

Fundamentals Level – Skills Module

# Taxation (Hungary)

Thursday 10 December 2015



**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and MUST be attempted

Section B – ALL SIX questions are compulsory and MUST be attempted

Tax rates and allowances are on pages 2–3.

**Do NOT open this question paper until instructed by the supervisor.**

**During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.**

**Do NOT record any of your answers on the question paper.**

**This question paper must not be removed from the examination hall.**

The Association of Chartered Certified Accountants

Paper F6 (HUN)

**ACCA**

## SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need to be made to the nearest HUF except where stated otherwise in the question.
2. All apportionments should be made to the nearest month.
3. All workings should be shown when answering Section B.

## TAX RATES AND ALLOWANCES

The following tax rates and allowances applicable to 2014 are to be used in answering the questions.

### Corporate tax

On the first HUF 500 million of the corporate tax base	10%
On the remaining tax base	19%

### Value added tax (VAT)

Tax rate	27%
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### Personal income tax

On the consolidated tax base	
On the whole consolidated tax base	16%
On all items of income taxed separately	16%
On interest	16%
On capital gains	16%

### Benefits in kind

Tax rate	16%
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### Social security contributions

#### Employer's contributions

Social contribution tax	27%
Professional training fund	1.5%

#### Employee's contributions

Pension contributions	10%
Health insurance contributions	7%
Labour market fund	1.5%

### Company car tax

Engine capacity of the car (kW)	Environmental category		
	0 to 4	6 to 10	5 and 14 to 15
0–50	HUF 16,500	HUF 8,800	HUF 7,700
51–90	HUF 22,000	HUF 11,000	HUF 8,800
91–120	HUF 33,000	HUF 22,000	HUF 11,000
above 120	HUF 44,000	HUF 33,000	HUF 22,000

## **Local municipality tax**

Tax rate

2%

## **Support and subsidies – development tax relief**

The limits applying to subsidies given in the form of tax relief or other subsidies in respect of investments are defined by the following intensity ratios.

1. Regional factors.
  - Budapest: 10%
  - Pest County and Western Transdanubia: 30%
  - Central Transdanubia: 40%
  - Other regions: 50%
2. For companies which qualify as being small, 20% is added to the regional factor. For companies which qualify as being medium, 10% is added to the regional factor.
3. The maximum support is calculated by applying the following to the initial investment:
  - On the first €50 million of the investment: 100% of the intensity ratio.
  - On the portion between €50 million and €100 million: 50% of the intensity ratio.
  - On the portion over €100 million: 34% of the intensity ratio.

The reference rate to be used in the present value calculations is 5.61%.

## **Qualifying limits for small and medium sized companies**

A company qualifies as small or medium if:

- the company has no state or local government members; and
- the number of employees is less than 250; and
- total assets are less than €43 million; or
- total revenues are less than €50 million

## **Exchange rates**

Euro: €1 = 310 HUF

USD: \$1 = 225 HUF

## **Official rate of interest**

National Bank of Hungary (Magyar Nemzeti Bank – MNB) – 2.50%

**Section A – ALL 15 questions are compulsory and MUST be attempted**

Please use the grid provided on page two of the Candidate Answer Booklet to record your answers to each multiple choice question. Do not write out the answers to the MCQs on the lined pages of the answer booklet.

Each question is worth 2 marks.

- 1 When are the salary-related taxes and personal income tax advances deducted from employees' salaries and payable by employers due for payment?**

**A** 12th day of the month following the month to which the salary relates  
**B** 20th day of the month following the month to which the salary relates  
**C** 20th day of the month following the quarter to which the salary relates  
**D** 12th day of the month following the quarter to which the salary relates

- 2 Which of the following statements is FALSE in relation to the issuing of invoices according to the tax law on value added tax (VAT)?**

**A** In the case of cash payments, if the customer requests an invoice to be issued the taxpayer must issue an invoice immediately  
**B** In the case of advance payments, the taxpayer must issue an invoice at the latest by the determination of the tax payable (which is the date of receipt of the amount advanced)  
**C** As per the main rule, the taxpayer must issue an invoice by the date of performance or within reasonable time which is within 15 days after performance  
**D** In the case of advance payments, the taxpayer must issue an invoice within 15 days after receipt of the advance payment

- 3 Franciska is an employee of FJU Kft. Her gross monthly salary is HUF 400,000 throughout the year 2014.**

**What is the total annual expense (salary expense and related employer's contributions) which FJU Kft will incur in relation to employing Franciska for the year 2014?**

**A** HUF 6,096,000  
**B** HUF 6,168,000  
**C** HUF 5,688,000  
**D** HUF 5,516,000

- 4 On 1 May 2014, Biomil Zrt acquired and capitalised a non-current asset at a cost of HUF 8 million. The estimated residual value of this non-current asset is HUF 500,000 and its estimated useful life is ten years. The tax law allows 20% annual depreciation on this asset.**

**What is the net effect of depreciation for this asset on the corporate tax base of Biomil Zrt for the year 2014?**

**A** HUF 850,000 decreasing  
**B** HUF 500,000 decreasing  
**C** HUF 566,667 decreasing  
**D** HUF 533,334 decreasing

- 5 In September 2014, Tilda sold her flat (housing purpose real estate) for HUF 12 million incurring direct costs relating to the sale of HUF 200,000. Tilda had purchased the flat in 2010 for HUF 7 million incurring direct costs relating to the purchase of HUF 50,000.

**What is the amount of personal income tax payable by Tilda in 2014 on the sale of her flat?**

- A HUF 240,000
- B HUF 228,000
- C HUF 456,000
- D HUF 760,000

- 6 LTC Kft's annual local municipality tax expense was HUF 1·8 million for 2012, HUF 2 million for 2013 and HUF 2·5 million for 2014.

**What is the amount of the local municipality tax advance payable by LTC Kft on 15 September 2014?**

- A HUF 1,100,000
- B HUF 1,250,000
- C HUF 1,000,000
- D HUF 900,000

- 7 APC Kft qualifies for the simplified taxation for small entrepreneurs (*egyszerűsített vállalkozói adó* – EVA). In the year 2014, APC Kft has sales revenue of HUF 30 million (excluding value added tax (VAT)). All APC Kft's sales attract the standard rate of VAT.

**What is the amount of EVA payable by APC Kft for the tax year 2014?**

- A HUF 14,097,000
- B HUF 19,050,000
- C HUF 15,150,000
- D HUF 11,100,000

- 8 In which of the following cases is company car tax payable by the private individual?

- A No expenses are deducted in relation to the car owned by the private individual in his/her personal income tax return
- B The private individual receives reimbursement from his/her employer based on travelling order (*kiküldetési rendelvénnyel alapján kapott költségtérítés*). The private individual does not deduct expenses on an itemised basis
- C The car is operated by the church (*egyházi jogi személy üzemelteti*)
- D A private individual hands over the car to another private individual and the latter accounts for expenses relating to the car

- 9 Rita is an employee of Omega Kft. On 1 November 2013, Rita received an interest free loan of HUF 3 million from Omega Kft. The loan is repayable in one amount on 31 December 2015.

**What is the amount of the health care contribution (*egészségügyi hozzájárulás*) payable by Omega Kft for the year 2014 in relation to the interest free loan made to Rita?**

- A HUF 72,293
- B HUF 60,750
- C HUF 37,485
- D HUF 24,098

**10 Which of the following corporate tax reliefs is NOT a 'de minimis' support?**

- A** The 9% differential between the two corporate income tax rates of 10% and 19% on the first HUF 500 million of the tax base
- B** The 70% tax relief available to small or medium sized businesses on 60% of the interest expense on loans taken out after 31 December 2013 from a financial institution with the purpose of acquiring non-current assets with a maximum of HUF 6 million
- C** The 19% tax base reduction related to research and development (R&D) projects carried out jointly with the Hungarian Academy of Sciences where the entity is entitled to reduce its tax base by three times the R&D expenses up to HUF 50 million
- D** Development tax relief of up to 80% of the calculated tax available to small and medium sized entities in relation to a development project of a minimum of HUF 500 million (at net present value)

**11 Colop Kft paid the following amounts for telecommunication services in May 2014. All amounts are stated excluding value added tax (VAT):**

- landline phone services: HUF 70,000;
- mobile phone services: HUF 130,000; and
- internet services: HUF 40,000.

Colop Kft does not require its employees to account separately for their private and business calls and thus nothing is recharged to them.

**What is the amount of Colop Kft's irrecoverable VAT for May 2014 in respect of these three services?**

- A** HUF 19,440
- B** HUF 16,200
- C** HUF 10,530
- D** HUF 10,800

**12 Janka is a Hungarian private individual resident in Hungary for tax purposes. In 2014 she realised gross interest income of HUF 1 million from the debt securities of X Co. X Co is a foreign company located in a country with which Hungary does not have a double tax treaty, but it is not a controlled foreign corporation. X Co withheld HUF 200,000 from the gross interest.**

**How much is the personal income tax payable by Janka in Hungary on this interest income for the year 2014?**

- A** HUF 160,000
- B** NIL (the foreign tax exceeds the Hungarian personal income tax payable)
- C** HUF 50,000
- D** HUF 210,000

**13 Donka Bt, a Hungarian business entity, has a profit before tax of HUF 10 million for 2014. During the year 2014, Donka Bt made the following donations to non-profit organisations:**

- a one-off donation to a non-priority non-profit organisation of HUF 2 million;
- a durable donation to a non-priority non-profit organisation of HUF 3 million; and
- a durable donation to a priority non-profit organisation of HUF 4 million.

**What is the total value of tax base reducing item in relation to the three donations which Donka Bt can apply in its corporate income tax return for 2014?**

- A** HUF 3,000,000
- B** HUF 2,600,000
- C** HUF 3,200,000
- D** HUF 4,000,000

**14 Which of the following statements are TRUE in relation to local municipality tax?**

- (1) An entrepreneur is considered to carry out temporary business activity if they have no registered seat or permanent establishment within the jurisdiction of the local municipality and carries out construction activity (*építőipari tevékenység*) which, within the business year, lasts longer than 30 days but less than 181 days
- (2) If an entrepreneur has a registered seat or permanent establishment within the jurisdiction of a local municipality, but carries out their activities outside the territory of the registered seat or permanent establishment, they do not have to pay local municipality tax on the revenue so generated
- (3) If an entrepreneur has no registered seat or permanent establishment within the jurisdiction of any local municipalities, but carries out business activities (other than construction activity) from which they generate sales revenue, they are considered to carry out a temporary business activity
- (4) An entrepreneur is considered to carry out permanent business activities if they carry out any type of business activity for a period longer than 30 days

- A** 2 and 4
- B** 1 and 3
- C** 1 only
- D** 2 only

**15 Which of the following statements is TRUE in relation to company car tax?**

- A** No company car tax is payable by a private individual if that individual receives reimbursement of their car expenses based on a travelling order (*kiküldetési rendelvény*), and the individual does not deduct expenses on an itemised basis
- B** No company car tax is payable if the car is owned by a foreign entity and registered abroad even if a Hungarian entity recognises some expenses in relation to the car
- C** No company car tax is payable by a company qualifying for the simplified taxation for small entrepreneurs (*egyszerűsített vállalkozói adó – EVA*)
- D** No company car tax is payable if a car is owned together by a Hungarian entity and a private individual

**(30 marks)**

**Section B – ALL SIX questions are compulsory and MUST be attempted**

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1** MNF Kft is a Hungarian manufacturing entity. MNF Kft prepares monthly value added tax (VAT) returns and carries out exclusively VATable activities.

The following transactions are relevant to the preparation of MNF Kft's October 2014 VAT return. All the sales and purchases are subject to the standard rate of VAT, where applicable.

- (1) MNF Kft generated sales revenue of HUF 100 million (excluding VAT) from selling the goods it produced.
- (2) MNF Kft created a new non-current asset which was put into operation in October 2014. The value of own work capitalised (i.e. the cost of the non-current asset) is HUF 15 million (excluding VAT).
- (3) MNF Kft made cash purchases of HUF 63,500 (including VAT) in October 2014. All these purchases served the business activities of MNF Kft.
- (4) MNF Kft uses company cars and some of these company cars are leased. MNF Kft pays a monthly fee of HUF 150,000 (excluding VAT) for these company cars leases. Any private usage of the company cars is invoiced to employees in full.
- (5) The total value of the fuel purchased for the company cars by MNF Kft was HUF 228,600 (including VAT).
- (6) MNF Kft used local taxi services with a total cost of HUF 101,600.
- (7) MNF Kft contracted a Polish company to organise training for MNF Kft's employees in Budapest. The Polish company issued an invoice for €6,500 for the services provided.
- (8) MNF Kft purchased goods for HUF 5 million (excluding VAT) for the renovation of its residential properties.
- (9) MNF Kft sold a tangible non-current asset with a net book value (and tax written down value) of zero to an employee for HUF 1 million (excluding VAT). The market value of this item was HUF 1,500,000.
- (10) On 25 October 2014, MNF Kft received an invoice of HUF 3,810,000 (including VAT) which related to services received in the month of September 2014. The services related to the ordinary business activities of MNF Kft.

**Required:**

- (a) Calculate MNF Kft's value added tax (VAT) payable or deductible for the month of October 2014.**

Note: Workings need only be made to the nearest thousand forints when answering this part of the question.  
(7 marks)

- (b) Calculate the amount of MNF Kft's irrecoverable VAT for the month of October 2014.** (3 marks)

**(10 marks)**



**2** CAA Kft, a Hungarian company, uses three cars for business purposes:

- (1) Car 1 has an engine capacity of 110 kW and belongs to environmental category 3. CAA Kft has legally owned this car since 1 January 2014.
- (2) Car 2 has an engine capacity of 130 kW and belongs to environmental category 5. CAA Kft signed a contract under which it rents this car durably on 30 November 2013. The right of upkeep of the car was registered with the Hungarian authority (*a bérbe vevő üzembentartói jogát a hatósági nyilvántartásba bejegyezték*). This rented car has been used by CAA Kft throughout the year 2014.
- (3) Car 3 has an engine capacity of 80 kW and belongs to environmental category 7. This car is owned by Malvin, a Hungarian private entrepreneur. On 1 July 2014, Malvin and CAA Kft signed a contract based on which Malvin hires out the car to CAA Kft for a period of two years for a monthly fee of HUF 50,000 payable on the first day of each month. The contract was not registered with the Hungarian authority (*a bérbe vevő üzembentartói jogát a hatósági nyilvántartásba nem jegyezték be*). CAA Kft has recognised the monthly hire cost of the car as an expense in its financial statements, but has not recognised any other expenses in relation to the car. Malvin did not use the hired car for business purposes before 1 July 2014 (i.e. she did not account for any expenses in relation to the car in any form).

**Required:**

- (a) **Explain how the Hungarian tax law on company cars defines the cars which are subject to company car tax (*a cégautóadó tárgya*).** (3 marks)
- (b) **Calculate the amount of company car tax payable for the year 2014 on each of the three cars used by CAA Kft, clearly stating who is responsible for paying the company car tax.** (6 marks)
- (c) **Calculate CAA Kft's total company car tax liability for the year 2014 if CAA Kft paid car capacity tax for the year 2014 of HUF 80,000.** (1 mark)

**(10 marks)**

**3** Matt Kft is a Hungarian entity which is registered for simplified taxation for small entrepreneurs (*egyszerűsített vállalkozó adó – EVA*). Matt Kft only carries out activities which attract value added tax (VAT) at the standard rate.

In 2014 Matt Kft generated sales revenue of HUF 18 million (excluding VAT). The total purchases in 2014 were HUF 4 million (excluding VAT).

Matt Kft has one employee, Frigyes, whose monthly gross salary is HUF 200,000. Frigyes has no other source of income. Frigyes has one child and he received family care supplement (*családi pótlék*) on behalf of his child in 2014.

On 1 January 2014, the opening cash balance of the bank account of Matt Kft was HUF 2 million. All transactions are settled via this bank account, and all invoices were financially settled before 31 December 2014. Matt Kft has had no accruals or prepayments in any financial year since its foundation. No cash was distributed to the owners of Matt Kft during the year 2014.

**Required:**

- (a) **Calculate the closing cash balance of Matt Kft as at 31 December 2014.** (6 marks)
- (b) **Calculate the net monthly salary which Frigyes received in 2014.** (4 marks)

**(10 marks)**

- 4 Mitab Zrt is a Hungarian entity which was founded ten years ago. The following financial information (and no other information) is relevant when determining the corporate tax liability of Mitab Zrt for the year 2014:

	HUF million
Sales revenue	2,000
Cost of goods sold	1,000
Cost of mediated services	200
Material cost	500
Labour cost	80
Extraordinary income	70
Extraordinary expenses	5
Financial income	20
Financial expenses	15
Tax base increasing items	125
Tax base reducing items	300

**Required:**

- (a) Calculate Mitab Zrt's corporate income tax liability using (1) the standard method and (2) the minimum tax base method (*elvárt adóalap*) and determine how much corporation tax Mitab Zrt will have to pay for the year 2014.

Note: Calculations can be made to the nearest million forint for this part of the question. (8 marks)

- (b) Briefly explain how a change in the balance of loans from owners (*magánszemély taggal szemben fennálló kötelezettség*) will affect the minimum tax base. (2 marks)

**(10 marks)**

- 5 Locorp Zrt is a Hungarian company which has qualified as a medium sized entity since its formation. Locorp Zrt has its seat in Budapest and this is its only place of business activities.

Locorp Zrt's accounting year ends on 31 December and its profit before tax for the year ended 31 December 2014 is HUF 500 million BEFORE accounting for local municipality tax.

Locorp Zrt's financial statements for the year ended 31 December 2014 show the following:

	HUF '000	HUF '000
Sales revenue	3,000,000	
Financial income	200,000	
Other income	50,000	
		3,250,000
Cost of goods sold	2,300,000	
Cost of mediated services	300,000	
Cost of labour	80,000	
Cost of raw materials	25,000	
Other expenses	10,000	
Financial expenses	35,000	
		(2,750,000)
Profit before tax		500,000

The following items are relevant to the calculation of Locorp Zrt's 2014 tax base and corporate tax liability:

- (1) On 31 December 2014, Locorp Zrt created a development reserve by reclassifying HUF 300 million from its retained earnings to a tied up reserve. Locorp Zrt intends to use this amount for capital expenditure in 2015.
- (2) In 2014, Locorp Zrt's financial income included recognised royalty income of HUF 12 million.
- (3) In 2014 Locorp Zrt paid a tax penalty of HUF 5 million as a result of a tax audit. The company has appealed against the decision of the tax authority and the Hungarian court will decide which party is right in 2015.
- (4) On 1 January 2014, Locorp Zrt sold a tangible non-current asset for HUF 10 million. This asset had been purchased on 1 July 2010 at a cost of HUF 50 million and it had an accounting net book value of HUF 25,500,000 at the date of sale. The tax law allows 14.5% depreciation for this type of assets.

All of Locorp Zrt's other assets (including that referred to in (5) below) are depreciated at the same rate for both accounting and tax purposes.

- (5) On 1 August 2013, Locorp Zrt signed a loan agreement for HUF 120 million with a financial institution. The loan was used to acquire a new non-current asset which was capitalised on 15 August 2013 at a cost of HUF 150 million and has been used by Locorp Zrt since that date. The loan carries an annual interest of 8% payable on its par value and is repayable in a single amount on 31 July 2018.

Locorp Zrt uses all possible means to minimise its corporate tax liability.

**Required:**

**(a) Calculate Locorp Zrt's local municipality tax liability for the year 2014.** (5 marks)

**(b) Calculate Locorp Zrt's corporate income tax liability for the year 2014.** (10 marks)

Note: Workings need only be made to the nearest thousand forints in both parts of this question.

**(15 marks)**

- 6 (a) Mr Gondos is a Hungarian citizen, employed by Fontos Kft, a Hungarian company.

Mr Gondos receives a monthly salary of HUF 650,000 from Fontos Kft.

The following items are also relevant to the calculation of Mr Gondos' personal income tax for the year 2014:

- (1) In 2014, Mr Gondos realised capital gains of HUF 10 million and capital losses of HUF 2 million on regulated market transactions (*ellenőrzött tőkepiaci ügylet*). In 2013, Mr Gondos had realised a net loss of HUF 1 million on regulated market transactions which he had declared in his personal income tax return for 2013.
- (2) In January 2014, Fontos Kft granted Mr Gondos 200 options to purchase securities at a price of HUF 10,000 each when the customary market price of those securities was HUF 15,000 each. Mr Gondos immediately exercised all of these 200 options. On 10 November 2014, he sold half of the securities for the customary market price at that date of HUF 17,000 each.

Mr Gondos has two children who qualify as beneficiary dependants, and every month in 2014 qualified as a month of eligibility for both children.

**Required:**

- (i) **Define the term 'regulated market transaction' (*ellenőrzött tőkepiaci ügylet*) and briefly explain how gains and losses realised on regulated market transactions are treated for Hungarian tax purposes.**

(6 marks)

- (ii) **Calculate the personal income tax liability of Mr Gondos for the year 2014.**

(5 marks)

- (b) Fontos Kft provided the following benefits in kind to all its employees in December 2014:

- (1) Company phones: The total value of the company phone invoices paid by Fontos Kft in December 2014 was HUF 700,000 (including value added tax (VAT)) and the value of private calls on all of the phones was HUF 200,000 (including VAT). The employees are required to separate their private and business calls but are not required to reimburse the cost of their private calls.
- (2) Local transportation passes (*helyi utazási bérlet*): Fontos Kft reimburses its employees for the cost of these passes if the employees present an invoice in the name of Fontos Kft. In December 2014, the total value of transportation passes reimbursed was HUF 300,000.

**Required:**

**Calculate the personal income tax and health care contributions payable by Fontos Kft in respect of each of items (1) and (2) for December 2014.**

(4 marks)

**(15 marks)**

**End of Question Paper**