Answers

		Marks

1 Mr Kerekes

(a) Taxation of transportation pass and hot meal vouchers

Transportation passes and hot meal vouchers are benefits in kind taxable at a reduced rate of 25%.	1
In the case of hot meal vouchers the upper limit of the reduced rate is HUF 18,000 per month per person. Above that limit tax is at 54%.	1
The tax payable on the benefit in kind received by Mr Kerekes:	
– on the transportation pass: HUF 9,800 x 25% = HUF 2,450	½
– on the hot meal vouchers: HUF 15,000 x 25% = HUF 3,750	½
The benefit in kind tax is payable by the employer.	1
	4

(b) (i) Taxation of regulated market transactions

Regulated market transactions represent the purchase and/or sale of equity securities publicly traded on an EU stock exchange or on a stock exchange of a non-EU country with which Hungary has a double tax treaty.	1
Taxable income is the net result of the gains and losses realised on regulated market transactions. If the net amount is a gain, it is taxed at 20%.	1
If the net amount is a loss, and the individual declares this loss in his/her personal income tax return, he/she has the right to a tax credit. The credit is equal to 20% of the net loss. Net losses recognised in the tax year and in the preceding two tax years are eligible for such a tax credit.	2
	4

(ii) Tax payable on regulated market transactions

	HUF	
Capital gains:	12,000,000	
Less: capital losses:	(8,000,000)	
Net capital gains:	4,000,000	½
Tax at 20%	800,000	½
		1

(c) Tax payable on sale of flat

Taxable income derived from transferring real estate is income taxed separately at 25%.	1
When calculating the taxable income the taxpayer may deduct the acquisition cost, the cost of value increasing investments and other relevant costs related to the transfer from the proceeds of sale.	1

The amount so obtained (capital gain) can further be reduced depending on the length of ownership. In the case of houses and flats, the taxable income is equal to the capital gain in the year of acquisition and in the following year, but it is decreased by

– 10% in the second year after acquisition,
– 40% in the third year after acquisition,
– 70% in the fourth year after acquisition.

No tax is payable if the sale occurs in or after the fifth year after acquisition. 2

As the flat had been bought in 2008 and sold in 2010, which is the second year after acquisition, Mr Kerekes' taxable income will be 90% of the capital gain.

Marks

The taxable income and tax payable by Mr Kerekes is:

	HUF	Marks
Selling price	25,000,000	
Less: acquisition cost	(20,000,000)	½
Less: cost of transfer (1·5% x 25 million)	(375,000)	½
Capital gain	4,625,000	
Taxable income (4,625,000 x 90%)	4,162,500	½
Tax at 25%	1,040,625	½
		6

(d) Tax payable on interest and dividend income

Interest income is taxed separately at 20%. 1

The tax payable on the interest income is HUF 750,000 x 20% = HUF 150,000. ½

The tax has to be deducted by the bank, which has to declare it to the tax authorities. The tax does not appear in the personal income tax return of the private individual. ½

Dividend income is also an item taxed separately. The tax payable depends on where the shares are traded. If shares are traded on a regulated market (i.e. an EU stock exchange) the tax is at 10%. In any other case the tax payable is at 25%. 1½

The tax payable by Mr Kerekes is:

– dividend from Budapest Stock Exchange shares: HUF 2 million x 10% = HUF 200,000 ½
– dividend from New York Stock Exchange shares: HUF 4 million x 25% = HUF 1 million ½

In the case of dividend income, the private individual is liable to declare and pay the related tax. ½

5

(e) Personal income tax liability of Mr Kerekes for 2010

Consolidated tax base	**Note**	**HUF**	
Non-independent activities			
Salary from Wheel Kft (500,000 x 12)		6,000,000	½
Monthly transportation pass	1	0	
Hot meal vouchers	1	0	
Total consolidated tax base		6,000,000	
Tax base increasing amount (27% x 6,000,000)	2	1,620,000	½
Total tax base		7,620,000	
Tax on consolidated tax base			
On the first HUF 5,000,000 at 17%		850,000	
On the remaining at 32%		838,400	
Calculated tax		1,688,400	1
Tax credit on wages	3	0	
Income taxed separately			
Tax on regulated market transactions (as per part (b))		800,000	½
Tax on sale of flat (as per part (c))		1,040,625	½
Tax on interest income (as per part (d))		150,000	½
Tax on dividend income (as per part (d))		1,200,000	½
Total PIT liability		4,879,025	

Notes:

1. The tax on benefits in kind (transportation pass and hot meal voucher) is to be declared and paid by the employer so these items do not appear in the personal income tax return of the private individual (as per part (a)). 1
2. The consolidated tax base must be increased by 27% (the social security contribution payable by the employer) in order to determine the amount on which the tax rates are applicable. 1
3. Tax credit on wages is available if the annual taxable income (sum of the consolidated tax base including the tax base increasing amount of 27% and any items taxed separately, except for income from the sale of immovable property) is below HUF 4,698,000. Mr Kerekes' total income exceeds this threshold so no tax credit on wages is available to him. 1

7

		Marks

(f) Employer's contribution payable on a monthly basis:

Employers must pay three types of contributions on wages paid to employees. ½

The types of contribution and the amounts payable in the case of Mr Kerekes are as follows:

	HUF	
Contribution to the State pension fund (24% x 500,000)	120,000	½
Contribution to the State health fund (2% x 500,000)	10,000	½
Contribution to the Labour market fund (1% x 500,000)	5,000	½
	135,000	

Wheel Kft must declare and pay these contributions by the 12th of the following month. 1

3

30

2 Barrique Rt

(a) Creation of a development reserve

Companies may reduce their corporate tax base by the amount tied up and transferred from their retained earnings to a development reserve during the tax year. 1

The development reserve must be used for capital expenditure. ½

The amount that can be tied up is limited to the lower of 50% of the profit before tax and HUF 500 million. 1½

The development reserve so created must be used up within the four tax years following the year in which the reserve was created. 1

No tax depreciation may be recognised for assets acquired from the development reserve up to the amount of the development reserve used. 1

5

(b) Corporate income tax liability for Barrique Rt for the year 2010

	Note	HUF '000	HUF '000	
Profit before tax			500,000	
Increasing items:				
Accounting depreciation	2	22,500		
Thin capitalisation	3	1,047		
Creation of provision	4	30,000		
Tax penalty	5	5,000		
Impaired debt write down	6	10,000		
Unrealised revaluation loss	7	6,000		
			74,547	
Decreasing items:				
Development reserve created in 2010	1	20,000		
Tax depreciation	2	16,313		
Unrealised revaluation gain	7	12,000		
			(48,313)	
Tax base			526,234	1

	HUF '000	Marks
Corporate tax base for the first half-year (526,234/2)	263,117	
Tax on the first HUF 50 million at 10%	5,000	½
Tax on the remaining amount (263,117 – 50,000) at 19%	40,492	½
Total corporate income tax payable for the first half-year	45,492	
Corporate tax base for the second half-year (526,234/2)	263,117	
Tax on the first HUF 250 million (500 million x 6/12) at 10%	25,000	½
Tax on the remaining amount (263,117 – 250,000) at 19%	2,492	½
Total corporate income tax payable for the second half-year	27,492	
Total corporate income tax liability for 2010	72,984	

Notes:

1. As stated in part (a) a development reserve created in the tax year decreases the tax base. ½
2. Accounting depreciation of the new asset: HUF 150 million x 9/12 x 20% = HUF 22,500,000. This is a tax base increasing item. 1

   Tax depreciation: HUF 150 million x 9/12 x 14·5% = HUF 16,312,500. ½

   Since the part of the cost of the asset exceeding the previous year's development reserve (HUF 50 million) is more than the calculated amount of tax depreciation, the company may reduce its tax base by the full amount. ½
3. If a company receives a loan and/or has interest bearing liabilities, and the average daily balance on the interest bearing liabilities exceeds three times the average equity, the interest on the exceeding part is a tax base increasing item. 1

   Bank loans are excluded from this calculation. ½

   Average equity is equal to the total equity of the entity excluding the current year's profit and revaluation reserve. 1

   Average equity: HUF 10 million (share capital) + HUF 1 million (share premium) + [HUF 100 million x 3/12 (tied-up reserve)] + [HUF 100 million x 9/12 (retained earnings)] = HUF 111 million. Threshold: 3 x HUF 111 million = HUF 333 million. 1

   Average daily balance on the outstanding liabilities:

	HUF	
– Loan: €1,050,000 x 280 =	294,000,000	
– Invoice 1: HUF 20 million x 11/12 =	18,333,333	
– Invoice 2: HUF 25 million x 9/12 =	18,750,000	
– Invoice 3: HUF 30 million x 6/12 =	15,000,000	
	346,083,333	2

   Disallowed interest: HUF (346,083,333 – 333,000,000) x 8% = HUF 1,046,667. 1
4. Creation of provision is a tax base increasing item. 1
5. Tax fines levied by the tax authorities are not allowed expenses. 1
6. Allowances for impaired bad and doubtful debts are not allowed unless the debt has been outstanding for more than 365 days (in which case an allowance of 20% is possible). As in Barrique's case all debts were outstanding for fewer than 365 days, the full amount must be added back to the corporate tax base. 1
7. At the discretion of the taxpayer the corporate tax base may be reduced by the year-end unrealised foreign currency revaluation gains on financial investments and long-term liabilities denominated in foreign currency, if these assets and liabilities are not hedged. Thus HUF 12 million reduces the tax base. 1

   If the taxpayer chooses to decrease its corporate tax base by the above, it must increase its tax base by the year-end unrealised revaluation losses on similar assets and liabilities. Thus the tax base is increased by HUF 6 million. 1

17

	Marks

(c) Tax paid abroad

Tax paid abroad increases the tax base.	½
If there is a double tax treaty between Hungary and the state where the foreign income was earned, and tax was paid or became payable, then the foreign income is exempt from taxation in Hungary.	1
If there is no double tax treaty between Hungary and the other state the Hungarian tax payer is entitled to a tax credit of the lower of 90% of the tax paid abroad and the Hungarian tax on the foreign income as calculated using the average tax rate.	1
The average tax rate is the corporate tax reduced by any tax reliefs, divided by the corporate tax base, and rounded to two decimals.	½
	3
	25

3 Forestry Kft

(a) Corporate tax relief available

Forestry Kft is entitled to a tax relief in relation to the interest paid on loans or finance lease agreements used to acquire non-current assets.	1
The relief is the lowest of the following three amounts	½
– 40% of the interest paid;	½
– HUF 6 million;	½
– 70% of the tax liability reduced by other allowances.	½
Forestry Kft may claim the tax relief if the following criteria are met:	
– it qualifies as a medium or small sized entity on the last day of the tax year,	1
– the loan or finance lease agreement was entered into after 31 December 2000,	1
– the loan or finance lease agreement is used to acquire new non-current assets.	1
	6

(b) Corporate income tax liability of Forestry Kft in 2010

	HUF '000	
For the first half of the year:		
Corporate tax base (290,000 x 6/12)	145,000	
Tax at 19%	27,550	½
For the second half of the year:		
Corporate tax base (290,000 x 6/12)	145,000	
Tax at 10%	14,500	½
Calculated tax	42,050	
Tax relief (see working)	(1,760)	½
Corporate tax liability payable	40,290	

Working:

Considering the limits as described in part (a) the relief available is the lowest of the following three amounts:

	HUF '000	
– 40% of the interest paid: (40% x 400,000 x 11 months)	1,760	½
– HUF 6 million	6,000	½
– 70% of the tax liability reduced by other allowances:		
for the first half of the year: 70% x (19% x 290 million x 6/12)	19,285	
for the second half of the year: 70% x (10% x 290 million x 6/12)	10,150	
	29,435	1

Thus the relief available is HUF 1,760,000 for 2010.	½
	4

Tutorial note:
In the first half of the year 2010, Forestry Kft loses the right to apply the 10% tax rate due to the fact that the company takes advantage of corporate tax credit. From the second half of 2010, however, all companies may apply the lower 10% tax band on the first HUF 250 million of the tax base.

Marks

(c) Three examples of '*de minimis*' grants:

Certain corporate tax allowances are classified as '*de minimis*' grants. Examples include:

– the 9% tax credit applicable for the first HUF 50 million of the corporate tax base in the first half of the year;
– research and development allowances granted to research institutions;
– the 40% relief for interest payable on loans to acquire non-current assets (as per part (a));
– the 'HUF 30 million tax base allowance' available for small and medium sized enterprises (SMEs) to acquire non-current assets.

ANY THREE examples only required – 1 mark each, maximum	3
The total amount of these supports cannot exceed €200,000 in any consecutive period of three years.	1
The taxpayer must apply the limit for the tax year rather than the calendar year.	1
	5
	15

4 Allbright Kft

Value added tax (VAT) balance of Allbright Kft for September 2010

	Notes	HUF	HUF	
VAT payable				
September sales – accredited courses	1	0		
September sales – non-accredited courses	1	6,250,000		
Advertising services	3	1,250,000		
			7,500,000	
VAT deductible				
Mobile phone invoice	2	–		
Advertising services	3	1,250,000		
Goods purchased	4	–		
Allocated and apportioned	5	431,750		
			(1,681,750)	
VAT balance (VAT deductible)			5,818,250	1

Notes:

1.	Accredited courses are exempt from VAT.	½
	Non-accredited courses attract the standard rate of VAT of 25%. HUF 25 million x 25% = HUF 6,250,000	½
2.	30% of the input VAT of mobile phone invoices is not deductible if private usage is not reimbursed. Thus the irrecoverable VAT is: HUF 200,000 x 25% x 30% = HUF 15,000.	1
	The remaining 70% of VAT (HUF 200,000 x 25% x 70% = HUF 35,000) must be allocated and apportioned (see note 5).	½
3.	The place of performance of advertising services is determined by the seat of the ordering party, i.e. it is in Budapest.	1
	The Austrian company invoices the amount without VAT.	½
	Allbright Kft must self-assess the amount of VAT in its VAT return. VAT is deductible as well payable if the service is used for a VATable activity.	1
	Since Allbright Kft used the advertising services exclusively for the non-accredited course (VATable activity), VAT is deductible in full in the September VAT return. HUF 5 million x 25% = HUF 1,250,000.	1
4.	Input VAT on goods purchased HUF 3 million x 25% = HUF 750,000, must be allocated and apportioned (see note 5) as the goods are used for both activities.	1
5.	If goods are used for both VATable and VAT exempt activities, input invoices must be separated between the two types of activities. If there is no itemised breakdown of the incoming invoices, input VAT on them must be allocated and apportioned. This must be carried out in every VAT period based on a cumulative deduction ratio.	1½

Marks

The deduction ratio is calculated as follows:

$$\text{deduction portion} = \frac{\text{sales that entitle the entity to deduct VAT}}{\text{total sales}}$$ 1

The ratio must be calculated to two decimal places and rounded up. ½

For the first eight months Allbright Kft had the following deduction ratio:

$$\frac{180 \text{ million}}{150 \text{ million} + 180 \text{ million}} = 0{\cdot}5455 \text{ which means } 55\%.$$ 1

Thus the deductible input VAT for the first eight months was HUF 30 million x 55% = HUF 16,500,000. The remaining HUF 13,500,000 was irrecoverable. ½

The deduction portion re-calculated for the first nine months of the year is:

$$\frac{180 \text{ million} + 25 \text{ million}}{150 \text{ million} + 180 \text{ million} + 20 \text{ million} + 25 \text{ million}} = 0{\cdot}5467 \text{ which is also } 55\%.$$ 1

Cumulative unallocated input VAT for the nine-month period is HUF 30 million (first eight months) + 35,000 (note 2) + 750,000 (note 4) = HUF 30,785,000. ½

	HUF	Marks
Deductible VAT for the first nine months: 55% x 30,785,000	16,931,750	½
Already deducted in August: 55% x 30,000,000	(16,500,000)	½
Deductible in September	431,750	
		15

5 (a) Edmond

Personal income tax of Edmond for 2010

	Note	HUF	Marks
Consolidated tax base			
Non-independent income			
Gross salary from Gall Bt: 6 x 300,000		1,800,000	½
Tax base increasing amount: 27% x 1,800,000	1	486,000	½
Other income			
Non-taxable emoluments – scholarship: 6 x 50,000	2	300,000	½
Total consolidated tax base		2,586,000	
Calculated tax at 17%		439,620	½
Less: tax on non-taxable emoluments: 17% x 300,000	2	(51,000)	½
Less: tax credit on wages	3	(90,600)	½
Personal income tax liability for the year		298,020	

Net salary for December 2010

	HUF	Marks
Monthly salary from Gall Bt	300,000	
Less: personal income tax advance: 298,020/6 months	(49,670)	½
Less: pension contribution: 300,000 x 9·5%	(28,500)	½
Less: health insurance contribution: 300,000 x 7·5%	(22,500)	½
Net salary	199,330	

Notes:

1. Elements of the consolidated tax base excluding the non-taxable emoluments must be increased by 27% (the social security contribution payable by the employer) in order to determine the amount on which the tax rates are applicable. ½

2. Scholarships of university students qualify as non-taxable emoluments. They have to be added to the consolidated tax base, but the tax on them is deductible from the calculated tax. ½

   The uplift of 27% is not applicable on this type of income. ½

Marks

3. Tax credit on wages is available if the annual taxable income of the individual does not exceed HUF 3,188,000. 1

   The tax credit of the lower of

   1,800,000 x 1·27 x 17% = HUF 388,620; and ½
   6 months x 15,100 = HUF 90,600 ½

   i.e. HUF 90,600 is deductible.

   8

(b) Pici Bt

(i) **Net cash dividend**

	Notes	HUF	
Total gross sales revenue: 10,000,000 x 1·25		12,500,000	½
Less: EVA at 30%	1	(3,750,000)	½
Less: gross salary expenses		(2,000,000)	½
Less: contributions on salary expenses at 27%	2	(540,000)	½
Less: material costs and sundry expenses: 1,200,000 x 1·25	3	(1,500,000)	½
Net cash dividend		4,710,000	

Notes:

1. EVA is payable on the sales revenue increased by the amount of VAT. The rate of EVA is 30%. ½
2. The employer must pay total contributions of 27% on wages. ½
3. Under the EVA-regime no VAT can be deducted by the taxpayer, so input VAT is an expense for the company. ½

4

(ii) **EVA-advances and final payment**

EVA-advances are payable quarterly. ½

Pici Bt has to pay on the quarterly gross revenue of HUF 12,500,000/4 = HUF 3,125,000. Thus, each of its EVA-advances is HUF 3,125,000 x 30% = HUF 937,500. 1

The deadline for paying the advances for the first three quarters is the 12th day of the month following the quarter, i.e on 12 April, 12 July and 12 October 2010. ½

In addition, Pici Bt must assess the total EVA payable for the tax year and pay it as a fourth advance, by 20 December 2010. ½

If there is any tax unpaid, a final payment for the year should be made by 25 February of the following year, i.e. by 25 February 2011. ½

3

15