

Fundamentals Level – Skills Module

Taxation (Romania)

Thursday 10 December 2015



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

Tax rates and allowances are on pages 2–5.

Do NOT open this question paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

This question paper must not be removed from the examination hall.

The Association of Chartered Certified Accountants

Paper F6 (ROM)

ACCA

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings should be made to the nearest lei, unless instructed otherwise.
2. All apportionments should be made to the nearest month, unless the law requires otherwise.
3. All workings should be shown in Section B.

TAX RATES AND ALLOWANCES

The following tax rates and allowances are to be used in answering the questions.

Personal income tax

General tax rate 16%

Income from employment

Benefits

Limit for non-taxable gifts 150 lei/person/occasion
 Limit for non-taxable voluntary pension contributions paid by the employer €400/year
 Limit for non-taxable per diem allowance 2.5 x public institutions' threshold
 The allowance accepted for public institutions' employees 13 lei/day/person

Deductions

Deduction allowed for voluntary pension contributions paid by the employee €400/year

Personal deduction

Number of dependent persons for the taxpayer	Monthly gross income (MI) – lei		
	Below 1,000	Between 1,000 and 3,000	Above 3,000
0 persons	250	$250 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0
1 person	350	$350 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0
2 persons	450	$450 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0
3 persons	550	$550 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0
4 persons and more	650	$650 \times \left(1 - \frac{MI - 1,000}{2,000}\right)$	0

Note: The value of the personal deduction resulting from the calculation should be rounded up to 10 (e.g. both 212 and 217 should be rounded to 220).

Income from the sale of immovable property owned by an individual

For immovable properties sold in less than three years from their acquisition

Income	Tax rate
Up to 200,000 lei	3%
Above 200,000 lei	6,000 lei + 2% of the amount exceeding 200,000 lei

For immovable properties sold in a timeframe longer than three years from their acquisition

Income	Tax rate
Up to 200,000 lei	2%
Above 200,000 lei	4,000 lei + 1% of the amount exceeding 200,000 lei

Income from renting

Lump-sum deductible expenses quota	25%
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Copyright income

Lump-sum deductible expenses quota for:	
– monumental works of art	25%
– other	20%

Self-employed income

The limit of deductibility for protocol expenses	2%
The limit of deductibility for compulsory subscription expenses	5%
The limit of deductibility for subscription expenses other than compulsory ones	2%
The limit of deductibility for sponsorship expenses	5%
The limit of deductibility for social expenses	2%
Reference interest rate set by the Romanian National Bank for loans denominated in lei	3·25%

Investment income

Tax rate for capital gains from the sale of shares	16%
Tax rate for interest received by individuals	16%
Tax rate for dividends received by individuals	16%

Prize income

Tax rate for prize income	16%
Non-taxable value	600 lei/day/prize

Pension income

Non-taxable pension income	1,000 lei
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Corporate income tax

General tax rate	16%
Reference interest rate set by the Romanian National Bank for loans denominated in lei	3·25% p.a.
Maximum accepted interest rate set by the Tax Code for loans denominated in foreign currency	6% p.a.
Inflation rate for prepayments of corporate income tax	2·4% p.a.
Maximum value of deductible expenses for employees:	
– voluntary pension contributions	€400/tax year/employee
– private healthcare insurance contributions	€250/tax year/employee
Maximum value of deductible expenses for subscriptions to non-profit organisations other than those which are compulsory or due to the chambers of commerce and to employers' organisations	€4,000/year
The limit of deductibility for protocol expenses	2%
The limit of deductibility for social expenses	2%
Maximum value of tax credit for sponsorship expenses	20% of the corporate income tax but not more than 3‰ of sales revenue

Corporate income tax for very small companies

Tax rate	3%
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Straight-line depreciation periods (for tax and accounting purposes)

Class of asset	Period in years
Buildings	50
Machines and equipment	10
Computers	3
Cars	5

Note: The straight-line depreciation method for the above periods should be used in all cases, except where a question specifically indicates another method and/or period is to be used.

The minimum value of an asset for tax depreciation purposes is 2,500 lei.

Tax on dividends paid to legal persons

For dividends paid to legal persons resident in Romania, EU or EFTA countries	16% or 0%
For dividends paid to other non-residents	16%

Social security and other insurance contributions

Employed persons

	Employee	Employer
Social security fund	10.5%	15.8%
Healthcare insurance fund	5.5%	5.2%
Unemployment fund	0.5%	0.5%
Work accident fund	–	0.15%–0.85%*
Health insurance indemnities fund	–	0.85%
Fund for guaranteeing salary payments	–	0.25%

Self-employed persons

Social security fund	26.3%
Healthcare insurance fund	5.5%
Unemployment fund	1%
Work accident fund	0.15%–0.85%*
Health insurance indemnities fund	0.85%

Persons obtaining rent income

Healthcare insurance fund	5.5%
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Persons obtaining intellectual property revenues and revenues based on Civil Code contracts

Social security fund	10.5%
Healthcare insurance fund	5.5%

Average monthly earnings	2,298 lei
Minimum monthly salary	900 lei

* The exact value will be specified in the question, where necessary.

Note: These rates should be used in answering the questions, irrespective of the time period the question refers to.

Value added tax (VAT)

Standard rate	24%
Reduced rates	9% and 5%
Annual threshold for VAT registration	220,000 lei
Annual threshold for a monthly tax period	€100,000
Annual threshold for applying the cash accounting scheme	2,250,000 lei

Exchange rate

Euro/lei	€1 = 4.50 lei
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Note: This rate should be used in all cases except where a question specifically indicates another rate is to be used.

Interest and penalties

Interest rate for late tax payments	0.03%/day
Penalty level for late tax payments	0.02%/day

Section A – ALL 15 questions are compulsory and MUST be attempted

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.

Each question is worth 2 marks.

- 1** A taxable person issued an invoice for a delivery which will be made after issuing the invoice. According to the legal requirements, for this delivery the customer is liable to pay the value added tax. The invoice mentioned:
- (1) The full name and address of the customer
 - (2) The date when the goods/services will be delivered
 - (3) The statement 'reverse charge'
 - (4) The personal identification number of the person who issued the invoice

Which of the above items of information are mandatory for this invoice, based on VAT legislation?

- A** 2 and 4
- B** 1 and 2
- C** 1 and 3
- D** 3 and 4

- 2** Maria, a Romanian resident, has the following revenues in 2015:
- (1) Capital gains from selling shares on the Bucharest stock exchange market
 - (2) An apartment, as an inheritance from a neighbour. The succession was finalised one month after the neighbour's death
 - (3) Dividends from a company based in Austria, in which she owns 50% of share capital
 - (4) A scholarship from the university where she studies on a masters' degree programme

Which of the above incomes will be subject to individual income tax?

- A** 2 and 4
- B** 1 and 3
- C** 1 and 2
- D** 3 and 4

- 3 Mixer SRL, a company founded on 1 July 2014, applies the special scheme of corporate income tax for very small companies. In Quarter 3 and Quarter 4 of 2014 and in Quarter 1 of 2015, Mixer SRL recorded the following quarterly values (in lei/quarter) for revenues and expenses:

	Quarter 3 2014	Quarter 4 2014	Quarter 1 2015
Revenues			
– sale of goods	10,000	20,000	150,000
– exchange rate differences	1,000	2,500	500
– compensation from an insurance company for damaged inventory			2,200
Expenses			
– purchase of goods	15,000	10,000	80,000
– exchange rate differences	2,000	1,000	300
– cash-register, bought and put into use in October 2014		800	

What is Mixer SRL's taxable base for corporate income tax in Quarter 4 2014 and Quarter 1 2015?

	Quarter 4 2014	Quarter 1 2015
A	19,700 lei	150,000 lei
B	21,500 lei	150,200 lei
C	20,000 lei	150,000 lei
D	19,200 lei	152,200 lei

- 4 Sharing SA, a Romanian company founded in 2011, has the following shareholders:

Shareholder	Percentage holding	Date acquired
Alpha SRL (a Romanian company)	15%	10 October 2014
Beta Co (a company based in the UK)	25%	1 May 2011
Gama Ltd (a company based in Mauritius)	30%	13 February 2013
Delta SRL (a Romanian company)	10%	28 June 2012
Five Romanian individuals	20% (4% each)	12 June 2011

In April 2015, Sharing SA decided to distribute its entire 2014 net profit of 100,000 lei as dividends. These dividends were paid to Sharing SA's shareholders on 10 May 2015.

Romania and Mauritius do not have a double tax treaty. Romania and UK have a double tax treaty mentioning a 10% withholding tax rate for dividend revenues. Beta Co has provided Sharing SA with a UK tax residence certificate for 2015 and with a statement regarding fulfilment of conditions to apply EU legislation as regards the beneficial owner of dividends.

What is the dividend tax which Sharing SA must withhold when paying the dividends to Alpha SRL, Beta Co, Gama Ltd and Delta SRL?

	Alpha SRL	Beta Co	Gama Ltd	Delta SRL
A	0 lei	2,500 lei	4,800 lei	1,600 lei
B	2,400 lei	0 lei	4,800 lei	0 lei
C	2,400 lei	0 lei	0 lei	0 lei
D	0 lei	2,500 lei	4,800 lei	0 lei

5 Octavian receives the following benefits in kind from his employer:

- (1) The use of a company car for transportation from/to his home to/from his workplace
- (2) A profit sharing, according to the shareholders' decision
- (3) Free lunch in the company's cafeteria
- (4) Gift vouchers, on the occasion of Easter

Which of the above benefits in kind are subject to social contributions?

- A** 1 and 4
- B** 3 and 4
- C** 1 and 2
- D** 2 and 3

6 Taxatorul SRL, a Romanian company, paid the following amounts to the budget in March 2015:

- (1) Value added tax of 10,000 lei
- (2) Corporate income tax of 5,000 lei
- (3) Tax on land of 8,000 lei
- (4) Custom duties of 7,000 lei

Which of the above taxes are indirect taxes?

- A** 1 and 4
- B** 3 and 4
- C** 1 and 2
- D** 2 and 3

7 Valerie started a self-employed activity on 10 May 2015.

Which of the following statements regarding Valerie's tax obligations in connection with her self-employed activity are TRUE?

- (1) She must submit her income tax declaration to the tax authorities each quarter, by the 25th of the last month of the quarter
- (2) She must pay her income tax quarterly, by the 25th of the last month of the quarter
- (3) She must submit the declaration of estimated net income for 2015 to the tax authorities within 30 days after starting her activity
- (4) She must submit her declaration of estimated net income for 2016 to the tax authorities together with her declaration of realised income tax for 2015

- A** 1 and 3
- B** 2 and 4
- C** 3 and 4
- D** 2 and 3

- 8** Book SRL, a company based in Bucharest, is registered for value added tax (VAT) purposes. On 20 June 2013, Book SRL bought a laptop for 8,000 lei, exclusive of VAT, and a server for 10,000 lei, exclusive of VAT, from a VAT registered company. Book SRL deducted the standard rate VAT charged on both items, in full, on 20 June 2013. Book SRL decided to depreciate the laptop over three years and the server over six years, for both accounting and tax purposes. However, on 31 December 2015 Book SRL scrapped both the laptop and the server.

What is the total amount of the value added tax (VAT) adjustment which Book SRL should make for scrapping both the laptop and the server?

- A** 2,592 lei
- B** 1,600 lei
- C** 1,440 lei
- D** 1,720 lei

- 9** Andrea is employed by a company based in Bucharest. In December 2015, she receives the following revenues:

- Gross salary: 5,000 lei
- Non-competition allowance: 1,500 lei
- Per diem allowance: 200 lei, for a two-day trip in Timisoara
- Two Christmas presents of 200 lei each, for her children aged 19 and 17

What is Andrea's gross employment revenue for December 2015, for the purpose of personal income tax?

- A** 6,735 lei
- B** 5,385 lei
- C** 6,885 lei
- D** 6,950 lei

- 10** Andrei is a writer, who is also employed as a teaching assistant at a university in Bucharest. In 2015 he published two books for which he received gross revenues from intellectual property rights of 56,000 lei and 72,000 lei respectively.

What is the difference of tax to be paid on the end of year settlement by Andrei on his intellectual property rights revenue, if the standard treatment applies?

- A** 3,584 lei
- B** 0 lei
- C** 7,257 lei
- D** 6,144 lei

- 11** Leonid had the following revenues in May 2015:

- (1) Rent revenue of 10,012 lei
- (2) Employment revenue of 2,000 lei
- (3) Revenue based on a contract concluded under the Civil Code provisions of 7,000 lei

What is the amount of the healthcare insurance contribution due for Leonid's revenues for May 2015?

- A** 908 lei
- B** 1,046 lei
- C** 661 lei
- D** 523 lei

12 Stephan receives the following types of revenue in 2015:

- (1) Interest income
- (2) Rental income
- (3) Capital gains from selling shares on the stock exchange market
- (4) Self-employment income based on contracts concluded under the Civil Code

The standard tax treatment applies to all the above revenues, i.e. no option to be taxed otherwise was made by Stephan.

From which of the above revenues should the payer withhold tax?

- A** 1 and 3
- B** 3 and 4
- C** 2 and 3
- D** 1 and 4

13 Rigla SRL pays value added tax (VAT) on a monthly basis. Its VAT due for April 2015 was 10,000 lei and for May 2015 8,000 lei. Rigla SRL made payments in respect of the VAT due for April and May 2015 as follows:

Date	Amount
19 June 2015	12,000 lei
4 August 2015	6,000 lei

What is the total amount of late payment interest and penalties Rigla SRL will be charged on the overdue tax?

- A** 147 lei
- B** 98 lei
- C** 245 lei
- D** 285 lei

14 Radiera SA, a company based in Ploiesti, was founded in 2013 and has a share capital of 20,000 lei. When computing its corporate income tax for 2013, Radiera SA deducted a legal reserve of 1,000 lei. Before computing its final corporate income tax for 2014, Radiera SA had recorded total taxable revenues of 100,000 lei and total expenses of 41,000 lei, including a corporate income tax expense of 4,000 lei, all other expenses being deductible.

What is the maximum amount of legal reserves which may be deducted by Radiera SA in 2014?

- A** 2,950 lei
- B** 3,000 lei
- C** 3,150 lei
- D** 2,150 lei

15 Which of the following statements regarding the computation and payment of corporate income tax are TRUE?

- (1) Without supporting documents expenses will be non-deductible for tax purposes
- (2) Dividend revenues from Romanian companies are always non-taxable
- (3) Late payment interest and penalties will be charged if the corporate income tax due is not paid every month
- (4) Transfer pricing adjustments will be made if transactions with related parties are not made at market price

- A** 1 and 3
- B** 2 and 4
- C** 1 and 4
- D** 2 and 3

(30 marks)

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1 (a) Tulip SRL is a company based in Bucharest, which registered for value added tax (VAT) on 1 June 2015, due to having sales above the registration threshold. Tulip SRL only performs taxable activities and uses the quarter as its tax period but has decided not to apply the cash accounting scheme.

On 1 June 2015 Tulip SRL held the following assets:

Type of asset	Date of purchase	Acquisition cost (including VAT if applicable) as recorded in its books at the purchase date (lei)	Place from which the asset was transported at the time of acquisition	Status of the person who sold Tulip SRL the asset
Merchandise (in inventory)	10 January 2015	43,400	From Brasov (where the seller is based) to Bucharest	A taxable person, registered for VAT in Romania
Land	20 June 2011	100,000	Not applicable – the land is in Ilfov county	An individual, non-taxable person
Apartment	10 July 2011	279,000	Not applicable – the apartment is in Bucharest	A taxable person, registered for VAT in Romania
A car which was new when bought (not to be used exclusively for performing economic activities)	20 September 2013	72,540	From Hamburg, Germany (where the seller is based) to Bucharest	A taxable person, registered for VAT in Germany

Required:

Calculate the value added tax (VAT) adjustment to be made by Tulip SRL on its VAT registration. (5 marks)

- (b) Rose SRL, a company based in Iasi, has been registered for value added tax (VAT) since 2001. Rose SRL's main business consists of both taxable and exempt supplies without deduction right activities.

At the beginning of 2015, Rose SRL declared an estimated VAT pro rata of 70%. During 2015 Rose SRL had the following transactions with Romanian taxable persons registered for VAT purposes. All values are stated exclusive of VAT at the standard rate (where applicable).

- (1) Acquisitions relating exclusively to VAT exempt supplies: 250,000 lei.
- (2) Acquisitions relating exclusively to taxable supplies: 180,000 lei.
- (3) Acquisitions which cannot be directly allocated to taxable or exempted supplies: 220,000 lei.
- (4) Taxable supplies: 450,000 lei.
- (5) Exempt supplies: 112,500 lei.

Required:

- (i) **Calculate the output value added tax (VAT), input VAT and the VAT due/to be recovered for 2015 using the estimated pro rata.** (3 marks)

- (ii) **Determine the VAT adjustment to be made at the end of the year 2015, using the final pro rata.** (2 marks)

(10 marks)

- 2 Mr Cactus is employed by Forest SA, a Romanian company based in Brasov. Mr Cactus is exploring the following options to obtain additional revenues starting from 1 April 2015.

Option 1: To become a self-employed person. Under this option, he will apply the real system for calculating the income tax due and has calculated that his pre-payments of income tax for 2015 would be 28,000 lei and the final income tax for 2015 would be 25,000 lei.

Option 2: To set up his own limited liability company. Mr Cactus will register the company as a taxpayer of corporate income tax (16%) applying the pre-payments system (**Note:** Assume that the company would be allowed to apply pre-payments of tax starting from the very first year of operating). Mr Cactus considers that the company's pre-payments of corporate income tax for 2015 will be 12,000 lei and the final corporate income tax for 2015 18,000 lei.

Option 3: To start renting out a section of his apartment. In this case the prepayments of tax for 2015 will be 5,000 lei and the final income tax for 2015 7,000 lei.

In all cases of each of the options, the pre-payments of tax will be paid on their legal due dates and any difference of tax to be paid additionally for 2015 will be paid on 19 October 2016.

Required:

For each of the options 1 to 3 for 2015:

- (a) **State the tax filing obligations for 2015.** (3 marks)
- (b) **State the due dates for making the tax pre-payments and the due date for payment of the final tax.** (3 marks)
- (c) **Explain whether or not any late payment interest and penalties will be due.** (4 marks)

(10 marks)

- 3 Mrs Orchid is a Romanian resident. She started a small manufacturing self-employed business on 1 January 2015 and applies the real system for calculating the income tax due. The business recorded the following transactions during 2015:

- (1) Bought raw materials for 10,000 lei every month. The suppliers delivered and invoiced the goods on the fifth day of each month and were paid by Mrs Orchid on the 15th day of each following month.
- (2) Bought and paid for a car of less than 3,500 kg and less than nine seats, including the driver's seat, costing 270,000 lei on 19 July 2015. Mrs Orchid insured the car, paying an insurance premium of 13,000 lei on 20 July 2015. On 15 December 2015, the car was involved in a small accident, after which it could still be used immediately. On 20 December 2015, the insurance company paid Mrs Orchid a compensation claim of 10,000 lei. The car is used exclusively for business purposes, Mrs Orchid has proper documentation to verify this.
- (3) Paid total gross salaries to her employees of 40,000 lei for the year. Social contributions paid in addition to these gross salaries were equal to 22.5% of the gross salaries. On the occasion of Easter, she offered each minor child of her employees a present of 150 lei. Her employees have six minor children.
- (4) Sold finished products for 30,000 lei each month. All these sales are paid for on the same day they are made.
- (5) Made pre-payments of income tax of 16,000 lei.

Mrs Orchid's husband, Mr Orchid, is an IT programmer who also obtains revenues as a self-employed person. Mr Orchid applies the income quotas system and his income quota for 2015 is 97,000 lei.

Required:

Calculate the final income tax due by Mrs and Mr Orchid for the revenues obtained in 2015 and the difference of income tax to be paid on settlement.

Note: Ignore any social contributions which may be due by Mrs and Mr Orchid on their own revenues.

(10 marks)

- 4 Daffodil SRL is a company based in Constanta, acting in the field of transport services. For 2015, Daffodil SRL's chief financial officer calculated the company's initial gross profit of 900,000 lei and corporate income tax payable of 147,200 lei as follows:

	Notes	2015 (lei)
Operating profit	(1) and (2)	1,200,000
Financial loss	(3)	(300,000)
Gross profit		900,000
Non-taxable revenues		0
Non-deductible expenses	(4)	20,000
Taxable profit		920,000
Corporate income tax at 16%		147,200

A subsequent tax audit by a tax consultancy firm discovered the following:

- (1) Operating revenues comprised both revenues from selling services of 4,500,000 lei, and revenues from cancelling a bad debts provision set up in previous fiscal periods of 140,000 lei. In order to minimise the tax risk, Daffodil SRL decided since 2010 that any bad debt provision expense would be considered fully non-deductible for tax purposes. The tax consultancy firm has confirmed that the company may use this approach.
- (2) Operating expenses included depreciation of some equipment bought on 15 October 2015 for 288,000 lei. This equipment qualifies for the tax exemption for reinvested profits. This equipment is depreciated using the straight line method over a period of ten years for accounting purposes and 12 years for tax purposes.
- (3) The financial loss was generated from the sale of the shares owned by Daffodil SRL in Ground SA, a Romanian company. Daffodil SRL bought 20% of Ground SA's shares in 2012 for 500,000 lei and sold the entire shareholding in 2015 for 200,000 lei
- (4) Non-deductible expenses:
 - penalties paid to a Romanian supplier for the late settlement of debts, as per their contract, of 3,000 lei;
 - a fine paid to the State Budget for not filing its value added tax (VAT) return in due time of 500 lei; and
 - a sponsorship expense, made in accordance with the sponsorship law, of 16,500 lei.

The tax consultancy firm made no other remarks on the computation of Daffodil SRL's corporate income tax.

Required:

Recalculate the corporate income tax payable by Daffodil SRL for 2015, according to the information discovered by the tax consultancy firm.

Note: You should list all of the items enumerated and identify by the use of zero (0) any which do not have an impact on the corporate income tax computation.

(10 marks)

5 Mr Snowdrop, a Romanian resident, is employed as a general manager by Winter SRL. His gross employment salary is 15,000 lei/month and in addition, Winter SRL provides him with the following benefits in kind:

- (1) Voluntary health insurance for which it pays a premium of 3,500 lei/year;
- (2) Facultative private pension insurance for which it pays a premium of 5,000 lei/year;
- (3) Life insurance for which it pays a premium of 2,500 lei/year;
- (4) Liability insurance for managers for which it pays a premium of 3,000 lei/year.

All the premiums were paid in full by Winter SRL in December 2015.

Mr Snowdrop's wife, Mrs Snowdrop, is also employed by Winter SRL. She receives gross employment income of 2,000 lei/month but does not receive any other benefits in kind. Mrs Snowdrop has two daughters in her care:

- Miss Small Snowdrop, aged 16, is a high-school student, who receives a scholarship of 1,000 lei/month.
- Miss Big Snowdrop, aged 21, has a degree in finance and in 2015 tried her skills on the Euronext Stock Exchange located in Amsterdam, the Netherlands. In February 2015, she used a broker to purchase 100 shares issued by Company 1 at a price of €10 /share; 200 shares issued by Company 2 at a price of €25 /share; and 500 shares issued by Company 3 at a price of €5 /share. In October 2015, she sold all of these shares at the same price of €17/share. According to Dutch law, no income tax is payable by Miss Big Snowdrop in the Netherlands on these transactions.

Required:

(a) Calculate the employment income tax due for December 2015 by Mr Snowdrop. (7 marks)

(b) Calculate the employment income tax due for December 2015 by Mrs Snowdrop. (3 marks)

(c) Calculate the social security fund contribution due by Winter SRL for its employees, Mr and Mrs Snowdrop, for the month of December 2015.

Note: Assume that Mr and Mrs Snowdrop are the only employees of Winter SRL. (2 marks)

(d) Calculate the income tax due for 2015 on the revenues received from trading in shares by Miss Big Snowdrop. (3 marks)

(15 marks)

- 6 (a) Daisy SRL, a company based in Bucharest, owns 90% of Leaf SRL, another company also based in Romania. Both Daisy SRL and Leaf SRL apply standard corporate income tax (16%) and have the same tax adviser.

In 2015, before recognising into accounting any revenues/expenses for the services performed by Daisy SRL to Leaf SRL, Daisy SRL registered a tax loss of 36,000 lei and Leaf SRL registered a taxable profit of 120,000 lei. The tax consultant advised Daisy SRL to issue an invoice to Leaf SRL on 31 December 2015 for the services performed of 42,000 lei. The entire amount invoiced of 42,000 lei was registered as taxable revenues by Daisy SRL and as deductible expenses by Leaf SRL, according to the tax adviser's opinion. The market value of the services provided would be 5,000 lei.

Required:

- (i) Explain the basic principle applicable to transactions between related parties. (1 mark)
 - (ii) Calculate the corporate income tax due by each of Daisy SRL and Leaf SRL after registering the invoice issued by Daisy SRL into their accounting systems, according to the tax adviser's opinion. (2 marks)
 - (iii) Assuming the tax administration carries out a control visit to both companies, determine whether, and if so how much, additional corporate income tax would be established as payable by the tax inspectors. (3 marks)
 - (iv) Explain, giving arguments, whether or not the tax consultant's advice was in line with the ethical and professional approach. (2 marks)
- (b) Petunia SRL, a company based in Bucharest, is owned 100% by Strain BV, a company based in the Netherlands. Strain BV is not a company which specialises in the granting of loans, but on 1 January 2015 it made the following loans to Petunia SRL:
- a five-year loan of €1,000,000, bearing an interest rate of 8% per year; and
 - a 10-month loan of 2,000,000 lei, bearing an interest rate of 3% per year.

The market rate for similar loans is 3% for the euro denominated loan and 2.75% for the lei denominated loan. Petunia SRL's debt-to-equity ratio in 2015 is 2.5.

Required:

- (i) Calculate the value of Petunia SRL's deductible and non-deductible interest rate expenses in 2015, applying ONLY the thin capitalisation rules. (4 marks)
- (ii) Recalculate the value of Petunia SRL's deductible and non-deductible interest expenses in 2015, applying BOTH the thin capitalisation rules and the transfer pricing rules. (3 marks)

(15 marks)

End of Question Paper