Examiners' report

F6 Taxation (HUN)
June 2008

General comments

Overall the quality of the answers was disappointing.

Candidates generally attempted all five questions, although it seemed that questions examining value added tax (VAT) were more favored and candidates generally performed better in this topic. Question 3 seemed to have been generally left until last and therefore it was often unfinished or even omitted.

Those few candidates who passed showed good knowledge of the subject. Their answers were well laid out – typically with the main calculations, followed by brief workings, including relevant explanations to support the main calculations.

Many candidates demonstrated poor knowledge of the subject and poor examination technique. It was particularly disappointing that they were unable to deal with core topics and also topics which have been examined many times before in previous exams.

Question 1
Question 1 was about personal income tax and was for 25 marks. Candidates were tested on their knowledge of the tax treatment of various types of income of an individual, especially capital gains from the sale of real estate and rental income.

The quality of answers for this question was generally good. Candidates demonstrated good knowledge of the taxation of various types of income.

One of the main tasks of the candidates was to calculate capital gains for assets that were inherited by the individual. Candidates generally solved this well and applied the value at which the inheritance tax was levied as the cost basis of the asset.

Parts (b) (ii) and (c) tested candidates' knowledge of the two methods of the taxation of rental income. Individuals may choose to treat the income from rental activity as part of their consolidated tax base and pay tax at the progressive rates of 18% and 36%. In this case they are eligible to deduct their costs from their gross rental income (or take a 10% lump sum deduction for the costs). Alternatively, the rental income may qualify as 'income taxed separately', taxed at 25%, in which case the costs are not deductible. The candidates sometimes confused these two methods.

A common mistake was that the wellness centre did not qualify as a tax exempt benefit in kind and therefore the company has to pay tax on the fringe benefit, regardless of whether its value exceeds the annual HUF 400,000 limit.

In part (f) candidates had to describe how the monthly personal income tax of the individual is calculated. Very few candidates gave an explanation; instead, candidates made calculations.

It was disappointing that many candidates could not give correct answers to the company car tax, even though the table from which it had to be taken was included on the first pages of the paper. In general, many candidates did not use the correct tax rates as listed at the front of the paper.

Question 2
This question was about corporate income tax and was worth the most marks in the paper.

Part (a) of the question, where candidates had to calculate the pre-tax profit of the company was done well by most candidates. A common mistake was that not only VAT has to be paid on entertainment costs, but personal income tax as well.

The performance of candidates in part (b) was disappointing, with many unable to deal with adjustments to the profit before tax. In particular, mistakes were made in the following areas:

- Most candidates did not know how to take into consideration the unrealised foreign exchange gain or loss as a tax base adjustment. Candidates could not identify that, in the example, only the unrealised foreign exchange gain on the long term loans could have modified the tax base. Also, candidates struggled to deal with the adjustment relating to last year's unrealised foreign exchange gain.
- The corrections accounted for in 2007 in relation to prior years' have to be reversed in the 2007 tax base calculation. For example, the supplier invoice, which was booked twice in 2005, must have been booked as a reduction in the costs in 2007. Therefore, this cost reduction had to be reversed, i.e. the tax base had to be decreased.
- Unlike in the case of calculating the 50% deduction for interest (where the interest income in excess of the interest expense has to be considered), the royalty expense does not decrease the royalty income when calculating the 50% deduction for royalties.
- Most candidates automatically adjusted the tax base with the write-down of the shares, although this item is tax deductible.

In part (c) of the question, most candidates did not indicate that there were indeed items which adjust the basis of the solidarity surtax. Many candidates simply considered the pre-tax profit as the solidarity surtax base.

The basis of the minimum tax is 2% of the adjusted total income. It was disappointing that very few candidates actually calculated the basis of the minimum tax correctly in part (d).

Question 3

Question 3 tested a tax relief that is available in respect of loans taken to finance investments. Many candidates confused this relief with the development tax relief, which was examined in previous papers.

In this question, candidates had to realise that different tax reliefs can be claimed up to a certain proportion of the calculated tax. In order to calculate the tax relief for the loan, candidates first had to consider the development tax allowance that the company was entitled to. This tax allowance is limited to 80% of the tax. The tax relief for the loan is limited to 70% of the tax, as decreased by the above allowance.

Question 4

Question 4 focused on VAT and it was generally done reasonably well, although some candidates mixed up VAT payable and deductible.

In part (a), candidates had to realise that, since private usage was not reimbursed by the employees, 30% of the telephone costs are non-deductible. This was answered well by most candidates.

While candidates realised that unpaid suppliers' invoices reduced the reclaimable VAT balance, some candidates did not consider that the negative VAT balance may only be reduced to zero. In other words, if the value of the unpaid suppliers' invoices exceeded the negative VAT balance, this does not mean that the VAT balance turns into positive, i.e. that the company ends up in a VAT paying position.

A common mistake was that candidates did not realise that the accommodation in a foreign hotel is a service where the place of supply is abroad, and thus it is outside the scope of Hungarian VAT. Many candidates incorrectly classified it as an import service and calculated VAT (both payable and deductible) on it. Also, VAT on a taxi invoice is always non-deductible regardless of whether the cost was incurred for a business purpose.

Question 5
Question 5 was also mainly VAT related and therefore candidates' performance was reasonably good.

A common mistake was that the personal income tax on the free movie tickets was not calculated on the gross value of the tickets (including VAT).

Candidates generally realised that VAT had to be calculated on the foreign royalty invoice, and it had to be considered both as VAT payable and VAT deductible.

Only a few candidates correctly described the deadlines for submitting the tax return for the personal income tax and social security, and for paying the tax.