
Answers

Section B

Marks

1 (a) Girafa SRL

(i) Output value added tax (VAT), input VAT, VAT due to the State budget for March 2016

	lei	
Output VAT		
Transactions in the period (20,000 * 20% + 30,000 * 20%)	10,000	1½
Input VAT		
Transactions in the period (5,000 * 20% + 18,000 * 0%)	1,000	1½
Adjustment for tax previously claimed on building (450,000 * 24% * 18/20)	(97,200)	1½
	<u>(96,200)</u>	
VAT due to the State budget (10,000 – (– 96,200))	<u>106,200</u>	<u>½</u>
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Tutorial note: Following ex-officio de-registration by the tax authorities, a trader still has an obligation to collect VAT on amounts invoiced to customers, but can no longer claim an input tax deduction on purchases.

(ii) Declaring VAT to the State budget for March 2016

For the transactions up to 17 March 2016 (the date of de-registration) the standard VAT return (form 300) has to be filed. ½

For the transactions after 17 March 2016, a special VAT return must be used and filed, so as to declare only the VAT charged on supplies made after the de-registration ex-officio by the tax authorities ½

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(b) Zebra SRL

Output VAT on gifts/sponsorships

Transaction	Explanation of chargeability	Output VAT	
Presents	Output VAT applies to the value of the presents that exceeds 100 lei	20 * (700 – 100) * 20% = 2,400 lei	1½
Dinner for business partners	No VAT needs to be self-charged as the dinner is for business purposes	0	½
Cash sponsorship	Cash sponsorship is not within the scope of VAT	0	½
Sponsorship in kind	Output VAT applies to the value of the sponsorship that exceeds 3‰ of turnover, i.e. (3‰ * 8,000,000) = 24,000 lei	(30,000 – 24,000) * 20% = 1,200 lei	1½
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2 Andreea

(a) Persons liable to pay the tax and Andreea's tax declaration obligations

Type of revenue	Person liable to make the payment of the tax	Andreea's obligation to declare the tax	
Employment	The employer	No obligation	1/2
Self-employment revenue	Andreea	Andreea has to declare an estimated income at the start of her activity, and the realised income by 25 May of the following year	1 1/2
Transactions on the Stock Exchange Market	Andreea	Andreea has to declare the realised income by 25 May of the following year	1 1/2
Dividend revenue	The dividend payer	No obligation	1/2
Selling apartments	The notary	No obligation	1/2
Renting apartments	Andreea	Andreea has to declare an estimated income at the start of her activity, and the realised income by 25 May of the following year	1 1/2
			<u>6</u>

(b) Information and records to be retained by a self-employed person for tax purposes

Self-employed persons must retain for tax purposes:

– invoices and other supporting documents;	1/2
– accounting ledgers required according to accounting regulations;	1/2
– tax evidence ledger.	1
	<u>2</u>

(c) Epsilon SRL

Prepayments of corporate income tax for 2017

The tax prepayments system requires the payment of four equal quarterly instalments, based on the corporate income tax of the previous year adjusted by the inflation rate. 1/2

Thus the total value of prepayments required for 2017 is $(12,500 \times 102.2\%) = 12,775$ lei, and of each quarterly payment $(12,775/4) = 3,194$ 1

The deadlines for making and declaring these four prepayments in 2017 are 25 April, 25 July, 25 October and 21 December. 1/2

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3 Gazela SA

(a) Treatment of dividends received

Revenue	Taxable?	Reason	
AROM SRL	No	All dividend revenues from Romanian legal persons are non-taxable	1/2
XAT GmbH	Yes	Participation is less than the minimum 10%	1
BROM SRL	No	All dividend revenues from Romanian legal persons are non-taxable	1/2
YDE GmbH	Yes	The shares have been held for less than the one year required	1
			<u>3</u>

(b) Withholding tax on contracts

Supplier	Withholding tax?	Reason	
One Co	No	Service performed outside Romania and does not fall under the category of services taxable in Romania, irrespective of the place of provision	1
Two SARL	Yes	Services performed in Romania and no tax residency certificate provided to exempt the revenue from tax	2
Three GmbH	No	Withholding tax (16% * 5,000) = 800 lei	1
		Buying goods from another country is not a transaction subject to withholding tax in Romania	<u>4</u>

(c) Corporate income tax for 2016

		Lei	
Total revenues	(50,000 + 100,000)	150,000	1/2
Total expenses	(10,000 + 5,000 + 8,000)	(23,000)	1/2
Gross profit		127,000	
Non-taxable revenues	(10,000 + 15,000)	(25,000)	1
Non-deductible expenses		0	
Taxable profit		102,000	
Tax losses: 2008		(0)	1/2
2009		(900)	1/2
Final taxable profit		101,100	
Corporate income tax at 16%		16,176	<u>3</u>
			<u>10</u>

Tutorial note: Tax loss from 2008 can only be carried forward for five calendar years, while the tax loss from 2009 may be carried forward for seven years to 31 December 2016.

4 Mrs Ionescu**Social security and health care insurance contributions for 2016****For employment revenue**

For employment revenue no prepayments are made. Social contributions are withheld from Mrs Ionescu's gross salary by her employer, these being the final values. 1/2

Monthly taxable base for social security contributions = the lower of salary income (15,000) and five times average monthly earnings in Romania ($5 * 2,415 = 12,075$), i.e 12,075 lei 1

Monthly social security contribution = $12,075 * 10.5\% = 1,268$ lei

Social security contribution due for 2016 = $1,268 * 12 = 15,216$ lei 1/2

Monthly health care insurance contribution = $15,000 * 5.5\% = 825$ lei

Health care insurance contribution due for 2016 = $825 * 12 = 9,900$ lei 1

For self-employment revenue

Mrs Ionescu is liable to make quarterly pre-payments of social security contributions in 2016, only if the monthly taxable base for social security contributions in 2015 is higher than 35% of average monthly earnings in Romania.

Monthly taxable base for social security contributions in 2015 = $12,000/12 = 1,000$ lei 1/2

35% of average monthly earnings = $35\% * 2,415 = 845$ lei. 1/2

=> Mrs Ionescu is liable to make prepayments of social security contributions in 2016. 1/2

The monthly prepayment of social security contributions = $845 * 10.5\% = 89$ lei

The annual pre-payment of social security contributions = $89 * 12 = 1,068$ lei 1/2

For computing the final value of social security contributions due, first check whether the monthly realised income is higher than 35% of the average monthly earnings of 845 lei.

The monthly realised income = $(47,200 - 40,000)/12 = 600$ lei 1/2

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=> the monthly realised income is below 845 lei => the pre-payments become the final social security contributions due for 2016.	1/2
Final social security contributions due for 2016 = 1,068 lei	1/2
The monthly prepayment of health care insurance contributions = 1,000 * 5.5% = 55 lei	
The annual prepayment of health care insurance contributions = 55 * 12 = 660 lei	1
Monthly taxable base for health care insurance contributions in 2016 = (47,200 – 40,000)/12 = 600 lei	
The monthly final health care insurance contributions due for 2016 = 600 * 5.5% = 33 lei	
The annual healthcare contributions due for 2016 = 33 * 12 = 396 lei	1/2
For rent revenue	
No social security contributions are due for the rent revenue.	1/2
The monthly taxable base for prepayments of health care insurance contributions is the lower of 14,400 lei (i.e. 60% (100% – 40%) of the rental income, 24,000) and 12,075 lei (i.e. five times the average monthly income in Romania, 2,415 lei) so 12,075 lei.	1/2
The monthly prepayment of health care insurance contributions = 12,075 * 5.5% = 664 lei	
The annual prepayment of health care insurance contributions = 664 * 12 = 7,968 lei	1/2
The final health care insurance contribution is equal to the prepayments.	1/2
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5 Bear SA

Corporate income tax for 2016

	Lei	
Total revenues	548,000	
Total expenses	(464,450)	
Gross profit	83,550	1/2
Non-taxable revenues (W1)	(10,000)	
– sale of services	(0)	1/2
– exchange rate differences	(0)	1/2
– increase in non-current asset value (W1)	(10,000)	1
Tax depreciation (W1)	(12,500)	2
Legal reserve (W2)	(4,328)	1 1/2
Non-deductible expenses	45,649	
– employees' gross salaries and social contributions	0	1/2
– bonuses for employees	0	1/2
– travel allowances for employees	0	1/2
– subcontracted services	0	1
– research expenses	0	1/2
– expenses for meals with business partners (W3)	4,149	1 1/2
– exchange rate difference (W4)	21,000	1
– depreciation	17,500	1/2
– corporate income tax	3,000	1/2
Taxable profit	102,371	
Tax losses (4,000 + 2,800)	(6,800)	1
Additional deduction for research activity (50,000 * 50%)	(25,000)	1
Final taxable profit	70,571	
Corporate income tax at 16%	11,291	1/2
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Workings

(1) Tax depreciation

Year	Tax value at the beginning of the year	Tax depreciation	Tax value at the end of the year, before valuation
2014			100,000
2015	100,000	50,000 (100,000 * 50%)	50,000
2016	50,000	12,500 (50,000/4)	37,500

Tutorial note: Valuation of asset purchased in December 2014

Year	Accounting value at the beginning of the year	Accounting depreciation	Accounting value at the end of the year, before valuation	Increase/Decrease in value due to valuation	Accounting value at the end of the year, after valuation	Accounting treatment of the valuation
2014			100,000	—	—	
2015	100,000	20,000 (100,000/5)	80,000	(10,000)	70,000	expenses
2016	70,000	17,500 (70,000/4)	52,500	13,000	65,500	10,000 into revenues, to compensate the previous expenses, 3,000 into reserves

The expense for the impairment of the asset in 2015 was non-deductible from a tax point of view. Thus, in 2016, 10,000 lei registered into revenues is also non-taxable. The remaining increase in value in 2016 of 3,000 lei will be credited to the revaluation reserve.

The tax depreciation of the asset does not change as a result of the revaluations recorded for accounting purposes.

(2) Legal reserve

As 2016 is Bear SA's first profitable year, it may deduct up to a maximum of 20% of its share capital of 22,000 lei.

Maximum deductible legal reserve = 20% * 22,000 = 4,400 lei

Legal reserve which may be deducted in 2016 = 5% * (Gross profit 83,550 + Corporate income tax 3,000) = 4,328 lei

=> Maximum deductible legal reserve in 2016 = 4,328 lei

(3) Protocol expenses

Limit of deductibility for protocol expenses = 2% * (83,550 + Business meals 6,000 + 3,000) = 2% * 92,550 = 1,851 lei

=> Non-deductible protocol expenses = (6,000 – 1,851) = 4,149 lei

(4) Exchange rate differences

As expenses from exchange rate differences > revenues from exchange rate differences, Bear SA will record a net loss from a tax point of view as an interest expense.

Net loss from exchange rate differences = (39,000 – 18,000) = 21,000 lei

The net loss is only deductible if the debt-to-equity ratio is between 0 and 3.

As the debt-to-equity ratio is 3.5, the net loss is non-deductible.

6 (a) Mihai and Maria

Monthly deductions from gross employment income for 2016

Monthly deductions allowed by Alfa SRL for Mihai

Monthly deductions allowed by Alfa SRL for Mihai are the personal deduction plus facultative private pension insurance

Personal deduction = $500 * (1 - (2,300 - 1,500)/1,500) = 233.33 = 240$ lei

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Facultative private pension insurance may be deducted up to €400/year = 1,800 lei/year

1/2

Facultative private pension insurance paid by Mihai = 80 lei/month = 960 lei/year

=> The monthly facultative pension insurance of 80 lei/month may be deducted in each month of the year.

1/2

Total monthly deductions = $(240 + 80) = 320$ lei

1/2

Monthly deductions allowed by Beta SRL for Mihai

Beta SRL may not allow any deductions, as Mihai does not have his main employment contract with Beta SRL.

1/2

Monthly deductions allowed by Alfa SRL for Maria

Monthly deduction allowed by Alfa SRL for Maria is the personal deduction only.

Personal deduction = $500 * (1 - (2,700 - 1,500)/1,500) = 100$ lei per month

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(b) Petra

(i) Independent activity classification conditions

Self-employed activity has to be considered independent, if it fulfils at least four of the following conditions:

1. The individual has the freedom to choose the place where the activity is performed, how the activity is performed and the work schedule.
2. The individual has the freedom to have more than one client (no exclusivity clause).
3. The risks of the activity are assumed by the person performing the activity.
4. The activity is performed using the individual's own patrimony.
5. The activity is performed using the individual's intellectual capacity or physical performance, according to the activity's specific requirements.
6. The individual is part of a professional organisation that supervises the profession according to the law.
7. The individual has the freedom to perform the activity using his/her own capacity, employees and/or subcontractors.

FOUR conditions only required, 1/2 mark each maximum

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(ii) Self-employment annual income tax for 2016

	Lei	
Gross revenues ($2,600 * 12$)	31,200	1/2
Deductible expenses	(23,400)	
– utilities ($30\% * 1,000 * 12$)	(3,600)	1
– depreciation (W1)	(18,000)	1
– voluntary health insurance contributions (W2)	(1,800)	1
Net realised income before social contributions	7,800	
Income tax at 16%	(1,248)	1/2
Social contributions (W3)	(1,688)	2
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Workings

(1) Depreciation

Monthly calculated depreciation = $210,000/5/12 = 3,500$ lei

Maximum allowable depreciation = 1,500 lei/month

Annual deductible depreciation = $1,500 * 12 = 18,000$ lei.

(2) Voluntary health insurance contribution

Voluntary health insurance contribution may be deducted up to €400/year = 1,800 lei/year

Voluntary health insurance contribution paid by Petra = 250 lei/month = 3,000 lei/year

=> The annual Voluntary health insurance contribution that may be deducted by Petra is 1,800 lei/year.

(3) Social contributions

Monthly net realised revenues in 2015 = $13,200/12 = 1,100$ lei. This is higher than 35% of average monthly earnings in Romania of $35\% * 2,415 \text{ lei} = 845 \text{ lei}$. Therefore Petra shall be liable to pay social security contribution for 2016.

Monthly net realised revenues in 2016 are $(7,800/12) = 650$ lei.

This is less than 35% of average monthly earnings in Romania of $(35\% * 2,415) = 845$ lei. Therefore the annual social security for 2016 is payable on $(845 * 12) = 10,140$; and the health care insurance contribution on 7,800 lei.

Total annual social contributions = $(10.5\% * 10,140) + (5.5\% * 7,800) = 1,494$ lei

(iii) Monthly income tax if reclassified as dependent activity

	Lei	
Gross monthly revenue	2,600	
Social contributions ($16.5\% * 2,600$)	(429)	1
Other deductions	(0)	$\frac{1}{2}$
Net income	2,171	
Income tax at 16%	347	$\frac{1}{2}$
		<u>2</u>

(iv) Responsibility of classifying the activity

The responsibility for correctly classifying the activity as dependent or independent is jointly shared by the individual obtaining the income and the payer of the income.

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