

# Examiner's report

## F6 (HUN) Taxation

December 2016

### 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 almost all candidates attempted all of the questions. Candidates preparing for future examinations in F6 (HUN) are advised to work through the specimen exam questions 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 question is 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 question selected.

#### Sample Question for Discussion

Margit is a Hungarian private individual employed by Raven Kft. On 1 February 2015 Raven Kft gave Margit an interest free loan of HUF 10 million. The purpose of the loan was not defined in the loan agreement. The loan is repayable in a single amount in 12 months' time.

**What is the amount of health care contributions (egészségügyi hozzájárulás) payable by Raven Kft for the year 2015 on the interest free loan provided to Margit?**

- A HUF 160,875
- B HUF 99,266
- C HUF 191,441
- D HUF 83,417

This question tested the area of social security contributions for employed persons. If a private individual receives an interest free loan or a loan at discounted interest rate, the benefit so received is treated as benefit in kind on which personal income tax as well as social security contributions are payable. This question addressed the aspect of social security contribution of taxation. The taxable benefit is calculated as the difference of the actual interest paid (being zero here) and the deemed market interest payable. The deemed market interest is calculated as the Hungarian National Bank prime rate plus 5%. The tax base equals 119% of the taxable benefit, on which 27% health care contribution is payable by the party providing the loan.

Applying the above rules the health care contribution payable is  $\text{HUF } 10 \text{ million} \times (1.5\% + 5\%) \times 11/12 \times 119\% \times 27\% = \text{HUF } 191,441$ .

Candidates are expected to identify the tax base for such benefit in kinds in respect of salaried employees and calculate the tax and contribution payable on such items.

The correct answer was C.

#### Section B

##### Question One

This 10-mark question covered the topic of value added tax (VAT).

Part (a) for eight marks required candidates to calculate the VAT payable or deductible for the month of December 2015 for a company. Many candidates were able to deal with the straightforward items like the VAT payable on sales revenue.

There were several items though where some candidates did not know the correct VAT treatment. One of these items was the advance received by the entity. Advance payments made or received are always gross amounts, ie they include VAT. This means that the amount so transferred already includes VAT and VAT on advances received is payable, and it must be declared and paid to the tax authorities by the receiving party.

Another common problem was in dealing with maintenance cost of passenger cars (where business usage of the cars is fully documented). Quite a few candidates assumed automatically that no VAT is deductible on such maintenance expenses at all. This is not the case. Only 50% of VAT on maintenance cost is irrecoverable if business usage is properly documented. Candidates should know the detailed rules governing the deductibility of VAT because this is a key area regularly tested in F6 (HUN) exam papers.

The VAT treatment of the bookkeeping services was also an item in relation to which candidates gave unsatisfactory answers. There was a change of the VAT rules in respect of such services provided on a continuous basis, namely from 1 July 2015 the date of obligation is established as follows: if the due date of the invoice is after the last day of the settlement period (as was the case in this question) then the date of obligation is the due date of the invoice, but the date of obligation cannot be later than the 30th day following the last day of the settlement period. Many candidates simply were not aware of this rule so provided wrong answers.

Part (b) of this question required a brief explanation of how late invoices are treated for VAT purposes (both supplier and sales invoices had to be considered). While the vast majority of candidates knew the rule applicable to supplier late invoices, fewer candidates were aware that a late sales invoice requires self-revision of VAT (except if the issue of the invoice reduces the tax base or the tax payable).

### **Question Two**

This 10 mark question covered different aspects of tax payable to local municipalities. Performance on this question was mixed, since computational parts were well answered whereas explanations were poorer.

Part (a) for three marks required a brief explanation of the impact of two items on the local municipality tax base. Item 1 was an amendment invoice for a discount given, item 2 was a rebate notification. Since the amendment invoice reduces the sales revenue, it reduces the local municipality tax base as well. The rebate notification, however, is accounted for as other expense so it has no impact on the local municipality tax base. Many candidates assumed that both items reduce the tax base which is clearly not the case.

Part (b) for five marks included the calculation of the local municipality tax liability of a company. Candidates also had to identify items referred to in the question which were excluded from the calculation. This part of the question was answered well by the majority of candidates. Most were able to reach maximum marks.

Part (c) included a calculation of the local municipality tax advance of an entity for two marks. It was pleasing to see that most candidates did not have a problem with applying the appropriate advance payment rules for this type of tax.

### **Question Three**

This 10-mark question covered the topics of personal income tax.

Part (a) for five marks addressed two aspects of taxation for small entrepreneurs (EVA). Part (i) required the calculation of the EVA-advances payable by an entity providing the deadlines of payments as well. Even if many candidates were able to calculate the advances correctly, a small number knew when advances are payable. EVA

advances are payable on the 12<sup>th</sup> day following the quarter for the first three quarters of the year, and there is a top-up payment on 20 December for the final quarter. Quite a few candidates were unable to give these dates. In part (ii) candidates had to explain the rules for the payment of contributions to the professional training funds by an EVA-qualified entity, and calculate the contribution payable. Many candidates were able to correctly put down the rules and do the right calculations.

Part (b) for five marks required a calculation of the personal income tax payable by a private individual on her income from transfer of immoveable property. This question included both housing and non-housing purpose real estates. The rules governing the reduction of taxable gains are quite different for these two types of income; some candidates were confused which rules apply to which type of income. Many candidates were able to gain satisfactory marks though. Income from selling real estates has been examined quite frequently because this is a core area of the syllabus so candidates should be prepared to be able to deal with such issues in future papers as well.

#### **Question Four**

This 10-mark question covered the topic of corporate income tax.

Part (a) for two marks and part (b) for five marks required candidates to calculate the corporate income tax base of an entity using the standard method and using the minimum tax base method respectively. Performance on this question was mixed. Even if the standard method was manageable to most candidates, the minimum tax base method was hard to manage for many. Several candidates did not know that 50% of the increase of the daily average balance of the loans from owners compared to the closing balance of the previous year increases the minimum tax base. Others assumed that the corporate income tax payable is 2% of the calculated amount (which is not the case). This calculation has been performed unsatisfactorily in previous sittings as well. Candidates are encouraged to get familiar with the minimum tax base rules in more depth.

Part (c) required the corporate tax liability of an entity on the basis of the calculations in the previous parts of this question. This was a relatively straightforward requirement and most candidates were able to score well.

In part (d) candidates had to state two situations when the minimum tax base rules are not applicable. The performance of candidates was satisfactory in this part of the question.

#### **Question Five**

This 15-mark question focussed on the corporate income tax regulations.

Part (a) for seven marks represented a comprehensive calculation of the corporate income tax liability of an entity after identifying the tax base increasing and decreasing items. This type of question regularly comes up because it addresses core areas of corporate income tax. Most candidates achieved high marks in this part of the question. One common mistake made by a number of candidates was to miss the '30 million allowance' on asset X from the tax base decreasing items. Another problem was that quite a few candidates did not know how to deal with impaired debts for corporate tax purposes. Accounting impairment of debts is a tax base increasing item, and allowed impairment of debts for tax purposes is only 20% of the overdue debts outstanding for more than 365 day (but maximum impairment recognised).

Part (b) for five marks required candidates to calculate the corporate income tax advances payable by an entity throughout the year 2016. Performance of candidates in this field was unsatisfactory. Many candidates were unable to establish the frequency of advance payments (monthly if prior year's liability was at least HUF 5 million), and even less could calculate the amounts correctly. As addressed in other examiners reports candidates must strive to get familiar with advance payment rules of each type of taxes as they are regularly examined.

Part (c) required a brief explanation of how tax losses incurred by a company in 2015 can be carried forward for tax purposes. The requirement was, on the whole, answered well. Where candidates made mistakes was the time horizon applicable to carry forward losses (5 years).

### Question Six

This 15-mark question tested the areas of personal income tax and social security contributions.

Part (a) for four marks required an explanation of when a private individual is resident in Hungary for tax purposes. Many candidates were able to identify relevant points in such a judgement although some candidates merely concluded that Jackie Drew is a Hungarian tax resident because she has an employment contract with a Hungarian entity. This is not sufficient under the current Hungarian legislation. Where candidates did not tend to score well this was because of a repetition of information given in the question. Candidates are reminded that merely repeating information in a question does not earn marks, instead information should be used to reach conclusions in discussion questions.

Part (b) for five marks included a calculation of the personal income tax liability of the private individual. Performance on this question was satisfactory. The common mistake in this part of the question was dealing with the foreign dividend incorrectly. Tax paid abroad can be deducted from the Hungarian tax payable but at least 5% tax is payable. Many candidates were unable to tailor their knowledge of taxation of foreign dividend income to the specific issues in the scenario and question requirements.

Part (c) for six marks required a calculation of the personal income tax and the health care contributions payable on two types of benefits in kind of a salaried employee. Performance on this question was unsatisfactory. Although quite a few candidates were able to do the right calculation in respect of Erzsébet vouchers, but much less could do so in respect of payments to voluntary mutual health funds. Only a few candidates were able to calculate the additional health care contribution payable by the employer because the cumulative limit has been exceeded by the payer. Taxation of benefits in kind are regularly tested so future candidates should be prepared to deal with similar issues of taxation of benefits in kind.