Fundamentals Level – Skills Module

Taxation (Hungary)

Monday 2 June 2008

Paper F6 (HUN)

Time allowed
Reading and planning: 15 minutes
Writing: 3 hours

ALL FIVE questions are compulsory and MUST be attempted.
Tax rates and allowances are on pages 2–4.

Do NOT open this paper until instructed by the supervisor.

During reading and planning time only the question paper may be annotated. You must NOT write in your answer booklet until instructed by the supervisor.

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

The Association of Chartered Certified Accountants

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SUPPLEMENTARY INSTRUCTIONS

1 Calculations and workings need only be made to the nearest HUF.

2 All apportionments should be made to the nearest month.

3 All workings should be shown.

TAX RATES AND ALLOWANCES

The following tax rates and tables are to be used in answering the questions

Applicable tax rates for 2007

Corporate tax rate

On the first HUF 5 million of the corporate tax base	10%
On the remaining tax base	16%

Note: the lower band of 10% may only be taken advantage of if the company meets the criteria specified in the law on corporate tax. If not, the corporate tax rate is 16% on the entire tax base.

Solidarity surtax for companies – 4%

Value added tax – 20%

Personal income tax – on the consolidated tax base

On the first HUF 1,700,000	18%
On the remaining tax base	36%

Solidarity surtax for individuals – payable on the consolidated tax base in excess of the cap for social security contributions. The tax rate is 4%.

Cap for social security contributions – HUF 6,748,850

Personal income tax on dividends
General rate – 25%
On dividends exceeding 30% of the value of the company's equity (excluding the valuation reserve) which is proportionate to the individual's share in the company's share capital – 35%.

Personal income tax on interest – 20%

Personal income tax on capital gains – 25%

Personal income tax on rents – 25%

Tax on benefits in kind – 54%

The company car tax shall be paid monthly according to the following schedule:

Purchase price of the car (HUF)	*In the year of acquisition and in the next one to four years (HUF)*	*In the fifth and consecutive years following the year of acquisition (HUF)*
1– 500,000	6,000	3,000
500,001– 1,000,000	8,000	4,000
1,000,001– 2,000,000	12,000	6,000
2,000,001– 3,000,000	20,000	10,000
3,000,001– 4,000,000	26,000	13,000
4,000,001– 5,000,000	32,000	16,000
5,000,001– 8,000,000	42,000	21,000
8,000,001–10,000,000	60,000	30,000
10,000,001–15,000,000	82,000	41,000
Above 15,000,000	112,000	56,000

Employers may provide food vouchers to each employee with a value of up to HUF 10,000 per month for warm meals and up to HUF 5,000 per month for cold meals, free of benefit in kind tax.

Social security contributions

Employer's contributions

Pension contributions	21%
Health insurance contributions	8%
Itemised health care contributions per employee per month	HUF 1,950

Employee's contributions

Pension contributions	8·5%
Health insurance contributions	7%

Contributions to unemployment funds	1·5%

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: 35%
   - Pest County: 40%
   - Western Transdanubia: 45%
   - Other regions: 50%
2. For companies which qualify as being small and medium sized, 15% is added to the regional factor.
3. The maximum support is then 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 8·59%.

Qualifying limits for small and medium sized companies
A company qualifies as small and medium if:
- the company has no state or local government members; and
- total assets are less than €43 million; or
- the number of employees is less than 250; or
- total revenues are less than €50 million

Exchange rates
Euro: €1 = 250 HUF
USD: 1 USD = 200 HUF

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Question 1 begins on page 6.

ALL FIVE questions are compulsory and MUST be attempted

1 In 2005 Tom inherited a flat and a family business from his grandparents. He decided to keep these, but is now curious to know what the taxation implications of selling them compared to keeping them might have been.

Tom rented out the flat in 2007 for HUF 170,000 per month. He renovated the flat in May and June 2007, so for two out of the twelve months he did not receive any rent. The renovation cost him HUF 1·2 million.

Tom could have sold the flat for HUF 34 million on 1 March 2007. From this he would have had to pay the agent's fee of HUF 700,000. He would have put the proceeds from the sale of the flat, after deducting the agent's fee and the related personal income tax into a bank account, on which he could have earned interest at the rate of 6% per annum.

In 2005 when Tom inherited the flat, it was valued at HUF 28 million, and he had paid the inheritance tax based on this value.

Besides the flat, Tom inherited the family business in 2005. This is a registered Kft. In 2007 because he needed cash for the renovation of the flat, Tom decided to draw dividends from the company. As the year 2007 was very profitable, Tom received a dividend (before tax) of HUF 10·2 million.

Tom believes that he could have sold the shares in the family business (not through a stock exchange) in 2007, for HUF 12·5 million. When he inherited the business in 2005, it was worth nothing (zero). No inheritance tax had to be paid on it in 2005.

Tom owns 100% of the shares in the family business. The company's share capital was HUF 3 million, its equity – excluding the valuation reserve – was HUF 9·8 million in 2007.

Tom, besides being the sole owner of the family business, is also an employee of it. He receives a monthly gross salary of HUF 250,000. In addition, he has the use of a company car purchased in 2006 for HUF 8·2 million. He is not required to reimburse the company for private use. Moreover, every month he goes to a wellness centre. The wellness centre issues an invoice to the company for HUF 25,000 (excluding VAT) a month in respect of this.

The company does not pay a bonus and any salary increases are effective from 1 January annually.

Required:

(a) Calculate the personal income tax Tom would have had to pay had he sold the flat on 1 March 2007. (3 marks)

(b) (i) Calculate the net (after tax) interest that Tom would have received in the year 2007, had he sold the flat on 1 March 2007 and paid the net proceeds into the bank account. You may assume the cash proceeds were received on 1 March 2007. (2 marks)

(ii) Calculate the net (after tax) rent that Tom actually did receive on the flat assuming that he elected to have the rental income taxed separately ('*különadózó jövedelem*'). (1 mark)

(c) Describe the other treatment Tom could have chosen for the taxation of the rental income and determine Tom's tax liability for the year 2007 under this other treatment. (5 marks)

(d) (i) Calculate the net proceeds from the sale of the family business, had Tom sold it for HUF 12·5 million in 2007. (2 marks)

(ii) Calculate the net (after tax) dividend that Tom actually did receive from the family business for the year 2007. (3 marks)

(e) State who should pay the tax on the dividend and interest income to the tax authority, and whether Tom had to declare these items in his annual personal income tax return for the year 2007. (3 marks)

(f) (i) Describe how the monthly personal income tax, which is deducted from Tom's salary, will be calculated. (2 marks)

(ii) Calculate, how much tax is payable by the company each month in respect of the salary and other benefits received by Tom. (4 marks)

Note: you should ignore social security contributions when answering this question.

(25 marks)

2 NewsPub Kft. is a publishing house incorporated in Hungary. The company was very profitable in 2007, its pre-tax profit as per the trial balance at 31 December 2007 was HUF 676 million.

After 31 December 2007 but prior to the preparation of the balance sheet, the following events occurred, which had not been included in the above trial balance:

1. On 10 January 2008, the company received the December 2007 electricity bill for HUF 318,000 (including VAT).
2. NewsPub had invited its business partners for a Christmas party. The food and drinks cost HUF 1,600,000 (excluding VAT). Prior to receiving this invoice, the representation costs of the company already amounted to HUF 28 million in 2007.
3. NewsPub had to write off one of its receivables, which arose from a sale made in 2001. The book value of the receivable was HUF 2·4 million.

In addition to the above events, the following items (which are already included in the trial balance above) may affect the company's tax base in 2007.

(i) The company had to account for a loss in value of HUF 15 million related to its shares in a Slovak subsidiary. Moreover, in order to improve the financial position of the subsidiary, on 15 March 2007, NewsPub assumed one of the subsidiary's liabilities of €160,000. The subsidiary does not qualify as a controlled foreign corporation.

(ii) There was a tax audit on the company in March 2007 concerning the years 2004 and 2005. The audit revealed the following mistakes:

1. One supplier invoice had been booked twice in 2005. The value of the invoice was HUF 540,000 (excluding VAT).
2. The personal income tax on fringe benefits had not been calculated correctly in 2004, resulting in HUF 750,000 less personal income tax being recorded and declared in that year.

Since these mistakes do not qualify as being material according to the company's policy, the correction of these items has been accounted for in the income statement of the year 2007 for accounting purposes.

The tax authority levied a HUF 140,000 default penalty and HUF 252,000 late payment interest in the year 2007 because of these mistakes.

(iii) Based on the year-end revaluation of assets and liabilities denominated in foreign currency, NewsPub accounted for HUF 7,550,000 unrealised foreign exchange differences in 2007. The company had the following foreign currency assets and liabilities, none of which were hedged:

		Unrealised foreign exchange difference recognised in the income statement in 2007	
		Gain	**Loss**
Bank account	USD 230,000		HUF 1,840,000
balances	€ 811,000		HUF 8,110,000
Short term loan	USD 20,000	HUF 160,000	
Long term loans	USD 80,000	HUF 640,000	
	€ 160,000	HUF 1,600,000	
Total		HUF 2,400,000	HUF 9,950,000

At the end of 2006, the company had only one foreign currency item, which was a long-term bank loan of USD 100,000. This loan was still in the company's books in 2007, but USD 20,000 was transferred to short-term loans as this amount was due within a year. In relation to the bank loan, the company had booked HUF 500,000 of unrealised foreign exchange gains in 2006, which was treated as a tax base decreasing item at that time.

(iv) In addition to the USD 100,000 bank loan (above) and the € 160,000 intercompany loan assumed from the Slovak subsidiary, the company had a HUF 12 million promissory note which was issued to offset a liability owed to one of its suppliers. The terms of these liabilities were as follows:

Liability	Interest rate
USD 100,000 bank loan	4·3%
€ 160,000 intercompany loan	3·9%
HUF 12 million promissory note	16·5%

According to the report prepared by the company's tax advisors, the interest rate on the intercompany loan is not an arm's length rate. The market rate would be 3·5%.

The equity section of the balance sheet of NewsPub as at 1 January 2007 was as follows:

	Thousand HUF
Share capital	3,000
Capital reserve	–
Valuation reserve	4,000
Profit reserve	5,000
Equity	12,000

The owner of NewsPub decided to increase the company's share capital by HUF 150 million in 2007. The cash was received by the company on 15 December 2007; however, the increase in the share capital was registered only on 4 January 2008.

(v) NewsPub paid a royalty of € 3 million to its Italian parent company, and received a royalty of € 2·3 million from its Slovak subsidiary in 2007. Both these royalties were based on arm's length agreements.

(vi) The company's income statement for the year ended 31 December 2007 comprised the following:

	Thousand HUF
Sales revenues	1,912,378
Other income	440,000
Cost of materials	39,760
Purchase price of goods sold	870,760
Other costs	705,360
Other expenditure	63,000
Financial expenditure	3,120

There were no mediated services at the company.

Required:

(a) Calculate the 2007 pre-tax profit of NewsPub Kft. Support your computation with relevant explanations.

Note: you should ignore social security contributions. (5 marks)

(b) Calculate the 2007 corporate income tax liability of NewsPub Kft, assuming that the company is eligible for the progressive tax rates. Support your computation with relevant explanations. (19 marks)

(c) Calculate the 2007 solidarity surtax liability of NewsPub Kft. (2 marks)

(d) Calculate how much the 'expected' tax base of NewsPub Kft. would be in 2007 and state, giving reasons, whether NewsPub Kft. has to pay the minimum tax in 2007.

Note: you should assume that NewsPub Kft. did not prepare interim financial statements during 2007. (4 marks)

(30 marks)

3 (a) ACTIVE Kft is owned 100% by private individuals. The company is successful in manufacturing sports equipment. Due to the increased demand for golf clubs the company had to purchase a new assembly line. The cost of the assembly line was USD 2 million. In order to finance the assembly line, the company obtained a bank loan (interest payable monthly). The assembly line was put into use on 10 June 2007.

Details of the loan are as follows:

Amount:	USD 2 million
Interest rate:	6·7%
Date of signing the loan agreement:	14 January 2007
Loan drawdown date:	1 June 2007
Lumpsum repayment date:	1 June 2012

The company qualified as a medium-sized enterprise on 31 December 2007.

The 2007 tax liability of the company (before considering any tax allowance) was as follows:

	Thousand HUF
Profit before tax	210,000
Tax base	168,312·5
Tax (at 16%)	26,930

In addition to the tax allowance granted to small and medium-sized enterprises for investment loans, the company was entitled to claim another tax allowance. This is a development tax allowance, which was granted to the company due to the fact that it created new jobs. According to the company's calculation, it should be able to claim the development tax allowance until at least 2012 since there is still HUF 185,210,000 of tax allowances available (calculated at 2007 prices) which can be claimed in 2007 and in the following years.

Required:

(i) State, giving reasons, why ACTIVE Kft is entitled to claim the tax allowance which is available for small and medium-sized enterprises in respect of the loan taken to finance the assembly line. (2 marks)

(ii) Calculate the maximum tax allowance that can be claimed by ACTIVE Kft for the loan in the year 2007. (7 marks)

(iii) State, giving reasons, the date until which ACTIVE Kft can claim the tax allowance for the loan. (2 marks)

(b) There is another benefit that may be available to ACTIVE Kft: an investment benefit for medium-sized enterprises. This is given as a deduction from the corporate income tax base and is available only for small and medium-sized enterprises.

Required:

Explain the features of and criteria for this investment benefit deduction and the amount of the available benefit. (4 marks)

(15 marks)

4 Tulip Kft operates four profitable flower shops in Budapest. During the first six months of 2007, the company generated HUF 65 million in sales revenue.

On 12 August 2007, the company's bookkeeper prepared a pro forma value added tax (VAT) return for the month of July, which included the following figures:

	HUF
VAT payable	1,900,000
VAT deductible	(750,000)

The following transactions were not reflected in the pro forma VAT return, above. Where relevant you should assume that the company received the invoice on 13 August 2007:

1. The July telephone bill was received late. It must have been delayed at the post office. The phone cost amounted to HUF 156,000 (including VAT) and the due date indicated on the invoice was 31 July. The company did not require its employees to reimburse the private use of the phones.
2. One of the company's shops is rented. The monthly rent payable is HUF 700,000 (including VAT). The September rent was due on 28 August.
3. Between 20 and 22 July, the company's general manager attended a flower exhibition in Frankfurt. The Frankfurt hotel invoiced € 680 plus 19% VAT for his accommodation.
4. When the general manager arrived back, he went straight to work. The cost of the taxi from Ferihegy airport to the office was HUF 4,800 (including VAT).
5. The company refurbished its oldest shop in July for HUF 5·52 million (including VAT). The date of performance indicated on the invoice was 23 July.
6. On 28 July, the company paid HUF 1,080,000 as an advance payment to one of its suppliers.

Tulip Kft submitted its July VAT return on 14 August. At the time of submission of the VAT return, the unpaid suppliers' invoices amounted to HUF 852,000 (including VAT).

Tulip Kft files VAT returns on a monthly basis. The VAT return for June had shown a VAT reclaimable balance of HUF 75,000 which had been carried forward.

Required:

(a) Prepare Tulip Kft's value added tax (VAT) return for the month of July 2007, clearly identifying how much VAT the company can reclaim or should pay for July. Support your computations with relevant explanations.

Note: you should assume that the company asked for the deduction of input VAT on the incoming invoices at the earliest date possible. (11 marks)

(b) State, giving reasons, which of the above incoming invoices could be included only in the August 2007 VAT return and which invoices have no effect on either the July or the August VAT returns. (4 marks)

(15 marks)

5 Star Kft, a company operating a movie theatre, was established 10 years ago. The renovation of its theatre located in the city started in 2006 and was still continuing during the first half of 2007. The company's aggregate value added tax (VAT) balance was HUF 21·4 million reclaimable for 2006 and HUF 5·4 million reclaimable for the period January to March 2007.

In total the company paid HUF 19·2 million in personal income tax for 2005, of which the tax withheld from the employees was HUF 18·1 million. In 2006, the total personal income tax paid was HUF 20·38 million.

The following events occurred in April 2007:

1. The company generated HUF 25 million of revenues (net) in the month of April. This revenue was from the sale of movie tickets and the sale of snacks in the lobby of the theatre.
2. The most frequently played movies are those produced by American Starplus. In April, Star Kft received an invoice of USD 75,000 issued by Starplus in respect of royalties for the first quarter of 2007.
3. The firm organising the renovation issued its invoice in April for HUF 20 million (excluding VAT).
4. The company purchased snacks and drinks for HUF 2·8 million (excluding VAT) .
5. Once a month, the company gives one free movie ticket to each of its 26 employees. The value of one ticket is HUF 1,200 (excluding VAT).
6. In April, the personal income tax payable on the employees' salaries and the company car was HUF 1,950,000, while the social security liability was HUF 3,240,000.
7. The company had omitted to pay and declare the personal income tax liability on the company car for the month of March of HUF 42,000.

Required:

(a) Calculate the value added tax (VAT) balance of Star Kft for April 2007 and explain when the company should have declared it. (6 marks)

(b) (i) Calculate the total personal income tax and social security that should have been paid and declared to the tax authority by Star Kft for the month of April 2007. (4 marks)

(ii) Explain the deadlines for the payment and declaration of the personal income tax and the social security calculated in (i), above. (5 marks)

(15 marks)

End of Question Paper