

# Examiner's report

F6 Taxation (HUN)

December 2013

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## 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.

The vast majority of candidates attempted all five questions, and there was little evidence of time pressure. Where questions were left unanswered by candidates, this appeared to be due to a lack of knowledge or inadequate exam technique, as opposed to time pressure. Candidates who passed the exam typically attempted all five questions.

Candidates performed particularly well on questions 1a, 2c, 3c, 4b, and 5b. The questions candidates found most challenging were questions 1c, 2b, 3a, and 4a. This is mainly due to a lack of technical knowledge and also due to a failure to read question requirements carefully.

A number of common issues arose in candidate's answers:

- Failing to read the question requirement clearly and therefore providing irrelevant answers
- Not learning lessons from earlier examiner's reports and hence making the same mistakes. This is particularly true for personal income tax issues
- Inadequate layout of answers.
- Providing workings that are very difficult to follow with a lot of corrections where it was unclear what the final answer to a particular question was.

## Specific Comments

### Question One

Question 1 covered several aspects of personal income tax and was worth 30 marks. The solutions show a mixed scene.

Part (a) for 5 marks required candidates to state the circumstances in which an individual is deemed to be resident in Hungary for tax purposes. Most candidates performed well even if some candidates showed an imprecise knowledge here. These candidates tried to make up some rules that did not have much to do with the actual tax regulation. The second part required an application of the rules stated previously and those who were able to put down the right rules in the previous part of this question presented a satisfactory answer to this part as well.

In part (b) a comprehensive calculation of the personal income tax liability of a private individual was required. The most common mistakes were as follows:

- a number of candidates failed to classify different types of income properly. In these cases categories of 'independent income', 'non-independent income', 'other income' and 'items taxed separately' were used interchangeably or not at all. Also, some candidates did not indicate that these categories exist at all, they just listed items of income as if a tax return represented a simple list of items of income.
- a surprisingly large number of candidates included benefits in kind taxable at the employer in the personal income tax of the private individual. E.g. Erzsébet vouchers or the interest free loan were classified as part of salary even if they are not. Similarly the private usage of mobile phone was considered to be as income even if the question clearly stated that Mr Coward is required to separate private usage and reimburse Heroes Kft for all his private usage. This scenario does not result in taxable income of Mr Coward at all.

- even if most candidates were able to calculate the tax on selling the painting (moveable property) rightly but many failed to classify this as income taxed separately.

Part (c) covered the taxation of benefits in kind mostly. Many of the candidates were able to calculate the personal income tax and social security contributions payable by Heroes Kft on the benefits in kind provided to the employee. A number of candidates computed not only the tax and contributions paid by the employer (as required by the question) but also they stated how much tax and contributions are deducted from the employee. This obviously did not result in losing marks but candidates may have lost valuable time by working out balances not required by the question.

Part (d) addressed the taxation of mobile phone usage if the employee is not required to separate private and business calls. The most common mistake in this case was assuming that the deemed private usage is 30% in this case. The tax law clearly states the assumed private usage is 20% of the phone cost. Otherwise this part of the question was reasonably answered.

## Question Two

This 25-mark question focused on the corporate income tax.

Part (a) required an explanation of how a development reserve can be created and the rules governing the creation of such a reserve. Although a lot of candidates were able to put down the rules concerning the development reserve, some of them described the rules of development relief which is a tax relief rather than a tax base reducing item. Other candidates cited out-of-date rules.

Part (b) covered the 'registered shareholding' and its effects on the corporate income tax base. This part of the question was not particularly well answered, only a minority were able to give a right definition of registered shareholding. Also it was a common mistake that candidates struggled with establishing the deadline of registration. The effects on the corporate tax base were frequently missed or, even if mentioned, they were just given in general terms without details of how and in what cases the corporate tax base should be increased or decreased.

Part (c) included a calculation of the corporate income tax liability of a Hungarian business entity. This was a well answered area. The common mistakes were as follows:

- impairment losses related to the investments of Dahlia Zrt should have been separated. One of the shareholdings (Freesia) was not registered within 60 days so a tax base reduction was not possible in that case.
- the accounting and tax depreciation frequently lacked time-apportioning.
- many ignored the fact that the tax base reduction in case of creating a development reserve cannot exceed 50% of pre-tax profit.

## Question Three

This 15-mark question addressed one of the corporate tax reliefs. This was the development relief available for small and medium sized entities. Even if the vast majority of candidates were able to identify the specific corporate tax relief available to Meditax Zrt in the question and they also explained the criteria which must be met in order for the company to qualify for this relief, some candidates were unsure which relief may be taken and they mentioned other reliefs, even if it was clear that the development relief is the only available one for this company. The most common problem in stating the rules was the failure to establish the time horizon during which the relief may be taken by the company.



Many candidates could precisely calculate the maximum amount of relief that the company can claim in respect of the investment project in part (b). However, in part (c) many candidates assumed that the relief reduces the tax base rather than the tax itself, even if they correctly stated in part (a) that the relief decreases the tax and not the tax base.

Overall, however, an increasing number of candidates are able to deal with corporate tax reliefs in the right way.

#### **Question Four**

This 15-mark question focused on value added tax (VAT). Even if VAT is an area where candidates usually perform reasonably well, this time it was question which did not show better picture than other questions in the paper.

Part (a) was inadequately answered. This part of the question required the explanation of the VAT treatment of the two types of lease agreements (finance lease and operating lease). Many candidates were able to state which item qualifies as finance or operating lease but the VAT treatment was frequently not right. In the case of operating leases (open-ended lease agreements) the monthly invoices are each subject to VAT, whereas in the case of finance leases (closed-ended rental agreements) VAT is payable on the cash price in a single amount when the first invoice is issued; monthly invoices however are free of any VAT.

Part (b) covered the calculation of a company's VAT balance for a particular month. The answers to this part were satisfactory. The most common mistakes included the ignorance of the VAT consequences of own work capitalised (VAT is both payable and deductible), the treatment of import service (again, VAT is both payable and deductible), and the calculation of the VAT deductible in the case of the mobile phone invoice (only 70% of VAT is deductible).

Part (c) and (d) were 1-mark requirements relating to the deadline of the VAT return and the precondition for a monthly VAT payer to receive cash refund of a deductible VAT respectively. These two requirements were answered well.

#### **Question Five**

Part (a) of this question addressed a recently added area of the syllabus namely the local municipality tax. The first requirement for 4 marks included a calculation of the local municipality tax payable by Local Kft for the year 2012. This was done correctly by most candidates, some candidates calculated the tax payable for 2011 as well even though not needed.

Part (ii) of requirement (a) however was inadequately answered. It covered the local municipality tax advances payable in a particular year. A high proportion of candidates assumed that local municipality tax advances are payable quarterly or monthly. The reality is that they are payable on 15 March and 15 September. Part (iii) required candidates to state the deadline for the annual tax return for local municipality tax. This was, again, an area where many candidates failed to state the right due date.

Part (b) was a calculation of the net salary of a private individual from the information available. A high proportion of candidates were able to correctly calculate the net salary. If this was not the case the most common mistake was that candidates did not compute the personal income tax on a cumulative basis.