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# Answers

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Section A

1 C

2 B

3 A

Taxable base: Quarter 4 2014: 19,700 lei ( $20,000 + 2,500 + 1,000 - 1,000 - 2,000 - 800$ )  
Quarter 1 2015: 150,000 lei

4 B

Alpha SRL:  $100,000 \times 15\% \times 16\% = 2,400$  lei  
Beta Co:  $100,000 \times 25\% \times 0\% = 0$  lei  
Gamma Ltd.:  $100,000 \times 30\% \times 16\% = 4,800$  lei  
Delta SRL:  $100,000 \times 10\% \times 0\% = 0$  lei

5 D

6 A

7 B

8 C 1,440 lei

Total VAT adjustment = VAT adjustment for laptop + VAT adjustment for server

VAT adjustment for laptop: 0

VAT adjustment for server:  $10,000 \times 24\% \times 3/5 = 1,440$  lei

**Tutorial note:** *The laptop is not a capital good, thus no VAT adjustment is needed due to its scrapping. The server is a capital good, thus the initially deducted VAT of 2,400 lei ( $10,000 \times 24\%$ ) will be adjusted for three years (2015 to 2017) of the five years remaining period of adjustment (2013 to 2017), i.e.  $2,400 \text{ lei} \times 3/5$ .*

9 C 6,885 lei

Gross employment revenue:  $5,000 + 1,500 + (200 - 2 \cdot 5 \times 13 \times 2) + (200 - 150) + 200 = 5,000 + 1,500 + 135 + 50 + 200 = 6,885$  lei

10 A

Prepayments:  $10\% \times 56,000 + 10\% \times 72,000 = 5,600 + 7,200 = 12,800$  lei  
Final tax:  $16\% \times [(56,000 + 72,000) - 20\% \times (56,000 + 72,000)] = 16,384$  lei  
Difference of tax to be paid:  $3,584$  lei ( $16,384 - 12,800$ )

11 A 908 lei

Healthcare insurance contribution:  $5 \cdot 5\% \times (10,012 - 25\% \times 10,012) + 5 \cdot 5\% \times 2,000 + 5 \cdot 5\% \times 7,000 = 413 + 110 + 385 = 908$  lei

12 D

**13 C** 245 lei

Interest and penalties:  $10,000 \times 0.05\% \times 25 + 6,000 \times 0.05\% \times 40 = 125 + 120 = 245$  lei

**Tutorial note:** *The April VAT of 10,000 lei was due on 25 May 2015 but paid on 19 June 2015, thus 25 days late. The May VAT of 8,000 lei was due on 25 June 2015: 2,000 lei was paid on time, 6,000 lei was paid on 4 August 2015, thus 40 days late.*

**14 B** 3,000 lei

The legal reserve may be deducted within the limits:

- $5\% \times \text{gross profit} = 5\% \times (100,000 - 41,000 + 4,000) = 3,150$  lei; and
  - $(20\% \times 20,000) - 1,000 = 3,000$  lei
- ⇒ maximum legal reserve to be deducted = 3,000 lei

**15 C**

2 marks each

30

## 1 (a) Tulip SRL

## Value added tax (VAT) adjustment on initial registration

Type of good	VAT adjustment (lei)	
Merchandise ( $43,400/1.24 \times 0.24$ )	8,400	1
Land (no VAT deducted on acquisition)	0	$\frac{1}{2}$
Apartment (W1)	43,200	$1\frac{1}{2}$
New car (W2)	4,212	2
<b>Total</b>	<b>55,812</b>	<b>5</b>

## Workings

## (1) VAT adjustment for the apartment

The apartment is a capital good, and VAT can be deducted for the remaining period of adjustment.

VAT included into the apartment value =  $279,000/1.24 \times 0.24 = 54,000$  lei

Start year for the period of adjustment = 2011

Period of adjustment = 20 years (2011–2030)

Remaining years of adjustments (2015–2030) = 16 years

VAT to be adjusted =  $54,000 \times 16/20 = 43,200$  lei

## (2) VAT adjustment for the car

As per the tax rates section of the paper, cars are depreciated over five years. Thus, the car is also a capital good. VAT can be deducted for the remaining period of adjustment but only to the extent of 50% as the car is not used exclusively for business purposes.

As the car was new, Tulip SRL would have accounted for VAT in Romania for this intra-EU acquisition.

VAT included into the car value =  $72,540/1.24 \times 0.24 = 14,040$  lei

Start year for the period of adjustment = 2013

Period of adjustment = 5 years (2013–2017)

Remaining years of adjustments (2015–2017) = 3 years

VAT to be adjusted =  $14,040 \times 3/5 \times 50\% = 4,212$  lei

## (b) Rose SRL

## (i) Value added tax (VAT) recovery using the estimated pro rata

Output VAT =  $450,000 \times 24\% + 112,500 \times 0\% = 108,000$  lei 1

Input VAT =  $180,000 \times 24\% + 220,000 \times 24\% \times 70\% + 250,000 \times 0\% = 43,200 + 36,960 = 80,160$  lei  $1\frac{1}{2}$

VAT due to the budget state =  $108,000 - 80,160 = 27,840$  lei  $\frac{1}{2}$   
**3**

## (ii) VAT adjustment using the final pro rata

The final pro rata =  $450,000/(112,500 + 450,000) = 450,000/562,500 = 80\%$  1

As the final pro rata (80%) is higher than the estimated pro rata (70%), Rose SRL may deduct an additional 10% of the VAT for the acquisitions which cannot be directly allocated either to taxable supplies or to exempt supplies.

VAT adjustment =  $220,000 \times 24\% \times 10\% = 5,280$  lei 1  
**2**  
**10**

## 2 Mr Cactus

## (a) Tax declaration obligations

**Option 1: Self-employed**

Within 15 days of the start of the activity, Mr Cactus must submit a tax declaration for his estimated net income (D220 form) to the tax authorities. 1/2

His final net income tax declaration (D200 form) should be submitted by 25 May 2016. 1/2

**Option 2: Limited liability company**

By the 25th of the month following each quarter, the company should file a declaration of the pre-payment of the tax due for that quarter (D100 form). 1/2

The company's final corporate income tax declaration (D101 form) should be submitted by 25 March 2016. 1/2

**Option 3: Rental of apartment**

Within 15 days from when he signs the rental contract, Mr Cactus should submit a tax declaration for his estimated net income (D220 form) to the tax authorities. 1/2

The final net income tax declaration (D200 form) should be submitted by 25 May 2016. 1/2

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## (b) Due-dates

**Option 1: Self-employed**

Due dates for tax pre-payments: 25 June 2015, 25 September 2015, 24 December 2015. 1/2

Due date for settlement of the difference: within 60 days after receiving the decision from the tax administration. 1/2

**Option 2: Limited liability company**

Due dates for tax pre-payments: 25 July 2015, 25 October 2015, 25 January 2016. 1/2

Due date for settlement of the difference: 25 March 2016. 1/2

**Option 3: Rental of apartment**

Due dates for tax pre-payments: 25 June 2015, 25 September 2015, 24 December 2015. 1/2

Due date for settlement of the difference: within 60 days after receiving the decision from the tax administration. 1/2

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**3**

## (c) Late payment interest and penalties

**Option 1: Self-employed**

As the final income tax is smaller than the pre-payments made, on the settlement date Mr Cactus will be able to recover the difference from the state budget. 1/2

So, as there is no final payment obligation, there can be no late payment interest and penalties. 1/2

**Option 2: Limited liability company**

The difference in the tax due is 6,000 lei (18,00 – 12,000). 1/2

The due date for settlement of the difference is 25 March 2016.

As the payment was not made until 19 October 2016, i.e after the deadline, late payment interest and penalties will be due. 1/2

**Option 3: Rental of apartment**

The difference in the tax due is 2,000 lei (7,000 – 5,000). 1/2

The due date is within 60 days after the tax administration has communicated the final income tax decision to Mr Cactus. 1/2

Thus, if Mr Cactus receives the decision on or after 20 August 2016, the payment would have been made in due time, and no late payment interest and penalties would be due. 1/2

However, if Mr Cactus receives the decision before 20 August 2016, the payment would not have been made in due time, and late payment interest and penalties will be due. 1/2

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**10**

## 3 Mr and Mrs Orchid

Final income tax due for 2015

	2015 (lei)	
<b>Mrs Orchid</b>		
<b>Taxable revenues</b>	<b>360,000</b>	
Selling finished products (30,000 x 12)	360,000	1
Insurance revenues (non-taxable)	0	1/2
<b>Deductible expenses</b>	<b>(180,300)</b>	
Raw materials (10,000 x 11)	(110,000)	1
Car depreciation (W1)	(7,500)	2
Insurance premium	(13,000)	1/2
Employees' gross salaries	(40,000)	1/2
Employers' social contributions	(9,000)	1/2
Social expenses (W2)	(800)	1 1/2
Pre-payments of income tax	0	1/2
<b>Net income</b>	<b>179,700</b>	
<b>Final income tax at 16%</b>	<b>28,752</b>	1/2
Less prepayments	(16,000)	1/2
<b>Difference of income tax due on settlement</b>	<b>12,752</b>	
<b>Mr Orchid</b>		
Annual income quota	97,000	
<b>Final income tax at 16%</b>	<b>15,520</b>	1/2
Mr Orchid has no difference of tax to be paid on settlement.		1/2

**10**

## Workings

## (1) Car depreciation

Acquisition value of car = 270,000 lei

Depreciation period = 5 years

Number of months of depreciation in 2015: 5 (1 August–31 December 2015)

Monthly deductible depreciation =  $\min(1,500; 270,000/5/12) = \min(1,500; 4,500) = 1,500$  lei⇒ Deductible depreciation =  $5 \times 1,500 = 7,500$  lei

## (2) Social expenses

Social expenses recorded =  $6 \times 150 = 900$  leiLimit of deductibility =  $2\% \times 40,000 = 800$  lei

⇒ Deductible social expenses = 800 lei

## 4 Daffodil SRL

## Corporate income tax for 2015

	2015 (lei)	
Gross profit	900,000	1/2
Non-taxable revenues	(340,000)	
Operating revenues from sale of services	(0)	1/2
Revenues from cancelling non-deductible bad debt provisions	(140,000)	1/2
Revenues from selling shares	(200,000)	1
Tax depreciation allowance (W1)	(4,000)	1
Non-deductible expenses	521,800	
Accounting depreciation (W1)	4,800	1
Cost of shares sold	500,000	1
Penalties paid to a supplier	0	1/2
Fine paid to the Romanian state	500	1/2
Sponsorship	16,500	1/2
Taxable profit	1,077,800	
Income tax before exemption for reinvested profit and sponsorship at 16%	172,448	1/2
Exemption for reinvested profit (W2)	(46,080)	1
Income tax before sponsorship	126,368	
Sponsorship (W3)	(13,500)	1 1/2
Final income tax	112,868	<u>10</u>

## Workings

## (1) Depreciation

## Accounting depreciation

Date of purchase: 15 October 2015

Number of years of depreciation: 10 years

Monthly depreciation =  $(288,000/10)/12 = 2,400$  lei

Number of months of depreciation in 2015 (1 November–31 December 2015): 2

Accounting depreciation =  $2,400 \times 2 = 4,800$  lei

## Tax depreciation

Date of purchase: 15 October 2015

Number of years of depreciation: 12 years

Monthly depreciation =  $(288,000/12)/12 = 2,000$  lei

Number of months of depreciation in 2015 (1 November–31 December 2015): 2

Tax depreciation =  $2,000 \times 2 = 4,000$  lei

## (2) Exemption for reinvested profit

The profit which may be exempted =  $\min(900,000; 288,000) = 288,000$  lei

Income tax due before exemption = 172,448 lei

The income tax for the exempted profit =  $288,000 \times 16\% = 46,080$  leiIncome tax which may be deducted =  $\min(172,448; 46,080) = 46,080$  lei

## (3) Sponsorship

 $3\% \times \text{turnover} = 3\% \times 4,500,000 = 13,500$  lei $20\% \times \text{income tax} = 20\% \times 126,368 = 25,274$  lei

Sponsorship expense = 16,500 lei

 $\Rightarrow$  sponsorship which may be deducted from income tax =  $\min(13,500; 25,274; 16,500) = 13,500$  lei**Tutorial note:** The shareholding in Ground SA is greater than 10% and has been held for more than one year. Therefore, the sales revenue is non-taxable and consequently the related expenses are non-deductible.

## 5 Mr and Mrs Snowdrop and family

## (a) Mr Snowdrop – employment income tax for December 2015

	lei	
<b>Gross employment income</b>	<b>24,200</b>	
Gross salary	15,000	1/2
Voluntary health insurance premium	3,500	1/2
Facultative private pension (W1)	3,200	1
Life insurance premium	2,500	1/2
Liability insurance for managers' premium	0	1/2
<b>Social contributions (W2)</b>	<b>(2,590)</b>	<b>3</b>
Social security contribution	(1,206)	
Health insurance contribution	(1,269)	
Unemployment contribution	(115)	
Net income	21,610	
Personal deduction	0	1/2
<b>Taxable income</b>	<b>21,610</b>	
<b>Income tax at 16%</b>	<b>3,458</b>	<b>1/2</b>
		<b>7</b>

## Workings

## (1) Facultative private pension

Limit for non-taxable facultative private pension insurance = €400 x 4.5 lei/€ = 1,800 lei

Taxable facultative private pension premium = 5,000 – 1,800 = 3,200 lei

## (2) Social contributions

Type of non-compulsory insurance	Limit of deductibility for corporate income tax (lei)	Insurance premium paid (lei)	Insurance premium which must be included in the social contributions' taxable base (lei)
Voluntary health insurance (€250 x 4.5 lei/€)	1,125	3,500	2,375
Facultative private pension (€400 x 4.5 lei/€)	1,800	5,000	3,200
Life insurance premium	0	2,500	2,500
Liability insurance for managers premium	No limit	3,000	0

Social contributions taxable base (before specific limits) = 15,000 + 2,375 + 3,200 + 2,500 = 23,075 lei

For social security contribution only taxable base = min (5 x 2,298; 23,075) = min (11,490; 23,075) = 11,490 lei

Social security contribution = 10.5% x 11,490 = 1,206 lei

Health insurance contribution = 5.5% x 23,075 = 1,269 lei

Unemployment contribution = 0.5% x 23,075 = 115 lei



**(b) Mrs Snowdrop – employment income tax for December 2015**

	lei	
<b>Gross employment income</b>	<b>2,000</b>	
Gross salary	2,000	1/2
<b>Social contributions</b>	<b>(330)</b>	<b>1</b>
Social security contribution (10·5%)	(210)	
Health insurance contribution (5·5%)	(110)	
Unemployment contribution (0·5%)	(10)	
Net income	1,670	
<b>Personal deduction (W1)</b>	<b>(180)</b>	<b>1</b>
<b>Taxable income</b>	<b>1,490</b>	
<b>Income tax at 16%</b>	<b>238</b>	<b>1/2</b>
		<b>3</b>

**Workings****(1) Personal deduction (PD)**

Mrs Snowdrop has one child in her care.

$$PD = 350 \times (1 - (2,000 - 1,000)/2,000) = 175 \text{ lei} = 180 \text{ lei}$$

**(c) Social security contribution due by Winter SRL for December 2015**

Total gross salaries subject to social security contribution = 23,075 + 2,000 = 25,075 lei	1/2
Limit of taxable base = 2 x 5 x 2,298 = 22,980 lei	1/2
Taxable base for social security contribution = min (25,075; 22,980) = 22,980 lei	1/2
Social security contribution = 15·8% x 22,980 = 3,631 lei	1/2
	<b>2</b>

**(d) Miss Big Snowdrop – income tax for 2015**

Transaction	Working	Gain (lei)	Loss (lei)	
Shares Company 1	((17 – 10) x 100 x 4·5)	3,150		1/2
Shares Company 2	((17 – 25) x 200 x 4·5)		(7,200)	1/2
Shares Company 3	((17 – 5) x 500 x 4·5)	27,000		1/2
<b>Total</b>		<b>30,150</b>	<b>(7,200)</b>	
Total net gain = 30,150 – 7,200 = 22,950 lei				1
Income tax = 22,950 x 16% = 3,672 lei				1/2
				<b>3</b>
				<b>15</b>

**6 (a) Daisy SRL and Leaf SRL****(i) Transactions between related parties must be performed at arm's length prices.**

That is the price for transactions between related parties should be in line with the price of the same type of transaction made between independent parties.

**1****(ii) Daisy SRL**

$$\text{Taxable profit} = (36,000) + 42,000 = 6,000 \text{ lei} \quad 1/2$$

$$\text{Corporate income tax} = 16\% \times 6,000 = 960 \text{ lei} \quad 1/2$$

**Leaf SRL**

$$\text{Taxable profit} = 120,000 - 42,000 = 78,000 \text{ lei} \quad 1/2$$

$$\text{Corporate income tax} = 16\% \times 78,000 = 12,480 \text{ lei} \quad 1/2$$

**2****(iii) A tax inspection at Daisy SRL will not lead to any increased corporate income tax being paid, as Daisy SRL has over-valued its revenues.**

1/2

	Marks
If the tax inspectors did the correct computation, they would reduce the amount of the corporate income tax due to zero, as the correct taxable position would be a taxable loss of 31,000 lei ((36,000) + 5,000).	½
A tax inspection at Leaf SRL will lead to increased corporate income tax payable, as Leaf SRL over-valued its expenses.	½
The correct taxable income is 115,000 lei (120,000 – 5,000).	½
The correct corporate income tax is therefore 18,400 lei (115,000 x 16%) and the additional corporate income tax payable by Leaf SRL would be 5,920 lei (18,400 – 12,480).	1
	<u>3</u>
(iv) The tax consultant's advice to manipulate the results is not in line with the ethical and professional approach required.	1
Advising a client to artificially modify the value of a transaction, only for tax purposes, is an act by which the tax adviser becomes an accomplice to, and causes, tax evasion activities.	1
	<u>2</u>
<b>(b) Petunia SRL</b>	
<b>(i) Thin capitalisation rule only</b>	
<b>Loan denominated in euros</b>	
Interest expenses registered into accounting = 1,000,000 x 4.5 x 8% = 360,000 lei	½
Interest expenses computed using the interest rate provided by the Tax Code = 1,000,000 x 4.5 x 6% = 270,000 lei	½
⇒ Interest expense definitively non-deductible = 360,000 – 270,000 = 90,000 lei	½
Debt-to-equity ratio = 2.5 < 3 ⇒ Deductible interest expenses = 270,000 lei	½
<b>Loan denominated in lei</b>	
Interest expenses registered into accounting = 2,000,000 x 3% x 10/12 = 50,000 lei	½
Interest expenses computed using the RNB interest rate = 2,000,000 x 3.25% x 10/12 = 54,167 lei	½
⇒ Non-deductible interest expenses = 0 lei	½
Deductible interest expenses = 50,000 lei	½
	<u>4</u>
<b>(ii) Thin capitalisation and transfer pricing rules</b>	
As Petunia SRL and Strain BV are related, transfer pricing rules should also apply to the financing activities.	
<b>Loan denominated in euros</b>	
The limit of deductibility of the interest expenses will be the market rate of 3%.	½
Deductible interest rate expenses = 1,000,000 x 4.5 x 3% = 135,000 lei	½
Non-deductible interest expenses = 360,000 – 135,000 = 225,000 lei	½
<b>Loan denominated in lei</b>	
The limit of deductibility of the interest expenses will be the market rate of 2.75%.	½
Deductible interest rate expenses = 2,000,000 x 2.75% x 10/12 = 45,833 lei	½
Non-deductible interest expenses = 50,000 – 45,833 = 4,167 lei	½
	<u>3</u>
	<u>15</u>