

# Examiner's report

F6 Taxation (HUN)

June 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 poor exam technique, as opposed to time pressure. Where not all questions were attempted, question 3 was most frequently omitted.

Candidates tend to make the same mistakes as in previous exam sittings which could have been avoided if they had read the examiner's reports of past exam papers.

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

- Failing to read the question requirement carefully and therefore providing irrelevant answers.
- Not learning from earlier examiner's reports and hence making the same mistakes, for example, in relation to corporation tax reliefs.
- Illegible handwriting and poor layout of answers.
- Failing to follow the requirements of parts of the question.
- Providing workings without adding up totals or multiplying out the calculations to get to the final answer.

## Specific Comments

### Question One

Question 1 dealt with several aspects of personal income tax, and was worth 30 marks. This question was well answered by many candidates.

Part (a) of the question required candidates to explain the personal income tax treatment and calculate the tax effect of three items: the capital gain on selling immoveable property, income realised from a contract of services and interest income. Most candidates presented very good answers to this part.

A common mistake was to classify the income from the contract of services as income taxed separately rather than independent income. A few candidates stated out-of-date rules as to how the taxable gain can be reduced as time elapses after the initial acquisition of immoveable property. It is recommended that candidates use the tax rules relating to the exam paper, in this case, the tax rules for 2012.

In part (b) a comprehensive calculation of the personal income tax liability of a private individual was required. On this occasion candidates did not need to provide explanations in relation to the items in the tax calculation. Mistakes were sometimes made in the classification of items of income, for example, the income from the reimbursement of internet access should have been classified as non-independent income, but occasionally was incorrectly classed as independent income or income taxed separately. A few candidates omitted to list the items taxed separately from part (a).

Part (c) addressed the tax aspects of four items of benefits in kind: internet access, Széchenyi card, transportation pass and private usage of company mobile phone. Again, explanations were not included within the requirement on this occasion.

A number of candidates computed not only the taxes and contributions payable by the employer, but also those payable by the employee, when the requirement clearly stated that only taxes payable by the employer were to be calculated; this may have used time which candidates could not afford.

## Question Two

This 25-mark question, focusing on corporate income tax, was frequently very well answered.

Part (a) required an explanation of the thin capitalisation rules and the calculation of the impact of the rules on the corporate tax base of Prolce Kft. Although most candidates had no difficulties in putting down the rules in part (i) many found the application of the rules to the computations in part (ii) to be challenging.

Part (b) consisted of a calculation of the income tax liability of Prolce Kft. The vast majority of candidates provided excellent answers in this field. Common mistakes included ignoring the fact that, even if creation of a development reserve is considered as a tax base reducing item, this reduction has a limit, of 50% of profit before tax.

The corporate income tax corporate income tax rules state that, if the parties to a transaction apply lower consideration than would have been payable between independent parties in a comparable transaction, the taxable income of the providing party should be increased, while the recipient party may apply the transfer pricing deduction if the following conditions are met:

- (a) The related party is subject to tax similar to Hungarian corporate income tax in their country of residence;
- (b) The Hungarian taxpayer possesses a statement from the related party which states the amount by which the profit is higher due to the transfer prices applied in the related party transaction.

Definitive information was not provided as to the two conditions, however, it is reasonable to assume that condition (a) is met because Italy is within the European Union. As the question did not explain that the statement required for condition (b) to be met has been provided, candidates could have assumed that either the statement does or does not exist, for equal credit.

In part (c) candidates had to explain how tax losses (a negative tax base) arising in 2012 are treated for corporate income tax purposes. This was very well answered by most candidates. A few candidates also explained how tax losses arising in earlier years would have been treated, when there was no need to consider this.

## Question Three

This 15-mark question addressed one of the corporate tax reliefs, namely the relief related to financing the acquisition of new non-current assets.

It is pleasing to see that the quality of the answers exceeded expectations.

In part (a) candidates needed to identify and briefly explain how the corporate tax base and the tax payable is reduced if a company acquires non-current assets financed (partially) by a bank loan.

The most common mistake was to explain the rules relating to the development relief, which was not relevant in this question.

In part (b), candidates had to calculate the actual relief available for the company, and the tax payable for 2013 and 2014 after taking into account the relief identified. Most candidates provided an accurate calculation in this part.

#### **Question Four**

This 15-mark question focused on value added tax (VAT). The question was well answered, which is pleasing because VAT allocation and apportioning is a complicated aspect of the VAT law.

A few candidates had difficulties in answering part (a) of this question and were not able to precisely calculate the deduction ratio which is needed if input VAT needs to be allocated and apportioned between VATable and VAT exempt activities.

In part (b) candidates had to prepare a statement listing the irrecoverable VAT for the month of May 2012. This requirement necessitated a reverse application of the VAT deduction ratio calculated in part (a) and an identification of irrecoverable VAT items. Those who appropriately applied the deduction ratio in part (a) tended to produce excellent answers to this part. Those candidates who were not able to calculate the ratio in the previous part found the preparation of the statement difficult.

#### **Question Five**

This question for 15 marks examined the knowledge of candidates in the field of company car tax, simplified taxation of small entrepreneurs (EVA) and personal income tax.

Part (a) asked if a company that holds an EVA licence is subject to company car tax. Most candidates correctly stated, that all companies are subject to company car tax law irrespective of whether they are EVA-qualified or not.

In part (b) candidates had to calculate the net cash dividend that is distributable to the owners of an EVA-qualified company. Although many candidates scored high marks in this part of the question, there were common mistakes, e.g. some did not add the VAT to the tax base of EVA. It is worth noting that under the simplified taxation rules a company cannot recover VAT, so purchases should be considered with VAT.

In part (c) the net salary of a private individual needed to be calculated. It was pleasing to see that 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. The personal income tax advance needs to be calculated for 12 months and the tax calculated should be divided by 12 to get the monthly tax advance payable.