

Fundamentals Level – Skills Module

# Taxation (Hungary)

Tuesday 3 December 2013



**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 2012 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%
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#### Employee's contributions

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

Cap for pension contributions – HUF 7,942,200

### Company car tax

Engine capacity of the car (kW)	Environmental category		
	0 to 4 HUF	6 to 10 HUF	5, 14 and 15 HUF
0–50	16,500	8,800	7,700
51–90	22,000	11,000	8,800
91–120	33,000	22,000	11,000
above 120	44,000	33,000	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 = 290 HUF

USD: \$1 = 230 HUF

### **Official rate of interest**

National Bank of Hungary (Magyar Nemzeti Bank – MNB) – 7%

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**Question 1 begins on page 5.**

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

- 1** Mr Coward is a British citizen who moved to Hungary several years ago. He has no wife or children. Mr Coward is employed by Heroes Kft, the Hungarian subsidiary of a British company, Heroes Ltd. He spent the whole of the year 2012 in Hungary except for some minor business trips around Europe and his four weeks annual leave in July, which he spent in Morocco.

Mr Coward receives a monthly gross salary of HUF 2,000,000 from Heroes Kft.

Besides his salary, the following items are relevant to the calculation of Mr Coward's personal income tax for the year 2012:

1. Mr Coward has two flats in Budapest. One in Buda which he uses as his private home, and one in Pest which he rents out. The rental income in respect of his flat in Pest is HUF 120,000 per month. The flat was rented out throughout the year 2012. Mr Coward did not maintain any records of invoices relating to the Pest flat.
2. Every employee of Heroes Kft is entitled to Erzsébet vouchers for the purpose of ready cooked meals of HUF 10,000 per month.
3. Mr Coward is provided with a mobile phone by Heroes Kft. He is entitled to use the phone for private purposes, but is required to separate the private use from the business calls and must reimburse Heroes Kft for all his private usage. In 2012, the total value of his mobile phone invoices was HUF 350,000 (excluding value added tax (VAT)) and he reimbursed HUF 100,000 (excluding VAT) for his private usage.
4. In 2011 Mr Coward received an interest free loan from Heroes Kft. The loan is repayable in 2015. The amount of the loan is HUF 10 million.
5. Mr Coward is an art collector, and he buys and sells paintings regularly. In 2012 he sold a painting for HUF 5 million which he had bought in 2009 for HUF 2 million. In 2011 he had had the painting restored for HUF 400,000.
6. Mr Coward holds some bonds which are traded on a foreign stock exchange. In 2012 the interest income earned on these bonds amounted to HUF 1 million and the tax paid abroad was HUF 200,000. Hungary does not have a double tax treaty with the country from which the interest income originated.

**Required:**

- (a) (i) **State the circumstances in which an individual is deemed to be resident in Hungary for tax purposes.** (5 marks)
- (ii) **Determine if Mr Coward is resident in Hungary for tax purposes.** (3 marks)
- (b) **Assuming that Mr Coward is resident in Hungary for tax purposes, calculate his personal income tax liability for the year 2012.** (8 marks)
- (c) **Calculate the personal income tax and social security contributions payable by Heroes Kft in respect of the salary paid and benefits in kind provided to Mr Coward in the tax year 2012.** (9 marks)
- Note: Ignore contributions payable to professional training fund.
- (d) **Explain the tax treatment of Mr Coward's private usage of his mobile phone in item 3 if he had not been required to separate his private and business calls, and calculate the amount of any taxes payable.** (5 marks)
- Note: You should assume that the total value of Mr Coward's mobile phone invoices in 2012 is HUF 350,000 (excluding VAT).

**(30 marks)**

- 2 Dahlia Zrt is a Hungarian company which trades in flowers and ornamental plants. Dahlia Zrt was founded several years ago, has its domicile in Budapest and an accounting year ending 31 December.

The following items are relevant to the calculation of Dahlia Zrt's tax base for 2012:

1. Dahlia Zrt's pre-tax profit for the year ended 31 December 2012 was HUF 70 million.
2. Dahlia Zrt transferred HUF 40 million from its retained earnings to a tied up reserve. The intention of the management of the company is to acquire new vans in 2013. The cost of these new vans will be partially covered by the development reserve.
3. In 2010 Dahlia Zrt had created a development reserve of HUF 10 million. The funds from that reserve were used, along with another HUF 5 million, to acquire and install shelves in its stores. The new shelves were brought into use and capitalised on 1 June 2012. The company assessed the useful life of the shelves to be five years and expects a nil residual value at the end of that period. The Act on Corporation Tax allows annual depreciation at the rate of 14.5% per annum.

All the other assets of Dahlia Zrt are depreciated at the same rate for both accounting and tax purposes.

4. During 2012 Dahlia Zrt accounted for impairment losses of HUF 2 million on some of its equipment in accordance with the Act on Accounting, as the management assessed that the market value is durably and materially lower than the net book value.
5. Dahlia Zrt reviewed its outstanding receivables balances at the end of the year 2012. In line with its accounting policy, the following allowances for impaired debts were created:

Age of receivables	Outstanding receivables HUF	Allowance %	Allowance HUF
Less than 90 days	3,000,000	0%	0
More than 90 days but less than 180 days	800,000	25%	200,000
More than 180 days but less than 365 days	600,000	50%	300,000
More than 365 days	1,200,000	100%	1,200,000
Total	5,600,000		1,700,000

No similar allowance was outstanding in the books of Dahlia Zrt at the start of the year 2012.

6. Dahlia Zrt expensed HUF 1 million, being the net book value of missing non-current assets. During the statutory audit of Dahlia Zrt, the auditors pointed out that it cannot be proved credibly that the company had made every effort to avoid these losses.
7. Dahlia Zrt created provisions of HUF 4 million during 2012 and reversed provisions of HUF 500,000 which had been created in the year 2010.
8. Dahlia Zrt recorded the following impairment losses in respect of its investments in shares during the year 2012:

Investment	Date of acquisition	Date of registration with the Tax Authority	Percentage of shareholding	Impairment losses HUF
Rose Kft	1 May 2009	1 June 2009	40%	1,000,000
Lily Kft	4 April 2011	30 April 2011	50%	500,000
Narcissus Kft	12 March 2012	29 March 2012	50%	400,000
Freesia Kft	31 August 2010	1 December 2010	100%	1,200,000
Total				3,100,000

These impairment losses were necessary because all of these investments had been performing worse than expected. The impairment losses were charged to the profit before tax for the year 2012 in compliance with the principles set out in the Act on Accounting.

**Required:**

- (a) State the tax advantage of creating a development reserve and list the rules governing the creation of such a reserve. (5 marks)
- (b) Define the term 'registered shareholding' with regard to corporate income tax, and explain the effects of transactions in registered shareholdings on the corporate income tax base. (6 marks)
- (c) Calculate the corporate income tax liability of Dahlia Zrt for the year 2012.

Note: For this part your calculations need only be made to the nearest thousand forints. (14 marks)

**(25 marks)**

- 3 Meditax Zrt is a medium sized entity incorporated in Hungary. During the year 2011 Meditax Zrt spent HUF 700 million on an investment project in the south eastern region of Hungary. As a result of this expenditure, a brand new production line became available to Meditax Zrt.

Meditax Zrt decided to claim the development relief for the first time in 2012 and has chosen the qualifying criterion relating to the average number of employees.

Meditax Zrt's actual and forecast data of the average number of employees is as follows:

	2010	2011	2012	2013
	Actual	Actual	Actual	Forecast
Average number of employees	210	220	230	270

In 2012, Meditax Zrt's profit before tax was HUF 150 million and its tax base was HUF 170 million.

**Required:**

- (a) Identify the specific corporate tax relief available to Meditax Zrt and briefly explain the criteria which must be met in order for the company to qualify for this relief.  
Note: Calculations are not required in this part of the question. (8 marks)
- (b) Calculate the maximum amount of relief which Meditax Zrt can claim in respect of the investment project. (4 marks)
- (c) Calculate Meditax Zrt's corporate income tax liability for the tax year 2012, taking into account the relief you have identified in part (a). (3 marks)

**(15 marks)**

- 4 PumpUp Kft is a Hungarian entity with its seat in Budapest, which manufactures and sells pumps for industrial purposes. PumpUp Kft prepares its value added tax (VAT) returns monthly.

In September 2012, the following events occurred which are relevant to the monthly VAT return of PumpUp Kft. All sales and purchases are subject to the standard rate of VAT. All amounts are stated excluding any applicable VAT.

1. PumpUp Kft generated sales revenue of HUF 200 million. All of PumpUp Kft's sales are made on 60-day payment terms.
2. In addition to the sales in (1) above, PumpUp Kft generated revenue from a lease agreement as a lessor of an oil pump. The lessee is OilPower Zrt, a power station located in south Hungary. Under the terms of the lease, PumpUp Kft will issue an invoice for HUF 3 million per month in each of 24 months commencing on 1 September 2012. These invoices are payable in advance with a due date of the 15th of each month. At the end of the 24-month lease term, OilPower Zrt has a favourable option to purchase the oil pump for a price which is expected to be significantly below the market price of such an asset. Both parties expect that the option will be exercised in 24 months' time. The cash price (capital amount) of the leased asset is HUF 55 million.
3. PumpUp Kft is a party to another lease agreement, this time as a lessee. Under the terms of this agreement, PumpUp Kft will lease a piece of equipment from Vendlow Kft for a monthly fee of HUF 1 million (payable on the 1st of each month), for a 36-month period commencing on 1 September 2012. At the end of the lease term, the legal title of the equipment will definitely be transferred to PumpUp Kft. The cash price (capital amount) of the leased equipment is HUF 25 million.
4. PumpUp Kft made purchases of HUF 110 million.
5. PumpUp Kft capitalised machinery it had manufactured. The value of the own work capitalised was HUF 5 million.
6. PumpUp Kft, as a consignor, delivered a specialised pump to a consignee company on the basis of a consignment contract. The consignee company had to sell the pump on behalf of PumpUp Kft for HUF 10 million, being the fair market price of the asset. The consignee company sold the pump before the deadline for preparing the September VAT return; however, no cash had been transferred between PumpUp Kft and the consignee company by that date.
7. The sales staff of PumpUp Kft are entitled to use company cars for business purposes, but no private usage of those cars is allowed, and PumpUp Kft can credibly prove that no private usage occurred in any month of 2012. In September 2012, the total cost of fuel and maintenance for the cars used by the sales staff amounted to HUF 1,200,000.
8. The mobile phone invoices of PumpUp Kft in August and September 2012 showed the following relevant information:

Invoice for the month of	Due date of payment	Amount HUF
August	12 September 2012	300,000
September	12 October 2012	350,000

The employees of PumpUp Kft are not required to separate or reimburse any private usage of their mobile phone invoices.

9. The management of PumpUp Kft organised some training for the employees of the finance department to gain a better understanding of the VAT issues related to export/import. The training was conducted by an Austrian company and cost €3,000.



**Required:**

- (a) Explain the value added tax (VAT) treatment of the two lease agreements referred to in items 2 and 3. (3 marks)
- (b) Calculate PumpUp Kft's liability to/refund of VAT for the month of September 2012, clearly identifying any items/amounts on which VAT is irrecoverable.

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

- (c) State the deadline for PumpUp Kft to file its September 2012 VAT return. (1 mark)
- (d) State the precondition for a monthly VAT payer to receive a cash refund of a deductible VAT balance. (1 mark)

**(15 marks)**

- 5 (a) Local Kft is a Hungarian company with an accounting year end of 31 December. Local Kft's seat is in Budapest and it does not carry out business activities on a permanent basis within the jurisdiction of any other Hungarian or foreign municipality.

In 2011 and 2012 Local Kft's audited financial statements showed the following relevant balances:

	2011	2012
	HUF million	HUF million
Sales revenue	1,900	2,000
Cost of raw materials	1,150	1,200
Cost of mediated services	170	200
Cost of subcontractors	290	300
Employment costs	95	100
Other expenses	45	50

The local municipality tax liability of Local Kft for 2010 was HUF 5.4 million.

**Required:**

- (i) Calculate the local municipality tax payable by Local Kft for the year 2012. (4 marks)
- (ii) Calculate the local municipality tax advances payable by Local Kft during the year 2012, clearly identifying the dates on which the advances will be paid. (4 marks)
- (iii) State the deadline for filing the annual tax return for local municipality tax. (1 mark)
- (b) An employee of Local Kft, Ms Kutas, has a monthly salary of HUF 500,000. In addition to her salary, in May 2012 Ms Kutas received one bonus payment from Local Kft after her 2011 performance evaluation had been carried out. The bonus payment amounted to HUF 1.5 million.

Ms Kutas has no other position at any other company, nor does she have any income other than the salary and bonus received from Local Kft. Ms Kutas has no children.

**Required:**

**Calculate the net salary Ms Kutas will receive from Local Kft for the month of October 2012 after deducting both personal income tax and social security contributions.** (6 marks)

**(15 marks)**

**End of Question Paper**