Answers

Marks

1 Mr Darabos

(a) (i) Taxation of the holiday coupons

Holiday coupons provided by an employer are a taxable benefit in kind. ½

Holiday coupons with a value of up to HUF 73,500 per annum are taxed at 25%. 1

Above this limit tax is payable at 54%. 1

The benefit in kind tax is payable by the employer. ½

The tax payable on the benefit in kind received by Mr Darabos is:

	HUF	
– On the first HUF 73,500 at 25%	18,375	½
– On the remaining amount: (300,000 – 73,500) x 54%	122,310	½
	140,685	
		4

(ii) Taxation of the low interest loan

Loans at a discounted interest rate provided by an employer are a taxable benefit in kind. ½

The taxable income is the difference between the interest paid and the deemed market rate of interest calculated by using the official rate of the National Bank of Hungary on 31 December of the tax year increased by 5% points. 1

The tax rate is 54%. 1

The benefit in kind tax is payable by the employer. ½

The interest paid by Mr Darabos is: HUF 10 million x 5% x 9/12 = HUF 375,000
The deemed interest is: HUF 10 million x (5·25 + 5)% x 9/12 = HUF 768,750
Taxable income: HUF 768,750 – HUF 375,000 = HUF 393,750 ½
Tax payable: HUF 393,750 x 54% = HUF 212,625 ½

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(b) Bonus issue:

Income arises when an individual receives securities for below market value. 1

Income is determined as the difference between the price paid and the market value of the securities. ½

No taxable income arises, however, if the securities are acquired as part of a capitalisation of the reserves of the issuer. 1

A bonus issue is a capitalisation of reserves, so no taxable income arises for Mr Darabos and thus no tax is payable on this transaction. ½

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(c) Tax payable on selling the statue

Income from selling moveable assets is income taxed separately at 25%. 1

From the revenue from the transfer the taxpayer may deduct:

– the acquisition cost and other relevant expenditure ½
– any value increasing investments ½
– the expenses relating to the transfer ½

		Marks
The taxable income and tax payable of Mr Darabos is:		
	HUF	
Selling price	6,000,000	
Less: acquisition cost	(1,000,000)	½
Less: restoration costs	(500,000)	½
Less: cost of transfer (1% x 6 million)	(60,000)	½
Taxable income	4,440,000	½
Tax at 25%	1,110,000	½
		5

(d) Taxation of the five-year saving deposit

(i) A long-term deposit is either taxable at a favourable rate of 10% or is tax free if the following conditions apply:

– the maturity of the deposit at inception is a minimum of three years which can be extended to five years	1
– the deposit is placed with a financial institution	½
– the minimum amount deposited is HUF 25,000	½
– the original amount of the deposit cannot be increased except for the interest credited to the principal amount	½
For a three-year deposit the tax rate is 10% on interest received.	½
For a five-year deposit the interest income is tax free.	½
If the deposit is fully or partially terminated before the original expiry date, tax is payable at the rate of 20% on the interest earned.	½
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(ii) If Mr Darabos terminates the deposit on 31 December 2010 the tax payable is:

HUF 20 million x 5% x 11/12 x 20% = HUF 183,333 — 1

(e) Personal income tax liability for 2010

Consolidated tax base	Notes and references	HUF	
Non-independent activities			
Salary from Pieces Kft (800,000 x 12)		9,600,000	½
Holiday coupons	Note 1		
Loan at a discounted rate	Note 1		
Total consolidated tax base		9,600,000	
Tax base increasing amount (27%)	Note 2	2,592,000	½
Total tax base		12,192,000	
Tax on consolidated tax base			
On the first HUF 5,000,000 at 17%		850,000	
On the remaining at 32%		2,301,440	
Calculated tax		3,151,440	1
Income taxed separately			
Tax on income from selling statue	as per part (c)	1,110,000	½
Tax on long-term deposit	Note 3	0	
TOTAL PIT LIABILITY		4,261,440	½

Notes:

1. The tax on benefits in kind (holiday coupons and the loan at a discounted rate) is to be declared and paid by the employer, as per part (a) so they do not appear in the personal income tax return of the private individual.	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. If the savings deposit is not terminated, then as a five-year deposit, no tax is payable.	1
	6

Marks

(f) Net salary for the month of January 2010

	HUF	
Calculated tax on the salary as per part (e)	3,151,440	½

The monthly personal income tax advance to be deducted by the employer is HUF 3,151,440/12 = HUF 262,620. ½

Social security contributions payable are as follows:

	HUF	
Monthly salary from Pieces Kft	800,000	
Pension contribution (800,000 x 9·5%)	76,000	½
Health insurance contribution (800,000 x 7·5%)	60,000	½

Thus in total HUF 398,620 (262,620 + 76,000 + 60,000) is deducted from Mr Darabos' employment income in January 2010. ½

This gives a net salary of HUF 401,380 (800,000 – 398,620). ½

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2 Topaz Kft

(a) Correct accounting profit before tax

Renovation expenses:
VAT on the renovation costs of the yacht is not deductible so must be expensed, because this is an expense not incurred for business purposes. ½

The tax consequences must be booked for the year 2010, as the declaration was received before the date of preparation of the financial statements. ½

Accounting profit before tax	**HUF '000**	
Preliminary profit before tax	700,000	
Irrecoverable VAT (1 million at 25%)	(250)	½
Late payment interest and default penalty (200,000 + 50,000)	(250)	½
Accounting profit before tax	699,500	
		2

(b) Corporate income tax base for the year 2010

	Note	HUF '000	HUF '000	
Profit before tax as per part (a)			699,500	
Increasing items:				
Renovation costs	1	1,250		
Tax penalties	2	250		
Impairment of non-current assets	3	8,000		
Thin capitalisation	5	3,960		
Transfer pricing adjustment	6	1,680		
Accounting depreciation	7	833		
			15,973	
Decreasing items:				
Tax losses utilised	4	20,000		
Tax depreciation	7	1,250		
Dividend received	8	50,000		
Royalty income	9	3,500		
			(74,750)	
Tax base			640,723	1

Notes:

1. Costs not incurred in the ordinary course of the business are tax base increasing items. 1
2. Tax penalty and late payment interest imposed by the tax authorities are not deductible for tax purposes and must be added back to the tax base. 1

		Marks
3.	Impairment losses on non-current assets are not deductible for tax purposes. If there is a subsequent write back of previous years impairment losses, however, they will be tax base decreasing items.	1
4.	Tax losses realised in previous tax years may reduce the tax base in future years.	1
5.	A company is thinly capitalised if the average daily balance of the interest bearing liabilities exceeds three times the average equity. Interest on the excess liability is not deductible for tax purposes.	1
	For the purpose of this calculation, bank loans are excluded.	1
	Average equity means equity during the year excluding revaluation reserves and current year's profit.	1
	Thus, equity was HUF 17 million at 1 January 2010.	½
	The limit is then 3 x 17 million = HUF 51 million.	½
	As bank loans are excluded, the average daily balance on interest bearing liabilities is €300,000 x 280 = HUF 84 million.	½
	This means that the thin capitalisation rules apply.	½
	The excess liability is HUF 84 million – HUF 51 million = HUF 33 million. Interest on the excess liability is HUF 33 million x 12% = HUF 3,960,000.	1
	Note: *The thin capitalisation adjustment is independent from the transfer pricing adjustment.*	
6.	As per the main rule, expenses in relation to a CFC are not recognised expenses. The only exemption from this rule is the case where the taxpayer can prove that the expenses served a business purpose. Since Topaz Kft can do so the interest expense is deductible.	2
	However, since the interest paid and expensed was in excess of market rates, Topaz Kft must increase its tax base by the difference between the market rate and the rate paid.	1
	The tax base increasing amount will be: €300,000 x 280 x (12% – 10%) = HUF 1,680,000.	1
7.	VAT on the passenger car purchases is irrecoverable, so the amount capitalised is HUF 6 million x 1·25 = HUF 7·5 million.	½
	If an asset is purchased from a previously created development reserve, only that part of the cost of the asset above the development reserve amount (HUF 7·5 million – HUF 5 million = HUF 2·5 million) is depreciable for tax purposes.	½
	Accounting depreciation in 2010 is HUF (7·5 million – 1·5 million)/6 x 10/12 = HUF 833,333. Accounting depreciation increases the tax base.	½
	Tax depreciation: HUF 7·5 million x 20% x 10/12 = HUF 1,250,000. This is within the limit of HUF 2·5 million. Tax depreciation decreases the tax base.	½
8.	Dividends received are a tax base reducing item unless they come from a CFC. Hungarian companies are never CFCs.	1
9.	50% of the royalty income is exempt from tax, i.e. the tax base is decreased by 50% x 7 million = HUF 3·5 million. This is less than the total allowed reduction of 50% of the pre-tax profit (i.e. 50% x 699·5 million = HUF 349·75 million).	1
		19

(c) Corporate income tax liability

(i)	In 2010 the corporate tax base must be time apportioned between the first and the second halves of the year.	½
	This is because the rules and limits for the lower 10% tax rate are different in the two halves of the year.	½
		1

(ii)	HUF '000	Marks
Corporate tax base for the first half year (640,723/2)	320,362	
Tax on the first HUF 50 million at 10%	5,000	1
Tax on the remaining amount (320,362 – 50,000) at 19%	51,369	½
Total corporate income tax payable for the first half year	56,369	
Corporate tax base for the second half year (640,723/2)	320,362	
Tax on the first HUF 250 million at 10%	25,000	1
Tax on the remaining amount (320,362 – 250,000) at 19%	13,369	½
Total corporate income tax payable for the second half year	38,369	
Total corporate income tax liability for 2010	94,738	
		3
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Tutorial note: *In the second half of the year it is necessary to time apportion the limit for the 10% band, i.e. only HUF 250 million (500 million/2) is eligible for the lower rate.*

3 Midi Kft

(a) Corporate tax relief available

Midi Kft is entitled to the development tax relief available for small and medium sized entities. The relief is 80% of the corporate tax payable. 1

To qualify for the relief, the following conditions must be met:

- the net present value of the investment is a minimum of HUF 500 million; 1
- the company must be a small or medium sized entity; 1
- the investment results in the creation of new assets, the extending of existing facilities, or in a fundamental change in the product or service or in the production process. 1½

The first year of eligibility is either the year of putting the investment into operation or the following year (at the discretion of the taxpayer). 1

The tax relief can be claimed for a maximum of ten years, but the final year when it can be claimed is the 14th year following the submission of the initial application for the relief. 1

There is no other requirement in the first year of eligibility. In the next four years of eligibility, however, the entity must meet one of the following employment related conditions: 1

- either the average number of employees is increased by 20 or 50 employees for small and medium sized enterprises respectively. 1

  The reference year is either the year preceding the start of the investment or the average of the three years preceding the start of the investment (at the discretion of the taxpayer); or 1

- there is an increase in the salary expense of at least 50 or 100 times the official minimum wage at the start of the tax year for small and medium sized enterprises respectively. 1

  The reference year is again, either the year preceding the start of the investment or the average of the three years preceding the start of the investment (at the discretion of the taxpayer). ½

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	HUF '000	Marks
(b) Calculation of the corporate income tax liability for 2010		
For the first half of the year:		
Corporate tax base (200,000 x 6/12)	100,000	
Tax at 19%	19,000	1
80% of the tax liability	(15,200)	½
Tax payable	3,800	½
For the second half of the year:		
Corporate tax base (200,000 x 6/12)	100,000	
Tax at 10%	10,000	1
80% of the tax liability	(8,000)	½
Tax payable	2,000	½
		4
		15

Note:
In the first half of the year 2010, Midi Kft loses the right to apply the 10% tax rate due to the fact that it takes advantage of the development tax relief incentive. 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.

4 Tavi Kft

(a) Value added tax (VAT) liability/refund for August 2010

	Notes	HUF '000	HUF '000	
VAT payable				
August sales	1	–		
Consignment contract	2	1,250		
Old laptop taken out of business	5	25		
Advertising services	6	175		
			1,450	
VAT deductible				
Supplier invoices	3	20,000		
VAT on laptop purchase	4	100		
Advertising services	6	175		
Lease agreement	8	2,000		
			(22,275)	
VAT refund			(20,825)	1

Notes:

1. The place of performance in respect of the processing and providing of information is the seat of the party ordering the service, i.e. in this case the USA. 1

   This is an export service, which is outside the scope of Hungarian VAT law, so no VAT will be charged on the sales invoices. ½

   However, any input VAT relating to the generating of revenue from export services is deductible even if VAT was not payable on the making of the sale. ½

2. The transfer of the right of disposition over a product in a consignment contract qualifies as a sale of goods. 1

   VAT must be paid on the market value of the product when the consignment contract is formed and the asset is taken over. Therefore, VAT of HUF 5 million x 25% = HUF 1,250,000 becomes payable in August 2010. 1

3. As stated in Note 1 input VAT related to export sales is deductible, i.e. HUF 80 million x 25% = HUF 20 million is deductible. ½

4. VAT on purchases for business purposes is deductible. HUF 400,000 x 25% = HUF 100,000. ½

5. If goods are taken out of the business for no consideration it constitutes a taxable sale of goods. VAT must be paid on the fair market value of the asset transferred for no consideration. HUF 100,000 x 25% = HUF 25,000 VAT is payable. 1

		Marks
6.	The place of performance of advertising services is determined by the seat of the ordering party, which in this case is Hungary.	1
	This is an imported service. Tavi Kft must self-assess the VAT on the incoming invoice and this is payable and deductible at the same time, provided that the taxpayer uses it for VATable activities.	1
	As stated in Note 1, export services qualify as VATable activities so VAT is deductible on the advertising invoice. €2,500 x 280 x 25% = HUF 175,000 is payable and deductible.	½
7.	VAT on entertainment and services and restaurant invoices is not deductible. This means that VAT of HUF 120,000 x 25% = HUF 30,000 is irrecoverable.	1
8.	A lease agreement where the transfer of ownership is not definite qualifies as a provision of service (rental agreement) for VAT purposes. VAT is charged on each periodic fee. HUF 8 million x 25% =	1
	HUF 2 million is deductible in each month.	½
		12

(b) Information appearing in an invoice-amendment

If a taxpayer wants to modify the tax base or the amount of VAT retrospectively, an invoice-amendment has to be issued which includes:

–	the date of issue of the invoice-amendment	½
–	the identification number of the invoice-amendment	½
–	reference to the original invoice amended	½
–	identification of the data amended	½
–	a description of the nature of amendment	½
–	the effect of the amendment expressed in monetary terms, if applicable.	½
		3
		15

5 Csoki Bt

(a) If a car is legally registered by a Hungarian organisation, company car tax becomes payable. 1

There is no exemption from this rule, so even if Csoki Bt is an EVA-qualified company that cannot deduct expenses, it is still liable to pay company car tax. 1

2

(b) Company car tax payable

	Notes	Quarter 1 HUF	Quarter 2 HUF	Quarter 3 HUF	Quarter 4 HUF	
Date of payment	1	n/a	20 July 2010	20 October 2010	20 January 2011	½
Amount	2 & 3	0	14,000	21,000	21,000	1

Notes:

1.	The deadline for payment is the 20th day of the month following each quarter.	1
2.	In the case of a finance lease the tax liability arises on the first day of the month following the month of entering into the lease agreement. This means that the first day of tax obligation is 1 May 2010.	1
3.	The cubic capacity of the car is less than 1,600 cm^3, so the amount of tax payable is HUF 7,000 per month.	½
		4

Marks

(c) EVA-advances payable

	HUF	Date of payment	Notes	
Calculation of EVA-liability				
Quarter 1: HUF 3 million x 1·25 x 30%	1,125,000	12 April 2010	1 & 2	½
Quarter 2: HUF 3·2 million x 1·25 x 30%	1,200,000	12 July 2010	1 & 2	½
Quarter 3: HUF 5 million x 1·25 x 30%	1,875,000	12 October 2010	1 & 2	½
Quarter 4: HUF 4 million x 1·25 x 30%	1,500,000	20 December 2011	1 & 3	½
Total	5,700,000			

Notes:

1. The rate of EVA is 30% and it is payable on gross revenue, i.e. the net sales revenue increased by the amount of VAT. 1
2. The deadline for paying the EVA-advances is the 12th day of the month following the quarter for the first three quarters of the tax year. 1
3. By 20 December the taxpayer must assess the total EVA payable for the year and pay it as an advance. ½

   The deadline for filing the annual EVA-return and paying any remaining EVA-liability is 25 February following the tax year. ½

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(d) Net cash dividend

	HUF	
Total net sales revenue in the tax year	15,200,000	
Total gross sales revenue in the tax year (including VAT)	19,000,000	½
Less: EVA (as per part (c))	(5,700,000)	½
Less: gross salary expenses	(1,520,000)	½
Less: contributions on salary expenses at 27%	(410,400)	½
Less: other expenses (105,000 x 1·25)	(131,250)	1
Less: company car tax (as per part (b))	(56,000)	½
Less: lease payments and fuel expenses (120,000 x 9)	(1,080,000)	½
Net cash dividends	10,102,350	
		4
		15

Tutorial notes:

1. *The EVA regime replaces both income taxes and value added tax (VAT).*
2. *Employers must pay total contributions of 27% on wages.*
3. *Under the EVA regime no VAT can be deducted by the taxpayer, so input VAT is an expense for the company.*