

Fundamentals Level – Skills Module

Taxation (Romania)

Thursday 8 December 2016



Time allowed: 3 hours 15 minutes

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.

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

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

Think Ahead

ACCA

The Association of
Chartered Certified
Accountants

Paper F6 (ROM)

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 voluntary health insurance 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 for trips within Romania 17 lei/day/person

Deductions

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

Personal deduction

Number of dependent persons for the taxpayer	Monthly gross income (MI) – lei		
	Below 1,500	Between 1,500 and 3,000	Above 3,000
0 persons	300	$300 \times (1 - (MI - 1,500)/1,500)$	0
1 person	400	$400 \times (1 - (MI - 1,500)/1,500)$	0
2 persons	500	$500 \times (1 - (MI - 1,500)/1,500)$	0
3 persons	600	$600 \times (1 - (MI - 1,500)/1,500)$	0
4 persons and more	800	$800 \times (1 - (MI - 1,500)/1,500)$	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	40%
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Copyright income

Lump-sum deductible expenses quota	40%
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Self-employed income

The limit of deductibility for protocol expenses	2%
The limit of deductibility for compulsory subscription expenses paid to professional associations	5%
The limit of deductibility for subscription expenses paid to professional associations other than compulsory ones	€4,000/year
The limit of deductibility for social expenses	5%
The limit of deductibility for sponsorship expenses	5%
The limit of deductibility of voluntary pension contributions paid for the self-employed person	€400/year
The limit of deductibility of voluntary health insurance paid for the self-employed person	€400/year
Reference interest rate set by the Romanian National Bank for loans denominated in lei	1.75%

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	1,050 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	1.75% p.a.
Maximum accepted interest rate set by the Tax Code for loans denominated in foreign currency	4% p.a.
Inflation rate for prepayments of corporate income tax	2.2% p.a.
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	5%
Maximum value of tax credit for sponsorship expenses	20% of the corporate income tax but no more than 0.5% of sales revenue

Corporate income tax for very small companies

Turnover threshold	€65,000
Tax rate	3%

Note: This rate should be used in all cases.

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	10.5% or 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

Social security fund	10.5%
Healthcare insurance fund	5.5%

Average monthly earnings	2,415 lei
Minimum monthly salary	1,050 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	20%
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	0·02%/day
Penalty level for late tax payments	0·01%/day
Penalty level for not declaring taxes	0·08%/day

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)** Girafa SRL (Girafa) is a company acting in the field of IT services. Girafa is registered for value added tax (VAT) in Romania and has a monthly tax period for VAT. On 17 March 2016, Girafa was deregistered *ex-officio* by the tax administration.

The sales made by Girafa in March 2016 consisted of one service provided on 10 March 2016 for 20,000 lei and another service provided on 24 March 2016 for 30,000 lei. In order to perform the first sale, Girafa made an acquisition of services for 5,000 lei on 2 March 2016. In order to perform the second sale, Girafa made an acquisition of services for 18,000 lei on 20 March 2016. All invoices were issued on the same day the services were provided. All values are stated exclusive of VAT and, where applicable, VAT is chargeable at the standard VAT rate of 20% on sales and acquisitions. All Girafa's suppliers and clients are taxable persons established and registered for VAT in Romania.

In March 2014, Girafa had bought a building for 450,000 lei plus VAT at 24%, for which it deducted the entire value of the input VAT as the building was used as its offices.

Required:

- (i) Determine the output value added tax (VAT), the input VAT, and the VAT to be paid to/recovered from the State budget for March 2016.**

Note: Ignore any VAT cash accounting scheme implications. (5 marks)

- (ii) Explain how the VAT calculated in (i) above for March 2016 will be declared to the State budget.** (1 mark)

- (b)** Zebra SRL (Zebra) is also a company acting in the field of IT services, which is registered for value added tax (VAT) in Romania with a monthly tax period for VAT. In 2016, Zebra performed the following transactions:

- Gave 20 presents to its customers on the occasion of Easter. Each client received one tablet computer with a value of 700 lei.
- Gave a dinner for its business partners with the purpose of maintaining and continuing the business relationship with them. Only organic (bio) food and soft drinks were served at the dinner. The dinner had a total value of 5,000 lei.
- Gave sponsorship of 20,000 lei in cash and 30,000 lei in furniture to a students' association which promotes IT development and innovation.

All values are stated exclusive of VAT. All acquisitions were made from persons registered for VAT purposes in Romania.

Zebra's turnover in 2016 is 8,000,000 lei.

Required:

For each of the transactions, explain whether Zebra SRL is liable to charge value added tax (VAT) and, if so, calculate the output VAT to be recorded for the transaction.

Note: Ignore any VAT cash accounting scheme implications. (4 marks)

(10 marks)

- 2** Andreea is employed as an accountant by Epsilon SRL (Epsilon), a Romanian company. In 2016, in addition to her employment activity, Andreea carried out the following income generating activities:
- earned revenues as a self-employed person, as she is professionally qualified;
 - carried out several transactions on the Stock Exchange Market in Bucharest, resulting in both gains and losses;
 - further to her transactions on the Stock Exchange Market (as above), she received some dividend revenues;
 - bought and sold an apartment at a profit; and
 - obtained revenues from the renting out of seven other apartments. Andreea started renting out all seven of these apartments in 2014.

Epsilon pays corporate income tax using the tax-prepayment system. For the year 2016, Epsilon has calculated its final corporate income tax payable as 12,500 lei and estimated its taxable income for 2017 to be 75,000 lei.

Required:

- (a) **For each type of revenue realised by Andreea in 2016, state who is liable to make the payment of the tax to the State budget and explain Andreea's tax declaration obligations, if any, in respect of these revenues.** (6 marks)
- (b) **State the information and records which a self-employed person must retain for tax purposes.** (2 marks)
- (c) **Explain how the system of tax prepayments of corporate income tax works and compute the pre-payments due by Epsilon SRL for the 2017 corporate income tax, clearly stating the deadlines and the amounts to be paid on each date.** (2 marks)

(10 marks)

- 3** Gazela SA (GSA) a company which has been established in Romania since 2010, operates in the field of construction and pays corporate income tax. In order to diversify its income sources, GSA has bought participations in several companies as follows:

- in January 2015, a 15% participation in the Romanian company AROM SRL;
- in March 2015, a 7% participation in the Austrian company XAT GmbH;
- in December 2015, a 5% participation in the Romanian company BROM SRL; and
- in April 2016, a 25% participation in the German company YDE GmbH.

All of the companies distributed and paid dividends in May 2016, and GSA registering the following revenues from dividends:

	lei
AROM SRL	10,000
XAT GmbH	13,000
BROM SRL	15,000
YDE GmbH	12,000
	<hr/>
	50,000
	<hr/>

In January 2017, GSA sold its 25% participation holding in YDE GmbH.

In order to carry out its business, GSA contracted with the following suppliers in 2016:

- One Co from the UK, which drew up the architectural plans for a new building to be developed by GSA in Romania. One Co performed all the work at its premises in the UK, over a period of three months. The total value of the works performed was 10,000 lei.
- Two SARL from France, which drew up the plans for the electrical installation in the new building to be developed by GSA in Romania. Two SARL performed all the work at GSA's premises in Romania, over a period of two months. The total value of the works performed was 5,000 lei.
- Three GmbH from Germany, from which GSA bought construction materials for 8,000 lei. The materials were dispatched from Germany to Romania, by Three GmbH.

None of these suppliers provided GSA with their tax residency certificate for 2016.

In December 2016, GSA sold the new building for 100,000 lei.

On 31 December 2015, GSA had still to recover corporate tax losses totalling 1,400 lei, of which 500 lei were from 2008 and 900 lei from 2009.

Required:

- (a) For each of the dividends received by Gazela SA in 2016, state, giving reasons, whether or not they are taxable with corporate income tax. (3 marks)
- (b) For each service received by Gazela SA from its suppliers in 2016, state, giving reasons, whether or not Gazela SA has to withhold tax and, if so, calculate the tax to be withheld. (4 marks)
- (c) Calculate the corporate income tax due by Gazela SA for 2016. (3 marks)

(10 marks)

- 4 Mrs Ionescu is employed by Savannah SRL, a Romanian company. During 2016, she received a monthly gross salary of 15,000 lei.

Mrs Ionescu also has revenues as a self-employed person and rental income from three houses, which she rents out. In 2016, Mrs Ionescu's total revenues as a self-employed person were 47,200 lei, and her related expenses (excluding any social contributions) were 40,000 lei. Mrs Ionescu received rents of 24,000 lei per month for each month of 2016. For all of the revenues obtained by Mrs Ionescu, standard taxation applies, as she did not opt for any other type of taxation scheme.

Mrs Ionescu's annual net realised taxable base for social contributions for self-employed activities in 2015 was 12,000 lei.

Required:

Calculate the social security fund and health care insurance fund contributions due by Mrs Ionescu for each type of revenue obtained in 2016. In each case, compute both the prepayments and final values due, if applicable.

Note: Disregard the payments of social contributions other than those required above when computing the taxable base for social contributions due for the self-employed activity.

(10 marks)

- 5 Bear SA (BSA) is a company based in Cluj, Romania, established in 2014, which has a share capital of 22,000 lei. For 2016, BSA booked the following revenues and expenses into its accounts:

	Note	lei
Revenues		548,000
– sale of services		520,000
– exchange rate differences	(1)	18,000
– increase in value of non-current assets	(2)	10,000
Expenses		464,450
– employees' gross salaries		180,000
– social contributions		40,950
– bonuses for employees	(3)	18,000
– travel allowances for employees	(4)	10,000
– subcontracted services	(5)	100,000
– research expenses	(6)	50,000
– expenses for meals with business partners	(7)	6,000
– exchange rate differences	(1)	39,000
– depreciation	(2)	17,500
– corporate income tax	(8)	3,000

Notes:

- (1) In June 2016, BSA took out a loan of €200,000 from its parent company which is resident in Spain. The loan, which is interest free, was granted for a three-year period. BSA revalued this debt on a monthly basis in 2016, which resulted in revenues from exchange rate differences of 18,000 lei and expenses from exchange rate differences of 39,000 lei. BSA has a debt-to-equity ratio of 3·5.
- (2) In December 2014, BSA bought equipment for 100,000 lei for which it decided to apply straight-line depreciation over a period of five years for accounting purposes. On 31 December 2015, BSA revalued this equipment and registered an expense for the decrease in its value of 10,000 lei. On 31 December 2016, BSA revalued the equipment again and registered an increase in its value of 13,000 lei. For tax purposes the equipment is depreciated using the accelerated depreciation method over a period of five years.
- (3) BSA paid performance bonuses to employees who met their established targets, but does not consider these bonuses as a taxable benefit-in-kind at the employee level.
- (4) Five of BSA's employees made ten business trips in Romania of four days each, for which they received a daily travel allowance of 50 lei per day per employee.
- (5) Some of the services sold by BSA were subcontracted from other suppliers. In November 2016, BSA received an invoice for 3,000 lei for services performed by one of these subcontractors in 2015, which had not been registered into the accounts for 2015. BSA's accounting policies state that any error below 5,000 lei should be considered immaterial and will be recognised in the results of the year when the error is discovered.
- (6) In order to improve its business opportunities, BSA started developing a research project with the aim of finding innovative ways of performing its services. The research project qualifies as applied research.
- (7) To maintain good relationships with its customers, BSA paid for some business meals in 2016. BSA has all the proper documentation to prove the business purpose of the related expense.
- (8) BSA registered and paid 1,000 lei as corporate income tax for each of the first three quarters of 2016.

BSA has applied corporate income tax since its registration in 2014.

In 2014, it registered an accounting loss of 5,000 lei and a tax loss of 4,000 lei.

In 2015, it registered an accounting loss of 1,000 lei and a tax loss of 2,800 lei.

Due to these losses, no legal reserve was created or deducted in either 2014 or 2015.

Required:

Calculate the final corporate income tax due by Bear SA for 2016.

Note: You should list all the items referred to in the question and indicate by the use of zero (0) any items which have no impact on the corporate income tax calculation.

(15 marks)

- 6 (a) Mihai is a Romanian citizen with employment contracts with two companies based in Sibiu, Alfa SRL and Beta SRL. Mihai has declared his main employment contract with Alpha SRL, this employment contract is for four hours per day, with a gross monthly salary of 2,300 lei. Mihai's employment contract with Beta SRL is for six hours per day, with a gross monthly salary of 2,800 lei. Mihai is member of the union at Beta SRL and pays a monthly union contribution of 100 lei. Mihai contributes to a facultative private pension plan to which he pays 80 lei per month. He has shown both his employers supporting documents attesting to this payment, each month.

Mihai's wife, Maria, is also employed by Alfa SRL. Her employment contract is for eight hours per day, with a gross monthly salary of 2,700 lei. Maria has no other employment contract.

Mihai and Maria have two minor children.

Required:

Calculate the total monthly deductions (other than social contributions) which may be made from Mihai's and Maria's gross employment income when calculating their employment income tax, clearly presenting the amount which may be deducted by each employer. (4 marks)

- (b) Petra has revenues from a self-employed activity. As a self-employed person, Petra has only one client, Gamma SRL (Gamma). According to her contract with Gamma, Petra has to use only Gamma's assets to perform her tasks and is not allowed to have employees or subcontractors to perform the activity for Gamma.

During 2016, Petra invoiced 2,600 lei each month to Gamma, which pays her invoices on the last day of the same month. Petra's expenses for performing her self-employed activity are:

- 30% of Petra's home's utilities, as her professional premises are at her home. She pays 1,000 lei per month for home utilities.
- Depreciation of her motor car, calculated for all 12 months of the year. The motor car's value is 210,000 lei, and Petra applies straight-line depreciation over five years. The motor car is used only for driving from Petra's home to Gamma's premises.
- Voluntary health insurance of 250 lei/month, paid by Petra.

Petra's net realised income for 2015 was 13,200 lei. During 2016 she made no payments of social contributions.

Petra has one minor child.

Required:

- (i) **List ANY FOUR of the conditions used for the purposes of classifying an activity performed by an individual as independent activity.** (2 marks)
- (ii) **Calculate the annual income tax and social contributions due by Petra if her activity is classed as an independent activity.** (6 marks)
- (iii) **Calculate the monthly income tax due by Petra if her activity is re-classified as a dependent activity by the tax authorities.** (2 marks)
- (iv) **State who has the responsibility of classifying Petra's activity as dependent or independent when computing income tax and social contributions.** (1 mark)

(15 marks)

End of Question Paper