

Fundamentals Level – Skills Module

# Taxation (Hungary)

Specimen questions for June 2015

This is not a full specimen paper, it is a selection of specimen questions to give an indication of the style of the questions. It includes three multiple choice questions and one long question.

The full exam will consist of the following:

Section A – 15 multiple choice questions for 2 marks each

Section B – Four 10 mark questions and two 15 mark questions

All questions are compulsory.

To see an example of the full specimen exam, please refer to the F6 (UK) Specimen Paper.

**The Association of Chartered Certified Accountants**

# Paper F6 (HUN)

The ACCA logo consists of the letters 'ACCA' in a bold, white, sans-serif font, centered within a solid black square.

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## 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 when answering Section B.

## TAX RATES AND ALLOWANCES

The following tax rates and allowances applicable to 2014 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

On the consolidated tax base	
On the whole consolidated tax base	16%
On all items of income taxed separately	16%
On interest	16%
On capital gains	16%

### Benefits in kind

Tax rate	16%
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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, 14 and 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.
  - Budapest: 10%
  - Pest County and Western Transdanubia: 30%
  - Central Transdanubia: 40%
  - 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 5.61%.

### 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 = 310 HUF

USD: \$1 = 225 HUF

### Official rate of interest

National Bank of Hungary (Magyar Nemzeti Bank – MNB) – 2.50%

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

*Note: Only three specimen questions provided. For full specimen exam, see F6 (UK) Specimen paper*

Please use the space provided on the inside cover of the Candidate Answer Booklet to indicate your chosen answer to each multiple-choice question.

Each question is worth 2 marks.

- 1** On 1 July 2014 Gigi Kft sold a piece of equipment (moveable tangible non-current asset) for HUF 22 million (excluding VAT). The company had purchased this equipment on 1 March 2013 for HUF 18 million (excluding VAT) and put it into use in the same month. The VAT rate applicable to the purchase in 2013 was 27%. The company had used this equipment exclusively for VAT-exempt activities. The deductibility ratio did not change throughout the period of use of the asset.

The VAT-exempt activities carried out with this equipment ceased on 30 June 2014. All the activities of Gigi Kft carried on from 1 July 2014 onwards are VATable. Other than the sale of this equipment the company's previous VAT-exempt activities have no impact on the July 2014 VAT return.

**How much is the net VAT payable by or receivable to Gigi Kft on the sale of the piece of equipment in July 2014?**

- A** HUF 5,940,000 payable
  - B** HUF 2,376,000 payable
  - C** HUF 3,564,000 deductible
  - D** HUF 2,376,000 deductible
- 2** Mr Coward is employed by Heroes Kft and he is provided with a mobile phone by Heroes Kft. He is entitled to use the phone for private purposes, and he had not been required to separate his private and business calls nor was he required to reimburse any amount to Heroes Kft in this regard. In 2014, the total value of his mobile phone invoices was HUF 350,000 (excluding value added tax (VAT)).

**How much is the personal income tax payable by Heroes Kft for the year 2014 on the use of the mobile phone?**

Note: You should ignore the social security contribution (EHO) payable by Heroes Kft.

Personal income tax

- A** HUF 13,328
- B** HUF 14,224
- C** HUF 84,633
- D** HUF 16,927

**3** PumpUp Kft has two lease agreements as follows:

1. PumpUp Kft generated revenue from a lease agreement as a lessor of an oil pump. The lessee is OilPower Zrt. Under the terms of the lease, PumpUp Kft will issue an invoice for HUF 3 million per month in each of 24 months commencing on 1 September 2014. At the end of the 24-month lease term, OilPower Zrt has a favourable option to purchase the oil pump for a price which is expected to be significantly below the market price of such an asset. Both parties expect that the option will be exercised in 24 months' time.
2. PumpUp Kft is a party to another lease agreement, this time as a lessee. Under the terms of this agreement PumpUp Kft will lease a piece of equipment from Vendlow Kft for a monthly fee of HUF 1 million, for a 36-month period commencing on 1 September 2014. At the end of the lease term the legal title of the equipment will definitely be transferred to PumpUp Kft.

**What is the VAT treatment of the two transactions above according to the Hungarian Act on Value Added Tax?**

	<b>Transaction 1</b>	<b>Transaction 2</b>
<b>A</b>	Operating lease (open-ended lease agreement)	Operating lease (open-ended lease agreement)
<b>B</b>	Finance lease (closed-ended lease agreement)	Finance lease (closed-ended lease agreement)
<b>C</b>	Operating lease (open-ended lease agreement)	Finance lease (closed-ended lease agreement)
<b>D</b>	Finance lease (closed-ended lease agreement)	Operating lease (open-ended lease agreement)

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

*Note: Only one specimen question provided. For full specimen exam, see F6 (UK) Specimen paper*

- 1 Dahlia Zrt is a Hungarian company which trades in flowers and ornamental plants. Dahlia Zrt was founded several years ago, has its domicile in Budapest and an accounting year ending 31 December.

The following items are relevant to the calculation of Dahlia Zrt’s tax base for 2014:

1. Dahlia Zrt’s pre-tax profit for the year ended 31 December 2014 was HUF 70 million.
2. Dahlia Zrt transferred HUF 40 million from its retained earnings to a tied up reserve. The intention of the management of the company is to acquire new vans in 2015. The cost of these new vans will be partially covered by the development reserve.
3. In 2012 Dahlia Zrt had created a development reserve of HUF 10 million. The funds from that reserve were used, along with another HUF 5 million, to acquire and install shelves in its stores. The new shelves were brought into use and capitalised on 1 June 2014. The company assessed the useful life of the shelves to be five years and expects a nil residual value at the end of that period. The Act on Corporation Tax allows annual depreciation at the rate of 14·5% per annum.

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

4. During 2014 Dahlia Zrt accounted for impairment losses of HUF 2 million on some of its equipment in accordance with the Act on Accounting, as the management assessed that the market value is durably and materially lower than the net book value.
5. Dahlia Zrt reviewed its outstanding receivables balances at the end of the year 2014. In line with its accounting policy, the following allowances for impaired debts were created:

Age of receivables	Outstanding receivables	Allowance	Allowance
	HUF	%	HUF
Less than 90 days	3,000,000	0%	0
More than 90 days but less than 180 days	800,000	25%	200,000
More than 180 days but less than 365 days	600,000	50%	300,000
More than 365 days	1,200,000	100%	1,200,000
Total	<u>5,600,000</u>		<u>1,700,000</u>

No similar allowance was outstanding in the books of Dahlia Zrt at the start of the year 2014.

6. Dahlia Zrt expensed HUF 1 million, being the net book value of missing non-current assets. During the statutory audit of Dahlia Zrt, the auditors pointed out that it cannot be proved credibly that the company had made every effort to avoid these losses.
7. Dahlia Zrt created provisions of HUF 4 million during 2014 and reversed provisions of HUF 500,000 which had been created in the year 2012.

8. Dahlia Zrt recorded the following impairment losses in respect of its investments in shares during the year 2014:

Investment	Date of acquisition	Date of registration with the Tax Authority	Percentage of shareholding	Impairment losses HUF
Rose Kft	1 May 2011	1 June 2011	40%	1,000,000
Lily Kft	4 April 2013	30 April 2013	50%	500,000
Narcissus Kft	12 March 2014	29 March 2014	50%	400,000
Freesia Kft	31 August 2012	1 December 2012	100%	1,200,000
Total				<u>3,100,000</u>

These impairment losses were necessary because all of these investments had been performing worse than expected. The impairment losses were charged to the profit before tax for the year 2014 in compliance with the principles set out in the Act on Accounting.

**Required:**

**Calculate the corporate income tax liability of Dahlia Zrt for the year 2014.**

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

**(15 marks)**

**End of Question Paper**

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# Answers

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Section A

- 1 B** Deduction ratio:  
Number of months remaining: July 2014 + August 2014 to February 2018, i.e. 44 months, so the deduction ratio is 44/60.  
VAT payable: 22 million x 27% = HUF 5,940,000  
VAT deductible: 18 million x 27% x 44/60 = HUF 3,564,000  
Net VAT payable: HUF 2,376,000
- 2 D** The personal income tax payable is 16% of the private usage (including VAT) increased by 19%,  
i.e. HUF 350,000 x 127% x 20% x 119% x 16% = HUF 16,927.
- 3 C**

## Section B

Marks

## 1 (a) Dahlia Zrt

Corporate income tax liability for the year 2014

	HUF '000	HUF '000	
Profit before tax		70,000	
<b>Increasing items:</b>			
Accounting depreciation of the shelves (15 million x 1/5 x 7/12)	1,750		2
Impairment losses on non-current assets	2,000		1
Allowance on impaired debts	1,700		1
Book value of missing assets	1,000		1
Provision created	4,000		1
Impairment losses on registered shareholdings	1,900		2
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		12,350	
<b>Decreasing items:</b>			
Development reserve created (limited to 50% of pre-tax profit, i.e. 50% x 70 million)	35,000		2
Tax depreciation of the new shelves (working)	1,269		W
Tax allowance on impaired debts (1.2 million x 20%)	240		2
Provision reversed	500		1
	<hr/>		
		(37,009)	
Tax base		<hr/>	
		45,341	
Corporate income at 10% (base less than HUF 500 million)		<hr/>	
		4,534	½
<b>Working: Tax depreciation on new shelves</b>			
		<b>HUF '000</b>	
Cost of assets		15,000	1
Tax depreciation (15 million x 14.5% x 7/12)		1,269	½
		<hr/>	
		<b>15</b>	

**Tutorial notes:**

1. Registered shareholdings must be registered with the tax authority within 60 days following the acquisition. The investment in Freesia Kft was not registered within 60 days so it does not qualify as a registered shareholding.
2. As per the tax law, 20% of debts outstanding for more than 365 days may be recognised as a tax base reducing item.