Fundamentals Level – Skills Module

# Taxation (Hungary)

Tuesday 6 December 2011

**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 3–4.

**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

**This is a blank page.**
**The question paper begins on page 3.**

## 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 2010 are to be used in answering the questions.

### Corporate tax

**For the first half of the year:**

| | |
|---|---|
| On the first HUF 50 million of the corporate tax base | 10% |
| On the remaining tax base | 19% |

**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 19% on the entire tax base.**

**For the second half of the year:**

| | |
|---|---|
| On the first HUF 500 million of the corporate tax base | 10% |
| On the remaining tax base | 19% |

### Value added tax (VAT)

| | |
|---|---|
| Tax rate | 25% |

### Personal income tax

| | |
|---|---|
| **On the consolidated tax base** | |
| On the first HUF 5,000,000 | 17% |
| On the remaining tax base | 32% |
| **On dividends** | |
| General rate | 25% |
| On dividends from companies listed on a stock exchange operating within the European Economic Area | 10% |
| **On interest** | 20% |
| **On capital gains** | |
| General rate | 25% |
| On capital gains realised on the stock exchange operating within OECD | 20% |
| **On rents** | 25% |

### Benefits in kind

| | |
|---|---|
| Tax rate | 54% |

## Social security contributions

| | |
|---|---|
| **Employer's contributions** | |
| Pension contributions | 24% |
| Health insurance contributions | 2% |
| Labour market fund | 1% |
| **Employee's contributions** | |
| Pension contributions | 9·5% |
| Health insurance contributions | 7·5% |

**Cap for social security contributions** – HUF 7,453,300

## Company car tax

| Cubic capacity of car | Monthly amount HUF |
|---|---|
| Below 1,600 $cm^3$ | 7,000 |
| 1,600 $cm^3$ and over | 15,000 |

## 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 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 or medium if:

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

## Exchange rates

Euro: €1 = 280 HUF

USD: $1 = 220 HUF

## Official rate of interest

National Bank of Hungary (Magyar Nemzeti Bank – MNB) – 5·25%

**ALL FIVE questions are compulsory and MUST be attempted**

**1** Mr Kerekes is a Hungarian citizen. He was employed as an accountant by Wheel Kft throughout the year 2010 at a monthly gross salary of HUF 500,000.

Wheel Kft reimburses its employees with the cost of a Budapest transportation pass every month. The pass costs HUF 9,800 per month and employees must present an invoice to their employer when claiming reimbursement. Every employee of Wheel Kft also receives hot meal vouchers of HUF 15,000 per month.

The following items are also relevant when determining Mr Kerekes' personal income tax liability for 2010.

In 2010 Mr Kerekes realised capital gains of HUF 12 million and realised capital losses of HUF 8 million on regulated market transactions (*ellenörzött tökepiaci ügylet*) on the Budapest Stock Exchange.

Mr Kerekes sold a flat in November 2010. The selling price was HUF 25 million, and 1·5% of the selling price was payable to the real estate broker who facilitated the sale transaction. Mr Kerekes had purchased the flat in 2008 for HUF 20 million.

Mr Kerekes had a fixed deposit of HUF 10 million held in a bank account. In 2010 the total interest received on this fixed deposit amounted to HUF 750,000 before tax, and this was credited to Mr Kerekes' current account.

In 2010 Mr Kerekes received a dividend of HUF 2 million from a company listed on the Budapest Stock Exchange, and a dividend equivalent to HUF 4 million from a company listed on the New York Stock Exchange. No tax was deducted by the payers from either of these dividends.

**Required:**

**(a) Explain how the Budapest transportation pass and the hot meal vouchers will be treated for tax purposes, calculate the personal income tax payable on these items, and state who is responsible for paying the tax.** (4 marks)

**(b) (i) State what qualifies as a regulated market transaction (*ellenörzött tökepiaci ügylet*) and explain how the realised capital gains and losses on regulated market transactions are treated for tax purposes;** (4 marks)

**(ii) Calculate the tax payable by Mr Kerekes in 2010 on his regulated market transactions.** (1 mark)

**(c) Explain how the gain on the sale of the flat will be treated for tax purposes and calculate the tax payable on this sale by Mr Kerekes in 2010.** (6 marks)

**(d) Explain the personal income tax consequences of the interest and dividend income of Mr Kerekes, calculate the tax payable on these incomes and state for each type of income who is liable to declare and to pay the tax.** (5 marks)

**(e) Calculate the total personal income tax liability of Mr Kerekes for the year 2010. Support your calculations with relevant explanations.** (7 marks)

**(f) Itemise and calculate the monthly employers' contributions paid by Wheel Kft in relation to the gross salary of Mr Kerekes and state by when these should be declared and paid.** (3 marks)

**(30 marks)**

**2** Barrique Rt is a Hungarian company, which is owned by a Spanish corporation. It trades in Hungarian wines. The pre-tax profit of Barrique Rt was HUF 500 million for the year ended 31 December 2010. The following items are relevant when determining its corporate tax base for 2010:

1. In 2009 Barrique Rt had transferred HUF 100 million from its retained earnings to a tied-up reserve in order to purchase a new non-current asset in the following year. In 2010, using the tied-up reserve and some additional funds, Barrique Rt purchased the new non-current asset at a cost of HUF 150 million and started depreciation on 1 April 2010. The depreciation rate on this asset for tax purposes was 14·5% per annum whereas the accounting depreciation rate used by Barrique Rt was 20% per annum. All other non-current assets of Barrique Rt were depreciated at the same rate for both accounting and tax purposes.
2. At the end of the year 2010 Barrique Rt transferred a further HUF 20 million from its retained earnings to a tied-up reserve for later non-current asset acquisition purposes.
3. Barrique Rt has regular business transactions with its Spanish parent company. In 2010 Barrique Rt received the following invoices from its parent company:

   | Invoice | Amount in HUF million | Due date of invoice |
   |---|---|---|
   | Invoice 1 | 20 | 1 February 2010 |
   | Invoice 2 | 25 | 1 April 2010 |
   | Invoice 3 | 30 | 1 July 2010 |

   Barrique Rt did not pay any of these invoices in 2010 so, according to the group's policy, its Spanish parent company charged late payment interest on the outstanding debts at the rate of 8% per annum on the overdue amount. The late payment interest was paid by Barrique Rt.

   In addition, Barrique Rt has an intercompany loan from its Spanish parent company of €1,050,000, which was outstanding throughout the year 2010. Interest payable on this loan was also at the rate of 8% per annum.

   An 8% interest rate is the fair market rate for unpaid supplier balances and loans for the year 2010.
4. Barrique Rt created a provision of HUF 30 million in 2010 in order to cover future expenses related to a pending legal case.
5. In October 2010 the company paid the amount of HUF 5 million, levied by the Tax Authorities in August 2010 as a consequence of a tax audit for the year 2008.
6. When preparing its financial statements for the year 2010 Barrique Rt wrote off receivables of HUF 10 million as impaired debts. All of the debts written off had been outstanding for less than one year.
7. As a result of the year-end revaluation of long-term financial investments and long-term liabilities denominated in foreign currency, Barrique Rt showed unrealised gains of HUF 12 million and unrealised losses of HUF 6 million in its 2010 accounting records. None of these assets and liabilities was hedged against foreign exchange losses.

**Additional information:**

Barrique Rt's equity at 1 January 2010 was as follows:

| | HUF million |
|---|---|
| Share capital | 10 |
| Share premium | 1 |
| Revaluation reserve | 1 |
| Tied-up reserve | 100 |
| Retained earnings | Nil |

Barrique Rt uses all possible means to reduce or defer its corporate tax liability.

**Required:**

**(a)** **Explain the rules relating to the creation of a development reserve and outline the possible tax advantages of creating such a reserve.** (5 marks)

**(b)** **Calculate the corporate income tax liability of Barrique Rt for the year 2010 assuming that the company is eligible for the progressive tax rate. Support your calculations with relevant explanations.**

Note: you should show your workings to the nearest thousand forints. (17 marks)

**(c)** **Explain how corporate tax paid abroad is treated for Hungarian tax purposes.** (3 marks)

**(25 marks)**

**3** Forestry Kft is a small sized Hungarian entity, which delivers wood as a raw material to several furniture manufacturers. During the year 2010 Forestry Kft decided to extend its non-current asset base and purchased a new sawing machine. The purchase of the machine, which had a cost of HUF 100 million, was financed through a finance lease.

The finance lease agreement was signed on 10 January 2010. Forestry Kft must make lease payments of HUF 2 million per month from 1 February 2010 for a period of five years. The lessor issues invoices every month indicating the split between the interest and capital portion of the lease payments. As per the invoices issued by the lessor in the year 2010, Forestry Kft paid interest of HUF 400,000 and a capital repayment of HUF 1,600,000 on each monthly invoice.

In 2010 Forestry Kft's profit before tax and corporate tax base were established as follows:

| | HUF '000 |
|---|---|
| Profit before tax | 380,000 |
| Corporate tax base | 290,000 |

**Required:**

**(a) Identify and explain the corporate tax relief which Forestry Kft can use to reduce its corporate tax liability when calculating its 2010 corporate income tax.** (6 marks)

**(b) Calculate the corporate income tax liability of Forestry Kft for the year 2010 after taking into account any available relief.** (4 marks)

**(c) Give THREE examples of '*de minimis*' grants available to business entities and state the rules and limits relating to these supports.** (5 marks)

**(15 marks)**

**4** Allbright Kft is an education providing entity with its seat in Budapest. It prepares value added tax (VAT) returns monthly. Allbright Kft runs two types of courses:

1. Courses accredited under the Act on Adult Education (accredited courses). These services are exempt from VAT.
2. Courses not accredited under the Act on Adult Education (non-accredited courses). These services are subject to the standard rate of VAT of 25%.

In September 2010 Allbright Kft issued sales invoices of HUF 20 million (net of VAT) in respect of its accredited courses, and invoices of HUF 25 million (net of VAT) in respect of its non-accredited courses. All of the courses were held at Allbright Kft's premises in Budapest.

The following items are also relevant to the company's September 2010 VAT return (all amounts are stated excluding any applicable VAT):

– Allbright Kft received a mobile phone invoice of HUF 200,000. The due date of this invoice was 30 September 2010. The company does not separate private and business calls and no reimbursement of private calls is required.
– Allbright Kft received an invoice of HUF 5 million from an Austrian entity for advertising services performed in Vienna, where Allbright Kft would like to start educational activities. The company plans to run exclusively non-accredited courses in Austria.
– Allbright Kft purchased goods for a total of HUF 3 million. All these goods were purchased from Hungarian suppliers. These goods were used for both course types without allocating them on an itemised basis.

For the eight-month period ended 31 August 2010, Allbright Kft's cumulative sales revenue from accredited courses was HUF 150 million and its cumulative sales revenue from non-accredited courses was HUF 180 million. The total cumulative unallocated input VAT for the first eight months of 2010 amounted to HUF 30 million.

**Required:**

**Calculate Allbright Kft's value added tax (VAT) liability/refund for the month of September 2010. Support your computations with relevant explanations.**

**(15 marks)**

**5** **(a)** Edmond has been an employee of Gall Bt since 1 July 2010. He receives a monthly gross salary of HUF 300,000.

For the first six months of the year, before becoming an employee of Gall Bt, Edmond was a university student, during which time he received a monthly scholarship of HUF 50,000. This scholarship was paid according to the Act on Higher Education (*a felsöoktatásról szóló törvény szerint nappali tagozatos hallgató részére kifizetett ösztöndíj*).

**Required:**

**Calculate the net salary received by Edmond from Gall Bt in December 2010 after the deduction of both personal income tax and social security contributions from his gross salary. Support your answer with brief explanations.**

**Note: you should assume that Gall Bt takes the amount of the scholarship into consideration when calculating the monthly personal income tax advance to be deducted from Edmond's gross salary.** (8 marks)

**(b)** Pici Bt is an owner-managed entity registered under the simplified taxation scheme for small entrepreneurs (*egyszerüsített vállalkozói adó – EVA*).

In 2010 Pici Bt had transactions as follows:

- Annual domestic sales revenue of HUF 10 million.
- Material costs incurred of HUF 1 million.
- Sundry expenses incurred of HUF 200,000.
- Gross salary expenses of HUF 2 million, before social security contributions.

All items are stated excluding value added tax (VAT) where applicable and all purchases attracted the standard rate of VAT of 25%.

Pici Bt keeps its accounts in a revenue-based form (*bevételi nyilvántartás*) and does not fall under the scope of the Act on Accounting.

**Required:**

**(i) Calculate the net cash dividend Pici Bt can distribute to its owners for the year 2010. Support your answer with brief explanations;**

**Note: you should ignore tax payable to local municipalities and contributions payable to professional training funds (*szakképzési hozzájárulás*).** (4 marks)

**(ii) Assuming that the revenue of Pici Bt accrues evenly throughout the year, calculate the entity's EVA-advances payable and final payment for the tax year 2010, and state the deadlines for those payments.** (3 marks)

**(15 marks)**

**End of Question Paper**