

Examiner's report

F6 Taxation (ROM)

June 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) with an approximate 2:1 split of the requirements in terms of 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.

Many satisfactory answers were presented by candidates who are to be congratulated for having prepared themselves well for the examination. Those candidates who performed well in the paper demonstrated that they had carefully read the content and requirements of questions and so were able to answer the narrative elements of questions, and give reasons or examples when asked to do so.

All questions had parts where candidates' performance was generally strong. Thus, Q1 (a) (iii), Q2 (a), Q3 (a), Q4 (a) and Q5 (b) were generally tackled well. The questions candidates found most challenging were Q1 (a) (ii), Q2 (c), Q3 (b) (ii), Q4 (b) and Q5 (a). This was mainly due to candidates' lack of knowledge on some new provisions of the tax law regarding permanent establishments and the special scheme of corporate income tax. In addition, many candidates appeared to have an insufficient knowledge of the VAT elements of the syllabus as well as being unprepared for questions in the areas of taxpayers' obligations and personal income tax on intellectual property income.

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 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 the 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 the area of corporate income tax, and tested candidates' knowledge of the rules for permanent establishments of foreign entities in Romania as well as the general rules to determine taxable revenues and deductible expenses.

Part (a) had three subparts: (i), (ii) and (iii) and totalled 26 marks. Part (i) required the definition of a permanent establishment (PE) and the majority of candidates correctly identified the main characteristics of a PE.

Part (ii) required candidates to explain how the corporate income tax of a foreign entity with more than one PE in Romania should be computed. Candidates' performance in this part of the requirement was less satisfactory.

Part (iii) required candidates to compute the corporate income tax of a foreign company with two PE's in Romania. Although the correct answer was obtained by cumulating revenues and expenses, candidates who performed the correct computation of taxable revenues and expenses, but did so separately for each PE, received full credit.

The main issues encountered in answers to this requirement were as follows:

- Although many candidates identified that the computer costing 12,960 lei should be tax depreciated rather than deducted in full, few candidates added back the cost of 12,960 lei as a non-deductible expense. Moreover, many candidates failed to correctly compute the tax depreciation, either by failing to identify the correct depreciation period (3 years) or failing to identify the correct number of months of tax depreciation in 2014 (10);
- Very few candidates knew to limit the tax depreciation of cars to a maximum of 1,500 lei/month;
- It was pleasing to note that the majority of candidates knew to limit social expenses' deductibility to 2% of gross salary expenses. However, some candidates still limited the deductibility of social expenses to 150 lei/employee, confusing again the rules of deductibility for corporate income tax with the rules of exemption for personal income tax;
- Many candidates limited car-related expenses to 50% for both cars in Bucharest, failing to mention that for one car all expenses were entirely non-deductible (as expenses related to management cars may be deducted only for one car/manager). Also, as regards the 50% limitation, many candidates applied this only to fuel and repair costs and failed to apply it to the interest on the finance lease, exchange rate differences on the finance lease or GPS expenses.

Part (b) required candidates to compute the corporate income tax due in Romania for a company with a PE in Germany. Although many candidates provided satisfactory answers here and identified that a tax credit was allowable, some basic mistakes were made as follows:

- Many candidates included only revenues and expenses from Romania in taxable profits rather than the worldwide revenues and expenses;
- Few candidates knew that the tax credit allowed in Romania should be limited to the corporate income tax which would have been due in Romania in respect of the revenues and expenses recorded in Germany.

Question Two

This 25 mark question covered the area of personal income tax and related social contributions.

Many candidates provided satisfactory answers to both parts (a) and (b).

Part (a) required the computation of the personal income tax due on the employment income of Mr and Mrs Ink. The majority of candidates performed well here. However, the following mistakes were frequently made:

- Not computing the correct number of days for taxing the meal vouchers;
- Failing to correctly compute the taxable amount of the gifts;
- Failing to include the daily allowance in taxable income;
- Failing to limit the social security contribution to 5 times the average monthly salary;
- Failing to exclude the compensation payment from the taxable base of the unemployment fund contribution.

Part (b) required candidates to compute the social contributions due by the employer. Many candidates performed a separate computation for each employee. Even if such a computation did not arrive at the correct answer (especially as regards the social security contribution, where the limitation of 5 x the number of employees x the average monthly salary should have been applied) marks were still awarded if the separate computation was correct and the correct tax base was identified.

The most common mistakes noted were:

- Not including the gifts and daily allowance in the taxable base for social contributions;
- Failing to exclude the compensation payments from the taxable base of the unemployment fund contribution, health insurance indemnities fund contribution and fund for guaranteeing salary payment contributions.

Part (c) required candidates to compute the income tax and social contributions to be withheld from intellectual property revenue. This proved to be the most challenging part of the question for candidates with many candidates demonstrating a lack of knowledge in this syllabus area, despite it having been tested in the past. The most common mistakes made were:

- Not computing the income tax and social contribution separately for each month;
- Not applying the 16% income tax rate to gross revenue. Some candidates applied the 16% income tax rate to gross revenue minus social contributions. Candidates are reminded that social contributions may be subtracted from the taxable base only when the payer of the income withholds the 10% income tax. When the beneficiary of the income makes the election to be taxed with final income tax, then the payer of the income has to withhold 16% tax from the gross revenue. Other candidates subtracted the expenses quota of 20% from the taxable base of income tax. Again, candidates are reminded that the expenses quota is only deducted from the gross profit when computing the yearly final tax and only when the beneficiary of the income did not opt for the withholding of a 16% final tax.
- Computing social contributions for the April revenue, despite the fact that the beneficiary of the income obtained employment revenue in that month. Candidates are reminded that, as regards intellectual property income, no social contribution should be withheld if the income beneficiary receives employment income as well as intellectual property revenues;
- Applying social contributions for the November revenue to the gross revenue and not to the gross revenue less the expenses quota.

Question Three

Question three was a 15 mark question on VAT.

In part (a) candidates were requested to give examples of transactions to which a 9% VAT rate is applicable. Many candidates gave satisfactory answers here.

In part (b) (i) candidates were requested to determine when a person should become a VAT registered person, clearly stating all relevant deadlines. Although many candidates identified August 2014 as being the month when the threshold for VAT registration was reached, few candidates knew the timeframe for VAT registration and even fewer the date from which the registration was valid.

In part (b) (ii) candidates were asked to compute the VAT adjustments necessary to be made when a person switches from being a non-registered person for VAT purposes to a VAT registered person. Many candidates did not even attempt to compute the adjustment, demonstrating a lack of knowledge on this area of the syllabus.

Question Four

Question four was a 15 mark question on the special scheme of corporate income tax for very small companies and was generally not well answered.

In part (a) many candidates managed to identify the conditions to be fulfilled for a company to apply the special scheme of corporate income tax for very small companies. However, common mistakes included:

- Listing a threshold of €100,000 euros instead of €65,000;
- Listing a condition involving the number of employees, despite this not being a condition of the scheme;
- Failing to differentiate between the conditions to be fulfilled at incorporation and in subsequent years, as asked for in the requirement.

Candidates are reminded of the importance of providing a structured answer, which meets all parts of the question requirement.

Part (b) was not well answered by many candidates. Very few candidates correctly identified when the company should cease to apply the special scheme of corporate income tax for very small companies. Another common mistake was applying the 3% tax rate to profits instead of revenue.

Also, many candidates failed to explain why the company should apply the special scheme of corporate income tax for very small companies from 2014.

Question Five

Question five tested both tax procedural issues and personal income tax issues and was a 15 mark question.

In part (a) many candidates correctly identified the person who should declare the tax, but very few candidates correctly identified the competent tax authority.

Part (b) was well answered by many candidates who demonstrated a good knowledge of the rules governing rent income.

Parts (c) and (d) also produced many satisfactory answers with many candidates demonstrating that they were well-prepared as regards the syllabus areas dealing with self-employed persons.