

Examiner's report

F6 (ROM) Taxation

June 2017

General Comments

There were two sections to the examination and all of the questions were compulsory. Section A consisted of 15 multiple choice questions (two marks each) which covered a broad range of syllabus topics. Section B had four questions worth 10 marks each and two longer questions worth 15 marks, each testing the candidates' understanding and application of taxation in more depth. The following paragraphs report on each section and focus on some of the key learning points

Specific Comments

Section A

It was very pleasing to see that almost all candidates attempted all of the questions. Candidates preparing for the next examination of F6(ROM) are advised to work through the sample questions discussed here and to carefully review how each of the correct answers were derived. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F6(ROM) syllabus, rather than attempting to question spot. The following two questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected.

Sample Questions for Discussion

Example 1

On 1 July 2017, Eduard started a self-employed activity. His activity will be taxed using income quotas and the annual income quota established by the tax authorities for 2017 is 180,000 lei. On 30 September 2017, Eduard decided to end his activity, announcing this to the tax authorities in due time, and calculated that his realised revenues in 2017 were 220,000 lei and his realised expenses were 150,000 lei.

What is the final amount of income tax due by Eduard for his self-employed activity for 2017?

- A 11,200 lei
- B 28,800 lei
- C 14,400 lei
- D 7,200 lei

This question tested the calculation of personal income tax when net income is calculated using the income quotas rule and many candidates failed to select the correct answer. This question required candidates to have the necessary technical knowledge on the following issues:

- the income quota is an annual fixed sum established by the tax authorities, which is the taxable basis for personal income tax, no matter the real revenues and expenses recorded by the taxpayer; and
- the annual income quota has to be adjusted for the tax year applicable to the taxpayer. As the taxpayer started activity in July 2017 and ended it in September 2017, his tax year was July - September 2017.

The correct answer was D, where the final amount of income tax due by Eduard is calculated as follows:

The number of months of activity in 2017 is three (July to September inclusive)

Taxable base = Income quota for the activity period = $180,000/12 \times 3 = 45,000$ lei

Income tax = $16\% \times 45,000 = 7,200$ lei

Option A computed the income tax due based on the realised net income; that is by applying the real system for computing the net income, which was not correct.

Taxable base = Realised revenues - Realised expenses = 220,000 - 150,000 = 70,000 lei
Income tax = 16% x 70,000 = 11,200 lei

The answer B was also incorrect, because it failed to adjust the annual income quota for the number of months Eduard actually performed the activity.

Taxable base = 180,000 lei
Income tax = 16% x 180,000 = 28,800 lei

C was also incorrect as it involved computing the income quota for the period July - December 2017.

Number of months of activity in 2017 = 6 (July - December 2017)
Taxable base = Income quota for the activity period = 180,000/12 x 6 = 90,000 lei
Income tax = 16% x 90,000 = 14,400 lei

Thus, although D was the correct answer, all other options were possible answers, if some basic mistakes were made. Candidates are encouraged to spend time computing the correct answer, and reading the questions properly rather than guessing.

Example 2

Xylophone SA decided to apply the prepayments system for paying its corporate income tax in 2017. The corporate income tax due by Xylophone SA for 2016 was 350,000 lei and the final income tax due for 2017 has been determined as 430,000 lei.

What is the difference of tax to be paid by Xylophone SA upon the settlement of its corporate income tax for 2017?

- A 166,187 lei
- B 80,000 lei
- C 78,250 lei
- D 167,500 lei

This question tested the calculation of corporate income tax and again many candidates failed to select the correct answer. The question required candidates to have the necessary technical knowledge on the following issues:

- when a company applies the system of prepayments for computing the corporate tax payable for each quarter, the corporate income tax of previous year has to be adjusted with the inflation rate; and
- the difference of corporate income tax due on settlement is computed by subtracting from the corporate income tax calculated for the entire year the prepayments already paid.

The correct answer was C, where the difference of tax to be paid by Xylophone SA was computed as follows:

Prepayments of corporate income tax for 2017 = 350,000 x 100.5% = 351,750 lei
Difference of corporate income tax = 430,000 - 351,750 = 78,250 lei

Option A computed the prepayments of tax due for 2017 for only three quarters, not four, as it is for companies who do not apply this system.

Prepayments of corporate income tax for 2017 = $(350,000 \times 100.5\%)/4 \times 3 = 263,813$ lei

Difference of corporate income tax = $430,000 - 263,813 = 166,187$ lei

Option B was also incorrect, because it failed to adjust the previous year's corporate income tax with the inflation rate in order to determine the prepayments of corporate income tax for 2017.

Prepayments of corporate income tax for 2017 = 350,000 lei

Difference of corporate income tax = $430,000 - 350,000 = 80,000$ lei

Option D was also incorrect as it involved making two mistakes: not adjusting the previous year corporate income tax with the inflation rate in order to get the prepayments of tax AND computing the prepayments of tax due for 2017 only for three quarters, not four.

Prepayments of corporate income tax for 2017 = $350,000/4 \times 3 = 262,500$ lei

Difference of corporate income tax = $430,000 - 262,500 = 167,500$ lei

So, all answers were possible, if candidates applied incorrect rules. Again, candidates are encouraged to spend time computing the correct answer, and reading the questions properly rather than guessing.

Section B

Almost all candidates attempted all of the questions. Candidates presented more organised answers than in previous sittings, but there is still room for improvement. Workings were often not clearly shown and many candidates presented correct values for items in calculations of taxes but did not present how they got those values. Candidates are reminded that marks are given for each step of the calculation so without showing how their figures are calculated, they run the risk of not gaining many marks if their answer is wrong.

Again some candidates failed to apply the rule of starting each question on a new page which is good exam technique and can help the marker to follow through the candidate's answer more easily. Some candidates gave narrative answers using Romanian and not English. Candidates are advised that all answers should be presented in English. Any answer in other language shall be disregarded, as this is an English only exam.

Candidates preparing for the next examination of F6(ROM) are advised to better prepare and study so as to gain more technical knowledge. Also, special attention must be given to organising answers in an ordered and logical manner.

Question One

This 10-mark question covered the topic of value added tax (VAT).

Part (a) required candidates to state, giving reasons, why Trombone SRL will have a monthly tax period for VAT in 2017. The most common mistake here was giving no reason. Many candidates choose to just state that the company shall have a monthly tax period for VAT without giving any reason. These candidates gained no marks for this answer.

Part (b) required candidates to compute output and/or input VAT for a number of transactions and identify the date when the VAT should be charged, given the company applied the cash accounting scheme for VAT. Many candidates proved good knowledge on the cash accounting scheme for VAT. However, some mistakes made were as follows:

- applying the cash accounting scheme to transactions with affiliated companies;
- applying the cash accounting scheme to intra-EU transactions;
- making only the computation of output/input VAT, but failing to mention the chargeability date;
- not computing VAT for intra-EU acquisitions.

Part (c) required the computation of VAT for each month. Many candidates gave good answers. However, some candidates computed the total output VAT and input VAT for the entire quarter and did not split it for each month. Also, some candidates confused output VAT with input VAT self-supplies.

Question Two

This 10-mark question tested knowledge on the rules of application of the special scheme of corporate income tax.

Part (a) required candidates to 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. Again the most common mistake was forgetting the part of the question: "giving reasons". Some candidates just mentioned which tax was to be applied in each quarter, but failed to explain why.

Part (b) required candidates to compute the corporate income tax due for each quarter. There were some good answers, but also some mistakes. The most common mistakes were:

- computing the tax due when applying the special scheme of corporate income tax for very small companies by multiplying the tax rate (1% or 3%) with the profit, not revenue;
- failing to exclude the revenues from cancelling provisions for bad debts, which were previously non-deductible for the calculation of corporate income tax, from the taxable base for the tax due when applying the special scheme of corporate income tax for very small companies;
- computing the corporate income tax for quarters 3 and 4 taking into consideration revenues and expenses starting 1 January and not 1 July; and
- failing to adjust the profits chargeable to corporate income tax with non-taxable revenues and non-deductible expenses in quarters 3 and 4.

Question Three

This 10-mark question covered the topic of social contributions.

Part (a) for six marks was split into two sub-sections:

- part (i) where candidates had to compute social contributions due for intellectual property revenue and dividend revenue; and
- part (ii) where candidates had to identify who has the obligation to pay and declare these social contributions and the deadlines for doing so.

Both parts received few good answers. However, part (i) received better answers than part (ii).

Part (b), for four marks required computation of social contributions due by an employer for its employees. Almost all candidates gave good answers for this part.

Question Four

This 10-mark question tested knowledge on personal income tax, specifically employment tax.

Part (a) required candidates to state, giving reasons the number of dependent persons for computing personal income tax. Although many candidates recognised that only the child was dependant and not the husband, some candidates failed to present arguments for this choice. Some candidates presented general rules for establishing the number of dependent persons, without clearly giving an answer to the question.

Part (b) required candidates to compute taxable income for employment tax for an individual having multiple sources of employment revenue. There were some good answers. The most common mistakes were:

- not taxing the meal vouchers;
- failing to apply the 150 lei non-taxable limit only for presents received for the employee and her child;
- failing to calculate correctly the car benefit in kind;
- failing to tax costumes as a benefit in kind;
- confusing life insurance with health insurance and, thus, taxing the life insurance as if it was health insurance; and
- failing to subtract social contributions to reach taxable income.

Question Five

This 15-mark question tested knowledge on corporate income tax.

Part (a), for 10 marks, required candidates to prepare a comprehensive computation of corporate income tax. Many good answers were presented and when mistakes were made, they included:

- failing to correctly compute social expenses. Many candidates failed to identify that social expenses include presents given to employees and nursery tickets; and
- failing to recognise dividends as taxable revenues.

Part (b) tested candidates' knowledge on the rules for identifying a permanent establishment and calculating the tax for it. There were not many good answers with candidates demonstrating a lack of technical knowledge in this area. Moreover there were many candidates who, although they reached the conclusion that Mauritius Co does not have a permanent establishment in Romania, they computed corporate income tax (and not non-resident tax) for revenues obtained by Mauritius Co from Romania, which lacked logic.

Question Six

This 15-mark question tested knowledge on personal income tax, namely income tax for self-employed revenue and some VAT issues for two marks.

Part (a), for two marks tested knowledge on the consequences of ex-officio deregistration for VAT. Many candidates correctly identified as a consequence the fact that Mr Octavian Enescu shall not have the right to deduct VAT. However, many candidates either failed to recognise that Octavian has to continue to charge VAT or that his clients do not have the right to deduct VAT for acquisitions made from him.

Part (b) for two marks required candidates to state the basis on which Octavian should make his prepayments and calculate the relevant amounts. Many candidates prepared the calculation correctly, but failed to state what was the basis for their calculation. Another frequent mistake was to apply rules from corporate income tax to personal income tax, i.e. adjusting the realised net income of the previous year with the inflation rate.

Part (c) for 11 marks required computation of personal income tax for the year 2017. Many candidates gave correct answers demonstrating good technical knowledge in this area. However, some of the most common mistakes were as follows:

- failing to calculate revenues on cash basis;
- failing to compute salaries for only three months and instead computing them for the entire year; and
- deducting sponsorship in 2017, although it was paid in 2016.