

# Examiner's report

F6 Taxation (HUN)

December 2011

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 30 marks, question 2 for 25 marks and three further questions of 15 marks each, with an approximate 1:1 split between computation and narrative elements.

Most candidates attempted all five questions, and attempted all parts of the questions, suggesting they had time to complete the exam comfortably.

The overall performance on this paper was good, with many candidates demonstrating the required level of knowledge. It was also pleasing to see that so many candidates are presenting their solutions in a professional manner, typically with the main answer, followed by clearly referenced workings which follow the breakdown into the different parts the examiner has chosen.

It continues to be important for candidates to practise writing well presented, concise answers, using clear handwriting, picking from their knowledge of a subject the items that are relevant to the questions asked. When preparing for exams, candidates are advised to spend some time reviewing the marking guides for previous papers, to see where the marks can be earned.

Performance in the two longer questions was generally noticeably better than performance in the three shorter questions. Candidates found question 3 particularly challenging, while question 5 was answered well.

Candidates are reminded to take care when reading the question, and to use their time to answer only the question set. For instance, in question 4 some candidates assumed that the expenses and revenues were inclusive of VAT when the question specifically stated that this was not the case and, in question 5, decided to calculate whether or not it was beneficial for Edmond to apply to be taxed under the EVA scheme, even though this was not a requirement of the question.

## Specific Comments

### Question One

This question dealt with many aspects of personal income tax, and was worth 30 marks in total. Many candidates demonstrated a good knowledge of this area, and gave sufficiently detailed explanations.

Part (a) required candidates to explain how Budapest transportation pass and hot meal vouchers from an employer are treated for tax purposes. Many candidates showed reasonably good knowledge, stating correctly both the classification principles and the tax rates for these benefits.

In part (b) candidates had to state what qualifies as a regulated market transaction and calculate the tax payable. Almost all candidates completed this part of the question correctly.

In part (c) a calculation of the tax payable on the sale of a property (flat) needed to be carried out. Most candidates answered this part well.

The personal income tax calculation and explanation of dividend and interest income in part (d) revealed the need for candidates to make sure they are studying the correct legislation.

In part (e) the personal income tax liability had to be calculated. Many candidates correctly dealt with the consolidated tax base and the tax on this, and a few candidates are to be congratulated for providing the explanations requested.

In part (f) candidates had to itemise and calculate the monthly employers' contributions paid by the employer. Candidates are reminded of the need to distinguish clearly between the contributions that are paid by the employer, and the ones paid by (deducted from) employees.

### **Question Two**

This question dealt with corporate income tax for 25 marks and was performed well by many. A number of candidates found part (c) difficult, which requested an explanation of the methods of obtaining tax relief for tax on income from abroad.

Part (a) was a short question and tested the rules surrounding the creation of a development reserve, including the tax advantages of such a reserve. This part was answered satisfactorily.

Section (b) dealt with the preparation of the corporate tax base. A few candidates are to be congratulated for knowing that the outstanding invoices from the parent company should be included in the average loans, and that the tied up (development reserve) should be included in the value of equity. Candidates tended to find the explanation and calculation of the thin capitalisation challenging.

In part (c) candidates had to explain how corporate tax paid abroad is treated for Hungarian tax purposes. A few candidates did well to produce a detailed and correct answer, having learned the rules that apply.

### **Question Three**

This question, dealing with tax relief for small and medium sized companies – specifically the interest tax relief on loans to buy fixed assets – was the most challenging of all the questions in the exam, requiring knowledge across the subject.

In part (a) the relief had to be identified and the conditions of it had to be explained.

Candidates are reminded of the need to plan their answers before they begin to write for questions such as part (b), where there were effectively two sub-parts, the first to calculate the tax on the corporate tax base, and the second to decide which of the limits was the lowest for the amount of tax relief. It is easier to follow, and so to understand, well structured answers.

In part (c) candidates had to give three examples of 'de minimis' grants. It was pleasing to see that some candidates were able to do so.

Candidates are reminded of the need to be prepared to answer questions in the area of corporate tax reliefs that test both their knowledge and their ability to apply the rules.

### **Question Four**

This question dealt with VAT, and included a company with activities that are both taxable and non-taxable. Most candidates were able to demonstrate a satisfactory knowledge of VAT and a few performed very well,

demonstrating their ability to deal with the apportioning of input VAT between the taxable and non-taxable sales, and on a cumulative basis.

It was pleasing to see that some aspects of this question - place of performance, rules of mobile phone invoices, services delivered abroad - were very well answered by the majority of candidates.

#### **Question Five**

This question dealt with personal income tax issues in part (a), and simplified taxation for small entrepreneurs (EVA) in parts (b) and (c). It was performed well by many candidates.

The vast majority of candidates answered part (a) perfectly. Candidates are reminded that it is employees' contributions (and not employers') that are deducted when calculating net salaries.

In part (b), candidates needed to be aware that the EVA tax is based on revenues rather than profit, and that EVA-qualified entities cannot deduct VAT at all.