

Fundamentals Level – Skills Module

Taxation (Hungary)

Monday 1 December 2008

Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–4.

Do NOT open this 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.

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

The Association of Chartered Certified Accountants

Paper F6 (HUN)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

SUPPLEMENTARY INSTRUCTIONS

- 1 Calculations and workings need only be made to the nearest HUF.
- 2 All apportionments should be made to the nearest month.
- 3 All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and tables are to be used in answering the questions

Applicable tax rates for 2008

Corporate tax

On the first HUF 5 million of the corporate tax base	10%
On the remaining tax base	16%

Note: the lower band of 10% may only be taken advantage of if the company meets the criteria specified in the law on corporate tax. If not, the corporate tax rate is 16% on the entire tax base.

Solidarity surtax for companies – 4%

Value added tax (VAT)

Standard rate	20%
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Personal income tax

On the consolidated tax base

On the first HUF 1,700,000	18%
On the remaining tax base	36%

On dividends

General rate	25%
On dividends exceeding 30% of the value of the company's equity (excluding the valuation reserve) which is proportionate to the individual's share in the company's share capital	35%
On dividends from companies listed on a stock exchange	10%

On interest	20%
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On capital gains

General rate	25%
On capital gains realised on a stock exchange	20%

On rents	25%
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Solidarity surtax for individuals – 4%

Payable on the consolidated tax base in excess of the cap for social security contributions.

Tax on benefits in kind

Tax rate 54%

Company car tax

Tax shall be paid monthly according to the following schedule:

Purchase price of the car (HUF)	In the year of acquisition and in the next one to four years (HUF)	In the fifth and consecutive years following the year of acquisition (HUF)
1– 500,000	6,000	3,000
500,001– 1,000,000	8,000	4,000
1,000,001– 2,000,000	12,000	6,000
2,000,001– 3,000,000	20,000	10,000
3,000,001– 4,000,000	26,000	13,000
4,000,001– 5,000,000	32,000	16,000
5,000,001– 8,000,000	42,000	21,000
8,000,001–10,000,000	60,000	30,000
10,000,001–15,000,000	82,000	41,000
Above 15,000,000	112,000	56,000

Other benefits

Employers may provide food vouchers to each employee with a value of up to HUF 12,000 per month for warm meals and up to HUF 6,000 per month for cold meals, free of benefit in kind tax.

Social security contributions

Employer's contributions

Pension contributions 24%
Health insurance contributions 5%
Itemised health care contributions per employee per month HUF 1,950

Employee's contributions

Pension contributions 9.5%
Health insurance contributions 6%

Cap for social security contributions HUF 7,137,000

Contributions to unemployment fund

By employers 3%
By employees 1.5%

Support and subsidies – development tax relief

The limits applying to subsidies given in the form of tax relief or other subsidies in respect of investments are defined by the following intensity ratios:

1. Regional factors.
 - Budapest: 35%
 - Pest County: 40%
 - Western Transdanubia: 45%
 - Other regions: 50%
2. For companies which qualify as being small and medium sized, 15% is added to the regional factor.
3. The maximum support is then calculated by applying the following to the initial investment:
 - On the first €50 million of the investment: 100% of the intensity ratio.
 - On the portion between €50 million and €100 million: 50% of the intensity ratio
 - On the portion over €100 million: 34% of the intensity ratio.

The reference rate to be used in the present value calculations is 8.59%.

Qualifying limits for small and medium sized companies

A company qualifies as small and medium if:

- the company has no state or local government members; and
- total assets are less than €43 million; or
- the number of employees is less than 250; or
- total revenues are less than €50 million

Exchange rates

Euro: €1 = 260 HUF

USD: 1 USD = 170 HUF

ALL FIVE questions are compulsory and MUST be attempted

- 1** Mr Taylor works at CompuTech Rt as a senior software developer. He has been an employee of the company for seven years. In 2006 the company gave Mr Taylor stock options for its shares, which gave him the right to buy 10,000 shares of CompuTech Rt at a price of HUF 2,500 per share. The average market price of the shares was HUF 2,550 in 2006. The option could not be exercised until 1 May 2008 at the earliest.

Mr Taylor decided to exercise part of his option, and bought 8,000 shares on 5 May 2008. The market price was HUF 2,700 per share on 1 May 2008 and HUF 2,720 on 5 May 2008.

As the share price increased further, Mr Taylor decided to sell 2,500 of the 8,000 shares on 12 December 2008. The shares were sold on the Budapest stock exchange at a sales price of HUF 3,100 per share.

CompuTech Rt grants several benefits to its employees. Mr Taylor is entitled to a mobile phone, which he can use freely, without compensating the company for the cost of his private calls. Mr Taylor is not required to classify his calls as private or business. The phone bill of the company for Mr Taylor's mobile phone was HUF 47,000 (including value added tax (VAT)) in November 2008. The company also pays for the internet usage of Mr Taylor at home. The cost of the home internet service was HUF 4,500 (including VAT) in November 2008. In addition, each employee receives a monthly season ticket for local public transportation free of charge, and hot meal tickets worth HUF 14,000 a month as an additional benefit. The invoice for the season tickets is issued in the name of CompuTech Rt.

Mr Taylor's monthly salary was HUF 2,250,000 (gross) throughout 2008.

Required:

- (a) **Explain the tax treatment of the stock option granted to Mr Taylor by CompuTech Rt and calculate the personal income tax, solidarity surtax and social security payable in 2008 in respect of the stock options by Mr Taylor and CompuTech Rt respectively.** (7 marks)
- (b) **Calculate the personal income tax payable by Mr Taylor as a result of the sale of the 2,500 shares in CompuTech Rt in December 2008.** (3 marks)
- (c) **Explain the basis on which each of the benefits in kind provided to Mr Taylor will be subject to tax and social security contributions and calculate the amounts due for the month of November 2008.** (9 marks)
- (d) **Calculate the personal income tax, solidarity surtax, social security and unemployment fund contributions payable in respect of Mr Taylor's salary for the month of November 2008, by both Mr Taylor and CompuTech Rt.** (6 marks)

(25 marks)

- 2 Green Wood Kft, which was founded in 1995, manufactures fibreboard for furniture. The company was profitable for the second year in a row in 2008 due to the fact that all of the company's three new assembly lines were operating at full capacity throughout the whole of that year. In 2005 Green Wood Kft had decided to invest in the assembly lines as the company had not made any profits in recent years due to the outdated technology used in its manufacturing process. The investment was made during 2005 and 2006 and therefore, in those years the company was still loss-making. The company's results in the years between 2001 and 2007 are shown below:

	in thousand HUF						
	2001	2002	2003	2004	2005	2006	2007
Profit (loss) before tax	(51,216)	14,566	24,462	(21,673)	(55,311)	(43,620)	65,322
Tax base (loss)	(42,110)	0	0	(33,762)	(50,780)	(45,440)	0

Green Wood Kft reported a profit of HUF 144 million before tax for the year 2008, after accounting for the items detailed below:

1. The company had bought 40% of an Austrian fibreboard factory in 2007 and reported the acquisition of the shares in the Austrian company to the Hungarian tax authority ('*bejelentett részesedés*'). However, the investment has not turned out to be as profitable as expected and Green Wood Kft wrote down the value of the investment by HUF 25 million in 2008.
2. At the end of 2008 the company also wrote down a receivable from Sofa Kft by HUF 54.3 million and inventories by HUF 34.7 million. On the other hand, one of the company's customers, B&D Kft finally paid its invoice for HUF 10.3 million, which had been fully written down in 2007.
3. The company accounted for HUF 35.3 million as provisions for future liabilities in 2008. The amount of provisions for future liabilities created in 2007, which were reversed at the beginning of 2008, was HUF 23 million.
4. In order to improve the financial position of Green Wood Kft, its German parent, Woodland GmbH, paid an invoice from one of the company's suppliers of HUF 60 million and also transferred €200,000 cash to the company's bank account, without a repayment obligation in 2008.

In 2008, Green Wood Kft paid HUF 27 million in local business tax to the municipality.

Green Wood Kft qualifies as a medium-sized enterprise and is entitled to a tax allowance based on the loan taken for the investment in the assembly lines in 2005. The amount of the maximum tax allowance available to the company in 2008 is HUF 4.3 million.

Required:

- (a) **State the conditions that Green Wood Kft must fulfil in order to be entitled to carry forward the tax losses of the year 2006.** (6 marks)
- (b) **Calculate the total amount of the tax losses available to Green Wood Kft in 2008, assuming that the company satisfied the conditions identified in (a) with regard to the carry forward of the 2006 tax losses, and that there were no tax base adjusting items in the year 2007 other than the losses utilised. Support your calculation with relevant explanations.** (6 marks)
- (c) **Calculate the 2008 corporate income tax liability of Green Wood Kft. Support your calculation with relevant explanations.** (14 marks)
- (d) **Calculate the 2008 solidarity surtax liability of Green Wood Kft.** (4 marks)

(30 marks)

- 3** Biolab Kft is a pharmaceutical company which spends hundreds of millions of Forints every year searching for new drugs. One of its most important projects is research into a new pain killer which is expected to relieve headaches even faster than any previously discovered drugs. The company spent HUF 1·2 billion on research and development in 2008 out of which the salary cost was HUF 250 million. The entire HUF 1·2 billion was accounted for as direct research and development costs. The research and development is performed partly by the company itself, with its own employees and equipment, and partly by subcontractors. The subcontractors of Biolab Kft are all Hungarian enterprises. The value of the subcontractors' fees for research and development services was HUF 400 million out of the total HUF 1·2 billion. Biolab Kft did not receive any state subsidies for its research and development activities.

Required:

- (a) **Describe the tax deduction(s) available to Biolab Kft when calculating its corporate tax base, in respect of the HUF 1·2 billion research and development costs.** (6 marks)
- (b) **Describe the tax credit incentive available to Biolab Kft as a result of the HUF 250 million salary cost.** (6 marks)
- (c) **State, giving reasons, whether it would or would not have been more beneficial if Biolab Kft had carried out the research and development jointly with the Medical University, based on an agreement.** (3 marks)

(15 marks)

4 Tempo Kft is a property development company. In February 2008 it purchased a plot of land in one of the new neighbourhoods of the city, near the airport. The company planned to build offices on the land and concluded an agreement with Brick Kft to perform the actual construction. The construction agreement was signed on 1 March 2008. Based on the agreement Brick Kft is responsible for building the offices for a lump sum fee of HUF 4.3 billion (excluding value added tax (VAT)). Brick Kft issues invoices to Tempo Kft monthly, based on the stages of completion of the building.

After the construction is completed, Tempo Kft will rent the offices to tenants.

In June 2008 Tempo Kft received the following invoices:

1. Brick Kft issued its monthly invoice for the construction for HUF 650 million. The invoice did not include any VAT.
2. An invoice for its monthly bookkeeping fee of HUF 60,000 plus VAT.
3. An electricity bill for HUF 45,000 plus VAT.

Tempo Kft did not issue any invoices in June 2008.

Tempo Kft submits its VAT returns on a quarterly basis. The April VAT balance was deductible VAT of HUF 85,000 and the May VAT balance was deductible VAT of HUF 105,400. By the time it filed its VAT return for the second quarter, Tempo Kft had paid all of its suppliers' invoices except for the June bookkeeping fee.

Tempo Kft has HUF 210,000 of deductible VAT carried forward from the first quarter of 2008.

Required:

- (a) **Explain the VAT treatment of the invoice received by Tempo Kft for the land purchase.** (3 marks)
- (b) **Explain the VAT treatment of the invoices issued monthly by Brick Kft for the construction of the offices.** (4 marks)
- (c) **Describe the general VAT treatment of rental activity and the choice which Tempo Kft has in relation to it, stating the deadline by which Tempo Kft must make its decision and the earliest date on which the chosen status can be changed.** (4 marks)
- (d) **Calculate Tempo Kft's VAT balance for the second quarter of 2008.** (2 marks)
- (e) **State, giving reasons, whether or not Tempo Kft is eligible to claim a repayment of VAT at the end of the second quarter and, if so, of what amount.** (2 marks)

(15 marks)

- 5** Motionfilm Kft, a film production company, is currently working on a film which is an adaptation of a famous German novel called 'The Game'. The following transactions relate to Motionfilm Kft for the month of September 2008:
1. Received HUF 12 million in royalties from a US company to which it had sold one of its recent films.
 2. Received an invoice dated 20 September 2008 for €135,000 from the German owner of the rights to the novel, for permission to use it in the film.
 3. One of the scenes of the film is played in a castle near Eger. The castle is owned by a private individual who charged Motionfilm Kft a HUF 200,000 rental fee for two days shooting in September 2008. The individual is not a private entrepreneur.
 4. Received an invoice for the transportation of technical equipment to the castle for the two-day shoot for HUF 144,000 (including value added tax (VAT)).
 5. Received further invoices relating to the two-day shoot as follows (all amounts are stated excluding any applicable VAT):
 - Light bulbs – HUF 60,000
 - Tape – HUF 89,000
 - Food and drinks for the actors – HUF 110,000
 6. Paid HUF 450,000 to the individual who translated the book from German into Hungarian. The translator is a contractor who performed his services as an independent activity.
 7. Paid HUF 145,000 to the tailor who made the costume for the main female character in the film. The tailor is a private entrepreneur whose annual revenue does not exceed HUF 5 million and therefore has chosen to be exempt from VAT (*'alanyi adómentes'*).

Required:

- (a) **Calculate Motionfilm Kft's balance of payable (deductible) VAT for the month of September 2008. Support your calculation with relevant explanations, clearly identifying transactions that have no effect on the VAT balance.** (5 marks)
- (b) **Calculate the personal income tax and solidarity surtax that Motionfilm Kft should have withheld and/or paid in the month of September 2008. Support your calculations with relevant explanations.** (10 marks)

(15 marks)

End of Question Paper