Examiner's report
F6 (HUN) Taxation
December 2015

ACCA

General Comments

There were two sections to the examination paper and all of the questions were compulsory. Section A consisted of 15 multiple choice questions (two marks each) which covered a broad range of syllabus topics. Section B had four questions worth 10 marks each and two longer questions worth 15 marks, each testing the candidates' understanding and application of Hungarian taxation in more depth. The following paragraphs report on each section and focus on some of the key learning points.

Specific Comments

Section A

It was very pleasing to see that all candidates attempted all of the questions. Candidates preparing for the next examination of F6 (HUN) are advised to work through the pilot paper and sample questions discussed here and to carefully review how each of the correct answers were derived. Section A questions aim to provide a broad coverage of the syllabus, and future candidates should aim to revise all areas of the F6 (HUN) syllabus, rather than attempting to question spot. The following questions are reviewed with the aim of giving future candidates an indication of the types of questions asked, guidance on dealing with exam questions and to provide a technical debrief on the topics covered by the specific questions selected.

Sample Question for Discussion

Example

LTC Kft's annual local municipality tax expense was HUF 1.8 million for 2012, HUF 2 million for 2013 and HUF 2.5 million for 2014.

What is the amount of the local municipality tax advance payable by LTC Kft on 15 September 2014?

A HUF 1,100,000
B HUF 1,250,000
C HUF 1,000,000
D HUF 900,000

This question tested the payment of local municipality tax. Candidates must know what the rules are in relation to paying the local municipality tax. There are two advances payable per annum: the first advance is payable by 15 September which is the difference between the prior year's liability (determined by 31 May) and the current year March advance. The second advance payment is payable by 15 March of the following year, being 50% of the prior year's liability.

Applying this rule on 15 September 2014 LTC Kft has to pay HUF 2 million – (50% x 1.8 million) = HUF 1,100,000.

This example shows that candidates are not only required to learn the tax rules but they also must be able to apply the rules correctly. Local municipality tax and the related advance payments are regularly examined.

The correct answer was A.

ACCA

Section B

Question One
This 10-mark question covered the topics of value added tax (VAT).

Part (a) for 7 marks required candidates to calculate the VAT balance of a company for October 2014.

This part of the question was answered reasonably by most candidates, but there were some common mistakes that can be highlighted.

One common mistake was regarding the treatment of the invoice of the Polish training company. The place of performance for this type of service is Hungary where the service was actually provided. As a result the training was an 'import service' and VAT is payable and deductible at the same time. A common mistake here was that many candidates did not include the invoice in both the VAT payable and deductible, instead they only accounted for it once.

Some candidates experienced difficulties with the late invoice. A few candidates assumed that this invoice cannot be included in the October VAT return – this is an incorrect assumption. Late invoices should be recorded in the month when they are received.

Another common mistake related to the non-current asset sold. Since this asset was sold below its market value, and the market value is known (given in the question), VAT must be paid on the market value rather than on the basis of the sales price.

However, most candidates were able to correctly treat the own work capitalised. On this item VAT is payable and deductible at the same time, if the asset is used for taxable activities.

Part (b) of this question required candidates to calculate the irrecoverable VAT for October 2014 of this company. Although many candidates achieved maximum marks in this part, a typical source of mistake related to computing the irrecoverable VAT. Both the fuel purchases and taxi services were given including VAT (specifically stated in the question). Some candidates had difficulties calculating the VAT content of these items. Also a few candidates did not know that VAT on products that are used for renovation of residential properties (as per main rule) cannot be recovered.

Question Two
This question addressed the company car tax.

Part (a) of the question for 3 marks required candidates to explain how the Hungarian tax law on company cars defines the cars which are subject to company car tax. The answer should be based on the logic of the tax law, i.e. company car tax is payable if expenses are deducted by an organisation or a private individual in their tax return. Many candidates were able to apply this and provided correct answers.

Surprisingly quite a few candidates listed the cases when cars are exempt from paying company car tax. This was not required. Candidates are strongly advised to read the requirements carefully and answer the question set.

Part (b) of this question focussed on calculating the company car tax payable for 3 cars and clearly stating who is responsible for paying the company car tax.

This part of the question was reasonably well answered but again there were a number of common mistakes which are discussed below.

The vast majority of candidates were able to precisely calculate the company car tax payable on car 1 and car 2, and the majority stated that CAA Kft is responsible for paying the tax.

This was not the case, however, for car 3. On car 3 the private individual is responsible for paying the company car tax because the rental contract was not registered with the Hungarian authority and expenses in relation to the car were deducted. Since the rental agreement was signed on 1 July 2014, company car tax is payable from the next month, i.e. from August to December 2014, which means for 5 months (and not 6 months as assumed by several candidates). Candidates must know the rules governing company car tax payable, and remember that tax obligation starts from the month following the month when expenses were accounted for.

Part (c) of this question addressed the deductibility of car capacity tax from the company car tax liability. This 1-mark question was correctly answered by almost all candidates.

Question Three

This 10-mark question covered the topics of simplified taxation for small entrepreneurs (EVA) and the calculation of the net salary of a private individual.

Part (a) for 6 marks required candidates to calculate the closing cash balance of an EVA-qualified company. To answer this part of the question candidates had to apply the rules of taxation under an EVA-licence. It was surprising to see that there is still a significant number of candidates who treat EVA in the same way as corporation tax, which is an inappropriate approach. EVA is not payable on the 'profit' of the company, instead, EVA is paid on the gross sales revenue (i.e. sales revenue including VAT) at a rate of 37%. Examiner's reports from previous exams have already highlighted this issue, but it seems that this lesson was not learned by a lot of candidates.

Also it is important to note that EVA-qualified companies cannot deduct VAT and this was also a common mistake.

Another point to note here is the tax payable to local municipalities. Quite a few candidates forgot to include this item in their calculations, but those who did usually computed this item correctly.

Part (b) for 4 marks included the net salary calculation of a private individual. It was pleasing to see that most candidates had no difficulties to achieve maximum marks in this part of the question.

Question Four

This 10-mark question focused on calculating the corporate income tax liability.

Part (a) for 8 marks required candidates to calculate the corporate income tax liability with both the standard method and the minimum tax base method. Using the standard method did not present any difficulties for the majority of the candidates, but the minimum tax base method was less well covered.

Many candidates did not know how to derive the minimum tax base. This is done by taking total income (including sales revenue, other income, financial income and extraordinary income) and then subtracting relevant items which in this case was cost of goods sold and cost of subcontractors. Other items given in the question should be excluded (e.g. financial expenses). The amount calculated should be multiplied by 2% to get the minimum tax base. Tax is payable at the standard rate on this minimum tax base. The most common mistake was that a large proportion of candidates assumed that the minimum tax base equals the corporate tax payable, which is clearly not the case. Since the rules of minimum tax base apply to all companies, candidates are advised to learn this part of the syllabus more thoroughly to ensure they can use the above rules correctly.

Part (b) was a 2-mark requirement where candidates had to explain how a change in the balance of loans from owners will affect the minimum tax base. 50% of the increase in the daily average of the liabilities from owners compared to the previous year's closing balance of liabilities increases the minimum tax base. It was disappointing that only a minority of candidates were able to address this issue at all, and those who did were usually not able to give a complete answer. Even if this might seem a marginal area to some, it is certainly not, and candidates should aim to study the full syllabus.

Question Five

This 15-mark question focused on the corporate income tax regulation for commercial companies as well as on local municipality tax.

Part (a) for 5 marks required a calculation of the local municipality tax liability of Locorp Zrt. The local municipality tax liability involves a regressive computation of cost of goods sold and mediated services. There are still many candidates that don't apply this regressive method thus losing marks on this type of question. Those who knew this way of calculation applied the method correctly in most cases.

Part (b) included a comprehensive calculation of the corporate income tax liability. This part of the question was answered well by most candidates. They were able to identify the tax base increasing the decreasing items so many scored excellent marks.

The following mistakes were noted:

- Most candidates struggled when determining the tax base decreasing item in relation to a development reserve. There are 3 amounts, the lowest of which is the tax base reducing item, namely the actual amount of tied up reserve, 50% of profit before tax and HUF 500 million. Many candidates only remembered 2 out of these 3 limits.
- Surprisingly, quite a few candidates had difficulties when calculating the tax base increasing and reducing items relating to a non-current asset sold. It required a computation of cumulative depreciation and the resulting tax written down value of it. Candidates should read the information in the question carefully to avoid losing marks on such straightforward topics.
- There was a tax relief available to Locorp Zrt related to a loan used to acquire non-current assets. The relief is the lowest of 40% of the interest expense, HUF 6 million or 70% of the corporate income tax. Some candidates were able to apply the above rule to the scenario, mentioning only 1 or 2 of the limits.

Question Six

This 15-mark question covered several aspects of personal income tax and the social security contributions payable on benefits in kind.

Part (a) (i) for 6 marks required candidates to define the term 'regulated market transaction' and a brief explanation of how gains and losses realised on regulated market transactions are treated for Hungarian tax purposes.

Performance on this part of the question was poor. Only a few candidates were able to give a clear definition of regulated market transactions. This might be the case because this was a non-computational requirement and candidates are again reminded about the importance of narrative requirements and they should learn the main definitions of the Hungarian tax law as required. Even though many candidates knew that capital losses can be offset against capital gains, the time frame of this option (losses in the tax year and/or in the preceding two tax years can be used up, if declared in the personal income tax return) was unknown to many.

Part (a) (ii) for 5 marks involved the personal income tax calculation of a private individual. The most common mistakes were as follows:

- The classification of the income from right to purchase securities should have been classified as non-independent income, because this was provided by the employer of the private individual. Some candidates classified it as income taxed separately, which is incorrect.
- Many candidates ignored the HUF 1 million loss carried forward from the previous year from a regulated market transaction when determining the tax on income taxed separately. This may be interrelated to the problem mentioned in part (i) of this requirement, where a poor knowledge on regulated market transactions was obvious.
- The family allowance available to the private individual was subtracted from the personal income tax by many. This is a misconception, since family allowance reduces the tax base, not the tax payable. This mistake was present in previous sittings as well, so candidates are encouraged to read examiner reports more carefully.

Part (b) addressed two different types of benefits in kind and their taxation. Candidates had to calculate the personal income tax and health care contributions payable by the employer in respect of the two items. This area of the syllabus is regularly examined and it was pleasing to see that most candidates provided excellent answers.

This first item covered the private usage of company phones. The only typical mistake in this case was that candidates made assumptions about the proportion of private usage even though the question stated quite clearly the relevant amount of private usage. Candidates should read the questions carefully when providing their answers. The vast majority of candidates precisely knew that the tax base is 119% of the gross amount and that 16% personal income tax and 27% health care contribution are payable on the tax base.

The second item, namely the local transportation passes, attracts a tax burden of 16% of personal income tax and 14% of health care contribution. Again, most candidates achieved maximum marks in this calculation. Those who made a mistake applied the 27% rate instead of the 14%.