

Fundamentals Level – Skills Module

# Taxation (Romania)

Thursday 8 June 2017



**Time allowed:** 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

Tax rates and allowances are on pages 2–5.

**Do NOT open this question paper until instructed by the supervisor.**

**Do NOT record any of your answers on the question paper.**

**This question paper must not be removed from the examination hall.**

# Paper F6 (ROM)

Think Ahead

**ACCA**

The Association of  
Chartered Certified  
Accountants

## 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, unless the law requires otherwise.
3. All workings should be shown in Section B.

## TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

### 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
Limit for non-taxable voluntary health insurance paid by the employer	€400/year
Limit for non-taxable <i>per diem</i> allowance	2.5 x public institutions' threshold
The <i>per diem</i> allowance accepted for public institutions' employees for business trips within Romania	17 lei/day/person

#### Deductions

Deduction allowed for voluntary pension contributions paid by the employee	€400/year
Deduction allowed for voluntary health insurance paid by the employee	€400/year

### Personal deduction

Number of dependent persons for the taxpayer	Monthly gross income (MI) – lei		
	Below 1,500	Between 1,500 and 3,000	Above 3,000
0 persons	300	$300 \times (1 - (MI - 1,500)/1,500)$	0
1 person	400	$400 \times (1 - (MI - 1,500)/1,500)$	0
2 persons	500	$500 \times (1 - (MI - 1,500)/1,500)$	0
3 persons	600	$600 \times (1 - (MI - 1,500)/1,500)$	0
4 persons and more	800	$800 \times (1 - (MI - 1,500)/1,500)$	0

Note: The value of the personal deduction resulting from the calculation should be rounded up to the nearest 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	40%
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**Copyright income**

Lump-sum deductible expenses quota	40%
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**Self-employed income**

The limit of deductibility for protocol expenses	2%
The limit of deductibility for compulsory subscription expenses paid to professional associations	5%
The limit of deductibility for subscription expenses paid to professional associations other than compulsory ones	€4,000/year
The limit of deductibility for social expenses	5%
The limit of deductibility for sponsorship expenses	5%
The limit of deductibility of voluntary pension contributions paid for the self-employed person	€400/year
The limit of deductibility of voluntary health insurance paid for the self-employed person	€400/year
Reference interest rate set by the Romanian National Bank for loans denominated in lei	1.75% p.a.

**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	5%

**Prize income**

Tax rate for prize income	16%
Non-taxable threshold	600 lei/day/prize

**Pension income**

Non-taxable threshold for pension income	1,050 lei
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### Corporate income tax

General tax rate	16%
Reference interest rate set by the Romanian National Bank for loans denominated in lei	1.75% p.a.
Maximum accepted interest rate set by the Tax Code for loans denominated in foreign currency	4% p.a.
Inflation rate for prepayments of corporate income tax	0.5% p.a.
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	5%
Maximum value of tax credit for sponsorship expenses	20% of the corporate income tax but no more than 0.5% of sales revenue
Additional deduction for research and development (R&D) expenses	50%

### Corporate income tax for very small companies

Turnover threshold	€100,000
Tax rate	
– no employees	3%
– 1 employee	2%
– 2 or more employees	1%

### 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

\*Limited to maximum 1,500 lei/month

**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	5% or 0%
For dividends paid to other non-residents	5%

## Social security and other insurance contributions

### Employed persons

	Employee	Employer
Social security fund	10.5% <sup>(1)</sup>	15.8% <sup>(2)</sup>
Health care insurance fund	5.5%	5.2%
Unemployment fund	0.5%	0.5%
Work accident fund	–	0.15%–0.85% <sup>(3)</sup>
Health insurance indemnities fund	–	0.85% <sup>(4)</sup>
Fund for guaranteeing salary payments	–	0.25%

### Self-employed persons

Social security fund	10.5% or 26.3% <sup>(5)</sup>
Health care insurance fund	5.5% <sup>(1)</sup>
Unemployment fund	1%
Work accident fund	0.15%–0.85% <sup>(3)</sup>
Health insurance indemnities fund	0.85%

### Persons obtaining rent income

Health care insurance fund	5.5% <sup>(1)</sup>
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### Persons obtaining intellectual property revenues

Social security fund	10.5% <sup>(1)</sup>
Health care insurance fund	5.5% <sup>(1)</sup>

### Persons obtaining dividend revenue

Health care insurance fund	5.5% <sup>(1)</sup>
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Average monthly earnings 2,681 lei

Minimum monthly salary 1,250 lei

### Notes:

<sup>(1)</sup> Maximum monthly taxable base = 5 x average monthly earnings

<sup>(2)</sup> Maximum monthly taxable base = 5 x average monthly earnings x number of employees

<sup>(3)</sup> The exact value will be specified in the question, where necessary

<sup>(4)</sup> Maximum monthly taxable base = 12 x minimum month salary x number of employees

<sup>(5)</sup> Minimum monthly revenue for applying the social security contribution = 35% x average monthly earnings

**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	19%
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	2,250,000 lei
Limit of non-taxable protocol gifts in goods	100 lei/gift
Limit of non-taxable goods and services offered as sponsorships	3‰ x turnover/year

## Exchange rate

Euro/lei €1 = 4.50 lei

**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	0.02%/day
Penalty level for late tax payments	0.01%/day
Penalty level for not declaring taxes	0.08%/day or 0.02%/day

**Section B – ALL SIX questions are compulsory and MUST be attempted**

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1 Trombone SRL is a company registered for value added tax (VAT) in Romania, which applies the cash accounting scheme for VAT. In 2016, the total value of Trombone SRL's taxable supplies for which VAT was chargeable in 2016 was 550,000 lei (exclusive of VAT). The following information relates to Trombone SRL's transactions in the first three months of 2017:

Date	Transaction	Taxable base Lei	Counterparty
8 January 2017	Acquisition of goods, invoice received	12,000	Alfa SA
10 January 2017	Sale of goods, invoice issued	20,000	Beta SA
22 January 2017	Sale of services, invoice issued	30,000	Gama SA
3 February 2017	Receipt of January sale from Beta SA	20,000	Beta SA
12 February 2017	Intra-EU acquisition of goods, invoice received	28,000	Delta Ltd
20 February 2017	Acquisition of goods, invoice received	33,000	Epsilon SRL
28 February 2017	Receipt for January sale from Gama SA	30,000	Gama SA
15 March 2017	Payment for February acquisitions to Delta Ltd	28,000	Delta Ltd
20 March 2017	Intra-EU supply of goods, invoice issued. Proof of transport documents from Romania to another EU member state are available	5,000	Delta Ltd
28 March 2017	Payment for February acquisition to Epsilon SRL	33,000	Epsilon SRL
28 March 2017	Payment for January acquisition to Alfa SA	12,000	Alfa SA
30 March 2017	Receipt for March sale from Delta Ltd	5,000	Delta Ltd

The standard rate of VAT is applicable to all the above transactions.

All of Trombone SRL's transactions are with taxable persons registered for VAT in the EU member state in which they are established. The following additional information is relevant:

- Alfa SA, established in Romania, which is not affiliated to Trombone SRL, applies the cash accounting system for VAT.
- Beta SA, established in Romania, which is affiliated to Trombone SRL, applies the cash accounting system for VAT.
- Gama SA, established in Romania, which is not affiliated to Trombone SRL, does not apply the cash accounting system for VAT.
- Delta Ltd, a taxable person established in another EU member state, is affiliated to Trombone SRL. Delta Ltd is not established or registered for VAT in Romania.
- Epsilon SRL, established in Romania, which is not affiliated to Trombone SRL, does not apply the cash accounting system for VAT.

**Required:**

- (a) State, giving reasons, why Trombone SRL will have a monthly tax period for value added tax (VAT) in 2017. (1 mark)
- (b) For each acquisition/sale made by Trombone SRL in the first quarter of 2017, state the date on which it becomes chargeable to VAT and calculate the amount of output VAT and/or input VAT applicable. (7 marks)
- (c) Calculate the VAT due to/to be reimbursed from the state budget for each of Trombone SRL's tax periods in the first quarter of 2017. (2 marks)

**(10 marks)**

- 2 Violin SRL is a company which from its incorporation in 2001 until 2015 applied the standard corporate income tax rules. However, due to the indicators registered on 31 December 2015, Violin SRL started to apply the special scheme of corporate income tax for very small companies from 1 January 2016. The following values were registered by Violin SRL in 2016:

		Quarter 1 2016	Quarter 2 2016	Quarter 3 2016	Quarter 4 2016
<b>Revenues</b>	lei/quarter	<b>100,000</b>	<b>300,000</b>	<b>250,000</b>	<b>400,000</b>
Sales revenues	lei/quarter	100,000	260,000	250,000	370,000
Revenues from cancelling provisions for bad debts	lei/quarter		40,000		30,000
<b>Expenses</b>	lei/quarter	<b>80,000</b>	<b>260,000</b>	<b>120,000</b>	<b>200,000</b>
Material and salary expenses	lei/quarter	80,000	250,000	120,000	180,000
Provisions for bad debts expenses	lei/quarter		10,000		20,000
Number of full-time employees at the end of the quarter		0	3	4	4

**Additional information regarding bad debt provisions:**

1. Revenues were registered due to cancelling the bad debt provisions recorded in 2015, as Violin SRL's clients paid these debts.
2. According to Violin SRL's policy, all expenses for bad debt provisions are considered non-deductible for corporate income tax purposes.

**Required:**

- (a) **State, giving reasons, whether or not Violin SRL can apply the special scheme of corporate income tax for the entire year 2016, clearly identifying the type of tax which should apply in each quarter of 2016.**

(4 marks)

- (b) **Calculate the corporate income tax due by Violin SRL for each quarter of 2016 and the amount of the year-end tax settlement required.**

(6 marks)

**(10 marks)**

- 3 Daniel Popescu is a talented writer. In 2017, he published two books for which he received gross revenue from intellectual property of 100,000 lei on 10 May 2017. Daniel chose to have income tax withheld by his publisher at a rate of 16% from this revenue. This is the only revenue realised by Daniel in 2017.

Daniel's brother, George, bought some shares in a Romanian company and on 10 August 2017, received a gross dividend of 21,600 lei from the company. This is the only revenue realised by George in 2017.

Daniel's wife, Alina, is employed by an IT company and is paid a gross salary of 2,000 lei/month. The company has nine other employees, who are each paid a gross salary of 3,000 lei/month.

**Required:**

- (a) (i) **Calculate the social contributions due in respect of Daniel Popescu and George Popescu's revenues in 2017.**

(4 marks)

- (ii) **Explain who has the obligation to pay and declare to the state budget, the social contributions calculated in (i) above, clearly identifying the deadlines for submitting the declaration and paying over the contributions.**

(2 marks)

- (b) **Calculate the monthly social contributions due by Alina's employer in respect of its ten employees.**

Note: The work accident fund rate is 0.15%.

(4 marks)

**(10 marks)**

- 4 Ramona Ionescu is employed by Orchestra SA, a company based in Bucharest, Romania, where she has her basic activity. Ramona received the following from her employer in the month of April 2017:
- A gross salary of 1,700 lei.
  - 20 meal vouchers with a value of 9·57 lei each.
  - Three present vouchers on the occasion of Easter with a value of 200 lei each, as presents for herself, her minor child and her husband.
  - The use of a company car, with an acquisition value of 80,000 lei. Based on the log-book filled in by Ramona, the car is used 70% for business purposes, 20% for travelling from her home to her workplace and 10% for other personal trips. Orchestra SA is not registered for value added tax (VAT), thus it records all the VAT for its acquisitions to expenses. Orchestra SA pays standard corporate income tax and deducts all the expenses related to this car and the total monthly expenses booked in April 2017 were 3,200 lei.
  - Two costumes costing 300 lei each, to be used by Ramona at meetings with clients.
  - A premium of 200 lei paid by her employer on a life insurance policy for Ramona.

The social security contributions withheld from Ramona's salary by Orchestra SA for the month of April 2017 were 569 lei.

Ramona is the president of the owners' association for the building where she lives. She receives a gross monthly indemnity of 500 lei, from which the association withheld social security contributions of 83 lei for this role. Ramona's husband is employed as a gardener by the association and receives a gross monthly salary of 1,400 lei.

Ramona has one minor child who earns no revenues.

**Required:**

- (a) **State, giving reasons, if Ramona's husband and child may be considered as dependants of Ramona for the purpose of computing her employment income tax.** (2 marks)
- (b) **Calculate Ramona's total taxable income for April 2017.** (8 marks)

**(10 marks)**



- 5 (a) Bass SA was established in Romania in 2016. In 2016, Bass SA recorded an accounting loss of 20,000 lei and a tax loss of 5,000 lei. In 2017, the company recorded the following revenues and expenses:

	Note	Lei
<b>Revenues</b>		<b>2,624,980</b>
Dividends from a Romanian company	(1)	68,000
Sales revenue	(2)	2,556,980
<b>Expenses</b>		<b>2,584,124</b>
Raw materials		2,300,000
Salary expenses		120,000
Social security contributions due for employees		33,600
Presents given to employees on the occasion of Easter	(3)	10,000
Nursery tickets (rom: <i>tichete de cresa</i> ) given to employees	(4)	11,000
Present vouchers (rom: <i>tichete cadou</i> ) given to clients on the occasion of Christmas	(5)	30,000
Interest expenses	(6)	20,000
Royalty expenses	(7)	50,000
Non-resident tax on royalty expenses	(7)	9,524

**Notes:**

- (1) The dividends were received from a Romanian company, in which Bass SA bought a participation of 5% in April 2016. No expenses are to be allocated to these revenues in 2017.
- (2) Bass SA's clients are both affiliated and non-affiliated companies. For affiliated companies, Bass SA applies a margin of 10% to its direct operational costs, and for non-affiliated companies it applies a margin of 30% to its direct operational costs. The direct operational costs allocated to the sales to affiliated companies were 918,164 lei, and the direct operational costs allocated to the sales to non-affiliated companies were 1,190,000 lei. For the purpose of computing its corporate income tax, Bass SA decided to make any necessary transfer pricing adjustments so as to eliminate the risk of a tax adjustment being made as a result of a tax audit.
- (3) On the occasion of Easter, Bass SA gave all ten of its employees a present of 1,000 lei each. Bass SA decided not to tax these presents at the employee's level.
- (4) Bass SA gave nursery tickets with a total value of 11,000 lei to the employees who have toddlers, according to the law. The tickets were not taxed at the employee's level.
- (5) On the occasion of Christmas, Bass SA gave present vouchers to its clients, with a total value of 30,000 lei.
- (6) The 20,000 lei interest was paid for a loan taken by Bass SA from an affiliated company, which is not an authorised credit institution, on 1 October 2016. The loan was initially given for a period of 12 months, but in October 2017 it was renewed for a further period of 12 months, when it will be reimbursed in full. The loan is for 500,000 lei and the interest rate is 4% per year. Bass SA's share capital throughout the whole of the years 2016 and 2017 was 300,000 lei. No additions were made to the company's equity during this period except for the accounting profit/loss. This is the only loan of Bass SA.
- (7) Bass SA pays a royalty to a non-affiliated company established in the Netherlands for the right to use the Dutch company's famous logo on its products. According to the contract, the gross value of the royalty is 50,000 lei per year. Bass SA has not received a tax residence certificate from the Dutch company. However, the Dutch company disagrees with withholding any tax from its revenue, so Bass SA calculated the non-resident tax on top of the royalty value, paid this tax to the Romanian state budget and recorded it in its expenses.

**Required:**

**Calculate the corporate income tax due by Bass SA for 2017.**

**Note:** Ignore the legal reserve requirements.

(10 marks)

- (b)** Contrabass SA was established in Romania in 2016. On 1 March 2016, it contracted Mauritis Co, a company established in Mauritius, to build an office building in Bucharest, Romania. Mauritis Co started on the construction site on 1 April 2016, where it brought its employees and building equipment from Mauritius, and closed it on 15 December 2016. During this time, Mauritis Co invoiced Contrabass SA for an amount of 1,000,000 lei (exclusive of value added tax (VAT)). The value of Mauritis Co's expenses incurred only for the purpose of the construction of the office building and having proper justification documents is 780,000 lei.

There is no tax treaty between Romania and Mauritius.

**Required:**

- (i) State the definition of a permanent establishment of a foreign company in Romania.** (1 mark)
- (ii) State, giving reasons, whether or not Mauritis Co has a permanent establishment in Romania.** (2 marks)
- (iii) Calculate the tax due by Mauritis Co for the revenues obtained in Romania and state who has the obligation to declare and pay it to the state budget.** (2 marks)

**(15 marks)**

**6** Octavian Enescu started a self-employed activity as a financial consultant in 2015. On 1 January 2016, Octavian registered for value added tax (VAT) but chose not to apply the cash accounting scheme for VAT. For 2016, Octavian registered gross revenues of 350,000 lei and deductible expenses of 220,000 lei. Octavian did not submit a declaration of his estimated net income for 2017. During 2017, he recorded the following values:

- (1) Invoices issued to clients of 50,000 lei/month (exclusive of VAT). The clients paid the invoices with a two-month delay. All the clients are established in Romania, are registered for VAT and do not apply the cash accounting scheme for VAT.
- (2) Acquisitions from suppliers of 3,000 lei/month (exclusive of VAT). Octavian pays the supplier invoices on the same day they are issued. All the acquisitions were made for business purposes and Octavian has proper supporting documents. All the suppliers are established in Romania, are registered for VAT and do not apply the cash accounting scheme for VAT.
- (3) Octavian hired a personal assistant on 1 October 2017 for a gross monthly salary of 3,000 lei. The monthly social security contributions due by Octavian as an employer for this employee are 840 lei. All salaries and social security contributions were paid by Octavian on the last day of the month for which they were due.
- (4) Octavian paid voluntary pension insurance of 4,000 lei and voluntary health insurance contributions of 1,400 lei for himself in 2017.
- (5) Octavian sponsored a local school for an amount of 30,000 lei, which was paid in cash, in December 2016. Proper documents were made for this sponsorship.
- (6) Octavian became a member of a finance experts association, to which he paid a fee of 21,000 lei in 2017. Being a member of this association is not mandatory for Octavian to be able to perform his self-employed activity, but will strengthen his skills and professional network.

The standard rate of VAT is applicable to all of Octavian's transactions.

On 1 October 2017, Octavian was deregistered from VAT *ex-officio* by the state authorities, due to his failure to submit his VAT returns. Octavian records into his expenses any non-deductible VAT.

**Required:**

**(a) Explain the consequences of Octavian Enescu's *ex-officio* deregistration from value added tax (VAT) for both himself and his clients.** (2 marks)

**(b) State the basis on which Octavian will make his prepayments of income tax for 2017 and calculate the prepayments due.**

Note: Ignore any social security contributions which may be due by Octavian for his self-employed activity. (2 marks)

**(c) Calculate the total amount of income tax due by Octavian for 2017 and the amount of the year-end settlement.** (11 marks)

**(15 marks)**

**End of Question Paper**