

Fundamentals Level – Skills Module

Taxation (Hungary)

Thursday 7 December 2017



Time allowed: 3 hours 15 minutes

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.

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 in Section B.

TAX RATES AND ALLOWANCES

The following tax rates and allowances applicable to 2016 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	15%
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Benefits in kind

Tax rate	15%
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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 2.08%.

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 = HUF 310

USD: \$1 = HUF 280

Official rate of interest

National Bank of Hungary (Magyar Nemzeti Bank – MNB) – 0.90%

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** Racab Kft is a Hungarian entity which prepares its value added tax (VAT) returns monthly. Racab Kft carries out two activities: brokerage of insurance which is exempt from VAT and advisory services which is subject to VAT at the standard rate (VATable activities).

In the nine-month period ended 30 September 2016, Racab Kft's cumulative net sales revenue from VATable activities was HUF 900 million, and cumulative net sales revenue from VAT exempt activities was HUF 1,200 million. The cumulative unallocated input VAT for this nine-month period was HUF 180 million.

The following transactions are relevant to the preparation of Racab Kft's 2016 October VAT return. All amounts are stated excluding any applicable VAT.

- (1) Generated net sales revenue of HUF 30 million from VATable activities.
- (2) Generated net sales revenue of HUF 150 million from VAT exempt activities.
- (3) Purchased translation services for €6,200 from a Czech firm. These services related exclusively to VATable activities.
- (4) Other purchases related exclusively to VATable activities were made for HUF 80 million.
- (5) Purchased fuel for HUF 300,000 to be used for the operation of passenger cars.
- (6) Purchased goods and services which were used for both VATable and VAT exempt activities for HUF 90 million. Racab Kft could not find a reliable and systematic method to allocate and apportion the input VAT to the two different activities. Included in this HUF 90 million was a mobile phone invoice for HUF 200,000. Employees of Racab Kft are not required to separate private and business calls, and nothing was recharged to employees from the mobile phone expenses.

There were no disposals of non-current assets in the ten-month period ended 31 October 2016.

Required:

Calculate Racab Kft's value added tax (VAT) payable or deductible for the month of October 2016.

Notes:

1. You should list all of the transactions (1) to (6) identifying any
 - for which VAT is not payable by the use of N/A;
 - or for which the VAT suffered is irrecoverable by the use of zero (0).
2. Calculations need only be made to the nearest thousand forints.

(10 marks)

- 2 Hova Zrt is a Hungarian company. Hova Zrt's seat is in Budapest which is the only place of its permanent business activities and it does not carry out temporary business activities in any other places.

A summary of Hova Zrt's financial information relevant to the calculation of its local municipality tax (*helyi iparűzési adó*) for the accounting year ended 31 December 2016 is as follows:

	HUF million
Sales revenue	8,000
Other income	500
Financial income	200
Cost of raw materials	2,000
Cost of goods sold	1,000
Cost of mediated services	300
Cost of other services	100
Cost of labour	1,500
Other expenses	150
Financial expenses	170

Hova Zrt only has domestic sales revenue, and is not a related party to any other entity either in Hungary or any other country.

Required:

- (a) Calculate the local municipality tax liability of Hova Zrt for the year 2016.

Note: All calculations need only be made to the nearest thousand forints. (7 marks)

- (b) Identify the methods which can be used to apportion the local municipality tax base among local municipalities if an entity carries out permanent business activities in more than one place.

Note: Detailed explanations of the methods are not required. (3 marks)

(10 marks)

- 3 Jogar Kft is a Hungarian entity, which is registered for simplified taxation for small entrepreneurs (*egyszerűsített vállalkozói adó* (EVA)). Jogar Kft only carries out activities which attract value added tax (VAT) at the standard rate and maintains its accounting records according to the rules of the Act on Accounting (*számviteli törvény*).

In 2016 the sales revenue of Jogar Kft was HUF 21 million (net of VAT), and its purchases were HUF 4 million (net of VAT).

The sole owner and employee of Jogar Kft is Mr Kiss who received a gross salary of HUF 170,000 per month throughout the year 2016.

Mr Kiss uses a company car, which is owned by Jogar Kft. This car has an engine capacity of 90 kW and belongs to environmental category 7. The car capacity tax paid by Jogar Kft in 2016 was HUF 31,000 and this tax was paid within the legal deadline.

Required:

- (a) Calculate the profit after all taxes of Jogar Kft for the year 2016.

Note: The minimum wage in the year 2016 was HUF 111,000 per month. (8 marks)

- (b) Briefly explain how frequently an EVA-qualified entity needs to make advance tax payments and state the deadlines for paying these advances. (2 marks)

(10 marks)

- 4 Idea Kft is a Hungarian entity with its seat in Budapest. Idea Kft has been, and is expected to be, a medium-sized entity for the next five accounting years. Idea Kft wishes to take advantage of the tax relief for small and medium sized entities to acquire tangible non-current assets (*kis- és középvállalkozások adókedvezménye*).

On 10 April 2016, Idea Kft signed a finance lease agreement with a financial institution for the acquisition of a new non-current asset. The following information (and no other information) is relevant when determining the corporate tax liability of Idea Kft for the year 2016:

- (1) The profit before tax of Idea Kft was HUF 500 million.
- (2) The total interest paid by Idea Kft on the finance lease agreement amounted to HUF 9.5 million.
- (3) The non-current asset was capitalised on 1 June 2016 at a cost of HUF 200 million. Its estimated residual value is HUF 20 million, and its estimated useful life is five years.
- (4) The tax law allows depreciation at the rate of 25% per annum on this type of asset.

Required:

- (a) Calculate the corporate income tax liability of Idea Kft for the year 2016, taking into consideration the tax relief for small and medium-sized entities to acquire tangible non-current assets.

Notes:

- 1. Ignore any value added tax implications of the lease contract.
- 2. All calculations need only be made to the nearest thousand forints. (6 marks)

- (b) With respect to the tax relief for small and medium-sized entities to acquire tangible non-current assets:

- (i) state how the first and last year of eligibility for the relief is determined; and (2 marks)
- (ii) state the circumstances in which the tax relief becomes repayable. (2 marks)

(10 marks)

5 Korona Kft is a Hungarian company, whose accounting year ends on 31 December.

For its year ended 31 December 2016, Korona Kft's profit before tax is HUF 800 million. The following items are relevant to the calculation of Korona Kft's corporate tax base and corporate income tax liability for the year 2016:

- (1) Korona Kft is a wholly-owned subsidiary of another Hungarian entity, Prince Kft. During the year Prince Kft sold inventories to Korona Kft for HUF 100 million. The customary market price of those inventories was HUF 80 million. Korona Kft had sold all of these inventories to third parties before 31 December 2016.
- (2) In 2015 Korona Kft had created a development reserve of HUF 50 million in order to acquire non-current assets. On 1 July 2016, using this reserve Korona Kft acquired and capitalised a new non-current asset (Asset X) for HUF 40 million. On 1 July 2016, the estimated residual value of Asset X was HUF 4 million and its estimated useful life was ten years. The tax law allows depreciation of 20% per annum on this type of asset. All the other non-current assets of Korona Kft are depreciated at the same rate for both accounting and tax purposes.
- (3) After a review of its non-current assets at 31 December 2016 Korona Kft accounted for impairment losses of HUF 3 million (*terven felüli értékcsökkenés*). This impairment was not caused by an event out of the control of Korona Kft.
- (4) The profit before tax figure includes a tax penalty of HUF 1 million (*adóbürság*), and a self-revision surcharge of HUF 300,000 (*önellenőrzési pótlék*).
- (5) On 31 December 2016, Korona Kft recognised an impairment of HUF 8 million on an overdue receivable. This receivable had been recognised at HUF 10 million in 2015 and has been outstanding for 400 days. No impairment was recognised on this receivable in 2015.
- (6) Korona Kft recognised provisions of HUF 7 million in 2016.

The corporate income tax liability of Korona Kft in the previous two years has been as follows:

	HUF million
2014	108
2015	114

In December 2016 the corporate income tax liability of Korona Kft was estimated to be HUF 115 million.

Required:

- (a) Explain how the corporate income tax base will be adjusted if the profit before tax is lower or higher due to the transfer prices used in related party transactions (*kapcsolt vállalkozások között alkalmazott árak módosítása*). (4 marks)
- (b) Calculate the corporate income tax liability of Korona Kft for the year 2016. (7 marks)
- (c) Calculate the corporate income tax advances Korona Kft should have made during the year 2016 and state the deadlines for such advance payments. (4 marks)

Note: All calculations in parts (b) and (c) need only be made to the nearest thousand forints.

(15 marks)

- 6 (a) Rudolf is a Hungarian citizen, employed by Juttat Nyrt. Rudolf is not a private entrepreneur. Rudolf has two children who qualify as beneficiary dependants for the purposes of personal income tax. Based on the declaration made by Rudolf and his wife to his employer, Rudolph is entitled to claim 100% of the family allowance.

The following items are relevant to the calculation of Rudolf's personal income tax for the year 2016:

- (1) Rudolph received a monthly salary of HUF 2 million throughout the year 2016.
- (2) On 15 February 2016, Juttat Nyrt granted Rudolf 500 options to purchase securities (other than the shares of Juttat Nyrt) at a price of HUF 5,000 each when the customary market price of the securities was HUF 8,000 each. According to the terms of the agreement between Rudolf and Juttat Nyrt, on exercising the options Juttat Nyrt will transfer the securities to Rudolf's securities account. On 15 February 2016, Rudolf immediately exercised 50% of his rights, and on 4 March 2016 sold the securities for HUF 8,500 each which was the customary market price of the securities at that date. On 15 November 2016, Rudolf exercised the remaining 50% of his rights when the customary market price of the securities was HUF 9,000 each. Rudolf did not sell any of the securities acquired on 15 November 2016 before 31 December 2016.
- (3) Rudolph realised dividend income of HUF 3 million from a Hungarian company in 2016.
- (4) On 15 December 2016, Rudolf received interest income of HUF 5 million from a corporate bond. The entity paying the interest is a company located in Country Y, a low tax rate country with which Hungary does not have a double tax treaty. Rudolf paid foreign tax of HUF 100,000 on this interest in Country Y.

Required:

- (i) **Explain how the income from rights to purchase securities is taxed for personal income tax purposes and determine the classification of Rudolf's income from the rights to purchase securities granted to him by Juttat Nyrt.** (4 marks)
 - (ii) **Calculate the personal income tax liability of Rudolf for the year 2016.** (6 marks)
- (b) The following information relates to the benefits in kind provided by Juttat Nyrt to its employees in 2016:
- (1) The total mobile phone expenses incurred by Juttat Nyrt were HUF 3 million (excluding value added tax). The employees are not required to separate private and business calls, and no amounts were recharged to its employees by Juttat Nyrt.
 - (2) Juttat Nyrt gives a monthly voucher with a value of HUF 11,000 to each of its employees to purchase catering services at the workplace (*munkahelyi étkeztetésnek minősülő szolgáltatás*) in the canteen operated by Juttat Nyrt at their workplace. The total value of the vouchers issued by Juttat Nyrt in the year 2016 was HUF 6.6 million.

Required:

Calculate the personal income tax and health care contributions (*egészségügyi hozzájárulás*) payable by Juttat Nyrt for the year 2016 on the benefits in kind (items (1) and (2)) provided to its employees. (5 marks)

(15 marks)

End of Question Paper