

# Examiner's report

F6 Taxation (ROM)  
December 2012



## General Comments

The examination consisted of five compulsory questions, question 1 for 30 marks, question 2 for 25 marks, and three further questions of 15 marks each, with an approximate 2:1 split requirement for computation and narrative respectively.

The vast majority of candidates attempted all five questions and there was little evidence of time pressure. Where questions were left unanswered by candidates, this appeared to be due to lack of knowledge or having spent too long on other questions. The best answered were questions 1 and 2.

Good answers were presented by many candidates for all five questions. Overall candidates performed well and a large number of candidates are to be congratulated for having prepared for the examination. Candidates who performed well carefully read the content and requirements of questions and so were able to answer the narrative elements to questions, and give reasons or examples when asked to do so.

One particularly pleasing improvement was the increase in the numbers of candidates using the tax rates and allowances provided at the beginning of the paper.

Improvement was also evident in candidates' abilities to organise their answers. Workings were generally shown, although they were difficult to follow at times. Candidates are reminded that each question should be started on a new page, with workings numbered so that it is clear to which question part they relate. Candidates are advised to give careful thought to the layout and organisation of their answers during the examination.

A number of issues arose in a number of candidates' answers:

- Failing to answer the question requirement precisely.
- Poor time management - writing too much for some questions, then having too little time to answer the remaining questions.
- Repeating the mistakes candidates made in previous exams, as noted in examiner's reports, especially in relation to personal income tax and value added tax (VAT).
- Providing more than the number of points requested.
- Illegible handwriting and unstructured layout of answers.

## Specific Comments

### Question One

This 30-mark question was based on a company in the field of construction works, Rose SA, and tested candidates' knowledge of corporate income tax.

Part (a) for 3 marks required candidates to list the main adjustments that should be made by any corporate income tax payer to the accounting profit for the purpose of computing corporate income tax. Most candidates answered this part well. A small number of candidates wrongly gave examples of adjustments made to corporate income tax (e.g. tax credit) rather than adjustments to accounting profit.

Part (b) required a complex computation of corporate income tax. Again many candidates gave very good answers, for example, demonstrating knowledge of the correct treatment of dividend income, which should not be included in the non-taxable revenues; accurately computing accounting and tax depreciation and legal reserves; and applying the correct tax treatment to the sponsorship expense.



The most common mistakes were:

- Not knowing to compute the income tax using the gross-up formula;
- Not identifying correctly the social expenses - a number of candidates did not exclude training expenses from the total value of social expenses;
- Omitting the tax loss when computing corporate income tax base;
- Errors on identifying the non-deductible value of provisions for warranties.

Part (c) was answered well by many candidates. Common errors were:

- Subtracting the tax loss instead of the accounting loss when computing the gross dividend;
- Omitting to subtract the constituted legal reserve from the net profit to reach the gross dividend

In part (d) a number of candidates did not identify the correct deadline of 25 January 2014 for paying the tax on dividends for the dividends distributed in 2013 and not paid until 31 December 2013.

## Question Two

This 25-mark question examined the topic of personal income tax.

Part (a) for 2 marks required candidates to identify the exempt income of the Iris Family. Many candidates gave correct answers. A few candidates did not know that the inheritance received by Mrs Iris and the sale by Andrei of his personal computer were non-taxable (exempt) sources of income.

Part (b) requested computation of personal income tax for all the members of the Iris family having different categories of income.

As regards Mrs Iris's revenues, it was surprising to see that some candidates taxed the inheritance received - this is exempt from income tax. A number of candidates computed the employment income tax on an annual basis. Candidates are reminded that employment income tax should always be computed on a monthly basis, and then added up to find the annual income tax due. As far as adult (major) children are concerned, they may not be considered dependent if their monthly income exceeds 250 lei/month, no matter if that income is taxable or not. Only minor children may be considered dependents should they have monthly income above 250 lei/month.

Mr Iris's self employment income tax was computed correctly by many candidates. Most candidates correctly computed the equipment depreciation. A number of candidates did well to compute the tax for the investment activity correctly; these candidates knew that the tax should be computed quarterly and that the revenues and expenses should be cumulated. A few candidates knew that the tax loss should offset the tax base only when computing the final income tax and not the prepayments of tax.

A small number of candidates are to be congratulated for correctly computing the prepayments of tax for the intellectual income earned by Paul, knowing they needed to calculate and subtract the social contributions when computing the taxable base for the prepayments of tax.

The majority of candidates mentioned that Andrei had only non-taxable revenues. A few candidates thought wrongly that the sale of the personal computer was a taxable revenue.

When computing the tax on prizes won by George, candidates are reminded that the 600 lei amount should be subtracted from each daily prize. This information is provided in the tax rates and allowances information at the beginning of the paper.



### **Question Three**

This 15-mark question was on VAT.

Part (a) tested candidates' knowledge on the rules for place of supply for transportation services, which candidates found challenging. Although many candidates knew the general rule for the place of supply for business to business (B2B) services, some were less confident of the exceptions to the general rule:

- For transport of goods in Romania for customers established outside EU, the place of supply is in Romania, and not outside EU as the general rule would say
- For transport of goods outside EU for customers established in Romania, the place of supply is outside EU, and not Romania as the general rule would say.

A number of candidates, having identified that the place of supply was not in Romania, wrongly computed Romanian VAT as being due. We remind candidates that the place of supply of a transaction indicates the VAT that should be charged, Thus Romanian VAT may be charged only if the place of supply is in Romania. For example, if a transaction has its place of supply in Italy then, if it is not exempt from VAT, Italian VAT shall apply.

In part (b) there were many excellent answers. Most candidates knew that barter should be invoiced, and that VAT should be charged when performing services for the benefit of the shareholders without receiving payment. Candidates who identified whether an invoice or a self-invoice should be issued in each case demonstrated that they had read the question requirement carefully.

Part (c) also received many very good answers. The most commonly omitted was the declaration for the supplies/acquisitions made within Romania.

### **Question Four**

This 15-mark question tested candidates' knowledge of international aspects such as permanent establishment and residence of individuals.

Parts (a) and (b) were very well answered by many candidates. The majority of candidates knew that Daffodil SARL had a permanent establishment in Romania. A number of candidates had difficulties in identifying correctly the three conditions needed to constitute a permanent establishment. In part (b) the most common mistake was in the computation of total expenses of the permanent establishment. A small number of candidates did not recognise as non-deductible the protocol expense and the fine.

A very few candidates did extremely well to list the conditions for considering an individual as tax resident, and to explain the rules on income tax for non-residents.

### **Question Five**

This 15-mark question tested a number of different aspects of the syllabus: income tax, VAT and the obligations of tax payers.

At part (a) many candidates computed correctly the prepayments and stated the deadlines. Very few candidates knew that, when the quota system is employed, the final tax is equal to the prepayments.

In part (b) the correct procedure was, firstly, to compute the income tax with the values presented by the inspectors and from that income tax, to subtract the value of the tax already paid by Mr Snowdrop. It was possible to generate the same result by using different methods because Romania has a flat tax, but these methods were incorrect.



Candidates found parts (c) and (d) challenging. A small number of candidates did well to state that the VAT registration has to be requested by 10<sup>th</sup> November, and knew that the VAT registration code will be available on 1 December. Most candidates computed the interest and penalties, and a few correctly identified the right number of years.

Some candidates knew the deadline for an appeal is 30 days since the decision was received, and identified the competent authority and the grounds for an appeal.