Answers
Section A

1 B
Input value added tax (VAT) March 2018 = 20,000 x 19% = 3,800 lei
Output VAT March 2018 = 30,000 x 19% x 50% = 2,850 lei
VAT to be reimbursed = 3,800 - 2,850 = 950 lei

2 A
Amount of additional value added tax (VAT) established by the tax audit for March 2018 = 128,000 - 52,000 = 76,000 lei
Days of delay in payment for the additional VAT (26 April 2018 – 28 November 2018) = 5 + 31 + 30 + 31 + 31 + 30 + 31 + 28 = 217 days
Late payment interest due = 0.02% x 76,000 x 217 = 3,298 lei
Penalties for not declaring taxes due = 0.08% x 76,000 x 217 = 13,194 lei
Total interest and penalties due = 3,298 + 13,194 = 16,492 lei

3 C

4 B
Income tax = 16% x (138,000 – 12,000) = 20,160 lei

5 D

6 A
Non-taxable revenues = 10,000 + 15,000 + 70% x 25,000 = 42,500 lei

7 C
Taxable base = 120,000 + 30,000 x 30% + 3,000 = 132,000 lei
Tax rate = 1%
Corporate tax = 1% x 132,000 = 1,320 lei

8 D
Tax on rent = 16% x (3 x 2,000 x 12 – 40% x 3 x 2,000 x 12) = 6,912 lei

9 B
Output value added tax (VAT) = 280,000 x 19% + 5 x 10,000 x 19% = 62,700 lei
Input VAT = 3 x 10,000 x 19% = 5,700 lei
VAT due to the state budget = 62,700 – 5,700 = 57,000 lei

10 C

11 A
Sponsorship tax credit available in 2017 = min (22,000; 2,000,000 x 0.5%; 130,000 x 20%) = 10,000 lei
Sponsorship to be carried forward in 2018 = 22,000 – 10,000 = 12,000 lei
Sponsorship tax credit available in 2018 = min ((9,000 + 12,000); 3,000,000 x 0.5%; 65,000 x 20%) = min (21,000; 15,000; 13,000) = 13,000 lei
Total sponsorship credit = 10,000 + 13,000 = 23,000 lei
13 D
Taxable benefit in kind = 18,000 \times 20\% + 1.7\% \times 60,000 \times 12 \times 20\% = 3,600 + 2,448 = 6,048 \text{ lei}

15 A
Available deduction for research and development = 50\% \times (1,200,000 + 280,000) = 740,000 \text{ lei}

2 marks each 30
1 Purple SRL

(a) Value added tax (VAT) due to/recoverable from the State budget for the third quarter of 2018

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Taxable base lei</th>
<th>Input VAT lei</th>
<th>Output VAT lei</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laptops purchased from Alpha SRL</td>
<td>78,000</td>
<td>14,820</td>
<td>14,820</td>
</tr>
<tr>
<td>Cables purchased from Alpha SRL</td>
<td>17,000</td>
<td>3,230</td>
<td>0</td>
</tr>
<tr>
<td>Laptops sold to Beta Co</td>
<td>18,000</td>
<td>0</td>
<td>3,420</td>
</tr>
<tr>
<td>Laptops sold to Gama GmbH</td>
<td>20,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Laptops repaired for Beta Co</td>
<td>5,000</td>
<td>0</td>
<td>950</td>
</tr>
<tr>
<td>Laptops repaired for Gama GmbH</td>
<td>7,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Report prepared for Delta SARL</td>
<td>30,000</td>
<td>0</td>
<td>5,700</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18,050</strong></td>
<td><strong>24,890</strong></td>
<td></td>
</tr>
</tbody>
</table>

VAT to be paid to the State budget = 24,890 – 18,050 = 6,840 lei ½

Tutorial notes:
1. The laptops purchased from Alpha SRL are subject to the VAT simplified measures.
2. Although Delta SARL is resident in France, the place of supply for VAT purposes is Romania as the report relates to a property located in Romania.

(b) Declaration of transactions in the EU VAT information exchange system (VIES) recapitulative statement

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Type of transaction</th>
<th>Must be declared?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale of laptops to Beta Co</td>
<td>Local sale of goods</td>
<td>No ½</td>
</tr>
<tr>
<td>Sale of laptops to Gama GmbH</td>
<td>Intra-EU supply of goods</td>
<td>Yes ½</td>
</tr>
<tr>
<td>Repair of laptops for Beta Co</td>
<td>Local supply of services</td>
<td>No ½</td>
</tr>
<tr>
<td>Repair of laptops for Gama GmbH</td>
<td>Intra-EU supply of services</td>
<td>Yes ½</td>
</tr>
<tr>
<td>Report prepared for Delta SARL</td>
<td>Local supply of services</td>
<td>No 1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3</strong></td>
<td></td>
</tr>
</tbody>
</table>

2 Liliana and George

Liliana – Employment income tax payable for July 2018

<table>
<thead>
<tr>
<th>Value</th>
<th>lei</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross basic salary</td>
<td>4,800</td>
<td>½</td>
</tr>
<tr>
<td>Participation in a stock-option plan</td>
<td>0</td>
<td>½</td>
</tr>
<tr>
<td><em>Per diem</em> allowance for a six-day business trip in Romania (W1)</td>
<td>945</td>
<td>1</td>
</tr>
<tr>
<td>Life insurance premium</td>
<td>500</td>
<td>½</td>
</tr>
<tr>
<td><strong>Total gross salary</strong></td>
<td><strong>6,245</strong></td>
<td></td>
</tr>
<tr>
<td>Social contributions</td>
<td>(800)</td>
<td>½</td>
</tr>
<tr>
<td>Personal deduction (W2)</td>
<td>0</td>
<td>½</td>
</tr>
<tr>
<td>Union contribution</td>
<td>(400)</td>
<td>½</td>
</tr>
<tr>
<td><strong>Taxable salary</strong></td>
<td><strong>5,045</strong></td>
<td></td>
</tr>
<tr>
<td>Income tax due (5,045 x 16%)</td>
<td>807</td>
<td>½</td>
</tr>
</tbody>
</table>
George – Employment income tax payable for July 2018

<table>
<thead>
<tr>
<th>Value</th>
<th>leI</th>
<th>½</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross basic salary</td>
<td>1,800</td>
<td>½</td>
</tr>
<tr>
<td>Birthday present</td>
<td>500</td>
<td>½</td>
</tr>
<tr>
<td>Per diem for a three-day business trip in Austria (W1)</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Voluntary health insurance premium (2,000 – 400 x 4·5)</td>
<td>200</td>
<td>1</td>
</tr>
<tr>
<td>Total gross salary</td>
<td>2,500</td>
<td></td>
</tr>
<tr>
<td>Social contributions</td>
<td>(300)</td>
<td>½</td>
</tr>
<tr>
<td>Personal deduction (W2)</td>
<td>(200)</td>
<td>1</td>
</tr>
<tr>
<td>Union contribution</td>
<td>(400)</td>
<td>½</td>
</tr>
<tr>
<td>Taxable salary</td>
<td>1,600</td>
<td></td>
</tr>
<tr>
<td>Income tax due (1,630 x 16%)</td>
<td>256</td>
<td>½</td>
</tr>
</tbody>
</table>

Workings:
1. Taxable per diem allowance
   - Liliana
     Maximum non-taxable per diem = 6 x 17 x 2·5 = 255 lei
     Taxable per diem = 1,200 − 255 = 945 lei
   - George
     Maximum non-taxable per diem = 3 x 35 x 4·5 x 2·5 = 1,181 lei > 1,000 lei
     Taxable per diem = 0 lei

2. Personal deduction
   - Liliana
     As Liliana’s gross monthly salary is higher than 3,000 lei, no personal deduction is available for her.
   - George
     Number of dependent persons = 3
     Personal deduction = 600 x (1 − (MI − 1,500)/1,500) = 600 x (1 − (2,500 − 1,500)/1,500) = 199·99 = 200 lei
   Tutorial note: Maria and Tudor are minor children and Eva earns only scholarship income, which is revenue which is not taken into consideration when calculating the revenues of major dependent persons.

3 Luca

(a) Tax registration procedure
   - As Luca is not a trader, but a certified free-lancer, he has to register directly with the tax authority where his tax domicile is.
   - The tax registration must be submitted within 30 days from the start of his business activity.
   Information which must be included in the tax registration form:
   - taxpayer’s name and identification data;
   - tax domicile;
   - types of taxes to be paid (fiscal vector);
   - secondary offices, if any;
   - type of activity performed;
   - data of the legal representative, if one is appointed

   (½ per item, up to a maximum of TWO items) 1

(b) Late payment interest and penalties due
   Prepayment for first quarter
   - Amount due = 2,000 lei
   - Due date = 27 March 2017
   - Date of payment = 10 August 2017
Number of days of delay = 136 days (28 March 2017 to 10 August 2017)
Late payment interest and penalties due = 2,000 lei x 136 x (0·02% + 0·01%) = 82 lei

**Prepayment for second quarter**

Amount due = 2,000 lei
Due date = 26 June 2017
Date of payment = 10 August 2017 for 1,000 lei
Date of payment = 28 September 2017 for 1,000 lei
For the payment made on 10 August 2017:
Number of days of delay = 45 days (27 June 2017 to 10 August 2017)
Late payment interest and penalties due = 1,000 lei x 45 x (0·02% + 0·01%) = 14 lei
For the payment made on 28 September 2017:
Number of days of delay = 94 days (27 June 2017 to 28 September 2017)
Late payment interest and penalties due = 1,000 lei x 94 x (0·02% + 0·01%) = 28 lei

**Prepayment for third quarter**

Amount due = 2,000 lei
Due date = 25 September 2017
Date of payment = 28 September 2017 for 800 lei
Number of days of delay = 3 days (26 September 2017 to 28 September 2017)
Late interest and penalties due = 800 lei x 3 x (0·02% + 0·01%) = 1 lei
The rest of the 1,200 lei late payment interest and penalties shall be computed until 31 December 2017.
Number of days of delay = 97 days (26 September 2017 to 31 December 2017)
Late payment interest and penalties due = 1,200 lei x 97 x (0·02% + 0·01%) = 35 lei

**Prepayment for fourth quarter**

Amount due = 2,000 lei
Due date = 21 December 2017
For this late payment, interest and penalties shall be computed until 31 December 2017.
Number of days of delay = 10 days (22 December 2017 to 31 December 2017)
Interest and penalties due = 2,000 lei x 10 x (0·02% + 0·01%) = 6 lei

4 Gray SRL

(a) *Sale of one piece of equipment in June 2018*

Useful life = 5 years => Gray SRL had to keep the two pieces of equipment for at least 2·5 years for the corporate income tax exemption to apply.

Value of two pieces of equipment bought in December 2017 = 80,000 x 2 = 160,000 lei < accounting profit (200,000 lei) < taxable profit (320,000 lei) => the tax exemption for the reinvested profit can be applied to the entire value of the two pieces of equipment bought.

Corporate income tax exemption for reinvested profit related to one piece of equipment = 80,000 x 16% = 12,800 lei.

Thus, Gray SRL must declare and pay additional corporate income tax of 12,800 lei for 2017.

**Tutorial notes:**

1. *For the corporate income tax exemption for reinvested profit to apply in respect of the two pieces of equipment, Gray SRL must have kept them for at least half of their useful lives.*
2. *As one of the pieces of equipment was sold after less than a year, Gray SRL must recalculate the corporate income tax for 2017, as the tax exemption for this piece of equipment is no longer applicable.*
(b) Value of reserves subject to corporate income tax

<table>
<thead>
<tr>
<th>Type of taxable reserve</th>
<th>Taxable value in 2018 lei</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revaluation reserve deducted through depreciation of building (W1)</td>
<td>1,000</td>
</tr>
<tr>
<td>Revaluation reserve deducted through the non-depreciated amount transferred to expenses on sale of asset (W2)</td>
<td>89,000</td>
</tr>
<tr>
<td>Reinvested profit reserve converted into share capital (W3)</td>
<td>80,000</td>
</tr>
<tr>
<td>Total taxable reserve</td>
<td>170,000</td>
</tr>
</tbody>
</table>

Workings:

1. Revaluation reserve deducted through depreciation of building in 2018

Acquisition cost of the building = 336,000 lei => tax value of building
Number of months of depreciation = 40 x 12 = 480 months
Monthly tax depreciation = 336,000/480 = 700 lei
Number of months of depreciation before revaluation (July 2015 – December 2016) = 18
Depreciation to December 2016 = 18 x 700 = 12,600 lei
Tax value of building after revaluation = 336,000 – 12,600 + 92,400 = 415,800 lei
Remaining number of months of depreciation after revaluation = 480 – 18 = 462
Monthly depreciation from January 2017 = 415,800/462 = 900 lei, out of which:
- 700 lei – depreciation of the initial cost – recognised for tax purposes
- 200 lei – depreciation of the revaluation value – not recognised for tax purposes
===> monthly taxable value of reserve = 200 lei
Number of months of depreciation in 2018 until sale of building = 5
===> taxable revaluation reserve deducted in 2018 through depreciation = 5 x 200 = 1,000 lei

2. Revaluation reserve deducted through the non-depreciated amount transferred to expenses on sale of asset

Total number of months of depreciation for the revalued asset until its sale = (January 2017 – May 2018) = 17
Total taxed reserve = 17 x 200 = 3,400 lei
Total value of reserve which will be deducted through the non-depreciated value of the asset on its sale = 92,400 – 3,400 = 89,000 lei

3. Reinvested profit reserve, converted into share capital

Reinvested profit = min (200,000; 80,000 x 2) = 160,000 lei
Tax exemption = min (16% x 160,000; 16% x 320,000) = 25,600 lei
===> Reserve created in relation to reinvested profit = 160,000 lei

For the first piece of equipment which is sold, the tax exemption shall be recalculated at the moment of sale (as in (a)) ===> there is no additional tax impact on its cancellation by conversion into share capital.

For the second piece of equipment, the reserve was deducted when the tax exemption was granted ===> cancelling the reserve leads to its taxation by recomputing the tax exemption.

Taxable reserve = 80,000 lei
(a) Value of supplies for value added tax (VAT) purposes

<table>
<thead>
<tr>
<th>Type of supply</th>
<th>Is it included in the taxable base for VAT registration purposes?</th>
<th>Amount to be included in the VAT taxable base for VAT registration purposes (lei)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from self-employment</td>
<td>Yes</td>
<td>210,000</td>
</tr>
<tr>
<td>Revenue from intellectual property</td>
<td>Yes</td>
<td>40,000</td>
</tr>
<tr>
<td>Sale of shares</td>
<td>No</td>
<td>0</td>
</tr>
<tr>
<td>Revenue from preparation of business plan</td>
<td>Yes</td>
<td>17,000</td>
</tr>
<tr>
<td><strong>Total value of supplies</strong></td>
<td></td>
<td><strong>267,000</strong></td>
</tr>
</tbody>
</table>

(b) Ioana’s obligation to register for VAT

Total value of supplies in 2018 = 267,000 lei (as in (a))

Threshold for VAT registration = 220,000 lei < 267,000 lei

=> Ioana should have registered for VAT in 2018.

(c) Income tax liability in respect of each category of Ioana’s income in 2018

**Self-employed activity**

Taxable income = 90,000 lei

Income tax = 16% x 90,000 = 14,400 lei

**Intellectual property revenues**

Taxable income = 40,000 – 40% x 40,000 = 24,000 lei

Income tax = 16% x 24,000 = 3,840 lei

**Revenue from sale of shares**

Tax loss in 2017 = 400 x (4 – 7) = (1,200) lei

Taxable income in 2018 = 500 x (11 – 7) = 2,000 lei

Net taxable income in 2018 = 2,000 lei – 1,200 = 800 lei

Income tax = 16% x 800 = 128 lei

**Other revenues**

Taxable income = 17,000 lei

Income tax = 16% x 17,000 = 2,720 lei

(d) Stefan’s income tax liability for October 2018

Stefan is an IT programmer working in a software company, thus his employment revenue is exempt from taxation.

(e) Judith’s tax position

Judith has a permanent establishment in Romania, as she has a fixed place of business through which she performs her self-employed activity on a regular basis.

=> Judith is subject to Romanian tax on the income derived from this permanent establishment.

Taxable income = (20,000 + 15,000 x 7) – (3,000 x 10) = 125,000 – 30,000 = 95,000 lei

Income tax = 16% x 95,000 = 15,200 lei

As Judith spent more than 183 days in Romania in a period of 12 consecutive months, she is considered tax resident in Romania for her worldwide income.

=> Judith is subject to Romanian tax on her interest income from Austria.
Taxable income = 5,000 euro x 4.5 lei/euro = 22,500 lei
Income tax = 16% x 22,500 lei = 3,600 lei

Orange SA

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenues</td>
<td>7,629,000 lei</td>
</tr>
<tr>
<td>Total expenses</td>
<td>(7,126,680)</td>
</tr>
<tr>
<td>Accounting profit</td>
<td>502,320 lei</td>
</tr>
<tr>
<td>Non-taxable revenues</td>
<td>(1,139,000)</td>
</tr>
<tr>
<td>Sale of shares (Water Co)</td>
<td>(249,000)</td>
</tr>
<tr>
<td>Revenues from cancelling bad debt impairments</td>
<td>(110,000)</td>
</tr>
<tr>
<td>Revenues from permanent establishment</td>
<td>(780,000)</td>
</tr>
<tr>
<td>Tax deductions</td>
<td>(25,116)</td>
</tr>
<tr>
<td>Legal reserve (min (5% of accounting profit, 20% of issued share capital))</td>
<td>(25,116)</td>
</tr>
<tr>
<td>Elements similar to expenses</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Juice SA’s shares bought in 2016 and granted to employees in 2018</td>
<td>(50,000)</td>
</tr>
<tr>
<td>Non-deductible expenses</td>
<td>1,584,204</td>
</tr>
<tr>
<td>Technological losses (W1)</td>
<td>210,750</td>
</tr>
<tr>
<td>Social expenses (W2)</td>
<td>3,800</td>
</tr>
<tr>
<td>Protocol expenses (W3)</td>
<td>4,654</td>
</tr>
<tr>
<td>Juice SA’s shares expenses</td>
<td>40,000</td>
</tr>
<tr>
<td>Bad debt impairments</td>
<td>0</td>
</tr>
<tr>
<td>Expenses of permanent establishment</td>
<td>845,000</td>
</tr>
<tr>
<td>Expenses with sold shares (Water Co)</td>
<td>480,000</td>
</tr>
<tr>
<td>Taxable income before tax loss</td>
<td>872,408</td>
</tr>
<tr>
<td>Tax loss</td>
<td>(200,000)</td>
</tr>
<tr>
<td>Final taxable income</td>
<td>672,408</td>
</tr>
<tr>
<td>Income tax (672,408 x 16%)</td>
<td>107,585</td>
</tr>
</tbody>
</table>

Workings:

1. Technological losses

Maximum deductible value of technological losses = 5% x raw material expenses = 5% x 2,345,000 lei = 117,250 lei

Technological loss expense = 328,000 lei

Non-deductible technological losses = 328,000 lei – 117,250 lei = 210,750 lei

2. Social expenses

Maximum deductible social expenses = 5% x gross salary expenses = 5% x 2,244,000 lei = 112,200 lei

Social expenses = 22 x 500 (Christmas gifts to employees) + 105,000 (kindergarten fees) = 11,000 + 105,000 = 116,000 lei

Non-deductible social expenses = 116,000 lei – 112,200 lei = 3,800 lei

3. Protocol expenses

Maximum deductible protocol expenses = 2% x (accounting profit + protocol expenses) = 2% x (502,320 + 15,000) = 10,346 lei

Protocol expenses = 26,000 (total Christmas gifts expense) – 22 x 500 (Christmas gifts to employees) = 26,000 – 11,000 = 15,000 lei

Non-deductible protocol expenses = 15,000 lei – 10,346 lei = 4,654 lei

Tutorial notes:

1. Revenues from the sale of shares are non-taxable under the condition that the seller held a participation of at least 10% for at least one year.
2. Only tax losses recorded in the years when the company applied standard corporate income tax (2015 and 2016) may be carried forward. In 2017, the company applied the special scheme of corporate income tax, when no tax loss is to be calculated.