

Fundamentals Level – Skills Module

# Taxation (Romania)

Tuesday 12 June 2012



**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

The following tax rates and allowances should be used when answering questions.

### 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 in 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%
Tax rate for withheld prepayments	10% or 16%

### 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 the 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	6.25%
Tax rate for withheld prepayments	10% or 16%

### 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%
Minimum tax applicable to night clubs, discotheques, casinos or sport betting activities	5%
Reference interest rate set by the Romanian National Bank for loans denominated in lei	6.25% 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 in 2011	3.2% 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 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 the tax credit for sponsorship expenses	20% of the corporate income tax but no more than 3% of sales revenue

### Corporate tax for very small companies

Tax rate 3%

### Straight-line depreciation periods (for tax and accounting purposes)

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

**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.

### 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%

Contributions withheld for income from professional activities

Social security fund	10.5%
Unemployment fund	0.5%

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%

The medium monthly earnings 2,022 lei  
The minimum monthly salary 670 lei  
The limit of gifts to which social contributions do not apply 150 lei/person/occasion

\* The taxable base shall not exceed 5 times the medium monthly earnings

\*\* The taxable base shall not exceed 5 times the medium monthly earnings multiplied by the number of employees

\*\*\* 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	€35,000
Annual threshold for monthly tax period	€100,000

### Exchange rate

Euro/lei	€1 = 4.20 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 rate for late tax payments	
– for payments made in the first 30 days after maturity	0%
– for payments made between 31 and 90 days after maturity	5%
– for payments made more than 90 days after maturity	15%

**ALL FIVE questions are compulsory and MUST be attempted**

1 Mr Monday is a professor teaching chemistry. He is employed on a part-time basis by the Chemistry University Bucharest, where he has his basic activity. According to his employment contract, Mr Monday has a monthly basic salary of 1,800 lei and a monthly seniority bonus of 200 lei. Each month he also receives ten meal vouchers of 9 lei per voucher. The Chemistry University Bucharest has a very strict dress code, so in January 2011 it gave one uniform to each of its employees so that they would meet this dress code. Yet, there is no law which imposes the use of uniforms in the University. The cost of the uniform was 400 lei per piece and was supported entirely by the University. The uniform may be used both within the University premises and outside.

Mr Monday declared to the University that, until 30 June 2011, he had under his care a 22-year-old daughter, Miss Day. In December 2011, Mr Monday's employer offered him as a gift for his daughter on the occasion of Christmas the sum of 370 lei in cash. Miss Day finished her studies at the Economics University in June 2011 and started her first job as a credit analyst at a commercial bank on 1 July 2011. Before starting this job, Miss Day has never earned any money, being fully dependent on Mr Monday. Miss Day's employer pays her a monthly base salary of 15,000 lei. On 1 September 2011, Miss Day applied for a credit of 200,000 lei from her employer. The bank approved the credit with an interest rate of 5% p.a. The 5% interest rate is only offered to the bank's employees; other clients of the bank are offered credit at an interest rate of 11% p.a. Miss Day pays the interest monthly on the last day of the month, starting from September 2011, while the principal will only be fully repaid after five years.

Mr Monday also publishes his research results in a revue. This is an occasional activity of Mr Monday and in 2011 he published only one such article, receiving from the revue gross revenue from intellectual property of 500 lei on 20 May 2011. Mr Monday has chosen to apply the standard tax treatment for his intellectual property revenue, and not to make use of any option which may apply.

On the occasion of the International Chemistry Congress held in Bucharest in June 2011, Mr Monday signed with Organisers Co a contract according to the Civil Code to give a speech on 'New technologies in Chemistry'. According to the contract, Mr Monday will receive gross revenue of 1,000 lei from which income tax would be withheld by Organisers Co as the final tax, as per Mr Monday's option. Organisers Co did not impose any work schedule on Mr Monday and did not pay his transport costs to the venue or any other sum except for the fee stated in the contract. In preparing and delivering the speech Mr Monday used his own computer.

One of the companies which participated at the Congress, Chemic-Lab Co, was so impressed by Mr Monday's speech that it offered him a six month contract as a consultant at a monthly gross fee of 2,000 lei. This contract was signed for the period 1 January to 30 June 2012 according to the Civil Code and stipulated the following:

- Mr Monday has to be present for four hours per day for every working day at Chemic-Lab Co's premises, where his consultancy activity must be carried out. Mr Monday has to make weekly reports to the CEO of Chemic-Lab Co on the activity performed;
- Mr Monday will exclusively use the assets provided by Chemic-Lab Co for performing the activity. Chemic-Lab Co will also pay Mr Monday's travel expenses and a travel allowance should travelling be necessary for Mr Monday's consultancy activity;
- Chemic-Lab Co stipulated in the contract that the activity performed by Mr Monday should be considered an independent activity, generating self-employed income, and Chemic-Lab Co will withhold (i) 10% as prepayments of income tax and (ii) social contributions according to the rules for the income from professional activities.
- Chemic-Lab Co shall pay the monthly fee to Mr Monday on the last working day of the month for which it is due.

Mr Monday considers that he only has the obligation to pay income tax according to the rules of the real system for self-employed income. Even so, Mr Monday did not keep accounting books and recorded no expenses in connection with the revenue earned from Chemic-Lab Co, not even the amounts withheld by Chemic-Lab Co.

**Required:**

- (a) **Determine the income tax due for the employment income received by Mr Monday in the two months of January and December 2011, respectively.**

Note: Mr Monday worked at the University premises in all working days of January and December 2011, respectively. (7 marks)

- (b) **Determine the prepayments of income tax, the final income tax and the social contributions due for the intellectual property revenue received by Mr Monday in May 2011. If no liability arises, state why.** (4 marks)

- (c) **Determine the income tax and social contributions which should be withheld by Organisers Co for the contract signed with Mr Monday. If no liability arises, state why.** (2 marks)

- (d) **On the assumption that Mr Monday's revenue from Chemic-Lab Co is treated according to the contractual provisions, as revenue from an independent activity, determine the prepayments of tax and the social contributions that should be withheld from the revenue received by Mr Monday in the year 2012, and the final tax due by Mr Monday. If no liability arises, state why.** (4 marks)

- (e) **Explain when an activity may be reclassified as dependent and state if there are reasons to reclassify Mr Monday's activity with Chemic-Lab Co.** (3 marks)

- (f) **On the assumption that Mr Monday's activity with Chemic-Lab Co is reclassified as dependent, determine the income tax and social contributions due by both Mr Monday and Chemic-Lab Co for the revenue received by Mr Monday in the year 2012.**

Note: you should take the work accident fund contribution to be 0.3%. (6 marks)

- (g) **Determine the income tax due for the employment income earned by Miss Day in the month of September 2011.** (4 marks)

**(30 marks)**

- 2 Tuesday SRL is a company established in Romania on 1 June 2011, as a producer of furniture. Tuesday SRL is owned 100% by Week Ltd, a company established in the UK. At incorporation, Tuesday SRL chose to pay corporate income tax and not to apply the special scheme of corporate income tax for very small companies.

Tuesday SRL did not achieve the financial results expected, so Week Ltd decided to close it. Tuesday SRL was closed on 31 May 2012. During its period of existence, Tuesday SRL's monthly total accounting revenues were 123,000 lei and its monthly total accounting expenses (excluding corporate income tax expense) were 101,000 lei. The following information is provided about the revenues and expenses of Tuesday SRL:

1. On 20 June 2011, Tuesday SRL bought and started using equipment which cost 60,000 lei. Tuesday SRL decided to compute and register as part of its expense the accounting depreciation, using the straight-line method over ten years. The tax depreciation would be computed using the accelerated method over ten years. Tuesday SRL sold the equipment on 31 March 2012 (i.e. two months before the company closed) for its market price of 36,000 lei, and registered the revenue and expense connected to this sale in its books.
2. From 1 November 2011 until 31 March 2012 Tuesday SRL had ten employees. The gross monthly salary of each employee was 2,000 lei. Every month Tuesday SRL gave 22 meal vouchers of 9 lei per voucher to each of its employees. The employees worked every working day of these five months on Tuesday SRL's premises. The number of working days for each month was: November 2011 – 22 days, December 2011 – 20 days, January 2012 – 21 days, February 2012 – 21 days, March 2012 – 22 days. Tuesday SRL did not ask the employees to return any unused meal vouchers. Each of the employees has one minor child and their basic activity with Tuesday SRL. The gross salary together with the compulsory social contributions and meal vouchers were registered as part of Tuesday SRL's expenses.
3. In December 2011, Tuesday SRL bought Christmas presents for three of its clients. Each present was valued at 2,000 lei and Tuesday SRL registered the 6,000 lei as part of its expenses. However, Tuesday SRL has invoices for only two of these presents; one present was bought from an individual, and Tuesday SRL has no supporting documents to prove the nature of this purchase. Tuesday SRL also gave Christmas presents to each of its employees' children; the value of these presents was 100 lei per child and these were registered as part of its expenses.
4. On 10 December 2011, Tuesday SRL bought 10,000 shares issued by Time SRL, a company established in Romania, at 1.2 lei per share. Time SRL's shares are traded on the Bucharest Stock Exchange Market and Tuesday SRL bought them with the intention of keeping them only for a short period and then selling them to make a profit. On 31 December 2011, the market price of the shares in Time SRL was 1.5 lei per share, thus Tuesday SRL registered revenue from the shares' revaluation of 3,000 lei. On 25 April 2012, Time SRL approved its financial statements for 2011 and distributed its net profit as dividends. On 30 April 2012, Tuesday SRL registered and banked dividend revenue from Time SRL of 10,000 lei. On 3 May 2012, Tuesday SRL sold its shares in Time SRL at 0.9 lei per share and registered the revenue and expense connected to this sale in its books.
5. In January 2012, Tuesday SRL intended to contract a loan of 420,000 lei (or €100,000 if it is denominated in euro) for four months to finance its working capital. Tuesday SRL had researched two possible sources for this loan. Firstly, to take a loan from a bank which would be denominated in lei and at an interest rate of 8%; secondly, to take a loan from Week Ltd which would be denominated in euro and at an interest rate of 7%.



**Required:**

(a) **State the general rules to determine when the tax year starts and finishes, explain whether Tuesday SRL will have one or more tax years, and state the dates on which each of Tuesday SRL's tax year(s) start and finish.** (3 marks)

(b) (i) **Explain the thin capitalisation rules according to Romania's tax legislation; and** (6 marks)

(ii) **Compute Tuesday SRL's accounting interest expense and the deductible value of interest expenses for corporate income tax, if Tuesday SRL (1) takes the loan from the bank; and (2) takes the loan from Week Ltd.**

Note: you should ignore any foreign exchange differences due to changes in the euro/lei exchange rate. (2 marks)

(c) **On the assumption that Tuesday SRL took the loan from Week Ltd and has registered the interest expense as part of its expenses, determine the corporate income tax due by Tuesday SRL for each of the tax year(s) of its existence.**

Note: you should ignore any value added tax implications and any legal reserve requirements. (14 marks)

**(25 marks)**

- 3 (a)** Wednesday SRL is a company established and registered for value added tax (VAT) in Romania on 30 March 2011. Analysing the VAT treatment of its activities in 2011, Wednesday SRL realised that it only had activities taxable at the standard VAT rate which had generated sales revenue of 105,000 lei (exclusive of VAT).

For 2012, Wednesday SRL expects that it will have taxable activities as well as exempt with deduction right (*scutite cu drept de deducere*) and exempt without deduction right (*scutite fără drept de deducere*) activities, as follows:

1. Sale of books with an ISBN barcode to individuals through its Bucharest store.
2. Export of books with an ISBN barcode to individuals in the Republic of Moldavia.
3. Sale of furniture to individuals through its Bucharest store.
4. Supply of furniture dispatched to persons established and registered for VAT in Hungary and having proper transport documentation.
5. Renting apartments in Bucharest to taxable persons.
6. Supply of consultancy services to companies established in Romania.
7. Supply of learning services authorised by the Ministry of Education within the conditions of the Education Law to individuals in Romania.
8. Sale of new apartments in Bucharest to families who are buying their first house.

**Required:**

- (i) State when a company which continues to perform economic activities may voluntarily deregister for value added tax (VAT), together with the deadline for submitting the application, and explain whether or not Wednesday SRL could have deregistered for VAT in 2012, giving reasons for your answer;**

Note: the following lei/euro exchange rates are applicable:

1 January 2007 = 3·3817 lei/euro;

31 December 2011 = 4·2554 lei/euro.

(4 marks)

- (ii) List the main differences between taxable, exempt without deduction right and exempt with deduction right supplies;**

(3 marks)

- (iii) For each of the activities 1 to 8 above, expected to be performed by Wednesday in 2012, state the applicable VAT tax treatment.**

(4 marks)

- (b)** Thursday SRL recorded the following activities in its sales and VAT acquisition journals for the year 2012. All the amounts are exclusive of VAT.

	lei
Revenues from taxable activities	80,000
Revenues from exempt without deduction right activities	50,000
Revenues from exempt with deduction right activities	90,000
Taxable purchases made exclusively for taxable activities	43,000
Taxable purchases made exclusively for exempt without deduction right activities	38,000
Taxable purchases made exclusively for exempt with deduction right activities	49,000
Taxable purchases made for all its activities, collectively	30,000

Where applicable, the VAT rate in respect of all of Thursday SRL's 2012 sales and purchases is 24% and no reverse charges were applicable.

**Required:**

- Determine the output VAT and the input VAT recoverable by Thursday SRL in 2012.**

(4 marks)

**(15 marks)**

- 4 Friday SRL is a company supplying napkins which has premises in Cluj, Romania. During 2011, Friday SRL was liable to pay corporate income tax and used the month as its taxable period for value added tax (VAT). As it fulfilled all the necessary conditions, since 1 January 2012 Friday SRL applies the special scheme of corporate income tax for very small companies and uses the quarter as its taxable period for VAT.

The following information relates to Friday SRL's activity in 2012 (values are per quarter):

Indicator	Note	Quarter 1 lei	Quarter 2 lei	Quarter 3 lei	Quarter 4 lei
Revenues (exclusive of VAT)	(1)	100,000	80,000	115,000	70,000
Expenses					
Salaries and social contributions	(2)	19,000	27,000	54,000	22,500
Purchases (exclusive of VAT)	(3) (4)	40,000	30,000	50,000	20,000

**Notes:**

- The revenues are all from the sale of napkins, except for revenue of 2,000 lei from an insurance company as compensation for lost inventory, registered in September 2012.
- On 1 January 2012 Friday SRL had five employees. In March 2012, it employed four more persons and in August 2012, it employed three more persons. In October 2012, Friday SRL discharged seven of its employees due to a financial downturn. These were the only movements in employee numbers in 2012.
- Included in the value for purchases is the cost of a cash register machine purchased by Friday SRL in March 2012 for 1,400 lei, which was put into use for the first time in April 2012.
- All of Friday SRL's purchases are made from Romanian taxable persons, registered for VAT purposes and applying the standard VAT rate, except for one purchase of 1,700 lei made in December 2012, which was a taxable intra-community acquisition of napkins which were dispatched to Romania from Hungary. All purchases are used by Friday SRL for making taxable supplies.

**Required:**

- State the conditions that must be satisfied for a company to be eligible to apply the special scheme of corporate tax for very small companies, together with the date for fulfilling these conditions.** (3 marks)
- State the deadline by which Friday SRL must choose the option to apply the special scheme of corporate income tax for very small companies in 2012 and determine the corporate tax due by Friday SRL for each quarter of 2012;** (4 marks)
  - State, giving reasons, when Friday SRL should cease to apply the special scheme of corporate income tax for very small companies.** (1 mark)
- State the value added tax (VAT) tax periods that a taxable person may use, together with the conditions for applying each tax period.** (3 marks)
- Determine the output VAT and the input VAT recoverable by Friday SRL for each quarter of 2012.** (4 marks)

**(15 marks)**

- 5 Mrs Saturday is resident in Romania, and has her domicile in Bucharest, district 6. She is a lawyer and has her own office as an independent lawyer, providing legal advice to different clients. Her office is located in Pantelimon, a town in Ilfov County. Mrs Saturday applies the real system in determining the income tax for her self-employed activity.

Mrs Saturday's net income earned from her self-employed activity in 2011 was 24,000 lei. At the beginning of 2012, Mrs Saturday estimated that her net income would remain the same. However, in November 2012 Mrs Saturday decided to end her self-employed activity and close her office. The amounts of revenues and expenses actually recorded for Mrs Saturday's self-employed activity in 2012 were:

	Note	lei
Revenues		
Sales revenue		100,000
Expenses		
Rent	(1)	11,000
Phone and Internet	(2)	2,000
Depreciation	(3)	9,900
Compulsory contribution	(4)	8,000

**Notes:**

1. The rent is paid to the owner of the apartment where Mrs Saturday has her office in Pantelimon. Mrs Saturday neither has a contract with the owner for this rental nor any proper documents to support the payment of the rent. As there is no contract, the owner did not declare the revenue to the tax authorities.
2. The phone and internet were used 60% for the office's activity and 40% in Mrs Saturday's personal interest.
3. The depreciation is for a car bought by Mrs Saturday in December 2011 for a price of 43,200 lei. The depreciation is computed using the straight-line method over four years. On closing her self-employed activity, Mrs Saturday moved the car from the business patrimony to her own personal patrimony.
4. The compulsory contribution is to the Romanian Bar Association which authorises Mrs Saturday's activity as a lawyer.

Apart from her self-employed activity, in January 2012 Mrs Saturday bought shares in One SRL, a company resident in Romania, and in Two Limited, a company resident in Malta. Both companies distributed and paid dividends to Mrs Saturday in March 2012. The gross value of the dividend distributed by One SRL was 5,000 lei, and by Two Limited was 8,000 lei.

**Required:**

- (a) **State, giving reasons, which is the Romanian competent tax authority for Mrs Saturday's self-employed activity as a lawyer.** (1 mark)
- (b) **Determine the prepayments of income tax for Mrs Saturday's self-employed activity as a lawyer in 2012, and state how the prepayments will be paid to the state budget and the deadline(s) for paying them.** (2 marks)
- (c) **Determine the final tax due by Mrs Saturday for her self-employed activity as a lawyer in 2012.** (5 marks)
- (d) **State, giving reasons, if the owner of the office where Mrs Saturday has her self-employed activity is involved in tax evasion or in tax avoidance.** (1 mark)
- (e) **State the conditions that must be satisfied for Mrs Saturday to claim double tax relief on the dividend received from Two Limited.** (2 marks)
- (f) **Assuming that Mrs Saturday is entitled to claim double tax relief, using the tax credit method, determine the tax due by her in Romania for the dividends received in March 2012, state who should declare the tax to the Romanian tax authorities and the deadlines for declaring the tax.**

Note: the tax rate on dividends in Malta is 10%. (4 marks)

**(15 marks)**

**End of Question Paper**