limit for public institution employees

The maximum deductible expense for allowances is 2.5 x 13 lei/day/person = 32.5 lei/day/person.

The allowance is given to two persons for a three day trip.

The maximum deductible expense for allowances = 32.5 lei/day/person x 2 persons x 3 days = 195 lei.

	Lei
Deductible allowance expenses	195
Non-deductible allowance expenses (620 – 195)	425

7 Interest expenses

Interest related to loans from unauthorised persons (ie shareholders) are limited as follows:

- The sum that exceeds the interest computed using the reference interest rate established by the National Romanian Bank is entirely non-deductible.
 - The remaining sum will be:
 - deductible in the current tax year, if the debt ratio is positive and lower than 3; and
 - non-deductible in the current tax year, if the debt ratio is negative or if it is positive and higher or equal to 3. But, it may be carried forward until the debt ratio becomes positive and lower than 3.
- Loan from an authorised Romanian bank: interest of 1,500 lei is entirely deductible
 - Loan from a shareholder:
 - Limit given by the reference interest rate established by the National Romanian Bank = 10,000 lei x 6% = 600 lei
Thus, 750 – 600 = 150 is a non-deductible expense
 - Debt ratio = 2
Thus, 600 lei will be entirely deductible in the year ended 31 December 2007.

	Lei
Deductible interest expenses (1,500 + 600)	2,100
Non-deductible interest expenses (150)	150

8 Sponsorship expenses

Sponsorship expenses are non deductible for tax purposes, but may be deducted directly from the corporate income tax liability within the following limits:

- (i) 3‰ x sales revenue AND
- (ii) 20% x income tax computed before sponsorship expenses

	Lei
3‰ x sales revenue (3‰ x 95,000)	285
20% x income tax computed before sponsorship expenses (20% x 2,824)	565
Sponsorship expenses that may be deducted from corporate income tax	285

2 Mr Ionescu

(a) Estimated prepayments of income tax in 2007

Estimated gross income = 35,000 lei

Estimated deductible expenses = 30,000 lei

Estimated taxable base = estimated gross income – estimated deductible expenses
= 35,000 – 30,000 = 5,000 lei

Estimated prepayments for income tax = 5,000 x 16% = 800 lei

The prepayments must be made in four equal quarterly instalments by the 15th of the last month of each quarter, thus:

Date	Prepayment due Lei
15 March 2007	200
15 June 2007	200
15 September 2007	200
15 December 2007	200

(b) Final income tax for the year 2007 in respect of his independent consultancy activity

	Lei
Gross income	26,000
Revenues from consultancy	25,000
Interest earned	1,000
Deductible expenses	(20,173)
Expenses for materials and services	(7,300)
Tax depreciation (W1)	(1,120)
Expenses for gasoline (W2)	(1,470)
Interest paid (W3)	(495)
Energy and heating expenses (W4)	(1,100)
Salary payments	(6,360)
Voluntary health insurance (W5)	(730)
Professional fees (W6)	(1,449)
Protocol expenses (W7)	(149)
Taxable base	5,827
Final income tax in 2007 (16%)	932

(c) Deadline for declaring the independent consultancy activity income for 2007

Mr Ionescu must file his income tax return and declare the independent activity income to the tax authorities by 15 May 2008, at the latest.

(d) Settlement of the final income tax liability

After declaring his income to the tax authorities Mr Ionescu must wait for the ruling by the tax authorities, which establishes the difference of income tax to be paid.

The difference to be paid = final tax – prepayments of tax = 932 – 800 = 132 lei

This amount must be paid within 60 days after receiving the ruling.

WORKINGS

1 Depreciation deductible

Purchase value = 19,200 lei

Number of years for depreciation = 5 years

Number of months for depreciation = 60 months (August 2007 to July 2012)

Monthly depreciation = $19,200 : 60 = 320$ lei

Monthly depreciation accountable to the consultancy activity: $70\% * 320 = 224$ lei

Months of depreciation in 2007 = 5 (August to December 2007)

Depreciation allowed in 2007 = $5 * 224 = 1,120$ lei

2 Expenses for gasoline deductible

Total expenses with gasoline = 2,100 lei

Percentage allocated to the consultancy activity = 70%

Expenses for gasoline allowable for deduction in 2007 = $70\% * 2,100 = 1,470$ lei

3 Deductible interest

For loans taken from an unspecialised person (Mr. Ionescu's wife) interest is deductible up to the reference rate established by the Romanian National Bank.

Interest paid = $11,000 * 11\% * 6/12 = 605$ lei

Limit given by the reference interest rate established by the National Romanian Bank = $11,000 * 9\% * 6/12 = 495$ lei

	Lei
Deductible interest expense	495
Non-deductible interest expense (605-495)	110

4 Expenses for energy and heating deductible

Total expenses for energy and heating = 6,000 lei

Monthly expense for energy and heating = 500 lei

Number of months in which Mr Ionescu exercised his consultancy activity = 11 (February to December 2007)

Percentage allocated to the consultancy activity = 20%

Expenses for energy and heating allowable for deduction in 2007 = $500 * 11 * 20\% = 1,100$ lei

5 Voluntary health insurance deductible

The voluntary health insurance paid by Mr Ionescu for his employee is deductible up to €200 per year, per employee. The lei equivalent of the €200 is calculated using the official exchange rate valid on the day of payment.

Limit of deductibility = $€200 * 3.65 \text{ lei/Euro} = 730$ lei

	Lei
Deductible voluntary health insurance	730
Non-deductible voluntary health insurance (1,700 – 730)	970

6 Professional fees deductible

The professional fees must be separated into two categories:

- (i) Compulsory professional fees that have to be paid in order to be authorised to exercise one's activity (compulsory).

Mr Ionescu paid 2,400 lei to the Body of Expert and Licensed Accountants in Romania in order to be authorised.

The deductibility of these expenses is limited to 5% of gross income.

Deductibility limit for compulsory professional fees = $5\% * 26,000 = 1,300$ lei

	Lei
Deductible compulsory professional fees	1,300
Non-deductible compulsory professional fees (2,400 – 1,300)	1,100

- (ii) Professional fees which are paid to a different professional association at the free will of the individual (non-compulsory)

Mr Ionescu paid 2,200 lei to an international professional organisation of his free will.

The deductibility of these expenses is limited to 2% of gross income less deductible expenses, other than sponsorship, protocol and professional fees.

	Lei
Gross income	26,000
Deductible expenses, other than sponsorship, protocol and professional fees	
Expenses for materials and services	(7,300)
Tax depreciation	(1,120)
Expenses for gasoline	(1,470)
Interests paid	(495)
Energy and heating expenses	(1,100)
Salary payments	(6,360)
Voluntary health insurance	(730)
	<u>(18,575)</u>

Deductibility limit for non-compulsory professional fees (2% x (26,000 – 18,575))	149
Deductible non-compulsory professional fees	149
Non-deductible non-compulsory professional fees (2,200 – 149)	2,051

	Lei
Deductible compulsory professional fees	1,300
Deductible non-compulsory professional fees	149
Total deductible expenses for professional fees	1,449

6 Protocol expenses deductible

The deductibility of protocol expenses is limited to 2% of gross income less deductible expenses, other than sponsorship, protocol and professional fees.

	Lei
Gross income	26,000
Deductible expenses, other than sponsorship, protocol and professional fees (as per W5)	(18,575)
	7,425
Deductibility limit for protocol expenses (2%)	149
Deductible protocol expenses	149
Non-deductible protocol expenses (3,100 – 149)	2,951

3 Fancy Co

(a) Input VAT for February 2007

	Lei
Acquisition from ABC SRL (3,000 kg x 12 lei/kg x 19%)	6,840
Acquisition from Santos (100,000 pieces x €0.1/piece x 3.65 lei/Euro x 19%)	6,935
Acquisition from XYZ SRL (3,451 kg x 10 lei/kg x $\frac{19\%}{119\%}$)	5,510
Acquisition from Delta Co. (€30,000 x 3.65 lei/Euro x 19%)	20,805
Acquisition from Utilus SRL (35,700 lei x $\frac{19\%}{119\%}$)	5,700
Car acquisition (25,200 lei x 19%)	4,788
	<u>4,788</u>
Total input VAT	<u>50,578</u>

(b) Output VAT for February 2007

	Lei
Output VAT due to the reverse charge system	
Acquisition from Santos (as in (a))	6,935
Acquisition from Delta Co (as in (a))	20,805
Output VAT for the supplies made	
Supply to Lamda (1,000kg x 15 lei/kg x 19%)	2,850
Supply to Gama (20,000kg x 17 lei/kg x 0%)	0
Output VAT for the self-supply	
Meat granted free of charge for partner's birthday (300 kg x 15 lei/kg x 19%)	855
	<u>855</u>
Total output VAT	<u>31,445</u>

- (c) The transactions that should be declared in the intra-community supplies and acquisitions recapitulative statement for the first quarter of 2007

In the intra-community supply and acquisitions recapitulative statement for the first quarter of 2007, Fancy Co. must declare all its intra-community supplies and acquisitions of goods, being:

- the acquisition of labels from Santos; and
- the supply of sausages to Gama.

The supply of meat to Lamda even though it is to a Hungarian company, does not involve two European Union (EU) countries as the meat is not transported outside the borders of Romania.

- (d) Adjustments to input VAT

2008

Due to the fact that the car is used 30% for the personal purposes of one of the partners, the input VAT should be adjusted, by setting as non-deductible 30% of the input VAT for the remaining four years of the adjustment period.

$$\text{Non-deductible input VAT} = 4,788 \times 30\% \times 4/5 = 1,149 \text{ lei}$$

2009

Due to the fact that the car is again used 100% for business purposes, the input VAT that was considered non-deductible in 2008 should now be considered deductible for the remaining three years of the adjustment period.

$$\text{Deductible input VAT} = 4,788 \times 30\% \times 3/5 = 862 \text{ lei}$$

2010

Due to the fact that the car is scrapped the input VAT should be considered non-deductible for the remaining two years of the adjustment period.

$$\text{Non-deductible input VAT} = 4,788 \times 2/5 = 1,915 \text{ lei}$$

4 Mrs Georgescu

- (a) Gross employment income for the month of June 2008

	Lei
Basic salary	1,500
Fidelity bonus (1,500 x 10%)	150
Personal phone-calls (454 x 119% x 1/3)	180
Bonus	500
	2,330
Gross employment income	2,330

Note: the provision of meal vouchers is an exempt benefit in kind.

- (b) The personal deduction

The personal deduction to which Mrs Georgescu is entitled depends on the number of persons that can be considered, from a tax point of view, to be supported by her and the value of her gross employment income.

Mrs Georgescu has in her care two minor children. The general rule is that for a person to be considered as supported, he/she must not have an income higher than 250 lei/month. However, minor children are always considered as being supported, even if they have a higher income, except where a minor child aged between 16 and 18 years is employed and has a salary higher than 250 lei/month.

Thus, analysing the situation of both children, it can be concluded that:

- The child of 13 years old may be considered as supported, as he receives an income from a scholarship, so it does not matter that this income is higher than 250 lei/month.
- The child of 17 years old may not be considered as supported as he is employed and receives a monthly salary of 600 lei, which is higher than 250 lei/month.

The number of persons that Mrs Gerogescu supports, from a tax point of view is only one (the younger child).

Because Mrs Georgescu's income is between 1,000 and 3,000 lei, therefore, her personal deduction will be computed as follows:

$$\text{Personal deduction} = 350 \times \left(1 - \frac{2,330 - 1,000}{2,000} \right) = 117.25 \approx 120 \text{ lei}$$

- (c) The taxable base from her employment income

	Lei
Gross employment income	2,330
Social contributions	(384)
Social security contribution (2,330 x 9.5%)	(221)
Health care insurance contribution (2,330 x 6.5%)	(151)
Unemployment contribution (2,330 x 0.5%)	(12)
Net employment income	1,946
Other deductions	(270)
Personal deduction (from (b))	(120)
Union contribution	(50)
Facultative pension contribution (W1)	(100)
Taxable base	1,676

- (d) The amount of money that Mrs Georgescu will receive from the Literature Revue
The Literature Revue is a payer of copyright income. Thus it must withhold income tax of 10% of the gross income and only pay the net amount to the author.

	Lei
Gross copyright income:	2,000
Withholding tax (2,000 x 10%)	(200)
The amount of money received by Mrs Georgescu	<u>1,800</u>

- (e) The health care insurance contribution on the copyright income.
The usual rule is that the health care contribution should be paid on any income for which income tax is paid, But in the case of copyright income the health care contribution is not due if the author has other income such as employment income. Thus, Mrs Georgescu is not liable to pay the health care contribution on her copyright income.

WORKINGS

- 1 Deduction for the contribution to the facultative pension schemes
The contribution to the facultative pension scheme may be deducted only if its cumulated value for the year is below €200.

	€
Contribution for January to May 2008 (5 x 100 lei/3.65 lei/Euro)	137
Contribution for June 2008 (100 lei/3.65 lei/Euro)	27
Total contribution to facultative pension schemes in 2008 (to date)	<u>164</u>

Thus, the full value of the contribution to the facultative pension scheme paid in June may be deducted, as the total value paid in 2008 up to June 2008 inclusive is less than €200.

5 Cathy SRL

- (a) The tax withheld on the dividends paid to the five associates

	Lei
Net income	100,000
Distributed dividends (80%)	80,000
Out of which:	
to Mr Popescu (20%)	16,000
to Algam SRL (20%)	16,000
to Grama SRL (6%)	4,800
to Elsa Ltd (49%)	39,200
to Itu Co (5%)	4,000
Dividends distributed to Mr Popescu (a Romanian resident individual):	
Gross dividend	16,000 lei
Tax rate	16%
Tax on dividends (16,000 x 16%)	2,560 lei
Dividends distributed to Algam SRL (a Romanian company with a holding of at least 15%):	
Gross dividend	16,000 lei
Tax rate	0%
Tax on dividends (16,000 x 0%)	0 lei

Dividends distributed to Grama SRL (a Romanian company with a holding of less than 15%):

Gross dividend	4,800 lei
Tax rate	10%
Tax on dividends (4,800 x 10%)	480 lei

Dividends distributed to Elsa Ltd. (a British company with a holding of at least 15%):

Gross dividend	39,200 lei
Tax rate	0%
Tax on dividends (39,200 x 0%)	0 lei

Dividends distributed to Itu Co. (a French company with a holding of less than 15%):

Gross dividend	4,000 lei
Tax rate (as per tax treaty)	10%
Tax on dividends (4,000 x 10%)	400 lei

(b) The tax withheld on the royalties paid to Elsa Ltd.

In computing the withholding tax on the royalties a tax rate of 10% must be used.

This is due to the following facts:

- (i) According to the Tax Code the tax rate on royalties paid by Romanian companies to associate companies established in the European Union (EU), if the non-resident company holds at least 25% of the equity of the Romanian company for an uninterrupted period of at least two years, is 10%.
- (ii) In order to apply the tax treaty between Romania and Great Britain, Cathy SRL should have had a valid certificate of residence for 2008 from Elsa Ltd, on 5 May 2008 when the royalty is paid. Elsa Ltd did not provide Cathy SRL with such a certificate until 1 June 2008, so the tax treaty cannot be applied. In any case, even if the tax treaty could have been applied it would have resulted in a higher rate of withholding than the one in the Tax Code.

(c) The tax on the interest payable to Lowe Co.

In computing the withholding tax on the interest a tax rate of 10% must be used.

This is due to the following facts:

- (i) According to the Tax Code the tax rate on interest paid by Romanian companies to non-resident companies, other than associate companies established in the EU which hold at least 25% of the equity of the Romanian company for an uninterrupted period of at least two years, is 16%;
- (ii) In order to apply the tax treaty between Romania and France, Cathy SRL needs to have a certificate of residence from Lowe Co, valid for 2008, on 31 December 2008 when the royalty is paid. Lowe Co has provided Cathy SRL with such a certificate, so the tax treaty can be applied and according to the tax treaty, the applicable tax rate is 10%.

1 Alfa Co

	Marks
(a) The non-depreciated tax value of the company's assets on 1 January 2007	
Computation of the non-depreciated tax value of building A:	
– to the end of 2006	2
– effect of the revaluation adjustment	1.5
Computation of the non-depreciated tax value of building B	2
Computation of the non-depreciated tax value of the cutting machines	1
Computation of the non-depreciated tax value of the sewing machine	0.5
	<hr style="width: 100%; border: 0.5px solid black;"/>
	7
(b) Taxable income for the year ended 31 December 2007	
Identification of total revenues	0.5
Identification of total expenses	0.5
Computation of non-taxable revenues	1
Computation of tax depreciation	2.5
Computation of non-deductible expenses	
Expense for provisions for uncertain clients	1
Material and salary expenses	1
Expenses for services received	1
Protocol expenses	2
Sponsorship expenses	1
Allowance expenses	1.5
Penalties and fines	1
Accounting depreciation	0.5
Interest expenses	2
Income tax expenses	1
Correct treatment of the sold asset expense	0.5
	<hr style="width: 100%; border: 0.5px solid black;"/>
	17
(c) Total corporate income tax for the year ended 31 December 2007	
Computation of income tax before sponsorship expenses	1
Computation of sponsorship expenses that may be subtracted	2
	<hr style="width: 100%; border: 0.5px solid black;"/>
	3
(d) Settlement of the corporate income tax liability	
Against the payments made under the quarterly system	1
Computation of the difference	0.5
Date: 15 April 2008	1
With the corporate income tax return	0.5
	<hr style="width: 100%; border: 0.5px solid black;"/>
	3
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	30
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2 Mr Ionescu**Marks**

(a) Estimated prepayments of income tax in 2007	
Computation of the estimated taxable base	1
Computation of the estimated prepayments for income tax	0.5
Identification of the dates when the prepayments must be made	1
Computation of the prepayment that must be made on each deadline	0.5
	<hr/>
	3
(b) Final income tax liability for 2007	
Revenues included in gross income:	
Revenues from consultancy	0.5
Interest earned	1
Computation of deductible expenses	
Expenses for materials and services	1
Tax depreciation	2
Expenses for gasoline	1.5
Interest paid	2
Energy and heating expenses	2
Salary payments	1
Voluntary health insurance	1.5
Professional fees	3
Protocol expenses	1.5
Computation of final income tax using the correct rate	1
	<hr/>
	18
(c) The deadline for declaring the independent activity income	
Date: 15 May 2008	1
	<hr/>
	1
(d) Settlement of the final income tax liability	
Need for a ruling from the tax authorities following submission of the declaration of income	1.5
Computation of the difference	0.5
Within 60 days after receiving the ruling	1
	<hr/>
	3
	<hr/>
	25

3 Fancy Co

	Marks
(a) Input VAT	
Computation of input VAT for the acquisition from ABC SRL	0.5
Computation of input VAT for the acquisition from Santos	0.5
Computation of input VAT for the acquisition from XYZ SRL	1
Computation of input VAT for the acquisition from Delta Co	0.5
Computation of input VAT for the acquisition from Utilus SRL	1
Computation of input VAT for the acquisition of the car	0.5
	<hr/> 4
(b) Output VAT	
Output VAT for the acquisition from Santos under the reverse charge system	0.5
Output VAT for the acquisition from Delta Co under the reverse charge system	0.5
Computation of output VAT for the supply to Lamda	0.5
Computation of output VAT for the supply to Gama	0.5
Computation of output VAT for the self-supply	1
	<hr/> 3
(c) Recapitulative statement	
Declaration of the acquisition from Santos	1
Declaration of the supply to Gama	1
Non-declaration of the supply to Lamda	1
	<hr/> 3
(d) The adjustments to input VAT	
Explaining and computing the adjustment needed in 2008	1.5
Explaining and computing the adjustment needed in 2009	1.5
Explaining and computing the adjustment needed in 2010	2
	<hr/> 5
	<hr/> 15

4 Mrs Georgescu

	Marks
(a) Gross employment income	
Including basic salary	0.5
Including and computing the fidelity bonus	0.5
Including and computing the value of the personal telephone calls	1
Including the bonus	0.5
Not including the meal vouchers	0.5
	<hr/> 3
(b) The personal deduction	
Stating the general rules for determining when a person may be considered supported	1.5
Concluding correctly as to the number of persons supported, with reasons	1.5
Computation of the personal deduction	1
	<hr/> 4
(c) The taxable base for the employment income	
Computation of the social security contribution	0.5
Computation of the health care insurance contribution	0.5
Computation of the unemployment contribution	0.5
Identifying the figure of net employment income	0.5
Including the personal deduction	0.5
Including the union contribution	1
Including and computing the facultative pension contribution	1.5
	<hr/> 5
(d) The amount of money that Mrs Georgescu will receive from the Literature Revue	
Identifying and calculating the 10% withholding tax	1
	<hr/> 1
(e) The health care insurance contribution on the copyright income	
Determining that the health care contribution should not be paid	1
Stating the correct reason for this conclusion	1
	<hr/> 2
	<hr/> 15

5 Cathy SRL

Marks

(a) The tax on the dividends	
Computation of the value of distributed gross dividends	1
Identification of the correct tax rate and computation of the tax withheld for:	
– Mr Popescu	1
– Algam SRL	1.5
– Grama SRL	1.5
– Elsa Ltd	2
– Itu Co	2
	<hr/>
	9
(b) The tax on the royalties	
Explaining the position under the Tax Code	1
Explaining the position under the relevant tax treaty	1
Identifying the correct rate as 10%	1
	<hr/>
	3
(c) The tax on the interest	
Explaining the position under the Tax Code	1
Explaining the position under the relevant tax treaty	1
Identifying the correct rate as 10%	1
	<hr/>
	3
	<hr/>
	15
	<hr/>