Answers

Marks

1 Mrs Summer

(a) Deadlines for submitting the final declaration for 2010 and estimated net income for 2011

Mrs Summer will need to declare her estimated net income for 2011 as, in 2010, her activity covered only three months of a tax year.	½
The declaration of estimated revenue and estimated expenses should be submitted to the tax authorities together with the final declaration of revenue for 2010, no later than 25 May 2011.	1½
	2

Tutorial note: *If no declaration of estimated income and expenses is submitted to the tax authorities, the prepayments are determined based on the actual net income realised in 2010.*

(b) Prepayments of income tax for the tax year 2011

As in 2010 Mrs Summer's activity covered only three months of a tax year, Mrs Summer should pay prepayments of income tax for 2011 based on her estimated revenues and expenses for 2011 (not on the revenues and expenses actually recorded in 2010).	½
Net estimated income = Estimated gross revenue – Estimated deductible expenses	
Net estimated income = 200,000 – 160,000 = 40,000 lei	½
Prepayments of income tax = 16% x 40,000 = 6,400 lei	½
The prepayments should be made quarterly by the 15th of the last month of each quarter (15 March, 15 June, 15 September, 15 December).	1
The sum to be paid at each deadline = 6,400/4 = 1,600 lei	½
	3

(c) Amounts which should not have been recorded as a revenue/expense

Loans should not have been recorded as revenue as these are only cash in-flows.

Interest received for the current account used only in connection with the investment activity should not have been recorded as revenue, as it has no connection with the self-employed activity.

The acquisition cost for the equipment bought in August 2011 should not have been recorded immediately as an expense, but depreciated over its useful life.

ANY TWO items only – 1 mark each, maximum 2

(d) Final income tax due for Mrs Summer's self-employed activity in the tax year 2011

	Lei	
Gross revenues	170,750	
Sales revenue (W1)	170,000	1
Interest revenue	750	1
Deductible expenses	(126,862)	
Material expense	(75,000)	1
Salary expense	(10,800)	1
Social expense (W2)	(216)	1½
Employers' social contributions (W3)	(2,500)	2
Tax depreciation (W4)	(6,000)	1½
Interest expense (W5)	(19,450)	2½
Social contributions for self-employed person	(12,000)	1
Protocol expense (W6)	(896)	2
Net income	43,888	
Income tax at 16%	7,022	½
		15

			Marks
(e)	**Income tax due for Mrs Summer's employee for the month of December 2011**		
		Lei	
	Gross salary	2,100	
	Basic salary	1,800	½
	Gift vouchers	300	½
	Social contributions	(297)	
	Social security fund (1,800 x 10·5%)	(189)	½
	Health care insurance fund (1,800 x 5·5%)	(99)	½
	Unemployment fund (1,800 x 0·5%)	(9)	½
	Net income	1,803	
	Personal deduction (W7)	(120)	1
	Taxable income	1,683	
	Income tax at 16%	269	½
			4

(f) Income tax due for Mrs Summer's investment activity in the tax year 2011

Mrs Summer has to compute quarterly income tax based on the revenues and expenses of each quarter, computed on a cumulative basis from the beginning of the year.

Quarter 3, 2011 (July – September 2011)
Total revenues = 3,000 x 1·5 = 4,500 lei
Total expenses = 3,000 x 1 = 3,000 lei
Gain = 4,500 – 3,000 = 1,500 lei ½
Income tax due for the 3rd quarter= 16% x 1,500 lei = 240 lei ½
Deadline for paying and declaring the tax: 25 October 2011 ½

Quarter 4, 2011 (October – December 2011)
Total revenues = 3,000 x 1·5 + 7,000 x 0·85 = 10,450 lei
Total expenses = 3,000 x 1 + 7,000 x 1 = 10,000 lei
Cumulative gain = 10,450 – 10,000 = 450 lei 1
Cumulative income tax = 16% x 450 = 72 lei
Income tax due for the 4th quarter = 0 lei ½
Deadline for declaring the tax: 25 January 2012 ½

At each deadline the tax should be declared and paid to the tax authorities by Mrs Summer. ½

4

30

WORKINGS

(1) Sales revenue

Sales revenue includes only the amounts received in 2011.

Sales revenue in 2011 = 160,000 + 10,000 = 170,000 lei

(2) Social expense

Social expense may be deducted up to 2% of gross salary.

Limit of deductibility of social expenses = 2% x 10,800 lei = 216 lei ➔
Deductible social expenses = 216 lei
Non-deductible social expenses = 300 – 216 = 84 lei

(3) Employers' social contributions

The calculation is made only for the months July to November 2011, as for December 2011 the payment of contributions is made in January 2012, so it may not be included in Mrs Summer's deductible expenses when computing income tax for 2011.

Monthly value of employers' social contributions for July to November 2011:
Social security contribution = 1,800 x 20·8% = 374 lei
Health care insurance contribution = 1,800 x 5·2% = 94 lei
Unemployment contribution = 1,800 x 0·5% = 9 lei
Work accident contribution = 1,800 x 0·15% = 3 lei
Health insurance indemnities contribution = 1,800 x 0·85% = 15 lei
Fund for guaranteeing salary payments = 1,800 x 0·25% = 5 lei
Total monthly employers' social contributions for July–November 2011 = 374 + 94 + 9 + 3 + 15 + 5 = 500 lei

Total employers' social contributions for 2011 = 5 x 500 = 2,500 lei

(4) Tax depreciation

Equipment value = 240,000 lei
Depreciation period = 10 years
Annual depreciation = 240,000/10 = 24,000 lei
Number of months of depreciations in 2011 = 3 months (October to December 2011)
Tax depreciation in 2011 = 24,000 x 3/12 = 6,000 lei

(5) Interest expense

The interest expense of 20,800 lei is composed of:

(i) Interest for the loan from the bank = 120,000 x 10% x 10/12 = 10,000 lei

This amount is entirely deductible as the loan is taken from a bank (i.e. authorised lending provider).

(ii) Interest for the loan from a non-specialised company = 180,000 x 8% x 9/12 = 10,800 lei

This amount may be deducted only up to the level of the reference interest rate set by the National Bank of Romania, which is 7% ➔
Deductible interest for the loan taken from the non-specialised company = 180,000 x 7% x 9/12 = 9,450 lei
Non-deductible interest for the loan taken from the non-specialised company = 10,800 – 9,450 = 1,350 lei
Total deductible interest expenses = 10,000 + 9,450 = 19,450 lei

(6) Protocol expenses

Protocol expenses may be deducted within the limit of 2% x (gross revenues – deductible expenses other than protocol, sponsorship and contributions to professional association).

Gross revenues = 170,750 lei
Deductible expenses other than protocol, sponsorship and contributions to professional association = 75,000 + 10,800 + 216 + 2,500 + 6,000 + 19,450 + 12,000 = 125,966 lei
Limit of deductibility for protocol expenses = 2% x (170,750 – 125,966) = 896 lei ➔
Deductible protocol expenses = 896 lei
Non-deductible protocol expenses = 2,000 – 896 = 1,104 lei

(7) Personal deduction

Mrs Summer's employee has no dependant persons, thus the personal deduction shall be computed as follows:

Personal deduction = 250 x (1 – ((2,100 – 1,000)/2,000)) = 112·5 = 120 lei

2 Winter Ltd

(a) Final income tax due for the tax year 2011

	Lei	Marks
Gross profit before tax	350,000	½
Non-taxable revenues	(7,000)	
Revenues from provisions	(7,000)	1
Tax depreciation (W1)	(72,000)	1
Elements similar to revenues (W1)	7,000	2
Non-deductible expenses	85,300	
Social expense (W2)	1,700	1
No reference to bad debt losses for Storm Ltd	–	½
Provision expenses (W3)	6,000	2
Missing inventory	5,000	1
Interest expense (W4)	14,400	4
Corporate income tax	10,000	½
Penalties for late payment of corporate income tax	200	½
No reference to contractual penalties	–	½
Accounting depreciation (W1)	48,000	1
Taxable income for 2011	363,300	
Tax loss from previous years (W5)	(240,000)	1
Final taxable income	123,300	
Income tax (16%)	19,728	½
		17

Marks

(b) Tax treatment of interest revenue received by Winter Ltd's creditors

(i) Interest paid to Mr Snow

This is interest paid to an individual resident in Romania, therefore according to the Romanian Tax code it will be taxed at source at the rate of 16%. 1

There is no alternative tax treatment. ½

(ii) Interest paid to Ice Ltd

This is interest paid to a non-resident company. Therefore, according to the general rule provided by the Tax code, such income should be taxed at source at the rate of 16% as it is revenue received by a non-resident. 1

However, starting from 1 January 2011, the Interest and Royalties Directive will apply. Accordingly, this interest income should not be taxed at source in Romania if the conditions set by the EU Directive are fulfilled (i.e. a shareholding period of at least two uninterrupted years and ownership of at least 25% of the income payer's share capital). 2

Even if the Interest and Royalties Directive does not apply, there is a further alternative tax treatment if there is a double tax treaty between Romania and Austria and this treaty provides for a favourable tax treatment, in which case this tax treatment can be applied. ½

5

(c) Non-taxable revenues

The corporate tax legislation states as non-taxable revenues the following:

- Dividends received from Romanian companies;
- Dividends received from EU companies if the following conditions are met by the company which receives the dividend:
  - Pays corporate income tax;
  - Holds at least 10% of the share capital of the EU company, for an uninterrupted period of at least two years;
- The favourable differences recorded as a consequence of capitalising reserves, benefits or share premiums or as a consequence of accounting valuation of shares;
- Revenues registered for cancelling non-deductible expenses;
- Non-taxable revenues clearly specified in other legislation;

ANY THREE items only – 1 mark each, maximum 3

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WORKINGS

(1) Tax depreciation, accounting depreciation and elements similar to revenues

(i) Tax depreciation

Net tax value of assets on 1 January 2011 = 288,000 lei

Years of tax depreciation remaining on 1 January 2011 = 4
⇒ Annual tax depreciation = 288,000/4 = 72,000 lei

Tax depreciation in 2011 = 72,000 lei

(ii) Accounting depreciation

Net accounting value of assets on 01 January 2011 = 288,000 lei

Years of accounting depreciation remaining on 1 January 2011 = 6
⇒ Annual accounting depreciation = 288,000/6 = 48,000 lei

Accounting depreciation in 2011 = 48,000 lei

(iii) Elements similar to revenues

The revaluation reserve should be taxed when the reserve is tax depreciated. The reserve is included in the tax value of the assets so it will be tax depreciated over four years.

Revaluation reserve = 28,000 lei

Annual tax depreciation of reserve (included in the assets' tax depreciation) = 28,000/4 = 7,000 lei
⇒ Winter Ltd should register elements similar to revenues in amount of 7,000 lei in 2011.

(2) Social expense

Total social expense = 500 x 25 = 12,500 lei
Limit of deductibility of social expense = 2% x 540,000 = 10,800 lei
Deductible social expense = 10,800 lei
Non-deductible social expense = 12,500 – 10,800 = 1,700 lei

(3) Provision expenses

(i) For the receivable due on 20 May 2009 a provision may be deducted up to 30% of the value of the receivable as all conditions are met:

- Provision is recorded after 1 January 2006;
- Receivable is recorded after 1 January 2004;
- Receivable is due more than 270 days from maturity;
- Receivable is not guaranteed by another person;
- Receivable is not from an affiliated person;
- Receivable was fully included in taxable revenues.

Limit of deductibility for provision = 30% x 30,000 = 9,000 lei

Provision expense = 15,000 lei
⇒ Deductible provision expense = 9,000 lei
⇒ Non-deductible provision expense = 6,000 lei

(ii) For the receivable due on 10 June 2010 a provision may be deducted up to 100% of the value of the receivable as all conditions are met:

- Receivable is recorded after 1 January 2007;
- The bankruptcy procedure for the client started, according to a court ruling;
- Receivable is not guaranteed by another person;
- Receivable is not from an affiliated person;
- Receivable was fully included in taxable revenues of Winter Ltd.

Limit of deductibility for provision = 100% x 20,000 = 20,000 lei

Provision expense = 20,000 lei
⇒ Deductible provision expense = 20,000 lei
⇒ Non-deductible provision expense = 0 lei

(4) Interest expenses

Both loans are taken from non-credit institutions, so the related interest expense is deducted according to the thin capitalisation rules.

(i) Loan from Mr Snow

Interest expense recorded in 2011 = 200,000 x 10% = 20,000 lei

Interest computed using the reference interest rate set by the NBR for lei = 200,000 x 7% = 14,000 lei
⇒ Non-deductible interest expenses = 20,000 – 14,000 = 6,000 lei

The 14,000 lei may be deducted only if the debt-to-equity ratio of Winter Ltd is between 0 and 3.

Debt-to-equity = Mean debt/Mean equity

Mean debt = ((200,000 + 100,000 x 4·2) + (200,000 + 100,000 x 4·2))/2 = 620,000 lei
Mean equity = (1,000,000 + 1,500,000)/2 = 1,250,000 lei
Debt-to-equity = 620,000/1,250,000 = 0·496
➔ The 14,000 lei will be entirely deductible in 2011

(ii) Loan from Ice Ltd

Interest expense recorded in 2011 = 100,000 x 8% x 4·2 = 33,600 lei

Interest computed with the maximum reference interest rate accepted by the Tax code for foreign currency loans = 100,000 x 6% x 4·2 = 25,200 lei
⇒ Non-deductible interest expenses = 33,600 – 25,200 = 8,400 lei

The 25,200 lei may be deducted only if the debt-to-equity ratio is between 0 and 3.

As previously computed, the debt-to-equity ratio is 0·496.
➔ The 25,200 lei will be entirely deductible in 2011

Thus, total non-deductible interest expenses = 6,000 + 8,400 = 14,400 lei.

Marks

(5) Tax loss from previous years

Tax losses recorded in previous years (2008 and 2009) = 100,000 + 200,000 = 300,000 lei
Recovered tax loss in 2010 = 60,000 lei
Tax loss still to be recovered = 300,000 – 60,000 = 240,000 lei

3 Spring Ltd

(a) Value added tax (VAT) for each invoice issued

(i) Invoice issued for rent

Spring Ltd should not charge VAT on this invoice as rental activities are exempt. 1

(ii) Invoice issued for electricity

Spring Ltd should charge VAT on this invoice as, for electricity, Spring Ltd should apply the commissioner-structure.
VAT = 3,000 x 24% = 720 lei 1

(iii) Invoice issued for the value of computers sold to the Bulgarian company

Spring Ltd should not charge VAT on this invoice, as this is an intra-EU delivery which is a zero-rated transaction. 1

(iv) Invoice issued for the transport of computers sold to the Bulgarian company

The transport is ancillary to the intra-EU delivery, thus Spring Ltd should not charge VAT on this invoice, as this is part of the taxable base of the intra-EU delivery which is a zero-rated transaction. 1

4

(b) VAT for each acquisition

(i) Import of goods

For the import of goods Spring Ltd should pay VAT at the customs office based on the value computed in the customs declaration. Only if Spring Ltd has a certificate of deferred VAT payment, it will apply reverse charge on importation.

VAT = 220,000 x 24% = 52,800 lei ½

This VAT is fully deductible. ½

(ii) Discount received for the import of goods

The discount received for the import of goods should in principle decrease the taxable base of the goods as this is an adjustment event. ½

But, in the case of the import of goods, this adjustment is allowed only based on a document issued by customs authorities. ½

Thus no VAT adjustment is to be made until the customs decision is received. ½

(iii) Acquisition of electricity

VAT = 3,000 x 24% = 720 lei ½

This VAT if fully deductible as it is re-invoiced applying VAT. ½

(iv) Acquisition of transport services

VAT = 5,000 x 24% = 1,200 lei ½

This VAT is fully deductible as the transport is made for zero-rated activities. ½

(v) Acquisition of air conditioning units

For this acquisition Spring Ltd should apply the reverse charge system, thus it will have to charge VAT in an amount of 2,000 x 20 x 24% = 9,600 lei ½

However, VAT for only 19 air conditioning units may be deducted as one is used for exempt activities (i.e. rent), thus the deductible VAT for this transaction will be 2,000 x 19 x 24% = 9,120 lei 1

6

Marks

(c) Transactions to be reported in December 2011

1. Import

The import of goods should be included in the December 2011 return. ½

The discount of 10% should not be included in the December 2011 return as this discount may not decrease the taxable base until the document from the customs authorities is received. ½

2. Rent and electricity

The rent invoice should be declared in December 2011 return. ½

The electricity invoices (received and issued) should both be declared in December 2011 return. ½

3. Intra-EU delivery

The invoice issued for the value of goods delivered within the EU should be included in the December 2011 VAT return. ½

The invoice received for the transport of goods should be included in the December 2011 VAT return. ½

The invoice issued for the transport of goods should also be included in the December 2011 VAT return, even though the invoice was issued in January, as this is part of the taxable base of the intra-EU delivery and the chargeable event for the intra-EU delivery is on 23 December 2011. 1

4. Intra-EU acquisition

The intra-EU acquisition should not be included in the December 2011 VAT return as the chargeable event for this acquisition occurs on 10 January 2012. 1

5

15

4 Mrs Autumn

(a) Prepayments of tax and final tax due for rental income

Tax year 2010

(i) Pre-payments of tax

For the tax year 2010 Mrs Autumn should apply the lump-sum expenses method for determining the net income to which the tax applies.

	Lei	Marks
Gross income:		
– Apartment 1 (200 x 3·9 x 11)	8,580	
– Apartment 2 (350 x 3·9 x 11)	15,015	
– Apartment 3 (400 x 3·9 x 10)	15,600	
– Apartment 4 (420 x 3·9 x 10)	16,380	
	55,575	2

Lump-sum expenses = 25% x 55,575 = 13,894 lei 1
Net income = 55,575 – 13,894 = 41,681 lei
Prepayments of tax = 16% x 41,681 = 6,669 lei ½

(ii) Final tax

	Lei	Marks
Gross income:		
– Apartment 1 (200 x 4·3 x 11)	9,460	
– Apartment 2 (350 x 4·3 x 11)	16,555	
– Apartment 3 (400 x 4·3 x 10)	17,200	
– Apartment 4 (420 x 4·3 x 10)	18,060	
– Apartment 7 (270 x 4·3 x 1)	1,161	
– Apartment 8 (340 x 4·3 x 1)	1,462	
– Investment made by tenant	10,000	1
	73,898	1½

Lump-sum expenses = 25% x 73,898 = 18,475 lei ½
Net income = 73,898 – 18,475 = 55,423 lei
Final tax due for 2010 = 16% x 55,423 = 8,868 lei ½

Marks

Tax year 2011

(i) **Pre-payments of tax**

For the tax year 2011 Mrs Autumn should apply the real system for determining the net income to which the tax applies, as the number of rent contracts on 31 December 2010 is higher than five.

For the purpose of computing the pre-payments Mrs Autumn will need to make an estimate of her revenues and expenses as known in January 2011, as she has to declare the estimated net income by 15 January 2011.

	Lei	
Estimated gross income:		
– Apartment 1 (200 x 4·2 x 12)	10,080	
– Apartment 2 (350 x 4·2 x 12)	17,640	
– Apartment 3 (400 x 4·2 x 12)	20,160	
– Apartment 4 (420 x 4·2 x 12)	21,168	
– Apartment 7 (270 x 4·2 x 12)	13,608	
– Apartment 8 (340 x 4·2 x 12)	17,136	
	99,792	1½
Estimated deductible expenses		
– Car depreciation (W1)	(2,520)	1
– Apartments depreciation (W2)	(21,600)	1
Net income (99,792 – 24,120)	75,672	
Prepayments of tax (16%)	12,108	½

(ii) **Final tax**

	Lei	
Gross income		
– Apartment 1 (200 x 4 x 12)	9,600	
– Apartment 2 (350 x 4 x 12)	16,800	
– Apartment 3 (400 x 4 x 5 + 370 x 4 x 7)	18,360	
– Apartment 4 (420 x 4 x 5 + 390 x 4 x 7)	19,320	
– Apartment 7 (270 x 4 x 12)	12,960	
– Apartment 8 (340 x 4 x 12)	16,320	
	93,360	1½
Deductible expenses (as above)		
– Car depreciation (W1)	(2,520)	½
– Apartments depreciation (W2)	(21,600)	½
Net income (93,360 – 24,120)	69,240	
Final tax due for 2011 (16%)	11,078	½
		14

(b) Tax for selling the apartments

For selling apartment 5:
Income tax = 3% x 135,000 = 4,050 lei ½

For selling apartment 6:
Income tax = 6,000 + 2% x (320,000 – 200,000) = 8,400 lei ½

1

15

WORKINGS

(1) **Car depreciation**

Value of car = 20,160 lei

As only 50% of the car is to be used in business purposes, only 50% of the depreciation can be registered as a deductible expense

Monthly depreciation = 20,160/(4 x 12) x 50%= 210 lei
Number of months of depreciation in 2011: 12 months (January to December 2011)
Depreciation in 2011 = 210 x 12 = 2,520 lei

As no changes occurred during 2011 the estimated depreciation will be equal to the final depreciation.

Marks

(2) **Apartments depreciation**

Value of an apartment = 176,400 lei
Monthly depreciation = 176,400/(49 x 12) = 300 lei
Number of months of depreciation in 2011: 12 months (January to December 2011)
Depreciation of all six apartments in 2011 = 6 x 300 x 12 = 21,600 lei

As no changes occurred during 2011 the estimated depreciation will be equal to the final depreciation.

5 Seasons Co Ltd

(a) Value added tax (VAT) obligations

(i) Buying the cement

This is an intra-EU acquisition deemed to take place in Romania, as this is where the goods arrived.

Thus, Seasons Co has to:

– register for VAT purposes in Romania and in the Intra-community Operators Register; 1
– apply the reverse charge mechanism; ½
– file a VAT return, including this charge; and ½
– file the intra-EU acquisition list. ½

(ii) Bringing the cranes to Romania

As the cranes are brought into Romania only for a limited period of time, this dispatch may be regarded as a non-transfer, so Seasons Co has no VAT obligation as regards this non-transfer to Romania. 1

(iii) Invoicing the construction works to Rain SRL

The place of supply for the construction works is in Romania and, as Seasons Co is already registered for VAT in Romania, it will have to:

– charge Romanian VAT for each invoice; ½
– file a VAT return including these invoices; and ½
– file a recapitulative return for the invoices issued to Romanian taxpayers. ½

5

(b) VAT due to Romanian tax authorities

(i) The intra-EU acquisition of cement

Seasons Co must charge Romanian VAT, but also has the right to deduct VAT. So, for January 2011, Seasons Co's VAT return will include:

– Output VAT = 100,000 x 10 x 24% = 240,000 lei ½
– Input VAT = 100,000 x 10 x 24% = 240,000 lei ½

VAT due to the tax authorities = 240,000 – 240,000 = 0 lei

(ii) Invoicing the first worksheet

Seasons Co must charge Romanian VAT in June 2011, as this is when the worksheet was accepted and VAT became chargeable. So, for June 2011, Seasons Co's VAT return will include:

– Output VAT = 1,000,000 x 24% = 240,000 lei ½
– Input VAT = 0 lei

VAT due to the tax authorities = 240,000 lei

The deadline for paying this VAT is 25 July 2011. ½

(iii) Invoicing the second worksheet

Seasons Co must charge Romanian VAT in November 2011, as this is when the worksheet was accepted and VAT became chargeable. So, for November 2011, Seasons Co's VAT return will include:

– Output VAT = 1,500,000 x 24% = 360,000 lei ½
– Input VAT = 0 lei

VAT due to the tax authorities = 360,000 lei

The deadline for paying this VAT is 25 December 2011 ½

3

Marks

(c) **Interest and penalties if payment is not made until 30 January 2012**

Amount of tax due – lei	Due date of payment (from part (b))	Actual date of payment	Number of days delay	Interest due – lei	Penalty due – lei	
240,000	25 July 2011	30 January 2012	189	240,000 x 189 x 0·04% = 18,144	240,000 x 15% = 36,000	2
360,000	25 December 2011	30 January 2012	36	360,000 x 36 x 0·04% = 5,184	360,000 x 5% = 18,000	2
						4

(d) **Whether Seasons Co has a permanent establishment in Romania**

According to the Romanian Tax Code a construction site lasting more than six months is considered to be a permanent establishment. 1

Seasons Co's construction site lasted for eight months (15 March to 15 November 2011), therefore it can be considered that Seasons Co has a permanent establishment in Romania. ½ However, Seasons Co should also verify the applicability of any double tax treaty concluded between Romania and the UK, as if this treaty establishes a period for considering a construction site as a permanent establishment of more than eight months, then Seasons Co should seek to benefit from the provisions of this tax treaty and not declare a permanent establishment in Romania. ½

If Seasons Co is considered to have a permanent establishment in Romania, the company will then have to register for tax purposes and should pay corporate income tax in Romania on the profit generated by this permanent establishment. 1

3

15