

Examiner's report

F6 Taxation (HUN)

June 2011

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General Comments

The examination consisted of five compulsory questions (Question 1 for 30 marks, Question 2 for 25 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 1. 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 students that passed demonstrated a good knowledge of the subject, and showed the ability to present their work in a professional manner, with their tax computations or main workings referenced to their workings. There were few marginal papers – those that passed mainly got good passes, and those that did not pass did not seem to be properly prepared.

It was pleasing to see that most candidates have learned that writing everything they know about a subject in the hope that some of it is relevant gains few marks, and most answers were relevant and concise.

Some of the students who marginally missed a pass had not attempted all parts of the questions, and had they done so may well have managed a marginal pass. All parts of questions contain some easy marks.

For those that did not pass the paper, the reason appeared to be generally due to a 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.

Other examples of poor examination technique included the following:

Providing texts where the standard of presentation was very unsatisfactory. Poor hand writing that was difficult to read, or no clear logic to the answer.

Including the answer to one part of the question, in the answer to another part, or failing to follow the requirements of parts of the question correctly.

Providing workings without bothering to add up totals or multiply out the calculations to get to the final answer.

Excessive rounding: Some candidates rounded up to the nearest HUF 1 million in the question on personal income tax for example. This meant that marks were lost due to inaccuracies in the final answer.

Specific Comments

Question One

This 30-mark question tested candidates' ability to cope with various aspects of personal income tax. Generally answers to this question were disappointing with many students showing a poor knowledge of personal income tax. Many candidates did not follow the order of the sub-parts of this question even if following the original order of requirements has helped a lot present a logical answer.

Part (a) required candidates to explain how holiday coupons and a loan from an employer are treated for tax purposes. Many candidates showed a reasonable knowledge here. A common mistake was, however, that some candidates thought the loan at a favourable interest rate should be included in the consolidated tax base even if this is not the case. Candidates should learn the classification of different types of income.

In part (b) candidates had to state if income arises on issue of bonus shares. Hardly any candidates knew that shares received from bonus issues are not taxable. This is not surprising. What was surprising was that many chose to write long meaningless wrong answers, and as such, those candidates wasted their time.

In part (c) a calculation of the tax payable on the sale of a moveable property needed to be carried out. A significant part of candidates answered this part of the question well and gained maximum marks.

Personal income tax implications of long term bank deposits in part (d) was done poorly by most. Few people knew the conditions for the lower rate of tax on longer term bank deposits – indeed many were totally unaware that such benefits exist at all and instead described the general rules relating to interest.

In part (e) the personal income tax liability had to be calculated. While many candidates correctly dealt with the consolidated tax base and the tax on this, few candidates considered the other items of personal income covered in earlier parts. There were marks available for example for stating that benefits in kind are not part of the individual's personal tax liability. Few candidates gained these. Overall, this part of the question offered a lot of easy marks that were frequently missed by many candidates.

In part (f) candidates had to calculate the monthly net salary of an individual. This should be a routing calculation, but many were unaware of how to calculate the personal income tax advance. A large number of candidates calculated the annual net salary, even though the question asked for the net salary for the month of January. These candidates scored no marks or lost valuable easy marks.

Question Two

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

Part (a) was a short question and tested the correction of the profit before tax of an organisation. This part was reasonably answered. Still, many candidates incorrectly thought the irrecoverable VAT should be added to the profit.

Part (b) showed a more or less consistently good performance of most candidates. Increasing and decreasing items of the corporate income tax were identified properly by most. There were typical mistakes though. Only a few candidates knew how to deal with interest paid to a controlled foreign corporation. Rather surprisingly this simple rule was not widely known.

It is pleasing, however, that most candidates stated the rules of thin capitalisation correctly, and made a precise calculation of the disallowed interest.

In part (c), an easy computation of the corporate income tax liability for the year had to be done, and most candidates could get the mark available here. Most candidates time-apportioned the tax base based on the number of days which is the correct treatment. It's worth noting, however, that a simple halving was eligible for the same amount of marks.

Question Three

This question was on the subject of development corporate tax relief.

This was the least well done question in the paper. Even if there were candidates that answered this question excellently; the vast majority of them struggled when answering it. Few candidates knew the requirements for development relief for medium sized companies, and instead gave the conditions for the larger development relief.

In part (a) the relief had to be identified. This was done reasonably by most.

In part (b), where candidates were asked to calculate the corporate tax for the year, assuming that the company qualified for tax relief, some candidates provided a discussion as to whether or not the company did qualify. Others did detailed calculations of the limits to the relief that would be available, using the intensity factors. Since no information was given as to the location of the investment, this was actually not feasible, and obviously not required by the question.

It is still very disappointing how badly candidates performed in this field – the corporate tax reliefs. This is even more surprising if one considers that the reliefs available in Hungary are limited to a small group of tax reliefs.

Question Four

This question focused on value added tax (VAT). This was the best answered question overall.

In part (a) the VAT return was done well by many candidates. One common mistake was not realising that the sales to the parent company were outside of the scope of VAT. While most candidates identified that the lease was an open ended lease, few candidates provided satisfactory explanations as to why, and therefore lost the chance for a mark here. However, there were plenty of other marks available for this part of the question, and most candidates made a reasonable attempt at it.

In part (b) which dealt with the requirements for an invoice amendment, most candidates did not know this. However, the approach that most took - to have a reasonable guess – was the most sensible approach, and gained many candidates at least half marks.

Question Five

There were two main subject areas examined in question five: company car tax and EVA. Many candidates made a reasonable attempt at this question, even if they did not have sufficient knowledge to gain all 15 marks available.

In part (a) candidates had to state if the company in the question was subject to company car tax. Even though this was a very straightforward situation, many tried to find complicated explanations. This was obviously unnecessary.



In part (b) many candidates made a reasonable attempt to prepare a schedule of payments of company car tax. Deadlines, however, were not always correctly stated and were confused with those of other types of taxes.

A few candidates provided an answer to part (c) that was more appropriate to part (d) – instead of calculating the quarterly EVA advances as required in part (c), they calculated the annual EVA and then deducted the expenses from this. This was actually a requirement for part (d) of the question. It is still rather surprising that candidates under-perform in this area even if EVA is one of the simplest tax in the Hungarian tax regime.