

Fundamentals Level – Skills Module

Taxation (Romania)

Thursday 7 June 2018



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 and medical subscriptions paid by the employer	€400/year
Limit for non-taxable <i>per diem</i> allowance	2.5 x public institutions' threshold
<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 and medical subscriptions 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

Income	Tax rate
Up to 450,000 lei	0%
Above 450,000 lei	3% of the amount exceeding 450,000 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% 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	2,000 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	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	1.4% 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	€500,000
Tax rate	
– no employees	3%
– 1 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 a 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%	15.8%
Health care insurance fund	5.5%	5.2%
Unemployment fund	0.5%	0.5%
Work accident fund	–	0.15%–0.85% ⁽¹⁾
Health insurance indemnities fund	–	0.85% ⁽²⁾
Fund for guaranteeing salary payments	–	0.25%

Self-employed persons

Social security fund	10.5% or 26.3% ⁽³⁾⁽⁴⁾
Health care insurance fund	5.5% ⁽⁴⁾
Unemployment fund	1%
Work accident fund	0.15%–0.85% ⁽¹⁾
Health insurance indemnities fund	0.85%

Persons obtaining rent income

Health care insurance fund	5.5% ⁽⁴⁾
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Persons obtaining intellectual property revenues

Social security fund	10.5% ⁽⁴⁾
Health care insurance fund	5.5% ⁽⁴⁾

Average monthly earnings 3,131 lei

Minimum monthly salary 1,450 lei

Notes:

⁽¹⁾ The exact value of the taxable base will be specified in the question, where necessary

⁽²⁾ Maximum monthly taxable base = 12 x minimum monthly salary x number of employees

⁽³⁾ Minimum monthly taxable base applying for the social security contribution = 35% x average monthly earnings

⁽⁴⁾ Maximum monthly taxable base = 5 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 Monkey SRL is a company established in Romania in June 2018. It is not currently registered for value added tax (VAT), as it applies the special VAT exemption regime for very small companies. In 2018, Monkey SRL records the following transactions per month:

Month	Note	June 2018 lei	July 2018 lei	August 2018 lei	September 2018 lei	October 2018 lei	November 2018 lei	December 2018 lei
Sales of goods	(1)	28,000	145,000	120,000	110,000	80,000	140,000	150,000
Acquisitions of goods for sale	(1)	22,000	34,000	87,000	90,000	120,000	110,000	82,000
Acquisition of a car	(2)			450,000				
Acquisition of legal services	(3)	70,000						

Notes:

- (1) According to the contracts between Monkey SRL and both its customers and suppliers, all goods bought in a month are sold in the same month.
- (2) The car will be used by the company manager, who will not fill in log books.
- (3) The cost of the legal services is 10,000 lei/month, and the invoice issued by the supplier in June relates to the entire seven months of 2018.
- (4) All acquisitions were made from suppliers established and registered for VAT in Romania.
- (5) All values are stated exclusive of VAT and all transactions to which VAT is applicable are standard rated.

Required:

- (a) **Determine when Monkey SRL reached the threshold for value added tax (VAT) registration and explain the registration procedure to be followed, clearly stating when Monkey SRL should start to charge VAT on its sales.** (3 marks)
- (b) **Explain the VAT adjustments Monkey SRL will be entitled to make once it is registered for VAT and calculate the resulting amount of input tax deductible.** (4 marks)
- (c) **Calculate Monkey SRL's output VAT, input VAT and VAT to be paid to/recovered from the State budget for the fourth quarter of 2018.** (3 marks)

(10 marks)

- 2** Parrot SA is a company established in Romania, which applies the corporate income tax system computed on a tax year equal to the calendar year (starting on 1 January and ending on 31 December). For 2016, Parrot SA computed and declared final corporate income tax of 320,000 lei. In August 2017, after a tax audit performed by an independent tax adviser, Parrot SA realised that its corporate income tax calculation for 2016 was incorrect and that additional corporate income tax of 120,000 lei should have been declared and paid upon settlement of the corporate income tax for 2016. The independent tax adviser recommended that Parrot SA should not rectify the error, but wait for the tax administration to discover it during any potential future tax audit, as the company might then be able to benefit from the statute of limitation. Parrot SA did not follow the tax adviser's recommendation, and declared the difference on 19 October 2017, by filing a rectifying tax return, and paying the tax difference on the same day.

In 2018, the tax administration performed an audit for 2016 corporate income tax on Parrot SA and identified a further additional amount of tax to be paid of 18,000 lei. The tax administration issued the tax decision for this additional amount of corporate income tax on 10 May 2018 and communicated it to Parrot SA on 18 May 2018. Parrot SA paid the difference on 19 June 2018, but has decided to file an appeal against the decision.

Required:

- (a) State, giving reasons, whether the tax adviser's recommendation to Parrot SA is in line with the ethical and professional approach required and identify any possible consequence for the tax adviser due to their approach.** (2 marks)
- (b) Explain the application of the statute of limitation deadline in the case of Parrot SA's 2016 corporate income tax liability.** (2 marks)
- (c) State the deadline for Parrot SA to file an appeal against the tax administration's decision.** (1 mark)
- (d) Calculate all the late payment interest and penalties due by Parrot SA based on the above scenario.** (5 marks)

(10 marks)

- 3 Panther SRL is a company established in Romania which has been applying the special scheme of corporate income tax for very small companies. However, in August 2017 it increased its share capital to 45,000 lei and opted out of the special scheme of corporate income tax for very small companies, and started to apply the standard corporate income tax system. Panther SRL's quarterly revenues and expenses for 2017 are detailed below:

Item	Quarter 1 lei	Quarter 2 lei	Quarter 3 lei	Quarter 4 lei
Revenues	110,000	283,000	297,000	351,000
Sales revenues	100,000	250,000	270,000	310,000
Price-related subsidies from the state budget	10,000	25,000	27,000	31,000
Revenues from cancelling bad debt provisions		8,000		10,000
Expenses	68,000	214,860	200,500	273,640
Cost of goods sold	60,000	180,000	150,000	220,000
Gross salary expenses		22,000	25,000	38,000
Compulsory social insurance contribution for employees expenses		8,360	9,500	14,440
Birthday presents for employees		4,500	6,000	1,200
Bad debt provisions created	8,000		10,000	

Notes:

- (1) The bad debt provisions are always considered as non-deductible expenses by Panther SRL. The 8,000 lei revenues registered in Quarter 2 are the cancellation of the bad debt provisions recorded in Quarter 1. The 10,000 lei revenues registered in Quarter 4 are the cancellation of the bad debt provision recorded in Quarter 3.
- (2) In Quarter 1 Panther SRL had no employees. In each of the Quarters 2, 3 and 4 the number of employees increased by one, i.e. for Quarter 4 the number of employees was three.

Required:

Calculate the corporate income tax due by Panther SRL for each quarter of 2017. For each quarter, clearly specify whether the special scheme of corporate income tax for very small companies or the standard corporate income tax system applies.

Note: Ignore any legal reserve implications.

(10 marks)

- 4 Dorin is a Romanian resident who owns 100% of Bear SRL. Bear SRL is a company acting in the field of clothes manufacturing, which applies the special scheme of corporate income tax for very small companies. Dorin is neither an administrator nor an employee of Bear SRL.

In 2018, Bear SRL distributed gross dividends of 230,000 lei to Dorin. Also in 2018, Dorin took his family on holiday to Greece and asked the tourism agency to issue the invoice in Bear SRL's name. Bear SRL paid the tourism agency 16,000 lei in respect of this invoice.

In January 2018, Dorin bought 2,000 shares in ABC SRL, a company publicly traded on the Bucharest Stock Exchange, for 10 lei per share. In June 2018, Dorin sold 500 of these ABC SRL shares for 8 lei per share and in August 2018 he sold a further 1,200 shares for 18 lei per share.

Dorin wrote a book on entrepreneurship for which the publishing house agreed to pay him gross revenue of 100,000 lei for the intellectual property right. Dorin chose to tax this revenue using the final tax option and the publishing house paid him in full in September 2018. The publishing house paid social insurance contributions for Dorin's intellectual property revenue of 2,505 lei. Dorin's book was awarded the prize for Best Business Book in 2018 and he received the prize, of an e-reader device valued at 1,500 lei, on 10 October 2018.

Required:

Calculate the personal income tax due by Dorin in respect of each of the types of revenue he earned in 2018.

(10 marks)

5 Florina is married to Andrei and they have two children aged six years and nine years respectively. The following information relates to Florina and her family for the year 2018:

- (1) Florina is employed by Giraffe SA, for a gross monthly basic salary of 2,200 lei. This is her only job.
- (2) In May 2018, she received present vouchers (rom: *tichete cadou*) of 200 lei for Easter and present vouchers (rom: *tichete cadou*) of 300 lei for her birthday, from Giraffe SA. The birthday present vouchers were as provided for in Giraffe SA's collective labour contract.
- (3) The following amounts were withheld from Florina's salary and paid directly by Giraffe SA to the insurer and the union respectively:
 - 300 lei in May 2018, being the annual premium for Florina's voluntary health insurance policy; and
 - 100 lei each month for Florina's subscription to the labour union of which she is a member.
- (4) Florina's older child is an excellent student and receives a scholarship of 500 lei/month from the school where he studies. The school is authorised by the Ministry of Education.
- (5) Andrei is a self-employed person in the field of building construction. In 2017, Andrei recorded a loss of 20,000 lei. For 2018, Andrei estimated his net income of 40,000 lei. Actually his gross revenue realised in 2018 is 280,000 lei whilst his annual expenses in 2018 are:

	Note	lei
Materials	(i)	50,000
Gross salary for employee	(ii)	30,000
Social insurance contributions for employee	(iii)	6,675

Notes:

- (i) Materials of 20,000 lei were bought from inactive taxpayers. The remaining materials of 30,000 lei were bought from active taxpayers, but only 25,000 lei was paid in 2018.
 - (ii) During the whole of 2018 Andrei had one employee, who was paid a gross monthly basic salary of 2,500 lei. The salary is paid at the end of each month.
 - (iii) The social insurance contributions for the employee are paid at the end of each month for which they are due.
- (6) In May 2017, Andrei bought a piece of equipment for 72,000 lei and immediately started using it in his business. On 30 June 2018, Andrei sold this equipment for 52,000 lei and received payment from the purchaser in July 2018. Andrei included this sale receipt in his gross realised revenue for 2018 of 280,000 lei.

Required:

- (a) Calculate the personal income tax and employee social insurance contributions due by Florina in respect of her May 2018 salary income from Giraffe SA. (8 marks)
- (b) Calculate the prepayments of personal income tax due by Andrei for his self-employed activity in 2018 and state the amounts due at each deadline. (1 mark)
- (c) Calculate the final income tax due by Andrei for his self-employed activity in 2018.

Note: Ignore social insurance contributions for the self-employed activity and any value added tax (VAT) implications. (6 marks)

(15 marks)

- 6 Rhino SA is a company established in January 2017, which has applied the corporate income tax system ever since its incorporation. Rhino SA has a share capital of 100,000 lei, which is owned 50% by a Romanian company and 50% by a company resident in Bermuda. Rhino SA recorded the following values in its accounts for 2017 and 2018:

	Note	2017 lei	2018 lei
Revenues		545,000	865,000
Sales of goods revenues		545,000	860,000
Interest revenues	(1)	–	5,000
Expenses		422,950	628,980
Cost of goods sold	(2)	250,000	400,000
Salary and social insurance contributions for employees		80,000	110,000
Depreciation	(3)	–	22,080
Sponsorship expenses	(4)	3,700	900
Interest expenses	(5)	11,250	15,000
Rent and utilities		66,000	66,000
Corporate income tax expenses	(6)	12,000	15,000

Notes:

- (1) In December 2017, Rhino SA gave a bullet loan of 1,000,000 lei to Woods SRL. The loan is to be repaid in full at the end of the five-year loan period. The interest rate on the loan is 0·5% per year, but the market interest rate is 2·5%.
- (2) The cost of goods sold includes only the acquisition price of the goods which were actually sold in each year.
- (3) In December 2017, Rhino SA bought an artificial intelligence system for improving its sales activity, and started using it in the same month. The acquisition value of the system was 220,800 lei and Rhino SA decided to depreciate it using the straight-line depreciation method over a ten-year period for accounting purposes and over an eight-year period for tax purposes. The equipment qualified for the tax exemption applicable to reinvested profit and Rhino SA decided to use this exemption.
- (4) Rhino SA sponsors an association which fights for children's rights. Each year Rhino SA signs sponsorship contracts with this association and all the supporting documentation required by the law is available.
- (5) In April 2017, Rhino SA was given a loan of 500,000 lei from its Romanian shareholder. The loan is to be repaid in full at the end of the three-year loan period. The interest rate is 3% per year starting from 1 April 2017. Rhino SA used the loan partly to pay its suppliers and partly to buy the artificial intelligence system (as in (3) above).
- (6) The corporate income tax expense is the expense calculated and paid for the first three quarters of each year.

Other information:

- Rhino SA contributes the required amounts to all reserves as required by the law. The remaining profit is put into the company's revenue reserve.
- Rhino SA applies all the adjustments required by the transfer pricing rules.

Required:

Calculate the corporate income tax due by Rhino SA for each of the years 2017 and 2018.

(15 marks)

End of Question Paper