

Fundamentals Level – Skills Module

# Taxation (Romania)

Thursday 9 June 2016



**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.**

# Paper F6 (ROM)

Think Ahead

**ACCA**

The Association of  
Chartered Certified  
Accountants

## 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% |
|------------------------------------|-----|

### **Copyright income**

|                                    |     |
|------------------------------------|-----|
| Lump-sum deductible expenses quota | 40% |
|------------------------------------|-----|

### **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 |
|----------------------------|-----------|

### **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% |
|---------------------------|------|

#### 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 |
|----------|---------------|

**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 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** PFA Mihai Aur is a self-employed person who started his clothes design business on 1 January 2016. PFA Mihai Aur determines his net income using the real system and for 2016 estimated his gross revenues would be 180,000 lei and his deductible expenses (excluding social contributions) 125,000 lei. The actual values for revenues and expenses registered into his accounts by PFA Mihai Aur for 2016 are gross revenues of 190,000 lei and deductible expenses (excluding social contributions) of 145,000 lei.

PFA Mihai Aur applies the standard rules for determining social contributions.

**Required:**

- (a) Explain the procedures for declaring and paying the compulsory social contributions due by PFA Mihai Aur, together with the relevant deadlines.** (4 marks)
- (b) Calculate the prepayments of compulsory social contributions due by PFA Mihai Aur for 2016.** (3 marks)
- (c) Calculate the final values for the compulsory social contributions due by PFA Mihai Aur for 2016, and the differences to be paid/recovered on settlement.** (3 marks)

**(10 marks)**

- 2 Silver SRL is a company established in Romania which trades in IT equipment and repairs the equipment it sells. Silver SRL is registered for value added tax (VAT), has a monthly tax period for VAT and does not apply the cash accounting scheme for VAT. The following transactions were recorded by Silver SRL for the months of December 2015 and January 2016.

| Date             | Transaction   |                                 | Value exclusive of VAT at the standard rate lei |
|------------------|---|---------------------------------|---|
| 10 December 2015 | Issued an invoice for an advance payment received for the sale of a laptop. The payment was received from the customer on the same day.   |                                 | 7,000   |
| 15 December 2015 | Bought a laptop for re-sale to the customer who paid the advance of 7,000 lei on 10 December. The laptop and the invoice were received by Silver SRL from its supplier on 15 December 2015. |                                 | 12,000  |
| 21 December 2015 | Sold a mobile phone but did not issue an invoice.   |                                 | 3,700   |
| 28 December 2015 | Issued an invoice for an advance payment received from a customer for the repair of a computer sold in October 2015. The payment was received from the customer on the same day.            |                                 | 2,000   |
| 5 January 2016   | Repaired the computer for which the advance payment was received on 28 December 2015 and issued the invoice for the total repair value (including the advance payment).                     |                                 | 4,200   |
| 7 January 2016   | Returned the laptop bought on 15 December 2015 because it did not meet the specification requested, and asked for a replacement laptop.   | Value of the returned laptop    | 12,000  |
|                  | The replacement laptop with the specification requested was received the same day. All the invoices relating to this transaction were issued on 7 January 2016.                             | Value of the replacement laptop | 25,000  |
| 11 January 2016  | Issued the invoice for the mobile phone sold on 21 December 2015.   |                                 | 3,700   |
| 12 January 2016  | Sold the laptop for which the advance payment was received on 10 December 2015, and issued the invoice for the total selling price of the laptop (including the advance payment).           |                                 | 30,700  |

All of Silver SRL's suppliers and customers are established and registered for VAT purposes in Romania and do not apply the cash accounting VAT scheme.

**Required:**

- (a) For each of the transactions listed, calculate the output value added tax (VAT) or input VAT for which Silver SRL must account.

Note: The standard VAT rate applicable for transactions in 2015 is 24%, and the standard VAT rate applicable for transactions in 2016 is 20%. (7 marks)

- (b) Calculate the VAT to be paid to/reimbursed from the state budget for each of the tax periods December 2015 and January 2016. (3 marks)

**(10 marks)**

**3** Andrei is an individual resident in Romania, who has one minor child in his care. Andrei is employed by Forest SRL, where he has his basic activity, for a monthly gross basic salary of 1,200 lei. In December 2016, he also received the following benefits in kind:

- Use of a company car, having an accounting value of 85,000 lei. Andrei uses the car 70% for business purposes and 30% for personal use, so Forest SRL limits the deductibility of value added tax (VAT) and the deductibility to corporate income tax of directly linked expenses relating to this car to 50%.
- Christmas present vouchers (rom: *tichete cadou*) for himself of 350 lei and a toy for his child worth 280 lei.
- The following contributions paid on behalf of Andrei by Forest SRL and registered into the company's expenses in December 2016: a voluntary pension contribution of 700 lei; a voluntary health insurance premium of 1,900 lei; and a life insurance premium of 300 lei. These are the only expenses of this kind made on behalf of Andrei by Forest SRL in 2016.
- A three-day business trip in Romania for which he received an allowance of 200 lei.

When computing employment income tax for Andrei, Forest SRL deducted compulsory social contributions due by Andrei as an employee of 330 lei for the month of December 2016.

In order to supplement his income, Andrei signed a new employment contract with Tree Co to work as a sales agent from 1 December 2016 for two hours per day. Tree Co is a company based in the UK with no permanent establishment in Romania. Andrei's employment activity for Tree Co will take place in Romania and his monthly gross salary will be 3,500 lei. On 31 December 2016, Tree Co paid Andrei an additional amount of 1,200 lei, as a profit participation. Tree Co computes the employment income tax in Romania and deducted compulsory social contributions due by Andrei as an employee of 776 lei for the month of December 2016.

In December 2016, Andrei also paid 2,000 lei as a voluntary pension contribution and 500 lei as a voluntary health insurance contribution from his own resources, and informed his employers about these payments in December 2016 when he gave them copies of the supporting documents.

**Required:**

**(a) Calculate the income tax due on Andrei's employment revenue for December 2016 for each of his employment contracts.**

Note: You should list all of the items referred to in the question and indicate by the use of zero (0) any which have no impact on the income tax computation. (9 marks)

**(b) State who has the obligation to pay and declare the income tax due for each of Andrei's employment contracts.** (1 mark)

**(10 marks)**



- 4 Safirul SA is a company based in Romania, with permanent establishments in two other countries: Country A and Country B. The revenues and expenses registered by Safirul SA in 2016 are:

| Item  | Romania<br>lei | Country A<br>lei | Country B<br>lei |
|---|----------------|------------------|------------------|
| Revenue from the sale of goods                    | 300,000        | 250,000          | 160,000          |
| Cost of goods sold                                | 210,000        | 175,000          | 112,000          |
| Protocol expenses                                 | 10,000         | 9,000            | –                |
| Penalties and fines paid to the state authorities | 5,000          | 2,000            | 3,000            |

For the activity in Country A, Safirul SA registered and paid corporate income tax of 12,000 lei in Country A. For the activity in Country B, Safirul SA registered and paid corporate income tax of 17,200 lei in Country B.

Romania has signed double tax treaties with both Country A and Country B. The double tax treaty with Country A provides for the avoidance of double taxation using the credit method, while the double tax treaty with Country B provides for the avoidance of double taxation using the exemption method.

Safirul SA does not have any fiscal losses to carry forward to 2016.

**Required:**

**Calculate the corporate income tax due in Romania by Safirul SA for 2016 after applying any available tax reliefs.**

**(10 marks)**

**5** PFA Cristiana Smarald is a self-employed person, who started her business of trading in cosmetic products from sustainable sources in the year 2000. She applies the real system for determining her income tax. In 2015 PFA Cristiana Smarald realised a net income of 40,000 lei. She did not file a declaration with the tax authorities estimating her net income for 2016, but during 2016 she recorded the following:

- Invoices of 21,000 lei per month issued to customers for the sale of cosmetic products. Until December 2015, all of her customers paid their invoices on the same day they were issued but, starting from 1 January 2016, PFA Cristiana Smarald agreed with her customers that they would pay the invoices two months after her invoices were issued.
- Invoices of 12,000 lei per month received from suppliers for the acquisition of cosmetic products. Until December 2015, she paid all her suppliers on the same day as their invoices were received but, since 1 January 2016, PFA Cristiana Smarald has paid her suppliers one month after their invoices were received.
- In February 2016 she bought a video-projector to use at sales presentations. The video-projector cost 6,000 lei and the tax and accounting depreciation period is ten years.
- In March 2016, she received a laptop as a donation from a Foundation which encourages the use of bio-cosmetics. The value of the laptop is 20,000 lei.
- In May 2016, she paid a 20,000 lei subscription to the World Cosmetics Traders' Association, an association which promotes the trade in cosmetics made from sustainable sources. Membership of this association is not mandatory for PFA Cristiana Smarald to be able to perform her activities.
- In June 2016, she sponsored a beauty contest with products worth 5,000 lei.
- In November 2016, she made an inventory of goods and discovered that goods worth 3,000 lei were missing. No explanation is available and no one can be identified as being responsible for the loss of the goods, which were not insured.
- In December 2016 she organised a small party for her customers. The cost of the party was 4,000 lei.
- PFA Cristiana Smarald had a commercial dispute with a supplier which was resolved by arbitration. She paid 2,000 lei to the arbitrator, Mr Gabriel Popescu, for his services.

**Required:**

**(a) Calculate the annual pre-payments of income tax, the final tax and the difference of tax to be paid on settlement by PFA Cristiana Smarald for 2016.**

**Notes:**

1. You should list all the items referred to in the question and indicate by the use of zero (0) any which have no impact on the income tax computation.
2. Ignore any social contributions which may be due. (10 marks)

**(b) Determine from when in 2016 PFA Cristiana Smarald should be registered for value added tax (VAT) and the output VAT (if any) she should have charged in 2016.** (3 marks)

**(c) In relation to the income received by Mr Gabriel Popescu as arbitrator, state the category of taxable income and how and by whom the income tax due on this income should be paid.** (2 marks)

**(15 marks)**

- 6 Platinum SA is a company established in Romania which has applied the pre-payments system for paying its corporate income tax since 2015. In 2015 Platinum SA registered an accounting profit of 28,000 lei and a tax loss of 30,000 lei.

Platinum SA recorded the following values for each of the quarters (non-cumulated) and in total for the year 2016:

|                  | Note | Quarter 1<br>(Q1) 2016<br>lei | Quarter 2<br>(Q2) 2016<br>lei | Quarter 3<br>(Q3) 2016<br>lei | Quarter 4<br>(Q4) 2016<br>lei | Total<br>2016<br>lei |
|------------------|------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------------|
| Revenues:        |      |                               |                               |                               |                               |                      |
| – sales of goods |      | 850,000                       | 1,200,000                     | 1,300,000                     | 900,000                       | 4,250,000            |
| – dividends      | (1)  |                               | 20,000                        | 10,000                        |                               | 30,000               |
| – interest       | (2)  | 10,000                        | 10,000                        | 10,000                        | 10,000                        | 40,000               |
| Expenses         |      |                               |                               |                               |                               |                      |
| – goods sold     |      | 700,000                       | 800,000                       | 900,000                       | 600,000                       | 3,000,000            |
| – provisions     | (3)  |                               |                               |                               | 30,000                        | 30,000               |
| – depreciation   | (4)  |                               |                               |                               | 2,000                         | 2,000                |
| – sponsorship    | (5)  |                               | 8,000                         |                               |                               | 8,000                |
| – interest       | (6)  | 7,000                         | 7,000                         | 7,000                         | 7,000                         | 28,000               |
| – salaries       |      | 100,000                       | 110,000                       | 110,000                       | 95,000                        | 415,000              |

**Notes:**

- (1) The dividends received in Q2 are from a Romanian company, Company M, in which Platinum SA has held a participation of 5% since 2014. The dividends received in Q3 are from another Romanian company, Company N, in which Platinum SA has held a participation of 55% since 2014.
- (2) The interest received is from a loan of 4,000,000 lei granted in 2014 by Platinum SA to Company N. The loan is fully reimbursable at the maturity of the five-year reimbursement period, and the interest rate is 1% per annum. The market interest rate for a similar loan would have been 3% per annum. Company N is affiliated to Platinum SA according to transfer pricing rules.
- (3) In December 2016, Platinum SA registered the following expense provisions for customers whose debts were older than 365 days:

|            | Value of accounts receivable<br>lei | Value of provision<br>lei |
|------------|-------------------------------------|---------------------------|
| Customer A | 80,000                              | 20,000                    |
| Customer B | 30,000                              | 10,000                    |

Neither Customer A nor Customer B is an affiliate of Platinum SA, and the debts are not guaranteed by another person. Neither Customer A nor Customer B is in a bankruptcy procedure.

- (4) Depreciation is for equipment bought for 120,000 lei in October 2016. The equipment is new and is included in category 2.1 of the Catalogue for the classification and normal depreciation periods of non-current assets.
- (5) In May 2016 Platinum SA sponsored a local high-school, respecting all legal requirements for such an act.
- (6) The interest expense is for a loan of 700,000 lei from Company M, taken in 2015 at an interest rate of 4% per annum. The loan is fully reimbursable at the maturity of the three-year reimbursement period. Platinum SA's debt-to-equity ratio is 2.7 to 1.

**Other information:**

- In November 2016 Platinum SA reduced its share capital by 50% from 100,000 lei to 50,000 lei. Accordingly, the legal reserve was also decreased from 20,000 lei to 10,000 lei. The legal reserve was fully deducted in the year when it was set up.
- In 2015, Platinum SA had sponsorship expenses of 10,000 lei which were not used as a tax credit for corporate income tax purposes in 2015.

**Required:**

- (a) Compute the pre-payments of corporate income tax due at each quarterly deadline for the year 2016 by Platinum SA.** (3 marks)
- (b) Calculate the final tax due by Platinum SA for 2016 and the difference to be paid/reimbursed at settlement.** (12 marks)

**(15 marks)**

**End of Question Paper**