

Fundamentals Level – Skills Module

# Taxation (Hungary)

Tuesday 4 June 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 = HUF 290

USD: \$1 = HUF 230

### **Official rate of interest**

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

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

- 1** Mr Budai is a Hungarian citizen. Mr Budai has been an employee of Aquincum Kft for several years. Aquincum Kft is a Hungarian company located in Budapest. Mr Budai receives a monthly gross salary of HUF 1,000,000 from Aquincum Kft.

The following items are also relevant when calculating Mr Budai's personal income tax for the year 2012:

1. Aquincum Kft reimburses the cost of internet access to Mr Budai's private home. The monthly cost of this internet access is HUF 10,000.
2. As part of Mr Budai's remuneration package, he received HUF 300,000 in the form of a Széchenyi card for accommodation purposes (*Széchenyi-pihenőkártya keretében szálláshely-szolgáltatásra adott juttatás*) from Aquincum Kft.
3. Every employee of Aquincum Kft is entitled to a Budapest transportation pass paid for by the company. Mr Budai takes advantage of this benefit in kind. The value of the transportation pass is HUF 9,800 per month.
4. Mr Budai is entitled to use the company mobile phone provided to him by Aquincum Kft for private purposes. He is required to separate his business and private calls. The total amount of his private calls during the year was HUF 100,000, excluding value added tax. Mr Budai is not required to reimburse the cost of his private calls to his employer.
5. Mr Budai sold one of his flats in 2012. The sales price was HUF 25 million. Mr Budai had acquired this flat in 2008 for HUF 18 million. The real estate broker who facilitated the sale charged 3% of the sales value. No additional costs were incurred by Mr Budai when he purchased the flat in 2008.
6. Mr Budai received USD 4,000 from a USA-based accounting body for advisory services. Mr Budai is not a private entrepreneur nor was he employed by the USA-based accounting body, so the basis for the payment was a contract of services (*megbízási szerződés*). Mr Budai had no allowable expenses in respect of this advisory activity. Mr Budai paid no tax on this income abroad.
7. Mr Budai purchased bonds issued by a Hungarian entity listed on the Budapest Stock Exchange in January 2012 for HUF 20 million. The bonds were redeemed for HUF 22 million in July 2012 and a fixed amount of interest of HUF 700,000 was paid for this period. No tax was deducted by the issuer on the interest paid to Mr Budai.
8. Mr Budai has two children below 18 years of age, and he received family care supplement (*családi pótlék*) on behalf of his children throughout the year.

**Required:**

- (a) Explain how each of items 5, 6 and 7 above are treated for Hungarian tax purposes and calculate the personal income tax payable on these items.

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

Item 5 5 marks

Item 6 4 marks

Item 7 3 marks

(12 marks)

- (b) Calculate the personal income tax liability of Mr Budai for the year 2012.

(8 marks)

- (c) Calculate the personal income tax and the social security contributions and social contribution tax payable by Aquincum Kft in respect of the salary paid and the benefits in kind provided to Mr Budai, listed as items 1 to 4 above, in the tax year 2012.

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

Item 1 1 mark

Item 2 4 marks

Item 3 2 marks

Item 4 3 marks

(10 marks)

**(30 marks)**

- 2 Prolce Kft is a Hungarian company which trades in ice creams and other frozen products. Prolce Kft is 100% owned by an Italian company.

The pre-tax profit of Prolce Kft was HUF 100 million for the year ended 31 December 2012. The following items are relevant when determining Prolce Kft's tax base for 2012:

1. The Italian parent company finances Prolce Kft in two ways: with equity and with non-current and current liabilities. During the year 2012, the data relating to Prolce Kft's sources of finance and other relevant information from its statement of financial position is as follows:

	As at 1 January 2012 HUF million	As at 31 December 2012 HUF million
Share capital	50	50
Share premium	10	10
Tied-up reserve (see note 7)	0	100
Revaluation reserve	5	5
Retained earnings (excluding current year's profit) (see note 7)	120	20
Bank loans (9% per annum)	200	200
Intercompany loans (10% per annum)	600	600
Intercompany payables (see note (i))	0	20
Financial instruments (non-current assets)	5	5
Financial instruments (current assets)	5	5
Trade receivables	12	12

The balance of bank loans, intercompany loans, financial instruments (both non-current and current) and the balance of trade receivables did not change during the year 2012.

**Note (i) Intercompany payables:**

The year-end outstanding balance of HUF 20 million is owed to the Italian parent company and is equal to the total value of deliveries made during the year. The invoice received states the date of delivery as 31 December 2012 and the HUF 20 million has been expensed in the financial accounts of Prolce Kft in 2012. However, the invoiced amount does not represent the fair market price of the goods delivered by the Italian parent company. If the fair market price had been invoiced, Prolce Kft would have incurred expenses of HUF 35 million.

2. Prolce Kft created provisions of HUF 50 million for potential future liabilities and reversed provisions of HUF 15 million that had been created in 2011.
3. Prolce Kft disposed of tangible non-current assets that had originally cost HUF 100 million for which accumulated accounting depreciation at the time of disposal was HUF 90 million. The tax written down value of the assets disposed of was HUF 30 million at the time of disposal.

All of Prolce Kft's non-current assets other than the one disposed of were depreciated at the same rate for both accounting and tax purposes.

4. Prolce Kft expensed HUF 10 million in respect of irrecoverable debts which had lapsed in 2012.
5. The amount of dividend income received by Prolce Kft was HUF 3 million.
6. In May 2012, Prolce Kft had to pay HUF 5 million as a result of a tax audit relating to the tax year 2009. The payment consisted of a tax penalty of HUF 3 million and late payment interest of HUF 2 million. Prolce Kft also paid a self-revision fee of HUF 1 million in the year 2012.
7. On 31 December 2012, Prolce Kft transferred HUF 100 million from retained earnings to the tied-up reserve in its equity. The intention of the company's management is to use this tied-up reserve to purchase new delivery vans in 2014.

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

**Required:**

- (a) (i) Explain the thin capitalisation rule and the effect it has on the determination of the corporate tax base of an entity; (6 marks)
- (ii) Calculate the impact of the thin capitalisation rule on the corporate tax base of Prolce Kft for the year 2012. (6 marks)
- (b) Calculate the corporate income tax liability of Prolce Kft for the year 2012.  
Note: For this part your workings need only be made to the nearest thousand forints. (9 marks)
- (c) Explain how tax losses (a negative tax base) arising in 2012 are treated for corporate income tax purposes. (4 marks)

**(25 marks)**

- 3** Extension Kft is a medium-sized Hungarian company located in Budapest. Extension Kft manufactures textiles and its management is now considering the expansion of its activities by acquiring a new plant.

Extension Kft's own financial resources are limited, so the company plans to finance the acquisition of the plant with a bank loan.

The cost of the new plant is HUF 500 million including installation and other directly related costs. Extension Kft's negotiations with its bank have resulted in the offer of a loan of HUF 500 million with the following conditions:

Interest rate per annum	11%
Expected date of signing the contract	1 July 2013
Expected date of disbursement	1 August 2013
Expected date of repayment of the loan	1 August 2018

The forecast pre-tax profits and corporate tax base of Extension Kft are as follows:

	2013 Forecast HUF '000	2014 Forecast HUF '000
Profit before tax	75,000	87,000
Corporate tax base	70,000	90,000

The average number of Extension Kft's employees will not change in the period 2012 to 2014, but the total salary expense will increase by HUF 1 million in every year from 2012 to 2014.

**Required:**

- (a) Identify and briefly explain the corporate tax relief which Extension Kft can use to reduce its corporate tax liability in the projection period 2013 to 2014. State any limitations to the relief.**

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

- (b) Calculate the corporate income tax liability of Extension Kft for the years 2013 and 2014, taking into account the relief identified in part (a) of your answer.**

Note: Your calculations for this part need only be made to the nearest thousand forints. (9 marks)

**(15 marks)**



- 4 FullCredit Zrt is a Hungarian company. FullCredit Zrt has its seat in Budapest and prepares its value added tax (VAT) returns monthly.

FullCredit Zrt provides financial and other services to its clients. The company's two activities are:

1. the provision of advisory services which are subject to the standard rate of VAT; and
2. the provision of services provided as credit agents, which are exempt from VAT.

In May 2012, the net sales revenue in respect of advisory services was HUF 25 million and the net sales revenue in respect of credit agency services was HUF 11 million. In addition, FullCredit Zrt accounted for net sales proceeds of HUF 5 million from the sale of tangible non-current assets in the month. The tangible non-current assets sold had been used exclusively for the provision of advisory services, and none of these assets was a passenger car.

In May 2012, the following events occurred that are relevant to the monthly VAT return of FullCredit Zrt. All amounts are stated excluding any applicable VAT.

- (i) FullCredit Zrt purchased goods for HUF 5 million from Hungarian suppliers. These goods were used for both of the company's activities and could not be allocated between them.
- (ii) FullCredit Zrt received services from subcontractors with a value of HUF 20 million, of which HUF 3 million related exclusively to advisory services, HUF 6 million related exclusively to credit agency services and the remaining balance could not be allocated between the two activities.
- (iii) FullCredit Zrt received an invoice from a German firm which had provided it with legal advice for €20,000. This invoice related exclusively to the provision of advisory services.
- (iv) FullCredit Zrt spent HUF 7 million on renovating its residential property.

For the four-month period ended 30 April 2012, FullCredit Zrt's cumulative sales revenue from advisory services was HUF 90 million and its cumulative sales revenue from credit agency services was HUF 72 million. The total cumulative unallocated input VAT for the first four months of 2012 was HUF 15 million.

**Required:**

- (a) Calculate FullCredit Zrt's liability to/refund of VAT for the month of May 2012. (12 marks)
- (b) Calculate the amount of FullCredit Zrt's irrecoverable VAT for the month of May 2012. (3 marks)

**(15 marks)**

- 5** Mr Vizi and his wife are the owners of a family-run business called Together Kft. Together Kft has been operating for several years and since 2010 has been registered for EVA (*egyszerűsített vállalkozói adó*), the simplified taxation for small entrepreneurs. All the sales and purchases of Together Kft attract the standard rate of value added tax (VAT).

Together Kft has only one employee: Mr Vizi. His monthly gross salary is HUF 200,000.

Together Kft had purchased a company car on 1 November 2011 at a cost of HUF 5 million and capitalised the car at that amount in its books. The company plans to use the car over its estimated useful life of five years and has assumed a zero residual value. The car has an engine power of 80 kW and belongs to the environmental category 6. The annual amount of car capacity tax (*gépjárműadó*) payable is HUF 22,000.

In the year 2012, the sales revenue generated by Together Kft was HUF 18 million (net of VAT) and the purchases made by Together Kft were HUF 5 million (net of VAT).

**Required:**

- (a) State, giving reasons, whether Together Kft will be subject to company car tax in Hungary in the year 2012.**

(2 marks)

- (b) Calculate the net cash dividends that Together Kft can distribute to its owners for the financial year 2012.**

Note: You should ignore contributions payable to professional training funds (*szakképzési hozzájárulás*) and tax payable to local municipalities (*helyi iparűzési adó*).

(7 marks)

- (c) Assuming that Mr Vizi has no income other than the salary received from Together Kft, calculate the net salary Mr Vizi will receive from Together Kft for the month of January 2012 after the deduction of personal income tax and social security contributions.**

(6 marks)

**(15 marks)**

**End of Question Paper**