
Answers

	Marks
1 Mr and Mrs Cat	
(a) (i) Compulsory social contributions	
The compulsory social contributions due by Mrs Cat in 2013 are: social security contribution, health insurance contributions and health indemnities insurance contribution.	1
(ii) Prepayments of income tax and social contributions	
Prepayments of income tax	
Mrs Cat has to declare her estimated net income within 15 days from the start of the activity, using the declaration of estimated net income (form 220).	1
Based on this declaration, the prepayments of income tax are computed and communicated to Mrs Cat by the Tax Authorities and have to be paid by Mrs Cat quarterly by the 25th of the final month of each quarter.	1
Estimated net income = Estimated revenues – Estimated expenses	
Estimated net income = 250,000 – 180,000 = 70,000 lei	1/2
Annual prepayments of income tax = 16% x 70,000 = 11,200 lei	1/2
Amount to be paid at each quarterly deadline = 11,200/4 = 2,800 lei	1/2
Prepayments of social security contribution	
Mrs Cat has the obligation to declare her monthly insured income using a special form (form 600).	1/2
Based on this declaration, the prepayments of social security contribution are computed and communicated to Mrs Cat by the Tax Authorities and have to be paid by Mrs Cat on a quarterly basis by the 25th of the final month of each quarter.	1/2
Monthly social security contribution due = 31.3% x 1,000 = 313 lei.	1/2
Amount to be paid at each quarterly deadline = 313 x 3 = 939 lei	1/2
Prepayments of health insurance contribution	
For the health insurance contribution, no special declaration must be submitted for the prepayments of health insurance contribution, as the declaration of estimated net income (form 220) is used also for healthcare insurance purposes.	1
Based on this declaration, the prepayments of health insurance contribution are computed and communicated to Mrs Cat by the Tax Authorities and have to be paid by Mrs Cat on a quarterly basis by the 25th of the final month of each quarter.	1/2
Annual prepayments of health insurance contribution = 5.5% x 70,000 = 3,850 lei	1/2
Amount to be paid at each quarterly deadline = 3,850/4 = 963 lei	1/2
Prepayments of health insurance indemnities contribution	
Mrs Cat has the obligation to submit her insurance declaration for health insurance indemnities to the Health Insurance House.	1/2
Based on this declaration, the prepayments of health insurance indemnity contributions are to be paid by Mrs Cat on a monthly basis by the 25th of the month following the month for which the contribution is due.	1/2
Monthly taxable base = lower of 12 * 700 and 70,000/12 = lower of 5,833 and 8,400 = 5,833	1/2
Monthly health insurance contribution = 0.85% x 5,833 = 50 lei	1/2

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(b) Final income tax and social contributions due by Mrs Cat for 2013**Final income tax:**

	2013 (lei)	
Gross revenue (W1)	595,000	1
Deductible expenses	514,598	
– acquisitions of pet food	210,000	½
– gross salaries and social contributions (W2)	261,890	3
– intellectual property rights	20,000	½
– feasibility study	5,000	½
– car depreciation (W3)	3,000	1
– fuel expenses (3,600 x 50%)	1,800	1
– sponsorship expenses (W4)	3,000	1½
– protocol expenses (W5)	1,702	1
– compulsory social contributions paid in 2013 (W6)	8,206	½
Net realised income	80,402	
Final income tax due at 16%	12,864	½
Prepayments (from part (a))	11,200	½
Difference of income tax due	1,664	½

Final social security contribution

The social security contribution paid during the year is also the final value; therefore no adjustments are to be made in this respect.

1

Final healthcare insurance contribution

Final healthcare insurance contribution = $5.5\% \times (\text{Net realised income} + \text{social contribution}) = 5.5\% \times (80,402 + 8,206) = 4,873 \text{ lei}$

½

Prepayments of healthcare insurance contribution = 3,850 lei

Difference due for healthcare insurance contribution = $4,873 \text{ lei} - 3,850 \text{ lei} = 1,023 \text{ lei}$

½

Final health insurance indemnities contribution

Final health insurance indemnities contribution = $0.85\% \times \text{Net realised income} = 0.85\% \times 80,402 \text{ lei} = 683 \text{ lei}$

½

Prepayments of healthcare insurance indemnities contribution = 600 lei

Difference due for of healthcare insurance indemnities contribution = $683 \text{ lei} - 600 \text{ lei} = 83 \text{ lei}$

½

15**WORKINGS****(1) Gross revenue**

Gross revenue cashed in 2013 = $180,000 + 170,000 + 190,000 + 110,000 \times 50\% = 595,000 \text{ lei}$

(2) Gross salaries and social contributions due for employees

Monthly gross salaries = $11,000 + 5,000 + 4,500 = 20,500 \text{ lei}$

Base for social security contribution = lower of 20,500 and $5 \times 2,117 \times 3 = \text{lower of } 20,500 \text{ and } 31,755 = 20,500 \text{ lei}$

Base for health indemnities insurance fund contribution = lower of 20,500 and $12 \times 700 \times 3 = \text{lower of } 20,500 \text{ and } 25,200 = 20,500 \text{ lei}$

Monthly social security contribution = $20.8\% \times 20,500 = 4,264 \text{ lei}$

Monthly healthcare contribution = $5.2\% \times 20,500 = 1,066 \text{ lei}$

Monthly unemployment contribution = $0.5\% \times 20,500 = 103 \text{ lei}$

Monthly work accident fund contribution = $0.15\% \times 20,500 = 31 \text{ lei}$

Monthly health insurance indemnities fund contribution = $0.85\% \times 20,500 = 174 \text{ lei}$

Monthly contribution to the fund for guaranteeing salary payments = $0.25\% \times 20,500 = 51 \text{ lei}$

Total monthly gross salaries and social contributions = $20,500 + 4,264 + 1,066 + 103 + 31 + 174 + 51 = 26,189 \text{ lei}$

Total annual gross salaries and social contributions = $26,189 \times 10 = 261,890 \text{ lei}$

(3) Car depreciation

Value of car = 30,000 lei

Period of depreciation = 60 months (July 2013–30 June 2018)

Monthly depreciation = $30,000/60 = 500$ lei

Number of months of depreciation in 2013 = 6

Depreciation in 2013 = $500 \times 6 = 3,000$ lei

(4) Sponsorship expense

Sponsorship expenses may be deducted up to 5% x computation base.

Computation base = Gross revenues – Deductible expenses, other than sponsorship, protocol and contribution to professional associations = $595,000 - 509,896 = 85,104$ lei

Deductible expenses, other than sponsorship, protocol and contribution to professional association = $210,000 + 261,890 + 20,000 + 5,000 + 3,000 + 1,800 + 8,206 = 509,896$ lei

Limit of deductibility of sponsorship expenses = $5\% \times 85,104$ lei = 4,255 lei

Sponsorship expense = 3,000 lei \Rightarrow sponsorship expense is entirely tax deductible.

(5) Protocol expense

Protocol expenses may be deducted up to 2% x computation base (same as in W4 above).

Limit of deductibility of protocol expenses = $2\% \times 85,104$ lei = 1,702 lei

Protocol expense = 8,000 lei \Rightarrow deductible protocol expense = 1,702 lei

(6) Compulsory social contributions paid in 2013

Based on part (a) above, social contributions paid in 2013 = $939 \times 4 + 3,850 + 50 \times 12 = 8,206$ lei

(c) Income tax and social contributions withheld by Mrs Cat from the incomes paid to Mr Cat and the copyrighter**Revenue paid to the copyrighter**

As the copyrighter has no other revenues and he did not make any option for the taxation regime, Mrs Cat has to withhold:

- income tax at 10%
- healthcare contribution at 5.5%
- social security contribution at 10.5%

Income tax = $10\% \times (20,000 - 880 - 1,680) = 1,744$ lei 1

Healthcare insurance contribution = $5.5\% \times (20,000 - 20\% \times 20,000) = 880$ lei 1

Social security contribution = $10.5\% \times \min((20,000 - 20\% \times 20,000); 5 \times 2,117) = 1,111$ lei 1

Revenue due to Mr Cat

As Mr Cat also has revenues from his employment activity and he opted for the final income tax scheme, Mrs Cat has to withhold only:

- income tax at 16%
- healthcare contribution at 5.5%

Income tax = $16\% \times 5,000$ lei = 800 lei $\frac{1}{2}$

Healthcare insurance contribution = $5.5\% \times 5,000$ lei = 275 lei $\frac{1}{2}$

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2 Turkey SRL

(a) Tax and accounting depreciation 2010 to 2014

Land

Land is not a depreciable asset; no tax or accounting depreciation may be computed for land.

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Building

Tax and accounting depreciation period = 50 years

Method of depreciation = straight-line depreciation

Start of depreciation: 1 January 2010

(i) Accounting depreciation

Year	Accounting depreciation (lei)	Net accounting value before revaluation (lei)	Re-valued value (lei)	Revaluation difference (lei)	Net accounting value at the year end (lei)	
2010	960,000/50 = 19,200	940,800	n/a	n/a	940,800	1/2
2011	940,800/49 = 19,200	921,600	864,000	(57,600)	864,000	1
2012	864,000/48 = 18,000	846,000	n/a	n/a	846,000	1
2013	846,000/47 = 18,000	828,000	855,600	27,600	855,600	1
2014	855,600/46 = 18,600	837,000	n/a	n/a	837,000	1

(ii) Tax depreciation

Year	Tax depreciation (lei)	Net tax value before revaluation (lei)	Re-valued value (lei)	Revaluation difference (lei)	Net tax value after revaluation (lei)	
2010	960,000/50 = 19,200	940,800	n/a	n/a	940,800	1/2
2011	940,800/49 = 19,200	921,600	n/a	n/a	921,600	1/2
2012	921,600/48 = 19,200	902,400	n/a	n/a	902,400	1
2013	902,400/47 = 19,200	883,200	n/a	n/a	883,200	1/2
2014	883,200/46 = 19,200	864,000	n/a	n/a	864,000	1
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(b) Corporate income tax 2013

	lei	
Total revenues	1,200,000	1/2
Total expenses	900,000	1/2
Gross accounting profit	300,000	
Non-taxable revenues	(77,600)	
Revaluation revenue (W1)	77,600	2
Tax depreciation (from part (a))	(19,200)	1/2
Non-deductible expenses	188,352	
Accounting depreciation (from part (a))	18,000	1/2
Interest expenses (W2)	165,000	6
Protocol expenses (W3)	5,352	1 1/2
Social expenses (W4)	0	1 1/2
Taxable income for 2013	391,552	
Tax loss carried forward from previous years (W5)	(940,000)	1
Final taxable income	(548,448)	1/2
Final corporate income tax due	0	1/2
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WORKINGS

(1) Revaluation revenue

The first revaluation made in 2011 generated a decrease in value both for the land and the building.

The revaluation difference for the land in 2011 = 430,000 – 500,000 = –70,000 lei

The revaluation difference for the building in 2011 = –57,600 lei

As this was the first revaluation, it would have been registered to expenses. These expenses were not tax deductible in 2011.

The value of the revaluation made in 2013 generated an increase in value which should be recorded as revenue up to the value of the expenses registered in 2011.

Revaluation difference for the land in 2013 = $480,000 - 430,000 = +50,000$ lei

Revaluation difference for the building in 2013 = $+27,600$ lei

These positive differences should both be registered to revenue. As the expenses were non-deductible, these revenues are non-taxable in 2013.

Total non-taxable revenues = $50,000 + 27,600 = 77,600$ lei

(2) Interest expenses

Loan in lei

Interest expenses in 2013 = $600,000 \times 15\% \times 10/12 = 75,000$ lei

Interest computed according to the NBR rate = $600,000 \times 5.25\% \times 10/12 = 26,250$ lei

⇒ Definitive non-deductible interest = $75,000 - 26,250 = 48,750$ lei

Debt to equity ratio = Average debt/Average equity

Average debt = $(0 + 600,000 + 300,000 \times 4.5)/2 = 975,000$ lei

Average equity = $(280,000 + 280,000)/2 = 280,000$ lei

Debt to equity ratio = $975,000/280,000 = 3.48$, so > 3

⇒ Non-deductible interest which may be carried forward in following years = $26,250$ lei

Loan in euro

Interest expenses in 2013 = $300,000 \times 4.5 \times 8\% \times 10/12 = 90,000$ lei

Interest computed according to the Fiscal Code rate = $300,000 \times 4.5 \times 6\% \times 10/12 = 67,500$ lei

⇒ Definitive non-deductible interest = $90,000 - 67,500 = 22,500$ lei

Debt to equity ratio = 3.48 , so > 3

⇒ Non-deductible interest which may be carried forward in following years = $67,500$ lei

Total non-deductible interest = $48,750 + 26,250 + 22,500 + 67,500 = 165,000$ lei

(3) Protocol expense

Protocol expense = $10,000$ lei

Limit of deductibility of protocol expense = $2\% \times (1,200,000 - 77,600 - 900,000 + 10,000) = 2\% \times 232,400 = 4,648$ lei

Non-deductible protocol expense = $10,000 - 4,648 = 5,352$ lei

(4) Social expenses

Social expenses = $8 \times 350 = 2,800$ lei

Gross salary expenses = $5 \times 5,000 \times 12 = 300,000$ lei

Limit of deductibility for social expenses = $2\% \times 300,000$ lei = $6,000$ lei

All social expenses are deductible.

(5) Tax loss carried forward

Out of the total $1,210,000$ lei tax loss accumulated at the end of 2012 only $940,000$ lei ($1,210,000 - 270,000$) may be carried forward to 2013, as the loss from 2007 has expired in 2012 (after five years).

(c) Tax loss to be carried forward to 2014

The remainder of the tax loss for 2008 ($490,000 - 391,552$) will expire in 2013. Therefore, the value of the tax loss which can be carried forward to be recovered in 2014 is $450,000$ lei ($80,000 + 120,000 + 150,000 + 100,000$).

3 (a) Rabbit Co

(i) Registration for value added tax (VAT) of persons not established in Romania

A person not established in Romania has to register for VAT purposes in Romania if they make:

- taxable supplies having the place of supply in Romania and for which they are the person liable to pay VAT; 1
- Intra-EU acquisitions of goods having the place of supply in Romania and for which they are the person liable to pay VAT; or 1
- Intra-EU supplies of goods having the place of supply in Romania. 1

3

(ii) The difference between transfers and non-transfers

The general rule is that the dispatch of goods within the same legal entity from one EU member state to another EU member state represents a transfer of goods. 1

The transfer of goods is treated as a deemed intra-EU supply in the member state from where the goods depart and a deemed intra-EU acquisition in the member state where the goods arrive. 1

However, by exception, a dispatch of goods within the same legal entity from one member state to another is not treated as a deemed intra-EU supply/intra-EU acquisition in specific situations. For example, when goods are sent to be repaired in another member state and then returned to the home country. These situations are called non-transfers. 1

As regards the dispatch of goods between Rabbit Co and Rabbit Co–RO Branch:

- the dispatch of the furniture and the computers is a transfer. 1/2
- the dispatch and return of the broken equipment is a non-transfer. 1/2

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Tutorial note: *The allocation of costs for server maintenance is not a transfer nor a non-transfer as it does not involve a physical movement of goods.*

(b) Frog SRL

(i) Rules for establishing the value added tax (VAT) tax period

The general rule is that the VAT tax period is the month. 1/2

However, if a taxable person has made supplies in the previous year having a value below €100,000 and has not performed any intra-EU acquisitions, a quarterly tax period will apply. 1

A taxable person could also opt for:

- A six-month VAT period, if they have transactions in only three months during a semester. 1/2
- A 12-month VAT period, if they have transactions in only six months during a year. 1/2

The value of taxable supplies made by Frog SRL in 2012 was 3,250,000 lei, which represents €722,222 (3,250,000/4.50).

As this exceeds €100,000, Frog SRL must use a monthly tax period in 2013. 1/2

3

(ii) VAT due/recoverable

January 2013

Transaction	Input VAT (lei)	Output VAT (lei)	
Intra-EU acquisition of a car (having fewer than nine seats and weighing less than 3,500 kg). The car is used for business purposes, but Frog SRL does not keep logbooks	50,000 x 24% x 50% = 6,000	50,000 x 24% = 12,000	1
Sale of consultancy services to a company established and registered for VAT in France	0	0	1/2
Acquisition of IT services from a company established in the USA	25,000 x 24% = 6,000	25,000 x 24% = 6,000	1
TOTAL	12,000	18,000	

VAT due to the state budget for January 2013, payable by 25 February 2013 = 6,000 lei (18,000 – 12,000) 1

February 2013			Marks
Transaction	Input VAT (lei)	Output VAT (lei)	
Sale of consultancy services to a company established and registered for VAT in Romania		70,000 x 24% = 16,800	1/2
Acquisition of a computer from a supermarket in Romania, which is registered for VAT in Romania	5,000 x 24% = 1,200		1/2
TOTAL	<u>1,200</u>	<u>16,800</u>	
VAT due to the state budget for February 2013, payable by 25 March 2013 = 15,600 lei (16,800 – 1,200)			1/2
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4 Mr Dog

(a) Effect of business structure on value added tax (VAT) obligations

The choice between being a self-employed person and a company has no impact on the VAT obligations. Both self-employed persons and companies are taxable persons for VAT purposes and have the same obligations in respect of VAT.

1

(b) VAT registration requirements

VAT registration is compulsory if the annual turnover reaches 220,000 lei.

1/2

Within ten days after the end of the month when this turnover has been reached, a request for VAT registration (form 010) must be filed.

1

The VAT registration becomes effective starting from the first day of the month following the month when registration was requested.

1/2

2

(c) Final income tax due 2014

(i) As a self-employed person

	lei	
Gross revenues (30,000 x 10 months)	300,000	1
Deductible expenses	<u>165,838</u>	
Materials (18,000 x 9 months)	162,000	1
Social contributions pre-paid in 2013 (W1)	1,100	2
Contribution to professional association (W2)	2,738	1 1/2
Net income	134,162	
Income tax due at 16%	21,466	1/2

(ii) As the owner of a company

	lei	
Total revenues (30,000 x 12)	360,000	1/2
Total expenses (18,000 x 12 + 4,000)	220,000	1/2
Accounting profit	140,000	
Legal reserve (W3)	(40)	1 1/2
Non-deductible expenses	0	
Contribution to professional associations (W4)	0	1
Taxable income	139,960	
Income tax due at 16%	22,394	1/2
Net income (140,000 – 22,394)	117,606	1/2
Gross dividends (117,606 – 40)	117,566	1
Income tax on dividends at 16%	18,811	1/2

12

15

WORKINGS**(1) Social contributions paid in 2013**

As Mr Dog is also employed during the whole of 2013, he will have to make pre-payments during 2013 of

$$\text{Health insurance contribution} = 5.5\% \times 20,000 = 1,100 \text{ lei}$$

(2) Contribution to professional associations for a self-employed person

Contribution to professional associations may be deducted up to 2% x computation base.

$$\text{Computation base} = \text{Gross revenues} - \text{Deductible expenses, other than sponsorship, protocol and contribution to professional associations} = 300,000 - 163,100 = 136,900 \text{ lei}$$

$$\text{Limit of deductibility of contribution to professional associations} = 2\% \times 136,900 \text{ lei} = 2,738 \text{ lei}$$

$$\text{Contribution to professional associations expenses} = 4,000 \text{ lei} \Rightarrow \text{deductible contribution to professional associations expenses} = 2,738 \text{ lei}$$

(3) Legal reserve

Limits of deductibility for the legal reserve:

$$> 5\% \times \text{accounting profit before income tax} = 5\% \times 140,000 = 7,000 \text{ lei}$$

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

$$\Rightarrow \text{The deductible legal reserve} = 40 \text{ lei}$$

(4) Contribution to professional associations for the company

Contribution to professional associations may be deducted up to €4,000 per year.

$$\text{Contribution to professional associations expenses} = 4,000 \text{ lei}$$

$$\text{Limit of deductibility} = €4,000 \times 4.50 = 18,000 \text{ lei}$$

$$\Rightarrow \text{Contribution to professional associations expenses are entirely deductible.}$$

5 Mr Horse**(a) Income tax due on the revenues received in 2013****Rent income**

$$\text{Estimated gross revenue} = 2,000 \times 9 = 18,000 \text{ lei} \quad 1/2$$

$$\text{Estimated net income} = \text{Estimated gross revenue} - 25\% \text{ Estimated gross revenue}$$

$$\text{Estimated net income} = 18,000 - 25\% \times 18,000 = 13,500 \text{ lei} \quad 1$$

$$\text{Prepayments of income tax} = 13,500 \times 16\% = 2,160 \text{ lei} \quad 1/2$$

As the rent is in lei and the contract was not modified during 2013, the final tax is equal to the prepayments, i.e. 2,160 lei. 1

Income from sales of immovable property**Land**

$$\text{Income tax} = 4,000 + 1\% (560,000 - 200,000) = 7,600 \text{ lei} \quad 1$$

Apartment 2

$$\text{Income tax} = 6,000 + 2\% (210,000 - 200,000) = 6,200 \text{ lei} \quad 1$$

Apartment 3

$$\text{Income tax} = 3\% \times 180,000 = 5,400 \text{ lei} \quad 1$$

6

(b) Obligation to register for value added tax (VAT)**Renting activity**

The renting of immovable property is an exempt activity, so Mr Horse does not have the obligation to register for his renting activity. 1

Marks**Selling activity**

Even if it is a taxable operation, the supply of the land in 2013 is Mr Horse's first transaction in immovable property. Thus it will be considered an occasional transaction, and Mr Horse will not have the obligation to register for VAT.

1

The supply of Apartment 2 is Mr Horse's second transaction in immovable property in 2013 which transforms Mr Horse into a taxable person for VAT purposes. The VAT base needs to be compared with the annual threshold taking into consideration all taxable operations, including those performed before becoming a taxable person. Thus, as the VAT threshold of 220,000 lei was exceeded by the land sale, Mr Horse should have registered for VAT before selling Apartment 2.

1½

Mr Horse should have applied VAT when selling both Apartment 2 and Apartment 3, as both are new apartments and, therefore, subject to VAT.

½

4**(c) Interest and penalties**

VAT computed by the tax audit	560,000 x 24% = 134,400 lei	210,000 x 24% = 50,400 lei	180,000 x 24% = 43,200 lei	1
Payment deadline	25 June 2013	25 November 2013	25 January 2014	1
Last day of interest and penalties computation	20 January 2014	20 January 2014	20 January 2014	1
Number of days	209	56	n/a	
Interest	134,400 x 209 x 0.04% = 11,236 lei	50,400 x 56 x 0.04% = 1,129 lei	n/a	1
Penalties	134,400 x 15% = 20,160 lei	50,400 x 5% = 2,520 lei	n/a	1
				<u>5</u>
				<u>15</u>