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# Answers

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Section B

Marks

1 Darabont Kft

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

	HUF '000	HUF '000	
VAT payable			
– Sales revenue (50 million x 27%)	13,500		1/2
– Sales to Harcos Kft ((4 million – 200,000) x 27%)	1,026		1
– Laptop sold (90,000 x 27%)	24		1
– Advance received (2 million x 27/127)	425		1
		14,975	
VAT deductible			
– Phone invoices (300,000 x 27% x 70%)	57		1 1/2
– Maintenance of cars (500,000 x 27% x 50%)	67		1
– Bookkeeping services (300,000 x 27%)	81		1 1/2
		205	
VAT payable		14,770	1/2
			<u>8</u>

**Tutorial note:** For VAT purposes in the case of bookkeeping services provided on a continuous basis (időszakos elszámolású ügylet), from 1 July 2015 the date of obligation is established as follows: if the due date of the invoice is after the last day of the settlement period (as is the case here), then the date of obligation is the due date of the invoice, but the date of obligation cannot be later than the 30th day following the last day of the settlement period. Applying this rule to Darabont Kft: since all invoices have a 45-day credit period, the 30th day following the last day of the settlement period is the date of obligation, and thus the invoice of HUF 300,000 is relevant for the December VAT return.

(b) Late invoices

If an entity receives a supplier invoice late (i.e. after the date for filing the VAT return), input VAT is deductible in the period in which the invoice was received.

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If a sales invoice is issued late, the entity needs to self-revise the VAT return for the period to which the sales invoice relates. As per the main rule, no self-revision is needed if the issue of the invoice reduces the tax base or the tax payable (e.g. the issue of an amendment invoice which reduces the tax payable).

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2 Colter Kft

(a) Impact of the two items on the local municipality tax base

Item 1 – Amendment invoice to Eke Kft:

Since an amendment invoice was issued for the discount given, it will be accounted for as a reduction in sales revenue (with the VAT also amended retrospectively). Therefore, the local municipality tax base will be reduced by the amount of the discount.

1 1/2

Item 2 – Rebate notification to Borona Kft:

Since only a rebate notification was issued (and not an invoice), this discount given is accounted for as an 'other expense' in the accounting records. Therefore, the local municipality tax base is not affected.

1 1/2

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**(b) Local municipality tax liability for the year 2015**

	HUF '000	
Sales revenue per question	450,000	
Amendment invoice to Eke Kft (as in (a))	(3,000)	½
Amended sales revenue	447,000	
Less: Cost of goods sold	(30,000)	1
Less: Subcontracted services	(40,000)	1
Less: Cost of raw materials	(100,000)	1
No deductions for the cost of labour, other services and other expenses		1
Local municipality tax base	277,000	
Local municipality tax at 2%	5,540	½
		<u>5</u>

**(c) Local municipality tax advances paid in 2015**

	HUF '000	
Local municipality tax advance paid on 15 March 2015: 50% of 2013 liability, i.e. 50% x 4 million	2,000	1
Local municipality tax advance paid on 15 September 2015: 2014 liability less this year's March advance, i.e. 5 million – 2 million	3,000	1
		<u>2</u>
		<u>10</u>

**3 (a) Negyed Kft****(i) EVA advances payable for the year 2015**

	HUF	
<b>Quarter 1:</b>		
EVA advance (6 million x 1.27 x 37%)	2,819,400	½
Deadline for payment: 12 April 2015		½
<b>Quarter 2:</b>		
EVA advance (4 million x 1.27 x 37%)	1,879,600	½
Deadline for payment: 12 July 2015		
<b>Quarter 3:</b>		
EVA advance (5 million x 1.27 x 37%)	2,349,500	½
Deadline for payment: 12 October 2015		
<b>Quarter 4:</b>		
EVA advance, balancing payment (2 million x 1.27 x 37%)	939,800	½
Deadline for payment: 20 December 2015		½
		<u>3</u>

**(ii) Contributions to the professional training funds**

The contribution to the professional training funds is calculated monthly as follows: headcount x 2 x minimum wage ruling on the first day of the month x 1.5%.	½
Contributions payable by Negyed Kft for the year 2015 are: HUF 37,800 (1 employee x 2 x 105,000 x 1.5% x 12 months)	1
	½
	<u>2</u>

**(b) Mirtill – Personal income tax on income for the year 2015 from the sale of immoveable assets**

	HUF	
<b>Transaction 1:</b>		
Selling price	45,000,000	
Less: Acquisition costs	(15,000,000)	½
Less: Direct costs	(200,000)	½
Capital gain	29,800,000	
Reduction to capital gain (20% x 29,800,000)	(5,960,000)	1
Tax base	23,840,000	
Tax at 16%	3,814,400	½

**Tutorial note:** Since the sale of the non-housing purpose real estate occurred in the seventh year following the year of acquisition, the capital gain may be reduced by 20%.

	HUF	
<b>Transaction 2:</b>		
Selling price	50,000,000	
Less: Acquisition costs	(40,000,000)	½
Less: Direct costs	(300,000)	½
Capital gain	9,700,000	
Reduction to capital gain (70% x 9,700,000)	(6,790,000)	1
Tax base	2,910,000	
Tax at 16%	465,600	½

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**Tutorial note:** Since the sale of the housing purpose real estate occurred in the fourth year following the year of acquisition, the capital gain may be reduced by 70%. The date of acquisition is the date when the contract is filed with the Land Registry, i.e. 2011.

**4 Medina Zrt****(a) Corporate income tax base for the year 2015 using the standard method**

	HUF million	
Profit before tax (per question)	50	
Tax base increasing items		
– write-off of registered shareholding	10	1
Tax base reducing items		
– dividend received	(100)	1
Corporate tax base	(40)	
		<b>2</b>

**(b) Corporate income tax base for the year 2015 using the minimum tax base method**

	HUF million	
Sales revenue	3,000	½
Other income	100	½
Financial income	150	½
50% of increase in the daily average balance of loans from owners compared to the closing balance of the previous year:		
in 2015: (3/12 x 300 million) + (9/12 x 400 million) = 375 million		1
closing balance in 2014 = 300 million		½
50% of increase: (375 – 300) x 50%	37	½
Calculated amount	3,287	
Minimum tax base at 2%	66	1

All types of expenses are excluded from the minimum tax base calculation.

**Marks**

1/2

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**Tutorial note:** *The balance of loans from owners should be calculated on a daily basis but any reasonable calculation (like the one in the model answer) is accepted.*

**(c) Corporate income tax liability for the year 2015**

	HUF million	
Corporate income tax base (the minimum tax base)	66	1/2
Corporate income tax liability at 10%	7	1/2
		<u>1</u>

**Tutorial note:** *Since the corporate income tax base under the standard method is negative, Medina Zrt has to pay corporate income tax on its minimum tax base as per the main rule (if no special declaration is given to the tax authorities). Candidates who stated that Medina Zrt does not have to pay corporate income tax if it makes the special declaration were awarded equal marks in part (c) of this question.*

**(d) Cases when the minimum tax base rules are not applicable**

The minimum tax base rules are not applicable in the following cases:

- in the pre-company tax year;
- in the first tax year following the pre-company tax year;
- in the first tax year if the entity is not required to prepare a financial statement for the pre-company period; and
- if there is a *vis major* in the tax year in the preceding tax year, and its value reaches or exceeds 15% of the annualised sales revenue of the year preceding the year of *vis major*.

*TWO examples only required, 1 mark each – maximum* 2

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**5 Kevért Kft**

**(a) Corporate income tax liability for the year 2015**

	HUF '000	HUF '000	
Profit before tax (per question)		120,000	
<b>Increasing items:</b>			
Accounting depreciation for asset X			
[(50,000 – 0)/4 years] x 11/12	11,458		1/2
Liability assumed	100,000		1/2
Impairment of debts	62,000		1/2
		173,458	
<b>Decreasing items:</b>			
'30 million allowance' on asset X			
lowest of:			
– cost of asset: HUF 50 million			
– HUF 30 million			
– profit before tax: 120 million	30,000		1
Tax depreciation for asset X			
(50,000 x 33%) x 11/12	15,125		1
Unrealised foreign currency revaluation gains	20,000		1
Royalty income (50% x 50 million, limited to 50% of profit before tax)	25,000		1
Allowed impairment of bad debts outstanding for more than 12 months			
(20% x 10 million, limited to impairment recognised)	2,000		1
		(92,125)	
Corporate tax base		201,333	
Corporate income tax at 10% (tax base up to HUF 500 million)		20,133	1/2
			<u>7</u>

**Marks**

**(b) Corporate income tax advances payable in 2016**

Kevert Kft needs to pay corporate income tax advances monthly.	1/2
From January to June 2016: the advances are based on the 2014 final corporate tax liability, i.e. HUF 24 million/12 = HUF 2 million per month.	1
Each payment is due on the 20th day of the current month.	1/2
From July to December 2016: the advances are based on the 2015 final corporate tax liability, i.e. HUF 20.133 million/12 = HUF 1.678 million per month.	1
Each payment is due on the 20th day of the current month.	1/2
The balancing payment is due on 20 December 2016.	1/2
The amount payable is the difference between the total expected corporate income tax liability for 2016 and the advance payments made during the year 2016, i.e. HUF 30 million – (6 x HUF 2 million) – (6 x HUF 1.678 million) = HUF 7.932 million.	1
	<u>5</u>

**(c) Tax losses incurred in 2015**

Tax losses incurred in 2015 can be carried forward for a maximum of five years.	1
The reduction is limited to 50% of the tax base calculated before considering any tax loss carry forward adjustment.	1
Tax losses carried forward should be used on a FIFO basis.	1
	<u>3</u>
	<u>15</u>

**6 Jackie Drew**

**(a) Tax residence**

Jackie Drew will be treated as a Hungarian tax resident, if	
– she is a Hungarian citizen;	1/2
– she holds a settlement permit in Hungary;	1/2
– she has a permanent home only in Hungary; or	1/2
– she has spent more than 183 days in Hungary.	1/2
Since none of the above apply, the last test is to check if her centre of vital interest is in Hungary (closest personal, family and economic ties).	1
Since her family and employer are both based in Hungary, her centre of vital interest is in Hungary, so she will be treated as a tax resident by the Hungarian tax authorities.	1
	<u>4</u>

**(b) Personal income tax (PIT) liability of Ms Drew for the year 2015**

	HUF	
<b>Consolidated tax base</b>		
Non-independent income		
Salary (1,500,000 x 12)	18,000,000	1/2
Independent income		
Rental income (200,000 x 12)	2,400,000	1/2
Less: Lump sum deduction (10% x 2.4 million)	(240,000)	1
Other income		
Interest from country of low tax rate	500,000	1/2
Total consolidated tax base	<u>20,660,000</u>	
Tax on consolidated tax base at 16%	3,305,600	1/2
<b>Tax on income taxed separately</b>		
On dividend income (working)	100,000	W
Total PIT liability	<u>3,405,600</u>	

		Marks
<b>Working</b>		
	<b>HUF</b>	
Tax on dividend income (2 million x 16%)	320,000	½
Tax paid abroad (tax credit)	(300,000)	½
Tax after tax credit	20,000	
Minimum tax payable (5% x 2 million)	100,000	1
So tax payable is HUF 100,000.		
		<hr/> 5
<b>(c) Personal income tax and health care contributions payable by Kolos Kft on Jackie Drew's benefits in kind for the year 2015</b>		
	<b>HUF</b>	
<b>On Erzsébet vouchers:</b>		
– personal income tax: 15,000 x 12 months x 119% x 16%	34,272	½
– health care contribution on the amount not exceeding HUF 8,000 per month: 8,000 x 12 x 119% x 14%	15,994	1
– health care contribution on the amount in excess of HUF 8,000: HUF (15,000 – 8,000) x 12 x 119% x 27%	26,989	½
<b>On payments to voluntary mutual health funds:</b>		
– personal income tax: 70,000 x 12 months x 119% x 16%	159,936	½
– health care contribution on the amount not exceeding 30% of the minimum wage per month: (105,000 x 30%) x 12 x 119% x 14%	62,975	1
– health care contribution on the amount in excess of 30%: (70,000 – (105,000 x 30%)) x 12 x 119% x 27%	148,441	½
Since the above benefits in kind exceed the cumulative limit of HUF 450,000 (and the sub-limit of HUF 200,000 as well), the amount in excess of the limit is also taxed at 27%.		
<b>Additional health care contribution payable:</b>		
Amounts below the individual limits: (8,000 x 12) + (105,000 x 30% x 12)	474,000	1
Cumulative limit	200,000	
Additional health care contribution on the amount exceeding the cumulative limit: (474,000 – 200,000) x 119% x (27% – 14%)	42,388	1
		<hr/> 6
		<hr/> 15