

Examiner's report

F6 Taxation (ROM)

December 2013



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 a lack of knowledge or poor exam technique, as opposed to time pressure.

Satisfactory answers were presented by some candidates who are to be congratulated for having prepared well for the examination. Candidates who performed well carefully read the content and requirements of the questions and so were able to answer the narrative elements to questions, and give reasons or examples when asked to do so.

Candidates performed particularly well on questions 1(b), 2 and 5(a). The questions candidates found most challenging were questions 3(a), 3(b)(i), 4(a), and 5(b). This was mainly due to candidates not understanding the VAT syllabus area well enough; a lack of technical knowledge and also due to a failure to read the question requirements carefully.

At this sitting, candidates showed a general lack of organization in 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 common issues arose in candidates' answers:

- Failing to read the question requirement clearly and therefore providing irrelevant answers which scored few if any marks.
- Poor time management between questions, some candidates wrote far too much for some questions and this put them under time pressure to finish remaining questions.
- Providing more than the required number of points.
- Illegible handwriting and poor layout of answers.

Specific Comments

Question One

This 30-mark question was on personal income tax and also required knowledge on social contributions for an individual called Mrs Cat.

In part 1(a)(i) very few candidates identified the health insurance indemnity contribution as a compulsory contribution.

Part 1(a)(ii) was often only half answered. Many candidates demonstrated good knowledge on computing the prepayments of personal income tax together with the deadlines for paying them. However, few candidates described the mechanism for declaring the prepayments, especially the point that in 15 days from the start of activity Mrs Cat should have filed the declaration of estimated revenue. A common mistake was to confuse the correct quarterly deadline of 25th of the last month of each quarter (i.e. 25 March, 25 June, 25 September, 25 December) with 25th of the first month following the quarter (i.e. 25 April, 25 July, 25 October, 25 January).

Very few candidates knew that the insured income for social security contribution should be declared separately. However, many candidates computed it correctly and stated the correct deadlines. The most common mistake was to compute health insurance contribution on the same basis as social security contribution, be it the insured revenue or the estimated net income. Very few candidates computed the health insurance indemnity contribution. Another common mistake was to compute at this point the social contributions paid by Mrs Cat for her employees. This showed that candidates gave too little attention to carefully reading of the requirement. As the requirement was to compute “prepayments of tax and social contributions”, candidates should have identified that the requirement was for self-employed revenue, as for employment revenues the concept of prepayments is not applicable.

Many satisfactory answers were presented in (b), with candidates showing a strong knowledge of the cash system used when computing revenues for a self-employed person. Also, many candidates knew the rules on depreciation and on deducting fuel, sponsorship and protocol expenses. It was somewhat surprising to see that some candidates computed the personal income tax for a self-employed person on a quarterly basis. Candidates are reminded that, when the real system is used, the personal income tax for self-employed persons is computed on an annual basis, with quarterly fixed prepayments determined at the beginning of the year based on an estimated net income. The most common mistake here was failure to compute the final social contributions due. The majority of candidates failed to present any calculations or comment on whether or not final social contributions are due, thus losing important marks.

The final part in question 1, part 1(c), was often only half-answered. It was surprising to see how many candidates answered that no contribution was due for Mr Cat, as he had employment revenues. Candidates are reminded that as regards revenues obtained based on a Civil Code contract, there are no exemptions from paying the health insurance contribution. Also, a great number of candidates mentioned that Mrs Cat has no obligation to withhold income tax or social contributions for Mr Cat as he should pay them. Candidates are advised to study more thoroughly the area of the syllabus concerning the obligations of the taxpayers and/or their agents, to avoid such mistakes. As regards the intellectual property rights revenue, many candidates knew that Mrs Cat had to withhold income tax and both social contributions (social security contribution and health insurance contribution), but failed to apply the quotas to the correct basis.

Question Two

This 25-mark question covered the topic of corporate income tax.

There were many satisfactory answers to part (a). Some candidates again demonstrated that they had failed to read carefully the tax rates and allowances information given at the beginning of the paper, as they provided an assumption for the accounting and/or tax depreciation period for the buildings. Both were clearly presented in the tax rates and allowances information given at the beginning of the paper. Almost all candidates knew that land is a non-depreciable asset. The most common mistake was not making the distinction between accounting and tax depreciation for the building. Although the requirement asked the candidates to clearly show “the net accounting value and the net tax value at the end of each year”, very few candidates did this. Thus, straightforward marks were lost, even when the depreciation was computed correctly. In addition, some candidates confused the two, thus presenting the value for accounting depreciation as being tax depreciation and vice-versa.

Part (b) of question two was generally well answered, although a series of common mistakes were identified. Very few candidates identified the non-taxable revenues generated by the surplus on revaluation. Sometimes this was due to the fact that candidates started to work on question 2(b) directly without first answering 2(a) which would have given them an insight on these non-taxable revenues. Also, the candidates who failed to make the distinction between accounting and tax depreciation had difficulties in identifying the non-taxable revenues. Another part that candidate struggled with was applying the thin capitalisation rules. Although almost all candidates knew they had to compute the debt-to-equity ratio and compare it with three, only a few candidates

knew to compute average debt and average equity. Another common mistake was to include as non-deductible in the computation of the corporate income tax only the part of the interest which exceeded the reference interest rate, although the debt-to-equity ratio was above three and some candidates even wrote that the part that is within the limit of the reference interest rate should be carried forward. We remind candidates that when the debt-to-equity ratio is above three all the interest expense is non-deductible.

Many candidates failed to apply the correct rule on the limitation of social expenses (presents) although this has been frequently tested in the past. Candidates were still limiting social expenses when computing the corporate income tax using the rule valid for employment revenue. Candidates are reminded that the relevant specific rules should be applied for each tax. As regards presents given to employees:

- a) For employment revenues, they are non-taxable up to a limit of 150 lei/person for each present given to employees' minor children for Easter and Christmas and for women employees on 8 March
- b) For corporate income tax they are deductible within the limit of 2% of gross salaries

Another mistake made was that many candidates did not carry forward the tax loss when computing corporate income tax. Thus, answers in part 2(c) were often only half correct. Although at the theoretical level, almost all candidates presented correctly the rules for carrying forward the tax loss, very few candidates computed correctly the tax loss to be carried forward, the most common mistake being to carry forward to 2014 the tax loss of 2008 left uncovered by the 2013 profits.

Question Three

This 15-mark question covered the topic of value added tax.

Candidates' performance was unsatisfactory on this question, with a number of candidates not even attempting it. In part 3 (a)(i) of the question very few candidates gave the correct answers. Many candidates presented in their answers the obligation to register for VAT when the threshold of 220,000 lei was exceeded. We remind candidates that the threshold is applicable to persons established in Romania, whilst the question asked for situations in which a company which is not established in Romania would have to register. Another frequent mistake was to confuse the concept of "permanent establishment" (which is used for corporate income tax purposes) with the concept of "fixed establishment" (which is used for value added purposes). Thus, candidates who provided the conditions for establishing a permanent establishment in Romania failed to gain marks, as their answer was not connected with the question asked.

Part 3(a)(ii) also was not well answered. Many candidates limited their answers to qualifying the dispatch of furniture and computers as a transfer and the dispatch and return of broken equipment as a non-transfer, without any explanation. Candidates should carefully consider the requirements, as in this case the requirement specifically mentioned that the students had to "Explain the difference between transfers and non-transfers from a VAT perspective". Without providing explanations, important marks were lost.

Question 3(b)(i) also received a very low number of correct answers, although the rules for establishing VAT period have been previously tested. An important element of candidates' exam preparation should be to attempt past paper questions. This can give candidates an insight into the style of question and the appropriate answers on areas previously tested. The most common mistakes in this requirement were:

- Considering that a person may opt between a monthly and a quarterly VAT tax period;
- Not mentioning the six-months and 12-months tax periods;
- Qualifying Frog SRL's tax period for 2013 as being the quarter, although its turnover in 2012 exceeded 100,000 euro.

Part 3 (b) (ii) received some satisfactory answers, but also numerous mistakes, including:

- Not applying the reverse charge to the acquisition of car;
- Deducting the entire value of VAT for the acquisition of the care instead of a deduction of only 50%;
- Not applying the reverse charge to the acquisition of IT services from the USA

Question Four

This 15-mark question covered multiple areas of the syllabus: value added tax, personal income tax, corporate income tax and social contributions.

In 4(a) it was surprising to see how many candidates mentioned that a self-employed person is not a taxable person from a VAT perspective. Candidates should note that VAT is applicable to any person carrying on an independent economic activity, no matter if it is a legal person or an individual.

In part 4(b) many candidates lost important marks as they presented only the threshold of 220,000 without mentioning the procedure. Again, candidates proved that they failed to carefully read the requirement which clearly stated: "Explain the VAT registration requirements and procedure for persons having a business established in Romania, which did not register at start-up".

Part 4(c) was answered by many candidates. The most common mistake was not to compute the tax on dividends, but instead to stop calculations at the computation of corporate income tax.

Question Five

This 15-mark question covered multiple areas of the syllabus: value added tax, personal income tax, and the obligations of taxpayers and/or their agents.

Part 5(a) was very well answered by the majority of candidates. The most common mistake was a failure to identify that the final income tax for rent revenue was equal to the pre-payments of tax.

By contrast, part 5(b) received very few satisfactory answers. This part was the most frequently omitted by candidates. Usually candidates presented the obligation to register for VAT when the threshold of 220,000 lei was exceeded, but very few candidates demonstrated a knowledge of the specific requirements of VAT registration for individuals trading in immovable property.

Part 5(c) received many satisfactory answers, the most common mistake being the computation of the number of days of delay.