Answers

Marks

1 Mr Budai

(a) Taxation of the three items

Item 5: Sale of flat

Taxable income from the selling of real estate is income taxed separately at 16%.		½
The taxable income is determined by subtracting the acquisition costs, the costs of value increasing investments and the expenses relating to transferring the real estate from the proceeds of sale.		½
In the case of houses and flats, the amount so obtained (the capital gain) may be further reduced. The reduction depends on the length of ownership and is calculated as follows:		
The taxable income is equal to the capital gain on the sale when the sale occurs in the year of acquisition or in the first year after acquisition.		
Thereafter, 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 after the fifth year after acquisition.		1½
As Mr Budai acquired the flat in 2008 and sold it in 2012, which is the fourth year after acquisition, the taxable income will be 30% of the capital gain.		½
Personal income tax payable:		
	HUF	
Sales proceeds	25 million	
Less:		
Cost	(18 million)	½
Selling expenses (HUF 25 million x 3%)	(0·75 million)	½
Capital gain	6·25 million	
Taxable gain (30%)	1·875 million	½
Tax at 16%	300,000	½

Item 6: Receipt of advisory fees

Advisory fees received from a contract of services are treated as independent income of the private individual, so are part of the consolidated tax base.		1
Mr Budai has to declare this income to the tax authorities. He is entitled to a 10% reduction from the tax base if there are no allowable expenses.		½
Since the consolidated tax base of Mr Budai exceeds HUF 2,424,000, the uplift of 27% is applicable to this income.		½
Personal income tax payable:		
	HUF	
Fee income (USD 4,000 x 230)	920,000	½
Less: 10% reduction	(92,000)	½
	828,000	
Uplift of 27%	1,051,560	½
Tax at 16%	168,250	½

Item 7: Income from bonds

Interest received on bonds is classified as income taxed separately at 16%. Tax is deductible by the payer; however, if the payer does not deduct the tax, the private individual is obliged to do so.		1
The yield on publicly traded securities including capital gains (the difference between the purchase and selling prices) is also treated as interest income and taxed accordingly.		1
Tax on the interest received is HUF 112,000 (HUF 700,000 x 16%).		½
Tax on the capital gain is HUF 320,000 ((HUF 22 million – HUF 20 million) x 16%).		½
		12

		HUF	Marks
(b)	**Personal income tax liability for the year 2012**		
	Consolidated tax base		
	Non-independent activities		
	Salary (1,000,000 x 12)	12,000,000	1
	Internet access reimbursed	120,000	1
	Independent activities		
	Advisory fees (from (a))	828,000	½
	Total consolidated tax base	12,948,000	
	Tax base increasing amount (12,948,000 – 2,424,000) x 27%	2,841,480	2
	Actual consolidated tax base	15,789,480	
	Family allowance (2 x 62,500 x 12)	(1,500,000)	1½
	Total tax base	14,289,480	
	Tax on consolidated tax base at 16%	2,286,317	½
	Tax on income taxed separately		
	All as per part (a):		
	On the flat sold	300,000	½
	On capital gains on securities	320,000	½
	On interest income	112,000	½
	Total PIT liability	3,018,317	
			8

		HUF	
(c)	**Taxes and contributions on benefits in kind**		
	Item 1 – Internet access		
	Personal income tax	n/a	
	Social contribution tax (10,000 x 12 x 27%)	32,400	1
	Item 2 – Széchenyi card		
	On the amount not exceeding HUF 225,000		
	Personal income tax (225,000 x 119% x 16%)	42,840	1
	Social security contribution (225,000 x 119% x 10%)	26,775	1
	On the amount exceeding HUF 225,000		
	Personal income tax ((300,000 – 225,000) x 119% x 16%)	14,280	1
	Social security contribution ((300,000 – 225,000) x 119% x 27%)	24,098	1
	Item 3 – Budapest transportation pass		
	Personal income tax (9,800 x 12 x 119% x 16%)	22,391	1
	Social security contribution (9,800 x 12 x 119% x 10%)	13,994	1
	Item 4 – Private usage of company mobile		
	Personal income tax (100,000 x 1·27 x 119% x 16%)	24,181	2
	Social security contribution (100,000 x 1·27 x 119% x 27%)	40,805	1
			10
			30

2 ProIce Kft

(a) (i) Thin capitalisation rules

A company is thinly capitalised if the average daily balance of liabilities exceeds three times the average daily balance of equity. The tax base increasing item is the interest plus the transfer pricing adjustment proportionate to the excess liability.

The tax base increasing amount (disallowed interest) is calculated as follows: 2

$$\frac{\text{liabilities} - (3 \times \text{equity})}{\text{liabilities}} \times (\text{interest charged} + \text{transfer pricing adjustment})$$

Marks

For the purpose of the calculation of the average daily balance of the liabilities:

- bank loans are excluded; 1
- liability is the average daily balance of any outstanding amount on which interest is payable (e.g. loans received, bills of exchange, etc) as well as outstanding obligations on which no interest is payable but in respect of which the entity reduced its corporate tax base; 1
- the liability may be reduced by the average daily balance of the amounts shown in the statement of financial position as non-current financial assets, trade receivables and financial assets presented as current assets. 1

For the purpose of the calculation of the average daily balance of equity, the revaluation reserve and current year's profit are to be excluded. 1

6

(ii) Impact of the thin capitalisation rule for the year 2012

	HUF '000	Marks
Average daily balance of the liabilities:		
Intercompany loans	600,000	
Intercompany payables (20 million x 1/365)	55	
Financial instruments (5 million + 5 million)	(10,000)	
Trade receivables	(12,000)	
	578,055	2
Average daily balance of equity:		
Share capital	50,000	
Share premium	10,000	
Tied-up reserve (100 million x 1/365)	274	
Retained earnings (120 million x 364/365) + (20 million x 1/365)	119,726	
	180,000	2

Disallowed interest

$$\frac{578{,}055 - (3 \times 180{,}000)}{578{,}055} \times (60{,}000\ (W1) + 15{,}000\ (W2)) = \text{HUF } 4{,}937{,}463 \qquad 2$$

6

W1: Interest charged 600,000,000 at 10% = HUF 60,000,000

W2: Transfer pricing adjustment (from note (i) in question)
35,000,000 – 20,000,000 = HUF 15,000,000

(b) Corporate income tax liability for the year 2012

	HUF '000	HUF '000	Marks
Profit before tax		100,000	
Increasing items:			
Thin capitalisation adjustment (from (a))	4,937		½
Provisions created	50,000		1
Carrying value of assets disposed of (100 million – 90 million)	10,000		1
Irrecoverable debts written off	10,000		1
Tax penalty and late payment interest	5,000		1
		79,937	
Decreasing items:			
Provisions reversed	15,000		1
Tax written down value of assets disposed of	30,000		½
Transfer pricing adjustment (from (a))	15,000		½
Dividend income	3,000		1
Creation of development reserve (maximum: 50% of profit before tax, 100 million)	50,000		1
		(113,000)	
Tax base		66,937	
Corporate income tax at 10% (base less than HUF 500 million)		6,694	½
			9

		Marks
(c)	**Tax treatment of tax losses**	
	If the tax base is negative in a tax year (tax losses have been incurred), the tax base of future tax years may be reduced at the discretion of the taxpayer subject to the following rules:	1
	– the tax losses may be carried forward indefinitely,	1
	– the reduction of the tax base is limited to 50% of the tax base calculated before the use of the tax losses,	1
	– the losses must be used up on a FIFO basis (losses of earlier tax years should be used first).	1
		4
		25

3 Extension Kft

		Marks
(a)	**Corporate tax relief available**	
	Extension Kft is entitled to a tax relief (incentive) that relates to the financing of the acquisition of non-current assets.	½
	The relief can be claimed if the following criteria are met:	
	– the company qualifies as a small or medium sized entity on the last day of the tax year when the relief is taken;	1
	– the loan is used to acquire new non-current assets; and	1
	– the loan is received from a financial institution after 31 December 2000.	1
	Limitations of the relief:	
	– 40% of the interest paid, or	½
	– HUF 6 million, or	½
	– 70% of the tax liability reduced by other allowances.	½
	The last year when the relief can be claimed is the year when the loan is repaid.	1
		6

Tutorial note:
The relief could not be identified as a development relief as the average number of employees did not change during the projection period, nor was there a large enough increase in salary expenses as required by the development relief.

(b) Forecast corporate tax liability for the years 2013 and 2014

	HUF '000 2013	HUF '000 2014	Marks
Corporate tax base	70,000	90,000	
Corporate tax liability at 10% before relief (Base less than HUF 500 million)	7,000	9,000	1
Relief is the lowest of:			
– 40% of the interest paid			
2013: 500 million x 11% x 5/12 x 40%	9,167		
2014: 500 million x 11% x 40%		22,000	2
– HUF 6 million	6,000	6,000	1
– 70% of the tax reduced by other allowances	4,900	6,300	2
Relief available	4,900	6,000	2
Tax liability			
2013: 7,000 – 4,900	2,100		½
2014: 9,000 – 6,000		3,000	½
			9
			15

Marks

4 FullCredit Zrt

(a) Value added tax (VAT) liability for May 2012

	HUF	HUF	Marks
VAT payable			
Advisory services sales (25 million x 27%)	6,750,000		½
Tangible non-current asset sales (5 million x 27%)	1,350,000		½
German firm's invoice (€20,000 x 290 x 27%)	1,566,000		1
		9,666,000	
VAT deductible			
Subcontractors re advisory (3 million x 27%)	810,000		½
German firm's invoice (€20,000 x 290 x 27%)	1,566,000		1
Allocated and apportioned (see working)	2,805,600		
		(5,181,600)	
VAT payable /(VAT deductible)		4,484,400	½ *

*This ½ mark is for correctly identifying the VAT as payable or deductible (not for the calculation of the figure).

Working:

Allocation and apportionment of input VAT that cannot be identified with either advisory services or credit agency services:

Deduction ratio for the first four months:

$$\text{deduction ratio} = \frac{\text{sales that entitle the entity to deduct VAT}}{\text{total sales}} =$$

$$\frac{90 \text{ million}}{90 \text{ million} + 72 \text{ million}} = 0{\cdot}555\text{, i.e. } 56\%$$ 1½

Deductible VAT for the first four months was HUF 8,400,000 (HUF 15 million x 56%). 1

Deduction ratio for the first five months:

$$\frac{90 \text{ million} + 25 \text{ million}}{90 \text{ million} + 72 \text{ million} + 25 \text{ million} + 11 \text{ million}} = 0{\cdot}580\text{, i.e. } 58\%$$ 2

Deductible VAT for the first five months is therefore:

	HUF	Marks
Up until 30 April 2012	15,000,000	½
Goods purchased in May 2012 (item (i)) (5 million x 27%)	1,350,000	½
Subcontractors' services in May 2012 (item (ii)) ((20 million – 3 million – 6 million) x 27%)	2,970,000	1
Total cumulative unallocated input VAT in May 2012	19,320,000	
Cumulative deductible VAT in May 2012: 58% x 19·32 million	11,205,600	1
Already deducted in April (as above)	(8,400,000)	½
Deductible VAT in May 2012	2,805,600	
		12

(b) Irrecoverable VAT for May 2012

	HUF	Marks
Cumulative irrecoverable VAT for the first five months HUF 19,320,000 x (1 – 0·58)	8,114,400	
Cumulative irrecoverable VAT for the first four months HUF 15 million x (1 – 0·56)	(6,600,000)	
Irrecoverable apportioned VAT in May 2012	1,514,400	1
Subcontractors re credit agency services (HUF 6 million x 27%)	1,620,000	1
Renovation invoice (HUF 7 million x 27%)	1,890,000	1
	5,024,400	
		3
		15

Marks

5 Together Kft

(a) Company car tax

Together Kft will be subject to company car tax in Hungary in the year 2012.

If a car is registered under the name of a Hungarian organisation, the organisation becomes subject to company car tax. 1

This rule applies to companies registered under EVA, even though they cannot deduct expenses relating to the company car. 1

2

(b) Net cash dividend distributable

	HUF	Marks
Net sales revenue in the tax year	18,000,000	
Sales revenue including VAT (18 million x 1·27)	22,860,000	1
Less: EVA (22·86 million x 37%)	(8,458,200)	1
Gross salary of Mr Vizi (200,000 x 12)	(2,400,000)	1
Salary-related contributions (200,000 x 12 x 27%)	(648,000)	1
Purchases (5 million x 1·27)	(6,350,000)	1
Company car tax ((11,000 x 12) – 22,000)	(110,000)	2
Net cash dividend distributable	4,893,800	
		7

(c) Net salary of Mr Vizi for January 2012

	HUF	Marks
Consolidated tax base		
Non-independent income		
Gross salary from Together Kft (12 x 200,000)	2,400,000	1
Total consolidated tax base	2,400,000	
Personal income tax liability for the year at 16%	384,000	½
Monthly salary	200,000	½
Less: personal income tax advance (384,000/12 months)	(32,000)	1
Less: pension contribution (200,000 x 10%)	(20,000)	1
Less: health insurance contribution (200,000 x 7%)	(14,000)	1
Less: labour market fund contribution (200,000 x 1·5%)	(3,000)	1
Net salary	131,000	
		6
		15