Answers

Section B *Marks*

1 Advice Zrt

(a) Value added tax (VAT) liability for July 2015

	HUF '000	HUF '000	Marks
VAT payable			
– Sales revenue from VATable activities (90 million x 27%)	24,300		½
– Disposal of tangible non-current asset (1 million x 27%)	270		½
– German legal services (€5,200 x 310 x 27%)	435		1
		25,005	
VAT deductible			
– Marketing and advertising services	0		½
– German legal services (€5,200 x 310 x 27%)	435		1
– Allocated and apportioned input VAT (working)	10,544		W
		10,979	
VAT payable		14,026	

Working: Allocation and apportionment of input VAT relating to both VATable and VAT exempt activities

$$\text{Deduction ratio} = \frac{\text{sales which entitle the entity to deduct VAT (excluding sales of non-current assets)}}{\text{total sales excluding sales of non-current assets}}$$

For the six-month period ended 30 June 2015:

$$\frac{600 \text{ million}}{600 \text{ million} + 310 \text{ million}} = 0{\cdot}6593, \text{ i.e. } 66\%$$ 1½

Deductible input VAT for the first six months of 2015: HUF 160 million x 66% = HUF 105,600,000. ½

For the seven-month period ended 31 July 2015:

$$\frac{600 \text{ million} + 90 \text{ million}}{600 \text{ million} + 310 \text{ million} + 90 \text{ million} + 20 \text{ million}} = 0{\cdot}6764, \text{ i.e. } 68\%$$ 1

Deductible input VAT for the first seven months of 2015: HUF [160 million + (40 million x 27%)] x 68% = HUF 116,144,000. 1

VAT deductible in July 2015: HUF 116,144,000 – HUF 105,600,000 = HUF 10,544,000. ½

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(b) Conditions for the 'tax exempt business' status

A company or a private entrepreneur may opt for overall VAT exemption (*alanyi adómentesség)*, i.e. it will not be liable to charge VAT on sales and will not be able to deduct VAT on purchases, if it meets the following criteria:

– the taxpayer has its seat (or permanent establishment) in Hungary, and 1
– its actual sales revenue in the preceding tax year did not exceed HUF 6 million, and ½
– its sales revenue for the current tax year is expected not to exceed HUF 6 million. ½

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2 SAF Kft

(a) Situations in which cars are not subject to company car tax

A car is not subject to company car tax if it is a car which:

– is owned by a private individual and used exclusively for private purposes, i.e. nobody deducts expenses in relation to the car;
– is used by police, ambulance, etc (*megkülönböztető jelzést használó jármű*);
– was acquired by an organisation for exclusively re-sale purpose, and the organisation's main activity is trading cars;

		Marks
–	is used by a church and the car serves the ecclesiastic activities of the church;	
–	The employer reimburses the cost of the employee incurred in relation to using the car for commuting to work on a daily basis, irrespective of the amount of the reimbursement;	
–	The private individual receives a reimbursement of his/her car expenses based on travelling order (*kikuldetesi rendelveny*), irrespective of the amount of reimbursement.	
	Three items only required, 1 mark each, maximum	3

(b) Company car tax payable for the year 2015

Car 1		
–	Date of obligation starts: 1 March 2015	1
–	Company car tax payable: HUF 33,000 per month	½
–	Payment on 20 April: HUF 33,000	½
–	Payments on 20 July 2015, on 20 October 2015 and on 20 January 2016: HUF 99,000 (3 months x HUF 33,000)	1
Car 2		
–	Date of obligation starts: 1 June 2015	½
–	Date obligation ends: 31 December 2015	1
–	Company car tax payable: HUF 22,000 per month	½
–	Payment on 20 July 2015: HUF 22,000	
–	Payments on 20 October 2015 and on 20 January 2016: HUF 66,000 (3 months x HUF 22,000)	1
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(c) Car capacity tax

Car capacity tax is deductible from the company car tax if:

–	the tax obligation of the taxpayer existed for both company car tax and car capacity tax, and	½
–	the taxpayer paid the company car tax within the legal deadline.	½
		1
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3 (a) Lifa Bt – Net distributable dividends under EVA

	HUF	
Sales revenue including value added tax (VAT) (20 million x 1·27)	25,400,000	1
EVA (25,400,000 x 37%)	(9,398,000)	1
Purchases including VAT (7 million x 1·27)	(8,890,000)	1
Gross salary costs	(2,500,000)	½
Contributions on salary (2·5 million x (27% + 1·5%))	(712,500)	1
Local municipality tax (25,400,000 x 2% x 50%)	(254,000)	1½
Net distributable dividends	3,645,500	
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(b) Ms Hadas – Personal income tax on foreign dividend

	USD	
Net dividend received	6,000	
Gross dividend received ($6,000/(1 – 0·25))	8,000	½
	HUF	
Gross dividend converted to HUF ($8,000 x 280)	2,240,000	½
Personal income tax payable in Hungary (2,240,000 x 16%)	358,400	1

Tax paid abroad may reduce the Hungarian tax payable but at least 5% tax is payable in Hungary.

– tax paid abroad (($8,000 – $6,000) x 280)	560,000	½
– 5% minimum tax payable (2,240,000 x 5%)	112,000	1

So tax payable in Hungary is HUF 112,000. ½

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4	**(a)**	**Rudas Kft – Corporate income tax liability for the year 2015**		
			HUF '000	
		Tax base reducing item (direct R&D expenses)		
		– Services purchased from foreign taxpayers	25,000	½
		– Material cost	10,000	½
		– Labour cost	20,000	½
		Total value of direct R&D expenses	55,000	
		Maximum potential R&D incentive (3 x 55 million)	165,000	1
		Tax base reducing item limited to	50,000	1
		Non-allowable expenses for the purposes of the R&D incentive		
		– R& D services purchased from Hungarian taxpayers	30,000	½
		– R&D services purchased from private entrepreneurs	15,000	½
		Profit before tax	300,000	
		Tax base reduction (as above)	(50,000)	
		Corporate tax base	250,000	
		Corporate tax payable at 10%	25,000	½
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(b) Sadur Kft

(i) Corporate income tax base for the year 2015

	HUF '000	
Profit before tax	400,000	
Tax base increasing item:		
– Accounting depreciation (200 million/4 years)	50,000	½
Tax base reducing items:		
– Tax depreciation	NIL	½
– Development reserve (working)	(200,000)	W
Corporate tax base	250,000	

Working:

Development reserve is the lowest of:

– Actual development reserve created	250,000	½
– 50% of profit before tax (50% x 400 million)	200,000	½
– HUF 500 million	500,000	½
So the tax base reducing item is HUF 200 million.		½
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(ii) Deadline for the use of the development reserve created in 2015

The development reserve created in 2015 must be used to acquire new non-current assets in the four tax years following the year of creation, i.e. by the end of 2019. 1

If the whole of the development reserve is not used within the four tax years, the taxpayer must repay the corporation tax applicable to the unused part of the reserve, plus late payment interest. 1

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		Marks

5 Della Zrt

(a) Fiscal fines

	HUF	
Self-revision surcharge: (4 million x (2 x 1·5%) x 53/365 x 50%)	8,712	1½
Default penalty: (3 million x (2 x 1·5%) x 60/365)	14,795	1

	HUF	
Profit before tax before adjustments	900,000,000	
Self-revision surcharge (as above)	(8,712)	½
Default penalty (as above)	(14,795)	½
Tax penalty	(8,000,000)	½
Revised profit before tax	891,976,493	
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(b) Corporate income tax liability for the year 2015

		HUF '000	HUF '000	
Profit before tax (from part (a))			891,976	
Increasing items:				
Tax penalty		8,000		½
Default penalty (from part (a))		15		½
Self-revision surcharge		0		½
Provision created		40,000		½
Accounting depreciation and accounting carrying value of the asset sold	(working)	6,000		W
Foreign currency revaluation losses (unrealised)		12,000		½
			66,015	
Decreasing items:				
Provision reversed		10,000		½
Tax depreciation and tax written down value of asset sold	(working)	3,600		W
Dividend received		20,000		½
Foreign currency revaluation gains (unrealised)		24,000		½
			(57,600)	
Corporate tax base			900,391	
Corporate income tax at 10% on the tax base up to HUF 500 million			50,000	½
Tax on the remaining amount (900,391 – 500,000) x 19%			76,074	½
Final corporate tax liability			126,074	

Workings:

Working 1: Asset sold

	HUF '000	
Accumulated tax depreciation as at 1 January 2015: 9 million x 20% x 3 years	5,400	½
Tax depreciation in 2015: 9 million x 20% x 9/12	1,350	½
	6,750	
Tax written down value of the asset at sale (9 million – 6,750,000)	2,250	½
Total of tax base reducing items in 2015 (2,250 + 1,350)	3,600	
Accumulated accounting depreciation as at 1 January 2015: (9 million – 1 million)/8 years x 3 years	3,000	½
Accounting depreciation in 2015 (9 million – 1 million)/8 x 9/12	750	½
	3,750	
Accounting carrying value of the asset at sale (9 million – 3,750,000)	5,250	½
Total of tax base increasing items in 2015 (5,250 + 750)	6,000	
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	Marks
(c) Controlled foreign corporation	
A company is considered to be a controlled foreign corporation (CFC) if:	
– The company is a foreign tax resident entity and a domestic private individual holds (directly or indirectly) a minimum of 10% of the shares of the foreign tax resident entity for more than half of the days of the tax year; or	1
– The majority of the revenue of the foreign tax resident entity comes from Hungarian sources and any of the following conditions is met:	½
o the effective corporate tax rate paid by the entity in the current tax year (tax payable/tax base) is less than 10%; or	½
o the entity does not pay corporate tax since its corporate income tax base is zero or negative even if its accounting profit before tax is positive; or	½
o the entity's corporate tax base and its accounting profit before tax are negative and the corporate tax rate (or the tax equivalent to it) in the foreign jurisdiction is less than 10%.	½
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6 Mr Vass

(a) Income in the form of securities

Taxable income arises where a private individual acquires securities below their market price. The amount of the taxable income is equal to the customary market price of the securities at the time of acquisition less the actual purchase price and any expenses related to the acquisition of the securities.	2
The classification of the income and thus the tax payable by the buyer (private individual) and the seller is determined based on the legal relationship between the buyer and the seller.	1½
No taxable income arises if:	
– the securities were acquired in a transaction available to anyone under the same conditions;	½
– the securities were acquired as a result of a transformation (the private individual is an owner in both the predecessor and successor company);	½
– the shares were acquired in a transaction in which convertible bonds were converted into ordinary shares;	½
– the securities were acquired in form of 'employee shares' (*dolgozói részvény*) issued by the employer from the reserves of the company;	
– the shares were acquired by using compensation notes (*kárpótlási jegy*) to purchase shares in a public company;	
– shares were issued as a part of capitalisation of reserves.	
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Tutorial note: *Only three exemptions were required.*

(b) Personal income tax (PIT) liability for the year 2015

	HUF	
Consolidated tax base		
Non-independent activities		
Salary (500,000 x 12)	6,000,000	½
Income in form of securities (100 x (15,000 – 10,000))	500,000	1
Total consolidated tax base	6,500,000	
Family allowance (3 x 206,250 x 12 months)	(7,425,000)	1
Total tax base	0	
Tax on consolidated tax base at 16%	0	½
Tax on income taxed separately		
Income from long-term deposits (1,500,000 x 10%)	150,000	1
Dividend income (1,000,000 x 16%)	160,000	½
Regulated market transaction (5,000,000 – 2,000,000) x 16%	480,000	1½
Total PIT liability	790,000	
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Marks

(c) Contributions to the State Health Fund and the State Pension Fund for the year 2015

	HUF	
Contributions to the State Health Fund		
– Base for contribution payment	6,500,000	½
– Calculated contribution (6,500,000 x 7%)	455,000	½
– Unused family allowance from part (b) (7,425,000 – 6,500,000)	925,000	1
– 16% of unused family allowance (925,000 x 16%)	148,000	½
– Health care contribution payable (455,000 – 148,000)	307,000	½
Contributions to the State Pension Fund		
– Base for contribution payment	6,500,000	½
– Contribution (6,500,000 x 10%)	650,000	½
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