

Fundamentals Level – Skills Module

Taxation (Hungary)

Monday 6 June 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)

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

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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%
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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%
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On capital gains

General rate	25%
On capital gains realised on the stock exchange operating within OECD	20%

On rents	25%
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Benefits in kind

Tax rate	54%
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Social security contributions

Employer's contributions

Pension contributions	24%
Health insurance contributions	3%

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 Darabos is a Hungarian citizen and is resident in Hungary for tax purposes. He is employed by Pieces Kft and is paid a monthly gross salary of HUF 800,000.

As a part of his remuneration package, Mr Darabos received holiday coupons (*üdülési csekk*) of HUF 300,000 in 2010.

Also in 2010, Mr Darabos received a loan of HUF 10 million from Pieces Kft. The loan was outstanding from 1 April 2010 until the year end. Interest was payable at the rate of 5% per annum. The loan was provided directly by Pieces Kft without involving a bank and the purpose of the loan was not defined.

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

Mr Darabos has shares in a public listed entity, Kapital Nyrt. In June 2010 Kapital Nyrt issued new shares by capitalising some of its reserves. The terms of the issue were as follows: every shareholder was entitled to one new free share for every share already held (bonus issue). Mr Darabos had held 2,000 shares before the bonus issue and the price of the shares of Kapital Nyrt was HUF 7,000 per share immediately before the bonus issue.

In August 2010 Mr Darabos sold a statue for HUF 6 million. He had bought the statue in 1999 for HUF 1 million. The sale was done through an auction house that charged 1% of the sales price to Mr Darabos for arranging the sale. In 2009 Mr Darabos had spent HUF 500,000 to restore the statue.

On 1 February 2010 Mr Darabos deposited HUF 20 million with a Hungarian financial institution. The deposit pays a fixed interest rate of 5% per annum and the rate is fixed for a period of five years. Interest is credited to the deposit account of Mr Darabos and capitalised at each year end.

Required:

- (a) (i) **Explain how the holiday coupons received by Mr Darabos are treated for tax purposes and calculate the tax payable;** (4 marks)
- (ii) **Explain how the loan received by Mr Darabos from Pieces Kft is treated for tax purposes and calculate the tax payable.** (4 marks)
- (b) **Explain whether any taxable income arose for Mr Darabos when Kapital Nyrt issued the bonus shares, and if so, calculate the tax payable on this transaction.** (3 marks)
- (c) **Explain how the income arising on selling the statue is treated for tax purposes, and calculate the taxable income arising and the tax payable on this transaction.** (5 marks)
- (d) (i) **Explain how the interest on the five-year saving deposit is treated for tax purposes, stating clearly any conditions related to such a deposit that must be fulfilled;** (4 marks)
- (ii) **Calculate the tax payable on the interest received if Mr Darabos terminates the deposit on 31 December 2010.** (1 mark)
- (e) **Calculate the total personal income tax liability of Mr Darabos for the year 2010, assuming that Mr Darabos does not terminate the savings deposit on 31 December 2010.**
- Note: you should ignore tax credit on wages. (6 marks)
- (f) **Calculate the net salary after the deduction of personal income tax and social security contributions received by Mr Darabos from Pieces Kft in the month of January 2010.** (3 marks)

(30 marks)

- 2 Topaz Kft is a manufacturing company which was founded several years ago by a German company. Topaz Kft has subsidiaries in Hungary as well as in other countries.

The preliminary pre-tax profit of Topaz Kft for the year 2010 was HUF 700 million. Before submitting its annual statutory financial statements and its final corporate income tax return for the year ended 31 December 2010, a tax audit relating to the financial year 2010 was performed. This audit revealed that, in August 2010, the company had expensed the renovation costs of a yacht registered under the name of the company of HUF 1 million (net of value added tax (VAT)) and deducted the VAT on this cost in its August VAT return. As a result of these errors the tax authorities levied a default penalty of HUF 200,000 and late payment interest of HUF 50,000. The tax authorities' declaration regarding these items was received by Topaz Kft before 31 May 2011 which is the date of preparation of the financial statements, but none of them had been included in the preliminary pre-tax profit figure of HUF 700 million.

In addition to the above, the following items that had been included in the preliminary pre-tax profit of HUF 700 million may be relevant to the calculation of Topaz Kft's corporate tax base:

1. In 2010 Topaz Kft expensed HUF 8 million as an impairment of its tangible non-current assets. This was necessary because the market value of the non-current assets affected was materially and durably lower than their book value.
2. In 2009 Topaz Kft had realised tax losses of HUF 20 million due to unexpected extraordinary losses. In the years prior to 2009, Topaz Kft was always profitable and had paid corporation tax.
3. Topaz Kft uses both equity and debt financing. In 2010 it had the following loans outstanding:

Loan	Annual interest rate
€200,000 bank loan	8%
€300,000 intercompany loan	12%

The tax advisors of Topaz Kft have pointed out that the intercompany loan is owed to a related party that qualifies as a controlled foreign corporation (CFC). Furthermore, it is not an arm's length rate loan; the market interest rate would have been 10% per annum. The tax advisors are confident, however, that it can be proven that the loan served a business purpose.

The equity of Topaz Kft as at 1 January 2010 was as follows:

	HUF million
Share capital	5
Share premium	2
Revaluation reserve	5
Tied-up reserve	9
Retained earnings	1

4. On 1 March 2010 Topaz Kft purchased a new passenger car for HUF 6 million (net of VAT). The cost of the car was capitalised on that date. The purchase was partially financed from a development reserve of HUF 5 million created by the company in 2008. Depreciation on the car for tax purposes is at the rate of 20% per annum. The economic useful life of the car is six years and its residual value was assessed as HUF 1,500,000.

All other non-current assets of Topaz Kft are depreciated at the same rate for both tax and accounting purposes.

5. Topaz Kft received a dividend of HUF 50 million from a Hungarian subsidiary in 2010.
6. In October 2010 Topaz Kft invoiced HUF 7 million as royalty income to a subsidiary located in Poland, but payment of the royalty had not been received by Topaz Kft before the end of its financial year.

Required:

- (a) Calculate the correct accounting profit before tax of Topaz Kft for the year 2010. Support your calculations with relevant explanations. (2 marks)
- (b) Calculate the corporate income tax base of Topaz Kft for the year 2010. Support your calculations with relevant explanations. (19 marks)
- (c) (i) State, giving reasons, how the corporate income tax liability of an entity must be established for the financial year 2010; (1 mark)
- (ii) Calculate the corporate income tax liability of Topaz Kft for the year 2010 assuming that Topaz Kft satisfies the requirements for the lower band tax rate wherever applicable. (3 marks)

Note: you may show your workings to the nearest thousand forints in this question.

(25 marks)

- 3** Midi Kft is a medium sized entity incorporated in Hungary. During the year 2009, Midi Kft spent HUF 600 million on a project that resulted in the building of a new factory that operates a production line not previously available at the company.

Midi Kft submitted an application to the Ministry of Finance in 2009 to take development tax relief from the year 2010.

In 2010 the company's profit before tax and corporate tax base were established as follows:

	HUF '000
Profit before tax	180,000
Corporate tax base	200,000

The new production line required the recruitment of new employees. The average number of employees at Midi Kft from 2008 until 2010 and the forecast numbers for the following five years are as follows:

	2008	2009	2010	2011	2012	2013	2014	2015
Number of employees	50	110	115	117	120	120	125	130

Required:

- (a) **Identify and explain the corporate tax relief Midi Kft is entitled to. State clearly any conditions that must be met in order to qualify for this relief.** (11 marks)
- (b) **Calculate the corporate income tax payable by Midi Kft for the tax year 2010 assuming that it is eligible for the relief you have identified in part (a) of the question.** (4 marks)

(15 marks)

- 4 Tavi Kft is a company incorporated in Hungary. Its parent company has its seat in the USA. Tavi Kft's business activity is to process and provide business data on the Hungarian medical market to its parent company. Thus its main customer is its own parent company. Tavi Kft issues invoices to its parent company and prepares its value added tax (VAT) returns monthly.

In August 2010 Tavi Kft issued sales invoices of HUF 200 million, net of VAT, to its parent company. The following items are also relevant to the preparation of Tavi Kft's VAT return for the month of August 2010. All amounts are stated excluding any applicable VAT.

1. On 1 August 2010 Tavi Kft delivered a piece of computer equipment on the basis of a consignment contract as the consignor to a consignee company. The consignee company is entrusted to sell the equipment on behalf of Tavi Kft for HUF 5 million which equals the fair market price of the asset. The sale of the equipment by the consignee company did not happen before the deadline for preparing the August VAT return nor was any cash transferred between the two parties.
2. Tavi Kft received invoices of HUF 80 million from suppliers supporting its data processing activities.
3. Tavi Kft acquired a new laptop for the managing director costing HUF 400,000. His old laptop was scrapped for Tavi Kft's accounting purposes and taken home by the managing director who afterwards used it for private purposes. The net book value of the laptop when scrapped was HUF 50,000 but it could have been sold for HUF 100,000.
4. Tavi Kft received an invoice of €2,500 from an Austrian advertising company for marketing and advertising services delivered in August 2010.
5. The total cost of restaurant and entertainment services expensed by Tavi Kft in August 2010 was HUF 120,000.
6. Tavi Kft leases a fleet of trucks. The total monthly fee paid to the lessor is HUF 8 million. Tavi Kft has the option to purchase the trucks at the end of the lease term (in three years' time) and the chief accountant estimates that it is more likely than not that this option to purchase will be exercised.

Required:

- (a) **Calculate Tavi Kft's value added tax (VAT) liability/refund for the month of August 2010. Support your computation with relevant explanations.** (12 marks)
- (b) **List the information that must appear in an invoice-amendment that retrospectively modifies the base or the amount of value added tax (VAT) on an invoice previously issued.** (3 marks)

(15 marks)

- 5 Csoki Bt is a company registered for EVA (*egyszerűsített vállalkozói adó*), that is simplified taxation for small entrepreneurs. All the sales and purchases of Csoki Bt attract the standard rate of value added tax (VAT).

In its accounting records Csoki Bt had the following items for the four quarters of the year 2010:

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
	HUF	HUF	HUF	HUF
Sales revenue (net of VAT)	3,000,000	3,200,000	5,000,000	4,000,000
Gross salary expenses	300,000	320,000	500,000	400,000
Other expenses (net of VAT)	20,000	25,000	30,000	30,000

Gross salary expenses are stated excluding any relevant contributions payable by the employer.

In addition to the items summarised above, Csoki Bt entered into a finance lease agreement on 1 April 2010. The car leased has a cubic engine capacity of 1,400 cm³. The lease payments and fuel costs of the car amounted to HUF 120,000 (including VAT) in each month of use.

Required:

- (a) State, giving reasons, whether Csoki Bt is subject to the company car tax law. (2 marks)
- (b) Assuming that Csoki Bt is subject to the company car tax law, calculate the company car tax payable for the year 2010, and prepare a schedule of payments showing the amounts due and the deadlines for payment of the company car tax. Support your calculations with brief explanations. (4 marks)
- (c) Calculate the EVA-advances payable by Csoki Bt for the year 2010. State the date(s) by which the advances must be paid and declared to the tax authorities. (5 marks)
- (d) Calculate the net cash dividend that Csoki Bt can distribute to its owners for the financial year of 2010.

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

(15 marks)

End of Question Paper