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# Answers

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1 Sofa SRL

Marks

(a) System of prepayments of corporate income tax

For each quarter of the tax year, the taxpayer has to compute and pay a fixed amount calculated as follows:

Prepayment =  $\frac{1}{4}$  x income tax due for the previous tax year x consumer price index 1

The prepayment has to be declared and paid quarterly by the 25th of the first month following the end of the quarter (i.e. 25 April, 25 July, 25 October, 25 January). 1

The final income tax is computed based on the actual values of the revenues and expenses:

Final income tax = Total revenues – total expenses – non-taxable revenues + non-deductible expenses 1

The final tax and the difference between the final income tax and the prepayments made is declared in the income tax declaration, which must be submitted to the tax authorities by 25 March of the following year and the difference, if any, paid. 1

In 2013, the deadline for submitting the option to apply the system of prepayments for corporate income tax is 31 January 2013. 1

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(b) Prepayments of tax for 2013

Prepayments of tax:

Income tax in 2012 =  $16\% \times 2,000,000 = 320,000$  lei  $\frac{1}{2}$

Quarterly prepayment =  $320,000 \times \frac{1}{4} \times (1 + 0.035) = 82,800$  lei  $1\frac{1}{2}$

2

(c) Final income tax for 2013 and difference to be paid/recovered when settling

	lei	
Total revenues ( $1,500,000 \times 4$ )	6,000,000	$\frac{1}{2}$
Total expenses ( $1,200,000 \times 4$ )	4,800,000	$\frac{1}{2}$
Gross accounting profit	1,200,000	
Elements similar to revenues (W1)	30,000	2
Non-taxable revenues	100,000	
Dividend revenue	100,000	$\frac{1}{2}$
Tax depreciation (W3)	58,800	1
Non-deductible expenses	461,296	
Car-related expenses (other than depreciation) (W2)	31,920	3
Accounting depreciation (W3)	50,400	1
Protocol expense (W4)	776	$1\frac{1}{2}$
Prepayments of corporate income tax	331,200	$\frac{1}{2}$
Expense with the decrease in building's value	40,000	1
Contributions for employees (W5)	7,000	3
Taxable income for 2013	1,532,496	
Final corporate income tax due at 16%	245,199	$\frac{1}{2}$

Prepayments paid in 2013 =  $82,800 \times 4 = 331,200$  lei

Difference to be recovered from the budget =  $(331,200 - 245,199) = 86,001$  lei 1

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(d) (i) Withholding tax for non-residents

As a general rule, Romanian companies have the obligation to withhold tax on payments made to non-residents except for payments made for services performed outside Romania, other than management and consultancy services. Thus,

– for the royalties paid by Sofa SRL to the company based in Germany, there is an obligation to withhold tax from the payment; 1

– for the consultancy services paid by Sofa SRL to the company based in Switzerland, there is an obligation to withhold tax from the payment; 1

– for the maintenance services payment made by Sofa SRL to the company based in Great Britain, there is no obligation to withhold tax from the payment.	Marks
	1
If Sofa SRL had received a certificate of fiscal residence from each of its suppliers, then it could have applied the provisions of the double tax treaty between Romania and the supplier's state. Then, if the tax rate in the double tax treaty was lower than the tax rate in the Romania Tax Code, tax would be withheld at the lowest of the two rates.	2
	5

**(ii) Withholding tax for non-residents withheld in 2013**

Payment date	Type of income	Gross amount	Tax rate	Tax to be withheld in 2013	
November 2013	Royalties	10,000	16%	1,600	1/2
November 2013	Service	15,000	n/a	n/a	1/2
February 2014	Consultancy	40,000	16%	No tax will be paid in 2013	1
					2
					30

**WORKINGS**

**(1) Elements similar to revenues**

Elements similar to revenues are generated by:

- the additional tax depreciation of the building in 2013; and
- renting the equipment at zero price.

The additional tax depreciation of the building in 2013 is generated by the revaluation difference. According to the law, this difference should be taxed as an element similar to revenues.

Elements similar to revenues due to revaluation reserve =  $(1,700 - 1,500) \times 12 = 2,400$  lei

For renting the equipment at a zero price, Sofa SRL registers elements similar to revenues equivalent to the revenues not registered =  $2,300 \text{ lei/month} \times 12 \text{ months} = 27,600$  lei

Total elements similar to revenues =  $27,600 + 2,400 = 30,000$  lei

**(2) Non-deductible car-related expenses (other than depreciation)**

The deductibility of expenses relating to the cars used by the directors is limited to 50%. However, if a director uses more than one car, the 50% limit of deductibility will apply only to the first car, as the expenses relating to any other cars in his/her use will be fully non-deductible.

Total expenses related to one car used by the directors =  $700 + 300 + 300 + 30 = 1,330$  lei/car/month

Deductible expenses related to the cars used by the directors =  $(1,330 \times 2 \times 50\%) = 1,330$  lei/month

Non-deductible expenses related to the cars used by the directors =  $1,330 + (1,330 \times 2 \times 50\%) = 2,660$  lei/month

Total non-deductible car-related expenses =  $2,660 \times 12 = 31,920$  lei

The expenses related to the cars used by the sales agents may be deducted in full.

**(3) Accounting and tax depreciation**

Accounting depreciation = accounting depreciation for cars + accounting depreciation for building

Accounting depreciation =  $(500 \times 5 \times 12) + (1,700 \times 12) = 50,400$  lei

Accounting depreciation is entirely non-deductible.

Tax depreciation may be computed only for four cars. As the managing director uses two cars, tax depreciation may be deducted only for one of these cars.

Tax depreciation = tax depreciation for four cars + tax depreciation for building

Tax depreciation =  $800 \times 4 \times 12 + 1,700 \times 12 = 58,800$  lei

**(4) Non-deductible protocol expense**

The protocol expenses may be deducted up to  $2\% \times (\text{Taxable revenues} - \text{Expenses related to taxable revenues less protocol expenses and corporate income tax})$

Limit =  $2\% \times (6,000,000 - 100,000 - 4,800,000 + 30,000 + 82,800 \times 4) = 29,224$  lei

Non-deductible protocol expenses =  $30,000 - 29,224 = 776$  lei

**(5) Contributions for employees**

Private healthcare contributions are deductible up to 250 euro/employee/year.

Deductible healthcare contribution/employee = 250 euro x 4.5 lei/euro = 1,125 lei ⇒  
the healthcare contribution of 1,000 lei/employee paid by Sofa SRL for its employees is entirely deductible.

Private life insurance is entirely non-deductible ⇒

non-deductible private life insurance contribution = 500 lei/employee x 10 employees = 5,000 lei

Voluntary pension contribution is deductible up to 400 euro/employee/year.

Voluntary pension contribution/employee = 400 euro x 4.5 lei/euro = 1,800 lei ⇒

non-deductible voluntary pension contribution =

(2,000 lei/employee – 1,800 lei/employee) x 10 employees = 2,000 lei

Total non-deductible contributions = 5,000 + 2,000 = 7,000 lei

**2 Mrs Desk****(a) Monthly income tax on employment income in 2013**

	January–September 2013 (lei/month)	October–December 2013 (lei/month)	
Base salary	4,500	–	1/2
Company car use (W1)	120	–	1
Hot meals	240	–	1/2
Massages	200	–	1/2
Insurance premiums (W2)	150	–	2
Subscription to the Journalists Forum	0	–	1/2
Non-competition allowance	0	2,700	1
Total gross salary	5,210	2,700	
Social security contribution (W3)	542	0	1
Healthcare contribution (W3)	284	149	1
Unemployment contribution (W3)	26	0	1
Net income	4,358	2,551	
Personal deduction (W4)	0	60	2
Taxable income	4,358	2,491	
Income tax at 16%	697	399	1
			<u>12</u>

**(b) Social contributions due by the ArtHome Revue**

	January–September 2013 (lei/month)	October–December 2013 (lei/month)	
Total gross salary	5,210	2,700	
Social security contribution (W5)	1,073	0	1/2
Healthcare contribution (W5)	268	140	1
Unemployment contribution (W5)	26	0	1/2
Work accident fund (W5)	8	0	1
Health insurance indemnities fund (W5)	44	0	1
Fund for guaranteeing salary payments (W5)	13	0	1
	<u>1,432</u>	<u>140</u>	<u>5</u>

**(c) The obligation to pay and declare income tax and social contributions for employment income**

The employer has the obligation to pay and declare the income tax and social contributions for employment income.

1/2

The deadlines for declaring are:

For employers who fall within one of the following categories: companies with less than three employees and a turnover of less than €100,000, non-profit organisations, self-employed persons: quarterly, by the 25th of the month following the quarter for which contributions and income tax are due (unless the entity opts for monthly declaration).

1 1/2

		<b>Marks</b>
	For other companies: monthly, by the 25th of the next month after the month for which contributions and income tax are due.	<u>1</u>
		<u>3</u>
<b>(d) (i)</b>	<b>Income tax for investment revenues</b>	
	For dividend revenue:	
	Income tax = $16\% \times 10,000 \text{ lei} = 1,600 \text{ lei}$	$\frac{1}{2}$
	The ArtHome Revue has the obligation to pay this tax to the state budget.	$\frac{1}{2}$
	The deadline is the 25th of the month following the month of payment but no later than 25 January of the next year after the dividends were distributed.	1
	For the gain from selling the shares:	
	Income tax = $16\% \times 25,000 \text{ lei} = 4,000 \text{ lei}$	$\frac{1}{2}$
	Furnshare SRL has the obligation to pay this tax to the state budget.	$\frac{1}{2}$
	The deadline is the date when the transfer is registered in the trade register.	<u>1</u>
		<u>4</u>
<b>(ii)</b>	<b>Social contributions on investment revenues</b>	
	Mrs Desk does not have the obligation to pay social contributions on the dividend revenue and the gain from selling the shares, as she is in employment in 2013 and paid social contributions in respect of the employment income.	<u>1</u>
		<u>25</u>

## WORKINGS

### (1) Company car use

Only the 10% use for personal journeys is considered a taxable benefit in kind.  
 $\Rightarrow$  The monthly value of the taxable benefit in kind =  $1,200 \times 10\% = 120 \text{ lei}$

### (2) Insurance premiums

The life and private health insurances are fully taxable at the employee level.  
Taxable life insurance/month = 100 lei  
Taxable private health insurance/month = 50 lei

The voluntary pension insurance is taxable only if it exceeds 400 euro/year.  
The monthly voluntary pension contribution = 120 lei  
Total voluntary pension contribution paid for Mrs Desk =  $120 \times 9 = 1,080 \text{ lei}$

Limit for non-taxable voluntary pension insurance =  $400 \text{ euro} \times 4.5 \text{ lei/euro} = 1,800 \text{ lei}$   
 $\Rightarrow$  The voluntary pension insurance paid during 2013 is fully non-taxable.  
Taxable insurance/month =  $100 + 50 = 150 \text{ lei}$

### (3) Social contributions – Mrs Desk

For the period January–September 2013  
The private health insurance premium is not subject to any social contributions due by either the employee or the employer. Thus the tax base for all social contributions due during January to September 2013 by the employee and by the employer is  $5,210 - 50 = 5,160 \text{ lei}$ .

So, the monthly social contributions due by Mrs Desk for January to September 2013 are:  
Social security contribution =  $10.5\% \times 5,160 \text{ lei} = 542 \text{ lei}$   
Healthcare contribution =  $5.5\% \times 5,160 \text{ lei} = 284 \text{ lei}$   
Unemployment contribution =  $0.5\% \times 5,160 \text{ lei} = 26 \text{ lei}$

For the period October–December 2013  
The non-competition allowance is not subject to the following social contributions:

- social security contribution
- unemployment contribution
- work accident fund contribution
- health insurance indemnities fund contribution
- fund for guaranteeing salary payments.

Thus, for the above contributions, the tax base is 0, and the contributions nil.

For the healthcare contribution, the tax base is 2,700 lei.

So, the monthly social contributions due by Mrs Desk for October to December 2013 are:

$$\text{Healthcare contribution} = 5.5\% \times 2,700 = 149 \text{ lei}$$

**(4) Personal deduction**

During January–September 2013 no personal deduction is applicable, as her gross revenue is 5,200 lei which is above the 3,000 lei limit.

During October–December 2013 the personal deduction is applicable, as the revenue is below 3,000 lei, Mrs Desk has her basic activity with ArtHome Revue and has one underage daughter having no income.

$$\text{Personal deduction} = 350 \times (1 - ((2,700 - 1,000)/2,000)) = 52.5 \approx 60 \text{ lei}$$

**(5) Social contributions for the ArtHome Revue**

Monthly contributions in January to September:

$$\text{Social security contribution} = 20.8\% \times 5,160 \text{ lei} = 1073 \text{ lei}$$

$$\text{Healthcare contribution} = 5.2\% \times 5,160 \text{ lei} = 268 \text{ lei}$$

$$\text{Unemployment contribution} = 0.5\% \times 5,160 \text{ lei} = 26 \text{ lei}$$

$$\text{Work accident fund} = 0.15\% \times 5,160 \text{ lei} = 8 \text{ lei}$$

$$\text{Health insurance indemnities fund} = 0.85\% \times 5,160 \text{ lei} = 44 \text{ lei}$$

$$\text{Fund for guaranteeing salary payments} = 0.25\% \times 5,160 \text{ lei} = 13 \text{ lei}$$

Monthly contributions in October to December:

$$\text{Healthcare contribution} = 5.2\% \times 2,700 \text{ lei} = 140 \text{ lei}$$

**3 (a) Bed SA**

**(i) Conditions to enter into the cash accounting scheme for value added tax (VAT)**

A company will enter into the cash accounting scheme, if it fulfils the following conditions:

- |  |     |
|--|-----|
| – it is established in Romania;  | 1/2 |
| – it is registered for VAT purposes under the general registration conditions; and | 1   |
| – it has a turnover of less than or equal to 2,250,000 lei.                        | 1/2 |

If a company fulfils all the above conditions, it has to apply the cash accounting scheme (it is not optional).

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**(ii) VAT due to the state if Bed SA and its suppliers do not apply the cash accounting scheme**

Month	Input VAT	Output VAT	VAT to be paid to the state	
	lei	lei	lei	
January 2013	10,000 x 24% = 2,400	12,000 x 24% = 2,880	480	1
February 2013			0	
March 2013			0	
April 2013	28,000 x 24% = 6,720		(6,720)	1/2
May 2013	14,000 x 24% = 3,360	38,000 x 24% = 9,120	5,760	1
June 2013		19,000 x 24% = 4,560	4,560	1/2
July 2013			0	
August 2013			0	
September 2013			0	
October 2013			0	
November 2013			0	
December 2013			0	
				3

## (iii) VAT due if Bed SA and its suppliers do apply the cash accounting scheme

Month	Input VAT	Output VAT	VAT to be paid to the state	
	lei	lei	lei	
January 2013			0	
February 2013			0	
March 2013			0	
April 2013		12,000 x 24% = 2,880*	2,880	1/2
May 2013			0	
June 2013	10,000 x 24% = 2,400		(2,400)	1/2
July 2013			0	
August 2013		38,000 x 24% = 9,120*	9,120	1/2
September 2013		19,000 x 24% = 4,560	4,560	1/2
October 2013			0	
November 2013			0	
December 2013	28,000 x 24% = 6,720		(6,720)	1/2
The VAT for the acquisition paid for in 2014 will be deducted in 2014.				1/2

3

**\*Tutorial note:** For sales invoices which were not paid within 90 days, the chargeability of the VAT occurs on the 90th day from the issue date of the invoice.

## (iv) VAT due if Bed SA does not apply the cash accounting scheme, but its suppliers do apply the scheme

Month	Input VAT	Output VAT	VAT to be paid to the state	
	lei	lei	lei	
January 2013		12,000 x 24% = 2,880	2,880	1/2
February 2013			0	
March 2013			0	
April 2013			0	
May 2013		38,000 x 24% = 9,120	9,120	1/2
June 2013	10,000 x 24% = 2,400	19,000 x 24% = 4,560	2,160	1
July 2013			0	
August 2013			0	
September 2013			0	
October 2013			0	
November 2013			0	
December 2013	28,000 x 24% = 6,720		(6,720)	1/2
The VAT for the acquisition paid for in 2014 will be deducted in 2014.				1/2

3

## (b) Cabinet SRL

Situation in which a value added tax (VAT) registration code will be cancelled	How and when the VAT registration code may be recovered
The company is declared fiscally inactive by the Tax Authorities	When the inactivity ceases
The company is declared as having a temporary inactivity in the Trade Register	When the inactivity ceases
The company does not file a VAT return for six consecutive months	When the company requests and agrees not to forget to file the VAT returns
The company files VAT returns for six consecutive months which do not present any transactions	When the company requests and agrees not to forget to file the VAT returns
The administrators, the shareholders or the company have recorded in their fiscal record the fact of having joint liability with the debtor who has been declared insolvent, established by a definitive tax authority ruling or by a definitive court decision, as the case may be	When the situation no longer exists
The company should not have requested a VAT registration code, as it had no reason to do so	When the company does have a reason to register for VAT

1 mark for each line of the above, maximum

315

## 4 (a) The functions of taxation

Taxation in a modern economy has the following functions:

- Procuring funds for the functioning of the public institutions.
- Redistributing income, so as to improve the life of the poorest members of the society.
- Influencing behaviour, e.g. taxing polluting activities, activities that damage health, etc.

*Two purposes only required, 1/2 mark each*

1

## (b) Direct and indirect taxes

Direct taxes are the taxes on income and wealth. Thus corporate income tax is a direct tax.

1

Indirect taxes are taxes on consumption. Thus VAT is an indirect tax.

1

2

## (c) Library SRL

## (i) Corporate tax due for 2013

The threshold for applying the special scheme for corporate tax is a turnover of 100,000 euro = 100,000 x 4.5 lei/euro = 450,000 lei

1/2

**Quarter 2, 2013: 1 April to 30 June 2013**

Total revenues for the quarter = 80,000 x 3 = 240,000 lei

1/2

Total revenues cumulated from the beginning of the year = 240,000 lei

Total revenues cumulated from the beginning of the year < 450,000 lei ⇒

CIT in Q2 = 240,000 x 3% = 7,200 lei

1/2

Deadline for paying the tax: 25 July 2013.

1/2

**Quarter 3, 2013: 1 July to 30 September 2013**

Total revenues for the quarter = 80,000 x 3 = 240,000 lei

1/2

Total revenues cumulated from the beginning of the year = 240,000 + 240,000 = 480,000 lei

Total revenues cumulated from the beginning of the year > 450,000 lei

⇒ Library SRL has to compute corporate income tax starting with Quarter 3.

1/2

**1 April to  
30 September 2013  
lei**

Total revenues (80,000 x 6)	480,000	
Total expenses (W1)	374,200	1
Accounting profit	105,800	
Non-deductible expenses	7,200	
Corporate income tax	7,200	1/2
Taxable income	113,000	
Income tax due at 16%	18,080	1/2
Income tax already declared and paid	7,200	
Income tax due for Quarter 3	10,880	1/2

Deadline for paying the tax: 25 October 2013.

1/2

**Quarter 4, 2013: 1 October to 31 December 2013**

For the fourth quarter Library SRL will compute the final income tax:

**1 April to  
31 December 2013  
lei**

Total revenues (80,000 x 9)	720,000	1/2
Total expenses (W1)	541,080	1/2
Accounting profit	178,920	
Legal reserve (W2)	(40)	1
Non-deductible expenses	18,080	
Corporate income tax	18,080	1/2
Taxable income	196,960	
Income tax due at 16%	31,514	1/2
Income tax already declared and paid	18,080	
Income tax due for Q4	13,434	1/2

Deadline for paying the tax: 25 March 2014.

1/2

10



**(ii) Tax on the dividends received by Mr and Mrs Shelf**

Total revenues in 2013 =  $80,000 \times 9 = 720,000$  lei

Total expenses in 2013 =  $60,000 \text{ lei} \times 2 + 65,000 \text{ lei} \times 3 + 52,000 \text{ lei} \times 4 + 31,514 \text{ lei} = 554,514 \text{ lei}$

Net profit in 2013 =  $720,000 \text{ lei} - 554,514 \text{ lei} = 165,486 \text{ lei}$

Gross dividend = Net profit – Legal reserve =  $165,486 - 40 = 165,446 \text{ lei}$

Gross dividend for each shareholder =  $165,446/2 = 82,723 \text{ lei}$

Income tax on dividend for each shareholder =  $82,723 \times 16\% = 13,236 \text{ lei}$

 $\frac{1}{2}$  $\frac{1}{2}$  $\frac{1}{2}$  $\frac{1}{2}$ 

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**15****WORKINGS****(1) Total expenses before computing corporate income tax**

1 April to 30 September 2013

Total expenses =  $60,000 \text{ lei} \times 2 + 65,000 \text{ lei} \times 3 + 52,000 \text{ lei} + 7,200 \text{ lei} = 374,200 \text{ lei}$

1 April to 31 December 2013

Total expenses =  $60,000 \text{ lei} \times 2 + 65,000 \text{ lei} \times 3 + 52,000 \text{ lei} \times 4 + 18,080 \text{ lei} = 541,080 \text{ lei}$

**(2) Legal reserve**

Limits of deductibility for the legal reserve:

5% x accounting profit before income tax =  $5\% \times (178,920 + 18,080) = 9,850 \text{ lei}$

20% x share capital =  $20\% \times 200 = 40 \text{ lei}$

The deductible legal reserve = 40 lei

**5 Mr Sideboard****(a) The procedure for declaring and paying income tax, social security contribution and health insurance contribution****Income tax**

Within 15 days after the start of the activity, Mr Sideboard has to declare an estimate of revenues and expenses (Form 220).

1

After his declaration, Mr Sideboard will receive a decision from the tax authorities stating the prepayments of income tax to be paid during 2013 and the deadlines for paying the tax.

 $\frac{1}{2}$ 

Mr Sideboard has to pay the prepayments of tax on the following quarterly deadlines:

25 March 2013, 25 June 2013, 25 September 2013 and 25 December 2013.

 $\frac{1}{2}$ 

By 25 May 2014, Mr Sideboard has to declare his realised revenues and expenses (Form 200).

1

After his declaration, Mr Sideboard will receive a decision from the tax authorities where the final tax is computed based on the realised revenues and expenses together with any difference that results compared with the prepayments already made.

 $\frac{1}{2}$ 

Within 60 days of receiving the decision above, Mr Sideboard has to pay the difference.

 $\frac{1}{2}$ **Social security contribution**

Within 15 days after the start of the activity, Mr Sideboard has to declare the monthly revenue for which he wants to be insured for each month of 2013 (Form 600).

1

After his declaration, Mr Sideboard will receive a decision from the tax authorities (Form 610) stating the prepayments of social security contribution to be paid during 2013 and the deadlines for paying the contribution.

 $\frac{1}{2}$ 

Mr Sideboard has to pay the prepayments of contribution on the following quarterly deadlines:

25 March 2013, 25 June 2013, 25 September 2013, 25 December 2013.

 $\frac{1}{2}$ **Health insurance contribution**

The procedure for declaring and paying health insurance contribution is identical to the one for paying and declaring income tax.

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**7**

	Marks
<b>(b) Registration for value added tax (VAT)</b>	
The monthly revenue for Mr Sideboard's self-employed activity = $276,000/12 = 23,000$ lei	$\frac{1}{2}$
The threshold for VAT registration = 220,000 lei	
Months to reach the threshold = $220,000/23,000 = 9.5$	1
Therefore, Mr Sideboard will reach the VAT registration threshold in October 2013.	$\frac{1}{2}$
Mr Sideboard then has until 10 November 2013 to request VAT registration from the tax authorities.	$\frac{1}{2}$
His VAT ID should be issued starting from 1 December 2013.	$\frac{1}{2}$
	<u>3</u>
<b>(c) Income tax on rent revenue</b>	
<b>For rent received for the land</b>	
Each month the income tax will be withheld by the company which pays the rent and shall be paid to the state budget by the 25th of the next month.	1
Monthly income tax = $16\% * (1,000 - 25\% * 1,000) = 120$ lei	1
<b>For rent received for the apartment</b>	
Mr Sideboard has to declare the estimated gross revenue based on the contract and, after receiving the tax ruling from the tax administration, he will have to pay prepayments of tax.	$\frac{1}{2}$
Estimated gross revenue = $1,200 * 12 = 14,400$ lei	$\frac{1}{2}$
Estimated net revenue = $14,400 - 25\% * 14,400$ lei = 10,800 lei	$\frac{1}{2}$
Prepayments of income tax = $16\% * 10,800 = 1,728$ lei	$\frac{1}{2}$
The prepayments of tax have to be paid quarterly, as follows:	
25 March 2013: 432 lei	
25 June 2013: 432 lei	
25 September 2013: 432 lei	
25 December 2013: 432 lei	1
	<u>5</u>
	<u>15</u>