



Examiner's report

F6 Taxation (HUN)

December 2009

General Comments

The exam consisted of 5 compulsory questions. Candidates generally attempted all five questions, although it seemed that questions 1 and 2 were more popular. Question 3 appeared to have been a difficult question on tax relief and no candidate earned the maximum marks, although this is a topic regularly examined under F6 (HUN). Candidates focused on the easier parts in questions 4 and 5. There was evidence of poor time management – in particular, many candidates seemed to spend too long on question 2, due to the fact that they wrote very detailed explanations. This meant they had less time to spend on Qs 3 to 5.

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, however, was disappointing with a large number appearing to be unprepared for the examination. Candidates performed well in questions 1 and 2. Candidates earned more marks for those questions which focused on corporate tax and personal income tax.

In this examination candidates seemed to have focused on calculations and numerical answers, while written explanations and reasoning were frequently absent. Successful candidates demonstrated a good knowledge of the subject especially in corporate income tax and personal income tax examined in questions 1 and 2 where they earned the majority of their marks. 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. There was much confusion in questions 4 and 5.

Simplified taxation for small entrepreneurs was examined for the first time. Candidates either performed very well on this topic or they performed very poorly.

Specific Comments

Question One

This was a 25 mark question on income tax.

Many candidates did not know how to deal with the interest free loan, many treating it as income taxed separately (by the individual). Many candidates stated that taxpayers have the choice of how to pay tax on such kinds of income which is clearly not the case. Many forgot to deduct the 10% expenses on the independent income.

Many candidates ignored the requirements to “explain the treatment of”, instead providing calculations only. In many cases, there was confusion about how to calculate taxable income and the tax payable on shares received by Mr Boros. A number of candidates tried to explain the consequences of inheriting a moveable property, even if this is clearly outside the scope of the syllabus.

Question Two

This was a 30 mark question on corporation tax.

Although this was the question with the best answers there were typical mistakes that candidates made.

In the case of the bad debt written off, a lot of candidates did not know that bad debts include VAT. Candidates got confused by when to treat interest to or from related parties as increasing or decreasing items. Where interest is paid, it is an increasing item in the corporate tax base calculation.

A few candidates provided answers to the nearest HUF million in spite of the instruction in the question to use HUF 000s. Some candidates wrote very long detailed explanations, which must have used up a considerable amount of examination time. Few people knew the rules applying to the solidarity surcharge.

A number of candidates did not read the question correctly regarding the residual value of the trucks – this was HUF 500,000 per truck, not HUF 500,000 for all trucks in total. Others calculated the depreciation of the cars until the end of their useful lives – this was not required and it did not earn any marks.

Many candidates assumed that the official rate of the National Bank of Hungary is the implied market rate – they should realise that this is not the case.

Question Three

This was a 15 mark question on development tax relief.

Most candidates knew the conditions that must be met in order to qualify for relief. Few candidates knew, however, how to apply the limits. Many candidates did not understand how the tax relief worked in practice – often taking 80% of the tax base rather than 80% of the corporate tax. Some candidates were confused about which year is the first year of eligibility.

Many candidates discounted the tax based instead of discounting the tax relief itself to check whether the limit for the relief had been achieved. Most candidates did not gain the easy marks on calculating the final tax liability after deducting the tax relief even if this was a clear requirement stated.

Question Four

This was a 15 mark question on value added tax (VAT).

Calculations in this question were very difficult to follow – particularly those relating to the portioning of VAT. Many candidates only applied the portions for the input tax for December and did not calculate the adjustment required in respect of the first 11 months. Allocation and apportioning of input VAT is a key area of the VAT law so it is rather surprising that many don't know how to do this properly.

Many candidates put down the options available in the case of the private usage of company phones. This was not required anywhere and it took up precious time of those candidates.

Also, a failure to follow the requirements of the question led to describing the implication of benefits in kind.

Many candidates believed that the VAT on the telephone was only based on 80% of the invoice, and then disallowed a further 30%. This is clearly incorrect.

It was good to see that many treated the invoice of the law firm correctly despite of the fact that this was probably the most complicated part of the question.

Question Five

This was a 15 mark question which focused on simplified taxation for small entrepreneurs (EVA), and was the first time this topic has been examined.

This question was either done very well or very poorly – few candidates were between these two extremes. Some candidates did not realise that no dividend tax was payable if the BT applied EVA. Many candidates calculated the net salary of Mr Fazekas. While this would certainly be of interest to Mr Fazekas, from a decision making point of view (EVA vs mainstream tax) it was not relevant, as it would be the same under both. Most candidates knew what the contributions payable to the Revenue were– this is in line with the previous questions where issues on personal income tax were addressed correctly. This question, however, pointed to the main differences between EVA and the mainstream tax.

Many candidates did not realise that no expenses can be deduced from gross revenue if EVA is applied. So the tax payable does not depend on the expenses incurred in any regard.