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# Answers

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Section B

Marks

1 Dorina Kft – Value added tax (VAT) liability for March 2016

	HUF '000	HUF '000	
VAT payable			
– Educational service revenue (5 million x 27%)	1,350		½
– Services provided electronically to Polish private individuals	0/S		1
– Marketing services (\$6,000 x 280 x 27%)	454		½
– Mobile phone re-invoiced (40,000 x 27%)	11		1
– Sports exhibition organised in France	0/S		1
		1,815	
VAT deductible			
– Marketing services (\$6,000 x 280 x 27%)	454		½
– Goods used for renovation of residential property	0		1
– Advance payment (3,810,000 x 27/127)	810		1
– Restaurant invoices	0		1
– Payroll services (100,000 x 27%)	27		1
– Mobile phone invoice (300,000 x 27% x 70%)	57		1½
		1,348	
VAT payable		467	
			<b>10</b>

**Tutorial note:** Since less than 30% of the mobile phone invoice was re-charged to employees, 30% of the input VAT cannot be deducted.

2 (a) Storm Kft – Company car tax payable on cars 1, 2 and 3

**Car 1**

No company car tax is payable on car 1 because car 1 is an environmentally-friendly car (*környezetkímélő gépkocsi*).

1

**Car 2**

Car 2 is owned by Mr Vihar, a private individual, but he has transferred the right of usage to Storm Kft, and Storm Kft accounts for expenses in respect of car 2. Mr Vihar is responsible for paying company car tax.

1

The tax obligation commences on the first day of the month following the month in which expenses were first deducted, ie on 1 May 2016; and ends on the last day of the month in which expenses were deducted, ie on 31 July 2016.

½

½

Company car tax payable:

- HUF 66,000 (2 x HUF 33,000 – for May and June 2016) on 20 July 2016; and
- HUF 33,000 (for July 2016) on 20 October 2016.

1

1

**Car 3**

Car 3 is not registered in Hungary but Storm Kft recognises expenses relating to it. Storm Kft is responsible for paying company car tax.

1

The tax obligation commences on the first day of the month following the month in which expenses were deducted, ie on 1 September 2016; and ceases on the last day of the month in which expenses were deducted, ie on 31 October 2016.

½

½

Company car tax payable:

- HUF 44,000 (for September 2016) on 20 October 2016; and
- HUF 44,000 (for October 2016) on 20 January 2017.

½

½

**8**

**(b) Exempt cars**

Cars are exempt from company car tax in the following cases:

- cars of police, ambulance;
- cars of churches used in ecclesiastic activities;
- cars purchased with a re-sale purpose;
- cars used exclusively as a catafalque;
- cars used by general practitioners (*házi és gyermekorvosok*)

*Only two examples required, 1 mark each, maximum*

2

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10
**3 (a) Bronze Kft – Distributable dividends for the year 2016**

	HUF	
Domestic sales revenue including value added tax (VAT) (19 million x 1·27)	24,130,000	1
Data processing sales revenue (€10,000 x 310)	3,100,000	1
Total sales revenue (EVA-base)	27,230,000	
EVA (27,230,000 x 37%)	(10,075,100)	1
Purchases including VAT (3 million x 1·27)	(3,810,000)	1
Gross salary and contributions payable on salaries (300,000 x 12 x 1·27)	(4,572,000)	1½
Local municipality tax (27,230,000 x 2% x 50%)	(272,300)	1½
Net distributable dividends	8,500,600	
		<hr/> 7

**Tutorial note:** *The place of performance of the data processing services is the registered seat of the party ordering the services, i.e. Spain. This means that this transaction is outside the scope of the Hungarian VAT law so no VAT is charged on the invoice.*

**(b) Vencel – Personal income tax for the year 2016 on the income from the sale of moveable assets**

	HUF	
Sales proceeds	10,000,000	
Deemed income on the sale (10 million x 25%)	2,500,000	1½
Taxable gain	2,500,000	
Tax on the gain (2,500,000 x 15%)	375,000	½
Less: tax free amount (200,000 x 15%)	(30,000)	1
Personal income tax payable	345,000	
		<hr/> 3
		<hr/> 10

**Tutorial notes:**

1. *Where the acquisition costs of a moveable asset cannot be determined reliably, then the taxable income equals 25% of the revenue.*
2. *The first HUF 30,000 of the personal income tax on the sale of moveable assets is not payable, because taxable income of HUF 200,000 from moveable asset sales is tax free.*

**4 Pavilon 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

Where the intensity ratio equals: the size factor of the project x the location factor of the project x the size factor of the entity.

1

In the case of Pavilon Zrt the size of the entity factor is not applicable.

Size factor: 100% since the value of the project is below €50 million (HUF 4 billion/310 = €12.9 million)	1/2
Location factor: Central Transdanubia: 35%	
Intensity ratio: 100% x 35% = 35%	1/2
Cumulative limit: HUF 4,000 million x 35% = HUF 1,400 million	1/2
	<b>3</b>

**(b) Corporate tax base for the years 2016 and 2017**

	2016 HUF million	2017 HUF million	
Corporate tax base before relief	4,500	5,500	
Corporate tax before relief			
(10% on first HUF 500 million, 19% on the remainder)	810	1,000	1
Relief (80% of calculated liability)	648	800	1
Present value of relief at 2.08%	648	784	1/2 + 1
Cumulative present value of relief	648	1,432	1/2
Relief available in present value terms (max 1,400 million)	648	752	1/2 + 1/2
Relief available in nominal terms	648	768	1/2 + 1
Corporate tax payable	162	232	1/2
			<b>7</b>
			<b>10</b>

**5 Texas Kft**

**(a) Local municipality tax liability for the year 2016**

	HUF '000	
Sales revenue of up to HUF 500 million (5% of net sales revenue)	500,000	1/2
Less: 5% of cost of goods sold and mediated services (5,600,000 + 1,750,000) x 5%	(367,500)	1
Sales revenue above HUF 500 million and below HUF 20 billion (95%)	9,500,000	1/2
Less: lower of:		
– 95% of COGS and mediated services [(5,600,000 + 1,750,000) x 95% = 6,982,500] or	(6,982,500)	1/2 + 1/2
– 85% of net sales revenue in this band [9.5 billion x 85% = 8,075,000]		1/2
Less: cost of raw materials	(1,200,000)	1
Local municipality tax base	1,450,000	
Local municipality tax (1,450,000 x 2%)	29,000	1/2
		<b>5</b>

**(b) Registered intangible assets**

A registered intangible asset ( <i>bejelentett immateriális jószág</i> ) is an intellectual property or property right which an entity has acquired or created internally, and which entitles the entity to earn royalty income.	1
The intangible asset must be registered with the tax authority within 60 days from its acquisition or creation.	1/2
A loss incurred as a result of the disposal or write-off of a registered intangible asset is a tax base increasing item.	1/2
A gain recognised as a result of the disposal of a registered intangible asset is a tax base reducing item, subject to the following conditions:	1/2
– the registered intangible asset has been held by the entity for at least one year before disposal; and	1/2
– the entity did not create a tied-up reserve in the year preceding the registration of the asset in respect of the same intangible asset.	1
	<b>4</b>

			Marks
<b>(c) Corporate tax base for the year 2016</b>			
	HUF '000	HUF '000	
Profit before tax (per question)		900,000	
<b>Increasing items:</b>			
Accounting depreciation for asset Y $[(260,000 - 20,000)/4 \text{ years}] \times 6/12$	30,000		1
Net book value of asset Y $260,000 - [(260,000 - 20,000)/4 \text{ years}] \times 2.5 \text{ years}$	110,000		1
Provision created	10,000		$\frac{1}{2}$
		150,000	
<b>Decreasing items:</b>			
Gain on disposal of registered intangible asset A (70 million – 35 million)	35,000		$\frac{1}{2}$
Gain on disposal of registered intangible asset B	0		1
Tax depreciation for asset Y $(260,000 \times 20\%) \times 6/12$	26,000		$\frac{1}{2}$
Tax written down value of asset Y $260,000 - (260,000 \times 20\% \times 2.5 \text{ years})$	130,000		1
Provision reversed	8,000		$\frac{1}{2}$
		(199,000)	
Corporate tax base		851,000	
			6
			15

**Tutorial note:** The gain on disposing of registered intangible asset B is not a tax base reducing item, because it has been held for less than one year.

## 6 (a) Petra

### (i) Income from long-term deposits

If the amount deposited is held for five years, the income is tax free.	1
If a five-year deposit is terminated after the third year, the income is taxed at 10%.	1
If the amount deposited is held for three years, the income is taxed at 10%.	1
If a three-year deposit is terminated before maturity, the income is taxed at 15%.	1
	4

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

	HUF	
<b>Consolidated tax base</b>		
Non-independent income		
Salary $(1,200,000 \times 6) + (1,400,000 \times 6)$	15,600,000	$\frac{1}{2}$
Independent income		
Rental income $(110,000 \times 12)$	1,320,000	$\frac{1}{2}$
Less: lump sum deduction (10%)	(132,000)	1
Total consolidated tax base	16,788,000	
Tax on consolidated tax base at 15%	2,518,200	$\frac{1}{2}$
<b>Tax on income taxed separately</b>		
On dividend income (working)	155,000	W
On long-term deposit $(300,000 \times 10\%)$	30,000	$\frac{1}{2}$
Total PIT liability	2,703,200	

### Working:

	HUF	
Gross dividend received $(\text{€}7,000 / (1 - 0.30) \times 310)$	3,100,000	1
Personal income tax payable in Hungary $(3,100,000 \times 15\%)$	465,000	$\frac{1}{2}$
Tax paid abroad reducing the Hungarian tax $(\text{€}3,000 \times 310)$	930,000	$\frac{1}{2}$
Minimum tax payable $(5\% \times 3,100,000)$	155,000	1
		6

**(b) Gitta – Personal income tax and health care contributions on income from the interest rate discount in the year 2016**

	HUF	
Interest paid in 2016 (3 million x 1%)	30,000	½
Deemed interest in 2016 (3 million x (0.9% + 5%))	177,000	1
Income from interest rate discount (177,000 – 30,000)	147,000	½
Tax base (147,000 x 1.18)	173,460	1
Personal income tax (PIT) (173,460 x 15%)	26,019	½
Health care contributions (HCC) (173,460 x 27%)	46,834	1
Both the PIT and HCC are payable by the employer.		½
		<u>5</u>
		<u>15</u>