

Fundamentals Level – Skills Module

# Taxation (Hungary)

Tuesday 2 June 2015



**Time allowed**

Reading and planning: 15 minutes

Writing: 3 hours

This 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 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 exam 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

<b>Employer's contributions</b>	
Social contribution tax	27%
Professional training fund	1.5%
<b>Employee's contributions</b>	
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 The following financial information relates to Loco Bt for the tax year 2014. Loco Bt is not an EVA-qualifying company.

	HUF
Sales revenue	6,000,000
Cost of raw materials	500,000
Cost of goods sold	200,000
Cost of labour	2,000,000

**How much local municipality tax has Loco Bt to pay for the tax year 2014 if Loco Bt aims to minimise its local municipality tax liability?**

- A HUF 106,000
  - B HUF 60,000
  - C HUF 96,000
  - D HUF 66,000
- 2 On 9 January 2015 Szabolcs received his regular monthly salary of HUF 600,000 related to December 2014. On 12 January 2015 he received a bonus payment of HUF 2 million related to his 2014 performance.

**How much is the total value deducted from Szabolcs' total remuneration earned in December 2014 for the contribution to the State Pension Fund (*biztosított nyugdíjjáruléka*), contribution to the State Health Fund (*biztosított egészségbiztosítási járuléka*), and contribution to the Labour Market Fund (*munkaerőpiaci járulék*)?**

- A HUF 481,000
  - B HUF 111,000
  - C HUF 171,000
  - D HUF 741,000
- 3 **In which of the following cases may input value added tax (VAT) NOT be deducted by a taxpayer who is subject to VAT?**
- (1) VAT on local taxi services
  - (2) VAT on fuel purchases used for taxi services
  - (3) VAT on food and drinks purchased for the purpose of resale
  - (4) VAT on fuel purchases used for the operation of passenger cars
- A 1 and 2
  - B 2 and 4
  - C 1 and 4
  - D 3 and 4

- 4 In 2014 Zsolt sold one of his flats (housing purpose real estate) for HUF 20 million. He had acquired the flat in 2010 for HUF 12 million. The direct costs of purchase and sale were HUF 300,000.

**How much personal income tax has Zsolt to pay for the tax year 2014 on the sale of his flat?**

- A HUF 739,200
- B HUF 384,000
- C HUF 577,500
- D HUF 369,600

- 5 **In which of the following cases is there NO obligation to pay company car tax?**

- (1) A private individual uses his private car for his independent activities and chooses the itemised deduction of expenses relating to the car.
- (2) A private individual hires out his private car to a corporation and the corporation accounts for the cost of hire as an expense in its financial statements.
- (3) A private individual uses his private car for travelling to work on a daily basis, and his employer reimburses the cost to the employee, but the reimbursement exceeds the norm of the tax authority (i.e. more than HUF 9/kilometre).
- (4) A private individual lends his private car to another private individual, and the individual borrowing the car deducts expenses relating to the car in her personal income tax return.

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

- 6 **In which of the following cases is a private individual a tax resident in Hungary?**

- (1) The private individual is a Hungarian citizen and he has no other citizenship, but he spends 300 days in a country with which Hungary has no double tax treaty.
- (2) The private individual has a permanent home only in Hungary.
- (3) The private individual is a citizen of a foreign country with which Hungary has no double tax treaty, and he spends 180 days in Hungary. The private individual's family lives in the foreign country.
- (4) The private individual has multiple citizenships (but not Hungarian citizenship) and he spends 50 days in Hungary. During his stay he earns income of Hungarian origin.

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

- 7 **In which of the following cases (where all of the companies are subject to value added tax (VAT)) is the place of performance NOT in Hungary according to the Hungarian VAT law?**

- A Cultural services provided by a French company to a Hungarian company.
- B Advertising services provided by a Hungarian company to a Spanish company.
- C Architectural services provided by a Hungarian company to a German company if the real estate is located in Hungary
- D Financial services provided to a Hungarian company by an Austrian company.

- 8 Roy Kft realised royalty income of HUF 30 million in the tax year 2014. The profit before tax of Roy Kft in 2014 was HUF 50 million. The corporate tax base before taking into consideration any adjustment in respect of the royalty income in 2014 was HUF 40 million.

**How much is the maximum tax base reducing item in respect of the royalty income for Roy Kft for the tax year 2014?**

- A HUF 30 million
  - B HUF 20 million
  - C HUF 50 million
  - D HUF 15 million
- 9 Late Bt pays corporate income tax advances quarterly throughout the year 2014. It failed to pay its corporate income tax advance related to the second quarter (Q2) of HUF 10 million on time. The actual payment date of this advance was 30 July 2014.

**How much is the default penalty (*késedelmi pótlék*) payable on this late payment?**

- A HUF 6,849
  - B HUF 27,397
  - C HUF 13,699
  - D HUF 20,548
- 10 Katalin placed HUF 10 million in a deposit account at a financial institution, with the intention to hold the deposit for five years. The deposit account meets all of the criteria related to income from long-term deposits (*tartós befektetésből származó jövedelem*). The deposit account pays a fixed annual interest of 5%

**If this five-year deposit is terminated on the last day of the fourth year, how much personal income tax is payable on the return on the deposit account by Katalin?**

- A nil
  - B HUF 200,000
  - C HUF 320,000
  - D HUF 100,000
- 11 LO Zrt wishes to create a development reserve to acquire tangible non-current assets in 2016. For this purpose it created a development reserve of HUF 600 million in 2014 and according to the tax law it transferred the amount of HUF 600 million from retained earnings to a tied-up reserve. LO Zrt's profit before tax was HUF 900 million in 2014.

**How much is the maximum tax base reduction that LO Zrt can claim in 2014 in respect of the development reserve?**

- A HUF 500 million
- B HUF 300 million
- C HUF 600 million
- D HUF 450 million

- 12** In 2014 GZ Kft has a profit before tax of HUF 20 million. In 2014 it made a donation to the National Cultural Fund (*Nemzeti Kulturális Alap*) of HUF 10 million. The donation was provided in the form of a durable donation contract (*tartós adományozási szerződés*).

**How much is the maximum tax base reduction that GZ Kft can claim in 2014 in respect of this donation?**

- A HUF 7 million
- B HUF 5 million
- C HUF 10 million
- D HUF 2 million

- 13** Endre is a private individual employed by AN Kft. His January 2014 gross salary is HUF 150,000. Endre has no other source of income.

**How much is the total value of deductions (social contributions and personal income tax) payable by Endre from his January 2014 salary?**

- A HUF 40,500
- B HUF 39,000
- C HUF 51,750
- D HUF 27,750

- 14** Ibolya is a private individual. She gives accounting advice occasionally, and the basis for the payment for the services provided is a contract of services (*megbízási szerződés*). In 2014 Ibolya recorded fuel expenses in her mileage records for engagements on the following dates:

- 15 April 2014
- 23 May 2014
- 22 July 2014
- 25 July 2014
- 1 November 2014.

Ibolya deducted no other expenses in relation to her private car in her personal income tax return for 2014.

**In which months of 2014 did Ibolya have a liability to pay company car tax?**

- A In May, August and December
- B In May, July and November
- C In April, May, July, and November
- D In May, June, August and December

- 15** LMT Kft carries out business activities in more than one location within the territory of Hungary. Its local municipality tax base for 2013 was HUF 80 million.

**Which of the following methods is NOT applicable when apportioning the local municipality tax base of LMT Kft in 2014?**

- A Apportionment in proportion to salary expenses (*személyi jellegű ráfordítással arányos megosztás módszere*).
- B Apportionment in proportion to the value of non-current assets (*eszközérték arányos megosztás módszere*).
- C A combination of methods (A) and (B).
- D Apportionment in proportion to sales revenue (*árbevétel arányos megosztás módszere*)

**(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** Saga Kft is a Hungarian entity that prepares monthly value added tax (VAT) returns. Saga Kft provides various services to its clients, including consulting, advertising and marketing services.

The following events are relevant to the preparation of Saga Kft's February 2014 VAT return. All amounts are stated excluding any applicable VAT.

- (1) Saga Kft generated sales revenue of HUF 10 million from providing consulting services to Hungarian companies. These services were all carried out in Hungary.
- (2) Saga Kft provided marketing services of €3,000 to a Slovak company.
- (3) Saga Kft has an open ended office rental agreement. The monthly instalment payable under this agreement is HUF 1 million. The lessor opted for charging VAT on this rental agreement.
- (4) Saga Kft uses an accounting firm to prepare its monthly management reports. The accounting fee payable in each month was HUF 300,000 until 30 January 2014. From 1 February 2014 the accounting fee has been increased to HUF 350,000 per month. The due date of the invoices issued by the accounting firm is always the 15th day of the month following the month for which the management report was prepared.
- (5) Saga Kft used a German company to translate the proposal for a future business contract from Hungarian into German. The translation services amounted to €1,000. The German company issued its invoice on 10 February 2014 and Saga Kft received it on 22 February 2014.
- (6) The mobile phone invoice relevant to the February 2014 VAT return amounted to HUF 2 million. Saga Kft's employees are not obliged to separate private and business calls, and they do not need to reimburse any private usage.

**Required:**

- (a) List ANY SIX compulsory elements of a value added tax (VAT) invoice.** (3 marks)

- (b) Calculate Saga Kft's VAT payable or deductible for the month of February 2014.**

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

**(10 marks)**



- 2 Xilo Kft a Hungarian company, has its seat in Budapest and this is its only place of business activity. Xilo Kft trades in musical instruments and has only had domestic sales revenue since its foundation. Xilo Kft has no related party in Hungary as defined in the Act on Accounting.

Xilo Kft's profit before tax for the year 2014 is HUF 160 million. The following is a summary of the company's financial information for that year:

	HUF '000
Sales revenue	600,000
Other revenue	50,000
Financial income	4,000
Cost of raw materials	300,000
Cost of goods sold	100,000
Cost of mediated services	30,000
Cost of other services	10,000
Cost of labour	45,000
Other expenses	3,000
Financial expenses	6,000

**Required:**

- (a) Calculate the local municipality tax liability of Xilo Kft for the year 2014. (6 marks)
- (b) Explain how local municipality tax advances are paid, stating the deadlines for the advance payments. (4 marks)
- (10 marks)**

- 3 Bagira Kft is a family-run Hungarian entity that is registered for simplified taxation for small entrepreneurs (*egyszerűsített vállalkozói adó* – EVA). The two owners of Bagira Kft are Mr and Mrs Karmos.

All of the activities carried out by Bagira Kft attract value added tax (VAT) at the standard rate.

Bagira Kft has only two employees: Mr Karmos and Mrs Karmos who receive a monthly gross salary of HUF 130,000 and HUF 150,000 respectively.

Mrs Karmos uses a company car that has an engine capacity of 95 kW and it belongs to environmental category 2. The car capacity tax paid by Bagira Kft in 2014 was HUF 130,000.

In 2014 the sales revenue of Bagira Kft was HUF 23 million (net of VAT) and its purchases were HUF 5 million (net of VAT).

**Required:**

- (a) Calculate the net dividends that can be distributed to the owners of Bagira Kft for the financial year 2014. (6 marks)
- (b) Calculate the EVA payable by Bagira Kft if its sales revenue in 2014 had been HUF 30 million (net of VAT). (2 marks)
- (c) State the frequency and the deadlines of the EVA-advances Bagira Kft would have to pay in 2014 and state the deadline for filing the annual EVA-return. (2 marks)
- (10 marks)**

- 4 Devorient Kft is a medium sized Hungarian company located in Budapest, with an accounting year ending 31 December. Devorient Kft manufactures car components and as it is aiming to extend its machinery base, has decided to invest a significant amount of money in order to claim the development relief available for medium sized entities.

In 2014 Devorient Kft spent HUF 600 million on an investment project located in Budapest and put the new machinery acquired into operation, i.e. all the assets were capitalised, in 2014. Devorient Kft has chosen the qualifying criterion relating to the increase in the annual salary expense and 2014 as the first year in which to claim the development relief.

In 2014 the corporate tax base of Devorient Kft was HUF 900 million.

**Required:**

- (a) **Explain the SPECIAL qualifying criterion Devorient Kft will have to meet in order to claim the development relief in 2014 and in the subsequent four years.**

Note: Calculations are not required in this part of the question. (4 marks)

- (b) **Calculate the maximum relief available to Devorient Kft and its corporate income tax liability for 2014 taking into consideration the development relief.**

Note: Calculations can be made to the nearest thousand forint. (6 marks)

**(10 marks)**

- 5 Horizon Zrt a Hungarian company which trades in plastic toys, has its domicile in Budapest, and an accounting year ending 31 December.

For the year ended 31 December 2014 the pre-tax accounting profit of Horizon Zrt was HUF 1,000 million.

The following items are relevant to the calculation of Horizon Zrt's 2014 tax base:

- (1) On 1 April 2014, Horizon Zrt acquired ten new laptops for HUF 500,000 each (net of value added tax) and immediately capitalised them as tangible non-current assets. For accounting purposes, the economic useful life of these laptops was assessed to be four years with no residual value. The Hungarian tax law allows annual tax depreciation of 33% on this type of asset.

All Horizon Zrt's other non-current assets were depreciated at the same rates for both accounting and tax purposes.

- (2) In 2013 Horizon Zrt had realised a negative tax base (tax loss) of HUF 100 million. In the years prior to 2013 Horizon Zrt had always had a positive tax base.
- (3) In 2014 Horizon Zrt recognised an impairment of HUF 25 million on one of its registered shareholdings.
- (4) The total dividend income recognised by Horizon Zrt in the financial year ending 31 December 2014 was HUF 40 million, of which HUF 5 million was received from a company that is a controlled foreign corporation.
- (5) In 2014 Horizon Zrt reversed an impairment loss of HUF 15 million (*terven felüli értékcsökkenés visszaírt összege*). This reversal of impairment losses was related to some tangible non-current assets on which the company had recognised an impairment loss for accounting purposes of HUF 20 million in 2012 and which had also been recognised as a corporate tax base increasing item of HUF 20 million in 2012.
- (6) In 2014 Horizon Zrt won a legal case against the Tax Authority and received a repayment of HUF 70 million from the Tax Authority. This HUF 70 million was recognised as other income in Horizon Zrt's 2014 accounts. The HUF 70 million had been paid to the Tax Authority in 2010 as a tax penalty and had been recognised as a corporate tax base increasing item in 2010.
- (7) The managing directors of Horizon Zrt and an Austrian company have a good personal relationship and so in 2014 Horizon Zrt donated plastic toys valued at HUF 50 million to the Austrian company. The Austrian company will donate the toys to non-profit organisations both in Austria and other foreign countries.
- (8) As a result of the inventory count in December 2014, Horizon Zrt wrote off inventories of HUF 22 million. This amount is made up of two components: HUF 14 million for the write off of inventories that the company has been unable to sell for several years and has now decided to scrap; and HUF 8 million of inventory that had been stolen from one of the companies store-houses, the security of which was not sufficient to prevent the theft.
- (9) After reviewing the receivable balances as at 31 December 2014 Horizon Zrt decided to account for an impairment loss of HUF 10 million on a single trade receivable item that had been originally recorded at HUF 60 million. This receivable had been outstanding for 380 days.

**Required:**

- (a) Explain the rules (including any limitations) for using tax losses (negative tax base) incurred in 2013 or later years when determining the corporate tax base. (4 marks)

- (b) Calculate the corporate income tax liability of Horizon Zrt for the year 2014.

Note: Your workings need only be made to the nearest thousand forints. (11 marks)

**(15 marks)**

- 6 (a) Mr Szalai is a Hungarian citizen, employed by Lux Kft, a Hungarian company.

The regular monthly salary received by Mr Szalai from Lux Kft is HUF 800,000.

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

- (1) Lux Kft paid HUF 700,000 as reimbursement of the expenses incurred by Mr Szalai in relation to his activities as an employee (*költségtérítés*). The total actual expenses that can be supported by invoices amounted to HUF 500,000.
- (2) Mr Szalai realised interest income of HUF 300,000 from a company that qualifies as a controlled foreign corporation (CFC). No tax on the interest income was payable in the country where the CFC is located.
- (3) Mr Szalai sold 10,000 shares on the Budapest Stock Exchange for HUF 5,000 each. The original purchase price of these shares was HUF 3,000 each. Mr Szalai incurred transaction costs of HUF 50,000 on this transaction.
- (4) Mr Szalai realised income of HUF 5 million from a foreign country with which Hungary does not have a double tax treaty. The tax paid on this income of HUF 5 million in the foreign country was HUF 500,000. The foreign country is not a low tax rate country. This income is to be classified as non-independent income of Mr Szalai.
- (5) On 1 July 2014, Mr Szalai was elected as a member of the supervisory board of a Hungarian entity (*felügyelőbizottsági tag*), and from that date he received a monthly fee of HUF 500,000 for this activity. Mr Szalai did not carry out this activity as a private entrepreneur.

Mr Szalai has no children.

**Required:**

**Calculate the total personal income tax liability of Mr Szalai for the year 2014.**

(8 marks)

- (b) Ms Mai is an employee of Tegnap Kft. Tegnap Kft provided the following items of benefit in kind to Ms Mai in 2014 (each amount includes the applicable valued added tax):

- (1) Tegnap Kft paid the cost of Ms Mai's home internet services throughout the year 2014. The total value of the internet invoices paid was HUF 100,000.
- (2) Each employee of Tegnap Kft is entitled to meal vouchers of HUF 12,000 each month. These vouchers can only be used for catering services in the canteen operated on the premises of Tegnap Kft (*munkahelyi étkeztetés*).
- (3) In May 2014, Ms Mai was sent on a business trip to the United Kingdom. During the business trip she spent HUF 70,000 on food and this amount was all reimbursed to her by Tegnap Kft. Ms Mai provided her employer with the restaurant receipts as supporting documents

**Required:**

**Calculate the personal income tax and social security and/or health care contributions payable by Ms Mai and/or Tegnap Kft in 2014 in respect of each of the items (1) to (3), clearly identifying who is responsible for paying the tax calculated.**

(7 marks)

**(15 marks)**

**End of Question Paper**