

Fundamentals Level – Skills Module

Taxation (Hungary)

Tuesday 12 June 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 ³	7,000
1,600 cm ³ 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 Offler is a British citizen. He moved to Hungary in 2005 because he married a Hungarian woman but he kept his British citizenship. He spent the whole of the year 2011 in Hungary, except for his three weeks annual leave in May which he spent in Australia.

Mr Offler works at a Hungarian bank in Budapest. His monthly gross salary is HUF 300,000.

Besides his salary, the following three benefits in kind are provided by the bank to Mr Offler:

1. A voucher of HUF 18,000 a month for warm meals. All employees of the bank receive this.
2. The employees of the bank are covered by a life insurance policy, the expense of which is borne by the bank. In 2011 the bank spent a total amount of HUF 15 million on the insurance of all employees, and of this total amount the expense related to Mr Offler was HUF 50,000.
3. Mr Offler goes to the local gym three times a week. The entry fee he pays, of HUF 15,000 per month, is reimbursed by the bank.

Mr Offler also received the following items of income during the year 2011:

- (i) Dividend income of HUF 12 million from companies listed on the Budapest Stock exchange, and HUF 3 million from private companies.
- (ii) Monthly rental income of HUF 60,000 from a flat in Budapest that he rents out.

Mr Offler paid HUF 20,000 per month to his account at a voluntary pension fund. This payment is made above the level required by the Act on Pension Contributions.

Mr Offler has two children, who are three and six years old. His wife is not employed.

In 2011 Mr Offler sold a plot of land for HUF 20 million, he had bought the land in 2005 for HUF 15 million.

Required:

- (a) State the circumstances in which an individual is deemed to be resident in Hungary for tax purposes and, based on these rules, determine if Mr Offler is resident in Hungary for tax purposes.** (7 marks)

- (b) Assuming that Mr Offler is resident in Hungary for tax purposes:**

- (i) In respect of each of the items of benefit in kind Mr Offler receives from his employer, numbered 1 to 3 above, state the taxable nature of the benefit, calculate the personal income tax and any applicable social security contributions payable on the benefit and state who is responsible for paying the tax;**

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

- Item 1 2 marks
Item 2 3 marks
Item 3 2 marks

(7 marks)

- (ii) Calculate the personal income tax liability of Mr Offler for 2011. Support your calculations with brief explanations, including consideration of the tax credit on wages.** (16 marks)

(30 marks)

- 2 Nemoda Kft is a Hungarian company, which qualifies as a medium sized entity. It was founded on 1 January 2011 and is wholly owned by Hungarian individuals.

Nemoda Kft provides delivery services to several clients. These delivery services include the transporting of goods with vans, as well as the transporting of individuals in passenger cars and mini-buses that can carry a maximum of eight people (including the driver). The passenger cars and mini-buses qualify as company cars.

For the year ended 31 December 2011, the pre-tax profit of Nemoda Kft was HUF 800 million BEFORE taking into account the company car tax that Nemoda Kft had to pay throughout the year 2011. The following table shows the number of company cars owned by Nemoda Kft on the first day of each quarter. All purchases were made on the first day of the relevant quarter and capitalised on that date.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Number of company cars	20	22	25	26

The number of vehicles in the fleet of vans was constant, at 12, throughout the year 2011.

The company car tax was paid correctly during the year but it was not recorded by the chief accountant. The capacity of the car engines is above 1,600 cm³ for all company cars. No disposal of company cars or vans took place in 2011.

Other than any adjustment required in respect of the company car tax, no further adjustments are needed to the pre-tax profit of Nemoda Kft for the year 2011. However, the following items are relevant when determining the company's corporate tax base for 2011:

1. The depreciation rate of all non-current assets was the same for accounting and tax purposes except for the office building owned by Nemoda Kft. The building was capitalised on 1 January 2011 at HUF 50 million. The estimated residual value of the building at that date was HUF 20 million and the estimated useful life was 60 years. The tax law allows annual depreciation at the rate of 2%.
2. At the end of the year 2011, the management of Nemoda Kft reviewed the outstanding balances of trade receivables and decided to recognise impaired debts of HUF 3 million in its financial statements. None of these debts were outstanding for more than 365 days.
3. In October 2011 Nemoda Kft created a tied-up reserve of HUF 20 million in order to purchase further passenger cars in 2012.
4. A provision of HUF 10 million was created in November 2011 to cover a probable future payment due to a legal case.
5. Nemoda Kft scrapped assets of HUF 5 million at the end of the accounting period. The chief accountant derecognised these assets. The auditor of the entity pointed out in its management letter that the documents supporting the scrapping of the assets were missing.
6. In 2011 Nemoda Kft expensed a total of HUF 5 million as entertainment expenses. This amount is stated excluding any applicable value added tax (VAT).
7. The total amount of capitalised expenditure on purchasing the new passenger cars in the tax year 2011 was HUF 100 million.

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

Required:

- (a) (i) State from when the company car tax obligation starts and when it ends following the acquisition and disposal of a car; (2 marks)
- (ii) Calculate the amount of company car tax Nemoda Kft had to pay throughout the year 2011, and determine its adjusted profit before tax for that year. (5 marks)
- (b) (i) Calculate the corporate income tax liability of Nemoda Kft for the year 2011;
Note: for this part your workings need only be made to the nearest thousand forints. (9 marks)
- (ii) Explain the tax treatment of the following:
- the derecognised scrapped assets (note 5); (1 mark)
 - the entertaining expenses (note 6); (1 mark)
 - the expenditure on new passenger cars (note 7). (2 marks)
- (c) (i) Explain when an entity is considered to be a controlled foreign corporation (CFC) for Hungarian tax purposes; (3 marks)
- (ii) Explain when an entity is considered NOT to be a controlled foreign corporation (CFC) for Hungarian tax purposes. (2 marks)

(25 marks)

- 3** Inverse Zrt is a medium sized Hungarian entity with its seat in Central Transdanubia. The region Inverse Zrt operates in is not a preferential underdeveloped region.

Inverse Zrt decided to extend its manufacturing capacity and started a greenfield investment project in 2010. The company spent HUF 4,860 million (€18 million) on this investment project in 2010, and it capitalised the project on the last day of the year 2010. It decided to claim the development relief for the first time in the following year, 2011.

Inverse Zrt decided to use the special criterion of the development relief which imposes a minimum increase in the average number of employees. Inverse Zrt's average number of employees (actual and forecast) is as follows:

	2009	2010	2011	2012
	Actual	Actual	Actual	Forecast
Average number of employees	200	350	360	370

Inverse Zrt's corporate tax base was HUF 12,000 million in the year 2011 (actual) and is forecast as HUF 13,000 million in the year 2012.

Required:

- (a) Explain the conditions that must be met in order for Inverse Zrt to qualify for the development tax relief. (5 marks)
- (b) Calculate and briefly explain the limit of subsidies Inverse Zrt can claim in respect of the investment project. (4 marks)
- (c) Calculate the expected corporate tax liability (in HUF millions) of Inverse Zrt for each of the years 2011 and 2012. (6 marks)

(15 marks)

- 4** Gadget Kft is a Hungarian entity with its seat in Budapest. It trades in electrical devices and prepares its value added tax (VAT) returns monthly.

In April 2011 the following events occurred that are relevant to the monthly VAT return of Gadget Kft. All amounts are stated excluding any applicable VAT.

- (i) Gadget Kft generated sales revenue of HUF 20 million. This revenue was split between cash sales (HUF 6 million) and credit sales (HUF 14 million). Credit sales are made on 45-day payment terms.
- (ii) Gadget Kft made purchases of HUF 10 million. Gadget Kft had received invoices in respect of HUF 9 million of these purchases by 20 May 2011. The outstanding invoice of HUF 1 million in respect of goods which were also delivered in April 2011 arrived only on 22 May 2011. Gadget Kft always pays its supplier invoices on time.
- (iii) Gadget Kft received an invoice from a German consultancy firm of €7,000 in respect of some tax advice. The German firm is not registered with the Hungarian Tax Authorities.
- (iv) Gadget Kft received an invoice of HUF 200,000 from Accounting Kft for preparing its monthly tax returns and management reports. The due date of the April invoice is 23 May 2011. The previous invoice from Accounting Kft of HUF 180,000 in respect of March had a due date of 23 April 2011.
- (v) Gadget Kft received an advance payment of HUF 1,500,000 on 12 April 2011 for deliveries to be made in June 2011.
- (vi) Gadget Kft uses two vans for the delivery of its products to business partners. The fuel invoices for these two vans amounted to HUF 300,000 for April 2011.
- (vii) The company car used by Gadget Kft's managing director had to be repaired in April 2011; the cost of the repair was HUF 500,000. The fuel invoice for this company car used by the managing director was HUF 50,000 for the month of April 2011.
- (viii) Gadget Kft paid mobile phone invoices of HUF 150,000 for April 2011. The company's employees are not required to split their business and private calls, thus there is no need for them to reimburse their private usage of the company phones. The due date of the mobile phone invoice was 30 April 2011.

Required:

- (a) Calculate Gadget Kft's value added tax (VAT) liability/refund for the month of April 2011. Support your calculations with brief explanations.** (12 marks)
- (b) Calculate the amounts of personal income tax and social security contributions Gadget Kft has to pay in respect of the private usage of mobile phones for the month of April 2011.** (3 marks)

(15 marks)

- 5 (a) Rent-out Kft is an entity registered under the simplified taxation scheme for small entrepreneurs (*egyszerűsített vállalkozói adó – EVA*). It owns a residential building consisting of six small flats that it rents out to tenants. Rent-out Kft has chosen to charge value added tax (VAT) on the sales revenue derived from its rental activity.

The building was acquired and capitalised on 1 January 2011 for HUF 60 million. The management of Rent-out Kft believe that the economic useful life of the building is 50 years and its residual value is equal to HUF 10 million.

In 2011 Rent-out Kft had one employee, Botond, and paid him a monthly gross salary of HUF 200,000.

Rent-out Kft generated net sales revenue of HUF 15 million and incurred costs and expenses (excluding salary-related costs) of HUF 3 million. These amounts are stated excluding VAT. All Rent-out Kft's sales and purchases attract the standard rate of VAT of 25%.

Required:

- (i) Calculate the dividend Rent-out Kft can distribute to its owners for the year 2011, assuming the firm holds an EVA licence throughout the year. Give brief explanations of the treatment of value added tax (VAT);

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

- (ii) Re-calculate the dividend Rent-out Kft can distribute to its owners for the year 2011, assuming the firm does NOT hold an EVA licence. (5 marks)

- (b) Rent-out Kft's employee, Botond, has no other position at any other company, nor does he have any income other than the gross salary of HUF 200,000 per month he receives from Rent-out Kft.

Botond does not have children.

Required:

Calculate the net salary Botond will receive from Rent-out Kft for the month of January 2011 after deducting both personal income tax and social security contributions. (5 marks)

(15 marks)

End of Question Paper