

Examiner's report

F6 Taxation (HUN)

June 2010

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

General Comments

The examination consisted of five compulsory questions (Question 1 for 25 marks, Question 2 for 30 marks and three further questions of 15 marks each) with an approximate 1:1 split requirement for computation and narrative.

Most candidates attempted all five questions although there was some evidence of poor time management, particularly affecting Question 2. Where not all questions were attempted, Question 3 was most frequently omitted.

Excellent answers were presented by many for all five questions and very high marks were achieved by a number of candidates.

The performance of candidates overall showed a significant improvement. Candidates showed a better balance between narrative parts and calculations, with many candidates providing sufficient explanations without providing too much detail. This is very pleasing.

Many candidates displayed knowledge that was out of date – they were unaware of changes to the tax laws relating to sale of real estate (Question 1), tax losses (Question 2) and company car tax (Question 5). Failure was generally due to lack of knowledge rather than poor exam technique.

Workings were generally shown but were at times difficult to follow. Too many candidates continue to display their answers poorly, with a lack of clear labelling to indicate which questions are being attempted. Each question should be started on a new page and candidates must give more thought to the layout and organisation of their answers.

Specific Comments

Question One

This 25-mark question tested candidates' ability to cope with various aspects of personal income tax. A few candidates showed poor layout.

Part (a) concentrated on the taxation of the gain arising on selling immovable property (flat and land). Many candidates were not able to differentiate between the ways of taxation in case of real estate for housing purpose (flat) and other purposes (land). Especially the taxation of land was a poorly answered area.

In part (b) and (c) most candidates performed very well earning maximum marks on taxation of benefits in kind and interest income.

In part (d) most candidates could rightly use the new rules in force from 1 January 2010 concerning the 27% uplift on the consolidated tax base. A few candidates, however, did not recognise that the uplift is not applicable on non-taxable emoluments (e.g. pension). Some did not multiply the monthly salary by 12 to get the annual salary leaving 12 x HUF 200,000 in the consolidated tax base.

Tax credit on wages in part (e) was done well by most candidates, stating the rules of this relief precisely.

Question Two

This question, focusing on corporate income tax, was frequently the worst answered question on the paper.

Part (a) tested the creation of development reserve. This was usually correctly answered. Part (b), however, was very disappointing. Although the requirement specifically required students to state the rules for utilising tax losses incurred after 2004, a very significant number of candidates stated the rules concerning tax losses incurred before 2004 as well. This took a significant amount of time leaving less for answering the question set. Few candidates mentioned that tax losses must be used on a FIFO basis, or that tax losses may only be used to bring the tax base of future years to zero.

In part (c) few candidates could do the tax depreciation calculation on the assets acquired from the development reserve. Mistakes included getting the year wrong believing that the asset had been acquired during the current year (2010) even though it was clear from the question that the asset was acquired in 2009. Some candidates went into long descriptions about the implications of receiving dividends from CFCs even though there was no indication that the dividend was received from a CFC. Candidates must stick to what is relevant instead of stating what they know about the subject matter generally.

Although the question specifically told candidates to assume that the company was entitled to use the lower 10% rate of corporation tax, many candidates ignored this and used only the higher rate of 19%. Many even wasted time writing long explanations about why they believed that the 10% rate was not applicable.

In part (d) most candidates concentrated on calculating the minimum tax base. Few described the purpose of it or the fact that companies may still file tax based on the actual tax base even if this is below the minimum tax base. Quite a few candidates confused minimum tax base with lower rate of tax, and discussed the rules relating to applying the lower 10% rate of corporate tax.

Question Three

This question was on the subject of corporate tax relief available on the interest of loans related to purchasing non-current assets.

In part (a) few candidates knew all the conditions for qualifying for the interest relief – such as the loan being taken after 31 December 2000, or the company being an SME on the last day of the year in which the loan was taken out, although most knew the three limits.

Even though many candidates had correctly stated in part (a) that one of the limits was 40% of the interest paid when calculating the limits for tax deduction in part (b) they forgot to multiply the interest paid by 40% and took the total interest as the appropriate number.

Part (c) and (d) were generally not well answered. Few candidates were able to state the last year when the limit was available, even less were able to give reason for that even though that was specifically required. The consequences of selling the assets in 2011 were also omitted from the answers of most candidates,

Question Four

This question focused on value added tax (VAT). In part (a) many candidates did not know the rule about being able to reclaim a portion of the VAT on the sale of an asset that had been used for exempt activities (60-month rule). Some candidates thought that even though the place of performance of education services was Turkey that the reverse mechanism applied to the invoice. This is not the case since this transaction was outside the scope of Hungarian VAT law. Quite a few candidates did not read the requirement properly and did not notice that the fee for the bookkeeper was given for one month – therefore the VAT on this had to be multiplied by 3 for a quarterly

VAT return. The rest of this part of the question was quite well done, although presentation of the VAT liability calculation was usually poor.

Many candidates scored 100% on part (b) explaining correctly how frequently companies should file VAT returns. A similarly good performance could be observed in part (c), however, some candidates misread the question, and provided examples of goods or services that are exempt from VAT, and not examples of when the tax law restricts the right to deduct input VAT.

Question Five

Most candidates' performance was rather disappointing on question five. Few candidates did well on this question in spite of the article written by the examiner. Knowledge was poor; many candidates simply did not know the rules in force since February 2009 and stated the rules applicable before that date or a mixture of both sets of rules. Candidates also seemed to ignore the requirements of the question, and what they wrote for one part of the question was actually the requirement for another part.

In part (a) the vast majority of candidates recognised that company car tax was payable, but few could give the correct reasons why, i.e. because expenses were borne by the company, or they gave inadequate solutions. This suggests that these candidates did not understand the underlying concepts of the law on company car tax.

In part (b) most candidates stated correctly that there was no liability to company car tax on the reimbursement of employees travelling to work on a daily basis, but again, few provided good reasons.

In part (c) a surprisingly large proportion of candidates stated that the liability starts on acquisition of the car and ceases when the car is disposed of. A sensible guess but not correct. The liability to pay company car tax starts in the month following the month of acquisition.

In part (d) a significant number of candidates calculated the tax that would be payable (even though the instructions said this was not required). Few stated when it has to be declared and paid losing marks that could have been obtained easily. Many were able; however, to mention that car capacity tax is deductible from company car tax.

A very limited number of candidates knew the consequences of the company paying more than the approved mileage allowance examined in part (e) of question five. Most guessed wrongly that it would be treated as a benefit in kind. The correct treatment of this type of income, i.e. part of the consolidated tax base was mentioned only by a few candidates.