

Examiner's report

F6 Taxation (ROM)

December 2014

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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. Each question was predominantly computational but contained narrative elements.

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.

Candidates performed particularly well on questions 2(c), 3(e), 4(b), 5(a)(ii), 5(b) and 5(c). The questions candidates appeared to find most challenging were questions 2(d), 3(a), 3(b), 3(c), 4(c) and 5(a) (i). This was mainly due to candidates not understanding core syllabus areas sufficiently well; a lack of technical knowledge and also due to a failure to read the question requirements carefully. There was particular evidence that candidates did not understand the VAT elements of the syllabus sufficiently well and that inadequate study had been undertaken in the area of taxpayers' obligations.

At this sitting, candidates generally presented well organized answers and workings were usually clearly shown. 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 as follows:

- Failing to read the question requirement clearly and therefore providing irrelevant answers Poor time management between questions - some candidates wrote far too much for some questions and this put them under time pressure to finish the remaining questions.
- Not learning lessons from previous examiner's reports and hence making the same mistakes, especially in relation to the calculation of personal income tax.
- 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 corporate income tax.

Part (a) for 2 marks required candidates to identify at least two categories of taxpayers subject to corporate income tax. Many candidates identified only Romanian companies as a type of taxpayer without any mention to any other type of taxpayer.

Part (b) for 4 marks asked for a computation of the prepayments of corporate income tax and the deadlines for payment. Although the majority of candidates knew that the prepayments had to be computed based on the previous year's corporate income tax, some candidates failed to correctly apply the price index for 2014.

Part (c) accounted for 4 marks and required candidates to compute the tax on dividends distributed by a Romanian company. Again, many candidates presented satisfactory answers. The most common mistakes were:

- using the taxable profit, instead of the accounting profit when calculating the dividends
- treating the dividends distributed to Adam as tax exempt.

Part (d) required a complex computation of corporate income tax for 20 marks. Almost all candidates used the correct pro-forma of corporate income tax computation and showed neat and clear workings. It was pleasing to see that the majority of candidates carefully read note 1 to the requirement which stated that all items should be included in the computation and a zero used to indicate any item which had no impact on the computation.

The elements correctly dealt with by the majority of candidates were:

- the non-taxable revenue relating to the reimbursed fine
- the computation of both tax depreciation and accounting depreciation
- the non-deductibility of the annual leave provision and litigation provision
- the computation of the non-deductible expenses relating to the life insurance and voluntary pension insurance
- the computation of the amount of tax due at settlement

Despite all these positive aspects of candidates' performance, some basic mistakes were still evident. Many candidates treated the dividends from the Austrian company as either non-taxable revenue or as a tax deduction, not recognising that the conditions for this revenue to be treated as non-taxable were not met.

Loan related revenues were often omitted from the computation and very few candidates knew that the exchange rate difference revenues should have been offset by related expenses before deciding how to treat the difference.

Many candidates thought that revenues from insurance were non-taxable. This may be due to confusion with the rules for personal income tax.

Although many candidates knew that the revenues due to cancelling the non-deductible provision were non-taxable, very few could correctly calculate the amount of non-taxable revenue.

The accounting depreciation was calculated correctly by the majority of candidates. Tax depreciation was also generally computed correctly, although only a few candidates knew to compare the monthly tax depreciation resulting from their calculations with the limit of 1,500 lei/month imposed by the law.

As regards the thin capitalisation rules, it was pleasing to see that many candidates knew they had to apply two types of limitations: both the accepted interest rate and the debt-to-equity ratio. The most common mistake was computing the interest expense limitation using the interest rate for loans denominated in lei, instead of using the interest rate for the loans denominated in euros. Also, although the majority of candidates knew that the debt-to-equity is computed based on average equity and average debt, very few candidates were able to compute this correctly.

Another common mistake was treating the loss due to Mr X's death as non-deductible.

Finally, many candidates either treated all stolen goods as non-deductible or as entirely deductible.

Question Two

This 25-mark question dealt with the topic of personal income tax. This question generally received satisfactory answers, except for part (d) which was not well answered by the majority of candidates.

Part (a) required identification of the conditions for considering an individual as tax resident in Romania. Most candidates identified only two conditions, namely those regarding domicile and the period of 183 days, although some candidates were able to identify all four.

In part (b) almost all candidates computed both the tax on dividends and the tax on employment revenue correctly. However, very few candidates knew that Mr Lemon had the obligation to declare and pay the income tax on the employment revenue. As regards the dividend revenue, most candidates knew that the payer was responsible for declaring and paying the tax.

Part (c) required the computation of personal income tax on three types of incomes of a Romanian resident: dividends, employment and income from self-employment.

Although many candidates computed the income tax correctly, a lot of candidates failed to mention who has the obligation to declare and pay the tax for each type of revenue. Candidates are reminded of the importance of careful reading of the question in order to maximise their marks.

Almost all candidates correctly computed the income tax on the dividend revenue and the computation of the tax on the employment revenue was generally performed very accurately. Where mistakes were made these included:

- failing to correctly compute the company car private usage benefit-in-kind
- failing to include the daily allowance as a taxable revenue

Some candidates computed the tax on an annual basis instead of on a monthly basis, and then forgot to annualise some benefit-in-kinds which were added to the annual salary.

The majority of candidates knew that the meal tickets are subtracted from the taxable base of social contributions.

As regards the revenue from self-employment, the most common mistake made by candidates was computing the taxable income as the income quota minus a fixed percentage of expenses. This may have been due to confusion with the rules for intellectual property revenue.

Part (d) was omitted entirely by some candidates. For the candidates who attempted this part, answers were generally not satisfactory.

Part (e) was also not well answered by a lot of candidates.

Question Three

This 15-mark question related to VAT.

Parts (a) and (b) of the question were poorly answered. Many candidates failed to identify transportation as a specific feature in the definition of an intra-community supply. Many candidates defined the intra-community supply/acquisition of goods as the supply/acquisition from a person registered for VAT in one EU Member State to another person registered for VAT in another Member State, thus defining the transaction by the persons involved and not by the actual movement of goods. Then, when stating the place of supply, candidates often gave two options: with transport and without transport. Candidates are reminded that there is no such thing as an intra-community supply/acquisition without transport.

Even when candidates provided the correct definition they still often failed to identify the place of supply, often incorrectly stating that the place of supply for intra-community supplies is the member state where goods arrive (instead of the member state where the goods depart). The same applied to the place of supply for intra-community acquisitions of goods, many candidates identified the place of supply of intra-community acquisition as being the member state in which the goods departed (instead of the member state in which the goods arrived).

Part (c) was also generally unsatisfactorily answered. Many candidates considered that APSE should have registered for VAT even before the first transaction and mentioned that the reverse charge would be applicable.

Part (d) was well answered, suggesting that candidates are better prepared to answer questions regarding VAT on services. This was also confirmed by the many satisfactory answers to part (e). The most common mistake in part (e) was a failure to identify that drafting documents for the sale of an apartment in Bucharest should be subject to Romanian VAT, no matter where the client was located.

Question Four

This 15-mark question was on corporate tax and was well answered by many candidates.

Many candidates gave good answers for part (a). The most common mistake was not identifying that the tax loss could not be recovered during the period when the company applied the special scheme for corporate income tax.

Part (b) was very well answered. Almost all candidates identified correctly the years when the 3% tax was applied and the years when the 16% tax was applied. Also, the majority of candidates correctly computed the tax depreciation and the accounting depreciation. Where mistakes were made, the most common one was failure to recover the tax loss in 2014.

Part (c) however, received few satisfactory answers as candidates either confused the obligations with those for personal income tax or mentioned only the computational system and not the prepayment system.

Question Five

This 15-mark question was based on personal income tax and also contained a requirement on the difference between tax evasion/avoidance.

Although this question was generally well answered, part (a)(i) was not. Very few candidates identified the fact that both the partnership and each partner should submit a tax declaration. Also, many candidates gave a lot of unnecessary information in their answers, thus wasting time.

By contrast, part (a) (ii) was performed well by many candidates. The most common mistake was to include the entire revenue in the computation rather than only Mr Strawberry's part of the revenue. However, candidates gained marks if the rest of the principles of computation were correctly applied, even if they used the wrong revenue figure.

Part (b) was answered well by many candidates. Almost all candidates correctly computed the social contributions. However, very few candidates knew to identify the amount of employers' expenses as being gross salary + employer's contributions. Instead, many candidates also added employee's contributions. This is incorrect as these are withheld from the gross salary so do not represent an additional expense for the employer.

In part (c) the majority of candidates were able to correctly explain the difference between tax avoidance and tax evasion.