

Examiner's report

F6 Taxation (HUN)
December 2012



General Comments

The examination consisted of five compulsory questions, question 1 for 30 marks, question 2 for 25 marks and three further questions of 15 marks each. As this is a mainly computational paper the majority of the marks were allocated to computations.

Most candidates attempted all five questions and there was little evidence of time pressure. Where not all questions were attempted, parts of question 3 or question 5 were most frequently omitted. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or having spent too long on other question parts.

The overall performance on this paper was very good, with many candidates demonstrating the required level of knowledge. It was also pleasing to see that so many candidates are presenting their solutions in a professional manner.

Excellent answers were presented by many for all five questions. There were few marginal papers – most candidates passed with good passes, and those who did not pass were not properly prepared.

Candidates are reminded of the need to study the whole of the syllabus so as to be able to attempt all parts of the five questions.

It is important to read the questions and requirements carefully, so as to provide relevant and accurate answers, and to be guided by the marks allocated so as to provide the appropriate level of detail. As an example, question 1 (b) and 2 (a) required the calculation of tax liabilities of a private individual and company, respectively. An extremely high number of candidates prepared the calculations properly, but also spent time adding explanations to their computations that were not required - time that could have been better spent answering other questions. If explanations are required, this will be stated within the requirement.

Candidates are advised to take time to plan the layout and organisation of their answers. Hand writing needs to be legible. Each question should be started on a new page and clearly numbered. Workings should be shown and clearly labelling to indicate to which question part they relate. Workings need to be complete and totals shown with e.g. calculations multiplied out to get to the final answer.

Specific Comments

Question One

This question dealt with several aspects of personal income tax, and was worth 30 marks in total. Many candidates demonstrated a very good understanding of this area.

Part (a) required candidates to explain the tax treatment of 3 items of benefits in kind (namely holiday coupons, theatre tickets and a loan with discounted interest rate). Overall candidates' performance was good, although some candidates were confused how these items are treated for Hungarian tax purposes and could not state the tax rate to be applied and did not specify who is responsible for paying the tax.

In part (b) candidates had to calculate the personal income tax liability of a private individual. It was pleasing to see the vast majority of candidates performed very well in this part. Explanations in relation to the items in the tax calculation were not required on this occasion, but calculations did need to be provided.

Two common mistakes were to classify the dividend income from a foreign source as other income - it is still income taxed separately as per main rule; and to classify the capital gain incorrectly.

In part (c) candidates were asked to state whether taxable income arises if company phones are used for private purposes as well. Many candidates answered this part of the question very well .

Question Two

This question, focusing on corporate income tax, was frequently a well answered question on the paper.

Part (a) required the preparation of a corporate income tax calculation, which most candidates did very well. Again, many candidates provided explanatory notes to their computations unnecessarily.

Some candidates appeared not to have read the question properly so believed the entity paid a tax penalty in the tax year 2011 and the added this amount to the corporate tax base as a tax base increasing item. The question stated that the penalty had been paid in 2009 and half of it was held to be unjustifiable by the court, so the penalty recovered was relevant in 2011, and not the penalty paid.

Another common mistake was to ignore the necessary time apportionment when computing accounting and tax depreciation. It is always worth noting when business transactions occur to be able to reflect their effects correctly in the tax return.

Part (b) was a computation of the corporate income tax advances paid in 2011, which most candidates found straightforward, although a number of candidates assumed a quarterly advance payment even if the corporate tax liability comfortably exceeded the monthly limit.

In part (c) the tax treatment of three items needed to be explained. When considering the expenses incurred in relation to controlled foreign corporations (CFCs) a number of candidates put down the definition of CFCs rather than the tax treatment of the expenses in question. The majority of candidates could explain very well how impaired debts affect the tax base. Finally, the usage of tax losses carried forward was also an area candidates were familiar with.

In part (d) it had to be stated how the minimum tax base is determined. Most candidates knew something about this and a few are to be congratulated for being able to state the appropriate rules in full.

Question Three

This 15-mark question was on the subject of research and development (R&D) tax relief.

This was the question candidates found the most challenging in the paper, but it was pleasing to see a noticeable improvement in performance compared to previous occasions when this subject has been examined.

In part (a) candidates needed to identify and briefly explain how the corporate tax base and the tax payable is reduced if a company spends on R&D. Most candidates were able to explain the main principles of the R&D tax relief and a number were able to go on to explain how the tax base is reduced if R&D expenditure is incurred. Specifically, they realised that there is a double deduction right for taxpayers since R&D expenses are recognised both as expenses when calculating profit before tax, and as a tax base reducing item in the tax return.

In part (b), candidates were asked to calculate the actual relief available for the company in the question and the tax payable in a four year period. A small number of candidates did well to provide a full answer to this part. A number of candidates tried to calculate the net present value of the relief, a method which is not relevant to R&D reliefs. Candidates are advised to study corporate tax reliefs since it is of importance in practice.

Question Four

This 15-mark question focused on value added tax (VAT) and was very well answered, with no major problems have arisen.

In part (a) the VAT treatment of a tangible non-current asset sold was required. This is an application of the so called '60-month rule'. Most candidates were able to explain all relevant points. A common mistake was to believe that no VAT is payable if VAT was not deductible when purchasing the asset several years ago - this is not the case.

In part (b) the VAT return of Editio Kft had to be prepared. This was a very well done. A number of candidates believed incorrectly that purchases of paper attract the 5% VAT rate. The reduced rate of 5% relates to the sale of publishing activities but not to purchases of paper, which are standard rated. It was pleasing to see that many candidates were able to calculate the exact amount of deductible VAT for the mobile phone and rental invoices, given that this is rather a complicated issue for VAT purposes.

Question Five

In this 15-mark question candidates had to demonstrate their understanding of personal income tax and EVA. Many candidates made a good attempt at this question.

In part (a)(i) candidates had to calculate the net salary of a private individual for a given month: December 2011. Most candidates were able to identify the correct tax rate and tax base supplement, and some went on to calculate the tax payable on an annual basis.

In part (a)(ii) candidates were asked to calculate how much the employer would pay in a given month to employ the employee, which almost all found straightforward.

Part (a)(iii) required the explanation of the tax treatment of rental income. Most candidates gave the right answer here (independent income), however some showed out-of-date knowledge stating incorrectly that rental income could be classified as income taxed separately as well. This is not the case.

In part (b)(i) candidates were asked to calculate the closing cash balance of an EVA-qualified company. A number of candidates did well to remember that EVA-qualified companies have to pay tax on the revenue increased by VAT, and cannot reclaim VAT, so expenses should be deducted inclusive of VAT.

In part (b)(ii) the EVA advances payable were to be listed. Most candidates knew that EVA advances are payable quarterly and a few candidates knew that the deadline for payment is the 12th day of the month.