
Answers

1 Trombone SRL

(a) Tax period for value added tax (VAT) in 2017

Total taxable supplies for which VAT was charged in 2016 = 550,000 lei

Annual threshold for monthly VAT periods = €100,000 = 450,000 lei

Total supplies in 2016 > Threshold for monthly VAT period ==> Trombone SRL will continue to use the month as its VAT period in 2017.

1

(b) VAT on acquisitions/sales in Quarter 1 of 2017

Transaction	Taxable base Lei	Date chargeable	Output VAT Lei	Input VAT Lei	
Acquisition of goods from Alfa SA	12,000	28 March 2017		2,280	1
Sale of goods to Beta SA	20,000	10 January 2017	3,800		1
Sale of services to Gama SA	30,000	28 February 2017	5,700		1
Intra-EU acquisition of goods from Delta Ltd	28,000	12 February 2017	5,320	5,320	1½
Acquisition of goods from Epsilon SRL	33,000	28 March 2017		6,270	1
Intra-EU supply of goods to Delta Ltd	5,000	20 March 2017	0		1½
					<u>7</u>

(c) VAT due to/to be reimbursed from the state budget

Tax period/month	Total output VAT Lei	Total input VAT Lei	VAT to be paid/ (reimbursed) Lei	
January 2017	3,800		3,800	½
February 2017	11,020	5,320	5,700	1
March 2017		8,550	(8,550)	½
				<u>2</u>
				<u>10</u>

2 Violin SRL

(a) Application of the special scheme of corporate income tax

The special scheme of corporate income tax may be applied as long as the revenues included in the taxable base are below €100,000.

½

Quarter 1 (Q1) 2016

Total revenues included in the taxable base = 100,000 lei/4.5 lei/euro = €22,222 < €100,000 ==>

½

For Q1 Violin SRL should apply the special scheme of corporate income tax.

½

Q2 2016

Total revenues included in the taxable base = (100,000 lei + 260,000 lei) = 360,000 lei/4.5 lei/euro = €80,000 < €100,000 ==>

1

For Q2 Violin SRL should apply the special scheme of corporate income tax.

½

Tutorial note: Revenues from cancelling provisions for bad debts which were previously non-deductible are excluded from the taxable base.

Q3 2016

Total revenues included in the taxable base = (100,000 lei + 260,000 lei + 250,000 lei) = 610,000 lei/4.5 lei/euro = €135,556 > €100,000 ==>

½

Violin SRL must apply the normal system of corporate income tax, for both Q3 and Q4.

½

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(b) Corporate income tax due in 2016**Q1 2016**

Total revenues included in the taxable base = 100,000 lei

Number of full-time employees = 0 ==> tax rate = 3%

1/2

Corporate income tax = 3% x 100,000 = 3,000 lei

1/2

Q2 2016

Total revenues included in the taxable base = 260,000 lei

Number of full-time employees = 3 ==> tax rate = 1%

1/2

Corporate income tax = 1% x 260,000 = 2,600 lei

1/2

Q3 2016

	lei	
Total revenues	250,000	
Total expenses	(120,000)	
Gross profit	130,000	1/2
Non-taxable revenues	0	
Non-deductible expenses	0	
Taxable profit	130,000	
Corporate income tax at 16%	20,800	1/2

Year-end settlement for 2016

	lei	
Total revenues	650,000	1/2
Total expenses	(320,000)	1/2
Gross profit	330,000	
Non-taxable revenues	(30,000)	1/2
Non-deductible expenses	20,000	1/2
Taxable profit	320,000	
Corporate income tax at 16%	51,200	1/2
Corporate income tax already paid (as above)	(20,800)	1/2
Corporate income tax to be paid on settlement	30,400	

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3 Daniel Popescu**(a) (i) Social contributions due for Daniel and George's revenues in 2017****Daniel's intellectual property revenues**

Taxable base for the social contributions = min ((100,000 - (40% x 100,000)); 5 x 2,681) = min (60,000; 13,405) = 13,405 lei

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Social security contributions due = 10.5% x 13,405 = 1,408 lei

1/2

Health care insurance contributions due = 5.5% x 13,405 = 737 lei

1/2

George's dividend revenues

Monthly taxable base for health care insurance contributions = min (21,600/12; 5 x 2,681) = min (1,800; 13,405) = 1,800 lei

1

Monthly health care insurance contributions due = 5.5% x 1,800 lei = 99 lei

1/2

Total health care insurance contributions due for 2017 = 99 x 12 = 1,188 lei

1/2

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(ii) Obligation to pay and declare the social contributions to the state**Daniel's intellectual property revenues**

For the intellectual property revenues, the publisher has the obligation to declare and pay the social contributions by 25 June 2017.

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George's dividend revenues

For the dividend revenues, the tax administration will send George a decision in 2018 and George has to pay the amount established by the decision within 60 days from receiving it.

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(b) Social contributions due by Alina's employer

Total gross monthly salaries = $(2,000 + (9 \times 3,000)) = 29,000$ lei

Social security contributions = $15.8\% \times \min(29,000; 10 \times 5 \times 2,681) = 15.8\% \times (29,000; 134,050) = 15.8\% \times 29,000 = 4,582$ lei

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Health care insurance contributions = $5.2\% \times 29,000 = 1,508$ lei

 $\frac{1}{2}$

Unemployment fund contributions = $0.5\% \times 29,000 = 145$ lei

 $\frac{1}{2}$

Work accident fund contributions = $0.15\% \times 29,000 = 44$ lei

 $\frac{1}{2}$

Health insurance indemnities fund contributions = $0.85\% \times \min(29,000; 10 \times 12 \times 1,250) = 0.85\% \times \min(29,000; 150,000) = 0.85\% \times 29,000 = 247$ lei

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Fund for guaranteeing salary payments contributions = $0.25\% \times 29,000 = 73$ lei

 $\frac{1}{2}$

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4 Ramona Ionescu**(a) Number of dependent persons**

Ramona's husband may not be considered as a dependant, as he is employed with a gross salary > 300 lei/month.

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The child may be considered as a dependant, as s/he is a minor and has no other revenues.

1

2

(b) Income tax due in April 2017**Employment income with Orchestra SA**

	lei	
Gross salary	1,700	$\frac{1}{2}$
Meal vouchers (20×9.57)	191	1
Present vouchers	300	$1\frac{1}{2}$
– for her ($200 - 150$)		
– for her child ($200 - 150$)		
– for her husband ($200 - 0$)		
Company car use ($1.7\% \times 10\% \times 80,000$)	136	1
Company car expenses ($10\% \times 3,200$)	320	$\frac{1}{2}$
Costumes (2×300)	600	$\frac{1}{2}$
Life insurance (200)	200	$\frac{1}{2}$
Total gross income	3,447	
Social security contributions	(569)	$\frac{1}{2}$
Personal deduction (gross income > 3,000 lei)	0	1
Taxable income	2,878	

Employment income with the owners' association

	lei	
Gross revenue	500	$\frac{1}{2}$
Social security contributions	(83)	$\frac{1}{2}$
Personal deduction	0	
Taxable income	417	
Total taxable income ($2,878 + 417$)	3,295	

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5 (a) Bass SA

Corporate income tax for 2017

	lei	
Total revenues	2,624,980	
Total expenses	(2,584,124)	
Accounting profit	40,856	1/2
Elements similar to revenues (W1)	183,633	1 1/2
Non-taxable revenues	(68,000)	1/2
Non-deductible expenses	64,357	
Social expenses (W2)	15,000	1 1/2
Protocol expenses (W3)	28,583	1 1/2
Interest expenses (W4)	11,250	2 1/2
Non-resident tax	9,524	1
Taxable profit	220,846	
Tax loss	(5,000)	1/2
Final taxable profit	215,846	
Corporate income tax due at 16%	34,535	1/2
		<u>10</u>

Workings

W1. Transfer pricing adjustment

Sales revenues from affiliated companies = $918,164 \times 1.1 = 1,009,980$ lei

Sales revenues from affiliated companies, if the margin for non-affiliated companies would have been applied
= $918,164 \times 1.3 = 1,193,613$ lei

Elements similar to revenues = $(1,193,613 - 1,009,980) = 183,633$ lei

W2. Social expenses

Social expenses = $(10,000 + 11,000) = 21,000$ lei

Deductibility limit of social expenses = $5\% \times 120,000 = 6,000$ lei

==> Non-deductible social expenses = $(21,000 - 6,000) = 15,000$ lei

W3. Protocol expenses

Protocol expenses = 30,000 lei

Deductibility limit of protocol expenses = $2\% \times (40,856 + 30,000) = 1,417$ lei

==> Non-deductible protocol expenses = $(30,000 - 1,417) = 28,583$ lei

W4. Interest expense

Interest computed using the NBR's interest rate = $500,000 \times 1.75\% = 8,750$ lei

Interest expenses = 20,000 lei

==> Expenses with interest totally non-deductible = 11,250 lei

Average debt = $(500,000 + 500,000)/2 = 500,000$ lei

Average equity = $((300,000 - 20,000) + (300,000 - 20,000 + 40,856))/2 = (280,000 + 320,856)/2 = 300,428$ lei

Debt-to-equity ratio = Average debt/Average equity = $500,000/300,428 = 1.66$

Ratio < 3:1 ==> Interest expenses within the limit of NBR's interest rate are entirely deductible.

(b) Contrabass SA

(i) Definition of permanent establishment

A permanent establishment is a fixed place through which the business of a non-resident is carried on.

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(ii) Classification of Mauritis Co's activity as a permanent establishment

As Mauritis Co has in Romania:

- a fixed place 1/2
- through which business is carried on 1/2
- and which lasts for more than six months 1/2

Mauritis Co has a permanent establishment in Romania.

Marks

$\frac{1}{2}$

2

(iii) Tax due by Mauritis Co in Romania

Corporate income tax = $16\% \times (1,000,000 - 780,000) = 16\% \times 220,000 = 35,200$ lei

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Mauritis Co has the obligation to declare and pay this tax to the state budget.

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6 Octavian Enescu

(a) Consequences of *ex-officio* deregistration for value added tax (VAT)

Following the *ex-officio* VAT deregistration, Octavian:

- must continue to charge VAT on his sales; but
- no longer has the right to deduct VAT on his purchases.

$\frac{1}{2}$

$\frac{1}{2}$

Following the *ex-officio* VAT deregistration, Octavian's clients are no longer allowed to deduct VAT on purchases made from him.

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(b) Prepayments of tax due for 2017

As Octavian did not submit a declaration of estimated income for 2017, his prepayments will be based on his realised net income for 2016.

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Estimated net income = $350,000 - 220,000 = 130,000$ lei

$\frac{1}{2}$

Prepayments of income tax for 2017 = $16\% \times 130,000 = 20,800$ lei

$\frac{1}{2}$

2

(c) Income tax due for 2017

	lei	
Gross revenues (50,000 x 10)	500,000	1
Deductible expenses	(70,430)	
Acquisitions from suppliers (3,000 x 9) + (3,000 x 3 x 1·19)	(37,710)	2
Salary expenses (3,000 x 3)	(9,000)	1
Social contributions for employee (840 x 3)	(2,520)	1
Voluntary pension contribution (W1)	(1,800)	1½
Voluntary health insurance (W2)	(1,400)	1½
Sponsorship (W3)	(0)	1
Finance experts association (W4)	(18,000)	1
Net income	429,570	
Income tax at 16%	68,731	$\frac{1}{2}$
Prepayments of tax paid in 2017 (from (b))	(20,800)	$\frac{1}{2}$
Difference to be paid on settlement	47,931	

11

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Workings

W1. Voluntary pension contribution

Voluntary pension contribution paid = 4,000 lei

Maximum deductible voluntary pension contribution = $\text{€}400 \times 4\cdot5 \text{ lei/euro} = 1,800$ lei

==> Deductible voluntary pension contribution = 1,800 lei

W2. Voluntary health insurance

Voluntary health insurance paid = 1,400 lei

Maximum deductible voluntary health insurance = $\text{€}400 \times 4\cdot5 \text{ lei/euro} = 1,800$ lei

==> Deductible voluntary pension contribution = 1,400 lei

W3. Sponsorship

As the sponsorship is paid in December 2016, it may not be deducted in 2017.

W4. Finance experts association

Fee paid = 21,000 lei

Maximum deductible fee = €4,000 x 4.5 lei/euro = 18,000 lei

==> Deductible fee = 18,000 lei