

Fundamentals Level – Skills Module

Taxation (Hungary)

Tuesday 2 December 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%
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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%
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

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 Somorjai is a Hungarian citizen. He is employed by Moson Kft, a Hungarian company.

Mr Somorjai receives a monthly gross salary of HUF 2 million from his employer.

The following items are also relevant when calculating Mr Somorjai's personal income tax for the year 2013:

1. In May 2013, Mr Somorjai sold a piece of land for HUF 30 million (the contract was filed with the Land Registry on 15 May 2013). Mr Somorjai had acquired that piece of land in 2004 for HUF 10 million. The piece of land is classified as a non-housing purpose immovable asset. The combined costs of acquisition and sale of the land amounted to HUF 200,000.
2. In June 2013, Mr Somorjai sold a flat located in Budapest for HUF 20 million (the contract was filed with the Land Registry on 24 June 2013). Mr Somorjai had acquired the flat in 2010 for HUF 18 million. The related costs of acquisition and sale of the flat were HUF 100,000.
3. Mr Somorjai generated rental income of HUF 100,000 per month throughout 2013 from renting out a flat located in Debrecen. Mr Somorjai did not record the expenses relating to this rental income. Mr Somorjai is not a private entrepreneur.
4. Mr Somorjai purchased and sold equity securities on the Budapest Stock Exchange through a financial services broker. These transactions are deemed to be regulated market transactions (*ellenőrzött tőkepiaci ügylet*). The statement issued by the financial services broker for the year 2013 showed a net realised capital gain of HUF 3 million.

Mr Somorjai has three children, who are six, ten and 14 years old respectively. Mr Somorjai received family care supplement (*családi pótlék*) on behalf of his children throughout the year 2013. Mr Somorjai has a certificate from his wife that she did not use the family allowance in her personal income tax return.

Required:

- (i) Explain how the taxable income derived from the sale of immovable assets (as illustrated by items 1 and 2) is calculated for Hungarian personal income tax purposes.** (6 marks)
- (ii) Calculate the personal income tax payable by Mr Somorjai on items 1 and 2.** (5 marks)
- (iii) Calculate the total personal income tax liability of Mr Somorjai for the year 2013.** (7 marks)

(b) Moson Kft provided Mr Somorjai with the following benefits in kind during 2013:

- (1) An interest free loan of HUF 7 million, which was made to Mr Somorjai in 2012. The purpose of the loan was not specified in the contract between Mr Somorjai and his employer. The loan is repayable in December 2014.
- (2) HUF 5,000 per month as Erzsébet vouchers.
- (3) The use of his company mobile phone for private purposes as well as for business use. Mr Somorjai is not required to separate his business and private calls. The total value of Mr Somorjai's phone calls for year 2013 was HUF 600,000, excluding value added tax.

Required:

- (i) Calculate the personal income tax and social security and/or health care contributions payable by Moson Kft in 2013 on items (1) to (3) above.** (9 marks)
- (ii) Give ANY THREE examples of situations in which the rules of interest rate discount on outstanding amounts will not be applied (*kamatkedvezményből származó jövedelem meghatározása alól mentesülő tételek*).** (3 marks)

(30 marks)

2 Spiro Kft, a Hungarian entity with its seat in Budapest, trades in musical instruments.

The pre-tax accounting profit of Spiro Kft was HUF 500 million for the year ended 31 December 2013.

The following items taken into account when determining this pre-tax profit are relevant when determining the tax base of Spiro Kft for 2013:

1. In 2013 Spiro Kft recognised a provision of HUF 6 million for expected future warranty obligations.
2. In 2013 Spiro Kft paid tax penalties of HUF 10 million which related to errors on previous years' tax returns. This amount is not considered to be material for financial statement preparation purposes.
3. In 2013 Spiro Kft gave a one-off donation to the National Cultural Fund (*Nemzeti Kulturális Alap*) of HUF 3 million. Spiro Kft and the National Cultural Fund agreed a donation contract in relation to this amount. Spiro Kft received an official certificate from the Fund acknowledging receipt of the donation of HUF 3 million in the financial year 2013.
4. When preparing its financial statements for the year 2013, Spiro Kft examined its trade receivables for recoverability and discovered one overdue receivable. This overdue receivable has been outstanding for 380 days and amounted to HUF 5 million. The impairment recognised on this receivable was HUF 4 million. Spiro Kft has not needed to account for impairment losses on receivables in any previous accounting period.
5. Spiro Kft has a Hungarian parent company, Saxo Kft, which also trades in musical instruments. Saxo Kft holds 100% of the equity shares of Spiro Kft. During 2013 Spiro Kft sold some instruments to Saxo Kft for HUF 20 million. The auditor of Spiro Kft has pointed out that the customary market price of the instruments sold to Saxo Kft is HUF 25 million.
6. Spiro Kft had acquired a company car on 1 August 2012 for HUF 10 million (excluding value added tax). At initial recognition Spiro Kft assessed the expected useful life of the car as four years with a residual value of HUF 4 million. The car was used until 1 December 2013 and then sold on that day for HUF 7 million. The tax law allows an annual depreciation of 20% for this type of asset. Spiro Kft calculates depreciation on a monthly basis.

All the other non-current assets of Spiro Kft were depreciated at the same rates for both accounting and tax purposes.

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

Required:

- (a) **Name and briefly explain the SIX methods which can be used when determining the customary market prices in transfer pricing scenarios between related parties.** (6 marks)
- (b) **Calculate the corporate income tax liability of Spiro Kft for the year 2013.**
Note: For this part your workings need only be made to the nearest thousand forints. (10 marks)
- (c) **Define the term registered intangible asset (*bejelentett immateriális jószág*) and explain how such an asset will impact the corporate tax base.** (5 marks)
- (d) **Calculate the fiscal charges in each of the following circumstances:**
 - (i) **The default penalty (*késedelmi pótlék*) payable if a tax obligation of HUF 2 million is overdue for 75 days.**
 - (ii) **The maximum tax penalty (*adóbürság*) payable if tax arrears of HUF 5 million are revealed by the tax authority and the arrears are not a result of forgery or accounting fraud.**
 - (iii) **The self-revision surcharge (*önellenőrzési pótlék*) payable for an error of HUF 3 million if the amount is overdue for 50 days.** (4 marks)

(25 marks)

- 3** Optic Kft is a Hungarian entity which manufactures optical equipment. Optic Kft wishes to expand its manufacturing capacity. However, it cannot raise equity finance, so the company wants to finance the investment from debt. Optic Kft approached a leasing firm (a financial institution) and the following finance lease contract has been agreed:
1. The lease agreement was signed on 15 May 2013. As usual in this type of agreement, the instalments are based on the invoices issued by the lessor. The lessor's invoices show the exact split of the interest and capital portion of each payment.
 2. In the year 2013, the total interest paid by Optic Kft amounted to HUF 12 million. The expected interest to be paid in 2014 is HUF 26 million.
 3. The investment project will not result in an increase in either the number of employees or the total salary expense for the lease term, since the new equipment will enhance efficiency significantly without any increased labour input.

For 2013 and 2014 the pre-tax profit and corporate tax base of Optic Kft are forecast as follows:

	2013	2014
	HUF million	HUF million
Corporate tax base	500	600
Pre-tax profit	450	580

Optic Kft has been, and is expected to be, a medium-sized entity for the project period.

Note: You should ignore any VAT implications of the lease contract.

Required:

- (a) Identify and explain the corporate tax relief available to Optic Kft in relation to the above finance lease for the years 2013 and 2014.**

Note: Calculations are not required in this part of the question. (6 marks)

- (b) Calculate the corporate income tax liability of Optic Kft for the years 2013 and 2014, taking into consideration the relief identified in part (a).** (9 marks)

(15 marks)

4 Fresh Bt is a Hungarian entity which prepares value added tax (VAT) returns monthly.

Fresh Bt operates a number of small shops and carries out two activities:

- lottery services which are exempt from VAT; and
- selling small value items which are subject to the standard rate of VAT (VATable activities).

For the eight-month period ended 31 August 2013, the cumulative net sales revenue from Fresh BT's exempt activities was HUF 7 million, and the cumulative net sales revenue from its VATable activities was HUF 11 million. The total cumulative unallocated input VAT for this eight-month period was HUF 3 million.

The following events are relevant to the preparation of Fresh Bt's September 2013 VAT return. All amounts are stated excluding any applicable VAT.

1. The net sales revenue generated from the VATable activities was HUF 2 million.
2. The net sales revenue generated from the exempt activities was HUF 1 million.
3. Purchases of HUF 4 million were made. These purchases were used for both VATable and exempt activities, and Fresh Bt could not find a reliable and systematic method to allocate and apportion the input VAT to the two different activities.
4. An invoice of €6,000 was received from a Polish firm which had provided educational services to Fresh Bt. These educational services related exclusively to the company's VATable activities.
5. Fresh Bt has a contract with a cleaning company in the form of a fixed term settlement (*határozott időre szóló elszámolás*). The cleaning company issued the following invoices to Fresh Bt under the contract:

Month of delivery	Due date of the invoice	Amount in HUF
July 2013	12 August 2013	500,000
August 2013	15 September 2013	450,000
September 2013	14 October 2013	570,000

Fresh Bt is able to allocate the cleaning invoice to the two different activities: 60% of the cleaning invoices relates to VATable activity, and the remaining 40% of the cleaning invoices relates to the VAT exempt activities.

6. One of the owners of Fresh Bt took a piece of furniture home for his private use. The fair market value of the furniture taken was HUF 500,000. The input VAT on this furniture had been wholly deductible on its purchase. Fresh Bt and the owner entered into a contract for this transaction which included the market price of the furniture.

Required:

(a) Explain the value added tax (VAT) treatment of partial payment (*részletfizetés*) and fixed term settlement (*határozott időre történő elszámolás*). (4 marks)

(b) Calculate Fresh Bt's VAT payable or deductible for the month of September 2013.

Note: For this part your workings need only be made to the nearest thousand forints. (11 marks)

(15 marks)

- 5 (a) Vouge Kft is a Hungarian entity which is registered for simplified taxation for small entrepreneurs (*egyszerűsített vállalkozói adó* – EVA). All the sales and purchases of Vouge Kft attract the standard rate of value added tax (VAT). During the year 2013, Vouge Kft realised sales revenue of HUF 20 million (net of VAT) and made purchases of HUF 3 million (net of VAT). Vouge Kft has one employee whose monthly gross salary was HUF 200,000 throughout the year 2013.

Required:

Calculate the net dividends which can be distributed to the owners of Vouge Kft for 2013, assuming the firm remains under the EVA regime.

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

(4 marks)

- (b) Opal Kft is a Hungarian business entity. The company owns cars which are used by its sales staff.

As of 1 January 2013, Opal Kft owned the following company cars:

- Car #1: with an engine capacity of 100 kW, and environmental category 2
- Car #2: with an engine capacity of 125 kW, and environmental category 4

On 5 May 2013, Opal Kft acquired a new car (Car #3) with an engine capacity of 120 kW, and environmental category 7.

On 25 October 2013, Opal Kft disposed of Car #1.

Opal Kft paid car capacity tax (*gépjárműadó*) of HUF 100,000 for all of the cars it owned during the year 2013.

Required:

Calculate the company car tax liability of Opal Kft for the year 2013.

(5 marks)

- (c) Tiny Bt is a small, family owned company located in Budapest. Tiny Bt's summarised financial information for the year 2013 is as follows:

	HUF
Sales revenue	6,000,000
Material costs	300,000
Labour costs	400,000
Cost of goods sold	2,000,000
Mediated services	150,000
Other expenses	90,000
Financial income	170,000
Financial expenses	230,000

Tiny Bt would like to minimise its local municipality tax liability for the year 2013.

Required:

Calculate the local municipality tax liability of Tiny Bt for the year 2013 under both the standard method and the simplified tax base method and advise Tiny Bt which method is preferable.

(6 marks)

(15 marks)

End of Question Paper