Answers

Marks

1 Mr Olajos

(a) (i) Taxation of income from right to purchase and sell securities

If a private individual is given the right to purchase or sell securities at a favourable price, the income so derived is calculated as follows:

In the case of a right to purchase securities:

The customary market price (on the day of exercising the right if the transaction is closed with the delivery of the securities rather than settled net in cash) is reduced by the subscription or purchase price and by the costs related to the transfer. 2

In case of the sale of securities derived from the right:

The selling price (on the day of exercising the right if the transaction is closed with the delivery of the securities rather than settled net in cash) is reduced by the customary market price and by the costs related to the transfer. 1

Tutorial note: *If the transaction is settled net in cash, the customary market price on the day of settlement is the relevant price. Equivalent marks were awarded for both answers.*

The taxation depends on the legal relationship between the provider of the right and the receiver: if the provision of the right is part of an employment relationship, the income is classified as non-independent income, as part of the consolidated tax base. 2

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(ii) Personal income tax payable on the shares from his employer (item 1)

Income derived on receiving the right:

Since the right was granted by the employer of Mr Olajos, the income is part of the consolidated tax base under non-independent income and taxed at 16%.

	HUF	
Customary market price (2,000 shares x HUF 6,400)	12,800,000	1
Less: purchase price (2,000 shares x HUF 5,000)	(10,000,000)	1
Less: related transaction costs	(30,000)	½
	2,770,000	
Personal income tax (HUF 2,770,000 x 16%)	443,200	½

Income derived from the sale of the shares:

The income on a subsequent sale is treated as capital gain (income taxed separately at 16%).

	HUF	
Selling price (1,000 shares x HUF 7,000)	7,000,000	1
Less: acquisition costs (1,000 shares x HUF 6,400)	(6,400,000)	1
Less: related transaction costs	(20,000)	½
	580,000	
Capital gain tax (HUF 580,000 x 16%)	92,800	½
		6

Marks

(iii) Personal income tax (PIT) liability for 2013

	HUF	HUF	
Consolidated tax base			
Non-independent activities			
Salary (1,500,000 x 12)		18,000,000	1
Income from the right to purchase securities (from (ii))		2,770,000	1
Vouchers to purchase ready-made food		200,000	1
Other income			
Interest income from a low tax rate country		1,800,000	1
Total consolidated tax base		22,770,000	½
Family allowance (3 x HUF 206,250 x 12)		(7,425,000)	2
Total tax base		15,345,000	
Tax on consolidated tax base at 16%		2,455,200	½
Tax on income taxed separately			
On gain on selling the old book			
(4 million – 1·5 million – 90,000)	2,410,000		1
Less: exempt	(200,000)		1
	2,210,000		
Capital gains tax at 16%		353,600	½
On capital gain (from (ii))		92,800	½
Total PIT liability		2,901,600	
The due date of payment is 20 May 2013			1
			11

(b) Personal income tax and health care contributions payable by Mr Olajos's employer

	HUF	
Széchenyi Card		
Personal income tax (300,000 x 119% x 16%)	57,120	1
Health care contributions		
For the first HUF 225,000 (225,000 x 119% x 14%)	37,485	2
On the remainder ((300,000 – 225,000) x 119% x 27%)	24,098	1
	61,583	
Entertainment costs (*reprezentáció*)		
Personal income tax (500,000 x 127% x 119% x 16%)	120,904	2
Health care contribution (500,000 x 127% x 119% x 27%)	204,026	2
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Tutorial note: *In the case of entertainment costs, the tax base is the amount of the benefit in kind increased by value added tax.*

		Marks

2 Aromax Kft

(a) Correct accounting profit before tax for 2013

	HUF '000	Marks
Preliminary profit before tax as per question	900,000	
Company car tax payable (working)	(2,824)	½
Accounting profit before tax	897,176	

Working: Company car tax

Three cars (category 7, capacity 125 kW):		
3 cars x HUF 33,000 x 12 months	1,188	1
Seven cars (category 14, capacity 135 kW):		
7 cars x HUF 22,000 x 12 months	1,848	1
New car (category 5, capacity 100 kW):		
1 car x HUF 11,000 x 8 months	88	1½
Company car tax obligation in 2013	3,124	
Less: car capacity tax	(300)	1
Total company car tax liability in 2013	2,824	
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(b) Corporate income tax liability for the year 2013

		HUF '000	HUF '000	
Profit before tax			897,176	
Increasing items:				
Accounting depreciation of new car	(working)	1,210		W
Impairment losses of non-current assets		3,000		1
Provision created		15,000		1
Inventory write down without documentation		3,000		1½
Unrealised revaluation loss		2,500		1
			24,710	
Decreasing items:				
Tax depreciation of the new car	(working)	1,368		W
Provision reversed		7,000		1
Royalty income (40 million x 50%)		20,000		2
Unrealised revaluation gain		3,200		1
			(31,568)	
Tax base			890,318	
Corporate income tax for tax base up to HUF 500 million at 10%			50,000	
Corporate income tax for tax base above HUF 500 million: (890,318 – 500,000) x 19%			74,160	½
Annual corporate tax liability for 2013			124,160	

Working: car purchased in the year

Cost including VAT and other costs ((8 million x 1·27) + 100,000)	10,260	1
Depreciation (10,260,000 – 3,000,000) x 25% x 8/12	1,210	1
Tax depreciation (10,260,000 x 20% x 8/12)	1,368	1
		12

(c) Rules for corporate tax payments

The annual corporate tax return must be filed by 31 May in the year following the tax year if the business year is the same as the calendar year. If the business and calendar year are different, the tax return is due within 150 days after the last day of the business year. 1½

Corporate tax advances are payable either quarterly or monthly. ½

The advance period starts on 1 July (or from the first day of the second month after the due date of the annual return) and lasts until 30 June of the following year (i.e. for 12 months). 1

Marks

The frequency of payments is determined as follows:

– quarterly payments are required if the previous year's annual tax liability is below HUF 5 million. ½
– monthly payments are required if the previous year's annual tax liability is HUF 5 million or above. ½

The advances payable are based on the previous years' tax liability as follows:

– For quarterly payers, the first two quarters' advances are based on the final liability of the tax year two years before the current tax year. The third and fourth quarters' advances are based on the final liability of the previous tax year. 1
– For monthly payers, the first six months' advances are based on the final liability of the tax year two years before the current tax year. The second six months' advances are based on the final liability of the previous tax year. ½

The deadline for payments:

– for quarterly payments, the deadline is the 20th of the month following the quarter. ½
– for monthly payments, the deadline is the 20th of the current month. ½

In both cases, the last advance payment of the year is due on 20 December. ½

Additionally, a balancing payment is required equal to the difference between the advances paid during the tax year and the estimated annual tax liability for the year. This balancing payment is also due on 20 December. ½

If there is a difference between the sum of the advance payments including the final advance payment (20 December) and the actual liability established on 31 May next year, this must be paid by 31 May next year. ½

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3 BlueShine Kft

(a) Tax base reduction available in respect of research and development (R&D) activities

When a taxpayer determines its profit before tax, the direct costs of R&D are a tax deductible expense if they are related to the business activities of the taxpayer. Additionally, they are a tax base reducing item when calculating the corporate tax base. 1

If the R&D activities are carried out jointly with institutions established by the Hungarian Academy of Sciences (MTA), the direct costs of R&D activities may reduce the tax base by three times (triple deduction right). 1

The R&D expenses may reduce the tax base in the year of occurrence, or, at the discretion of the taxpayer, if expenses are capitalised as an intangible asset, over the useful life of the asset, up to the amount recognised as the annual amortisation expense. 1

Limitations of the deduction right:

– only direct costs of own R&D activities are deductible; 1
– subcontractors' fees in relation to Hungarian domestic enterprises or private entrepreneurs or Hungarian establishments of foreign enterprises cannot be taken into account; 1
– the triple deduction right is limited to HUF 50 million; and 1
– if the entity received or claimed a government grant for development purposes or to cover business expenses, the amount of the grant received will decrease the amount of any deduction. 1

The tax base reduction qualifies as '*de minimis*' support. 1

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(b) Maximum tax base reduction for R&D activities in 2013

Allowable expenses:

	HUF '000	
Material costs	10,000	½
Labour costs	15,000	½
Costs incurred by foreign subcontractors	5,000	½
Total	30,000	

Marks

Theoretical tax base reduction: 3 x 30 million = HUF 90 million ½
Available tax base reduction: HUF 50 million 1

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Tutorial note: *Excluding the Hungarian subcontractors by explicitly stating it would earn equal marks.*

(c) Three examples of '*de minimis*' support and their limit

Three examples of '*de minimis*' support ('*de minimis*' support is the corporate income tax saved by the following items):

- the difference between the 10% and 19% tax rate, the 10% rate applying to the tax base up to HUF 500 million; 1
- the 'HUF 30 million relief' for small and medium sized entities to acquire new non-current assets; 1
- the tax relief on interest of loans for micro, small and medium sized entities to acquire new non-current assets; 1
- support given to micro entities for creating jobs;
- 100% allowable depreciation for small and medium sized entities in underdeveloped regions.

The total amount of '*de minimis*' supports cannot exceed €200,000 in any three consecutive years. 1

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Tutorial notes:
1. *Any other relevant example of* 'de minimis' *support would earn equal marks.*
2. *Candidates who referred to present value calculation of the* 'de minimis' *support were awarded equal marks.*

4 Gigi Kft

(a) (i) Value added tax (VAT) treatment of tangible non-current asset sales

Where a tangible non-current asset is used exclusively or partially for VAT-exempt activities, the input VAT on the original purchase is wholly or partially irrecoverable. If, however, the asset is sold within 60 months (in the case of movable non-current assets) or 240 months (in the case of immovable non-current assets) from the date of purchase, a portion of the originally irrecoverable VAT becomes recoverable provided that the sale results in a VAT deduction right. 2

The deduction ratio on the sale is equal to the number of months remaining out of the period of 60 or 240 months (including the month of sale) divided by 60 or 240 months respectively. 1

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(ii) VAT payable and deductible on the non-current asset sale of the equipment

Deduction ratio:
Number of months remaining: July 2013 + August 2013 to February 2017, i.e. 44 months, so the deduction ratio is 44/60. 1
VAT payable: 22 million x 27% = HUF 5,940,000 ½
VAT deductible: 18 million x 27% x 44/60 = HUF 3,564,000 ½

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			Marks
(b) VAT liability for July 2013			
	HUF '000	**HUF '000**	
VAT payable			
Sale of equipment (from (a)(ii))	5,940		½
Sales revenue (100 million x 27%)	27,000		½
Advertising services (€5,000 x 300 x 27%)	405		1
		33,345	
VAT deductible			
Sale of equipment (from (a)(ii))	3,564		½
Purchases (30 million x 27%)	8,100		½
Advance payment (10·16 million x 27/127)	2,160		1
Advertising services (€5,000 x 300 x 27%)	405		½
Maintenance of cars (120,000 x 50% x 27%)	16		1
Fuel for passenger cars (irrecoverable)	0		½
Food and drinks for resale (200,000 x 50% x 27%)	27		½
Food and drinks for employee consumption (irrecoverable)	0		1
		(14,272)	
VAT payable /(VAT deductible)		19,073	½
			8

Tutorial notes:

1. *Since the place of performance of the advertising services is in Hungary, VAT is payable and deductible at the same time.*
2. *Advance payments are treated as paid/received inclusive of VAT.*
3. *In the case of maintenance costs of passenger cars, 50% of the input VAT is deductible if private usage is not allowed (as per main rule). VAT on fuel for passenger cars is never deductible.*
4. *Where food and drink are purchased for the purposes of resale, VAT is deductible as normal, in any other circumstances VAT on food and drinks is irrecoverable.*

(c) VAT treatment of own work capitalised

Where a business capitalises 'own work', it is treated as a taxable sale and VAT becomes payable. 1

The deductibility of VAT on own work capitalised depends on the intended usage of the own work capitalised. If it is to be used for VATable activities, VAT is deductible, but if it is to be used for VAT-exempt activities, then the VAT cannot be recovered (but the payment liability will still apply). 1

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5 (a) Clementine Kft

Local municipality tax liability for 2013

	HUF million	
Revenue up to 500 million (10% of total revenue)	500	1
Less: 10% of COGS and mediated services (3,500 + 1,000) x 10%	(450)	1
Revenue from 500 million to 20 billion (90% of total revenue)	4,500	½
Less: 90% of COGS and mediated services (3,500 + 1,000) x 90% = 4,050		1
Limited to: 85% of revenue in this band 85% x (5,000 – 500) million	(3,825)	2
Less: raw material cost	(100)	1
Less: direct costs of research and development activities	(500)	1
Tax base	125	
Local tax at 2%	2·5	½
		8

Marks

(b) Cardi Kft

Minimum tax base and corporate tax liability for 2013

	HUF million	Marks
Total revenue		
Sales revenue	3,000	½
Extraordinary income	400	½
Financial income	350	½
Loan adjustment (working)	105	W
Less: cost of goods sold	(1,800)	½
Less: mediated services	(200)	½
Minimum tax base	1,855	

The minimum tax base is higher than the corporate tax base of HUF 1,000 million. Therefore, corporate income tax is payable according to the minimum tax base at the rate of 2%: 1,855 million x 2% = HUF 37·1 million. 1½

Working: Loan adjustment

	HUF million	Marks
Average daily balance of loans from owners in 2013: [(180 million x 31 days) + (410 million x 334 days)]/365	390	2
Closing balance as at 31 December 2012	(180)	
Increase in loans from owners	210	
Revenue for minimum tax base purposes (50% of increase)	105	1
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		15