

Examiner's report

F6 Taxation (ROM)

June 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. The best answered were questions 1 and 3. Questions 4, 5 and 2 were less well answered.

Good answers were presented by some candidates who are to be congratulated for having prepared for the examination. Candidates who performed well did so because they 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.

At this sitting candidates continued to show organized 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.
- Poor time management between questions; some candidates wrote too much for some questions and this put them under time pressure to finish the remaining questions.
- Not learning from previous examinations and examiner's reports, hence making the same mistakes, especially in relation to personal income tax, the function of taxation and the difference between direct and indirect taxes.
- Providing more than the required number of points.
- Illegible handwriting and poor layout of answers.

Specific Comments

Question One

This 30-mark question tested corporate income tax.

Part (a) required candidates to explain the system of prepayments for corporate income tax. Although this system applied for the first time to companies in 2013, candidates proved they knew the system. The most common mistake was not to mention the price index in the computation of prepayments. Part (b) requested the actual computation of prepayments where, again, the most common mistake was not to use the price index.

Part (c) was very well answered by many candidates. As this part requested a complete computation of corporate income tax, it was good to see that most of the candidates structured their answers clearly.

The most common mistakes were:

- failing to know that expenses related to directors' cars may be deducted only up to one car per director;

- computing the deductible amount of car related expense for the director using a deduction of 90% (business use) instead of 50%, as required by the law;
- computing the deductible amount of car related expense for sales agents using a 90% or 50% ratio instead of full deduction;
- considering depreciation for all five cars as deductible, although depreciation could be deducted only for four cars as only one car per director could be depreciated for tax purposes;
- failure to compute the assimilated income resulting from the additional depreciation of revaluation reserve of the building;
- not including the prepayments of tax as a non-deductible expense, although the question clearly stated that they were included in total expenses.

It was good to see that many candidates knew to compute the additional income that resulted from the transfer pricing adjustment. Also, there was a clear improvement in the structuring, presenting and logic of candidates' answers. It was surprising to see a number of mistakes in candidates' computations.

Part (d) of the question asked candidates some to present some basic knowledge on the taxation of non-residents. Many candidates proved that they fail to read carefully the text of the question. Thus, although it clearly stated that the explanation and computation should be presented for **“For each** of Sofa SRL’s contracts with non-residents”, many candidates gave general answers and did not comment upon each contract.

Question Two

This 25-mark question concerned personal income tax.

Part (a) asked for the computation of tax on employment income. Although many students gave good answers very few of them identified the non-competition clause as a taxable revenue. Another common mistake was in the wrong calculation of the benefit in kind resulting from use of the car. Some students computed the employment tax using annual values, and not monthly values, which could have been avoided had those candidates practised for the examination by solving questions from previous papers.

Part (b) required candidates to compute social contributions due by the employer. Although almost all candidates identified the social contributions due by the employer for the period January to September, many of them did not mention the social contributions applicable to the non-competition clause.

Part (c) asked candidates to present taxpayer's obligation and deadlines to pay and declare employment income tax. Almost all candidates identified the employer as the person liable to pay, and the deadline of 25th of the next month for paying and declaring the tax. A small number of candidates did very well to present the quarterly deadline.

In part (d) knowledge of investment income was tested. Many candidates gave good, but frequently incomplete, answers. For example, when stating the deadline for paying the tax on dividend income all candidates stated the deadline of 25th of the month following the payment, and a few are to be congratulated for stating that the deadline can be no later than 25th January of the next year after dividends were distributed. Almost all candidates mentioned that no social contributions are applicable to investment income, and a few went on to explain why.

Question Three

Question three was on value added tax and was a 15-mark question. Although the question tested new tax legislation, i.e. the cash accounting scheme for VAT, this was one of the best answered questions, many candidates demonstrating that they knew the rules.

Part (a)(i) asked candidates to list the rules for entering the cash accounting scheme. Many candidates mentioned the threshold of 2,250,000 lei, and a few of them presented other conditions as being a VAT payer

and being established in Romania. A number of candidates stated that the scheme is optional, which is incorrect: it is mandatory.

Parts (a)(ii), (iii) and (iv) requested a VAT computation under three scenarios of the application of the cash accounting scheme. Part 3 (a)(ii) was well answered by all candidates. In part 3 (a)(iii) there were many good answers and the most common mistake was not charging output VAT after 90 days. Part 3 (a)(iv) was also well answered, and the most common mistake was not deducting VAT on payment.

Part 3 (b) proved to be challenging with few candidates doing well to give correct answers. Candidates are reminded of the need practise narrative questions as well as computational ones.

Question Four

Question 4(a) and 4 (b) covered the first area of the syllabus regarding the Romanian Tax System.

In general, candidates' knowledge of this area is minimal. A few candidates did well to give correct answers as regards the functions of taxation. Many candidates identified corporate income tax as a direct tax and VAT as an indirect tax, and a few went on to state the difference between them.

Question 4(c)(i) tested the special scheme of corporate income tax, which candidates appeared to find difficult, making some basic mistakes such as:

- not identifying the quarter when the company should cease to apply the special scheme of corporate income tax;
- applying the 3% tax rate to a tax base computed as total revenues minus total expenses;
- applying a 16% tax rate to a tax base computed as total revenues.

Most candidates identified correctly the deadlines for declaring and paying the tax and knew how to compute the legal reserve.

Question 4(c)(i) examined corporate income tax deadlines, which a number of candidates found challenging. Many good answers were received to question 4(c)(ii), where almost all candidates knew to how to compute the income tax on dividend revenue correctly.

Question Five

This 15-mark question tested personal income tax and VAT

Part (a) received many good answers as regards the procedure for declaring and paying the income tax. A small number of candidates are to be congratulated for giving good answers as regards the procedure for paying and declaring social contributions. Many candidates appeared not to read the requirement carefully, as they computed the tax and social contributions, instead of explaining the procedure.

Part (b) asked candidates to identify the moment when a taxable person should register for VAT. Many good answers were given. The mistakes were as regards the time to request registration (10 days since the threshold is exceeded) and the moment when the VAT code shall be valid (1st of the next month after the request has been made)

Part (c) tested income tax on rent revenue. The most common mistake was adding the revenues and then computing the tax. The correct computation should have been made separately, as the tax on renting the land is withheld by the payer, whilst the tax on renting the apartment is paid by the owner of the apartment.