

Examiner's report

F6 Taxation (HUN)

June 2012

The ACCA logo is a black square with the letters 'ACCA' in white, bold, sans-serif font.

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).

Most candidates attempted all five questions and there was little evidence of time pressure. Where not all questions were attempted, question 3 was most frequently omitted.

Excellent answers were presented by many for all five questions. The candidates who attempted all questions on the paper demonstrated the combination of a good depth of knowledge across the syllabus with well rehearsed exam technique, presenting their work in a professional manner, with the tax computations and main calculations cross-referenced to their workings.

Most candidates did show their workings, however at times they were difficult to follow. Candidates are reminded of the need to display their answers well, with clear labelling to indicate which questions are being attempted. Each question should be started on a new page and candidates are advised to give careful, considered thought to the layout and organisation of their answers.

In addition, it is recommended that candidates:

- read the question requirement slowly and carefully, so as to be able to provide answers that are relevant and address the question set
- allocate their time between questions, so as to allow time to attempt all parts of each question
- learn from the points made in previous examiner reports, for example in relation to corporation tax reliefs
- do not provide more than the number of points requested
- write legibly
- provide the answer to the question part, and not in the answer to another part
- follow the requirements of each part of the question correctly
- provide complete workings, for example, with totals added up and calculations multiplied out
- round figures to an appropriate point, being guided by the rounding in the question (it is not usually appropriate to round up to the nearest HUF 1 million on personal income tax, for example, as this will lead to inaccuracies in the final answer)

Specific Comments

Question One

This 30 mark question tested candidates' abilities to cope with various aspects of personal income tax. Generally answers to this question were good.

Part (a) required candidates to state the circumstances in which an individual is deemed to be resident in Hungary for tax purposes. Many candidates showed reasonable knowledge of the criteria here. A common mistake was to think it is enough for an individual to earn income from Hungarian sources to become a resident in Hungary for tax purposes when this is not the case.

In part (b)(i) candidates were asked to state the taxable nature of three different benefits in kind and calculate the tax on them. The majority of the candidates scored very well in this part, being able to determine the right classification and to calculate the taxes and contributions payable. A common mistake was omitting to state who is responsible for paying the tax when this was requested.

In part (b)(ii) a calculation of the personal income tax of an individual needed to be carried out. A significant proportion of candidates answered this part of the question well. The most common mistakes arose with respect

to classifying different kinds of income (typically dividend income was classified as other income rather than income taxed separately). It was pleasing to see that most candidates gave good explanations.

Question Two

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

Part (a)(i) was a short question and tested the start and the cessation of the company car tax obligation. This part was answered well.

Part (a)(ii) required candidates to correct the profit before tax of an organisation after paying the company car tax for the whole year. A number of candidates were able to calculate the tax payable correctly. Candidates who found this part challenging confused the obligations relating to paying company car tax with those for declaring company car tax. The payment obligation is calculated monthly, but declaration and payment occurs quarterly.

Part (b)(i) was a straightforward computation of the corporate income tax liability for the year, which most candidates performed well. A number of candidates added lengthy explanations to their computations although they were not required on this occasion. Future candidates are reminded of the importance of providing only the answers to the question set - if explanations are needed, the requirement will state the fact.

In part (b)(ii) three tax base adjustments needed to be explained. This was done well for item 1 and 2. A few candidates are to be congratulated for knowing that the “30-million allowance” applied as an important tax base reducing option for item 3.

In part (c) candidates were asked to explain when an entity is and is not considered to be a controlled foreign company (CFC) for tax purposes, and was generally well answered.

Question Three

This question was on the subject of development tax relief for companies.

This was the most challenging question in the paper. A small number of candidates produced excellent answers to this question, and were able to do so because they knew the requirements for development relief for medium sized companies. Candidates are reminded of the need to understand and be able to apply the tax reliefs available in Hungary which are, after all, limited to a small group.

In part (a) the conditions of the relief had to be identified. This was reasonably well answered by most.

In part (b) asked for the calculation of the actual relief available for the company in the question. This was a relatively straightforward exercise for most of the candidates who wrote good answers.

In part (c) a corporate tax liability forecast was to be prepared for 2 years. A small number of candidates were did well to give full answers.

Question Four

This question focused on value added tax (VAT) and was very well answered.

In part (a) the VAT liability was correctly calculated by many candidates. One common mistake was not realising that incoming invoices can only be recognised in a tax returns if they actually arrive before the date of submitting the return. Late invoices are recognised one period later. A number of candidates appeared to be confused about

VAT recoverability in relation to cars: VAT on fuel and repair costs for passenger cars is irrecoverable, whilst VAT for non-passenger cars is deductible.

Part (b) dealt with the requirements for tax and social contributions on private usage of mobile phones. Many candidates stated that 30% of the VAT is irrecoverable, however, only 20% is irrecoverable if there is no separation of private and business calls.

Question Five

There were two main subject areas examined in question five: EVA and personal income tax for a given month. Many candidates made a good attempt at this question, and those with a good depth of knowledge produced very good answers.

In part (a) candidates were asked to compare the dividend distributable in a company that does or does not hold the EVA licence. In part (i) the usage of EVA taxation was tested. Some thought that EVA is payable on the income after deducting expenses (i.e. profit), when in fact EVA is payable on the gross revenue of the entity. A surprisingly large number of candidates considered depreciation as a deductible expense for EVA-licensed companies even though they cannot depreciate assets at all.

In part (ii) a 'normal' company's taxation needed to be applied, and this was done well by most candidates.

In part (b) the monthly salary of a private individual had to be calculated. The most usual mistake was to calculate PIT on a monthly basis rather than on an annual basis. A small number of candidates did well to apply the rules for the tax credit on wages correctly.