

Fundamentals Level – Skills Module

# Taxation (Hungary)

Tuesday 4 December 2012



**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 3–4.

**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**

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**The question paper begins on page 3.**

## 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 2011 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	25%
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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

Pension contributions	24%
Health insurance contributions	2%
Labour market fund	1%

#### Employee's contributions

Pension contributions	10%
Health insurance contributions	6%
Labour market fund	1.5%

Cap for pension contributions – HUF 7,665,000

### Company car tax

Cubic capacity of car	Monthly amount HUF
Below 1,600 cm <sup>3</sup>	7,000
1,600 cm <sup>3</sup> and over	15,000

### **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 = 270 HUF

USD: \$1 = 190 HUF

### **Official rate of interest**

National Bank of Hungary (Magyar Nemzeti Bank – MNB) – 6%

**ALL FIVE questions are compulsory and MUST be attempted**

- 1** Mr Keleti is a Hungarian citizen. Mr Keleti is an employee of Nyugati Kft, a Hungarian firm located in Budapest. His monthly gross salary is HUF 800,000.

The following items are also relevant when calculating Mr Keleti's personal income tax for the year 2011:

1. Mr Keleti received holiday coupons (*üdülési csekk*) to the value of HUF 100,000 from Nyugati Kft in 2011.
2. As part of his remuneration package, Mr Keleti received theatre tickets to the value of HUF 60,000 from Nyugati Kft during the year 2011.
3. Mr Keleti received a loan of HUF 10 million from Nyugati Kft in 2010. This loan has been outstanding throughout the year 2011. Mr Keleti paid annual interest of 3% on this loan to Nyugati Kft.
4. In addition to his status as an employee of Nyugati Kft, Mr Keleti is a member of the board (*választott tisztségviselő*) of a Hungarian company listed on the Budapest Stock Exchange. He receives HUF 100,000 per month for this activity.
5. Mr Keleti realised capital gains of HUF 500,000 on non-stock exchange transactions in 2011. The capital gains were calculated using fair market prices for the securities involved.
6. As a part of his bonus related to 2010, Mr Keleti received 10,000 shares of a stock exchange listed entity from Nyugati Kft on 5 April 2011. He had to pay HUF 2,000 for each share when the market price per share at the date of receipt was HUF 3,500 each. On 15 September, Mr Keleti sold these shares for HUF 4,000 each through a stock broker.
7. During 2011 Mr Keleti received a dividend from a company located in Country Z. Hungary does not have a double tax treaty with Country Z but Country Z does not qualify as a country with a low tax rate. The HUF-equivalent of the gross dividend received in Country Z was HUF 3,000,000, and the tax paid in Country Z was HUF 1,000,000. The payer of the dividend does not qualify as a controlled foreign corporation.

Mr Keleti has three children, all of them are below 18 years of age, and he received family care supplement (*családi pótlék*) on behalf of his children throughout the year 2011.

**Required:**

- (a) Explain how items 1, 2 and 3 above are treated for Hungarian tax purposes. For each item, calculate the tax payable and state who is responsible for paying the tax.**

The following mark allocation is provided as guidance for this requirement:

- Item 1    4 marks  
Item 2    4 marks  
Item 3    5 marks

(13 marks)

- (b) Calculate the personal income tax liability of Mr Keleti for the year 2011.**

(13 marks)

- (c) State whether taxable income arises in the following scenarios and, if so, state how much tax is payable:**

- (i) A company allows its employees to use company phones for private calls. Private and business calls are separated but the employees are NOT required to reimburse the company for the private usage. (1 mark)
- (ii) A company allows its employees to use company phones for private calls. Private and business calls are separated and employees ARE required to reimburse the company for the private usage. (1 mark)
- (iii) A company allows its employees to use company phones for private calls. Private and business calls are NOT separated. (1 mark)
- (iv) A company does NOT allow its employees to make private calls on company phones and the employer can prove this fact. (1 mark)

**(30 marks)**

**2** Rococo Kft is a Hungarian company which trades in antique furniture and *objets d'art*.

The pre-tax profit of Rococo Kft was HUF 200 million for the year ended 31 December 2011. The following items are relevant when determining its tax base for 2011:

1. Rococo Kft derecognised an investment held in a Slovak entity which was wound up on 30 September 2011. The cost of the investment was HUF 10 million and the revenue accounted for in respect of the derecognition was HUF 18 million.
2. At the end of the year 2011, the chief accountant of Rococo Kft decided to write back impairment losses recognised in 2010 on some non-current assets classified as property in the accounting records. The amount of the reversed impairment losses was HUF 2 million.
3. In 2009 Rococo Kft had to pay a tax penalty of HUF 20 million as the result of a tax audit. The company appealed against the decision of the tax authorities and the court held that a penalty of only HUF 10 million was justifiable. The other half of the original penalty was credited to Rococo Kft's bank account on 11 November 2011.
4. Rococo Kft created a provision of HUF 10 million for potential liabilities outstanding as at the end of 2011.
5. In 2011 Rococo Kft recognised HUF 30 million as revenue from copyrights of artistic works.
6. The total amount of dividend income received by Rococo Kft in the year 2011 was HUF 9 million. Of this, HUF 5 million was received from Rococo Kft's Austrian subsidiary and HUF 4 million was received from its Hungarian subsidiary.
7. In August 2011 Rococo Kft sold a piece of furniture to its Austrian subsidiary. The consideration transferred from the subsidiary amounted to HUF 50 million, but Rococo Kft's auditor has pointed out that the fair market price of the asset sold was HUF 80 million.
8. The auditor also noted in his opinion that Rococo Kft had expensed a total of HUF 1 million in 2011 in respect of a supplier who did not issue invoices as required by the Act on Taxation Order (*Adózás rendjéről szóló törvény*), neither was any contract available for the services paid for, in cash, by Rococo Kft.
9. The non-current assets of Rococo Kft were depreciated at the same rate for accounting and tax purposes except for the new company car of the managing director of the company. This car was purchased on 1 March 2011 for HUF 10 million (excluding value added tax). Additional expenses of HUF 1 million (excluding value added tax) incurred in order to bring the asset into use were capitalised on 1 April 2011. For accounting purposes, the car will be depreciated over eight years with an expected residual value of HUF 3 million. The tax law allows depreciation of 20% per annum.

**Additional information:**

Rococo Kft had the following corporate tax liabilities for the previous three tax years:

	2008 HUF '000	2009 HUF '000	2010 HUF '000
Corporate tax liability	12,000	13,200	18,000

Rococo Kft uses all possible means to reduce or defer its corporate tax liability.

**Required:**

- (a) Calculate the corporate income tax liability of Rococo Kft for the year 2011.

Note: For this part your workings need only be made to the nearest thousand forints. (10 marks)

- (b) Calculate the corporate tax advances Rococo Kft will have to pay throughout the year 2011. (3 marks)

- (c) Explain the tax treatment of the following when determining the corporate tax base of an entity:

(i) expenses incurred in relation to a controlled foreign corporation; (2 marks)

(ii) impaired (bad and doubtful) debts; (3 marks)

(iii) tax losses carried forward from the tax year 2010. (2 marks)

- (d) Explain how the minimum (expected) tax base of an entity is calculated and state the circumstances in which an entity will pay corporation tax on the minimum (expected) tax base. (5 marks)

**(25 marks)**

- 3** VegySzer Zrt is a Hungarian entity involved in the petrochemical industry. VegySzer Zrt spends significant amounts every year finding new compounds it can sell later to larger companies with manufacturing capacity in petrochemistry. VegySzer Zrt spent HUF 2,800 million on research and development in 2011, out of which the salary cost was HUF 1,200 million. All these costs were accounted for as direct research and development costs, and none of these costs were incurred as sub-contracted services taken from another entity.

The actual and forecast pre-tax profits of VegySzer Zrt are:

	2011 Actual HUF million	2012 Forecast HUF million	2013 Forecast HUF million	2014 Forecast HUF million
Pre-tax profits	3,000	3,200	3,500	3,700

**Required:**

- (a) Identify and briefly explain the tax base adjusting option(s) and the tax relief(s) available to VegySzer Zrt in respect of the research and development (R&D) expenditure.**

Note: Calculations are not required in this part of the question.

(6 marks)

- (b) Determine the corporate tax base and calculate the tax payable by VegySzer Zrt for the projection period 2011 to 2014 inclusive, after claiming all available R&D reliefs.**

(9 marks)

**(15 marks)**



- 4 Editio Kft is a Hungarian company with its seat in Budapest. Editio Kft publishes books and prepares its value added tax (VAT) returns monthly. Publishing books falls under the preferential VAT rate of 5%. The company also provides editorial services which are within the standard rate of 25% for VAT purposes.

In October 2011 the following events occurred which are relevant to the monthly VAT return of Editio Kft. All amounts are stated excluding any applicable VAT.

- (i) Editio Kft sold a moveable tangible non-current asset on 1 October 2011 for HUF 3.5 million. The tangible non-current asset had been purchased and put into operation on 1 April 2009 for HUF 6 million, when Editio Kft had carried out activities falling under the scope of subject-oriented VAT exempt activities (*alanyi adómentes tevékenység*).
- (ii) Editio Kft generated sales revenue of HUF 200 million from publishing books and HUF 50 million from editorial services.
- (iii) Editio Kft made purchases of paper of HUF 150 million, and purchased subcontractors' editorial services for HUF 20 million.
- (iv) Editio Kft received an invoice from an Italian advertising agency which is helping Editio Kft enter the Italian market. The invoice of the Italian firm amounted to €10,000.
- (v) The total amount Editio Kft spent on fuel for its passenger cars in October 2011 was HUF 800,000.
- (vi) Editio Kft received the following mobile phone invoices in October and November 2011:

Period covered	Amount HUF	Due date
September	250,000	15 October 2011
October	300,000	15 November 2011

The company separates private usage from business calls. The private usage in October was HUF 38,000, and in November 2011 was HUF 45,000. The private usage is re-invoiced to the employees of Editio Kft in each month.

- (vii) Editio Kft has organised an event for its current and potential clients. At this event, the company offered food and drinks to the participants. The total amount spent on food and drinks was HUF 150,000. In addition, Editio Kft spent HUF 100,000 on the rental of the restaurant room where the event was organised.

**Required:**

- (a) Explain the tax treatment of the tangible non-current asset sold (item (i) above) for value added tax (VAT) purposes. (3 marks)
- (b) Calculate Editio Kft's liability to/refund of VAT for the month of October 2011. (9 marks)
- (c) Calculate the amount of irrecoverable VAT for Editio Kft for the month of October 2011. (3 marks)

**(15 marks)**

- 5 (a) Levente is a Hungarian tax resident private individual. He works for Aranyos Zrt. His salary was HUF 300,000 per month throughout the year 2011.

Levente generated rental income of HUF 100,000 per month from renting out a flat he owns. He had no allowable expenses in respect of this activity.

Levente is not a private entrepreneur. Levente did not notify his employer about his rental income. Levente has no children.

**Required:**

- (i) Calculate the net salary Levente will receive from Aranyos Zrt for the month of December 2011 after deducting both personal income tax and social security contributions; (4 marks)

- (ii) Itemise and calculate the contributions Aranyos Zrt will have to pay with regard to employing Levente in December 2011;

Note: You should ignore contributions payable to professional training funds (*szakképzési hozzájárulás*). (1 mark)

- (iii) State how Levente's rental income will be treated for Hungarian tax purposes and calculate the total personal income tax payable by Levente for the year 2011 on his rental income. (3 marks)

- (b) Fekete Bt provides advisory services and is a company registered under the simplified taxation scheme for small entrepreneurs (*egyszerűsített vállalkozói adó – EVA*). Fekete Bt keeps its accounts in a simplified form (*bevételei nyilvántartás*) thus it is not under the scope of the Act on Accounting.

The company's relevant financial data for the year 2011 is summarised in the following table. All amounts are stated excluding any applicable value added tax (VAT).

	Amount HUF
Opening cash balance of the bank account	1,000,000
Sales revenue	12,000,000
Expenses excluding salary and related costs	2,000,000

**Additional information:**

- (i) All of Fekete Bt's sales and expenses attract the standard rate of VAT of 25%.
- (ii) All invoices were financially settled before 31 December 2011.
- (iii) Fekete Bt has one employee whose monthly gross salary was HUF 300,000 throughout the year 2011.
- (iv) No dividends were distributed to the owners of Fekete Bt during the year 2011.
- (v) There were no accrued or prepaid expenses in 2011 or any previous year of operation.
- (vi) There was no accrued or deferred income in 2011 or any previous year of operation.
- (vii) Fekete Bt does not hold any petty cash. The settlement of all business transactions is conducted via its bank account.

**Required:**

- (i) Calculate the closing cash balance of Fekete Bt as at 31 December 2011;

Note: You should ignore contributions payable to professional training funds (*szakképzési hozzájárulás*) and tax payable to local municipalities (*helyi iparüzési adó*). (5 marks)

- (ii) Assuming that the revenues accrue evenly throughout the year 2011, calculate the EVA advances Fekete Bt will have to pay in the year 2011 and state when those advance payments are due.

(2 marks)

**(15 marks)**

**End of Question Paper**