Answers

Marks

1 Mr Offler

(a) Criteria for tax residency in Hungary

A private individual is considered to be a Hungarian resident for tax purposes if any of the following conditions applies:

– The private individual is a Hungarian citizen	1
– The private individual is a foreign citizen holding a settlement permit in Hungary	1
– The private individual has a permanent home only in Hungary	1
– The centre of vital interests of the private individual is Hungary if he/she has no permanent home or has several permanent homes	1
– The private individual's regular place of stay is Hungary, i.e. he/she spends at least 183 days of the tax year in Hungary	1
Since Mr Offler's centre of vital interest (his wife and permanent work) is in Hungary and he spends more than 183 days of the year in Hungary, he will be treated as a tax resident by the Hungarian tax authorities.	2
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(b) (i) Taxation of the three benefits in kind

Warm meal vouchers up to HUF 18,000 per month are salary-related benefits in kind where the tax base is 1·19 x the value of the benefit in kind, and are taxed at 16%.	½
Tax base for benefit in kind tax: HUF 18,000 x 12 x 1·19 = HUF 257,040	½
Tax payable at 16% = HUF 41,126	½
The tax is payable by the employer.	½
Life insurance covering all or a group of employees is a non-salary-related defined benefit in kind where the tax base is 1·19 x the value of the benefit in kind, and it is taxed at 16%. Additionally, 27% health care contributions are payable on the tax base.	½
Tax base for benefit in kind tax: HUF 50,000 x 1·19 = HUF 59,500	½
Tax payable at 16% = HUF 9,520	½
Additionally, 27% health care contributions are payable on the tax base.	
Social security contribution: HUF 59,500 x 27% = HUF 16,065	½
Both taxes are payable by the employer.	1
Benefits in relation to sporting activities are non-salary-related non-defined benefits in kind.	½
This income is taxed as part of the consolidated tax base and is taxed accordingly.	½
HUF 15,000 x 12 x 1·27 x 16% = HUF 36,576	½
The tax is payable by the employee.	½
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Marks

(ii) Personal income tax liability of Mr Offler for 2011

Consolidated tax base	**Note**	**HUF**	
Non-independent activities			
Salary (300,000 x 12)		3,600,000	1
Sport club entry fee (15,000 x 12)	(as per part (a))	180,000	1
Independent activities			
Rental income of flat (60,000 x 12)	1	720,000	½
Expense ratio for rental income	1	(72,000)	1
Total consolidated tax base		4,428,000	½
Tax base increasing amount (27%)		1,195,560	1
Total consolidated tax base		5,623,560	
Family allowance (2 x 62,500 x 12)	2	(1,500,000)	1
Actual consolidated tax base		4,123,560	
Calculated tax on consolidated tax base at 16%		659,770	½
Tax credit on wages	3	0	½
Tax on the consolidated tax base		659,770	
Tax on income taxed separately			
Dividend income (15 million x 16%)		2,400,000	1
Tax on sale of land ((20 million – 15 million) x 90% x 16%)	4	720,000	1
Personal income tax allowances			
Tax allowance for payments to voluntary pension fund (20,000 x 12 x 20%)	5	(48,000)	1
Total PIT liability		3,731,770	

Notes:

1. Income from the rental of real estate is classified as independent income. ½

   When determining taxable income from independent activities, the taxpayer may deduct his actual expenses from the revenue supported by invoices (no information on this) or apply a 10% deduction ratio. In this latter case, no supporting documentation is required. 1

2. Family allowance decreases the consolidated tax base. It is HUF 62,500 per month per child up to two children. There is no limit on income when taking this tax base reduction. ½

3. The 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 3,960,000. Mr Offler's total income exceeds this threshold so no tax credit on wages is available to him. 1

4. Capital gains are the difference between the sales proceeds and acquisition costs further decreased by the cost of value increasing investments and other relevant costs related to the transfer from the proceeds of sale. 1

   This capital gain is reduced by 10% if the sale of immovable property takes place in the sixth year (2011) after acquisition, taking the year following the year of acquisition (2005) as the first year. 1

5. If an individual pays additional pension contributions to a voluntary pension fund, a tax credit is available, equal to 20% of the total amount paid to the pension fund. This credit cannot be taken in cash, instead the Tax Authorities transfer this amount into the account of the individual at the voluntary pension fund. 1

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Marks

2 Nemoda Kft

(a) (i) When a company acquires a car, the tax obligation starts on the first day of the month following the first month of ownership (the month in which the vehicle was registered). 1½

The last day of tax obligation is the last day of the month of disposal. ½

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(ii) Company car tax and adjusted pre-tax profit

Month	Number of cars	Start of obligation	Company car tax (HUF)	Marks
January	20	February	0	
February	20	March	20 x 15,000 = 300,000	1
March	20	April	20 x 15,000 = 300,000	
April	22	May	20 x 15,000 = 300,000	
May	22	June	22 x 15,000 = 330,000	1
June	22	July	22 x 15,000 = 330,000	
July	25	August	22 x 15,000 = 330,000	
August	25	September	25 x 15,000 = 375,000	1
September	25	October	25 x 15,000 = 375,000	
October	26	November	25 x 15,000 = 375,000	
November	26	December	26 x 15,000 = 390,000	1
December	26	–	26 x 15,000 = 390,000	
Total			3,795,000	

	HUF '000	Marks
Preliminary profit before tax	800,000	
Company car tax	(3,795)	
Adjusted profit before tax	796,205	1
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(b) (i) Corporate income tax liability for Nemoda Kft for the year 2011

	HUF '000	HUF '000	Marks
Profit before tax (as per part (a))		796,205	
Increasing items:			
Accounting depreciation ((50 million – 20 million)/60 years)	500		1
Impaired debts	3,000		1
Provision created	10,000		1
Scrapped assets	5,000		1
Entertainment expenses (5,000 x 1·25)	6,250		1
		24,750	
Decreasing items:			
Tax depreciation (50 million x 2%)	1,000		1
Creation of development reserve	20,000		1
Allowance for acquisition of new assets (maximum)	30,000		1
		(51,000)	
Tax base		769,955	

	HUF '000	Marks
Corporate tax base up to HUF 500 million at 10%	50,000	½
Tax on the remaining amount (769,955 – 500,000) at 19%	51,291	½
Total corporate income tax payable for the year	101,291	
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Tutorial notes:

1. *Impaired debts are a tax base increasing item. They become deductible only after 365 days in which case 20% may reduce the tax base.*
2. *Creation of a tied up reserve (development reserve) is a tax base reducing item in the year of creation. HUF 20 million reduces the tax base.*
3. *Creation of provisions is not an allowable expense for tax purposes.*

Marks

(ii) 1. The book value of missing assets or assets scrapped where the reason for scrapping cannot be credibly supported by documents is not a recognised expense. 1

2. Entertainment expenses are expenses classified as not incurred in the ordinary course of business. They will increase the tax base. VAT on such expenses is not deductible. 1

3. Medium sized companies may reduce their tax base by the value of acquisition of new assets if they meet the following conditions:

   – the company qualifies as small or medium sized at the end of the tax year; ½
   – the new assets acquired are classified as assets that directly serve the business activity; ½
   – the allowance is equal to the amount spent on acquiring the new non-current assets, but is limited to the lower of the profit before tax and HUF 30 million; ½
   – the assets so capitalised must be used for at least four tax years. ½

   Nemoda Kft spent HUF 100 million on acquiring new assets serving the business. The limit of HUF 30 million applies.

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(c) Controlled foreign corporation

(i) A company is a controlled foreign corporation (CFC) if:

It has its seat outside Hungary. ½

The entity has an owner who is a domestic private individual holding, directly or indirectly, a minimum of 10% of the shares for more than half of the days of the tax year; or ½

if the majority of the revenue of the entity comes from Hungarian sources, and if any of the following conditions apply: ½

– The entity pays corporate tax of less than 10%. ½
– The entity does not pay corporate tax since its corporate tax base is negative even if its profit before tax is positive. ½
– The entity's corporate tax base is negative or zero and the corporate income tax payable in that other state is less than 10%. ½

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(ii) A company is not a CFC if:

Its member whose stake reaches at least 25% on each day of the tax year has been listed on a recognised stock exchange for at least five years on the first day of the year. 1

It has a seat in the European Union, in a member state of the OECD or in a state with which Hungary has a double tax agreement, and the entity carries out real business activity. Real business activity means that at least 50% of its revenue is derived from manufacturing, agricultural, service providing or trading activities. 1

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3 Inverse Zrt

(a) Corporate tax relief available

Inverse Zrt can claim development tax relief if:

– The investment project started after 31 December 2002. ½
– More than HUF 3 billion was invested in net present value terms. 1
– The whole project involves investment in new assets. 1
– The assets are operated for at least five years after they are put into operation. 1
– The annual average number of employees exceeds, by at least 150, the average number of employees in the year prior to the commencement of the investment. This condition only applies from the second year in which relief is claimed. 1 ½

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	Marks

(b) Limit of subsidies

The limit of subsidies Inverse Zrt can claim depends on three factors:

1. The location of the investment: Central Transdanubia: 40%	1
2. The size of the investment: below €50 million: 100%	1
3. Industrial factor: not applicable.	½
Because Inverse Zrt is a medium-sized entity, it can add 10% to the regional factor.	½
The limit is thus: HUF 4,860 million x (40% + 10%) x 100% = HUF 2,430 million.	1
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(c) Forecast of corporate tax liability for Inverse Zrt for 2011 and 2012

	2011 HUF million	2012 HUF million	
Tax base	12,000	13,000	
Tax up to 500 million at 10%	50	50	½
Tax on the remaining amount at 19%	2,185	2,375	½
Total corporate tax	2,235	2,425	
Relief at 80% (see working)	1,788	822	
Tax payable	447	1,603	½

Working – calculation of tax relief

	2011 HUF million	2012 HUF million	
Total corporate tax before relief (as above)	2,235	2,425	
Relief (80% of tax)	1,788	1,940	1
Discount factor at 5·61%	0·947	0·897	
Present value (PV) of the relief	1,693	1,740	1
Cumulative PV of the relief	1,693	3,433	½
Available relief at PV	1,693	737	1
Available relief at actual value	1,788	822	1
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			15

Tutorial note:

If tax relief of 80% of corporate tax is claimed in both year 1 and year 2, the cumulative present value of the relief would be HUF 3,433 million. Since the cumulative present value of the relief must not exceed HUF 2,430 million (see part (b)), the present value of relief in year 2 must be limited to HUF 737,000. Converting this limit from present value terms into nominal terms means a limit of HUF 822 million (HUF 737 million ÷ 0·897).

The discount factors are calculated using the formula $\frac{1}{(1+r)^n}$ *where r is the discount factor and n is the number of years since the start of the project:*

2011 (year 1) $\frac{1}{(1{\cdot}0561)^1} = 0{\cdot}947$

2012 (year 2) $\frac{1}{(1{\cdot}0561)^2} = 0{\cdot}897$

Marks

4 Gadget Kft

(a) Value added tax (VAT) balance of Gadget Kft for April 2011

	Notes	HUF	HUF	Marks
VAT payable				
April sales (20 million x 25%)		5,000,000		1
Tax consultancy (7,000 x 270 x 25%)	1	472,500		½
Advance payment (1·5 million x 25/125)		300,000		1
			5,772,500	
VAT deductible				
April purchases (9 million x 25%)	2	2,250,000		1
Tax consultancy (as above)	1	472,500		½
Accounting services (180,000 x 25%)	3	45,000		1
Fuel of vans (300,000 x 25%)		75,000		1
Phone invoice (150,000 x 25% x 70%)		26,250		1
			(2,868,750)	
VAT balance /(VAT deductible)			2,903,750	½

Notes:

1. In the case of tax consultancy services, the place of performance is the seat of the ordering party, i.e. Budapest. Gadget Kft must self-assess the amount of VAT in its VAT return. VAT is deductible as well as payable if the service is used for a VATable activity. 1
2. Only the VAT on the invoices that arrived by the deadline for the preparation of the April VAT return (20 May) can be deducted in the April VAT return. VAT on the late invoice of HUF 1 million will be deductible in the May 2011 VAT return. 1
3. Accounting services are fixed term settlements. The invoice is issued for the services actually provided over the settlement period. In this case, the date of performance is the due date of the invoice, thus the invoice relevant in the April return is the one from March. 1
4. VAT on fuel and repair invoices for passenger cars is irrecoverable. 1
5. 30% of the input VAT of mobile phone invoices is not deductible if private usage is not reimbursed; the remaining 70% of the VAT can be deducted. ½

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Tutorial notes:

1. *In the case of advance payments, the amount transferred is deemed to be the gross amount, including VAT.*
2. *VAT on fuel invoices for non-passenger cars or vans is deductible.*

(b) Personal income tax and social contributions on private usage of mobile phones

As there is no separation of private and business calls, the deemed private usage is taxed as a non-salary related defined benefit in kind.

Personal income tax payable: HUF 150,000 x 1·25 x 20% x 1·19 x 16% = HUF 7,140. 1½
Social contribution payable: HUF 150,000 x 1·25 x 20% x 1·19 x 27% = HUF 12,049. 1½

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Marks

5 (a) Rent-out Kft

(i) Dividend if using EVA-taxation

	Notes	HUF	Marks
Net sales revenue		15,000,000	
Gross sales revenue (15 million x 1·25)	1	18,750,000	½
Costs and expenses excluding salaries, including VAT (3 million x 1·25)	2	(3,750,000)	½
Salary expense (12 x 200,000)		(2,400,000)	½
Pension contribution (24%)		(576,000)	½
Health insurance contribution (2%)		(48,000)	½
Labour market fund contribution (1%)		(24,000)	½
EVA (30% x 18,750,000)		(5,625,000)	1
Distributable dividends		6,327,000	

Notes:

1. EVA is payable on the sales revenue increased by the amount of VAT. ½
2. Under the EVA-regime no VAT can be deducted by the taxpayer, so input VAT is an expense for the company. ½

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(ii) Dividend if not using EVA-taxation

	HUF	Marks
Net sales revenue	15,000,000	½
Costs and expenses excluding salaries	(3,000,000)	½
Depreciation (60 million – 10 million)/50 years	(1,000,000)	1
Salary expense (as in (i) above)	(2,400,000)	½
Pension contribution (as in (i) above)	(576,000)	
Health insurance contribution (as in (i) above)	(48,000)	
Labour market fund contribution (as in (i) above)	(24,000)	
Total costs and expenses	(7,048,000)	
Profit before tax	7,952,000	
Corporate tax at 10% on HUF 7,752,000 (ex working)	(775,200)	1
Profit after tax (distributable dividends)	7,176,800	

Working:

Corporate tax base: the only adjusting item is depreciation.

	HUF	Marks
Profit before tax:	7,952,000	
Accounting depreciation:	1,000,000	½
Tax depreciation: 60 million x 2%	(1,200,000)	1
Corporate tax base	7,752,000	

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(b) Botond

Personal income tax of Botond for 2011

	Note	HUF	Marks
Consolidated tax base			
Non-independent income			
Gross salary from Rent-out Kft (12 x 200,000)		2,400,000	½
Tax base increasing amount (27% x 2,400,000)		648,000	½
Total consolidated tax base		3,048,000	
Calculated tax at 16%		487,680	½
Less: tax credit on wages	1	(109,440)	½
Personal income tax liability for the year		378,240	

Marks

Net salary for January 2011

	HUF	Marks
Monthly salary	200,000	
Less: personal income tax advance (378,240/12 months)	(31,520)	½
Less: pension contribution (200,000 x 10%)	(20,000)	½
Less: health insurance contribution (200,000 x 6%)	(12,000)	½
Less: labour market fund contribution (200,000 x 1·5%)	(3,000)	½
Net salary	133,480	

Notes:

1. The tax credit on wages is available but only at a limited amount because Botond's annual taxable income exceeds HUF 2,750,000 but is below HUF 3,960,0000.

   The tax credit is

   12 months x 12,100 = HUF 145,200 ½
   Less: (3,048,000 – 2,750,000) x 12% = HUF 35,760 ½
   HUF 145,200 – HUF 35,760 = HUF 109,440

   i.e. HUF 109,440 is deductible.

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