



Examiners' report

F6 Taxation (HUN)
December 2007

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. There was some evidence of poor time management. While questions 1 and 2 were nicely worked out with detailed computation and explanation, the answers to questions 4 and 5 were generally less complete and sometimes omitted.

Those 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. They were unable to deal with core topics which have been examined many times before in the old paper 2.3 taxation exam. This indicates that little time was spent working through past exam papers by these students.

There was also evidence that students were unaware of changes to the laws on taxation, and many solutions were based on out of date regulations.

Some candidates were unable to follow the requirements of questions, particularly question 3. Instead of focusing their answers to the requirements, they wrote down everything they knew about a topic, hoping that some of it would be relevant. Such answers do not attract many marks.

Question 1

Question 1 was about personal income tax and carried 25 marks. Candidates were tested their knowledge of the tax treatment of various types of incomes of an individual, especially capital gains from the sale of real estate (part (a)) and fringe benefits.

Parts (a) was done well by most candidates.

Many candidates did part (b) well also. Areas where mistakes were commonly made were as follows:

- Few candidates realised that the receipt of food vouchers in excess of the tax free limit are treated as part of the individual's consolidated tax base, and not taxed separately as a benefit in kind.
- While many candidates correctly mentioned that tax on interest is withheld by the bank, this still counts as part of the individual's personal tax liability for the year so should be included.

The section on solidarity tax (part (c)) was done well by most candidates.

Most candidates were aware of the tables for calculating the benefit in kind tax on the car in part (d). Fewer candidates knew about the 25% health contributions.

Many candidates did not answer part (e) of the question, or answered it badly.

Question 2

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

Part (a) of the question was done well by most candidates.

The performance of candidates in part (b) was disappointing, with many unable to deal with adjustments to the profit before tax required, in calculating the corporate tax base. In particular, the following areas need improvement:

- Most candidates automatically adjusted the tax base with the domestic dividend received and did not realize that this income did not affect the P/L according to the question and therefore it was not needed to treat it as a non-taxable income.
- While many candidates correctly identified that the portion of the production line which had been financed from the development reserve did not qualify for tax depreciation, few candidates were able to correctly calculate the tax depreciation on the portion that did qualify for tax depreciation.
- Most candidates were not aware of the rules regarding the write off of stock/inventory, and assumed that it is always disallowed.

In part (c) of the question, most candidates did not consider the dividend received as a non-taxable item and calculated the solidarity surtax automatically on the pre-tax profit.

Question 3

Despite the fact that development relief is compulsorily examined in the tax paper, this question was the most poorly answered of all the questions. The main problem was that, rather than follow the very clearly defined requirements of the various parts of the question, many candidates preferred to write everything they know about development relief.

Another problem was that candidates were unaware of the latest requirements for this relief.

Question 4

Question 4 focused on VAT and it was generally done reasonably. However, few candidates deducted the brought forward VAT balance from March from the VAT payable in April. Of those who did, many did not exclude the unpaid invoices from the reclaimable balance.

Question 5

Performance on this question was poor. Most candidates knew how to calculate the tax on the dividend from the Hungarian company. Few knew how to deal with the dividend from the Luxembourg investment. Many thought that this was treated in the same way as Hungarian dividend. Many did not know how to apply the double tax treaty to the dividend- many assuming that the maximum tax of 15% that the Luxembourg authorities are entitled to levy on such dividends applied to the Hungarian authorities.