

Fundamentals Level – Skills Module

# Taxation (Romania)

Tuesday 2 December 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 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%

### 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%
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	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%

### 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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#### Withholding rates for persons obtaining intellectual property revenues and revenues based on Civil Code contracts

Social security fund	10.5%
Healthcare insurance fund	5.5%

The average monthly earnings 2,223 lei

The 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

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

- 1 AppleTree SRL (AppleTree) is a company founded on 1 January 2013 based in Bucharest, which trades in jams and jellies. AppleTree is owned by two shareholders: 60% by Adam SRL, a Romanian company, also based in Bucharest; and 40% by Eve Co, a British company based in London, UK. AppleTree has a share capital of 20,000 lei.

For the year 2013, AppleTree recorded a net accounting profit of 450,000 lei and a taxable profit of 530,000 lei. AppleTree allocated part of this profit to its legal reserve, within the limits required by the law. The remainder of the profit was all distributed as dividends in March 2014. The dividends were paid to Adam SRL, and Eve Co, on 19 October 2014.

For the year 2014, AppleTree chose to apply the system of prepayments for paying corporate income tax. For the year 2014, AppleTree recorded an accounting profit of 1,200,000 lei before tax (expenses taken into account for this accounting profit do not include the value of the prepayments of corporate income tax made during the year).

The following information relates to the revenues and expenses recorded by AppleTree in the year 2014:

- (1) In 2013 AppleTree had paid a fine of 10,000 lei to the Romanian state and booked this fine as an expense in that year. AppleTree appealed against this fine and in 2014, won the appeal and received a repayment of the fine. This repayment was registered to revenue in 2014.
- (2) On 25 December 2013, AppleTree bought a participation of 5% in the share capital of an Austrian company. In March 2014, the Austrian company distributed and paid dividends for the year 2013. AppleTree received 25,000 lei as dividends from the Austrian company.
- (3) On 20 June 2014, AppleTree bought and started using a company car for 86,400 lei, which will be straight-line depreciated over four years for tax purposes and over six years for accounting purposes. The car is used exclusively for business purposes and has five seats.
- (4) On 30 June 2014, AppleTree took a loan from Eve Co of €200,000. The loan is to be repaid in full after three years. The interest rate on the loan is 8% per year. On 31 December 2014, AppleTree registered the following amounts in its accounts in respect of this loan:
  - the value of the interest expense due for the year 2014; and
  - exchange differences on the loan revaluation during the year on revenues of 13,000 lei and on expenses of 10,000 lei.
- (5) Following an analysis of its account receivables, AppleTree decided on 31 December 2014 to book provisions for the following bad debts:

<b>Age of receivable (days after maturity)</b>	<b>Value of receivable</b>	<b>Provision percentage</b>
180 days	200,000	20%
360 days	300,000	40%

Neither of these receivables were guaranteed by a third person nor were they from affiliated persons or from persons for whom bankruptcy procedure had been started. The entire value of receivables was included in AppleTree's taxable revenue.

- (6) On 31 December 2013, AppleTree had assessed a receivable of 120,000 lei, which had been overdue for 300 days on 31 December 2013, as a bad debt and registered a provision of 60,000 lei. This receivable was held by an individual, Mr X, was recorded to AppleTree's taxable revenues in 2013 and was not guaranteed by a third person. In March 2014 Mr X died, having no heirs and AppleTree cancelled the provision made in 2013 and registered the entire value of the receivable to losses.
- (7) AppleTree also made in 2014 other provisions of: 50,000 lei for employees' annual leave which had not been taken as at 31 December 2014; and 100,000 lei for litigation.
- (8) AppleTree has five employees. During the year 2014, AppleTree paid the following insurances for its employees: voluntary pension insurance of 3,000 lei/year/employee; and life insurance of 1,000 lei/year/employee. None of these insurances was taxed with employment income tax.

(9) On 20 November 2014, thieves broke into AppleTree's warehouse and stole jams worth 10,000 lei and two computers valued at 2,000 lei each. The value of all the stolen goods was registered to expenses. AppleTree's insurance only covered the loss of the computers and the entire amount of 4,000 lei received from the insurance company was recorded to revenues in 2014.

**Required:**

(a) **Identify ANY TWO categories of taxpayers subject to corporate income tax.** (2 marks)

(b) **Compute the prepayments of corporate income tax due by AppleTree SRL for the year 2014 and state the deadlines for paying and declaring these prepayments, clearly showing the amount to be paid at each deadline.** (4 marks)

(c) **Compute the tax on dividends, if any, which AppleTree SRL should have withheld from the dividends distributed out of its 2013 profit if Eve Co has not provided AppleTree SRL with its fiscal residency certificate for 2014. If no tax is due, state the reason.**

Note: During 2013 AppleTree did not record any non-taxable revenues. (4 marks)

(d) **Compute the final corporate income tax liability of AppleTree SRL for the year 2014 and the amount due at settlement, after taking account of prepayments.**

**Notes:**

1. Include all the items referred to in notes (1) to (9) in your computation, indicating by the use of a zero any item which has no impact on the computation of taxable profit.
2. As regards debt-to-equity ratio: for computing equity on 31 December 2014, use the accounting profit before tax.
3. Ignore any value added tax (VAT) implications.
4. Ignore any tax implications in Austria of the dividends received from the Austrian company.

(20 marks)

**(30 marks)**

2 Mr Lemon is a German citizen, with his domicile in Hamburg, who works for German GmbH, a company resident in Germany. German GmbH owns 80% of Rogerman SRL, a company resident in Romania. The other 20% of Rogerman SRL is owned equally (10% each) by Mr Lemon and Miss Orange, a Romanian resident. In April 2014, Rogerman SRL distributed gross dividends with a total value of 100,000 lei.

In January 2014, Mr Lemon was seconded to Rogerman SRL in Bucharest for five months. Mr Lemon continued to receive his salary from his German employer during his secondment. Mr Lemon's gross monthly salary is €3,000. Employee's social contributions of €600 per month, in relation to this salary, were paid in Romania. At the end of the initial five months, German GmbH extended Mr Lemon's secondment for a further five months on the same financial terms.

On 30 October 2014, Mr Lemon returned to Germany at the end of his secondment, but on 18 December 2014, he will return to Romania to marry Miss Orange. After their marriage, on 1 January 2015, Mr Lemon and Miss Orange will move to Mauritius and in 2015 both change their tax residence to Mauritius. Romania does not have a double tax treaty with Mauritius.

Miss Orange is employed by Rogerman SRL as an IT consultant. In addition to her gross monthly salary of 4,500 lei, Miss Orange received the following benefits in kind throughout 2014:

- (1) Use of a company car. The company car has an accounting value of 75,000 lei and is used by Miss Orange 70% for business purposes and 30% for personal purposes.
- (2) Ten meal tickets of 9-35 lei/ticket every month. Miss Orange worked for at least 13 working days each month in 2014.
- (3) Miss Orange made a three-day business trip within Romania every month, for which she received a gross *per diem* allowance of 60 lei/day.
- (4) Rent compensation of 500 lei/month. There was no legal obligation for Rogerman SRL to cover Miss Orange's rent.
- (5) Miss Orange bought discounted products each month as offered by Rogerman SRL during its monthly discounted sales week. The value of the discount obtained each month by Miss Orange is 200 lei. The same discount is applicable to all of Rogerman SRL's customers.
- (6) Private health insurance of 100 lei/month.

Miss Orange also has a self-employed activity in the field of IT consultancy, which is taxed according to income quotas. For 2014 the annual income quota applicable to Miss Orange is 140,000 lei.

On 31 December 2014, Miss Orange will quit her job with Rogerman SRL and end her self-employed activity in Romania.

**Required:**

- (a) List the conditions used to determine whether an individual will be considered a fiscal resident in Romania and state, giving reasons, whether Mr Lemon will be considered a Romanian resident for tax purpose in 2014.

Note: Ignore any double tax treaty provisions which may be applicable. (3 marks)

- (b) Determine the income tax due in Romania by Mr Lemon in 2014 for the revenues he receives, stating who has the obligation to pay and declare the tax.

Note: Ignore any double tax treaty provisions which may be applicable. (5 marks)

- (c) Determine the income tax due in Romania by Miss Orange in 2014 for the revenues she receives, stating who has the obligation to pay and declare the tax.

**Notes:**

1. Include all the items referred to in notes (1) to (6) in your computation, indicating by the use of zero any item which has no impact on the computation of income tax.
2. Miss Orange is not entitled to the income tax exemption applicable to IT employment income.

(12 marks)

- (d) Explain how Miss Orange will be taxed by the Romanian state in 2015 and subsequent years, following her change of tax residence to Mauritius. (2 marks)

- (e) State one example of individuals' revenue for which:

- (i) the tax paid during the year is the final tax;
- (ii) the tax paid during the year represents a prepayment of tax only; and
- (iii) the taxpayer may opt for either a final tax or a prepayment of tax basis.

In the case of each example, identify the person liable for declaring and paying the tax. (3 marks)

**(25 marks)**

- 3 (a) Explain what is meant by an intra-community supply of goods and state the rules for determining the place of such a supply. (2 marks)
- (b) Explain what is meant by an intra-community acquisition of goods and state the rules for determining the place of such an acquisition. (3 marks)

- (c) The Association for the Protection of the Environment (ASPE) is established in Romania, is a non-taxable legal person for value added tax (VAT) purposes and is not currently registered for VAT.

ASPE bought two items of equipment for purifying water. After purchase, the equipment was donated to two municipalities in Romania. Both items of equipment were bought from a person established and registered for VAT in the Netherlands and were transported upon purchase from the Netherlands to Romania.

ASPE bought the first item of equipment in March 2014 for €8,000 and the second item of equipment in June 2014 for €9,000.

**Required:**

**Explain the VAT treatment of each of the acquisitions of equipment and state APSE's VAT obligations in Romania, if any.** (5 marks)

- (d) State the general rule for the determination of the place of supply of services when the services are provided to (i) taxable persons; and (ii) non-taxable persons. (2 marks)

- (e) Oak SPRL is a partnership providing legal services, which is registered for value added tax (VAT) in Romania. In March 2014, Oak SPRL provided the following services (all amounts are stated exclusive of VAT):

- (1) Revised a trade contract for Afla Co, a company established and registered for VAT in the UK, for 5,000 lei.
- (2) Acted as legal representative for Mr Peanut, a Romanian citizen living in Romania, for 2,000 lei.
- (3) Drafted documents for the sale of an apartment in Bucharest to Beta Ltd, a company established and registered for VAT in the UK, for 3,000 lei. The apartment was sold on 31 March 2014.
- (4) Revised a trade contract for Gama SRL, a company established and registered for VAT in Romania, for 4,000 lei.

**Required:**

**Calculate the value added tax (VAT) which Oak SPRL should have charged, if any, on each of the transactions (1) to (4). If Oak SPRL does not have an obligation to charge VAT, state the reason why.** (3 marks)

**(15 marks)**

- 4 Pine SRL is a company which was established in Romania in 2011 and registered as a corporate income tax payer and a value added tax (VAT) payer.

At the end of 2011, Pine SRL recorded a tax loss of 10,000 lei. During 2012 and 2013, Pine SRL applied the special scheme of corporate income tax for very small companies but, from the start of 2014, Pine SRL again applied the standard corporate income tax regime.

On 12 December 2011, Pine SRL bought equipment for 250,000 lei which it has depreciated – over six years using the accelerated depreciation for tax purposes and over five years using the straight-line depreciation for accounting purposes.

The actual and estimated turnover and accounting profit of Pine SRL during the years 2012 to 2015 is:

Year	2012 lei	2013 lei	2014 lei	2015 lei
Turnover	150,000	120,000	200,000	850,000
Accounting profit	70,000	20,000	8,000	450,000

Pine SRL's only source of revenue is from its turnover.

**Required:**

- (a) **State the rules for the carry forward of tax losses and explain how Pine SRL can recover its loss of 2011, clearly identifying the years in which this tax loss may be recovered.** (4 marks)
- (b) **For each of the years 2012 to 2015, compute the corporate income tax due to the state by Pine SRL.** (7 marks)
- (c) **Explain the self-assessment system and the tax return filling procedures for corporate income tax.** (4 marks)

**(15 marks)**

- 5 (a) Strawberry-Blueberry SPRL (SB) is a partnership established in January 2014 between two lawyers – Mr Strawberry, with a participation of 60%; and Mr Blueberry, with a participation of 40%.

For 2014, SB estimated its net annual income as 200,000 lei. However, the realised net income for the year 2014 was 320,000 lei.

**Required:**

- (i) **State the declarations which should have been filed for income tax purposes by SB and its partners for 2014 and identify the deadlines for filing each of these declarations.** (3 marks)

- (ii) **Compute the prepayments of income tax, the final tax liability and the balance due by Mr Strawberry for his 2014 revenues, stating the deadlines for making each of these payments.**

**Note:** Ignore any social contributions which may apply. (5 marks)

- (b) In 2014 Rasperry SRL, a Romanian limited liability company, had only one employee, Mr Con, who was paid a gross salary of 2,000 lei/month. Mr Con was employed by Rasperry SRL during the entire 2014 and his gross payment was 2,000 lei/month in each month of 2014. Starting from 1 January 2015, Rasperry SRL will cease Mr Con's employment agreement but continue to work with Mr Con, under the same conditions as when he was an employee, but pay him based on a civil contract, also for 2,000 lei/month. Under both agreements, Rasperry SRL will pay all taxes and social security contributions due according to the type of contract signed with Mr Con, without making any reclassification according to the economic activity actually performed.

Mr Con has never had any job except with Rasperry SRL and he does not have any person under his care.

**Required:**

**Compute the annual total expenses incurred by Rasperry SRL in respect of Mr Con in each of the years 2014 and 2015.**

**Note:** The work accident fund contribution rate is 0.15%. (5 marks)

- (c) **Explain the difference between tax avoidance and tax evasion.** (2 marks)

**(15 marks)**

**End of Question Paper**