

Fundamentals Level – Skills Module

Taxation (Romania)

Tuesday 4 June 2013



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% |
| Tax rate for withheld prepayments | 10% or 16% |

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 the 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 | 5·25% |
| Tax rate for withheld prepayments | 10% or 16% |

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 |
|----------------------------|-----------|

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 | 5·25% 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 the tax credit for sponsorship expenses | 20% of the corporate income tax but not more than 3‰ of sales revenue |

Corporate 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 |

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.

Tax on dividends paid to legal persons

| | |
|---|-----------|
| For dividends paid to legal persons resident in Romania, the EU or EFTA countries | 16% or 0% |
| For dividends paid to other non-residents | 16% |

Tax on revenues received by non-residents from Romania

| | |
|---|-----|
| Tax rate on revenues from gambling | 25% |
| Tax rate on other revenues received by non-residents from Romania (except gambling and dividends) | 16% |

Social security and other insurance contributions

| Employed persons | Employee | Employer |
|---------------------------------------|----------------------|------------------------------|
| Social security fund | 10.5% ⁽ⁱ⁾ | 20.8% ⁽ⁱⁱ⁾ |
| Healthcare insurance fund | 5.5% | 5.2% |
| Unemployment fund | 0.5% | 0.5% |
| Work accident fund | – | 0.15%–0.85% ⁽ⁱⁱⁱ⁾ |
| Health insurance indemnities fund | – | 0.85% ^(iv) |
| Fund for guaranteeing salary payments | – | 0.25% |

Withholding rates for persons obtaining intellectual property revenues and revenues based on Civil Code contracts, which are not considered dependent activities

| | |
|---|------------------------------|
| Social security fund | 10·5% ⁽ⁱ⁾ |
| Healthcare insurance fund | 5·5% |
| Self-employed persons | |
| Social security fund | 31·3% ^(v) |
| Healthcare insurance fund | 5·5% |
| Unemployment fund | 1% |
| Work accident fund | 0·15%–0·85% ⁽ⁱⁱⁱ⁾ |
| Health insurance indemnities fund | 0·85% |
| Average monthly earnings | 2,117 lei |
| Minimum monthly salary | 700 lei |
| The limit of gifts to which social contributions do not apply | 150 lei/person/occasion |

(i) The monthly taxable base shall not exceed 5 times the average monthly earnings

(ii) The monthly taxable base shall not exceed 5 times the average monthly earnings multiplied by the number of employees

(iii) The exact value will be specified in the question, where necessary

(iv) The monthly taxable base shall not exceed 12 times the minimum monthly salary multiplied by the number of employees

(v) The monthly taxable base shall be at least 35% of the average monthly earnings, but will not exceed five times the 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 | 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 the VAT cash accounting scheme | 2,250,000 lei |

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 | 0·04%/day |
| Penalty level for late tax payments | |
| – for payments made in the first 30 days after maturity | 0% |
| – for payments made between 31 and 90 days after maturity | 5% |
| – for payments made more than 90 days after maturity | 15% |

ALL FIVE questions are compulsory and MUST be attempted

1 Sofa SRL is a company established in 2008, in Slobozia, Romania, as a furniture producer. In 2013, Sofa SRL's management decided to opt to apply the system of prepayments for corporate income tax. In 2012 Sofa SRL registered a taxable profit of 2,000,000 lei. In each quarter of 2013, Sofa SRL registered accounting revenues of 1,500,000 lei per quarter, and accounting expenses (including prepayments of corporate income tax) of 1,200,000 lei per quarter. Additional information on some of the revenues and expenses registered during 2013 is presented below:

- (1) Sofa SRL has five small company cars (up to 3,500 kg and nine seats): three for the two directors (the executive director uses two cars, and the finance director uses one car) and two for the sales agents. Based on the logbooks (*foi de parcurs*), all the cars are used only for business purposes and for travelling between home and the office. The usage of each of the cars for travelling between home and the office accounts for around 10% of its total monthly use. The monthly expenses for each car are: fuel 700 lei, maintenance 300 lei, insurance 300 lei, and local tax 30 lei. The monthly accounting depreciation for each car is 500 lei, while the tax depreciation is 800 lei per car per month. The difference is due to a revaluation of the cars made in 2012, which generated a decrease in the accounting value of the car.
- (2) For entertaining its clients Sofa SRL incurred expenses of 30,000 lei in 2013.
- (3) In each month of 2013, Sofa SRL registered an accounting expense of 1,700 lei for depreciating its office building. In 2012, the monthly accounting depreciation expense for the same building was 1,500 lei. The tax depreciation is equal to the accounting depreciation in both 2012 and 2013.

The additional depreciation recorded in 2013 was generated by the surplus registered in December 2012, when the building was revalued. In December 2013 Sofa SRL revalued the building again. According to the valuation report, the building's value decreased by 210,000 lei, of which 40,000 lei was recorded as an expense, the other 170,000 lei being offset by the revaluation surplus registered in 2012.

- (4) Sofa SRL has ten employees. During 2013 Sofa SRL paid for each employee: a private healthcare insurance contribution of 1,000 lei per employee per year; a private life insurance contribution of 500 lei per employee per year; and a voluntary pension contribution of 2,000 lei per employee per year.
- (5) Sofa SRL uses three specialised pieces of equipment for producing furniture. In January 2013, due to a decrease in production, Sofa SRL gave one piece of equipment to its wholly owned subsidiary, Armchair SRL, based on a contract which stipulated that Armchair SRL could use this equipment for its own purposes and that Sofa SRL would not make a charge for this. Thus Sofa SRL registered no accounting revenue based on this contract. On 1 January 2013 this piece of equipment was fully depreciated. The market price for renting this equipment would have been 2,300 lei per month.
- (6) In May 2013, Armchair SRL's shareholders decided to distribute all of its net profit as dividends and thus, in May 2013, Sofa SRL registered dividend revenue of 100,000 lei. Armchair SRL actually paid the dividend in August 2013.
- (7) During June 2013, Sofa SRL registered the following expenses for which Sofa SRL has contracts, time-sheets and additional proof of the necessity and reality of these expenses:
 - 10,000 lei for royalties, based on a contract with a company based in Germany;
 - 40,000 lei for consultancy services, based on a contract with a company based in Switzerland;
 - 15,000 lei for maintenance services, based on a contract with a company based in Great Britain, which provides that Sofa SRL will send equipment to Great Britain to be repaired there and then shipped back to Romania.

Sofa SRL did not receive any certificate of fiscal residence from these suppliers, so it withheld at source the non-resident tax according to the law, where applicable. The suppliers from Germany and Great Britain were paid in November 2013 and the supplier in Switzerland was paid in February 2014. There are no affiliation relationships between Sofa SRL and its suppliers.

Required:

- (a) Explain the system of prepayments for corporate income tax, together with the deadlines for paying and submitting the declarations, and state the deadline for submitting the option to apply this method in 2013. (5 marks)

- (b) Compute the prepayments of corporate income tax due by Sofa SRL for 2013. (2 marks)

- (c) Compute the final income tax due by Sofa SRL for 2013 and the difference to be paid/recovered when settling its income tax for 2013.

Note: Ignore any legal reserve, value added tax (VAT) and benefit in kind implications which may arise.

(16 marks)

- (d) For each of Sofa SRL's contracts with non-residents detailed in item 7:

- (i) Explain whether Sofa SRL had the obligation to withhold tax from the payment, discussing any difference in tax treatment should Sofa SRL have had a fiscal certificate. (5 marks)

- (ii) Compute any tax that should have been withheld and paid to the state budget in 2013 by Sofa SRL from each of the payments made to non-residents. (2 marks)

(30 marks)

2 Mrs Desk is a journalist working for the ArtHome Revue, where she has her main activity. From 1 January to 30 September 2013, she was employed to write articles on new trends in home decoration, with a monthly salary of 4,500 lei and the following benefits in kind:

- (1) Use of a company car for business and personal purposes as follows: 10% for travelling between home and work, 10% for going on personal journeys and 80% for business journeys. The company car is rented and the ArtHome Revue pays a monthly rental of 1,200 lei.
- (2) A hot meal every day. Mrs Desk eats the meal at a nearby restaurant and the ArtHome Revue pays 240 lei per month per employee to the restaurant.
- (3) One massage per month. The ArtHome Revue has a contract with a massage salon and once a month five masseurs come to the ArtHome Revue premises and give one massage to each employee. The ArtHome Revue pays 200 lei per month per employee to the massage salon.
- (4) The ArtHome Revue pays for each of its employees: a life insurance of 100 lei per month per employee, a private health insurance of 50 lei per month per employee and a voluntary pension insurance of 120 lei per month per employee.
- (5) A subscription of 120 lei per month to the Journalists Forum, an online forum where journalists learn to improve their skills and knowledge.

On 30 September 2013, the ArtHome Revue and Mrs Desk agreed to end her employment contract and inserted a non-competition clause in the individual labour contract under which the ArtHome Revue will pay Mrs Desk a non-competition allowance of 2,700 lei per month, from 1 October 2013 until 31 March 2014. During this period Mrs Desk will have no other employment contract and will receive from ArtHome Revue nothing else but the non-competition allowance.

Mrs Desk has under her care her 10-year-old daughter, who has no income.

Mrs Desk also holds 20% of the share capital of the ArtHome Revue, from which she received gross dividends in 2013 of 10,000 lei. In August 2013 Mrs Desk sold her shares in the ArtHome Revue to the company Furnshare SRL. The gross capital gain on this sale was 25,000 lei. The ArtHome Revue is a limited liability company not listed on a stock exchange market.

Required:

- (a) Determine the monthly income tax due by Mrs Desk on the employment revenue she received from the ArtHome Revue during the year ended 31 December 2013.**

Note: Each benefit in kind should be listed and, if it is not taxable, should be shown with the value '0'.

(12 marks)

- (b) Determine the monthly social contributions due by the ArtHome Revue on Mrs Desk's employment revenue received during the year ended 31 December 2013.**

Note: The work accident fund rate is 0.15%.

(5 marks)

- (c) State who has the obligation to declare and pay the income tax and social contributions for employment income to the state budget, together with the deadlines for declaring and paying them.**

(3 marks)

- (d) (i) Determine the income tax due on the investment revenue received by Mrs Desk in 2013 and state who has the obligation to pay the tax, together with the deadline for payment.**

(4 marks)

- (ii) State, giving the reason, whether or not any social contributions are payable by Mrs Desk on her investment revenues in 2013.**

(1 mark)

(25 marks)

- 3 (a)** Bed SA is a company based in Romania specialising in trading in beds. Bed SA is registered for value added tax (VAT), is a monthly VAT payer and had the following purchases and sales of beds in 2013. All the transactions are domestic, have the place of supply in Romania and are made with persons registered for VAT purposes in Romania.

| Type of transaction | Date of transaction | Date of payment | Value (excluding VAT) Lei |
|---------------------|---------------------|-------------------|------------------------------|
| Purchase | 3 January 2013 | 22 June 2013 | 10,000 |
| Sale | 12 January 2013 | 21 June 2013 | 12,000 |
| Purchase | 20 April 2013 | 10 December 2013 | 28,000 |
| Purchase | 20 May 2013 | 31 January 2014 | 14,000 |
| Sale | 21 May 2013 | 18 September 2013 | 38,000 |
| Sale | 29 June 2013 | 19 September 2013 | 19,000 |

For all transactions, payment is made through a bank transfer for the entire value of the invoice.

Required:

- (i) **List the conditions to enter into the cash accounting scheme and state whether entering the scheme is optional or compulsory.** (3 marks)
 - (ii) **Determine the value added tax (VAT) due to the state by Bed SA for each month of 2013, if Bed SA and its suppliers DO NOT apply the cash accounting scheme.** (3 marks)
 - (iii) **Determine the VAT due to the state by Bed SA for each month of 2013, if Bed SA and all its suppliers DO apply the cash accounting scheme.** (3 marks)
 - (iv) **Determine the VAT due to the state by Bed SA for each month of 2013, if Bed SA does NOT apply the cash accounting scheme but all its suppliers DO apply the scheme.** (3 marks)
- (b)** Cabinet SRL is a company based in Romania and registered for value added tax (VAT). In June 2013, Cabinet SRL learned that its VAT registration code had been cancelled by the tax authorities.

Required:

List any THREE situations in which a company's VAT registration code may be cancelled by the tax authorities and, in each case, state how and when the company may recover its VAT registration code.

(3 marks)

(15 marks)

- 4 (a) **State any TWO functions of taxation in a modern economy.** (1 mark)
- (b) **Explain the difference between direct and indirect taxes and state whether (1) corporate income tax and (2) value added tax (VAT) is a direct or indirect tax.** (2 marks)

- (c) In 2013, Mr and Mrs Shelf started a company named Library SRL. Library SRL is based in Romania, has a share capital of 200 lei and its activity is in the field of trading books. Mr and Mrs Shelf own 50% each of the shares in Library SRL and are administrators of the company. At registration on 1 April 2013, Library SRL chose the option to apply the special scheme of corporate tax for very small companies and decided not to register for VAT. Library SRL employed its first employee, Jan, on 25 May 2013, and he was to be employed for the entire period to 31 December 2013.

During the whole of 2013, Library SRL had a monthly taxable revenue of 80,000 lei, and monthly deductible expenses as follows:

| | |
|---|------------|
| April and May | 60,000 lei |
| June, July and August | 65,000 lei |
| September, October, November and December | 52,000 lei |

The only other expense registered by Library SRL was its corporate tax expense.

As 2013 was the first year of activity, Library SRL registered a legal reserve in 2013 at the maximum deductibility level allowed by the Tax Code and then distributed its remaining net profit as dividends.

Required:

- (i) **Determine the corporate income tax due by Library SRL for 2013, together with the payments due for each quarter, stating the deadlines for payment.**

Note: The legal reserve should be considered only when computing the final tax. (10 marks)

- (ii) **Determine the tax on dividends for the dividends Mr and Mrs Shelf received from Library SRL.** (2 marks)

(15 marks)

- 5** On 3 January 2013, Mr Sideboard registered at the Trade Office as a self-employed person acting in the field of producing timber. Mr Sideboard decided that he should pay income tax using the real system and he estimated that he would have annual revenues of 276,000 lei and annual expenses of 130,000 lei in 2013, and that these revenues and expenses would be spread equally over the 12 months.

Mr Sideboard is also the owner of land in an agricultural area and of an apartment in Bucharest. Both properties are leased out on contracts which started on 1 January 2013 and will last for five years. Neither of Mr Sideboard's tenants will have any expenses in his favour during 2013.

The land is leased to a company which produces grain on the land and will pay Mr Sideboard a rent of 1,000 lei per month for the whole of 2013. Mr Sideboard has chosen the option to have income tax withheld by the company on this rent. The apartment is leased to another individual and the monthly rent in 2013 is 1,200 lei.

Required:

- (a) Explain to Mr Sideboard the procedure for declaring the income tax, social security contribution and health insurance contribution for his self-employed activity in 2013, together with the deadlines for declaring and paying them.** (7 marks)

- (b) Determine when Mr Sideboard has to register his self-employed activity for value added tax (VAT), and state the deadlines by when he must notify the tax authorities and when his VAT ID will be issued.**

Note: Only self-employment income should be considered. The real values of income are equal to the estimated ones. (3 marks)

- (c) Compute the income tax due on the rent received by Mr Sideboard and state who has to declare and pay the tax, together with the deadlines for paying and declaring the tax.** (5 marks)

(15 marks)

End of Question Paper