Answers

1 Tom

(a) Taxation of the gain realised on the sale of the flat

(1) When a flat is sold, the revenue can be decreased by the acquisition price and the costs ancillary to the sale (e.g. agent's fee). If the flat was acquired through inheritance, the acquisition price is the value of the flat used as the basis of the inheritance tax.

Income from the sale of the flat is therefore:
34 million – 28 million – 700,000 = HUF 5,300,000

(2) Since the flat would have been sold within five years of the acquisition (inheritance), the income cannot be further decreased. (Otherwise the income could have been decreased by a certain percentage based on the length of ownership.)

(3) The income from the sale of flat is taxed at 25%, thus Tom would have had to pay HUF 1,325,000 if he had sold the flat in 2007.

(b) Net income from investment and rent

(i) Net income from investment
If the flat had been sold, Tom would have had to pay the HUF 700,000 agent's fee and the HUF 1,325,000 tax (see part (a) above) from the HUF 34 million. Thus he would have been left with HUF 31,975,000 to put in the bank. He would have received 6% interest on this amount, which would have been HUF 1,598,750 for 10 months (from March to December). Interest income is taxed at 20%, so HUF 319,750 tax would have had to be paid, thus his net income for the year 2007 would have been HUF 1,279,000 (1,598,750 – 319,750).

(ii) Net income from rent
As the rental income is treated as income taxed separately, the full amount of the rent is considered to be income, which is taxed at 25%. Tom's annual income from rent was 170,000 * 10 months = HUF 1,700,000. On this, Tom would have paid HUF 425,000 tax, thus his net income from rent for the year 2007 was HUF 1,275,000 (1,700,000 – 425,000).

(c) Taxation of rental income

(1) In part (b), Tom's income from the rent was treated as income taxed separately, and the total revenue taxed at 25%.

Alternatively, taxpayers may decide to treat rental income as income from independent sources, as part of the consolidated tax base. In this case, they have the possibility to deduct actual costs (e.g. in this case the renovation costs) based on invoices from the rental income. Alternatively a flat 10% of revenue can be deducted in respect of expenses.

(2) Had Tom chosen to have his rental income so taxed, he could have deducted the HUF 1·2 million renovation cost. In this case Tom's rental income would have been HUF 500,000 (1,700,000 – 1,200,000). Had Tom elected to deduct the 10% of revenue as expenses his income would have been HUF 1,530,000, so clearly, Tom would have chosen to deduct actual expenses.

(3) As part of the consolidated tax base, the rental income is taxed at the general progressive tax rates (18% and 36%). Since Tom receives salary also, he will use up the 18% allowance on his salary, so the marginal rate of tax on Tom's rental income will be 36%. The 4% solidarity surtax would also be payable in this scenario, however, since Tom's consolidated tax base is below the cap for social security contributions, the solidarity surtax does not have to be paid.

Thus, Tom's personal income tax liability is HUF 180,000 (500,000 x 36%).

(In case candidates considered a 10% lump sum deduction, then the personal income tax on the HUF 1,530,000 income would be HUF 550,800.)

(d) Net proceeds from the sale of the family business and from dividend

(i) Net proceeds from the sale of the family business

(1) The capital gain from the sale of shares is calculated as the difference between the revenue from the sale and the acquisition value of the shares plus ancillary costs. The acquisition value of the shares was zero.

Capital gain:

	HUF
Sales price	12,500,000
Acquisition value	0
Gain	12,500,000

(2) Capital gains are taxed at 25% unless the sale is carried out on the stock exchange. Thus Tom would have had to pay HUF 3,125,000 on the gain, and would have been left with HUF 9,375,000 (12,500,000 – 3,125,000).

(ii) Net dividend

(1) Dividend income from Hungarian shares is taxed according to progressive rates, at 25% and 35%. The lower rate applies to that part of the dividend which does not exceed 30% of the individual's share of the company's equity. The excess dividend is taxed at 35%.

(2) As Tom's ownership in the company is 100%, his share of the company's equity (HUF 9.8 million) is HUF 9.8 million. 30% of this is HUF 2,940,000. Thus, HUF 2,940,000 is taxed at 25%, whereas the excess part of the dividend, HUF 7,260,000 (10,200,000 – 2,940,000) is taxed at 35%. The tax payable by Tom on the dividend is thus HUF 3,276,000.

	HUF
2,940,000 * 25% =	735,000
7,260,000 * 35% =	2,541,000
	3,276,000

His net income from the dividend is: 10,200,000 – 3,276,000 = HUF 6,924,000

(e) Payment of tax on dividend and interest

(1) The company paying the dividend is responsible for withholding the tax. It must issue a certificate to the individual of the amount paid and the tax withheld. Since the amount of the dividend was more than HUF 50,000, Tom must also declare the dividend income and the tax thereon in his annual personal income tax return.

(2) The bank is responsible for withholding tax from the interest. If it does so, then Tom does not need to declare the interest income in his annual personal income tax return.

(f) (i) Calculation of monthly tax advance

The comany is obliged to withhold the personal income tax advance from Tom's salary each month. For this, the monthly regular income has to be multiplied by 12 and then the annual expected tax should be calculated on this annualised income using the general progressive tax rates. The monthly tax advance is one-twelfth of the annual expected tax.

(ii) Personal income tax payable by the company

1. Tax on the salary
Following the method described in point (i) above, the monthly tax in advance is calculated as follows:

His annual salary is HUF 3,000,000 (250,000 * 12). The expected annual tax payable on this is:

		HUF
On the first 1,700,000	18%	306,000
On the remaining 1,300,000 (3,000,000 – 1,700,000)	36%	468,000
		774,000

The tax advance for one month is therefore HUF 64,500 (774,000/12).

2. Tax on company car
Due to the private use of the company car, the company is obliged to pay company car tax. From the tables, the amount of tax is HUF 60,000 a month based on the value and age of the car.

3. Tax on fringe benefit
The fact that Tom goes to the wellness centre every month, and the company pays for this is considered to be a fringe benefit provided by the company. The company must pay 54% personal income tax on this. The basis of the tax is the value of the benefit (including VAT). Accordingly, the company must pay HUF 16,200 (25,000 * 1·2 * 54%) tax per month on the wellness centre benefit.

2 NewsPub Kft.

(a) Calculation of profit before tax

Profit before tax	Note	HUF
		676,000,000
Electricity	1	(265,000)
Entertainment	2	(2,956,800)
Write-off of debt (receivable)		(2,400,000)
		670,378,200

Notes

(1) Since the electricity bill relates to the year 2007, it should be deducted from the pre-tax profit of 2007. As the VAT on the invoice is deductible, it does not affect the profit and loss account. Therefore only the net value of the invoice should be considered (318,000/1·2 = 265,000).

(2) VAT on the purchase of food and drinks is not deductible, hence it should be booked as a cost.
The entertaining of business partners is a cost on which NewsPub should pay personal income tax unless the costs are less than 1% of total revenues or HUF 25 million. Since the entertainment cost of the company already exceeded HUF 25 million, NewsPub should pay the personal income tax on this invoice. The basis of the tax is the value of the invoice (including VAT) and the rate is 54%.

	HUF	
Net value	1,600,000	
VAT	320,000	
Personal income tax	1,036,800	(1,600,000 + 320,000)*54%
	2,956,800	

(b) Corporate income tax base

Calculation of the corporate income tax base:	Note	HUF	HUF
Profit before tax (from part (a))			670,378,200
Decreasing items:			
Tax audit	1		
– double booking of supplier invoice		540,000	
Unrealised foreign exchange gain (640,000 + 1,600,000)	2	2,240,000	
Royalty (2,300,000 * 250 * 50%)	3	287,500,000	
			(290,280,000)
Increasing items:			
Write-off of debt	8	2,400,000	
Write-down of cost of shares in Slovak subsidiary	4	-	
Assumption of debt (160,000*250)	8	40,000,000	
Tax audit			
– personal income tax on fringe benefit	1	750,000	
– penalties levied by the tax authority (140,000 + 252,000)	8	392,000	
Reversal of unrealised foreign exchange gain of 2006	5	100,000	
Thin capitalisation	6	312,000	
Transfer pricing	7	128,000	
			44,082,000
Tax base			424,180,200
Corporate tax			
– On first HUF 5 million at 10%		500,000	
– On remaining HUF 419,180,200 at 16%		67,068,832	
			67,568,832

Notes

(1) The items revealed by the tax audit that relate to prior years have been booked in the current year for accounting purposes, as, since the mistakes did not qualify as material, the company policy was to include the items in the 2007 pre-tax profit. However, since they relate to prior years, they should be reversed in the tax base calculation so that the 2007 tax base does not include them.

(2) In the case of certain assets and liabilities (long term financial investments, long-term loans) that are not hedged, the taxation of the unrealised foreign exchange difference that is accounted for as a result of the year-end revaluation, can be deferred. This means that for example the tax base can be decreased by the unrealised exchange gain. The taxation is deferred until the relating asset/liability is taken out of the books for example when the asset or liability is sold, repaid, written off, etc. At this stage, the tax base adjustment should be reversed.

In the case of NewsPub there is only one type of asset/liability where the deferral can be applied, that is the long-term loans. The unrealised exchange gain in relation to these can thus reduce the company's tax base. No deferral is possible in the case of other asset/liability types.

(3) The tax base may be reduced by 50% of royalties received up to a maximum of 50% of the pre-tax profit. In the case of NewsPub Kft, 50% of the royalties (HUF 287,500,000) is less than 50% of the pre-tax profit (HUF 335,189,100), so the limitation does not apply.

(4) Write-down of the cost of shares is acceptable for corporate income tax purposes, unless the shares are in a company which qualifies as a controlled foreign corporation (CFC). Since the Slovak subsidiary is not a CFC, the tax base does not have to be modified on this basis.

(5) In 2006, the company also applied the deferral described in note (2) and decreased its tax base by the HUF 500,000 unrealised foreign exchange gain, which was accounted for in relation to the USD 100,000 long-term bank loan. From the value of the loan, USD 20,000 has been transferred to short-term liabilities, so therefore a part of the tax base reduction has to be reversed in 2007. The transferred amount is 20% of the total value of the loan. Therefore, 20% of the HUF 500,000, that is HUF 100,000 has to be treated as a tax base increasing item in 2007.

(6) In order to see whether the company was thinly capitalised, first we have to calculate the daily average of equity and liabilities. If the latter exceeds three times the daily average equity, then the interest expense on the excess part of the liabilities is not deductible and the tax base should be increased by this amount.

In respect of the thin capitalisation calculation, equity does not include the valuation reserve. Thus, the equity was HUF 8 million on 1 January 2007. Since the increase in share capital was registered only in 2008, it cannot be considered when calculating the daily average equity of 2007. So the value of equity has not changed throughout 2007 and its daily amount was HUF 8 million.

Liabilities do not include bank loans and promissory notes issued to replace liabilities toward suppliers. Thus in the case of NewsPub, only the € 160,000 intercompany loan should be considered in the thin capitalisation calculations. The loan was assumed on 15 March 2007, so it was outstanding for 292 days in 2007. Therefore, the daily average liability was HUF 32 million (160,000 * 250 * 292/365).

Three times the daily average equity (8 million * 3) was less than the daily average liability, so the company was thinly capitalised. The excess part was HUF 8 million (32 – 24), which was 25% of the daily average. The interest expense on the € 160,000 loan was 1,248,000 (160,000 * 250 * 3.9% * 292/365) in 2007, of which 25% is non deductible.

The thin capitalisation adjustment is independent from the transfer pricing adjustment.

(7) Since the interest rate on the inter company loan was in excess of market rates, based on the transfer pricing rules, the company should increase its tax base by the difference. The interest calculated at the market rate (3·5%) would be HUF 1,120,000 (160,000 * 250 * 3·5% * 292/365) in 2007. The difference is HUF 128,000 (1,248,000 – 1,120,000), which should be considered as a tax base increasing item.

(8) The following items are not deductible expenses for corporate tax purposes, so increase the tax base:
- Write-off of bad debts
- Assumption of liabilities on behalf of subsidiaries
- Tax penalties

(c) Solidarity surtax

The basis of the solidarity surtax is calculated from the pre-tax profit modified by certain items, which are much less than in the case of the corporate income tax.

	HUF
Pre-tax profit	670,378,200
Decreasing items:	
None	–
Increasing items:	
Assumption of debt	40,000,000
Tax base	710,378,200
Tax (at 4%)	28,415,128

Candidates may have noted that based on some unofficial guideline/interpretation, the transfer pricing adjustment applies for solidarity surtax purposes as well. Therefore they could have taken HUF 128,000 as a tax base increasing item. Thus the solidarity surtax base could have been HUF 710,506,200 and the tax HUF 28,420,248.

(d) Minimum tax

The basis of the expected tax is 2% of total revenues decreased by cost of goods sold and mediated services. Since the company did not have any mediated services, the calculation of the 'expected' tax base is as follows:

	Thousand HUF
Sales revenue	1,912,378
Other income	440,000
Cost of goods sold	(870,760)
	1,481,618* 2% = HUF 29,632,360

The expected tax base should be compared to the company's actual tax base (HUF 424,180,200) and the pre-tax profit (HUF 670,378,200). Since both of them are more than the expected tax base, NewsPub Kft should pay its corporate tax on the basis of the general tax base as calculated in part (b).

3 ACTIVE Kft

(a) (i) Criteria for the tax allowance

ACTIVE Kft may claim tax allowance for the loan taken for the investment if the following conditions are met:

- ACTIVE Kft qualified as a small or medium-sized enterprise on the last day of the year when the loan agreement was concluded;
- ACTIVE Kft took the loan for the purchase or manufacture of fixed assets;
- ACTIVE Kft took the loan from a bank; and
- ACTIVE Kft concluded the loan agreement after 31 December 2000.

Since all of the above requirements are met in the case of ACTIVE Kft, the company is entitled to claim the tax allowance.

(ii) Maximum tax allowance for the loan

(1) The allowance is 40% of the interest paid on the loan during the tax year, however, there are two limits that must be considered here:
   (i) The amount of the tax allowance cannot exceed HUF 6 million, and
   (ii) The amount of the tax allowance cannot exceed 70% of the corporate tax payable as reduced by any other tax allowances.

(2) In 2007 ACTIVE Kft had to pay HUF 15,712,877 (2,000,000 * 200 * 6·7% * 214/365) interest on the USD 2 million loan. 40% of this is HUF 6,285,151. This is more than HUF 6 million. Thus, due to the limitation in point (1) above, ACTIVE Kft cannot claim the full amount of 40% of the interest paid.

(3) In order to calculate the limit in point (1), first we have to see how much other tax allowance ACTIVE Kft claimed in 2007. According to the question, the company is entitled to a development tax allowance, which it can claim for several years. The development tax allowance that a taxpayer may claim is limited to 80% of the tax. Thus, the company may claim a maximum HUF 21,544,000 (26,930,000 * 80%) as a development tax allowance in 2007.

(4) The tax allowance for the loan is limited to 70% of the tax as decreased by the above amount, that is:

	HUF
Tax (at 16%)	26,930,000
Development tax allowance	(21,544,000)
	5,386,000

5,386,000 * 70% = HUF 3,770,200 is the maximum tax allowance that can be claimed for the loan based on point (1) above.

In summary, based on the above limitations, the maximum tax allowance that ACTIVE Kft may claim for the loan in 2007 is HUF 3,770,200.

(iii) Time limitation for the tax allowance

The tax allowance may be last claimed in the year in which the loan – according to the original contract – should be repaid, that is in 2012 in the present case. However, if the fixed asset financed by the loan is taken out of the company's books prior to this date (e.g. the asset is sold), then the last year in which the tax allowance can be claimed is the year, on the last day of which the asset is still recorded in the company's books.

(b) Tax base deduction available for small and medium-sized enterprises

(1) A company investing in brand new real estate, machinery, vehicles or intellectual property, can deduct the cost of the investment from the tax base provided that it qualified as a small or medium-sized enterprise on the last day of the year in which the investment was made. The same rule applies for the cost of renovation of own or rented real estate. In fact, this benefit works as a double deduction, since, besides the deduction of the cost from the tax base, the value of the asset can still be amortised.

(2) The deduction from the tax base, however, cannot exceed the value of the pre-tax profit or HUF 30 million.

(3) A penalty applies if e.g. the investment has not been put into use within four years, the asset has been sold within four years, etc. In such cases, twice the amount that was taken as a deduction must be added back to the tax base.

4 Tulip Kft.

(a) VAT return for July 2007

	Note	HUF
VAT payable		1,900,000
VAT deductible		
– VAT deductible as of 12 August		(750,000)
– July phone	1	(18,200)
– Refurbishment of shop (5,520,000 * 16·67%)		(920,000)
– Advance payment	2	(180,000)
VAT balance		31,800
VAT deductible carried forward from June		(75,000)
VAT balance for July		(43,200)
VAT payable/refundable	3	0
VAT deductible carried forward to August		(43,200)

Notes

(1) Telephone service is considered to be a continuous service. The date of performance is considered to be the due date of the invoice. Since this was 31 July, the phone bill can be included in the July VAT return.

As employees did not reimburse the company for the private use of the phones, 30% of the VAT may not be deducted. Therefore, only 70% of HUF 26,000 (HUF 156,000 * 16·67%) is deductible, which is HUF 18,200.

(2) In the case of advance payments, the date of performance is the date when the advance is actually paid. Since Tulip Kft paid the advance on 28 July, the invoice on the advance can be included in the July VAT return. Advances should be considered as amounts already including VAT. The VAT content of the advance is thus HUF 180,000 (HUF 1,080,000 * 16·67%).

(3) The negative VAT balance can be reclaimed from the Tax Authority if certain conditions are met. Since the company's sale revenues exceeded HUF 4 million, the only other criterion that needs to be observed is whether the supplier's invoices are paid. If there are unpaid suppliers' invoices, the VAT on these has to be deducted from the VAT balance and only the difference can actually be reclaimed. The remaining part has to be carried forward to the next VAT period.

Tulip Kft had not paid HUF 852,000 of the supplier's invoices. The VAT content of these invoices is HUF 142,000 (HUF 852,000 * 16·67%). Since this is more than the negative VAT balance, the full amount of HUF 43,200 has to be carried forward for August and no VAT can be reclaimed in July.

(b) Invoices excluded from the July VAT return

(i) Invoice to be included in the August VAT return:

In the case of the rent, the deemed date of performance is the due date of the payment. Since the due date was 28 August, the VAT on the rent can only be included in the VAT return for August.

(ii) Invoices excluded from either the July or the August VAT returns:

Accommodation service falls under the general rules and thus the deemed place of performance is the place where the party rendering the service is resident, which is in Germany. This means that this service is outside the scope of Hungarian VAT.

VAT on passenger transport (taxi) is non-deductible, therefore the VAT on the taxi invoice could not be included in any VAT return.

5 Star Kft

(a) VAT balance for April

VAT payable	Note	HUF
– movie tickets sold (25 million * 20%)		5,000,000
– royalty invoice (75,000 * 20% * 200)	1	3,000,000
– movie tickets given to employees for free	2	6,240
VAT deductible		
– royalty invoice	1	(3,000,000)
– renovation (20 million * 20%)		(4,000,000)
– purchase of snacks and beverages (2·8 million * 20%)		(560,000)
VAT balance (payable)		446,240

Notes:

(1) In the case of royalty invoices, the deemed place of supply is in Hungary. Hence, the company paying the royalty has to calculate and pay the VAT on such invoices. However, since the Kft carries on a VATable activity, it can immediately, in the same month, deduct the VAT on the imported services. Therefore, the VAT becomes both payable and deductible on the royalty invoice in April.

(2) The provision of movie tickets to the employees for free is subject to VAT. Therefore, the company has to pay VAT based on the market price of the tickets.
1,200 * 20% * 26 = 6,240

Taxpayers, whose aggregate VAT balance in the previous year was positive (i.e. VAT payable) and was over HUF 1 million, are obliged to file monthly VAT returns. If the VAT balance (plus or minus) was less than HUF 250,000, then the VAT returns are due annually. All other taxpayers are obliged to file quarterly VAT returns.

Since the company's VAT balance in 2006 was negative but it was more than HUF 250,000, Star Kft was obliged to file quarterly VAT returns in 2007. Since the VAT balance for January to March also did not exceed the HUF 1 million VAT payable, it did not have to change to monthly filings. Therefore, Star Kft had to declare its VAT balance for April – together with the May and June balances – in the VAT return submitted for the second quarter of 2007, which was due by 20 July 2007.

(b) Personal income tax and social security

(i) Personal income tax and social security for April:

		Personal income tax HUF	Social security HUF
Free movie tickets	1	20,218	16,721
Salary and company car		1,950,000	3,240,000
Company car tax for March	2	–	–
		1,970,218	3,256,721

Notes

(1) The movie tickets that were given to the employees for free are treated as fringe benefits, on which the company has to pay personal income tax and social security. The basis of the personal income tax is the value of the ticket including VAT. The rate of the tax is 54%.
1,200 * 1·2 * 26 * 54% = 20,218

The company has to pay social security at 21% + 8% on the value of the tickets (including VAT and personal income tax).
((1,200 * 1·2 * 26) + 20,218) * 29% = 16,721

(2) The company car tax for March cannot be included in the April tax return, the March tax return must be self revised.

(ii) The company has to pay the personal income tax, which was withheld from the employees or assessed by the company, by the 12th of the next month, i.e. by 12 May.

The tax return on the personal income tax is also due by the same date, i.e. by the 12th of the next month.

The deadlines for payment and declaration of social security are the same as those for the personal income tax.

			Marks
1	Tom		
	(a)	**Taxation of sale of flat**	
		Calculation of income from sale	1
		Note that no further reduction of income is possible as sale is within five years	1
		Calculation of tax	1
			3
	(b)	**Net income from investment and rent**	
		(i) Net income from sale of flat	0·5
		Calculation of interest	0·5
		Calculation of tax/net interest income	1
			2
		(ii) Calculation of after tax rent	1
			1
	(c)	**Taxation of rental income**	
		Treatment as income from independent sources	1
		Deduction of costs based on invoices or on a lump sum basis	1
		Progressive tax rates	1
		Solidarity surtax	1
		Correct calculation of total tax on rental income	1
			5
	(d)	**Net proceeds from the sale of family business and from dividend**	
		(i) Calculation of income from sale of shares	1
		Tax on capital gains/net proceeds	1
			2
		(ii) Calculation of 30% of Tom's share from equity	1
		Calculation of tax on dividend/net proceeds	2
			3
	(e)	**Payment of tax on dividend and interest income**	
		Withholding of tax by the company on the dividend	0·5
		Declaring the income in the annual tax return	1
		Withholding of tax by the bank on the interest	0·5
		No need to declare the income in the annual tax return	1
			3
	(f)	**(i) Method to calculate the monthly tax advance**	
		Annualise the monthly regular income	1
		Calculate tax at the progressive rates	0·5
		Divide the expected annual tax by 12	0·5
			2
		(ii) Personal income tax payable in relation to the income realised by Tom	
		Calculation of monthly tax advance deductible from Tom's salary	1
		Determination of company car tax	1
		Calculation of personal income tax on fringe benefit (wellness centre)	2
			4
			25

		Marks
2	**NewsPub Kft.**	
(a)	**Profit before tax**	
	Electricity bill	1
	Representation	
	– cost of food and drinks	0·5
	– non-deductible VAT	1
	– note that personal income tax is payable as annual cost is over HUF 25 million	1
	– calculation of personal income tax	1
	Write-off of receivable (debt)	0·5
		5
(b)	**Corporate income tax**	
	Pre-tax profit (ex part (a))	0·5
	Decreasing items	
	Double booked invoice with explanation	2
	Non-realised foreign exchange gain	
	– correct amount of tax base decreasing item	1
	– note that the deferral can be applied only in the case of certain assets and liabilities	1
	Royalty received	
	– calculation of 50% of royalty income	1
	– note that the limitation does not apply	1
	Increasing items	
	Write-off of debt	1
	Note that the write-down of the cost of shares does not modify the tax base	1
	Assumption of debt	1
	Personal income tax on fringe benefit	1
	Penalties levied by the tax authority	1
	Reversal of non-realised foreign exchange gain of 2006 with explanation	2
	Thin capitalisation	
	– calculation of daily average equity	1
	– calculation of daily average liability	1
	– calculation of interest on € 160,000 loan at the correct rate	1
	– calculation of interest on excess liability	0·5
	Transfer pricing issue with interest	1
	Calculation of corporate tax	1
		19
(c)	**Solidarity surtax**	
	Decreasing item – none	0·5
	Increasing item – assumption of debt	1
	Calculation of solidarity surtax	0·5
		2
(d)	**Minimum tax**	
	Correct calculation of the minimum tax base	2
	Note that the minimum tax base has to be compared with the actual tax base	1
	Establishing that the company has to pay corporate tax based on the actual tax base	1
		4
		30

		Marks
3	**ACTIVE Kft**	
(a)	**Criteria for the tax allowance**	
	Four criteria ($^1/_2$ mark each)	2
		2
(b)	**Maximum tax allowance**	
	40% of interest paid during the year	1
	Identification of the two limits	2
	Calculation of the maximum development tax allowance	1·5
	Calculation of 70% of the tax remaining after deduction of development tax allowance	2
	Statement of the correct amount of the available tax allowance	0·5
		7
(c)	**Time limitation for the tax allowance**	
	When the final repayment of the loan is due	1
	While the asset is in the books	1
		2
(d)	**Other investment incentive**	
	Investment in certain new assets	1
	Value of investment can be deducted from the tax base	1
	Maximum deduction	1
	Sanction if e.g. asset is sold within four years	1
		4
		15

4	**Tulip Kft**	
(a)	**July VAT return**	
	VAT payable	0·5
	VAT deductible as of 12 August	0·5
	Phone	
	– Note about date of performance	1
	– Note about non-deductible part	1
	– Calculation of deductible VAT on telephone	1
	Refurbishment of shop	1
	Advance payment	
	– Note about date of performance	1
	– Calculation of VAT on advance payment	1
	Including VAT carry-forward from June	1
	Note how unpaid supplier's invoices affect the VAT reclaim	1
	Carry-forward of the July VAT balance with explanation	2
		11
(b)	**Invoices not included in the July VAT return**	
	Invoice included in the August VAT return	
	– August rent – date of performance is the due date	1
	Invoices excluded from both the July and the August VAT returns	
	– Hotel invoice – outside the scope of Hungarian VAT	2
	– Taxi – VAT is non-deductible	1
		4
		15

		Marks
5	**Star Kft**	
(a)	**VAT for April**	
	VAT payable	
	– movie tickets sold	1
	– royalty	1
	– movie tickets given to employees for free	1
	VAT deductible	
	– royalty	1
	– renovation	1
	– snacks and beverages	1
	The company started with quarterly VAT returns in 2007	0·5
	The company remained a quarterly filer after the first quarter of 2007	0·5
	The April VAT is included in the Q2 2007 VAT return	0·5
	Deadline date for the Q2 2007 VAT return	0·5
		8
(b)	**Personal income tax and social security for April**	
(i)	Calculation of personal income tax on the movie tickets given for free	1
	Calculation of the social security on the movie tickets given for free	1
	Adding personal income tax and social security on salaries and company car	1
	Note that the March company car tax should be self revised	1
		4
(ii)	Deadline for paying the personal income tax	1
	Deadline for filing of tax return	1
	Filing and payment deadlines for social security are the same as those for personal income tax	1
		3
		15