

Fundamentals Level – Skills Module

Taxation (Hungary)

Thursday 8 June 2017



Time allowed: 3 hours 15 minutes

This question paper is divided into two sections:

Section A – ALL 15 questions are compulsory and **MUST** be attempted

Section B – ALL SIX questions are compulsory and **MUST** be attempted

Tax rates and allowances are printed on pages 2–3.

Do NOT open this question paper until instructed by the supervisor.

Do NOT record any of your answers on the question paper.

This question paper must not be removed from the examination hall.

Paper F6 (HUN)

Think Ahead

ACCA

The Association of
Chartered Certified
Accountants

SUPPLEMENTARY INSTRUCTIONS

1. Calculations and workings need to be made to the nearest HUF except where stated otherwise in the question.
2. All apportionments should be made to the nearest month.
3. All workings should be shown in Section B.

TAX RATES AND ALLOWANCES

The following tax rates and allowances applicable to 2016 are to be used in answering the questions.

Corporate tax

On the first HUF 500 million of the corporate tax base	10%
On the remaining tax base	19%

Value added tax (VAT)

Tax rate	27%
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Personal income tax

Tax rate	15%
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Benefits in kind

Tax rate	15%
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Social security contributions

Employer's contributions

Social contribution tax	27%
Professional training fund	1.5%

Employee's contributions

Pension contributions	10%
Health insurance contributions	7%
Labour market fund	1.5%

Company car tax

Engine capacity of the car (kW)	Environmental category		
	0 to 4	6 to 10	5 and 14 to 15
0–50	HUF 16,500	HUF 8,800	HUF 7,700
51–90	HUF 22,000	HUF 11,000	HUF 8,800
91–120	HUF 33,000	HUF 22,000	HUF 11,000
above 120	HUF 44,000	HUF 33,000	HUF 22,000

Local municipality tax

Tax rate

2%

Support and subsidies – development tax relief

The limits applying to subsidies given in the form of tax relief or other subsidies in respect of investments are defined by the following intensity ratios.

1. Regional factors.
 - Central Hungary: 0%
 - Central Hungary (only nominated locations): 20%/35%
 - Western Transdanubia: 25%
 - Central Transdanubia: 35%
 - Other regions: 50%
2. For companies which qualify as being small, 20% is added to the regional factor.
For companies which qualify as being medium, 10% is added to the regional factor.
3. The maximum support is calculated by applying the following to the initial investment:
 - On the first €50 million of the investment: 100% of the intensity ratio.
 - On the portion between €50 million and €100 million: 50% of the intensity ratio.
 - On the portion over €100 million: 34% of the intensity ratio.

The reference rate to be used in the present value calculations is 2.08%.

Qualifying limits for small and medium sized companies

A company qualifies as small or medium if:

- the company has no state or local government members; and
- the number of employees is less than 250; and
- total assets are less than €43 million; or
- total revenues are less than €50 million

Exchange rates

Euro: €1 = HUF 310

USD: \$1 = HUF 280

Official rate of interest

National Bank of Hungary (Magyar Nemzeti Bank – MNB) – 0.90%

Section B – ALL SIX questions are compulsory and MUST be attempted

Please write your answers to all parts of these questions on the lined pages within the Candidate Answer Booklet.

- 1** Dorina Kft is a Hungarian entity with its seat in Budapest, which provides a wide range of services to its clients both in Hungary and abroad. Dorina Kft prepares its value added tax (VAT) returns monthly.

The following events and transactions are relevant to the preparation of Dorina Kft's March 2016 VAT return. All amounts are stated excluding any applicable VAT unless stated otherwise.

- (1) Dorina Kft provided educational services of HUF 5 million to Hungarian companies subject to VAT. These educational services are subject to VAT because they are not accredited courses.
- (2) Dorina Kft provided services for €100,000 electronically (*elektronikus úton nyújtott szolgáltatás*) to private individuals resident in Poland. The Polish private individuals are not subject to VAT.
- (3) Dorina Kft contracted with a company located in the USA to plan and perform a marketing campaign in Hungary. The USA company issued an invoice for USD 6,000 to Dorina Kft.
- (4) Dorina Kft owns a residential property (flat) where its management accommodates business partners on a regular basis. Dorina Kft purchased goods for HUF 1 million which were used for the renovation of this residential property.
- (5) Dorina Kft made an advance payment of HUF 3,810,000 including VAT to a Hungarian company for advertising services to be performed in April 2016.
- (6) Dorina Kft expensed restaurant invoices totalling HUF 200,000.
- (7) The payroll services of Dorina Kft are carried out by Fizu Kft. Fizu Kft issues a monthly invoice to Dorina Kft (*időszakos elszámolás alá eső ügylet*). The invoice covering the services provided in February 2016 for HUF 100,000 had a due date of 20 March 2016. The invoice covering the services provided in March 2016 for HUF 120,000 had a due date of 20 April 2016.
- (8) Dorina Kft received mobile phone invoices totalling HUF 300,000. Its employees are not required to separate private and business calls in the phone invoice. The amount re-charged to employees was HUF 40,000.
- (9) Dorina Kft organised a sports exhibition for a French company in France and issued an invoice to the French company for €20,000.

Required:

Calculate Dorina Kft's value added tax (VAT) payable or deductible for the month of March 2016.

Notes:

1. You should list all of the transactions (1) to (9) identifying any which are outside the scope of the Hungarian VAT law by the use of O/S or for which the VAT suffered is irrecoverable by the use of zero (0).
2. Calculations need only be made to the nearest thousand forints.

(10 marks)

- 2** Storm Kft is a Hungarian tax resident entity with its seat in Budapest. Storm Kft uses three cars for business purposes as follows:

Car 1: Car 1 is an electric car purchased by Storm Kft on 1 February 2016. Car 1 belongs to environmental category 5E and qualifies as an environmentally-friendly car (*környezetkímélő gépkocsi*).

Car 2: Car 2 has been owned by Mr Vihar, one of the employees of Storm Kft, since 25 February 2015. Mr Vihar did not deduct any expense in respect of car 2 in his personal income tax return for the year 2016. On 1 April 2016, Mr Vihar transferred the right of usage of car 2 to Storm Kft (*személygépkocsi használatának átengedése*) for HUF 40,000 per month. Storm Kft expensed fuel invoices in respect of car 2 in April, May, June and July 2016, and notified Mr Vihar about this. On 29 July 2016, Storm Kft returned car 2 to Mr Vihar and did not use the car for the rest of the year 2016, nor did the company expense any amounts in respect of car 2 after this date. Car 2 has an engine capacity of 110 kW and belongs to environmental category 3.

Car 3: Car 3 is legally owned by Mr Böse, a German private individual, who is one of the owners of Storm Kft, but is not an employee of Storm Kft. Car 3 is not registered by the Hungarian authorities (*hatósági nyilvántartásban nem szerepel*), and has a German registration number. Mr Böse spent time in Hungary in 2016, and used car 3 for business purposes during his visits. His fuel and maintenance costs relating to car 3 were recognised as an expense by Storm Kft in August, September and October 2016. Car 3 has an engine capacity of 130 kW and belongs to environmental category 3.

Required:

(a) In respect of each of the three cars (1 to 3):

- state, with reasons, who will be responsible for paying any company car tax due for the year 2016;
- state when the tax obligation commences and ceases; and
- calculate the car tax payable and state the date(s) of payment.

Note: Ignore any car capacity tax payable by Storm Kft.

(8 marks)

(b) State any TWO circumstances when a car is exempt from company car tax.

(2 marks)

(10 marks)

- 3 (a) Bronze Kft is a Hungarian entity, which is registered for simplified taxation for small entrepreneurs (*egyszerősített vállalkozói adó* (EVA)). Both the sales and purchases of Bronze Kft attract the standard rate of value added tax (VAT).

In the year 2016, Bronze Kft generated domestic sales revenue of HUF 19 million (excluding VAT). All the invoices relating to this domestic sales revenue were financially settled before 20 December 2016.

In addition to its domestic sales (as above), in May 2016 Bronze Kft contracted with a Spanish company for data processing services. In the year 2016, the total value of the services provided by Bronze Kft to the Spanish company was €10,000, which was invoiced in September 2016 and financially settled in November 2016.

The total purchases made by Bronze Kft in 2016 were HUF 3 million (excluding VAT).

Bronze Kft's single employee received a gross monthly salary of HUF 300,000 throughout the year 2016.

Required:

Calculate the net dividends Bronze Kft can distribute to its owners for the year 2016.

Note: Ignore contributions payable to professional training funds (*szakképzési hozzájárulás*). (7 marks)

- (b) Vencel is a Hungarian tax resident individual. On 23 September 2016, Vencel sold a piece of antique furniture (moveable asset) for HUF 10 million. The acquisition cost of the furniture could not be determined reliably.

Vencel is not a private entrepreneur.

Required:

Calculate the personal income tax payable by Vencel for the year 2016 on the income from the sale of the antique furniture. (3 marks)

(10 marks)

- 4 Pavilion Zrt is a Hungarian tax resident entity with its seat in the region of Central Transdanubia and a financial year end of 31 December. Pavilion Zrt carries out manufacturing activities. In the year 2016, Pavilion Zrt started and finished an investment project to increase its manufacturing capacity costing HUF 4 billion. The project created new non-current assets, which were all capitalised in November 2016.

Pavilion Zrt wishes to claim development relief for the project and has chosen the qualifying criterion of increasing the number of employees and 2016 as the first year of eligibility. The actual and forecast number of employees of Pavilion Zrt is as follows:

	2013	2014	2015	2016	2017	2018
Number of employees	500	550	570	730	750	750

The corporate tax base of Pavilion Zrt before taking into consideration the development relief was HUF 4.5 billion in the year 2016 and is forecast to be HUF 5.5 billion in the year 2017.

Pavilion Zrt meets all the general requirements to claim development relief but does not qualify as a medium or small sized entity.

Required:

- (a) **Briefly explain how the limit for development relief is calculated and calculate the maximum development relief available to Pavilion Zrt.** (3 marks)
- (b) **Calculate the corporate income tax liability for the year 2016 and the expected corporate income tax liability for the year 2017 of Pavilion Zrt, taking into consideration the development relief.** (7 marks)

Note: All calculations need only be made to the nearest million forints.

(10 marks)

- 5 Texas Kft is a Hungarian company which has its seat in Budapest and does not carry out business activities in any other place.

Texas Kft's accounting year ends on 31 December. Its summarised statement of profit or loss for the year 2016 is as follows:

	HUF '000
Net sales revenue	10,000,000
Other income	50,000
Extraordinary income	80,000
	<hr/>
	10,130,000
	<hr/>
Cost of goods sold	(5,600,000)
Cost of mediated services	(1,750,000)
Depreciation	(380,000)
Cost of raw materials	(1,200,000)
Other expenses	(230,000)
Financial expenses	(70,000)
	<hr/>
	9,230,000
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Profit before tax	900,000

The following items are relevant to the calculation of Texas Kft's corporate tax base and corporate income tax liability for the tax year 2016:

- (1) The profit before tax of HUF 900 million **includes** the local municipality tax expense for 2016.
- (2) On 1 April 2016, Texas Kft disposed of two registered intangible assets:
 - Asset A was acquired on 1 February 2015 and registered with the tax authorities on 20 February 2015. The sales proceeds received were HUF 70 million and its net book value at the time of sale was HUF 35 million.
 - Asset B was acquired on 8 May 2015 and registered with the tax authorities on 15 May 2015. The sales proceeds received were HUF 100 million and its net book value at the time of sale was HUF 80 million.

Texas Kft has never created a tied-up reserve in respect of any intangible asset.

- (3) On 30 June 2016, Texas Kft sold a tangible non-current asset (asset Y) which had been acquired and capitalised on 1 January 2014 at a cost of HUF 260 million. At the date of acquisition, Texas Kft estimated the useful life of asset Y to be four years and its residual value to be HUF 20 million. These estimates did not change in subsequent years. The tax law allowed annual depreciation at the rate of 20% on asset Y.

All the other assets of Texas Kft are depreciated at the same rate for both accounting and tax purposes.

- (4) In 2016 Texas Kft recognised a provision of HUF 10 million in its financial statements, and it reversed a provision of HUF 8 million.

Required:

- (a) **Calculate the local municipality tax liability of Texas Kft for the year 2016.** (5 marks)
- (b) **State the circumstances in which an intangible asset is treated as a registered intangible asset (*bejelentett immateriális jószág*) for corporate income tax purposes, and explain how a registered intangible asset impacts on the tax base of a corporation.** (4 marks)
- (c) **Calculate the corporate tax base of Texas Kft for the year 2016.** (6 marks)

Note: All calculations need only be made to the nearest thousand forints.

(15 marks)

- 6 (a) Petra is a Hungarian citizen, employed by Szikla Kft. Petra is not a private entrepreneur and she does not have any children.

The following items are relevant to the calculation of Petra's personal income tax for the year 2016:

- (1) She received a monthly salary of HUF 1,200,000 from Szikla Kft from 1 January 2016 until 30 June 2016. From 1 July 2016 her monthly salary was raised to HUF 1,400,000.
- (2) She received a foreign dividend of €7,000 after tax from Company A located in Country X. Company A deducted tax of 30% from the gross dividend distributed to its owners. There is no double tax treaty between Hungary and Country X.
- (3) She owns a flat which was rented out throughout the year 2016 for a monthly fee of HUF 110,000. Petra did not deduct any expense in respect of her rental income on an itemised basis.
- (4) On 30 June 2016, she earned income from a long-term deposit of HUF 300,000. The long-term deposit had been in place with a financial institution since 1 July 2013. The deposit satisfied all the criteria of a long-term deposit as defined by the Hungarian Act on Personal Income Tax.

Required:

- (i) **State how the income from long-term deposits is taxed in terms of deposits of different time horizons (*tartós befektetésből származó jövedelem*).** (4 marks)
 - (ii) **Calculate the personal income tax liability of Petra for the year 2016.** (6 marks)
- (b) Gitta is resident in Hungary for personal income tax purposes. On 1 September 2015, she received a loan of HUF 3 million from her employer with an annual interest of 1% payable on 31 December each year. The loan is repayable in a single amount on 1 September 2017 and qualifies as a loan with an interest rate discount for personal income tax purposes.

Required:

Calculate the personal income tax and health care contributions (*egészségügyi hozzájárulás*) payable for the year 2016 on the income from the interest rate discount (*kamatkedvezményből származó jövedelem*), and state who is responsible for declaring and paying these taxes. (5 marks)

(15 marks)

End of Question Paper