

Fundamentals Level – Skills Module

Taxation (Romania)

Tuesday 3 June 2014



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–5.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (ROM)

ACCA

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings should be made to the nearest lei, unless instructed otherwise.
2. All apportionments should be made to the nearest month.
3. All workings should be shown.

TAX RATES AND ALLOWANCES

Personal income tax

General tax rate 16%

Income from employment

Benefits

Limit for non-taxable gifts 150 lei/person/occasion
Limit for non-taxable voluntary pension contributions paid by the employer €400/year

Deductions

Deduction allowed for voluntary pension contributions paid by the employee €400/year

Personal deduction

Number of dependent persons for the taxpayer	Monthly gross income (MI) – lei		
	Below 1,000	Between 1,000 and 3,000	Above 3,000
0 persons	250	$250 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0
1 person	350	$350 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0
2 persons	450	$450 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0
3 persons	550	$550 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0
4 persons and more	650	$650 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0

Note: The value of the personal deduction resulting from the calculation should be rounded up to 10 (e.g. both 212 and 217 should be rounded to 220).

Income from the sale of immovable property owned by an individual

For immovable properties sold less than three years from their acquisition

Income

Tax rate

Up to 200,000 lei

3%

Above 200,000 lei

6,000 lei + 2% of the amount exceeding 200,000 lei

For immovable properties sold in a timeframe longer than three years from their acquisition

Income

Tax rate

Up to 200,000 lei

2%

Above 200,000 lei

4,000 lei + 1% of the amount exceeding 200,000 lei

Income from renting

Lump-sum deductible expenses quota 25%

Copyright income

Lump-sum deductible expenses quota for:	
– monumental works of art	25%
– other	20%

Self-employed income

The allowance accepted for public institutions' employees	13 lei/day/person
The limit of deductibility for protocol expenses	2%
The limit of deductibility for compulsory subscription expenses	5%
The limit of deductibility for subscription expenses other than compulsory ones	2%
The limit of deductibility for social expenses	2%
Reference interest rate set by the Romanian National Bank for loans denominated in lei	4.25%

Investment income

Tax rate for capital gains from the sale of shares	16%
Tax rate for interest received by individuals	16%
Tax rate for dividends received by individuals	16%

Prize income

Tax rate for prize income	16%
Non-taxable value	600 lei/day/prize

Pension income

Non-taxable pension income	1,000 lei
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Corporate income tax

General tax rate	16%
Reference interest rate set by the Romanian National Bank for loans denominated in lei	4.25% p.a.
Maximum accepted interest rate set by the Tax Code for loans denominated in foreign currency	6% p.a.
Inflation rate for prepayments of corporate income tax	3.5% p.a.
The allowance accepted for public institutions' employees	13 lei/day/person
Maximum value of deductible expenses for employees:	
– voluntary pension contributions	€400/tax year/employee
– private healthcare insurance contributions	€250/tax year/employee
Maximum value of deductible expenses for subscriptions to non-profit organisations other than those which are compulsory or due to the chambers of commerce and to employers' organisations	€4,000/year
The limit of deductibility for protocol expenses	2%
The limit of deductibility for social expenses	2%
Maximum value of tax credit for sponsorship expenses	20% of the corporate income tax but not more than 3‰ of sales revenue

Corporate income tax for very small companies

Tax rate	3%
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Straight-line depreciation periods (for tax and accounting purposes)

Class of asset	Period in years
Buildings	50
Machines and equipment	10
Computers	3
Cars	5

Note: The straight-line depreciation method for the above periods should be used in all cases, except where a question specifically indicates another method and/or period is to be used.

The minimum value of an asset for tax depreciation purposes is 2,500 lei.

Tax on dividends paid to legal persons

For dividends paid to legal persons resident in Romania, EU or EFTA countries	16% or 0%
For dividends paid to other non-residents	16%

Social security and other insurance contributions

Employed persons

	Employee	Employer
Social security fund	10.5%	20.8%
Healthcare insurance fund	5.5%	5.2%
Unemployment fund	0.5%	0.5%
Work accident fund	–	0.15%–0.85%*
Health insurance indemnities fund	–	0.85%
Fund for guaranteeing salary payments	–	0.25%

Self-employed persons

Social security fund	31.3%
Healthcare insurance fund	5.5%
Unemployment fund	1%
Work accident fund	0.15%–0.85%*
Health insurance indemnities fund	0.85%

Persons obtaining rent income

Healthcare insurance fund	5.5%
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Persons obtaining intellectual property revenues and revenues based on Civil Code contracts

Social security fund	10.5%
Healthcare insurance fund	5.5%

Average monthly earnings	2,223 lei
Minimum monthly salary	800 lei

* The exact value will be specified in the question, where necessary.

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

Value added tax (VAT)

Standard rate	24%
Reduced rates	9% and 5%
Annual threshold for VAT registration	220,000 lei
Annual threshold for a monthly tax period	€100,000
Annual threshold for applying the cash accounting scheme for VAT	2,250,000 lei

Exchange rate

Euro/lei	€1 = 4.50 lei
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Note: This rate should be used in all cases except where a question specifically indicates another rate is to be used.

Interest and penalties

Interest rate for late tax payments	0.04%/day
Penalty level for late tax payments	0.02%/day

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Question 1 begins on page 7.**

ALL FIVE questions are compulsory and MUST be attempted

- 1 (a) Printer GmbH is a company established in Germany since 2000. In December 2013, Printer GmbH opened a business office in Bucharest, having a team of five employees who will perform consultancy services for at least the next five years. In January 2014, Printer GmbH started a construction site in Timisoara, Romania which is planned to last for 36 months. Printer GmbH keeps separate accounting records for the construction site and the office.

For the year 2014 Printer GmbH registered the following revenues and expenses, which do not include revenues and expenses allocated by the head office:

	Note	Bucharest office lei	Timisoara construction site lei
Revenues			
Consultancy services	(1)	900,000	–
Cost of services in progress	(2)	–	1,658,800
Exchange differences	(3)	2,500	–
Total revenues (excluding allocations from head office)		902,500	1,658,800
Expenses			
Depreciation	(4)	50,400	–
Gross salaries	(5)	180,000	480,000
Compulsory social contributions		54,000	144,000
Social expenses	(6)	3,000	12,000
Materials	(7)	25,000	400,000
Small inventory objects	(8)	14,960	–
Fuel	(9)	12,000	584,400
Sponsorship expenses	(10)	20,000	–
Repairs	(11)	4,000	9,000
Rent	(12)	30,000	38,400
Consultancy services	(13)	200,000	–
Interest	(14)	16,200	10,000
Exchange differences	(15)	4,800	–
Total expenses (excluding allocations from head office)		614,360	1,677,800

Notes:

- (1) The consultancy services were all invoiced by the office in Bucharest to clients in Romania.
- (2) According to accounting rules, the construction site in Timisoara recorded as revenue the work in progress performed, but not yet received by the beneficiary.
- (3) The revenue of 2,500 lei recorded from exchange rate differences relates to accounts receivables.
- (4) Starting from December 2013, the office in Bucharest has had two cars under finance lease contracts. Both cars are less than 3,500 kg and have fewer than nine seats. Both cars are used by the general manager of the office who uses them only for business purposes and for driving from his home in Bucharest to the office and back. Public transportation is available for going from his home to the office and back. The depreciable value of each car is 126,000 lei.
- (5) The office in Bucharest has five employees. The construction site in Timisoara employs 20 individuals.
- (6) At Easter, all employees received a present with a value of 600 lei/employee.
- (7) For the Bucharest office, materials represents office consumables; for the construction site, these are construction materials. All purchases have proper supporting documents.
- (8) The Bucharest office bought two computers: one server on 18 February 2014 for 12,960 lei and one laptop on 20 June 2014 for 2,000 lei. These computers were used from the date of their purchase. According to Printer GmbH's policy, these items were recorded straight to expenses as small inventory objects.

- (9) For the cars used by the Bucharest office, Printer GmbH spent 500 lei/car/month for fuel. From the start of its operations, at the construction site in Timisoara, Printer GmbH used two trucks (each weighing more than 3,500 kg) and one small car (weighing less than 3,500 kg and having fewer than nine seats). All three construction site vehicles are rented from a Romanian company. The fuel expenses recorded in 2014 are 24,000 lei/truck/month and 700 lei/small car/month. The trucks are used for construction works and proper log-books and supporting documents justify the expenses related to them. The small car is used by the chief engineer for both business and personal journeys. All personal use is deducted from the engineer's salary.
- (10) In June 2014, the Bucharest office sponsored one student job fair for 20,000 lei. A proper sponsorship contract was signed.
- (11) Repair services for the vehicles were as follows:
- 2,000 lei/car for each car used in Bucharest office
 - 4,000 lei/truck for trucks used in Timisoara
 - 1,000 lei/car for the small car used in Timisoara.
- (12) A monthly rent of 2,500 lei was paid for the Bucharest office premises. For the vehicles used in Timisoara, the rent is 1,200 lei/month/truck and 800 lei/month for the small car.
- (13) To perform the consultancy services from its office in Bucharest, Printer GmbH used external consultants. The total expense for these consultants was 200,000 lei, but Printer GmbH only has contracts and time-sheets supporting expenses of 180,000 lei.
- (14) The interest expense relates to the following:
- Interest paid under the finance lease for the cars used by the Bucharest office of 300 lei/car/month.
 - Interest on a three-month bullet loan of 300,000 lei taken by Printer GmbH in January 2014 from a Romanian individual to start its activity in Bucharest. The interest rate on this loan was 12% p.a. and the loan was repaid in full in 2014. The individual does not grant loans as a professional lender and he is not authorised by the National Romanian Bank for the granting of loans.
 - Interest on a loan of 100,000 lei taken by Printer GmbH from a Romanian resident bank for its construction site in Timisoara. Interest of 10,000 lei was recorded on this loan in 2014.
- (15) As the exchange rate fluctuated during the year, Printer GmbH recorded expenses in respect of exchange rate differences for the finance lease contracts of 200 lei/month/car.

In addition to the above revenues and expenses, Printer GmbH issued a debit note to its two permanent establishments in Romania. This related to expenses recorded in Germany by the head office in connection with the activities performed in Romania, as follows:

Expense	Allocation basis	Bucharest office lei	Timisoara construction site lei
Marketing expenses	Advertisements published for each permanent establishment and paid for by the head office	12,200	13,500
GPS expenses	The exact value of GPS tracking services paid for by the head office for each vehicle (car or truck) used by the permanent establishments. The GPS tracking service cost is 100 lei/vehicle/month	2,400	3,600
Management expenses	Total management expenses are split equally between all of Printer GmbH's permanent establishments. No time-sheets or other supporting documents were provided for this expense	30,000	30,000
Total expenses allocated through debit note		44,600	47,100

Required:

- (i) Define the term 'permanent establishment' for tax purposes. (1 mark)
- (ii) Explain the rules for computing corporate income tax due in Romania by non-residents having multiple permanent establishments in Romania. (2 marks)
- (iii) Compute the corporate income tax due by Printer GmbH in Romania for 2014.

Note: Ignore any VAT and/or benefit in kind implications. (23 marks)

- (b) Toner SRL is a company established in Romania, which has a permanent establishment in Germany. The revenues and expenses recorded in 2014 by Toner SRL separately for each activity in Romania and through its permanent establishment in Germany are as follows:

	Romanian activity	Permanent establishment activity
	lei	lei
Total taxable revenues	200,000	500,000
Total deductible expenses	120,000	400,000
Corporate income tax paid in Romania	17,000	–
Corporate income tax paid in Germany	–	28,000

Romania and Germany have signed a tax treaty for the avoidance of double taxation.

Required:

Determine the corporate income tax due in Romania for Toner SRL's cumulated activity, taking into account any available tax relief. (4 marks)

(30 marks)

- 2 Mr Ink is a Romanian citizen, resident in Brasov. He was employed by Pencils SRL, a limited liability company, also based in Brasov but in May 2014 his employer announced that the position in which he worked would no longer exist, and his employment contract would cease on 31 May 2014. Thus, the employment contract was ceased due to reasons which were not connected with the employee's person or activity. Mr Ink did not have any other job in the period January to May 2014, so his basic activity in this period was with Pencils SRL. He also did not have any other employment activity before the end of 2014.

In May 2014 Mr Ink received the following income and benefits from Pencils SRL:

- (1) A basic salary of 2,500 lei.
- (2) A performance bonus of 300 lei.
- (3) Meal vouchers of 9·35 lei/voucher. All the meal vouchers given by Pencils SRL comply with the limitations imposed by the law.
- (4) Compensation payment, in accordance with the employment contract, of 12,500 lei.
- (5) An Easter present of 500 lei/child for each of his two children.

May 2014 had 20 working days, out of which Mr Ink spent three days on a business trip in Timisoara. For this business trip Mr Ink received a daily allowance of 100 lei/day. Pencils SRL also paid for Mr Ink's accommodation and travel of 1,700 lei, for which proper invoices are provided.

Mr Ink's wife, Mrs Ink, is also employed by Pencils SRL. Her basic salary is 2,000 lei per month and she also receives meal vouchers of 9·35 lei/voucher, which comply with the relevant legal provisions. In May 2014, Mrs Ink worked all 20 working days at the company's premises. Mrs Ink continued to work for Pencils SRL during the whole of 2014.

Mr and Mrs Ink have two children: a daughter who is 16 years old and has no income, and a son who is 17 years old and is employed at a gross monthly salary of 800 lei. The children are considered dependent persons under the care of Mrs Ink.

In March 2014, Mr Ink made an agreement with a local magazine to publish some economic analysis articles. For these articles Mr Ink will receive gross revenue of 1,000 lei/article as intellectual property income. This income is payable on the last day of the month in which the article is published. In 2014 Mr Ink published three articles: two articles in April 2014 and one article in November 2014. Mr Ink made the option to request the local magazine to withhold final income tax from this income.

Required:

- (a) **Calculate, with explanations, the personal income tax due for the employment income received by Mr and Mrs Ink in May 2014.** (13 marks)
- (b) **Calculate, with explanations, the social contributions due by Pencils SRL for Mr and Mrs Ink for May 2014 assuming that Pencils SRL has no other employees.**
Note: The work accident fund contribution rate is 0·15%. (7 marks)
- (c) **Calculate, with explanations, the income tax and social contributions due to be withheld by the local magazine from Mr Ink's intellectual property income in 2014.** (5 marks)

(25 marks)

- 3 Mrs Paper is a Romanian citizen, resident in Bucharest. In January 2014, Mrs Paper started a self-employed business trading in bread. Mrs Paper did not register for value added tax (VAT) on the establishment of her business.

Mrs Paper sells 30,000 units of bread each month at a price of 1 leu/unit. The acquisition price of the bread is 0.9 lei/unit (inclusive of VAT). All acquisitions are made from suppliers registered for VAT in Romania. At the end of each month Mrs Paper keeps an inventory of 100 units of bread.

In February 2014, Mrs Paper bought a building for use as her office and shop. The building was bought from a company registered for VAT in Romania for 120,000 lei plus VAT of 28,800 lei. In March 2014, Mrs Paper bought a computer from a company registered for VAT in Romania for 3,600 lei plus VAT of 864 lei.

Required:

- (a) List any **FOUR** supplies to which the 9% reduced rate of value added tax (VAT) applies. (2 marks)
- (b) (i) Determine when Mrs Paper should become a VAT registered person, clearly stating all relevant deadlines. (3 marks)
- (ii) Compute the VAT adjustments which Mrs Paper should make on registration. (7 marks)
- (c) State, giving reasons, whether Mrs Paper should use a monthly or quarterly VAT period in 2014. (3 marks)

(15 marks)

- 4 Eraser SRL is a company resident in Romania, owned entirely by Mr Desk, a Romanian citizen. Eraser SRL was established in 2013 with a share capital of 200 lei. During 2013, Eraser SRL applied the special scheme for corporate income tax. On 31 December 2013, Eraser SRL registered total revenues of 128,000 lei. All revenues are sales revenues from the company's main activity – trading in IT items.

In 2014, Eraser SRL registered the following quarterly revenues and expenses:

	Quarter 1 (Q1) 2014 lei/quarter	Quarter 2 (Q2) 2014 lei/quarter	Quarter 3 (Q3) 2014 lei/quarter	Quarter 4 (Q4) 2014 lei/quarter	TOTAL 2014 lei/year
Revenues	155,000	160,000	123,500	250,000	688,500
IT sales	145,000	160,000	120,000	250,000	675,000
Consultancy			3,500		3,500
Insurance compensation for loss of inventory	10,000				10,000
Expenses	104,200	122,800	73,400	202,500	502,900
Merchandise	101,000	120,000	70,000	200,000	491,000
Energy and water	1,000	2,500	1,300	2,100	6,900
Protocol	2,000		2,000		4,000
Bank charges	200	300	100	400	1,000

Required:

- (a) List the conditions to be fulfilled for a company to be able to enter the special scheme of corporate income tax for very small companies at incorporation and at the beginning of each subsequent year. (6 marks)
- (b) Compute the corporate income tax due by Eraser SRL for each quarter of 2014, clearly explaining when and why it can apply or must cease to apply the special scheme of corporate income tax for very small companies.

Note: Ignore any legal reserve requirement and any value added tax (VAT) implications. Final tax computation is not required. (9 marks)

(15 marks)

- 5** Mrs Staple has her domicile in Ploiesti, Romania. She is employed by Office SRL, a company resident in Bucharest District 1, which qualifies as a small taxpayer, from a tax administration point of view. On 1 January 2014, Mrs Staple rented an apartment in Bucharest, District 6, for which she pays a monthly rent of 2,500 lei. The rent is paid on the last day of each month. From 1 January 2014, she used the apartment both to live in Bucharest and to provide consultancy services as a self-employed activity, which is registered with the Trade Register in Bucharest. Mrs Staple allocated 70% of the apartment area to her self-employed activity.

Mrs Staple kept her domicile in Ploiesti and rented out her Ploiesti apartment from 1 January 2014 to another individual for a gross monthly rent of 1,000 lei. The rental contract is for a period of three years and will not change during this period. Mrs Staple did not make any option as regards the taxation of this rent income, thus the standard treatment will apply.

For her self-employed activity, Mrs Staple estimated her net revenue for 2014 at 40,000 lei. However, in all 12 months of 2014 she issued invoices to her clients for consultancy services of 20,000 lei/month. She received invoices from her suppliers of 15,000 lei/month. She managed to receive all her clients payments in the same month as the invoices were issued and to pay her suppliers in the month following the month in which they were issued.

Required:

- (a) For each of Mrs Staple's sources of income in 2014, state, giving reasons, the competent authority to which tax should be declared and paid and the person who is liable to declare and pay the tax. (3 marks)**
- (b) Explain the procedure for declaring Mrs Staple's rent income, together with the deadlines for declaring and paying income tax and compulsory social contributions for 2014 (both prepayments and final computation), and calculate the relevant amounts due. (7 marks)**
- (c) Calculate the prepayments of tax due by Mrs Staple for her self-employed activity in 2014 and state the deadlines for paying them, together with the amount payable at each deadline. (2 marks)**
- (d) Calculate the final tax due by Mrs Staple for her self-employed activity in 2014 and the amount to be paid on end of year settlement, taking into account her prepayments of tax.**

Note: Ignore any social contributions which may be due. Ignore any VAT implications. (3 marks)

(15 marks)

End of Question Paper