
Answers

		Marks
1 (a) Printer GmbH		
(i) Definition of a permanent establishment		
A permanent establishment is defined as a fixed place of business through which the business of a foreign enterprise is wholly or partially carried on.		1
(ii) Rules for computing corporate income tax for non-residents having multiple permanent establishments		
The rules for computing the corporate income tax are as follows:		
(1) One permanent establishment (PE) shall be assigned as being liable to compute, declare and pay the corporate income tax, hereinafter called 'the assigned PE'.		1/2
(2) The assigned PE will cumulate all the revenues and expenses of all PEs. For this purpose, each PE shall communicate to the assigned PE its attributable revenues and expenses.		1/2
(3) The assigned PE will compute the corporate income tax due, applying the corporate income tax rules to the cumulated values of revenues and expenses.		1/2
		<u>2</u>
(iii) Corporate income tax for 2014		
	2014 lei	
Total revenues	2,561,300	1
Total expenses	(2,383,860)	1
Gross accounting profit	177,440	
Non-taxable revenues		
<i>No reference to exchange difference revenue</i>		1/2
Less Tax depreciation (W1)	(21,600)	2
<i>Add Non-deductible expenses</i>	203,872	
Accounting depreciation	50,400	1
Social expenses (W2)	1,800	1½
Small inventory objects (W1)	12,960	1
Fuel (W3)	13,200	1½
Sponsorship	20,000	½
Repairs (W3)	3,500	1½
Rent (W3)	4,800	1
Consultancy services (200,000 – 180,000)	20,000	1
Interest for financial leasing contracts (W3)	5,400	1
Interest for loan taken by the Bucharest office (W4)	5,812	1½
<i>No reference to the interest for the bank loan taken for the construction site</i>		½
Exchange rate differences (W3)	3,600	1
GPS expenses (W3)	2,400	1½
Management expenses	60,000	1
<i>No reference to the marketing expenses</i>		½
Taxable income for 2014	359,712	
Corporate income tax at 16% before sponsorship credit	57,554	½
Sponsorship credit (W5)	(2,700)	2
Final corporate income tax	54,854	
		<u>23</u>

WORKINGS

(1) Tax and accounting depreciation

Computers

Of the two computers bought in 2014 by the Bucharest office, tax depreciation is only compulsory for the server, cost 12,960 lei, as its value is above the minimum value of 2,500 lei required by law for applying tax depreciation.

Date of purchase: 18 February 2014

Tax depreciation period: three years

Number of months of depreciation in 2014: 10 (March to December 2014)

Tax depreciation = $12,960/36*10 = 3,600$ lei

The initial cost allocated to expenses is non-deductible.

Cars

Only one car may be tax depreciated within the limit of 1,500 lei/month.

Monthly depreciation for one car = $126,000/60 = 2,100$ lei

Limit of tax depreciation = 1,500 lei

⇒ Tax depreciation for one car = $1,500*12 = 18,000$ lei

The accounting depreciation of both cars is entirely non-deductible.

Total tax depreciation = $3,600 + 18,000 = 21,600$ lei

(2) Social expenses

Social expenses may be deducted within the limit of 2% of gross salary expenses.

Social expenses = $3,000 + 12,000 = 15,000$ lei

Limit of deductibility = $2%*(180,000 + 480,000) = 13,200$ lei

Non-deductible social expenses = $15,000 - 13,200 = 1,800$ lei

(3) Car related expenses (excluding depreciation)

Bucharest office cars

As the general manager uses two cars, only one of them is eligible for deduction. Thus all expenses relating to one car are entirely non-deductible.

As regards the other (eligible) car, only 50% of the expenses are deductible, as the car is used for driving from home to the office in Bucharest, where public transportation would be available.

Thus, the deductible expenses related to the cars used by the Bucharest office are:

Expense	Car 1		Car 2		Total non-deductible expense for the cars used at the Bucharest office
	Deductible	Non-deductible	Deductible	Non-deductible	
	lei	lei	lei	lei	lei
Fuel		6,000	3,000	3,000	9,000
Repairs		2,000	1,000	1,000	3,000
Interest for finance lease contract		3,600	1,800	1,800	5,400
Exchange rate differences		2,400	1,200	1,200	3,600
GPS expenses		1,200	600	600	1,800

Timisoara construction site vehicles

All the expenses related to the trucks are entirely deductible.

Only 50% of the expenses related to the small car are deductible as it is also used for personal journeys by the employee.

Non-deductible fuel expenses = $50%*700*12 = 4,200$ lei

Non-deductible repair expenses = $50%*1,000 = 500$ lei

Non-deductible rent expense = $50%*800*12 = 4,800$ lei

Non-deductible GPS expenses = $50%*100*12 = 600$ lei

Total non-deductible expenses related to cars

Total non-deductible fuel expenses = $9,000 + 4,200 = 13,200$ lei

Total non-deductible repair expenses = $3,000 + 500 = 3,500$ lei

Total non-deductible rent expenses = 4,800 lei

Total non-deductible financial leasing interest expenses = 5,400 lei

Total non-deductible exchange rate differences expenses = 3,600 lei

Total non-deductible GPS expenses = $1,800 + 600 = 2,400$ lei

(4) Interest for loans

The interest for the loan taken by the Bucharest office may be deducted up to the reference interest rate established by the NBR.

Interest expense = $300,000 \times 0.12 \times 3/12 = 9,000$ lei

Limit of interest = $300,000 \times 0.0425 \times 3/12 = 3,188$ lei

Non-deductible interest = $9,000 - 3,188 = 5,812$ lei

No debt-to-equity ratio limitation applies, as the loan is a short-term loan.

(5) Sponsorship credit

Sponsorship expense may be deducted from the corporate income tax within the limit of 20% of corporate income tax but not more than 3% of sales.

Sponsorship expense = 20,000 lei

Limit 1 = $20\% \times 57,554 = 11,511$ lei

Limit 2 = $3\% \times 900,000 = 2,700$ lei

Sponsorship credit = $\min(20,000; 11,511; 2,700) = 2,700$ lei

(b) Toner SRL

Corporate tax computed only for the permanent establishment in Germany using Romanian tax rules

Taxable profit = $500,000 - 400,000 = 100,000$ lei $\frac{1}{2}$

Corporate income tax = $100,000 \times 16\% = 16,000$ lei $\frac{1}{2}$

Corporate tax computed for Toner SRL's cumulated activity

	lei	
Total revenues	700,000	
Total expenses	565,000	
Accounting profit	135,000	
Non-deductible expenses	45,000	
Total taxable profit	180,000	$\frac{1}{2}$
Corporate income tax at 16% before credit	28,800	$\frac{1}{2}$
Tax credit (min (16,000; 28,000))	16,000	$\frac{1}{2}$
Corporate income tax due in Romania	12,800	$\frac{1}{2}$
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2 Mr and Mrs Ink

(a) Personal income tax for the month of May 2014

Mr Ink

	lei	
Basic salary	2,500	$\frac{1}{2}$
Performance bonus	300	$\frac{1}{2}$
Meal vouchers (17*9.35)	159	$\frac{1}{2}$
Compensation payment	12,500	$\frac{1}{2}$
Gifts (W1)	700	$\frac{1}{2}$
Daily allowance (W2)	203	$\frac{1}{2}$
Gross income	16,362	
Social security fund contribution (W3)	(1,167)	$\frac{1}{2}$
Health insurance fund contribution (W4)	(891)	$\frac{1}{2}$
Unemployment fund contribution (W5)	(19)	$\frac{1}{2}$
Net income	14,285	
Personal deduction	(0)	$\frac{1}{2}$
Taxable income	14,285	
Income tax at 16%	2,286	$\frac{1}{2}$

		<i>Marks</i>
Mrs Ink		
Basic salary	2,000	$\frac{1}{2}$
Meal vouchers (20*9.35)	187	$\frac{1}{2}$
Gross revenue	2,187	
Social security fund contribution (2,000*10.5%)	(210)	$\frac{1}{2}$
Health insurance fund contribution (2,000*5.5%)	(110)	$\frac{1}{2}$
Unemployment fund contribution (2,000*0.5%)	(10)	$\frac{1}{2}$
Net income	1,857	
Personal deduction (W6)	(150)	$1\frac{1}{2}$
Taxable income	1,707	$\frac{1}{2}$
Income tax at 16%	273	13

WORKINGS

(1) Easter gifts

The Easter gifts for the benefit of an employee's minor children are non-taxable up to 150 lei/gift/child.

Taxable gift/child = $500 - 150 = 350$ lei

Total taxable gifts = $350*2 = 700$ lei

(2) Daily allowance

A daily allowance which is above the limit of 2.5 times the value approved for public institutions' employees is taxable.

Daily allowance given to Mr Ink = 100 lei

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

Daily taxable allowance = $100 - 32.5 = 67.5$ lei

Total taxable allowance = $3*67.5 = 203$ lei

(3) Social security fund contribution

The social security contribution taxable base = Basic salary + Performance bonus + Compensation payments + Taxable gifts + Taxable allowance = $2,500 + 300 + 12,500 + 700 + 203 = 16,203$ lei

The taxable base is limited to five times average monthly earnings = $5*2,223 = 11,115$ lei

⇒ Social security contribution taxable base = min (16,203; 11,115) = 11,115 lei

⇒ Social security fund contribution = $10.5\%*11,115 = 1,167$ lei

(4) Health insurance fund contribution

The health insurance contribution taxable base = Basic salary + Performance bonus + Compensation payments + Taxable gifts + Taxable allowance = $2,500 + 300 + 12,500 + 700 + 203 = 16,203$ lei

Health insurance fund contribution = $5.5\%*16,203 = 891$ lei

(5) Unemployment fund contribution

The unemployment contribution taxable base = Basic salary + Performance bonus + Taxable gifts + Taxable allowance = $2,500 + 300 + 700 + 203 = 3,703$ lei

Unemployment fund contribution = $0.5\%*3,703 = 19$ lei

(6) Personal deduction

Mrs Ink has under her care two minor children. However, only one child will be considered as a dependent person for computing the personal deduction (the daughter) as the other child (the son) has employment revenue greater than 250 lei/month.

Personal deduction = $350*(1 - (2,187 - 1,000)/2,000)) = 142 \approx 150$ lei

				Marks
(b) Employer's social contributions due for May 2014				
Social contribution	Taxable base lei	Contribution rate %	Contribution due lei	
Social security fund (W7)	18,203	20.8%	3,786	1½
Health insurance fund (W8)	18,203	5.2%	947	1
Unemployment fund (W9)	5,703	0.5%	29	1
Work accident fund (W10)	18,203	0.15%	27	1
Health insurance indemnities fund (W11)	5,703	0.85%	48	1½
Fund for guaranteeing salary payments (W12)	4,800	0.25%	12	1
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WORKINGS

(7) Taxable base for the social security fund contribution due by employer

The social security contribution taxable base = Basic salary (Mr Ink) + Performance bonus (Mr Ink) + Compensation payments (Mr Ink) + Taxable gifts (Mr Ink) + Taxable allowance (Mr Ink) + Basic salary (Mrs Ink) = 2,500 + 300 + 12,500 + 700 + 203 + 2,000 = 18,203 lei

The taxable base is limited to five times average monthly earnings per employee = 5*2,223*2 = 22,230 lei

⇒ Social security contribution taxable base = min (18,203; 22,230) = 18,203 lei

(8) Taxable base for the health insurance fund contribution due by employer

The social security contribution taxable base = Basic salary (Mr Ink) + Performance bonus (Mr Ink) + Compensation payments (Mr Ink) + Taxable gifts (Mr Ink) + Taxable allowance (Mr Ink) + Basic salary (Mrs Ink) = 2,500 + 300 + 12,500 + 700 + 203 + 2,000 = 18,203 lei

(9) Taxable base for the unemployment fund contribution due by employer

The social security contribution taxable base = Basic salary (Mr Ink) + Performance bonus (Mr Ink) + Taxable gifts (Mr Ink) + Taxable allowance (Mr Ink) + Basic salary (Mrs Ink) = 2,500 + 300 + 700 + 203 + 2,000 = 5,703 lei

(10) Taxable base for the work accident fund contribution due by employer

The work accident contribution taxable base = Basic salary (Mr Ink) + Performance bonus (Mr Ink) + Compensation payments (Mr Ink) + Taxable gifts (Mr Ink) + Taxable allowance (Mr Ink) + Basic salary (Mrs Ink) = 2,500 + 300 + 12,500 + 700 + 203 + 2,000 = 18,203 lei

(11) Taxable base for the health insurance indemnities fund contribution due by employer

The health insurance indemnities contribution taxable base = Basic salary (Mr Ink) + Performance bonus (Mr Ink) + Taxable gifts (Mr Ink) + Taxable allowance (Mr Ink) + Basic salary (Mrs Ink) = 2,500 + 300 + 700 + 203 + 2,000 = 5,703 lei

The taxable base is limited to 12 times minimum monthly salary per employee = 12*800*2 = 19,200 lei

⇒ Social security contribution taxable base = min (5,703; 19,200) = 5,703 lei

(12) Taxable base for the fund for guaranteeing salary payments contribution due by employer

The fund for guaranteeing salary payments taxable base = Basic salary (Mr Ink) + Performance bonus (Mr Ink) + Basic salary (Mrs Ink) = 2,500 + 300 + 2,000 = 4,800 lei

(c) Social contributions and income tax for intellectual property right income

April 2014 revenue

For articles published in April 2014, no social contribution will apply as Mr Ink was also receiving employment income.

1

Thus, only income tax is applicable.

Gross revenue = 2*1,000 = 2,000 lei

½

Income tax = 16%*2,000 lei = 320 lei

½

November 2014 revenue

In November 2014, Mr Ink has no revenues other than intellectual property revenue, therefore, he will also be liable to pay social contributions on the income received in November.

Social security fund contribution = 10.5%*(1,000 – 20%*1,000) = 84 lei

1

	<i>Marks</i>
Health insurance fund contribution = $5.5\% \times (1,000 - 20\% \times 1,000) = 44$ lei	1
Income tax = $16\% \times 1,000 = 160$ lei	1
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	5
	<hr/>
	25

3 Mrs Paper

(a) Reduced rate supplies

The 9% reduced rate for value added tax (VAT) is applicable to:

- Access to castles, museums, memorial houses, architectural and archaeological monuments, zoos and botanic gardens, fairs, exhibitions, cultural events and cinemas.
- Supply of school textbooks, books, newspapers and magazines, except those dedicated exclusively or mainly to marketing purposes.
- Supply of prosthesis and accessories, except dental prosthesis.
- Supply of orthopaedic products.
- Supply of medicines for both human and animal use.
- Accommodation in hotel facilities or similar.
- Supply of bread, flour and wheat.

Only FOUR items required, $\frac{1}{2}$ mark each, maximum

2

(b) (i) VAT registration

VAT registration threshold = 220,000 lei

Number of months to reach the registration threshold = $220,000 / 30,000 = 7.3$

→ The VAT registration threshold will be reached in August 2014.

1

Mrs Paper must request VAT registration by 10 September 2014.

1

The VAT code will be issued and Mrs Paper will become registered for VAT starting from 1 October 2014.

1

3

(ii) Adjustments required on registration

On registration, Mrs Paper may adjust for the VAT on both capital goods and non-capital goods, as follows:

Capital goods adjustment

In February 2014, Mrs Paper bought a building for which she could not deduct VAT of 28,800 lei. On 1 October 2014, Mrs Paper will have the right to deduct the VAT for the remaining period of adjustments.

$\frac{1}{2}$

Period of adjustment = 20 years

$\frac{1}{2}$

Number of years left of the adjustment period = 20 years

$\frac{1}{2}$

Additional VAT to be deducted as a VAT adjustment = $28,800 \times 20 / 20 = 28,800$ lei

$\frac{1}{2}$

Non-capital goods adjustment

In March 2014, Mrs Paper bought a computer for which she could not deduct VAT of 864 lei. On 1 October 2014, Mrs Paper will have the right to deduct the VAT for the non-depreciated value of the computer.

$\frac{1}{2}$

The value of computer upon acquisition, inclusive of VAT = 4,464 lei

Depreciation period = three years

Number of months of depreciation until 1 October 2014 = six (April to September 2014)

1

Depreciation = $4,464 \times 6 / 36 = 744$ lei

$\frac{1}{2}$

Non-depreciated value on 1 October 2014 = $4,464 - 744 = 3,720$ lei

$\frac{1}{2}$

VAT included in the non-depreciated value = $3,720 / 1.24 \times 0.24 = 720$ lei

$\frac{1}{2}$

Additional VAT to be deducted as a VAT adjustment = 720 lei

$\frac{1}{2}$

	<i>Marks</i>
On 1 October 2014, Mrs Paper has an inventory of 100 units of bread for which she could not deduct VAT. Mrs Paper will have the right to deduct the VAT for all the goods in inventory.	1½
Inventory value = $100 \times 0.9 = 90$ lei	1
VAT included in the inventory value = $90/1.09 \times 0.9 = 7.43$ lei	1
Additional VAT to be deducted as a VAT adjustment = 7 lei	1½
	<u>7</u>

(c) VAT tax period

Threshold for applying the monthly tax period = €100,000/year = 450,000 lei/year	1½
Threshold for period October to December 2014 = $450,000 \times 3/12 = 112,500$ lei	1
Mrs Paper's tax period turnover for October to December 2014 = $30,000 \times 3 = 90,000$ lei	1½
⇒ Mrs Paper will apply a quarterly tax period as her turnover for October to December 2014 will not exceed the threshold.	1
	<u>3</u>
	<u>15</u>

4 Eraser SRL

(a) Conditions to be fulfilled for entry to the special scheme of corporate income tax for very small companies

At incorporation

The company's share capital is all owned by persons other than the State and local authorities.	1
By exception, the special scheme of corporate income tax is not applicable at incorporation if the company intends to carry out one of the following activities:	1½
⇒ banking activities;	1/2
⇒ insurance, reinsurance and capital market activities; or	1/2
⇒ gambling, consultancy and management activities.	1/2

Also, by exception, a company may opt to **not** apply the special scheme of corporate income tax if its initial share capital is at least €25,000.

Each year

If on 31 December of the previous year, the company fulfilled the following cumulative conditions:	1½
– It had revenues from activities other than:	1/2
⇒ banking activities;	1/2
⇒ insurance, reinsurance and capital market activities; and	1/2
⇒ gambling, consultancy and management activities.	1/2
– It had revenues below €65,000.	1/2
– Its share capital is owned by persons other than the State and local authorities.	1/2
– It is not in a liquidating dissolving procedure registered with the Trade Commerce or Court.	1/2
	<u>6</u>

(b) Corporate income tax due at each quarterly deadline

Revenues 2013 = $128,000/4.5 = €28,444 < €65,000$

On 31 December 2013, Eraser SRL fulfils all the conditions necessary to apply the special scheme of corporate income tax for very small companies; it will apply it in 2014.

Quarter 1 (Q1) – Special scheme of corporate income tax for very small companies

Taxable revenues = 145,000 lei

Corporate income tax due on 25 April 2014 = $3\% \times 145,000 = 4,350$ lei

Quarter 2 (Q2) – Corporate income tax

Cumulated taxable revenues = $145,000 + 160,000 = 305,000$ lei

		Marks
Threshold = €65,000*4.5 = 292,500 lei		
⇒ In Q2, Eraser SRL's revenues exceed the threshold for applying the special scheme of corporate income tax for very small companies so it will apply corporate income tax starting in this quarter, but taking into account all revenues and expenses from the beginning of the year.		1/2
		1/2
Total revenues	lei	
Total expenses	315,000	
Accounting profit	(227,000)	
Non-deductible expenses	88,000	1/2
Protocol (W1)	200	
Protocol (W1)	200	1
Taxable profit	88,200	
Cumulated corporate income tax at 16%	14,112	1/2
Tax already paid	(4,350)	
Corporate income tax due on 25 July 2014	9,762	1/2
Quarter 3 (Q3) – Corporate income tax		
Total revenues	lei	
Total expenses	438,500	
Accounting profit	(300,400)	
Non-deductible expenses	138,100	1/2
Protocol (W1)	1,158	
Protocol (W1)	1,158	1
Taxable profit	139,258	
Cumulated corporate income tax at 16%	22,281	1/2
Tax already paid	(14,112)	
Corporate income tax due on 25 October 2014	8,169	1/2
Quarter 4 (Q4) – Corporate income tax		
For Q4, there is no obligation to pay or declare any income tax, as the calculation and payment will be performed when the full year 2014 calculation is performed, which is not required until 25 March 2015.		1
		9
		<u>15</u>

WORKING

(1) Protocol expenses

Q2

Limit for deductibility = $2\% * (315,000 - 227,000 + 2,000) = 1,800$ lei

⇒ Non-deductible protocol expenses = $2,000 - 1,800 = 200$ lei

Q3

Limit for deductibility = $2\% * (438,500 - 300,400 + 4,000) = 2,842$ lei

⇒ Non-deductible protocol expenses = $4,000 - 2,842 = 1,158$ lei

5 Mrs Staple

(a) Competent tax authority

Income	Competent tax authority	Person liable to declare and pay the tax	
Employment	Bucharest, District 1	Office SRL	1
Self-employed	Bucharest, District 6	Mrs Staple	1
Rent	Ploiesti	Mrs Staple	1
			<u>3</u>

(b) Procedure for declaring rent revenue, deadlines for declaring tax and paying social contributions and computation of relevant amounts

Income tax

The rent revenue must be declared to the tax authorities within 15 days after signing the contract by filing a declaration of estimated revenue (D220).

1

	<i>Marks</i>
After submitting the declaration, a decision on pre-payments of tax will be received from the tax authorities. The decision will contain the tax due at each deadline: 25 March, 25 June, 25 September, 25 December.	½ 1
Gross revenue for 2014 = $1,000 \times 12 = 12,000$ lei	½
Quota = $25\% \times \text{gross revenues} = 3,000$ lei	½
Net revenue = $12,000 - 3,000 = 9,000$ lei	
Income tax = $16\% \times 9,000$ lei = 1,440 lei	½
Amount to be paid at each quarterly deadline = $1,440/4 = 360$ lei	½
Compulsory social contributions	
For rent income only, individual health insurance fund contributions are compulsory, as Mrs Staple also has employment income for which she pays social security fund contributions.	1
Health insurance contribution = $5.5\% \times 9,000$ lei = 495 lei	1
Amount to be paid at each quarterly deadline = $495/4 = 124$ lei	½
	<u>7</u>

Tutorial note:

There is no additional declaration requirement, apart from the one mentioned for declaring the estimated income (as above).

The amounts to be paid will be established by the tax authorities in the same decision as for the income tax.

(c) Pre-payments of tax for self-employed activity

Estimated net revenue = 40,000 lei	
Tax prepayments = $16\% \times 40,000$ lei = 6,400 lei	1
Deadlines: 25 March, 25 June, 25 September, 25 December 2014.	½
Amount to be paid at each deadline = $6,400/4 = 1,600$ lei	½
	<u>2</u>

(d) Final tax for self-employed activity

	<i>lei</i>	
Gross revenues (20,000*12)	240,000	½
Deductible expenses	(186,000)	
– Consultancy services (15,000*11)	(165,000)	1
– Rent ($2,500 \times 12 \times 70\%$)	(21,000)	½
Net revenue	54,000	
Final income tax at 16%	8,640	½
Prepayments of tax	6,400	
Difference to be paid on final settlement	2,240	½
	<u>3</u>	
	<u>15</u>	