# Answers

| | *Marks* |
|---|---|
| **1 Mr Keleti** | |
| **(a) Taxation of the three items** | |
| Item 1: Holiday coupons | |
| Holiday coupons with a value of up to HUF 78,000 (the amount of the minimum wage) per annum are salary related benefits in kind. | ½ |
| The tax payable on them is 16% of the tax base, which is 119% of the value of the benefit in kind (including VAT). | 1 |
| Holiday coupons above this limit are taxed as non-salary related defined benefits in kind. In addition to tax at 16%, health insurance contributions of 27% are payable on the tax base of 119% of the value of the benefit. | 1 |
| Tax on the first HUF 78,000: 78,000 x 1·19 x 16% = HUF 14,851 | ½ |
| Tax on the exceeding amount: HUF (100,000 – 78,000) x 1·19 x (16% + 27%) = HUF 11,257. | ½ |
| Both elements (tax and health insurance contributions) are payable by the employer. | ½ |
| Item 2: Theatre tickets | |
| Theatre tickets are an example of cultural services that are non-salary related non-defined benefits in kind. This benefit forms part of the consolidated tax base, and thus 16% tax is payable on the value of the tickets as increased by 27%. The tax is payable by the employee. | 1½ |
| In addition, social security contributions also have to be paid on the benefit by both the employer and employee. | ½ |
| Personal income tax payable by Mr Keleti: HUF 60,000 x 1·27 x 16% = HUF 12,192. | ½ |
| Pension and health insurance contributions and labour market fund payable by Mr Keleti: HUF 60,000 x (10% + 6% + 1·5%) = HUF 10,500 | ½ |
| Pension and health insurance contributions and labour market fund payable by Nyugati Kft: HUF 60,000 x (24% + 2% + 1%) = HUF 16,200 | ½ |
| Training contribution payable by Nyugati Kft: HUF 60,000 x 1·5% = HUF 900 | ½ |
| Item 3: | |
| Discounted interest payable on loans is a taxable benefit in kind. The value of the taxable benefit is calculated as the difference between the actual interest paid and the deemed market interest, being the prime rate of the National Bank on 31 December increased by 5 percentage points. Tax payable is 16% on 119% of the value of the taxable benefit together with 27% social security contribution. | 3 |
| Interest paid: HUF 10 million x 3% = HUF 300,000 | |
| Deemed interest: HUF 10 million x (6 + 5)% = HUF 1,100,000 | ½ |
| Taxable benefit in kind = HUF 1,100,000 – HUF 300,000 = HUF 800,000 | ½ |
| Tax payable: HUF 800,000 x 1·19 x (16% + 27%) = HUF 409,360 | ½ |
| Tax is payable by the employer. | ½ |
| | 13 |

| | | *Marks* |
|---|---|---|
| **(b) Personal income tax liability of Mr Keleti for 2011** | | |
| **Consolidated tax base** | **HUF** | |
| Non-independent activities | | |
| Salary (800,000 x 12) | 9,600,000 | ½ |
| Theatre tickets (as per part (a)) | 60,000 | ½ |
| Fee for board membership (100,000 x 12) | 1,200,000 | 1 |
| Income received from securities [10,000 x (3,500 – 2,000)] | 15,000,000 | 2 |
| Total consolidated tax base | 25,860,000 | ½ |
| Tax base increasing amount (27%) | 6,982,200 | 1 |
| Total consolidated tax base | 32,842,200 | |
| Family allowance (3 x 206,250 x 12) | (7,425,000) | 1 |
| Actual consolidated tax base | 25,417,200 | |
| Calculated tax on consolidated tax base at 16% | 4,066,752 | ½ |
| Tax credit on wages (not available) | 0 | 1 |
| Tax on the consolidated tax base | 4,066,752 | |
| **Tax on income taxed separately** | | |
| Capital gains on non-stock exchange transactions (500,000 x 16%) | 80,000 | 1 |
| Capital gains on securities received from Nyugati Kft [10,000 x (4,000 – 3,500)] x 16% | 800,000 | 2 |
| Foreign dividend (see working) | 150,000 | ½ |
| Total PIT liability | 5,096,752 | |

**Working: Foreign dividend**

| | |
|---|---|
| Tax payable in Hungary: HUF 3,000,000 x 16% = HUF 480,000 | ½ |
| Tax paid abroad (deductible) = HUF 1,000,000 | ½ |
| Minimum tax payable in Hungary: HUF 3,000,000 x 5% = HUF 150,000 | ½ |
| | **13** |

**Tutorial notes:**

1. *Tax paid abroad may be deducted from the tax payable in Hungary, but at least 5% of the dividend income must be paid as tax in Hungary if there is no double tax agreement between Hungary and the state of the payer.*
2. *Where the entire income of an individual exceeds HUF 3,960,000, no tax credit on wages is available.*

**(c) Taxation of usage of company phones**

| | | |
|---|---|---|
| **(i)** | If private usage is known but reimbursement is not required, the taxable income is the amount of private usage. | ½ |
| | The tax payable is 16% on 119% of the non-reimbursed amount (including VAT). | ½ |
| **(ii)** | If private usage is known and reimbursement is required, no taxable income arises and no tax is payable. | 1 |
| **(iii)** | If private usage is allowed but its amount is not known, there is a 20% deemed private usage. | ½ |
| | Tax payable is 16% on 119% of the deemed private usage (including VAT). | ½ |
| **(iv)** | If no private calls are allowed, no taxable income arises and thus no tax is payable. | 1 |
| | | **4** |
| | | **30** |

**Tutorial note:** *Tax is always payable by the payer (employer). In addition to the 16% personal income tax, social security contribution of 27% is payable on the same tax base.*

| | | | Marks |
|---|---|---|---|

**2** Rococo Kft

**(a) Corporate income tax liability of Rococo Kft for the year 2011**

| | Working | HUF '000 | HUF '000 | Marks |
|---|---|---|---|---|
| Profit before tax | | | 200,000 | |
| **Increasing items:** | | | | |
| Creation of provision | | 10,000 | | ½ |
| Transfer pricing adjustment (80m – 50m) | | 30,000 | | 1 |
| Expenses not incurred in the ordinary course of business | | 1,000 | | 1 |
| Accounting depreciation of the car ((13·75 million – 3 million)/8 years x 9/12) | 1 | 1,008 | | 1 |
| | | | 42,008 | |
| **Decreasing items:** | | | | |
| Net gain on derecognising investment (18m – 10m) | | 8,000 | | 1 |
| Impairment reversed | | 2,000 | | 1 |
| Penalty recovered | | 10,000 | | 1 |
| Royalty income (50% x 30 million) | | 15,000 | | 1 |
| Dividends received | | 9,000 | | ½ |
| Tax depreciation of the car (13·75 million x 20% x 9/12) | 1 | 2,063 | | ½ |
| | | | (46,063) | |
| Tax base | | | 195,945 | |
| | | | **HUF '000** | |
| Corporate income at 10% (base less than HUF 500 million) | | | 19,595 | ½ |

**Working:**

Cost of the new car: (10 million + 1 million) x 1·25 = HUF 13·75 million — 1

**10**

**(b) Corporate tax advances paid by Rococo Kft in 2011:**

From January until June (based on the 2009 liability)
HUF 13·2 million/12 months = HUF 1,100,000 per month — 1

From July until December (based on the 2010 liability)
HUF 18 million/12 months = HUF 1,500,000 per month — 1

In December 2011 (balancing payment based on the expected liability)
19,595,000 – [(1·1 million x 6) + (1·5 million x 6)] = HUF 3,995,000 — 1

**3**

**(c) Tax treatment of the three items:**

**(i)** Expenses incurred in relation to a controlled foreign corporation (CFC):

Costs and expenses incurred in connection with a CFC are tax base increasing items. — 1

An exemption from the rule above applies if the taxpayer can prove that the expenses served the business activity, i.e. they were incurred in the ordinary course of business. — 1

**(ii)** Impaired (bad and doubtful) debts:

Expenses incurred when receivables are impaired increase the tax base. — 1

20% of impaired debts outstanding for more than 365 days may decrease the tax base unless they have lapsed. — 1

If impaired debts are definitely irrecoverable (there is official court notification about this fact) they will be recognised as expenses for tax purposes. — 1

**(iii)** Tax losses carried forward from the tax year 2010:

Tax losses from 2010 can be carried forward without time limit. — 1

Losses may only be used to reduce the tax base to zero. — ½

Tax losses must be used on a FIFO (first in, first out) basis. — ½

**7**

| | | *Marks* |
|---|---|---|

**(d) Minimum tax base**

The minimum tax base is calculated as follows:

| | | |
|---|---|---|
| Total revenue (including net sales revenue, other revenue, financial income, extraordinary income) | X | 1 |
| *Add:* | | |
| Preferential transformation/asset transfer | X | ½ |
| *Less:* | | |
| Cost of goods sold | (X) | ½ |
| Cost of subcontractors | (X) | ½ |
| Corrected total revenue | X | |

Minimum tax base = corrected total revenue x 2% ½

As per the tax law, the tax base cannot be less than a minimum amount. If an entity has a lower tax base than the minimum tax base, it has to pay corporation tax after the minimum base. Alternatively, the entity can opt to submit a declaration and pay corporation tax on its actual tax base, but this declaration may be audited by the tax authorities. 1 ½

The minimum tax base will not be applied in the first tax year, for the tax year in the pre-company phase, or where a *vis major* exists. ½

**5**

**25**

**3 VegySzer Zrt**

**(a) Corporate tax relief available**

VegySzer Zrt can claim two types of relief:

1. Deduction available from the corporate tax base:
   Direct research and development (R&D) costs are expenses recognised in the calculation of the profit before tax. When calculating the corporate tax base, they can also be taken into consideration as a tax base reducing item, i.e. they are deductible twice. 2
2. Tax credit:
   In addition to the tax base reduction above, a tax credit of 10% of the salary cost accounted for as an R&D cost in the tax year is available. 1

   The tax credit can be taken in the tax year when the costs were incurred and in the following three tax years in equal instalments. 1

   If in any year the company cannot use the tax credit due to lack of sufficient tax liability, it can carry forward the tax credit within the same three-year period. 1

   The maximum tax credit deductible in any year is 70% of the tax payable after considering any other tax credits available. 1

**6**

*Marks*

**(b) Forecast of corporate tax liability for VegySzer Zrt for the years 2011 to 2014**

| | 2011 HUF million | 2012 HUF million | 2013 HUF million | 2014 HUF million | Marks |
|---|---|---|---|---|---|
| Pre-tax profit | 3,000 | 3,200 | 3,500 | 3,700 | |
| Tax base reducing amount | (2,800) | | | | 1 |
| Tax base | 200 | 3,200 | 3,500 | 3,700 | |
| Tax up to HUF 500 million at 10% | 20 | 50 | 50 | 50 | 1 |
| Tax above 500 million at 19% | – | 513 | 570 | 608 | 1 |
| Total tax | 20 | 563 | 620 | 658 | |
| Actual relief taken | 14 | 46 | 30 | 30 | 3 |
| Tax payable | 6 | 517 | 590 | 628 | 1 |
| Theoretical tax relief (1,200 x 10%/4) | 30 | 30 | 30 | 30 | 1 |
| Limit of relief (70% of tax) | 14 | 394·1 | 434 | 460·6 | 1 |
| Unused relief carried forward (see working) | 16 | | | | |
| | | | | | **9** |
| | | | | | **15** |

**Working:**
Unused relief in 2011: HUF 30 million – 14 million = HUF 16 million
This can be used up within three years.
Used in 2012 results in tax relief of: HUF 30 million + 16 million = HUF 46 million.

## 4 Editio Kft

**(a) Value added tax (VAT) treatment of the tangible non-current asset sold:**

If a tangible asset with regard to which VAT was not deductible at the time of purchase (because of the nature of the activities for which the asset is used) is sold within 60 months from the date of purchase, a portion of the originally irrecoverable VAT becomes recoverable, provided the sale of the asset results in a tax deduction right. 2

The deductible VAT is determined using the following ratio: the month of sale plus the remaining months from the deemed useful life of the asset (60 months) divided by 60 months. 1

**3**

**(b) VAT liability of Editio Kft for October 2011:**

| | Working | HUF | HUF | Marks |
|---|---|---|---|---|
| VAT payable | | | | |
| Tangible non-current asset sale (3·5 million x 25%) | | 875,000 | | 1 |
| Publishing sales (200 million x 5%) | | 10,000,000 | | ½ |
| Editorial services sales (50 million x 25%) | | 12,500,000 | | ½ |
| Advertising services (€10,000 x 270 x 25%) | | 675,000 | | 1 |
| | | | 24,050,000 | |
| VAT deductible | | | | 1 |
| Tangible non-current asset | | 750,000 | | |
| Paper purchases (150 million x 25%) | 1 | 37,500,000 | | ½ |
| Subcontractors (20 million x 25%) | | 5,000,000 | | ½ |
| Advertising services (€10,000 x 270 x 25%) | | 675,000 | | 1 |
| Mobile phone invoice | 2 | 43,750 | | 1½ |
| Rental invoice (HUF 100,000 x 25%) | | 25,000 | | 1 |
| | | | (43,993,750) | |
| VAT balance/(VAT deductible) | | | (19,943,750) | ½ |
| | | | | **9** |

**Workings:**

1. Tangible current asset
   Deductible VAT on sale within 60 months: HUF 6 million x 25% x 30/60 = HUF 750,000.

*Marks*

2. Mobile phone invoice:
   Deductible VAT: HUF 250,000 x 25% x 70% = HUF 43,750.

   **Tutorial notes:**
   1. *For the October VAT return the September invoice is relevant because the date of performance of phone services is determined.*
   2. *30% of the VAT on phone services is not deductible irrespective of whether private usage is reimbursed or not.*
   3. *It was assumed that the restaurant issued the invoice with VAT. The assumption that the restaurant had chosen to issue invoices for rental fees without VAT is also acceptable.*

**(c) Irrecoverable VAT for Edition Kft for October 2011**

| | Amount in HUF | Marks |
|---|---|---|
| Fuel of passenger cars (HUF 800,000 x 25%) | 200,000 | 1 |
| Phone invoice (HUF 250,000 x 25% x 30%) | 18,750 | 1 |
| Food and drink (HUF 150,000 x 25%) | 37,500 | 1 |
| | | **3** |
| | | **15** |

**5 (a) Levente**

**(i) Net salary of Levente for December 2011**

**Personal income tax of Levente for 2011**

| | Note | HUF | Marks |
|---|---|---|---|
| **Consolidated tax base** | | | |
| Non-independent income | | | |
| Gross salary from Aranyos Zrt (12 x 300,000) | | 3,600,000 | ½ |
| Tax base increasing amount (27% x 3,600,000) | | 972,000 | 1 |
| Total consolidated tax base | | 4,572,000 | |
| Personal income tax liability for the year at 16% | | 731,520 | ½ |

**Tutorial note:** *Levente is not entitled to the tax credit on wages as his annual taxable income (including the tax base increasing amount) exceeds the limit of HUF 3,960,000.*

**Net salary for December 2011**

| | HUF | Marks |
|---|---|---|
| Monthly salary | 300,000 | |
| *Less:* personal income tax advance (731,520/12 months) | (60,960) | ½ |
| *Less:* pension contribution (300,000 x 10%) | (30,000) | ½ |
| *Less:* health insurance contribution (300,000 x 6%) | (18,000) | ½ |
| *Less:* labour market fund contribution (300,000 x 1·5%) | (4,500) | ½ |
| Net salary | 186,540 | |
| | | 4 |

**(ii) Contributions payable by Aranyos Zrt**

| | HUF | Marks |
|---|---|---|
| Contribution to the state pension fund (24% x 300,000) | 72,000 | |
| Contribution to the state health fund (2% x 300,000) | 6,000 | |
| Contribution to the labour market fund (1% x 300,000) | 3,000 | |
| | 81,000 | 1 |

**(iii) Taxation of rental income**

Rental income is independent income and thus part of the consolidated tax base. 1

From the gross income realised, the taxpayer may deduct actual expenses or, in the absence of such expenses, a general 10% allowance may be taken. 1

Total tax payable:
HUF 100,000 x 90% x 12 x 1·27 x 16% = HUF 219,456. 1

**3**

Marks

**(b)** Fekete Bt

**(i)** **Closing cash balance of Fekete Bt as at 31 December 2011**

| | HUF | Marks |
|---|---|---|
| Opening cash | 1,000,000 | |
| Sales revenue including VAT (12 million x 1·25) | 15,000,000 | 1 |
| Expenses including VAT (2 million x 1·25) | (2,500,000) | 1 |
| Gross salary (300,000 x 12) | (3,600,000) | 1 |
| Salary-related contributions (300,000 x 12 x 27%) | (972,000) | 1 |
| EVA (15,000,000 x 30%) | (4,500,000) | 1 |
| Closing cash balance | 4,428,000 | |
| | | 5 |

**(ii)** **EVA advances**

EVA advances: HUF 4,500,000/4 = HUF 1,125,000 per quarter. 1

Due dates of payments:
12th day of the month following the quarter for the first three quarters ½
20 December for the final quarter. ½

2

**15**