Answers

Marks

1 Mr Coward

(a) (i) 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:

		Marks
1.	S/he is a Hungarian citizen;	1
2.	S/he is a foreign citizen holding a settlement permit in Hungary;	1
3.	S/he has a permanent home only in Hungary;	1
4.	Her/his centre of vital interests is Hungary if s/he has no permanent home or has several permanent homes;	1
5.	Her/his regular place of stay is Hungary, i.e. s/he spends at least 183 days of the tax year in Hungary.	1
		5

(ii) Residence status

	Marks
Mr Coward will be treated as a tax resident by the Hungarian tax authorities:	½
– his centre of vital interest is in Hungary, since he has an employment contract with a Hungarian company and he has a permanent home in Hungary; and	1½
– he spends more than 183 days of the year in Hungary.	1
	3

(b) Personal income tax (PIT) liability for 2012

	HUF	Marks
Consolidated tax base		
Non-independent activities		
Salary (2,000,000 x 12)	24,000,000	½
Independent activities		
Rental income (120,000 x 12)	1,440,000	1
10% lump sum deduction (1,440,000 x 10%)	(144,000)	1
Total consolidated tax base	25,296,000	
Tax base increasing amount (25,296,000 – 2,424,000) x 27%	6,175,440	1
Total tax base	31,471,440	
Calculated tax on consolidated tax base at 16%	5,035,430	1
Tax on income taxed separately		
On gain on selling the painting (5 million – 2 million – 400,000) x 16% – 32,000	384,000	1½
On interest earned on foreign bond (working)	50,000	W
Total PIT liability	5,469,430	

Working: Tax on interest earned on foreign bond

	HUF	Marks
Hungarian tax on interest earned abroad (1 million x 16%)	160,000	½
Foreign tax deductible from Hungarian tax	200,000	½
Minimum Hungarian tax payable (1 million x 5%)	50,000	1
		8

Tutorial notes:

1. *Without actual invoices the taxpayer is entitled to a 10% general deduction in case of independent activities.*
2. *The uplift of 27% is only applicable to the amount of the consolidated tax base exceeding HUF 2,424,000.*
3. *The tax paid on interest income earned abroad is deductible from the Hungarian tax but a minimum of 5% tax is payable because there is no double tax treaty.*

		Marks

(c) Tax and social security contributions paid by Heroes Kft

	HUF	
Salary of Mr Coward		
Social contribution tax: (2 million x 27%) x 12	6,480,000	1
Erzsébet vouchers		
For the first HUF 5,000		
Personal income tax (PIT): (5,000 x 119% x 16%) x 12	11,424	1
Health care contribution: (5,000 x 119% x 10%) x 12	7,140	1
For the amount exceeding HUF 5,000		
PIT: (5,000 x 119% x 16%) x 12	11,424	½
Health care contribution: (5,000 x 119% x 27%) x 12	19,278	1
Private use of mobile phone		
No benefit in kind as fully reimbursed	0	1
Interest free loan		
Tax base: 10 million x (7% + 5%) = HUF 1,200,000		1½
PIT: 1·2 million x 119% x 16%	228,480	1
Health care contribution: 1·2 million x 119% x 27%	385,560	1
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Tutorial note: *The tax base for the benefit in kind in the form of an interest free loan is the amount of the loan multiplied by the official National Bank of Hungary interest rate increased by five percentage points.*

(d) Taxation of mobile phone usage

If private and business calls are not separated, the tax law assumes a private usage of 20% of the phone cost.	1
This is taxed as a non-salary related defined benefit in kind on which tax is payable by the employer.	½
The personal income tax payable is 16% of the private usage (including VAT) increased by 19%, i.e. HUF 350,000 x 127% x 20% x 119% x 16% = HUF 16,927.	2
Additionally, social security contributions (EHO) of 27% are payable on the same tax base, i.e. HUF 350,000 x 127% x 20% x 119% x 27% = HUF 28,564.	1½
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2 Dahlia Zrt

(a) Rules governing a development reserve

A company may reduce its corporate tax base by the amount which has been tied up and transferred from its retained earnings to a development reserve during the tax year.	1
The development reserve so created must be used for capital expenditure.	½
The development reserve must be used within four tax years.	1
The amount tied up in a development reserve is limited to the lower of 50% of the profit before tax for the tax year and HUF 500 million.	1½
No tax depreciation can be recognised for assets acquired from the development reserve up to the amount of the development reserve used.	1
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(b) Registered shareholding and its effect on the tax base

A 'registered shareholding' is a shareholding in a Hungarian or foreign company (except holdings in controlled foreign corporations) of at least 30% of the total share capital of that other entity.	2
The acquisition must be registered with the tax authority within 60 days following the acquisition.	1
Any gain realised on derecognising a registered shareholding, or the income recognised on reversing a previous impairment loss on a registered shareholding, will be treated as a tax base reducing item.	1
On the other hand, any loss realised on derecognising a registered shareholding, or the expenses recognised on accounting for an impairment loss on a registered shareholding, will be treated as a tax base increasing item.	1

	Marks
The condition for such a tax base adjustment is that the registered shareholding must be held in the accounting records for at least 12 months before derecognition or accounting for the impairment/reversing the impairment loss.	1
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(c) Corporate income tax liability for the year 2012

	HUF '000	HUF '000	
Profit before tax		70,000	
Increasing items:			
Accounting depreciation of the shelves (15 million x 1/5 x 7/12)	1,750		1½
Impairment losses on non-current assets	2,000		1
Allowance on impaired debts	1,700		1
Book value of missing assets	1,000		1
Provision created	4,000		½
Impairment losses on registered shareholdings	1,900		2
		12,350	
Decreasing items:			
Development reserve created (limited to 50% of pre-tax profit, i.e. 50% x 70 million)	35,000		2
Tax depreciation of the new shelves (working)	1,269		W
Tax allowance on impaired debts (1·2 million x 20%)	240		2
Provision reversed	500		1
		(37,009)	
Tax base		45,341	
Corporate income at 10% (base less than HUF 500 million)		4,534	½

Working: Tax depreciation on new shelves

	HUF '000	
Cost of assets	15,000	1
Tax depreciation (15 million x 14·5% x 7/12)	1,269	½
		14
		25

Tutorial notes:

1. *Registered shareholdings must be registered with the tax authority within 60 days following the acquisition. The investment in Freesia Kft was not registered within 60 days, so it does not qualify as a registered shareholding.*
2. *As per the tax law 20% of debts outstanding for more than 365 days may be recognised as a tax base reducing item.*

3 Meditax Zrt

(a) Corporate tax relief available

Meditax Zrt is entitled to the development tax relief available to small and medium sized entities.	½
The company can claim the relief if the following criteria are met:	
1. The net present value of the investment is a minimum of HUF 500 million.	1
2. The company must be a small or medium sized entity.	½
3. The investment must result in the creation of new plant, an extension of existing facilities, or in a fundamental change in the product or service or in the production process.	1½
4. The new assets must be operated for a minimum period of three years.	1
5. The first year of eligibility is the year when the new assets are put into operation or the next tax year (at the discretion of the taxpayer). The relief can then be claimed in the next nine tax years.	1½
6. As Meditax Zrt has chosen the employment criterion, in the first year of claiming the relief (2012) there is no employment requirement, but in the next four years (2013 to 2016) the average number of employees must increase by 50 employees. The reference year is either the year preceding the start of the investment (2010) or the average of the three years preceding the start of the investment (at the discretion of the taxpayer).	2
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Marks

(b) Maximum relief available

The intensity limit depends on three of the following four factors:

1. The location of the investment: south-eastern Hungary: 50%. 1
2. The size of the investment: below €50 million (HUF 14,500 million, i.e. €50 million x HUF 290): 100%. 1
3. The industrial factor: not applicable. ½
4. The size of the entity: medium sized, so add 10% to the regional factor. ½

The limit is thus: HUF 700 million x (50% + 10%) x 100% = 420 million 1

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(c) Corporate tax liability for the tax year 2012

	HUF '000	Marks
Corporate tax base	170,000	
Corporate tax liability before relief (10% up to HUF 500 million)	17,000	1
Relief: 80% of corporate tax payable (80% x 17 million)	(13,600)	2
Tax payable	3,400	
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Tutorial note: *Since HUF 13·6 million is significantly below the total limit of HUF 420 million, no present value calculation is needed in 2012 and the full amount of 80% of corporate tax may be claimed.*

4 PumpUp Kft

(a) Treatment of lease agreements

The lease agreement with OilPower Zrt is an open-ended lease agreement (operating lease), therefore the monthly invoices are each subject to VAT. 1

The lease agreement with Vendlow Kft is a closed-ended rental agreement (finance lease) which qualifies as a sale for VAT purposes. Therefore, VAT is payable on the cash price in a single amount when the first invoice is issued and the individual monthly invoices are free of any VAT. 2

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(b) VAT liability for September 2012

	HUF '000	HUF '000	Marks
VAT payable			
Monthly sales revenue (200 million x 27%)	54,000		½
Open-ended rental agreement (3 million x 27%)	810		½
Own work capitalised (5 million x 27%)	1,350		1
Consignment contract (10 million x 27%)	2,700		1
Austrian training company invoice (€3,000 x 290 x 27%)	235		1
		59,095	
VAT deductible			
Closed-ended rental agreement (25 million x 27%)	6,750		½
Purchases (110 million x 27%)	29,700		½
Own work capitalised (5 million x 27%)	1,350		1
Fuel and maintenance for company cars (irrecoverable)	0		½
Mobile phone invoice (300,000 x 70% x 27%)	57		2
Remaining 30% of mobile phone invoice is irrecoverable			
Austrian training company invoice (€3,000 x 290 x 27%)	235		1
		(38,092)	
VAT payable		21,003	½
			10

(c) Deadline for submitting the September VAT return

The deadline is 20 October 2012, the 20th day of the month following the month under review. 1

Marks

(d) Precondition of a cash refund of VAT

For monthly taxpayers VAT is refundable in cash only if the deductible VAT balance is at least HUF 1 million. 1

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5 (a) Local Kft

(i) Local municipality tax liability for 2012

	HUF '000	Marks
Sales revenue	2,000,000	½
Less:		
Cost of raw materials	(1,200,000)	½
Cost of mediated services	(200,000)	½
Cost of subcontractors	(300,000)	½
Employment costs	0	½
Other expenses	0	½
Tax base	300,000	
Local tax at 2%	6,000	1
		4

(ii) Local municipality tax advances for 2012

	HUF '000	Marks
Local municipality tax for 2011:		
Sales revenue	1,900,000	
Less: cost of raw materials	(1,150,000)	
Less: cost of mediated services	(170,000)	
Less: cost of subcontractors	(290,000)	
Tax base	290,000	
Local tax at 2%	5,800	1
Tax advance payable on 15 March 2012:		½
50% of the liability for the tax year 2010: 50% x 5·4 million	2,700	1
Tax advance payable on 15 September 2012:		½
The difference between the prior year's liability and the current year's March tax advance: (5·8 million – 2·7 million)	3,100	1
		4

(iii) Deadline for filing the local municipality tax return

The deadline for filing the annual local municipality tax return is 31 May of the year following the tax year. 1

(b) Mrs Kutas

Net salary for October 2012

	HUF	Marks
Consolidated tax base		
Non-independent income (from Local Kft)		
Gross salary (12 x 500,000)	6,000,000	½
Bonus	1,500,000	1
Consolidated tax base	7,500,000	
Tax base increasing item (7,500,000 – 2,424,000) x 27%	1,370,520	1
Total consolidated tax base	8,870,520	½
Personal income tax liability for the year at 16%	1,419,283	½
Monthly salary	500,000	
Less: personal income tax advance (1,419,283/12 months)	(118,274)	1
Less: pension contribution (500,000 x 10%)	(50,000)	½
Less: health insurance contribution (500,000 x 7%)	(35,000)	½
Less: labour market fund contribution (500,000 x 1·5%)	(7,500)	½
Net salary	289,226	
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