
Answers

Section B

Marks

1 Racab Kft – Value added tax (VAT) payable/deductible for October 2016

	HUF '000	HUF '000	
VAT payable			
– Sales revenue from VATable activities (30 million x 27%)	8,100		½
– Sales revenue from VAT exempt activities (150 million)	N/A		½
– Translation services (€6,200 x 310 x 27%)	519		½
		8,619	
VAT deductible			
– Translation services (€6,200 x 310 x 27%)	519		½
– Other purchases related to VATable activities (80 million x 27%)	21,600		½
– Fuel purchases	0		1
– 30% of mobile phone invoice (200,000 x 27% x 30%)	0		½
– Allocated and apportioned input VAT (working)	6,356		W
		28,475	
VAT deductible		19,856	½

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

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 2016:

$\frac{900 \text{ million}}{1,200 \text{ million} + 900 \text{ million}} = 0.4286$, i.e. 43% 1½

Deductible input VAT for the first nine months of 2016: HUF 180 million x 43% = HUF 77,400,000. ½

For the ten-month period ended 31 October 2016:

$\frac{900 \text{ million} + 30 \text{ million}}{1,200 \text{ million} + 900 \text{ million} + 30 \text{ million} + 150 \text{ million}} = 0.4079$, i.e. 41% 1

Deductible input VAT from the unallocated VAT for the first ten months of 2016: HUF [180 million + (90 million – 200,000) x 27% + (200,000 x 70% x 27%)] x 41% = HUF 83,756,358. 2

VAT deductible in October 2016: HUF (83,756,358 – 77,400,000) = HUF 6,356,358. ½

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Tutorial note: 30% of VAT of mobile phone invoice is irrecoverable. The remaining 70% of VAT relates to the allocation and apportioning.

2 (a) Hova Zrt – Local municipality tax for the year 2016

	HUF '000	
Sales revenue up to 500 million (6.25% of total sales revenue)	500,000	1
Less: 6.25% of cost of goods sold (COGS) and cost of mediated services (1,000 million + 300 million) x 6.25%	(81,250)	1
Sales revenue above 500 million (and below 20 billion)	7,500,000	½
Less: 93.75% of COGS and mediated services (1,000 million + 300 million) x 93.75% = 1,218.75 million	(1,218,750)	1
Limited to 85% of sales revenue in this band 85% x 7,500 million = 6,375 million so limit is not applicable		1
Less: cost of raw materials	(2,000,000)	1
No deductions for remaining cost/expenses		1
Local municipality tax base	4,700,000	
Local municipality tax 4,700 million x 2%	94,000	½

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(b) Apportionment of the tax base

If an entity carries out permanent business activities within the jurisdiction of more than one local municipality (or abroad), and its tax base in the previous year did not exceed HUF 100 million, the tax base may be apportioned using any one of the following methods:

- apportionment in proportion to personnel expenses; or 1
- apportionment in proportion to non-current assets; or 1/2
- a combination of the two methods. 1/2

If the tax base in the previous year exceeded HUF 100 million, the combination of the two methods must be used. 1/2

3**10****3 (a) Jogar Kft – Profit after tax for the year 2016**

	HUF	
Sales revenue including value added tax (VAT) (21 million x 1.27)	26,670,000	1
EVA (26,670,000 x 37%)	(9,867,900)	1
Purchases including VAT (4 million x 1.27)	(5,080,000)	1
Gross salary and contributions payable on salaries (170,000 x 12 months x 1.27)	(2,590,800)	1
Contribution to professional training funds (1 employee x 2 x 111,000 x 1.5% x 12 months)	(39,960)	1 1/2
Local municipality tax (26,670,000 x 2% x 50%)	(266,700)	1
Company car tax decreased by the car capacity tax ((11,000 x 12 months) – 31,000)	(101,000)	1 1/2
Profit after all taxes	<u>8,723,640</u>	<u>8</u>

(b) Advance tax payments by EVA-qualified entities

EVA-qualified entities need to make advance tax payments quarterly for the first three quarters of the year. 1/2

The deadline for these first three advance tax payments is the 12th day of the month following the end of the quarter. 1/2

In December EVA-qualified entities need to estimate their expected total tax base and make a top-up payment. 1/2

The deadline for making this top-up payment is 20 December each year. 1/2

2**10****4 Idea Kft****(a) Corporate income tax liability for the year 2016**

	HUF '000	
Profit before tax (per question)	500,000	
Tax base increasing item (accounting depreciation) ((200 million – 20 million)/5 years x 7/12)	21,000	1
Tax base reducing item (tax depreciation) (200 million x 25% x 7/12)	(29,167)	1
Corporate tax base	491,833	
Calculated tax at 10% (tax base up to HUF 500 million)	49,183	1/2
Tax relief is the lowest of:	HUF '000	
– 60% of the interest expense (60% x HUF 9.5 million)	5,700	1
– HUF 6 million	6,000	1
– 70% of corporate income tax (70% x 49,183)	34,428	1
	(5,700)	1/2
Final corporate tax liability (49,183 – 5,700)	<u>43,483</u>	<u>6</u>

(b) (i) First and last year of eligibility

The first year in which the tax relief for small and medium-sized entities to acquire tangible non-current assets can be claimed is the year when the interest expense is first recognised in the financial statements in relation to the loan (or finance lease) agreement, and the asset is shown as a non-current asset in the statement of financial position for the year.

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The last year when the tax relief can be claimed is the year when the loan (finance lease) becomes repayable or, if earlier, the year when the non-current asset is still in the books of the entity on the last day of the year.

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2**(ii) Repayment of the relief**

The relief for small and medium-sized entities to acquire tangible non-current assets becomes repayable (with late payment interest) if:

- the non-current asset is not put into operation within four years following the year of entering into the loan (finance lease) agreement; or
- the non-current asset is disposed of in the year of capitalisation or in the following three years.

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210**5 Korona Kft****(a) Transfer pricing adjustments to corporate tax base**

If the transfer prices used between related parties are higher or lower than the customary market prices (the price which would be used between independent parties), the corporate tax base must be adjusted for the difference.

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If the profit before tax is higher than it would be if customary market prices had been used, the corporate tax base must be decreased if

- the related party is a domestic entity or a foreign entity (other than a controlled foreign corporation) which is subject to corporate tax in its country of tax residence; and
- the taxpayer can exhibit a document signed by the other party declaring the price difference.

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If the profit before tax is lower than it would be if customary market prices had been used, the corporate tax base must be increased (except for cases when the other party is a private individual).

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4**(b) Corporate income tax liability for the year 2016**

	HUF '000	HUF '000	
Profit before tax (per question)		800,000	
Increasing items:			
Transfer pricing adjustment (100 million – 80 million)	20,000		1
Accounting depreciation for Asset X (40 million – 4 million)/10 years x 6/12	1,800		1
Impairment losses on non-current assets	3,000		½
Tax penalty	1,000		½
Self-revision surcharge	0		½
Impairment on debts	8,000		½
Provisions recognised	7,000		½
		40,800	
Decreasing items:			
Tax depreciation for Asset X	0		1
Allowed impairment on debts (10 million x 20%)	2,000		1
		(2,000)	
Corporate tax base		838,800	

	HUF '000	Marks
Corporate income tax at 10% on the tax base up to HUF 500 million	50,000	
Corporate income tax at 19% on the tax base above HUF 500 million (338,800 x 19%)	64,372	
Total corporate tax liability	<u>114,372</u>	<u>1/2</u>
		<u>7</u>

Tutorial note: No tax depreciation is allowed on Asset X as it has been acquired from a development reserve which had already reduced the tax base in 2015.

(c) Corporate income tax advances in 2016

From January to June 2016: HUF 108 million/12 = HUF 9 million per month (based on the 2014 final tax liability) is payable. Each payment is due on the 20th day of the current month. 1 1/2

From July to December 2016: HUF 114 million/12 = HUF 9.5 million per month (based on the 2015 final tax liability) is payable. Each payment is due on the 20th day of the current month. 1 1/2

A balancing payment is due on 20 December 2016: HUF 115 million – (6 x HUF 9 million) – (6 x HUF 9.5 million) = HUF 4 million. 1

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6 (a) Rudolf

(i) Income from rights to purchase securities

Taxable income arises when a private individual is entitled to acquire securities below the customary market price. The classification of the income depends on the underlying legal relationship between the party providing the option and the party receiving it. 1

The taxable income is equal to the difference between the customary market price of the securities at the date of exercising the option (when the securities are transferred) and the actual purchase price reduced by any expenses related to the acquisition. 2

In Rudolf's case, since the party providing the rights is his employer, the income will be classified as income from non-independent sources. 1

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(ii) Personal income tax (PIT) liability for the year 2016

	HUF	
Consolidated tax base		
Non-independent income		
Salary (2 million x 12)	24,000,000	1/2
50% of rights exercised (250 options x (8,000 – 5,000))	750,000	1/2
50% of rights exercised (250 options x (9,000 – 5,000))	1,000,000	1/2
Other income		
Interest from County Y	5,000,000	1/2
Consolidated tax base	30,750,000	
Family allowance (2 x 83,330 x 12 months)	(1,999,920)	1
Total consolidated tax base	<u>28,750,080</u>	
Tax on consolidated tax base at 15%	4,312,512	1/2
Tax paid in country of low tax rate (90% x 100,000)	(90,000)	1
	<u>4,222,512</u>	
Tax on income taxed separately		
Capital gain on securities sold (250 x (8,500 – 8,000) x 15%)	18,750	1
On dividend income (3 million x 15%)	450,000	1/2
Total PIT liability	<u>4,691,262</u>	
		<u>6</u>

Marks**(b) PIT and health care contributions on benefits in kind for the year 2016**

	HUF	
On private use of mobile phones		
Tax base (deemed private usage) (3 million x 1.27 x 20% x 119%)	906,780	1½
Personal income tax (906,780 x 15%)	136,017	½
Health care contribution (906,780 x 27%)	244,831	1
On vouchers for catering services at the workplace		
Tax base (6.6 million x 119%)	7,854,000	½
Personal income tax (7,854,000 x 15%)	1,178,100	½
Health care contribution (7,854,000 x 14%)	1,099,560	1
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