

Examiner's report

F6 Taxation (HUN)

June 2014



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. Candidates who passed the exam typically attempted all five questions.

Candidates performed particularly well on questions 1(a)(i), 1(b), 2(b), 4(b), and question 5. The questions candidates found most challenging were questions 2(c), 3(b), and 4(a). 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:

- Not reading the question requirement carefully and therefore providing irrelevant answers
- Not learning lessons from earlier examiner's reports and hence making the same mistakes. This is particularly true for corporate income tax reliefs.
- Illegible handwriting and poor 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.
- Poor time management between questions, some candidates wrote far too much for some questions and this put them under time pressure to finish remaining questions.

Specific Comments

Question One

This 30-mark question examined several aspects of personal income tax.

Part (a) for 22 marks was split into 3 sub-requirements. Part (i) required candidates to explain how the income derived from the right to purchase and sell securities at a favourable price is calculated and treated for Hungarian personal income tax purposes. A number of candidates provided reasonable answers to this question.

Part (ii) required candidates to calculate personal income tax payable by the individual in respect of shares received from his employer and their subsequent sale. Most candidates correctly calculated the non-independent income on receiving the shares at a favourable price, but many calculated the subsequent capital gain incorrectly by taking the difference between the selling price and the purchase price instead of the selling price and customary market price when exercising the right.

In part (iii) candidates had to calculate the personal income tax liability of a private individual for 11 marks. Common mistakes included missing the vouchers to purchase ready-made food from non-independent income. Similarly, many candidates incorrectly classified interest income from a country of low tax rate as income taxed separately, however, the tax law clearly states that such an income item must be classified as other income (part of the consolidated tax base). When calculating the tax on income taxed separately, most candidates correctly computed the tax base on the sale of moveable asset (old book), but a number of candidates ignored the fact that HUF 200,000 of this tax base is exempt.

Part (b) for 8 marks examined the taxation of 2 items of benefit in kind (Széchenyi-card and entertainment cost). Surprisingly, several candidates also calculated the personal income tax and health care contributions payable on other benefit in kind items (vouchers to purchase ready-made food) even if this was not even included in part (b), neither was it stated in the requirement. Candidates are strongly advised to read the requirements carefully to avoid wasting of time on issues not included in the requirements of questions. Another common problem was that quite a few candidates were unable to remember what the limit of amounts paid to Széchenyi-card is that is taxed at 16% personal income tax and 14% health care contribution (HUF 225,000). Only the amount in excess of that limit is taxed at 16% + 27%.

Question Two

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

Part (a) for 5 marks required candidates to calculate the profit before tax of an entity after taking into account the information regarding company car tax. Although many candidates were able to correctly do this calculation, some others did not know when company car tax obligation starts and how to calculate the tax liability arising on company cars.

Part (b) for 12 marks included a calculation of the corporate income tax liability of a Hungarian business entity. This was a well answered area. Those candidates who understood the requirement often made the following mistakes:

- calculating the accounting and tax depreciation of the new car necessitated a calculation of the cost of the new asset. A lot of candidates did not consider VAT on the purchase of the car as part of the cost of the asset even if VAT on company car purchases is irrecoverable in every case. Also relevant related cost of HUF 100,000 was frequently excluded from the cost of the car.
- even those who were able to determine the cost of the car correctly sometimes forgot to time-apportion depreciation.
- several candidates ignored the rule that only 50% of the royalty income is a tax-base reducing item.
- some candidates were confused by how unrealised revaluation gain and loss should be treated. Unrealised revaluation loss is a tax base increasing item, whereas unrealised revaluation gain is a tax base decreasing item.

Part (c) for 8 marks required a detailed description of the rules governing the filing of corporate income tax return, advance payment and final payment of corporate income tax, including all relevant deadlines. This part of the question was generally poorly answered. Many candidates only stated that companies need to pay corporate tax advances without giving specific details required. The common mistakes included the following:

- giving deadlines and rules of paying taxes payable to local municipalities rather those of corporate income tax.
- being unable to state the limit of monthly payments (annual tax liability of HUF 5 million or above).
- even those who were able to differentiate between monthly and quarterly advance payers often were confused about the deadlines of payments. Candidates should remember that the deadline for monthly payers is the 20th of the current month (and not the following month), whereas the deadline for quarterly payers is the 20th of the month following the quarter.
- also a number of candidates were confused by what a balancing payment means (with a deadline of 20th December each year), and how this balancing payment is calculated.

Question Three

This 15-mark question always addresses corporate income tax reliefs. This time it covered the tax base reduction available in respect of research and development activities.

In part (a) for 8 marks candidates had to identify and explain the tax base reduction available to BlueShine Kft. Many candidates were able to identify the tax base reduction, but the explanation of it, especially stating the limitations of the deduction right, was very poor in most cases. Quite a few candidates could not differentiate between the double and triple deduction right.

Part (b) for 3 marks needed a calculation of the maximum amount of the tax base reduction. Allowable expenses included material costs, labour costs and costs incurred by foreign subcontractors. This last item was frequently missed from the calculation. Even those who stated in part (a) that a triple deduction right exists for BlueShine Kft often did not apply this rule in part (b). Also, few candidates were able to state that the maximum available tax base reduction is HUF 50 million.

Part (c) for 4 marks required candidates to give three examples of 'de minimis' support. It was pleasing to see that the vast majority of candidates were able to reach maximum marks in this part of the question. One common mistake, however, was that the limit of 'de minimis' supports was not known, or even if the €200,000-limit was correctly mentioned, candidates did not know that this is a limit that needs to be applied in 3 consecutive years rather than annually.

Question Four

This 15-mark question focused on value added tax (VAT).

Part (a) examined the rules related to deductibility of VAT, more specifically it covered the so called '60-month rule'. In part (a)(i) candidates needed to explain the VAT treatment of the sale of a tangible non-current asset where, at the time of purchase, the input VAT was wholly or partially irrecoverable. Most candidates were able to explain those rules, even if some struggled with a correct explanation of the calculation of the deduction ratio.

In part (a)(ii) an application of the above rule was required, and the VAT payable and deductible needed to be calculated. VAT payable was correctly stated by almost every candidate, VAT deductible was however more complicated. A correct deduction ratio of 44/60 was not always provided by candidates. This would have required the computation of the remaining months from 60.

Part (b) was a reasonably well answered question. This 8-mark requirement involved a calculation of the VAT liability of Gigi Kft for July 2013. Many candidates achieved high or even maximum marks here. If candidates lost marks, it was usually due to being unable to recognise that VAT on food and drink purchases is only deductible if they were purchased for resale purposes. In any other circumstances VAT on food and drink is irrecoverable. Also some candidates were not aware of the fact that in case of maintenance costs of passenger cars, 50% of input VAT is deductible if private usage is not allowed (as per main rule).

Question Five

. This 15-mark question was split into two parts.

In part (a) for 8 marks candidates had to calculate the local municipality tax payable by Clementine Kft. Since the company's domestic sales revenue exceeded HUF 500 million, it is required by the tax law that both revenue and COGS and mediated services are considered in bands when calculating the tax liability. If candidates did not know what and how to do in this case then this was either ignored or they were unable to correctly determine the limit of the deduction from the 2nd band (from the revenue above HUF 500 million companies may deduct the related COGS and mediated services (in case of Clementine 90% of the revenue belonged to the 2nd band thus 90% of COGS and mediated services could be deducted, but this is limited to 85% of the revenue in this band).

Part (b) of question five required candidates to calculate the minimum tax base and corporate income tax liability of Cardi Kft. Even if many candidates were able to achieve high marks in this question, some common mistakes arose:

- a number of candidates failed to calculate the correct minimum tax base
- the correct calculation of the minimum tax base includes calculating a 'loan adjustment' which involves a computation of the increase in loans from owners, 50% of which is treated as 'revenue' for the purposes of calculating the minimum tax base.
- it was surprising to see that some candidates applied the 10%-19% bands for the minimum tax base. If the minimum tax base is higher than the corporate tax base, the corporate tax is payable according to the minimum tax base at the rate of 2%.