Answers

Marks

1 Mr Somorjai

(a) (i) Taxation of income from selling immoveable assets

If a private individual sells immoveable assets (e.g. land, a flat or house, etc) the taxable income is classified as income taxed separately at 16%. 1

The taxable income is calculated as follows:

		Marks
Proceeds of sale (revenue)	X	
Less: acquisition costs	(X)	½
Less: value increasing investments	(X)	½
Less: direct costs related to the transfer	(X)	½
Capital gain	X	

The capital gain can be further reduced. The reduction depends on the length of ownership as follows: ½

In the case of the sale of a non-housing purpose immoveable asset (item 1), the capital gain is decreased by

- 10% in the sixth year after acquisition
- 20% in the seventh year after acquisition
- 30% in the eighth year after acquisition
- 40% in the ninth year after acquisition
- 50% in the tenth year after acquisition
- 60% in the eleventh year after acquisition
- 70% in the twelfth year after acquisition
- 80% in the thirteenth year after acquisition
- 90% in the fourteenth year after acquisition

No tax is payable if the sale occurs in or following the fifteenth year after acquisition. 1½

In the case of the sale of a housing purpose immoveable asset (item 2), the capital gain 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 following the fifth year after acquisition. 1½

6

Tutorial note: C*andidates are not required to reproduce the tables above in this form. Any reasonable explanation of the mechanisms used to reduce the capital gain.*

(ii) Personal income tax payable by Mr Somorjai on items 1 and 2

Item 1 (sale of land):

	HUF	Marks
Selling price	30,000,000	
Less: acquisition cost	(10,000,000)	½
Less: costs of transfer	(200,000)	½
Capital gain	19,800,000	
Taxable income (19,800,000 x 60%)	11,880,000	1
Tax at 16% (11,880,000 x 16%)	1,900,800	½

		Marks
Item 2 (sale of flat):		
	HUF	
Selling price	20,000,000	
Less: acquisition cost	(18,000,000)	½
Less: costs of transfer	(100,000)	½
Capital gain	1,900,000	
Taxable income (1,900,000 x 60%)	1,140,000	1
Tax at 16% (1,140,000 x 16%)	182,400	½
		5

(iii) Personal income tax liability of Mr Somorjai for 2013

	HUF	
Consolidated tax base		
Non-independent activities		
Salary (2,000,000 x 12)	24,000,000	1
Independent activities		
Rental income (100,000 x 12)	1,200,000	1
Lump sum deduction (10% x 1,200,000)	(120,000)	1
Total consolidated tax base	25,080,000	
Family allowance (3 x HUF 206,250 x 12)	(7,425,000)	1½
Total tax base	17,655,000	
Tax on consolidated tax base at 16%	2,824,800	½
Tax on income taxed separately		
On capital gain on item 1	1,900,800	½
On capital gain on item 2	182,400	½
On the gain on regulated market transaction (3,000,000 x 16%)	480,000	1
Total PIT liability	5,388,000	
		7

(b) (i) Personal income tax and health care contributions payable by Moson Kft

	HUF	
Item (i): Interest free loan		
Tax base: 7,000,000 x (4·5% + 5%)	665,000	1½
Personal income tax: 665,000 x 119% x 16%	126,616	½
Health care contribution: 665,000 x 119% x 27%	213,665	1
Item (ii): Erzsébet vouchers		
Tax base: 5,000 x 12	60,000	½
Personal income tax: 60,000 x 119% x 16%	11,424	1
Health care contribution: 60,000 x 119% x 14%	9,996	1
Item (iii): Company mobile phone		
Tax base: 600,000 x 127% x 20%	152,400	2
Personal income tax: 152,400 x 119% x 16%	29,017	½
Health care contribution 152,400 x 119% x 27%	48,966	1
		9

(ii) Exempt loans

- subscribed but not yet paid capital
- advances given to employees for acquiring products or services for business purposes, if accounted for within 30 days
- trade receivables and related interest receivables
- interim dividend, if declared final (where the interim dividend does not exceed the final dividend)
- advances given to employees through payroll of up to five times the minimum wage, if repayable within six months
- tax receivable, tax advances settled within six months

Any three examples required, 1 mark each — 3

30

Marks

2 Spiro Kft

(a) Methods of determining the customary market price

1. Comparable prices method: this is the price used by independent parties when selling comparable assets or services in a comparable market. 1
2. Resale price method: this is the price used when selling the asset or service in an unchanged form to independent parties, reduced by the costs of resale and the customary profit. 1
3. Cost plus mark-up method: where the price equals the costs plus the customary profit. 1
4. Transactional net return (margin) method: where the net return on the transaction is compared to the return on similar transactions. 1
5. Transactional profit sharing method: the profit on a transaction is split between the related parties in a similar way as if the parties were independent. 1
6. Any other reasonable method if none of the above is applicable. 1

6

(b) Corporate income tax liability for the year 2013

		HUF '000	HUF '000	Marks
Profit before tax			500,000	
Increasing items:				
Provision made		6,000		1
Tax penalties		10,000		½
Impairment of bad debts		4,000		½
Transfer pricing adjustment (25m – 20m)		5,000		1
Accounting depreciation of car	(working 1)	1,994		W
Net book value of car at sale	(working 1)	9,800		W
			36,794	
Decreasing items:				
Donation to National Cultural Fund	(3 million x 50%)	1,500		1
Allowed impairment of bad debts	(5 million x 20%)	1,000		1
Tax depreciation of car	(working 1)	2,328		W
Tax written down value of car at sale	(working 1)	9,313		W
			(14,141)	
Tax base			522,653	
Corporate income tax at 10% on the tax base up to HUF 500 million			50,000	½
Corporate income tax at 19% on the tax base above HUF 500 million: (22,653 x 19%)			4,304	
Annual corporate tax liability for 2013			54,304	

Working 1: car depreciation

Cost including VAT (10 million x 1·27)	12,700	½
Accounting depreciation in 2013: ((12,700,000 – 4,000,000) x 25% x 11/12)	1,994	1
Net book value at sale: 12,700,000 – ((12,700,000 – 4,000,000) x 25% x 16/12)	9,800	1
Tax depreciation in 2013 (12,700,000 x 20% x 11/12)	2,328	1
Tax written down value at sale (12,700,000 – (12,700,000 x 20% x 16/12))	9,313	1

10

(c) Registered intangible asset

A registered intangible asset is intellectual property (or a property right) which has either been purchased or created internally, from which the entity derives royalty income. 1

The purchase or creation of the asset must be registered with the tax authority within 60 days from its purchase/creation. 1

Expenses (losses) accounted for as a result of the write-off or disposal of a registered intangible asset are tax base increasing items. 1

Gains accounted for as a result of the disposal of a registered intangible assets are a tax base reducing item provided that:

- the asset has been held for at least one year before disposal, and
- the entity did not create a tied-up reserve in the year preceding the registration, in relation to the registered intangible asset. 2

5

Marks

(d) Fiscal fines

(i) Default penalty
HUF 2,000,000 x (2 x 4·5%) x 75/365 = HUF 36,986 — 1½

(ii) Tax penalty
HUF 5,000,000 x 50% = HUF 2,500,000 — 1

(iii) Self-revision surcharge
HUF 3,000,000 x (2 x 4·5%) x 50/365 x 50% = HUF 18,493 — 1½

4

25

3 Optic Kft

(a) Corporate tax relief available to Optic Kft

Small and medium-sized companies are entitled to tax relief for the interest paid on loans taken out to finance the acquisition of new non-current assets, provided the following criteria are met:

– the loan (including finance leases) was obtained from a financial institution;	1
– the start of the loan is after 31 December 2000;	½
– the purpose of taking out the loan is to acquire new non-current assets; and	1
– the entity qualifies as a small or medium-sized entity at the end of each year in which the relief is used to reduce its corporate income tax liability.	1

The relief is the lowest of:

– 40% of the interest expensed in relation to the loan	½
– HUF 6 million (for loan agreements signed after 31 December 2003)	½
– 70% of the corporate income tax (reduced by other reliefs)	½

The last year when the relief can be claimed is the year when the loan is repaid or the year in which the non-current asset is still in the books of the entity. — 1

6

(b) Corporate income tax liability for 2013 and 2014

	HUF '000 2013	**HUF '000 2014**	
Corporate tax base	500,000	600,000	
Corporate tax liability before relief			
(10% up to HUF 500 million, 19% above HUF 500 million)	50,000	69,000	1
Relief is the lowest of:			
– 40% of the interest paid 12 million x 40% and 26 million x 40%	4,800	10,400	2
– HUF 6 million	6,000	6,000	1
– 70% of the tax reduced by other allowances	35,000	48,300	2
Relief available	4,800	6,000	2
Tax liability			
2013: (50,000 – 4,800)	45,200		½
2014: (69,000 – 6,000)		63,000	½
			9
			15

Marks

4 Fresh Bt

(a) Value added tax (VAT) treatment of partial payment and fixed term settlement

In the case of partial payment (where the amount of the invoices are fixed and do not necessarily depend on the actual services provided) and fixed term settlement (when the amount of the invoices depends on the actual services provided), the date of performance is the due date of the invoice. 2

If the period covered by the contract is longer than 12 months, a time-apportioned delivery is deemed to take place and VAT becomes payable:

– on the last day of the calendar year if the payment is to be made by the party ordering the services (in the case of import services); and 1
– on the last day of the 12-month period in any other case. 1

4

(b) VAT liability for September 2013

	HUF '000	HUF '000	Marks
VAT payable			
– Sales revenue (2 million x 27%)	540		½
– Educational services (€6,000 x 300 x 27%)	486		1
– Furniture used for private purposes (500,000 x 27%)	135		1
		1,161	
VAT deductible			
– Educational services (€6,000 x 300 x 27%)	486		1
– Allocated and apportioned (working 1)	700		W
– Cleaning invoice (working 2)	73		W
		(1,259)	
VAT payable /(VAT deductible)		(98)	½*

Markers note: This ½ mark is for correctly identifying the VAT as payable or deductible not for the calculation of the figure itself.*

Working 1: Allocation and apportioning of input VAT relating to both VATable and VAT exempt activities

Deduction ratio for the eight-month period ended 31 August 2013:

$$\text{deduction ratio} = \frac{\text{sales which entitle the entity to deduct VAT}}{\text{total sales}} = \frac{11 \text{ million}}{11 \text{ million} + 7 \text{ million}} = 0{\cdot}6111, \text{ i.e. } 61\%$$ 1½

Deductible input VAT for the first eight months of 2013: HUF 3 million x 61% = HUF 1,830,000 ½

Deduction ratio for the nine-month period ended 30 September 2013:

$$\frac{11 \text{ million} + 2 \text{ million}}{11 \text{ million} + 7 \text{ million} + 2 \text{ million} + 1 \text{ million}} = 0{\cdot}6190, \text{ i.e. } 62\%$$ 1½

Deductible input VAT for the first nine months of 2013: HUF [3 million + (4 million x 27%)] x 62% = HUF 2,529,600 1

Deductible in September 2013: HUF 2,529,600 – HUF 1,830,000 = HUF 699,600 ½

Working 2: Cleaning invoices

Relevant invoice for the September 2013 return: HUF 450,000 + VAT 1
Recoverable VAT: HUF 450,000 x 27% x 60% = HUF 72,900 ½
Irrecoverable VAT: HUF 450,000 x 27% x 40% = HUF 48,600 ½

11

15

Marks

5 (a) Vouge Kft – Net distributable dividend for 2013

	HUF	
Gross sales revenue (20 million x 1·27)	25,400,000	1
EVA (37% x 25,400,000)	(9,398,000)	1
Purchases including VAT (3 million x 1·27)	(3,810,000)	½
Salary expense (12 x 200,000)	(2,400,000)	½
Social security contributions on salary (12 x 200,000 x 27%)	(648,000)	½
Local municipality tax (25,400,000 x 50% x 2%)	(254,000)	½
Net distributable dividend	8,890,000	
		4

(b) Opal KFT – Company car tax liability for 2013

	HUF	
Car #1 (engine capacity 100kW environmental category 2): HUF 33,000 x 10 months	330,000	1½
Car #2 (engine capacity 125kW environmental category 4): HUF 44,000 x 12 months	528,000	1
Car #3 (engine capacity 120kW environmental category 7): HUF 22,000 x 7 months	154,000	1½
Company car tax obligation in 2013	1,012,000	
Less: car capacity tax	(100,000)	1
Total company car tax liability in 2013	912,000	
		5

Tutorial note: *The tax obligation commences on the first day of the month following acquisition (gaining ownership). The obligation ceases on the last day of the month of disposal.*

(c) Tiny Bt – Local municipality tax liability for 2013

	HUF	
Standard method		
Sales revenue	6,000,000	½
Less: cost of raw materials	(300,000)	½
Less: labour costs	0	½
Less: cost of goods sold	(2,000,000)	1
Less: cost of mediated services	(150,000)	½
Less: other expenses	0	½
Local municipality tax base	3,550,000	
Local municipality tax: 3,550,000 x 2%	71,000	½
Simplified tax base calculation		
Tax base (80% of net sales revenue, i.e. 80% x 6,000,000)	4,800,000	1
Local municipality tax: 4,800,000 x 2%	96,000	½
Tiny Bt should use the standard method as it results in a lower local municipality tax liability.		½
		6
		15

Tutorial note: *Cost of goods sold and mediated services do not need to be regressively weighted as the sales revenue of Tiny Bt is below HUF 500 million.*