

Examiner's report

F6 (ROM) TAXATION

December 2009



General Comments

The examination consisted of five compulsory questions (Question 1 for 30 marks, question 2 for 25 marks and three further questions of 15 marks each) with an approximate 2:1 split requirement for computation and narrative respectively.

Most candidates attempted all five questions. Where not all questions were attempted, Question 5 was most frequently omitted. Also, question 5 was the most poorly answered. The best answered question was question 1, followed by question 2 and question 3.

Excellent answers were presented by many for all five questions and very high marks were achieved by a number of candidates. The performance of candidates overall was good. However a large number of candidates appeared to be unprepared for the examination.

The poor performance of many candidates was once again exacerbated by a clear failure to carefully read the content and requirements of questions. This contributed to the poor performance on narrative questions.

Workings were generally shown but were at times difficult to follow. Too many candidates continue to display their answers poorly, with a lack of clear labelling to indicate which questions are being attempted. Each question should be started on a new page and candidates must give more thought to the layout and organisation of their answers. Valuable time can be easily wasted, for example by not tabulating the answer to Question 4 (a) and (b).

Specific Comments

Question One

Question 1 was a 30 mark question on the subject of personal income tax and was frequently the best answered question on the paper.

Part (a) was generally well answered. The most common mistakes were:

- Confusing the gift on 1 March with the one on 8 March. Only the gift on 8 March may not be taxed up to 150 lei. The gift on 1 March is fully taxable;
- For the gift on 8 March some students failed to add VAT to the entire value of the gift and consider as benefit in kind the amount that exceeded 150 lei;
- The valuation of company car benefit in kind was most frequently omitted. Very few students knew to value correctly the benefit applying the monthly ratio of 1.7% to the gross value of the car, adjusted with the ratio of personal use;
- Some students failed to read carefully the text and did not realise that, as the company where Mrs. Tomato worked is not paying corporate income tax, the allowance should be considered as a benefit in kind for the value that exceeds the limit of 2.5 times the limit for public institution employees;
- Failure to include as a benefit in kind the meals offered by the company. Many students confused this with the meal tickets.

Almost every candidate knew not to include in the gross income the discount for the skirt and the stolen robes.

Part (b) was answered correctly by many candidates. The only difficulty was when computing the social security contribution and the unemployment contribution as many candidates failed not to include in this calculation the allowance.

Part (c) proved to be the easiest. Almost every candidate gave a fully right answer.

In part (d) the most common mistake was not to include the revenues and the expenses on a cash basis.

Part (e) proved accessible to most of the candidates, but in part (f) very few mentioned about the obligations as regards the employment income.

Question Two

This question, on the corporate income tax, was the second best answered question on the paper. Part (a) was generally well answered by the candidates. However, there were some clear difficulties:

- Many candidates failed to consider as non-taxable the dividends received from Salad SA and Oil SA or considered all dividends as non-taxable without giving any reason;
- The legal reserve was not even mentioned by many candidates;
- The pleasure trip of Mr. Eggplant was considered by some candidates as protocol expense and not as an expense for the personal interest of the shareholder and almost no candidate computed tax on dividends for this expense.

Part (b) and (c) were generally well answered although very few candidates tried to explain the deadline for submitting the annual declaration in connection with the fact that Seed SRL did not declare or pay any amount as corporate income tax for the fourth quarter.

Part (d) was a narrative part and almost every candidate proved to have knowledge on ways to transform non-deductible expenses into deductible expenses.

Question Three

This question was on the subject of value added tax (VAT).

Part (a) proved to be an all or nothing question. Almost every candidate that attempted part (a) gave a fully correct answer.

In Part (b) candidates had difficulties in identifying the correct VAT treatment. Also some candidates confused output VAT and input VAT. For example some candidates stated that output VAT is for purchases and input VAT is for sales. The most common mistakes were:

- At transaction 1 almost every candidate considered that invoices issued to the German client should be without VAT, failing to observe that this was a service with the place of supply in Romania, no matter who is the client;

- At transaction 2 many candidates thought that the standard treatment of renting activities is to apply VAT, instead of exempting it. Thus, only very few candidates knew to adjust the VAT deducted when the building was bought;
- Transactions 3, 4 and 5 were generally well answered. Only a few candidates applied the reverse charge to the Paris hotel invoice instead of considering this as non-taxable in Romania;
- At transaction 6 the most common mistake was to consider this as VAT for protocol expenses. The products were given for the personal use of shareholders, so they were not use for taxable activities which means that VAT was entirely non-deductible. This was not a protocol expense;
- Transaction 7 was well answered by many candidates;
- At transaction 8 few candidates identified the right VAT treatment, some of them considering that there is no VAT implication and some of them considering that there is a VAT implication but not identifying the right one.

Question Four

This question focused on the subject of personal income tax, more specific on investment income and prize income.

There were not many good answers to Part (a) as candidates confused either when choosing the right rate (16% instead of 1%), or when choosing the taxable base (some applied the rate to the value of sale and not to the gain from sale). Also, candidates did not organise well their answer leading to difficulties in identifying their good answers. Using a table for presenting their answer would have saved them a lot of time and would have organised their paper.

Many candidates confused the answer to part (a) with the answer to part (b) not knowing how the prepayments are computed and what the difference is in computing the prepayments from the final tax. Some candidates did not know that when computing the final income tax gains are offset by losses.

Part (c) was well answered whenever part (a) and (b) were well answered. Many candidates failed to see that the settlement does not differ from any other type of personal income tax and suggested different approaches.

Question Five

Question five was focused on more areas of the study guide. Part (a) was on the first subject of the syllabus, the Romanian tax system; parts (b) and (c) were on the obligations of tax payers and/or their agents; parts (d) and (e) were on corporate income tax. This question was more theoretical and it was also the most poorly answered.

Part (a) based on the theoretical understanding of direct and indirect taxes. Almost every candidate failed to identify the difference between direct and indirect taxes.

Parts (b) and (c) were fairly well answered, but there was a tendency to confuse the requirement of stating the deadline to declare with the deadline to pay the taxes.



Parts (d) and (e) were very poorly answered. Many candidates tried to give a justified answer but very few stated the right rule of identifying the related parties and even fewer knew that transfer pricing rules should apply only to the transactions with non-resident related companies.