

Fundamentals Level – Skills Module

Taxation (Romania)

Thursday 7 December 2017



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.

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 <i>per diem</i> allowance | 2.5 x public institutions' threshold |
| The <i>per diem</i> allowance accepted for public institutions' employees for business 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 employee | €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 the nearest 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 contribution 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% p.a. |

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 | 5% |

Prize income

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

Pension income

| | |
|--|-----------|
| Non-taxable threshold for 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 | 0.5% 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 |
| Additional deduction for research and development (R&D) expenses | 50% |

Corporate income tax for very small companies

| | |
|-----------------------|----------|
| Turnover threshold | €100,000 |
| Tax rate | |
| – no employees | 3% |
| – 1 employee | 2% |
| – 2 or more employees | 1% |

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 |

*Limited to maximum 1,500 lei/month

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 | 5% or 0% |
| For dividends paid to other non-residents | 5% |

Social security and other insurance contributions

Employed persons

| | Employee | Employer |
|---------------------------------------|----------------------|----------------------------|
| Social security fund | 10.5% ⁽¹⁾ | 15.8% ⁽²⁾ |
| Health care insurance fund | 5.5% | 5.2% |
| Unemployment fund | 0.5% | 0.5% |
| Work accident fund | – | 0.15%–0.85% ⁽³⁾ |
| Health insurance indemnities fund | – | 0.85% ⁽⁴⁾ |
| Fund for guaranteeing salary payments | – | 0.25% |

Self-employed persons

| | |
|-----------------------------------|----------------------------------|
| Social security fund | 10.5% or 26.3% ⁽⁵⁾⁽¹⁾ |
| Health care insurance fund | 5.5% ⁽¹⁾ |
| Unemployment fund | 1% |
| Work accident fund | 0.15%–0.85% ⁽³⁾ |
| Health insurance indemnities fund | 0.85% |

Persons obtaining rent income

| | |
|----------------------------|---------------------|
| Health care insurance fund | 5.5% ⁽¹⁾ |
|----------------------------|---------------------|

Persons obtaining intellectual property revenues

| | |
|----------------------------|----------------------|
| Social security fund | 10.5% ⁽¹⁾ |
| Health care insurance fund | 5.5% ⁽¹⁾ |

Persons obtaining dividend revenue

| | |
|----------------------------|---------------------|
| Health care insurance fund | 5.5% ⁽¹⁾ |
|----------------------------|---------------------|

| | |
|--------------------------|-----------|
| Average monthly earnings | 2,681 lei |
| Minimum monthly salary | 1,250 lei |

Notes:

- (1) Maximum monthly taxable base = 5 x average monthly earnings
 (2) Maximum monthly taxable base = 5 x average monthly earnings x number of employees
 (3) The exact value will be specified in the question, where necessary
 (4) Maximum monthly taxable base = 12 x minimum month salary x number of employees
 (5) Minimum monthly revenue for applying the social security contribution = 35% x average monthly earnings

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 | 19% |
| 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 |
| Limit of non-taxable protocol gifts in goods | 100 lei/gift |
| Limit of non-taxable goods and services offered as sponsorships | 3‰ x turnover/year |

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 level for not declaring taxes | 0.08%/day or 0.02%/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** Tudor is a self-employed person in the field of IT programming. He applies income quotas for determining his net income. In 2016 Tudor's annual income quota was 180,000 lei and for 2017, his annual income quota is 240,000 lei.

Tudor's wife, Maria, is also a self-employed person, but in the field of management consultancy. Maria applies the real system for determining her net income. Maria's realised net income for 2016 was 170,000 lei and for 2017 is 120,000 lei. Her net income is computed as the difference between her gross revenue and her deductible expenses, other than social contributions. When submitting her realised net income declaration for 2016 to the tax authorities, Maria did not file a new net income estimation declaration for 2017.

Neither Tudor nor Maria opted for the full tax rate of social security contribution.

Required:

- (a) Calculate the prepayments of health care insurance contribution and social security contribution due by each of Tudor and Maria for their 2017 income.**

Note: When computing the taxable base for each social contribution, disregard any implications of the other social contributions. (6 marks)

- (b) Calculate the final health care insurance contribution and social security contribution due by each of Tudor and Maria for their 2017 income, and the difference to be paid to/recovered from the State budget at the end of year settlement.**

Note: When computing the taxable base for each social contribution, disregard any implications of the other social contributions. (4 marks)

(10 marks)

- 2 Earth SA is a taxpayer subject to the standard corporate income tax system. In 2017, Earth SA has the following assets:

| Asset | Note | Acquisition date | Acquisition value lei | Accounting depreciation period (months) |
|-------------------|------|------------------|--------------------------|--|
| Goodwill | (1) | 20 January 2016 | 12,000,000 | 60 |
| Client list | (2) | 20 January 2016 | 3,000,000 | 30 |
| Car | (3) | 10 May 2016 | 300,000 | 60 |
| Land improvements | (4) | 30 March 2017 | 240,000,000 | 120 |
| Equipment | (5) | 20 July 2017 | 900,000 | 48 |

Notes:

- (1) The goodwill was recorded as a result of acquiring a business from Mars SA.
- (2) The client list was also recorded on the occasion of acquiring the business from Mars SA (as above). The 30-month period used for accounting depreciation purposes represents the period for which the contracts are secured for Earth SA.
- (3) The car is less than 3,500 kg and has less than nine seats including the driver's seat. The car is used by Earth SA's general manager and the company has decided not to fill in log books. The car was sold on 20 October 2017 for 230,000 lei.
- (4) Earth SA has performed various land improvements required to upgrade the land for its business purposes.
- (5) Earth SA applied the reinvested profit exemption for this equipment and decreased its tax liability by 144,000 lei based on this purchase.

Additional information:

- (i) All the assets were put into use on their acquisition date and have been used, without interruption, until 31 December 2017 or until they were sold.
- (ii) In all cases, where the asset may be depreciated for tax purposes, the tax depreciation period equals the accounting depreciation period.
- (iii) The straight-line depreciation method applies to all relevant assets.

Required:

- (a) **State the general conditions which must be met for an item to be recognised as a non-current asset for tax purposes.** (2 marks)
- (b) **For each of the five assets, calculate the tax depreciation available to Earth SA when determining its corporate income tax for 2017.**
Note: Indicate any asset which may not be depreciated for tax purposes by the use of zero (0). (6 marks)
- (c) **Calculate the non-depreciated tax value of the car deductible by Earth SA when determining its corporate income tax for 2017.** (2 marks)

(10 marks)

- 3** Moon SRL is an entity established in Romania, which is registered locally for value added tax (VAT) purposes, and has a monthly tax period for VAT. Neither Moon SRL nor any of its business partners applies the cash accounting scheme for VAT.

During August 2017, Moon SRL recorded the following transactions:

- (1) Bought goods from Alfa Ltd, a taxable person established and registered for VAT purposes in Ireland. The goods were dispatched by Alfa Ltd from Dublin, Ireland to Bucharest, Romania, and Alfa Ltd was responsible for the transport of the goods. Alfa Ltd issued to Moon SRL one invoice for the value of goods of 75,000 lei and a second invoice for the value of transport services of 5,300 lei.
- (2) Moon SRL contracted with Beta SRL, a taxable person established and registered for VAT purposes in Romania, to dye the goods. Beta SRL issued an invoice of 3,000 lei for these dying services.
- (3) The dyed goods were dispatched by Moon SRL to its depot in Budapest, Hungary. Moon SRL is also registered for VAT purposes in Hungary.
- (4) The goods in Moon SRL's depot in Hungary were sold by Moon SRL to a non-taxable natural person in Budapest. Moon SRL issued an invoice for 135,000 lei in respect of the sale.

All amounts are stated exclusive of VAT, where applicable.

Required:

- (a) Explain the value added tax (VAT) rules for deliveries of goods dispatched from one EU member state to another EU member state.**

Note: Clearly identify the nature of the transactions made from a VAT perspective, and for each transaction state the place of supply, any exemption conditions and the person liable to pay the VAT due. (4 marks)

- (b) For each of the transactions (1) to (4) state, from a VAT perspective, the nature of the transaction performed by Moon SRL, compute the taxable base and calculate the input/output VAT (if any) which must be accounted for by Moon SRL in Romania.** (6 marks)

(10 marks)

- 4 Bogdan is a self-employed person in the field of management consultancy, who computes his net income using the real system. In 2016 Bogdan earned gross revenues of 260,000 lei and paid deductible expenses of 180,000 lei. When submitting his realised net income declaration for 2016 to the tax authorities, Bogdan did not file a new net income estimation declaration for 2017.

During 2017 Bogdan recorded the following:

- Issued invoices for 120,000 lei to clients who paid 70% of the amount due in 2017 and 30% in 2018.
- Received a loan from his wife, Emma, of 90,000 lei.
- On 3 June 2017, Bogdan used the funds received from Emma and part of his own funds to buy a car for 120,000 lei. The car is less than 3,500 kg and has less than nine seats including the driver's seat. Bogdan started using the car in his business activity on 10 August 2017 and decided not to fill in log books. Bogdan's monthly paid expenses for car fuel were 600 lei, starting in August 2017.
- Paid a sponsorship for a public school of 20,000 lei in cash in February 2017.
- Paid a voluntary health insurance premium expense of 2,500 lei. Bogdan is the beneficiary of the insurance.

Required:

- (a) **Calculate the prepayments of personal income tax due by Bogdan in 2017, clearly stating the amount to be paid at each deadline in 2017.** (2 marks)
- (b) **Calculate the final personal income tax due by Bogdan for 2017 and the difference to be paid to/reimbursed from the State budget at the end of year settlement.**

Notes:

1. List all of the items referred to in the question, indicating by the use of zero (0) any item which has no impact on the tax calculation.
2. Disregard any value added tax (VAT) and social contribution implications. (8 marks)

(10 marks)

**This is a blank page.
Question 5 begins on page 16.**

- 5 Star SRL is a company 100% owned by a Romanian individual. Star SRL is based in Cluj-Napoca, where it has its headquarters and operates two stores: one in Cluj-Napoca, Romania and the second in Vienna, Austria. Star SRL keeps separate books for the operating revenues and expenses of each store.

The operating revenues and expenses recorded in 2017, which could be directly allocated to each store were:

| | Note | Cluj-Napoca store lei | Vienna store lei | Total Star SRL lei |
|---|------|-----------------------------|------------------------|--------------------------|
| Direct revenues | | 2,250,000 | 3,200,000 | 5,450,000 |
| Sales revenues | | 2,250,000 | 3,200,000 | 5,450,000 |
| Direct expenses | | 1,916,000 | 3,165,000 | 5,081,000 |
| Cost of goods sold | | 1,288,000 | 2,256,000 | 3,544,000 |
| Salary expenses | | 520,000 | 786,000 | 1,306,000 |
| Expenses for goods scrapped/missing from inventory | (1) | 78,000 | 98,000 | 176,000 |
| Inventory impairment | (2) | 30,000 | 25,000 | 55,000 |

In addition to the above operating expenses, Star SRL recorded other revenues and expenses, which originated from either Cluj-Napoca or Vienna, but cannot be directly linked to any operating activity:

| | Note | Items originated from Romania lei | Items originated from Austria lei | Total Star SRL lei |
|--------------------------------------|------|---|---|--------------------------|
| Indirect revenues | | 750,000 | 1,050,000 | 1,800,000 |
| Dividend revenues | (3) | 450,000 | 350,000 | 800,000 |
| Sale of shares revenues | (3) | 300,000 | 700,000 | 1,000,000 |
| Indirect expenses | | 1,085,000 | 540,000 | 1,625,000 |
| Fines paid to authorities | | 60,000 | 40,000 | 100,000 |
| Personal expenses of the shareholder | (4) | 800,000 | – | 800,000 |
| Cost of shares sold | (3) | 90,000 | 460,000 | 550,000 |
| General administrative expenses | (5) | 115,000 | – | 115,000 |
| Corporate income tax | (6) | 20,000 | 40,000 | 60,000 |

Notes:

- (1) When performing the annual inventory count, Star SRL's management found goods in the Cluj-Napoca store which had expired in the amount of 50,000 lei and goods which were qualitatively depreciated in the amount of 28,000 lei. All of these goods were destroyed and there is proof of destruction. For the store in Vienna, goods in the amount of 98,000 lei were missing with no explanation.
- (2) Also on the occasion of the annual inventory count, Star SRL recorded an impairment for inventories with no movement in 2017 of 30,000 lei for the Cluj-Napoca store and 25,000 lei for the Vienna store.
- (3) In 2014, Star SRL acquired a participation of 15% in a Romanian company and another participation of 8% in an Austrian company. In May 2017, it recorded dividend revenues of 450,000 lei from the Romanian company and of 350,000 lei from the Austrian company. In October 2017, Star SRL decided to liquidate its participation in both companies and obtained 300,000 lei revenue from selling the shares in the Romanian company and 700,000 lei from selling the shares in the Austrian company. The cost of shares sold was 90,000 lei for shares in the Romanian company and 460,000 lei for shares in the Austrian company.
- (4) In 2017, Star SRL bought goods for the personal benefit of its only shareholder, an individual resident in Romania who has no other relationship with the company other than being a shareholder. Star SRL did not charge any personal income tax on this amount.
- (5) In 2017, Star SRL recorded general and administrative expenses for rent and utilities, which cannot be directly linked to either sales revenues or other types of revenues.
- (6) In 2017, Star SRL recorded a corporate income tax expense for the activity in Vienna of 40,000 lei. This amount is to be paid in 2018. In 2017, Star SRL paid the corporate income tax due for 2016 for its activity in Austria, of 10,000 lei. The corporate income tax which would have been paid in Romania for the same activity in 2016 would have been 8,000 lei.

The corporate income tax recorded for Star SRL's Romanian activity is the corporate income tax due for the first three quarters of 2017 which was declared and paid on the legal deadlines. Star SRL does not apply the system of prepayments for corporate income tax for its Romanian activity.

The double tax treaty between Romania and Austria provides for double taxation relief using the credit method.

Required:

- (a) Calculate the corporate income tax liability of Star SRL in Romania for 2017 and the difference to be paid to/reimbursed from the State budget at the end of year settlement.**

Note: Ignore any legal reserve requirements and any value added tax (VAT) implications. (13 marks)

- (b) State the deadlines by which Star SRL has to pay and declare its corporate income tax in Romania for 2017.** (2 marks)

(15 marks)

- 6** Adrian is a retired person, who has a monthly pension income of 2,400 lei. The health care insurance fund contribution withheld from his pension is 132 lei/month.

Adrian has a part-time job for two hours per day, with a gross monthly salary of 800 lei from which his employer withholds social contributions of 350 lei. This is Adrian's only employment contract. Adrian's wife does not have any income, so Adrian has declared to his employer that his wife is a dependent person. In August 2017, Adrian's employer paid him the following amounts in addition to his salary:

- An amount of 300 lei to cover his holiday expenses, according to the collective employment agreement. Adrian provided supporting documents for this amount and the holiday was taken during his official holiday leave.
- An amount of 600 lei for a Spa subscription.
- An amount of 500 lei as a participation in the employer's profit.
- A participation in a stock-option plan, whereby Adrian can receive 100 shares in his employer, free of charge. The value of his employer's shares is 10 lei each.

Adrian owns three apartments in Bucharest, which he bought in 2015 for 180,000 lei each. Starting January 2017, Adrian rented out two of the apartments for a monthly rent of 1,000 lei each. The third apartment was sold on 10 June 2017 for 480,000 lei.

Required:

- (a) Calculate Adrian's personal income tax liability in respect of his employment revenue for August 2017.**

Note: List all of the items referred to in the question, indicating by the use of zero (0) any item which has no tax impact. (7 marks)

- (b) Calculate Adrian's personal income tax liability in respect of his other revenues in 2017.** (5 marks)

- (c) List ANY SIX of the criteria used for classifying the activity of an individual as independent.** (3 marks)

(15 marks)

End of Question Paper