
Answers

Marks

1 AppleTree SRL

(a) Taxpayers subject to corporate income tax

Taxpayers subject to corporate income tax are:

- Romanian legal persons;
- foreign legal persons having a permanent establishment in Romania;
- foreign legal persons and individuals who have activities in Romania through a partnership;
- foreign legal persons having revenues from transactions with immovable property or shares in Romania;
- Romanian resident individuals in partnership with a Romanian legal person;
- legal persons established according to the European legislation and having registered office in Romania.

TWO only required, 1 mark each 2

(b) Prepayments of corporate income tax

Corporate income tax in 2013 = $16\% \times 530,000 = 84,800$ lei 1

Quarterly prepayment of corporate income tax in 2014 = $(84,800 \times (1 + 3.5\%)) / 4 = 21,942$ lei 1½

The quarterly prepayment must be paid and declared by the 25th of the first month following the quarter end, i.e. 25 April 2014, 25 July 2014, 25 October 2014 and 25 January 2015. 1½

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(c) Tax on dividends paid

Legal reserve = lower of $5\% \times \text{net profit}$; and $20\% \times \text{share capital}$
= lower of $(5\% \times 450,000; 20\% \times 20,000) = \text{lower of } (22,500; 4,000) = 4,000$ lei 1

Distributable profit = $(\text{net profit} - \text{legal reserve}) = 450,000 - 4,000 = 446,000$ lei ½

Gross dividends = Distributable profit = 446,000 lei

Dividends distributed to Adam SRL

Gross dividends = $60\% \times 446,000 = 267,600$ lei ½

Tax on dividends = $16\% \times 267,600 = 42,816$ lei ½

Dividends distributed to Eve Co

Gross dividends = $40\% \times 446,000 = 178,400$ lei ½

Tax on dividends = $16\% \times 178,400 = 28,544$ lei 1

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(d) Corporate income tax for 2014

	2014 (lei)	
Profit before tax	1,200,000	
Non-taxable revenues	(34,000)	
Reimbursed fine	(10,000)	1/2
Dividends from Austrian company	(0)	1
Loan related revenues (W1)	(0)	1 1/2
Insurance revenues (W2)	(0)	1/2
Bad debt provision revenues (W3)	(24,000)	2
Tax depreciation (W4)	(9,000)	1 1/2
Non-deductible expenses	257,200	
Accounting depreciation (W4)	7,200	1
Loan related expenses (W1)	9,000	4
Bad debts provision expenses (W5)	70,000	2
Bad debt loss (W3)	0	1
Annual leave provision	50,000	1/2
Litigation provision	100,000	1/2
Voluntary pension insurance (W6)	6,000	1
Life insurance (1,000 lei*5)	5,000	1
Stolen goods expense (W2)	10,000	1
Taxable income for 2014	1,414,200	
Corporate income tax for 2014 (at 16%)	226,272	1/2
Prepayments of tax (21,942*4)	(87,768)	1/2
Corporate income tax to be paid on settlement	138,504	
		<hr/> 20
		<hr/> 30

WORKINGS

(W1) Loan related revenues and expenses

Exchange differences

The exchange rate difference revenues should be offset by related expenses (13,000 – 10,000 = 3,000 lei).

As the result is a gain, it will be taxed in full, so no adjustment is required.

Interest expense

Interest expense for 2014 = $200,000 \times 8\% \times 6/12 \times 4.5 = 36,000$ lei

Maximum interest deduction = $200,000 \times 6\% \times 6/12 \times 4.5 = 27,000$ lei

⇒ Non-deductible interest without the possibility to carry forward = $36,000 - 27,000 = 9,000$ lei

⇒ Interest subject to debt-to-equity limitation = 27,000 lei

Debt-to-equity ratio = Average debt/Average equity = $450,000/847,000 = 0.53$

Average debt = (Debt on 1 January 2014 + Debt on 31 December 2014)/2 = $(0 + 200,000 \times 4.5)/2 = 450,000$ lei

Average equity = (Equity on 1 January 2014 + Equity on 31 December 2014)/2 = $(470,000 + 1,224,000)/2 = 847,000$ lei

Equity on 1 January 2014 = Share capital + Legal reserve + Non-distributed profit = $20,000 + 4,000 + 446,000 = 470,000$ lei

Equity on 31 December 2014 = Share capital + Legal reserve + Non-distributed profit + Accounting profit of 2014 = $20,000 + 4,000 + 0 + 1,200,000 = 1,224,000$ lei

⇒ As the debt-to-equity ratio is between 0 and 3, the interest of 27,000 lei is fully deductible in 2014.

(W2) Stolen goods expenses and revenues

Insurance revenues received from the insurance company for the stolen goods are fully taxable.

Only the expenses related to the insured goods are deductible.

⇒ 4,000 lei expense for the stolen car is deductible, but

⇒ 10,000 lei expense for the stolen jams is non-deductible.

(W3) Bad debt provision revenues and bad debt loss**2013**

Registered bad debt provision expenses of 60,000 lei.

Tax deductible expenses is only $30\% \times 120,000 = 36,000$ lei

Non-deductible = $(60,000 - 36,000) = 24,000$

2014

Registered to revenues (released provision) of 60,000 lei.

Of which 36,000 lei (previously deducted) will be taxable and the remaining 24,000 lei non-taxable.

The loss expense of 120,000 lei is entirely deductible (Mr X died and the loss may not be covered by his heirs).

(W4) Tax and accounting depreciation

Date of purchase: 20 June 2014

Tax depreciation period: 4 years

Monthly tax depreciation = lower of $86,400/48$; and 1,500 lei
 = lower of (1,800; 1,500) = 1,500 lei

Number of months of depreciation in 2014: 6 (July to December 2014)

Tax depreciation in 2014 = $1,500 \times 6 = 9,000$ lei

Date of purchase: 20 June 2014

Accounting depreciation period: 6 years

Monthly accounting depreciation = $86,400/72 = 1,200$ lei

Number of months of depreciation in 2014: 6 (July to December 2014)

Accounting depreciation in 2014 = $1,200 \times 6 = 7,200$ lei

(W5) Bad debts provisions

Age of receivable	Value of receivable	Provision percentage	Value of provision expense	Provision percentage which may be tax deducted	Value of provision expense which may be deducted
	lei		lei		lei
180 days	200,000	20%	40,000	0%	0
360 days	300,000	40%	120,000	30%	90,000

Non-deductible expenses re bad debt provisions = $40,000 + (120,000 - 90,000) = 70,000$ lei

(W6) Voluntary pension insurance

Limit of voluntary pension deduction/year/employee = $400 \text{ euro} \times 4.5 = 1,800$ lei

Voluntary pension expense/year/employee = 3,000 lei

Non-deductible pension expense/year/employee = 1,200 lei

Number of employees = 5

Total non-deductible expenses with voluntary pension insurance = 6,000 lei

Tutorial notes:

1. The dividend received from the Austrian company is not exempt from corporate income tax because the shareholding is less than 10%.
2. No tax allowance is given for debts due for less than 270 days.

2 Mr Lemon and Miss Orange

(a) Fiscal residence conditions

An individual is considered resident for tax purposes in Romania if at least one of the conditions below is fulfilled:

- | | |
|---|-----|
| (1) has his/her domicile in Romania; | 1/2 |
| (2) has the centre of his/her vital interests in Romania; | 1/2 |
| (3) is present in Romania for one or more periods which exceed 183 days during 12 consecutive months ending in the calendar year; | 1/2 |
| (4) is a Romanian citizen working abroad as a public servant or employee of Romania in a foreign country. | 1/2 |

Mr Lemon fulfils condition (3) during 2014, as he will have stayed in Romania for more than 183 days. However, he will not be considered as tax resident in Romania in 2014, as tax residency is not changed during a year, only from the beginning of the following tax year.

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(b) Income tax due in Romania by Mr Lemon

Dividend revenue

Gross dividend = $100,000 \times 10\% = 10,000$ lei 1/2

Income tax = $16\% \times 10,000 = 1,600$ lei 1/2

The income tax on the dividends must be withheld, paid and declared by Rogerman SRL. 1/2

Employment revenue

Monthly gross employment income = $3,000 \times 4.5 = 13,500$ lei 1/2

Monthly social contributions = $600 \times 4.5 = 2,700$ lei 1/2

Monthly net income = $13,500 - 2,700 = 10,800$ lei 1/2

Monthly income tax = $16\% \times 10,800 = 1,728$ lei 1/2

Total income tax due in 2014 = $1,728 \times 10 = 17,280$ lei 1/2

Mr Lemon has the obligation to pay and declare the income tax for the employment income, unless he agrees otherwise with his employer, in writing.

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(c) Income tax due in Romania by Miss Orange

Dividend revenue

Gross dividend = $100,000 \times 10\% = 10,000$ lei 1/2

Income tax = $16\% \times 10,000 = 1,600$ lei 1/2

The income tax on dividends must be withheld, paid and declared by Rogerman SRL. 1/2

Employment revenue

	Monthly values (lei)	
Basic salary	4,500	1/2
Company car private usage (75,000*1.7%*30%)	383	1
Meal vouchers (10*9.35)	94	1/2
Daily allowance (W1)	83	1 1/2
Rent compensation	500	1/2
Discount	0	1/2
Health insurance	100	1
Gross revenue	5,660	
Base for social security and other contributions (5,660 – 94) = 5,566 lei		1/2
Social security contribution 5,566*10.5%	(584)	1/2
Health insurance contribution 5,566*5.5%	(306)	1/2
Unemployment contribution 5,566*0.5%	(28)	1/2
Net income	4,742	
Personal deduction	(0)	1/2
Taxable income	4,742	
Income tax at 16%	759	1/2
Total income tax due in 2014 = 759*12 = 9,108 lei		1/2
The employment income tax must be withheld, paid and declared by Rogerman SRL.		1/2

Self-employment revenue

Income tax = 16%*140,000 = 22,400 lei	1/2
The income tax for her self-employed activity must be paid and declared by Miss Orange.	1/2

12**WORKING****(1) Daily allowance**

The daily allowance in excess of the limit of 2.5 x the value approved for public institutions' employees is taxable for personal income tax.

Daily allowance given to Miss Orange = 60 lei

Maximum non-taxable daily allowance = 2.5*13 lei = 32.5 lei

Daily taxable allowance = 60 – 32.5 = 27.5 lei

Total taxable allowance = 3*27.5 = 83 lei

(d) Miss Orange's taxation in Romania

Miss Orange is a Romanian citizen, having her domicile in Romania, so after changing her tax residence, she will continue to be taxed in Romania on her world-wide income for 2015 and for the next three years, i.e. until 31 December 2018.

1 1/2

From 1 January 2019, Miss Orange will be taxed in Romania as a non-resident only on any income having its source in Romania.

1/2

2**(e) Final tax versus prepayments of tax****(i) Tax paid during the year is final**

- Employment income
Tax withheld by the income payer who also pays and declares it to the state.
- Rent income, under certain conditions (e.g. the rent is established in lei and does not change during the year)
Tax paid and declared by the taxpayer.
- Dividends
Tax withheld by the income payer who also pays and declares it to the state.
- Pension
Tax withheld by the income payer who also pays and declares it to the state.

- Prize
Tax withheld by the income payer who also pays and declares it to the state.
- Other income, as, namely, any income which is not mentioned within other categories and is neither mentioned as a non-taxable income
Tax withheld by the income payer who also pays and declares it to the state.

ONE example only required 1

(ii) Tax paid during the year represents a prepayment of tax only

- Rent, under certain conditions (e.g. rent is established in euro)
Tax paid and declared by the taxpayer.
- Self-employment revenue
Tax paid and declared by the taxpayer.

ONE example only required 1

(iii) The taxpayer may opt either for a final tax or prepayment of tax basis

- Copyright income
The tax paid during the year (final or prepayment) is withheld by the income payer who also pays and declares it to the state. If the option is for prepayment, then at the end of the year a settlement occurs between the final tax and prepayments and the difference in tax has to be paid by the taxpayer.
- Civil contracts
The tax paid during the year (final or prepayment) is withheld by the income payer who also pays and declares it to the state. If the option is for prepayment, then at the end of the year a settlement occurs between the final tax and prepayments and the difference in tax has to be paid by the taxpayer.

ONE example only required 1

Note: Other valid examples, were also accepted.

3

25

3 (a) Intra-community supply of goods

An intra-community supply of goods is a supply of goods where the goods are transported from one EU member state to another EU member state.

1

The place of supply of an intra-community supply of goods is the place of departure of the goods.

1

2

(b) Intra-community acquisition of goods

An intra-community acquisition of goods is an acquisition of goods where the goods are transported from one EU member state to another EU member state.

1

The place of supply of an intra-community acquisition of goods is normally the place of arrival of the goods.

1

However, if the buyer of the goods provides a value added tax (VAT) registration code from another EU member state, the place of supply of the intra-community acquisition will be, temporarily, in the state which provided the VAT registration code.

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(c) The Association for the Protection of the Environment (APSE)

The acquisition of the first item of equipment is an intra-community acquisition which is non-taxable in Romania because its value is below the value added tax (VAT) registration threshold for intra-community acquisitions of €10,000.

1½

Thus, ASPE has no VAT obligations as regards this first acquisition.

½

The value of the second acquisition, cumulated with the value of the first acquisition, exceeds the threshold of €10,000. Thus, ASPE has an obligation to request VAT registration in Romania based on the special procedure for intra-community acquisitions before the acquisition takes place.

1½

Once registered, ASPE has to communicate its VAT registration code to its Dutch supplier.		Marks
The intra-community acquisition is now taxable in Romania and ASPE has the obligation to account for VAT and declare this to the Romanian state.		$\frac{1}{2}$
		<u>1</u>
		<u>5</u>
(d) The place of supply of services		
The general rules for the supply of services are that:		
– (i) the place of supply of services to taxable persons is where those taxable persons are established; and		1
– (ii) the place of supply of services to non-taxable persons is where the supplier is established.		<u>1</u>
		<u>2</u>
(e) Oak SPRL		
Transaction	Value added tax (VAT) to be charged by Oak SPRL	
(1) Revising a trade contract for Afla Co	0 lei The place of supply of service is in the UK and the obligation to account for VAT lies with Alfa Co	1
(2) Legal representation of Mr Peanut	$2,000 \times 24\% = 480$ lei	$\frac{1}{2}$
(3) Drafting documents for the sale of an apartment in Bucharest to Beta Ltd	$3,000 \times 24\% = 720$ lei	1
(4) Revising a trade contract for Gama SRL	$4,000 \times 24\% = 960$ lei	$\frac{1}{2}$
		<u>3</u>
		<u>15</u>

4 Pine SRL

(a) Carry forward of tax losses

Tax losses may be carried forward for up to seven calendar years.	1
Thus, Pine SRL's 2011 tax loss may be recovered in the seven years 2012 to 2018.	1
However, no tax loss may be recovered during the period when Pine SRL applies the special scheme for very small companies, as no tax profit is computed, even though these years are included in the seven years carry forward period.	$1\frac{1}{2}$
Thus, the years in which Pine SRL can actually recover the 2011 loss are 2014 to 2018.	$\frac{1}{2}$
	<u>4</u>

(b) Corporate income tax 2012 to 2015

Year	2012 lei	2013 lei	2014 lei	2015 lei	
Turnover	150,000	120,000	200,000	850,000	
Corporate income tax at 3% (special scheme for very small companies)	4,500	3,600	–	–	1
Accounting profit	70,000	20,000	8,000	450,000	
Non-deductible expenses – accounting depreciation (W1)	50,000	50,000	50,000	50,000	2
Tax depreciation (W1)	(125,000)	(25,000)	(25,000)	(25,000)	2
Taxable profit of the year	–	–	33,000	475,000	
Tax loss to be recovered	–	–	(10,000)	–	1
Final taxable profit			23,000	475,000	
Corporate income tax at 16%	–	–	3,680	76,000	1
					<u>7</u>

WORKINGS**(W1) Tax and accounting depreciation****Tax depreciation**

Date of purchase: 12 December 2011

Tax depreciation period: 6 years

Method of depreciation: accelerated

Tax depreciation in 2012 = $250,000 \times 50\% = 125,000$ leiAnnual tax depreciation from 2013 = $125,000/5 = 25,000$ lei**Accounting depreciation**

Date of purchase: 12 December 2014

Accounting depreciation period: 5 years

Annual accounting depreciation = $250,000/5 = 50,000$ lei**(c) Self-assessment system for corporate income tax**

Taxpayers liable to pay corporate income tax have to make payments during the year using one of the following systems:

- | | |
|---|----|
| (1) Prepayment system: The taxpayer pays and declares by the 25th of the month following each quarter (I to IV) a fixed amount, computed based on the previous year's inflated corporate income tax liability. | 1 |
| (2) Computational system: The taxpayer pays and declares, by the 25th of the month following the end of quarters I to III, corporate income tax computed using the revenues and expenses actually recorded from the beginning of the tax year until the end of quarter for which the calculation is made. | 1½ |

Under both systems, after the year end the taxpayer has to compute the final corporate income tax liability, based on the revenues and expenses recorded during the year, and settle this final corporate income tax, taking account of the payments made during the year. The final corporate income tax declaration has to be filled by 25 March of the following year, and any difference to be paid on settlement should be paid by the same deadline.

1½

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15**5 (a) Strawberry-Blueberry SPRL****(i) Declarations for income tax purposes**

Within 15 days from the establishment of the partnership, the following declarations have to be submitted: ½

- | | |
|--|---|
| – The declaration of the estimated revenue of the partnership (D223) | ½ |
| – The declaration of the estimated revenue of each partner (D220) | ½ |

Tutorial note: *The tax prepayments made during the year will be computed based on these declarations.*

By 25 May 2015, the following declarations have to be submitted: ½

- | | |
|---|---|
| – The declaration of the realised revenue of the partnership (D204) | ½ |
| – The declaration of the realised revenue of each partner (D200) | ½ |

3**(ii) Prepayments and final payments of income tax by Mr Strawberry**

Estimated net income = $200,000 \times 60\% = 120,000$ lei ½

Prepayments = $120,000 \times 16\% = 19,200$ lei ½

Prepayments must be paid in four equal instalments of $(19,200/4) = 4,800$ lei, ½

Prepayments are made on 25 March 2014, 25 June 2014, 25 September 2014 and 25 December 2014. 1

Final net income = $320,000 \times 60\% = 192,000$ lei ½

Final income tax = $192,000 \times 16\% = 30,720$ lei ½

Balance of tax to be paid = $30,720 - 19,200 = 11,520$ lei	Marks $\frac{1}{2}$
This balance has to be paid within 60 days after the decision from the tax authorities is received.	1
	<u>5</u>
(b) Raspberry SRL, expenses incurred in respect of Mr Con	
2014	
Mr Con is an employee, monthly expenses will comprise:	
Gross salary = 2,000 lei	$\frac{1}{2}$
Social security contribution = $2,000 \times 20.8\% = 416$ lei	$\frac{1}{2}$
Health insurance security contribution = $2,000 \times 5.2\% = 104$ lei	$\frac{1}{2}$
Unemployment contribution = $2,000 \times 0.5\% = 10$ lei	$\frac{1}{2}$
Work accident fund contribution = $2,000 \times 0.15\% = 3$ lei	$\frac{1}{2}$
Health insurance indemnities contribution = $2,000 \times 0.85\% = 17$ lei	$\frac{1}{2}$
Guarantee fund contribution = $2,000 \times 0.25\% = 5$ lei	$\frac{1}{2}$
Total monthly expenses = $2,000 + 416 + 104 + 10 + 3 + 17 + 5 = 2,555$ lei	
Total expenses in 2014 = $2,555 \times 12 = 30,660$ lei	$\frac{1}{2}$
2015	
Mr Con has a civil contract, so the only expense with Mr Con is the gross revenue of 2,000 lei/month.	$\frac{1}{2}$
Total expenses in 2015 = $2,000 \times 12 = 24,000$ lei	$\frac{1}{2}$
	<u>5</u>
(c) Tax avoidance versus tax evasion	
Tax avoidance occurs when a taxpayer uses legal means to minimise their tax burden by taking advantage of specific provisions or reliefs in the tax legislation.	1
Tax evasion occurs when a taxpayer seeks to minimise their tax burden by not complying with legal requirements, either by failing to disclose information or providing false information to the tax authorities.	1
	<u>2</u>
	<u>15</u>