

Fundamentals Level – Skills Module

Taxation (Hungary)

Thursday 9 June 2016



Time allowed

Reading and planning: 15 minutes

Writing: 3 hours

This question 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 question 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 question paper.

This question paper must not be removed from the examination hall.

Think Ahead

ACCA

The Association of
Chartered Certified
Accountants

Paper F6 (HUN)

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 2015 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

Tax rate	16%
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Benefits in kind

Tax rate	16%
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Social security contributions

Employer's contributions

Social contribution tax	27%
Professional training fund	1.5%

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

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.
 - Central Hungary: 0%
 - Central Hungary (only nominated locations): 20%/35%
 - Western Transdanubia: 25%
 - Central Transdanubia: 35%
 - 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 2·8%.

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 = 280 HUF

Official rate of interest

National Bank of Hungary (Magyar Nemzeti Bank – MNB) – 1·50%

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** Advice Zrt is a Hungarian entity which prepares value added tax (VAT) returns monthly. Advice Zrt carries out two activities, the provision of financial services which are exempt from VAT and the provision of business advisory activities which are subject to VAT at the standard rate (VATable activities).

The following information relates to the six-month period ended 30 June 2015:

- cumulative net sales revenue realised from providing financial services of HUF 310 million;
- cumulative net sales revenue realised from providing business advisory services of HUF 600 million; and
- total cumulative unallocated input VAT of HUF 160 million.

The following transactions are relevant to the preparation of Advice Zrt's July 2015 VAT return. All amounts are stated excluding any applicable VAT and the VATable items all attract VAT at the standard rate.

- (1) Generated net sales revenue of HUF 20 million from exempt activities.
- (2) Generated net sales revenue of HUF 90 million from VATable activities.
- (3) Disposed of a tangible non-current asset, which had been used for VATable activities only, for sales proceeds of HUF 1 million.
- (4) Purchased services from a professional marketing and advertising company to promote its exempt activities. The value of the invoice received from the company was HUF 5 million.
- (5) Purchased legal services from a German firm, which related exclusively to VATable activities. The value of the invoice received from the German firm was €5,200.
- (6) Purchased goods and services which were used for both VATable and exempt activities for HUF 40 million. There is no systematic and reliable method which could be used to allocate and apportion the input VAT on these purchases between the VATable and exempt activities.

Required:

- (a) Calculate Advice Zrt's value added tax (VAT) payable or deductible for the month of July 2015.**

Note: Calculations need only be made to the nearest thousand forints. (8 marks)

- (b) State the conditions a taxpayer must meet in order to be able to opt for 'tax exempt business' status (*alanyi adómentesség feltételei*).** (2 marks)

(10 marks)

2 SAF Kft, a Hungarian company, uses two cars for business purposes:

Car 1: On 3 February 2015, SAF Kft entered into a finance lease agreement to lease Car 1, which has an engine capacity of 140 kW and belongs to environmental category 8.

Car 2: On 4 May 2015, SAF Kft acquired Car 2, which has an engine capacity of 100 kW and belongs to environmental category 7. SAF Kft sold Car 2 on 1 December 2015.

Required:

- (a) **State ANY THREE situations in which a car is NOT subject to company car tax.** (3 marks)
- (b) **Determine the company car tax payable by SAF Kft for the year 2015 in respect of Car 1 and Car 2. Clearly identify the dates and amounts of the payments to be made.** (6 marks)
- (c) **State when car capacity tax is deductible from the company car tax.** (1 mark)

(10 marks)

3 (a) Lifa Bt is a Hungarian entity, which pays tax using the simplified system of taxation for small entrepreneurs (*egyszerűsített vállalkozó adó – EVA*).

The following information relates to Lifa Bt's revenue and expenses for the year 2015:

	HUF
Net sales revenue excluding VAT	20,000,000
Purchases excluding VAT	7,000,000
Salary costs excluding employer's contributions payable	2,500,000

All of the activities of Lifa Bt attract value added tax (VAT) at the standard rate.

Required:

Calculate the net dividends distributable to the owners of Lifa Bt for the year 2015. (6 marks)

(b) One of the owners of Lifa Kft, Ms Hadas, is a Hungarian tax resident. In 2015 she received after tax dividend income of USD 6,000 from a company located in Country A. The payer in Country A deducted tax at the rate of 25% from the gross dividend distributed to Ms Hadas and paid it to the tax authorities of Country A. There is no double tax treaty between Hungary and Country A.

Required:

Calculate the personal income tax Ms Hadas has to pay in Hungary on her foreign dividend income.

(4 marks)

(10 marks)

- 4 (a) Rudas Kft is a Hungarian entity operating in the telecommunications sector. Rudas Kft regularly incurs expenditure on research and development (R&D) and all of these R&D expenses relate directly to its business activities. Rudas Kft carries out all of its R&D activities jointly with a Hungarian university and this cooperation is based on a written contract.

For the year 2015 Rudas Kft recorded a profit before tax of HUF 300 million after charging the following R&D expenses:

	HUF '000
R&D services purchased from Hungarian domestic taxpayers	30,000
R&D services purchased from foreign taxpayers	25,000
R&D services purchased from Hungarian private entrepreneurs	15,000
Material costs	10,000
Labour costs	20,000

None of the above R&D expenses were recognised as intangible assets in Rudas Kft's financial statements.

Rudas Kft did not claim or receive any kind of government grant in the year 2015 or in any previous tax year.

Required:

Calculate Rudas Kft's corporate income tax liability for the year 2015, clearly identifying any items for which no adjustment is necessary.

Note: Calculations need only be made to the nearest thousand forint. (5 marks)

- (b) Sadur Kft is a Hungarian entity. In 2014 Sadur Kft created a development reserve of HUF 200 million, which it used to acquire and capitalise a new non-current asset for HUF 200 million on 1 January 2015. The asset has a useful life of four years and a nil residual value. The Hungarian tax law allows annual depreciation of 14.5% on this type of asset.

In 2015 Sadur Kft also created a development reserve by transferring HUF 250 million retained earnings to a tied up reserve, which Sadur Kft plans to use to acquire new non-current assets in future years. Sadur Kft's profit before tax for the year 2015 was HUF 400 million

No other information is relevant when determining Sadur Kft's corporate income tax payable for the year 2015.

Required:

- (i) **Calculate Sadur Kft's corporate income tax base for the year 2015.**

Note: You are not required to calculate the tax liability. (3 marks)

- (ii) **State the deadline by which the development reserve created in 2015 must be used to acquire new non-current assets and explain the consequences if Sadur Kft does not use the whole of the development reserve by this deadline.** (2 marks)

(10 marks)

5 Della Zrt is a Hungarian company with its seat in Budapest and an accounting year end of 31 December.

Della Zrt's profit before tax for the year ended 31 December 2015 is HUF 900 million BEFORE accounting for items (i) to (iii) below.

- (i) In August 2015, Della Zrt discovered it had made an incorrect value added tax (VAT) return for May 2015. The error amounted to HUF 4 million. Della Zrt self-revised the May return in August 2015. The number of overdue days for calculating the self-revision surcharge (*önellenőrzési pótlék*) is 53.
- (ii) In September 2015, a tax audit discovered an error of HUF 3 million, which was overdue for 60 days. Della Zrt is obliged to pay a default penalty (*késedelmi pótlék*) in relation to that amount.
- (iii) The same tax audit (as in (ii) above) resulted in a tax penalty (*adó bírság*) of HUF 8 million.

The following items are relevant to the calculation of Della Zrt's corporate tax base and corporate income tax liability for the tax year:

- (1) In 2015 Della Zrt created a provision of HUF 40 million. The provision reversed in 2015 was HUF 10 million.
- (2) On 30 September 2015, Della Zrt disposed of a tangible non-current asset for HUF 3 million. The asset had been acquired and capitalised on 1 January 2012 at HUF 9 million. At the time of its acquisition, the residual value of the asset was determined as HUF 1 million and its useful life as eight years and these estimates did not change in subsequent years. The tax law allows depreciation of 20% per annum on this type of asset. All Della Zrt's other non-current assets were depreciated at the same rate for both accounting and tax purposes.
- (3) In 2015 Della Zrt received a dividend of HUF 20 million from a Hungarian subsidiary.
- (4) At the end of the financial year 2015, Della Zrt revalued its long-term financial investments and long-term liabilities denominated in foreign currency. As a result of these revaluations, Della Zrt recognised unrealised financial gains of HUF 24 million and unrealised financial losses of HUF 12 million. None of these assets and liabilities was hedged against foreign exchange losses. No revaluation gains or losses had been recognised by Della Zrt in respect of these assets and liabilities in any previous year.

Della Zrt uses all legal means to minimise its corporate tax liability.

Required:

(a) Calculate the self-revision surcharge and default penalty in respect of points (i) and (ii) respectively and the revised profit before tax of Della Zrt after taking into account the adjustments in points (i) to (iii).

(4 marks)

(b) Calculate Della Zrt's corporate income tax liability for the year 2015, clearly identifying any items for which no adjustment is necessary.

Note: Calculations need only be made to the nearest thousand forints.

(8 marks)

(c) State the circumstances in which a foreign resident entity is considered to be a controlled foreign corporation (CFC) for Hungarian tax purposes.

(3 marks)

(15 marks)

6 Mr Vass, a Hungarian citizen, is employed by Iron Nyrt, a company listed on the Budapest stock exchange.

Mr Vass has three children, all of whom qualify as beneficiary dependants for the purposes of personal income tax. Mr Vass received family care supplement on behalf of his three children throughout the year 2015.

In addition to his salary of HUF 500,000 per month from Iron Nyrt, the following items are relevant to the calculation of Mr Vass' personal income tax for the year 2015:

- (1) As part of his remuneration package, Iron Nyrt gave Mr Vass 100 of its own shares on 15 June 2015. Mr Vass had to pay HUF 10,000 for each share. On 15 June 2015, the fair market price of each Iron Nyrt share was HUF 15,000.
- (2) In January 2012, Mr Vass had placed HUF 10 million into a deposit account at a financial institution. The income from this deposit account qualifies as income from long-term deposits (*tartós befektetésből származó jövedelem*). The term of the deposit was three years and after the termination of the deposit (in January 2015), a total return (interest income) of HUF 1,500,000 was credited to the bank account of Mr Vass.
- (3) Mr Vass realised dividend income of HUF 1 million from a Hungarian company in 2015.
- (4) Mr Vass realised taxable income of HUF 5 million from regulated market transactions in 2015. In his 2014 personal income tax return, Mr Vass had declared losses of HUF 2 million from regulated market transactions.

Mr Vass was insured under the Hungarian social security system throughout the year 2015.

Required:

- (a) **Explain the treatment of income in the form of securities (*értékpapír formájában megszerzett vagyoni érték*) for Hungarian personal income tax purposes and state THREE exemptions from the general rule.** (5 marks)
- (b) **Calculate the personal income tax liability of Mr Vass for the year 2015.** (6 marks)
- (c) **Calculate the contributions to the State Health Fund (*biztosított egészségbiztosítási járuléka*) and the State Pension Fund (*biztosított nyugdíjjáruléka*) which will be deducted from Mr Vass' total remuneration for the year 2015 by Iron Nyrt.** (4 marks)

(15 marks)

End of Question Paper