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# Answers

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Section A

- 1 A HUF 113,151  $(10,000,000 \times (0.9\% + 5\%) \times 70/365)$   
The default penalty equals the penalty base  $\times$  (MNB rate + 5%)  $\times$  days overdue/365
- 2 D HUF 4,050,000  
Profit before tax = 150 million  
Tax at 9% = 13.5 million  
Relief: the lower of 100% of interest (12 million) or 70% of corporate income tax reduced by any 80% relief (no 80% relief in this case), i.e.  $70\% \times 13.5$  million = HUF 9.45 million  
Tax payable = 13,500,000 – 9,450,000 = HUF 4,050,000
- 3 B HUF 1,035,000  $((12,000,000 - 5,000,000 - 100,000) \times 15\%)$
- 4 C HUF 407,277  $(30,000,000 \times (0.9\% + 5\%) \times 118\% \times 19.5\%)$   
Social contribution tax is payable on interest-free loans at the rate of 19.5%. The tax base is 118% of the gross value of the benefit, which is the difference between the market interest (MNB rate + 5%) and the actual interest paid (zero).
- 5 C HUF 56,700  $(70,000 \times 6 \text{ months} \times 27\% \times 50\%)$   
50% of the value added tax (VAT) in respect of car rental fees is deductible even if there is no documented separation of private and business usage.
- 6 C
- 7 B HUF 4,950,000  $((100 \text{ million} + 20 \text{ million} - 10 \text{ million} - 55 \text{ million}) \times 9\%)$   
Tax losses carried forward are a tax base decreasing item, but the reduction is limited to 50% of the tax base before the loss relief adjustment, i.e. the limit is  $50\% \times (100 \text{ million} + 20 \text{ million} - 10 \text{ million}) =$  HUF 55 million.
- 8 A HUF 290,000  $((8 \text{ months} \times 44,000) - 62,000)$   
In the case of finance leases, the company car tax obligation starts on the first day of the month following the month of entering into the lease agreement. Car capacity tax is deductible from company car tax if paid within the legal deadline.
- 9 D  
Statement 2 is incorrect because a private individual may have a deposit account with as many financial institutions as they wish.
- 10 B HUF 756,000  
If the higher of profit before tax (HUF 5 million) and the corporate tax base (HUF 7 million) does not reach the minimum tax base, corporate income tax is payable on the minimum tax base.  
Minimum tax base = total income  $\times$  2%, i.e.  $(400 \text{ million} + 15 \text{ million} + 5 \text{ million}) \times 2\% =$  HUF 8.4 million  
Corporate tax payable =  $8,400,000 \times 9\% =$  HUF 756,000
- 11 A HUF 810,000  $(3,000,000 \times 27\%)$   
Value added tax (VAT) on late invoices is deductible in the month when the invoice was received. VAT on taxi services and food and drinks purchases is irrecoverable.

**12 D****13 D** HUF 1,040,000  $((7,000,000 - (4 \text{ months} \times 33,335 \times 50\%)) \times 15\%)$ 

The tax base allowance for first marriage is HUF 33,335 per month starting from the month following the month of marriage (i.e. September 2019 in this case). It can be split by the spouses. It is available for 24 months.

**14 C** HUF 70,134  $(1,200,000 \times 1.27 \times 20\% \times 118\% \times 19.5\%)$ 

Social contribution tax is payable on the deemed private usage (20%). The tax base includes value added tax (VAT) and it is increased by 118%. Social contribution tax is payable at 19.5%.

**15 A**

2 marks each

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**30**

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## 1 Ratio Kft

## (a) Compulsory elements of a receipt under value added tax (VAT) law

Date of issue of the receipt	1/2
Receipt number which identifies the receipt	1/2
Name, address and tax identification number of the issuer	1/2
Gross price (price including VAT) of the product or service sold	1/2
	<u>2</u>

## (b) VAT payable/refundable for October 2019

	HUF '000	HUF '000	
<b>VAT payable</b>			
– Sales revenue from VATable activities (170 million x 27%)	45,900		1/2
– Sales revenue from VAT exempt activities (90 million)	0		1/2
– Advertising services (€2,000 x 320 x 27%)	173		1
	<u>46,073</u>		
<b>VAT deductible</b>			
– Purchases related to VAT exempt activities (30 million) including advertising services (€2,000)	0		1/2
– Other purchases related to VATable activities (50 million x 27%)	13,500		1/2
– Allocated and apportioned input VAT (working)	2,914		W
		<u>(16,414)</u>	
VAT payable		<u>29,659</u>	1/2

**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 nine-month period ended 30 September 2019:

$$\frac{800 \text{ million}}{800 \text{ million} + 400 \text{ million}} = 0.6667, \text{ i.e. } 67\% \quad 1\frac{1}{2}$$

$$\text{Deductible input VAT for the first nine months of 2019} = 65 \text{ million} \times 67\% = \text{HUF } 43,550,000 \quad 1/2$$

For the ten-month period ended 31 October 2019:

$$\frac{800 \text{ million} + 170 \text{ million}}{800 \text{ million} + 400 \text{ million} + 90 \text{ million} + 170 \text{ million}} = 0.6644, \text{ i.e. } 66\% \quad 1$$

$$\text{Deductible input VAT from the unallocated VAT for the first ten months of 2019} = [65 \text{ million} + (20 \text{ million} \times 27\%)] \times 66\% = \text{HUF } 46,464,000 \quad 1$$

$$\text{VAT deductible in October 2019} = 46,464,000 - 43,550,000 = \text{HUF } 2,914,000 \quad 1/2$$

810

**Tutorial note:** In the case of the advertising services, the place of performance is Hungary (the registered seat of the ordering party), so VAT is payable and deductible as per the main rule. But since this service relates to VAT exempt activities, VAT cannot be deducted.

## 2 Locsoft Kft

## (a) Local municipality tax for the year 2019

	HUF '000	
Sales revenue excluding royalty income up to 500 million (500 million/(700 million – 30 million) = 74·63% of total sales revenue excluding royalty income))	500,000	1
Less: 74·63% of cost of goods sold (COGS) and cost of mediated services (585 million + 15 million) x 74·63%	(447,780)	1
Sales revenue excluding royalty income above 500 million (and below 20 billion) representing 25·37%	170,000	½
Less: 25·37% of COGS and mediated services (585 million + 15 million) x 25·37% = 152·220 million		1
Limited to 85% of sales revenue in this band		
85% x 170 million = 144·5 million, so limit is applicable	(144,500)	1
Less: cost of raw materials	(5,000)	1
Less: cost of subcontracted services	(10,000)	1
Remaining costs/expenses (other/financial) – no deduction allowed	0	1
Local municipality tax base	62,720	
Local municipality tax at 2%	1,254	½
		<b>8</b>

**Tutorial note:** The ratio in the regressive deduction should be calculated to six decimal places as per the tax law, but any reasonable way of rounding was awarded with equal marks.

## (b) Local municipality tax advances in 2019

First tax advance:		
– Payable on 15 March 2019		½
– Amount payable is 50% of the 2017 tax liability = 50% x 3 million = HUF 1·5 million.		½
Second tax advance:		
– Payable on 15 September 2019		½
– Amount payable is the difference between prior year's liability and this year's March advance = 2 million – 1·5 million = HUF 500,000.		½
		<b>2</b>
		<b>10</b>

## 3 Ince

## (a) Classification of rental income and methods of deducting expenses from rental income

Income from the rental of real estate is to be classified as income from independent activities.	1
Revenues of independent activities may be decreased by one of the following two methods:	
– itemised expense deduction: the actual amount of incurred expenses reduces the revenue. Appropriate documentation (e.g. invoices) is required.	1
– 10% lump sum deduction: 10% of revenue is deductible, no supporting documentation is required.	1
	<b>3</b>

## (b) Personal income tax calculation

	HUF	
<b>Method 1: itemised deduction</b>		
Revenue (150,000 x 12 months)	1,800,000	½
Expenses incurred:		
– overheads (non-deductible)	0	½
– other allowable expenses	(200,000)	½
Taxable income	1,600,000	
Personal income tax payable at 15%	240,000	½

	HUF	Marks
<b>Method 2: 10% lump-sum deduction</b>		
Revenue (150,000 x 12 months)	1,800,000	
10% lump-sum deduction (1,800,000 x 10%)	(180,000)	½
Taxable income	1,620,000	
Personal income tax payable at 15%	243,000	½
Ince should choose the itemised deduction of expenses as it minimises his personal income tax liability, so Ince will have to pay personal income tax of HUF 240,000 on his rental income.		1
		<b>4</b>

**(c) Net monthly salary**

	HUF	
Gross salary (700,000 x 12 months)	8,400,000	½
Deductions		
– personal income tax (8,400,000 x 15%)	(1,260,000)	½
– pension contribution (8,400,000 x 10%)	(840,000)	½
– health insurance contributions (8,400,000 x 7%)	(588,000)	½
– contribution to professional training funds (8,400,000 x 1.5%)	(126,000)	½
Net annual salary	5,586,000	
Net monthly salary	465,500	½
		<b>3</b>
		<b>10</b>

**4 Devur Zrt**

**(a) Maximum development relief available**

The cumulative net present value of the development relief cannot exceed the product of the net present value of the project and the intensity ratio.	½
The intensity ratio is calculated as follows:	
The size factor of the project x the regional factor of the project	½
Size factor: 100% since the value of the project is below €50 million (HUF 3 billion/320 = €9.375 million)	½
Regional factor: Western Transdanubia = 25%	
The regional factor is increased by 10% since Devur Zrt is a medium-sized entity.	½
Intensity ratio = 100% x (25% + 10%) = 35%	½
Cumulative limit = 3,000 million x 35% = HUF 1,050 million	½
	<b>3</b>

**(b) Corporate tax payable in 2019**

	HUF million	
Corporate tax base before relief	5,000	½
Corporate tax before relief (5,000 x 9%)	450	1
Relief (80% of calculated liability)	360	1
Present value of relief at 1.48% (360/1.0148)	355	1
Cumulative present value of the relief (800 + 355)	1,155	1
Relief available in 2019 in present value terms (max 1,050 million cumulatively)		
(355 – (1,155 – 1,050))	250	1
Relief available in nominal terms (250 x 1.0148)	254	1
Corporate tax payable (450 – 254)	196	½
		<b>7</b>
		<b>10</b>

## 5 Blue Kft

## (a) Rules for creating a development reserve

A taxpayer may reduce its tax base by the amount of the development reserve. 1/2

The development reserve is the amount transferred from retained earnings to a tied-up reserve (which is reported as a tied-up reserve on the last day of the tax year). 1/2

The tax base may be reduced by the lowest of:

- the actual tied-up reserve 1/2
- 50% of profit before tax 1/2
- HUF 10 billion. 1/2

The development reserve should be used for capital expenditure in the four tax years following the creation of the development reserve. 1

If the development reserve is not used for capital expenditure until the end of the fourth year after the year of creation, the taxpayer must pay the tax not paid when creating the reserve plus late payment interest (*késedelmi pótlék*). 1/2

4

## (b) Corporate income tax liability for the year 2019

	HUF '000	HUF '000	
Profit before tax		900,000	
<b>Increasing items:</b>			
Accounting depreciation of Asset X ((120 million – 30 million)/8 years x 10/12)	9,375		1/2
Impairment recognised on debt	20,000		1/2
Provision recognised	10,000		1/2
Impairment on registered shareholding	30,000		1/2
		69,375	
<b>Decreasing items:</b>			
Development reserve created (lowest of 600 million or 50% x 900 million or 10 billion)	450,000		1/2
Tax depreciation of Asset X (120 million x 20% x 10/12)	20,000		1/2
Allowed impairment on debt (40 million x 20%)	8,000		1
Donations to non-profit organisation (5 million x 20%)	1,000		1
Investment in start-up entity ((3 x 50 million)/4 years but maximum 20 million p.a.)	20,000		1 1/2
		(499,000)	
Corporate tax base		470,375	
Corporate income tax at 9%		42,334	1/2
			<u>7</u>

## (c) Corporate income tax advances in 2019

From January to June 2019 on 20th day of the current month = 42 million/12 = HUF 3,500,000 2

From July to December 2019 on 20th day of the current month = 54 million/12 = HUF 4,500,000 2

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15

## 6 Joe and Kalmos Kft

## (a) Tax residence

A private individual will be treated as a Hungarian tax resident, if

- they are a Hungarian citizen; 1/2
- they hold a settlement permit in Hungary; 1/2
- they have a permanent home only in Hungary; 1/2
- they have a centre of vital interests in Hungary; or 1/2
- they have spent more than 183 days in Hungary (Hungary is their regular place of stay). 1/2

Since Joe has a permanent home only in Hungary, and his centre of vital interests is in Hungary (closest family, personal and economic ties), Joe will be treated as resident in Hungary for tax purposes.

1 1/2

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## (b) Joe – Personal income tax (PIT) liability for the year 2019

	HUF	
<b>Consolidated tax base</b>		
<b>Non-independent income</b>		
Salary (2 million x 12)	24,000,000	1/2
Family allowance (3 x 220,000 x 12 months)	(7,920,000)	1
Consolidated tax base	16,080,000	
Tax on consolidated tax base at 15%	2,412,000	1/2
<b>Income taxed separately</b>		
Net capital gain from regulated market transactions (10 million – 3 million – 0.3 million)	6,700,000	1
PIT (6,700,000 x 15%)	1,005,000	1/2
Income from sale of flat	40,000,000	1/2
Less: acquisition costs	(15,000,000)	1/2
Less: transaction costs	(500,000)	1/2
Calculated taxable income	24,500,000	
Reduction to calculated income (70% x 24,500,000)	(17,150,000)	1/2
Final taxable income	7,350,000	
PIT (7,350,000 x 15%)	1,102,500	1/2
Total PIT liability (2,412,000 + 1,005,000 + 1,102,500)	4,519,500	
		<u>6</u>

## (c) Joe and Kalmos Kft – PIT and social contribution tax on benefits in kind for the year 2019

	HUF	
<b>On company phone</b>		
Tax base (400,000 x 1.27 x 118%)	599,440	1
Personal income tax (599,440 x 15%)	89,916	1/2
Social contribution tax (599,440 x 19.5%)	116,891	1
<b>On amounts transferred to Széchenyi-card</b>		
Tax base (10,000 x 12 months)	120,000	1
Personal income tax (120,000 x 15%)	18,000	1/2
Social contribution tax (120,000 x 19.5%)	23,400	1
		<u>5</u>
		<u>15</u>