Fundamentals Level – Skills Module

Taxation (Hungary)

Tuesday 3 June 2014

Time allowed

Reading and planning: 15 minutes
Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–3.

Do NOT open this 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.

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.

TAX RATES AND ALLOWANCES

The following tax rates and allowances applicable to 2013 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%

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%

Social security contributions

Employer's contributions	
Social contribution tax	27%
Employee's contributions	
Pension contributions	10%
Health insurance contributions	7%
Labour market fund	1·5%

Company car tax

	Environmental category		
Engine capacity of the car (kW)	0 to 4	6 to 10	5, 14 and 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 = 300 HUF

USD: $1 = 230 HUF

Official rate of interest

National Bank of Hungary (Magyar Nemzeti Bank – MNB) – 4·50%

ALL FIVE questions are compulsory and MUST be attempted

1 **(a)** Mr Olajos is a Hungarian citizen. He is employed by a Hungarian company which is listed on the Budapest Stock Exchange.

Mr Olajos receives a monthly gross salary of HUF 1,500,000 from his employer.

Besides his salary, the following items are relevant when calculating Mr Olajos's personal income tax for the year 2013:

1. As part of his remuneration package Mr Olajos is entitled to acquire shares issued by his employer.
   - On 5 March 2013, Mr Olajos received the right to purchase 2,000 shares at a price of HUF 5,000 per share. On 5 March 2013, the customary market price of the shares was HUF 6,300 per share.
   - On 10 March 2013, Mr Olajos exercised his right to purchase 2,000 shares. On 10 March 2013, the customary market price of the shares was HUF 6,400 per share. Mr Olajos incurred transaction costs of HUF 30,000 in respect of the acquisition of the shares.
   - On 31 May 2013, Mr Olajos sold 1,000 of the shares on the Budapest Stock Exchange for HUF 7,000 per share, incurring transaction costs of HUF 20,000.

   The share capital of Mr Olajos's employer did not change throughout the year 2013.
2. Mr Olajos received vouchers to purchase ready-made food (*készétel vásárlására jogosító utalvány*) of HUF 200,000 from his employer.
3. On 20 April 2013, Mr Olajos received interest income of HUF 1,800,000. This amount was the coupon payment on a corporate bond which he had purchased several years ago. The company which issued the corporate bond is located in a foreign country with which Hungary has no double tax treaty. The corporation tax rate payable in that foreign country is 5%.
4. On 15 May 2013, Mr Olajos sold an old book for HUF 4,000,000 which he had purchased from an auction house in 2011 for HUF 1,500,000. The auction house charged transaction costs of HUF 90,000.
5. Mr Olajos has three children who are eight, 10 and 15 years old respectively. Mr Olajos met all the criteria for receiving family allowance throughout the year 2013.

Required:

(i) **Explain how income derived from the right to purchase and sell securities at a favourable price is calculated and treated for Hungarian personal income tax purposes.**

Note: Calculations are not required for this part of the answer. (5 marks)

(ii) **Calculate the personal income tax payable by Mr Olajos in respect of the shares received from his employer in 2013 and their subsequent sale (item 1).** (6 marks)

(iii) **Calculate Mr Olajos's personal income tax liability for the year 2013 and state by when the tax due should be paid.** (11 marks)

(b) The employer of Mr Olajos provided the following benefit in kind items during the month of May 2013:

(1) To Mr Olajos: A Széchenyi Card for accommodation services (*Széchenyi-pihenőkártya vendéglátás alszámlájára utalt összeg*) with a value of HUF 300,000. (Mr Olajos did not receive any amounts in the previous months of 2013 onto his Széchenyi Card.)

(2) To customers of the company: Entertainment cost (value of food and drinks) at an organised customer event, amounting to HUF 500,000 (excluding valued added tax).

Required:

Calculate the personal income tax and social security and/or health care contributions payable by Mr Olajos's employer in respect of the benefits provided to him in May 2013. (8 marks)

(30 marks)

2 Aromax Kft is a Hungarian entity with its seat in Budapest. The company was founded several years ago by Hungarian private individuals and it trades in spa and wellness products.

The preliminary pre-tax profit of Aromax Kft for the year ended 31 December 2013 was HUF 900 million. This preliminary pre-tax profit is BEFORE taking into account the information below regarding company car tax.

When preparing the statutory financial statements for the year ended 31 December 2013, it was discovered that although the chief accountant had prepared the tax return for company car tax she had forgotten to incorporate the effects of this in the draft financial statements.

Aromax Kft had ten company cars as at 1 January 2013. Three of them fall into environmental category 7, with engine capacity of 125 kW, and seven of them fall into environmental category 14, with engine capacity of 135 kW. Additionally, during the year Aromax Kft acquired a new company car for the finance director. This new car was purchased on 5 April 2013 and capitalised on 30 April 2013; this car falls into environmental category 5, with engine capacity of 100 kW. Aromax Kft paid car capacity tax (*gépjárműadó*) of HUF 300,000 during the year 2013 for all 11 cars.

The following items, all of which have been correctly treated in Aromax Kft's financial statements, are relevant when determining the company's tax base for 2013:

1. All items of depreciable non-current assets were depreciated at the same rate for both accounting and tax purposes, except for the new company car for the finance director (as above). The purchase price of this car was HUF 8 million (excluding value added tax (VAT)) and the additional costs related to putting this car into operation amounted to HUF 100,000 (these related costs are exempt from VAT). Management set a residual value of HUF 3 million for the car and its useful life is assessed to be four years. The relevant tax depreciation rate is 20%.
2. Aromax Kft accounted for impairment losses of HUF 3 million for a non-current asset as management considered the asset's value to have declined significantly more than expected over the past few years.
3. The amount of provisions created in 2013 was HUF 15 million. Provisions reversed in 2013 amounted to HUF 7 million.
4. In 2013 Aromax Kft realised royalty income of HUF 40 million.
5. After the inventory count at the end of 2013, Aromax Kft wrote down inventory by HUF 12 million. The auditor of Aromax Kft drew the attention of management to the fact that out of this amount a portion of HUF 3 million cannot be supported with proper documentation.
6. In 2013 Aromax Kft purchased some bonds denominated in euro. The bonds are classified as non-current financial assets. Aromax Kft accounted for an unrealised foreign currency revaluation gain of HUF 3·2 million on these bonds as at 31 December 2013.

   Aromax Kft also held foreign shares denominated in US dollars as non-current financial assets in its 2013 financial statements. There was an unrealised foreign currency revaluation loss on these shares amounting to HUF 2·5 million as at 31 December 2013.

   None of the bonds or shares was hedged. None of the shares qualifies as a registered shareholding.

Aromax Kft uses all possible means to reduce its corporate tax liability.

Required:

(a) Calculate the accounting profit before tax of Aromax Kft for the year 2013 after taking into account the information omitted regarding company car tax. (5 marks)

(b) Calculate the corporate income tax liability of Aromax Kft for the year 2013.

Note: For this part your workings need only be made to the nearest thousand forints. (12 marks)

(c) Explain the rules governing the filing of a corporate income tax return, advance payment and final payment of corporate income tax, including all relevant deadlines. (8 marks)

(25 marks)

3 BlueShine Kft is a Hungarian entity, which regularly incurs expenditure on research and development (R&D) directly related to its business activities.

BlueShine Kft carries out its R&D activities jointly with a research institution founded by the Hungarian Academy of Sciences (*Magyar Tudományos Akadémia által alapított kutatóintézet*). This cooperation is based on a written contract.

In 2013 BlueShine Kft incurred the following amounts in relation to its R&D activities:

Direct R&D expenses incurred by BlueShine Kft:

	HUF '000
Material cost	10,000
Labour cost	15,000
Costs incurred by Hungarian subcontractors	20,000
Costs incurred by foreign subcontractors	5,000
Total	50,000

The foreign subcontractors are all French companies which do not have Hungarian business establishments.

BlueShine Kft did not claim or receive any kind of government grant (*adóhatóságtól igényelt támogatás*) in 2013 or in any previous years in relation to its R&D or general business activities.

BlueShine Kft did not choose to recognise any of the above expenses as an intangible asset in its statement of financial position.

BlueShine Kft aims to minimise its corporate tax base and its corporate tax liability by all possible means.

Required:

(a) Identify and explain the tax base reduction available to BlueShine Kft in respect of its research and development (R&D) expenditure.

Note: Calculations are not required in this part of the question. (8 marks)

(b) Calculate the maximum amount of tax base reduction available to BlueShine Kft in 2013. (3 marks)

(c) Give THREE examples of '*de minimis*' support (other than the R&D tax base reduction in (a) above) and state the limit of the '*de minimis*' supports an entity can receive based on European Union regulations. (4 marks)

(15 marks)

4 Gigi Kft operates gift shops in Budapest and prepares its value added tax (VAT) returns monthly.

The following transactions are relevant to Gigi Kft's VAT return for the month of July 2013. All sales and purchases are subject to the standard rate of VAT unless stated otherwise.

1. On 1 July 2013, Gigi Kft sold a piece of equipment (movable tangible non-current asset) for HUF 22 million (excluding VAT). The company had purchased this equipment on 1 March 2012 for HUF 18 million (excluding VAT) and put it into use in the same month. The VAT rate applicable to the purchase in 2012 was 27%. The company had used this equipment exclusively for VAT-exempt activities. The deductibility ratio did not change throughout the period of use of the asset.

   The VAT-exempt activities carried out with this equipment ceased on 30 June 2013. All the activities of Gigi Kft carried on from 1 July 2013 onwards are VATable. Other than the sale of this equipment, the company's previous VAT-exempt activities have no impact on the July 2013 VAT return.
2. Gigi Kft generated sales revenue of HUF 100 million (excluding VAT).
3. Gigi Kft made purchases of HUF 30 million (excluding VAT).
4. On 30 July 2013, Gigi Kft made an advance payment of HUF 10·16 million to one of its suppliers. The supplier delivered the goods on 5 August 2013.
5. On 22 July 2013, Gigi Kft received an invoice for €5,000 from a German company. The German company had provided advertising services to Gigi Kft in June 2013.
6. In July 2013, Gigi Kft spent HUF 120,000 (excluding VAT) on the maintenance of the company's cars (passenger cars). Additionally, the company purchased fuel of HUF 80,000 (excluding VAT) for the passenger cars. Private usage of company cars is not allowed at Gigi Kft.
7. On 25 July 2013, Gigi Kft received an invoice for HUF 200,000 (excluding VAT) for food and drink. Half of these goods were purchased for the purpose of resale, the other half was for consumption by the employees of Gigi Kft.

Required:

(a) (i) Explain the value added tax (VAT) treatment of the sale of a tangible non-current asset where, at the time of the purchase of the asset, the input VAT was wholly or partially irrecoverable (as in the case of item 1). (3 marks)

(ii) Calculate the VAT payable and deductible by Gigi Kft on the sale of the piece of equipment (item 1) in July 2013. (2 marks)

(b) Calculate Gigi Kft's VAT balance for the month July 2013 including your calculations from part (a)(ii).

Note: For this part your workings need only be made to the nearest thousand forints. (8 marks)

(c) Briefly explain the VAT treatment of 'own work' being capitalised by a business. (2 marks)

(15 marks)

5 **(a)** Clementine Kft, a Hungarian company, has its seat in Budapest, which is the only place of its permanent business activities. Clementine Kft does not have any other permanent establishment in Hungary or in any other country, nor does it carry out temporary business activities in any other places.

The information relevant to the calculation of Clementine Kft's local municipality tax (*helyi iparűzési adó*) for the accounting year ended 31 December 2013 is as follows:

	HUF million
Sales revenue	5,000
Cost of goods sold	3,500
Cost of mediated services	1,000
Labour cost	900
Raw material cost	100
Direct costs of research and development activities	500

Clementine Kft realised only domestic sales revenue (no export sales revenue) in 2013.

Required:

Calculate the local municipality tax payable by Clementine Kft for the year 2013.

Note: For this part your workings need only be made to the nearest million forints. (8 marks)

(b) Cardi Kft was founded several years ago. Its summarised income statement shows the following relevant balances for the accounting year ended 31 December 2013:

	HUF million
Sales revenues	3,000
Cost of goods sold	1,800
Mediated services	200
Material cost	300
Labour cost	150
Other expenses	50
Extraordinary income	400
Extraordinary expenses	10
Financial income	350
Financial expenses	450

Cardi Kft's statement of financial position as at 31 December 2013 shows a liability toward its owners (*taggal szemben fennálló kötelezettség*). This liability was a result of loans provided by the owners. The balance of the loans provided by the owners is as follows:

	HUF million
Balance of loans from owners as at 31 December 2012	180
New loan provided by the owners on 1 February 2013	230
Balance of loans from owners as at 31 December 2013	410

None of the initial loans provided by the owners had been paid back before 31 December 2013.

The corporate tax base of Cardi Kft for 2013 is HUF 1,000 million.

No other information is relevant when calculating the minimum tax base of Cardi Kft.

Required:

Calculate the minimum tax base and corporate income tax liability of Cardi Kft for the year 2013 assuming that Cardi Kft did not file a special declaration to the tax authorities required to avoid the minimum tax payment liability.

Note: For this part your workings need only be made to the nearest million forints. (7 marks)

(15 marks)

End of Question Paper