Fundamentals Level – Skills Module

Taxation (Hungary)

Monday 7 December 2009

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)

ACCA

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need to be made to the nearest HUF except where stated otherwise in the question.
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 allowances applicable to 2008 are to be used in answering the questions.

Corporate tax

On the first HUF 50 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)

Tax rate	20%

Personal income tax

On the consolidated tax base	
On the first HUF 1,700,000	18%
On the remaining tax base	36%
Solidarity surtax for individuals – payable on the consolidated tax base in excess of the cap for social security contributions of HUF 7,137,000	4%
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 up to 31 December 2008 only	35%
On dividends from companies listed on a stock exchange	10%
On interest	20%
On capital gains	
General rate	25%
On capital gains realised on the stock exchange	20%
On rents	25%

Benefits in kind

Tax rate	54%

Company car tax

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

Food vouchers – 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
Unemployment funds	3%
Employee's contributions	
Pension contributions	9·5%
Health insurance contributions	6%
Health care contributions	11% or 14%
Unemployment funds	1·5%

Cap for social security contributions – HUF 7,137,000

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: 30%
   - 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 = 270 HUF

USD: $1 = 200 HUF

Official rate of interest

National Bank of Hungary (Magyar Nemzeti Bank – MNB) – 10%

ALL FIVE questions are compulsory and MUST be attempted

1 Mr Boros is an expert in accounting and finance. He was employed by Badacsony Kft throughout the year 2008, where he leads the financial reporting department. He receives a monthly salary from Badacsony Kft of HUF 640,000.

Mr Boros has a good personal connection with Mr Pálinkás, the managing director of Eger Kft. Mr Pálinkás asked Mr Boros to do a two-week accounting project for Eger Kft during the year 2008. Mr Boros did not want to give up his current job so he agreed with Badacsony Kft that he would take two weeks of unpaid leave and use this time for working on the project for Eger Kft. For the two weeks unpaid leave Mr Boros did not receive any salary from Badacsony Kft, thus losing gross salary of HUF 320,000.

Mr Boros received the following remuneration from Eger Kft in respect of the two-week project:

– A payment of HUF 500,000.
– 100 shares in Goodwine Inc, the parent company of Eger Kft for a reduced price of HUF 215,000. Goodwine Inc is listed on the New York Stock Exchange. The shares received were trading at the equivalent of HUF 3,000 each at the date of receipt but Mr Boros only had to pay HUF 2,150 each for them.
– An interest free loan from Eger Kft of HUF 4,000,000 to partially finance the purchase of a flat. The contract was signed on 1 March 2008 when the prevailing market rate for similar loans was 9·5% p.a. The loan is repayable in one amount in 2012.

On 30 November 2008 the shares in Goodwine Inc were trading at the equivalent of HUF 4,000. After a favourable note from a broker, Mr Boros decided to sell his shares at this price and received HUF 400,000 for his 100 shares.

In 2005 Mr Boros had inherited an antique standing lamp from his father. The value of the lamp when he inherited it was HUF 160,000 and he paid the inheritance tax based on this value. To raise additional finance for the purchase of the flat Mr Boros sold the lamp through an auction house for HUF 300,000. The auction house charged commission of 1·5% of the selling price to Mr Boros for selling the lamp. His father had bought the lamp for HUF 20,000 in 1980.

Required:

(a) Explain how the HUF 500,000 received from Eger Kft for the two-week project is treated for tax purposes. (2 marks)

(b) Explain how the income in the form of the discounted price shares in Goodwine Inc provided to Mr Boros by Eger Kft is treated for tax purposes. (2 marks)

(c) Explain how the interest free loan from Eger Kft is treated for tax purposes and calculate the taxable income and the tax payable for 2008. (4 marks)

(d) State who is liable to declare and pay to the tax authorities the tax due in respect of the interest free loan and the shares received at a discounted price. (2 marks)

(e) Explain whether any further tax will be payable by Mr Boros on the sale on 30 November 2008 of the shares in Goodwine Inc received from Eger Kft and if so, calculate the amount payable. (3 marks)

(f) Calculate the total personal income tax and solidarity surtax liability of Mr Boros for the year 2008. (11 marks)

(g) State the date by which Mr Boros has to prepare his personal income tax return in respect of the tax year 2008. (1 mark)

(25 marks)

2 Tic Zrt is a trading company that has been operating in Hungary for the last ten years. Tic Zrt was founded by a Swedish firm in 1998 and there have been no changes in the company's ownership structure since its foundation. The company's accounting profit before tax for the year ended 31 December 2008 was HUF 200 million after charging/crediting the following items:

1. On 1 April 2008 the company purchased four trucks for delivering goods to customers. The acquisition was partially financed by the development reserve created in 2007 of HUF 18 million. The purchase price of the four trucks in total was HUF 20 million, excluding value added tax (VAT). The company believes that the trucks will have a useful life of ten years and their residual value will be HUF 500,000 per truck at the end of their useful lives, and has calculated the accounting depreciation accordingly. Trucks qualify for a tax depreciation rate of 20%. Other than these trucks, all of Tic Zrt's other assets have been depreciated at the same rates for tax and accounting purposes.
2. On 6 June 2008 the company forgave a sales receivable in respect of one of its major business partners, Lucky Kft. Lucky Kft owed Tic Zrt HUF 4 million plus VAT (gross HUF 4,800,000) but it has had some financial difficulties in the last few months. Based on the very good relationship of the managing directors of the two firms, Tic Zrt decided to forgive the HUF 4·8 million debt.
3. A tax audit has been in progress since the beginning of the year, and it revealed some tax arrears. On 23 September 2008 the tax authorities imposed a tax penalty of HUF 2 million and a default penalty of HUF 1 million on Tic Zrt. The total amount of the fines is not material based on the criteria as defined in the Act on Accounting or in the accounting policy of the company. The tax authorities' decision was also approved on the second degree. Additionally, the company expensed HUF 350,000 as a self revision surcharge when adjusting its March VAT return in June 2008.
4. Inventories of HUF 10 million were stolen on 13 August 2008 from one of the store-houses of the company. The police investigated and found that there were problems with the electronic lock system of the store-house, which had recently had serious operational failures, however, the company had chosen not to spend money on repairing the system because of the general cost cutting policy imposed by the parent company.
5. To generate some extra money for the company, the treasury department of Tic Zrt decided to trade with shares on the Budapest Stock Exchange. By the end of the year they had achieved a net gain on buying and selling securities of HUF 1,800,000. The company accounted for this gain as financial income.
6. The company received dividends from one of its subsidiaries that is located in Jersey. There is no corporate tax payable in Jersey and Hungary has no double tax agreement with that state. The dividends received amounted to HUF 20 million.
7. In 2007 the company had received a loan from its Swedish parent company of HUF 600 million. The interest payable on this loan is 6% per annum and the loan will be repayable in one amount in four years' time. No other interest bearing liabilities were outstanding between the two companies during the year 2008.
8. The company paid tax to local municipalities of HUF 2 million.

Tic Zrt's tax bases and corporation tax liabilities in the last two years were as follows:

	2006	2007
	HUF '000	HUF '000
Profit before tax	176,543	191,077
Corporation tax payable	25,600	34,500
Solidarity surtax payable	7,060	7,650

In the tax year 2007 Tic Zrt's equity capital was as follows:

	HUF '000
Share capital	20,000
Share premium	10,000
Tied-up reserve	30,000
Revaluation reserve	100,000
Retained earnings	70,000
Total equity	230,000

Required:

(a) Calculate the corporate income tax base of Tic Zrt for 2008. Support your calculation with relevant explanations of the treatment of the items referred to in 1 to 8 above. (17 marks)

(b) (i) Explain the rules concerning how a company may take advantage of the progressive rates when paying corporate income tax; (3 marks)

(ii) Assuming that Tic Zrt meets the requirements for the progressive tax rates, calculate the corporate income tax liability of Tic Zrt for 2008. (1 mark)

(c) Calculate the 2008 solidarity surtax liability of Tic Zrt. (3 marks)

(d) Explain the rules for the advance payment of corporate tax and solidarity surtax and state how much advance corporate tax and solidarity surtax Tic Zrt will have to pay throughout the year 2009. (6 marks)

Note: in answering all parts of this question, you may make calculations to the nearest thousand forints (000 HUF).

(30 marks)

3 Nagyhal Kft produces electronic goods for the Western European market. In January 2008 the company started an investment project to build up a totally new factory in Pest County where video game consoles could be manufactured. In the same year the company submitted a request for development tax relief to the Ministry of Finance. The project was finished and put into operation in November 2008. Nagyhal Kft calculated the net present value of the investment as at the start of the investment (2008) as HUF 31,050 million (€115 million).

The number of employees at Nagyhal Kft was 500 in 2007 and 520 in 2008 but this increased to 660 in 2009 to cope with the increased capacity of the new factory.

Nagyhal Kft's tax base in future years is forecast as follows:

	2008	2009	2010	2011	2012	2013
Corporate tax base (in HUF millions)	11,000	11,900	12,960	14,040	15,300	16,540

Nagyhal Kft does not qualify as a small or medium sized enterprise.

Required:

(a) State the conditions that must be met in order for a company to qualify for development tax relief. (5 marks)

(b) Assuming that Nagyhal Kft qualifies for development tax relief, calculate the limit of subsidies (in HUF millions) the company can claim. (3 marks)

(c) Prepare a forecast of the expected corporate tax liability (in HUF millions) of Nagyhal Kft for the six year projection period, 2008 to 2013. (7 marks)

(15 marks)

4 Dr Lee is a Chinese citizen who settled in Hungary in 1995. One year later he founded Lee Kft, a company that is involved in a number of activities based on Dr Lee's personal knowledge and experience. Lee Kft has a small shop in downtown Budapest that sells many sorts of original Chinese tea. Furthermore, Dr Lee is an employee of Lee Kft and as he holds an official licence for original Chinese natural medicine he treats a number of patients with the special Chi Kung massage technique.

The tea selling activity attracts value added tax (VAT) at the standard rate of 20%. Health services are exempt from VAT. All amounts are stated excluding any applicable VAT.

In December 2008 Lee Kft sold tea with a value of HUF 230,000 and realised sales revenues of HUF 2,500,000 in respect of the health services (Chi Kung massage) provided to various clients.

In December 2008 Lee Kft received the following invoices from suppliers:

	HUF
Invoice X	80,000
Invoice Y	900,000
Other invoices	300,000

Invoice X is the invoice from a mobile phone supplier company and relates to the mobile phone under the name of Lee Kft. Dr Lee is entitled to use the company phone for private purposes as well as business purposes and he is not required to reimburse any of the private calls. Invoice X covers the period 1 November 2008 to 30 November 2008 and has a due date of 12 December 2008. The phone invoice relating to the month of December 2008 arrived on 5 January 2009 and has a due date of 12 January 2009. The amount of this invoice is HUF 120,000.

Invoice Y was sent by Smith Ltd, a law firm with a domicile in New York (USA). Lee Kft has some legal affairs with one of its patients in Hungary. The patient has sued Dr Lee for medical malpractice. Lee Kft has asked Smith Ltd to provide legal advice on this issue.

Other invoices are all for goods purchased by Lee Kft for general business purposes. All the purchases attract the standard rate of VAT. They are utilised for general business purposes.

For the 11-month period ended 30 November 2008 Lee Kft generated sales revenues of HUF 1,700,000 from selling tea and HUF 4,800,000 in respect of health services. The total input VAT for the first 11 months of 2008 that could not be split between the two activities of Lee Kft was HUF 350,000.

Lee Kft pays VAT monthly.

Required:

Calculate the VAT payable or receivable for December 2008 by Lee Kft. Support your calculations with relevant explanations of the treatment of the invoices received from suppliers.

(15 marks)

5 AVE Bt was founded in 2005 by Mr and Mrs Fazekas. The family owned business has traded quite profitably for the last few years. The high profitability is a consequence of the low cost base the company has had.

Mr Fazekas, the managing director of the company, is now considering switching to using the rules of simplified taxation for small entrepreneurs (egyszerüsített vállalkozói adó – EVA).

The actual results of ABE Bt's last three years of operation, as well as the revenues and expenses as forecast for 2008 are as follows (numbers correspond to the Act on Accounting):

	2005 actual HUF '000	2006 actual HUF '000	2007 actual HUF '000	2008 forecast HUF '000
Sales revenues	10,000	12,000	13,800	18,000
Costs and expenses excluding salary expenses	(1,230)	(1,680)	(1,950)	(3,000)
Salary expenses and related contributions	(1,023)	(1,231)	(1,320)	
Profit before tax	7,747	9,089	10,530	
Corporation and solidarity tax paid	(1,550)	(1,818)	(2,106)	
Profit for the year	6,197	7,271	8,424	

The only employee of AVE Bt is Mr Fazekas. He was paid a monthly gross salary of HUF 200,000 throughout the year 2008.

Additional information:

1. AVE Bt does not qualify for the 10% corporate tax rate for the first HUF 50 million of tax base.
2. AVE Bt does not expect to have any tax base increasing or reducing items in its corporate tax return for the tax year 2008.
3. Any expense incurred by AVE Bt attracts the standard 20% VAT rate.

Mr Fazekas plans to pay out all distributable profits as dividends after each accounting year. Any dividends for the year 2008 will be paid after 31 December 2008, when the personal income tax on dividends becomes 25% on the whole amount of the dividend.

Required:

(a) Describe the conditions that AVE Bt must fulfil in order to be entitled to choose to be taxed under EVA in the tax year 2008. (6 marks)

(b) Calculate the net dividend that can be paid by ABE Bt to Mr Fazekas for the year 2008 if:

(i) the company does not apply the EVA regime; and (5 marks)

(ii) the company does apply the EVA regime. (4 marks)

Note: you should ignore tax payable to local municipalities (*helyi iparüzési adó*) when answering this question.

(15 marks)

End of Question Paper