
Answers

Section B

Marks

1 Gong Kft – Value added tax (VAT) payable/deductible for March 2017

	HUF '000	HUF '000	
VAT payable			
– Sales revenue (50 million x 27%)	13,500		½
– Belgian translation services (€2,000 x 310 x 27%)	167		1
		13,667	
VAT deductible			
– Purchases (10 million x 27%)	2,700		½
– Open-ended rental agreement (2 million x 27%)	540		1
– Belgian translation services (€2,000 x 310 x 27%)	167		½
– Advance payment (1,016,000 x 27/127)	216		1
– Maintenance of company cars (irrecoverable VAT)	0		1
– Local taxi services (irrecoverable VAT)	0		1
– Late invoice (4 million x 27%)	1,080		1
– Restaurant and entertainment expenses (irrecoverable VAT)	0		1
– Accounting invoice (200,000 x 27%)	54		1
		4,757	
VAT payable		8,910	½
			10

Tutorial note: For periodic payment (accounting invoice), the date of performance is the due date of the invoice if the due date is after the last day of the settlement period (but no later than the 60th day following the last day of the settlement period).

2 Palace Kft

(a) Local municipality tax for the year 2017

	HUF '000	
Sales revenue excluding royalty income up to 500 million (66·67% of total sales revenue excluding royalty income)	500,000	1
Less: 66·67% of cost of goods sold (COGS) and cost of mediated services (644 million + 22 million) x 66·67%	(444,022)	1
Sales revenue excluding royalty income above 500 million (and below 20 billion)	250,000	½
Less: 33·33% of COGS and mediated services (644 million + 22 million) x 33·33% = 221·978 million Limited to 85% of sales revenue in this band 85% x 250 million = 212·5 million so limit is applicable	(212,500)	1
Less: cost of raw materials	(7,000)	1
Less: cost of subcontracted services	(10,000)	1
Remaining costs/expenses (other/financial) – no deduction allowed	0	1
Local municipality tax base	76,478	
Local municipality tax at 2%	1,530	½
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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 2017

First tax advance:

– 50% of tax liability in 2015 (50% x HUF 2 million): HUF 1 million	½
– Deadline for payment: 15 March 2017	½

Marks

Second tax advance:

– Difference between prior year's liability and this year's March advance (HUF 1.7 million – HUF 1 million): HUF 700,000	1/2
– Deadline for payment: 15 September 2017	1/2
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3 (a) Verde Kft – Closing cash balance as at 31 December 2017

	HUF	
Opening cash balance (per question)	6,000,000	
Sales revenue including value added tax (VAT) (25 million x 1.27)	31,750,000	1
EVA up to 30 million (30,000,000 x 37%)	(11,100,000)	1
EVA above 30 million (1,750,000 x 50%)	(875,000)	1
Purchases including VAT (5 million x 1.27)	(6,350,000)	1/2
Gross salary and contributions payable on salaries (4 million x 1.22)	(4,880,000)	1
Contribution to professional training funds (2 employees x 2 x 127,500 x 1.5% x 12 months)	(91,800)	1 1/2
Local municipality tax (31,750,000 x 2% x 50%)	(317,500)	1
Closing cash balance	<u>14,135,700</u>	<u>7</u>

Tutorial note: The rate of EVA is 50% on the portion of the tax base in excess of HUF 30 million.

(b) Zebulon – Income from the sale of a moveable asset

	HUF	
Sales proceeds	12,000,000	
Less: acquisition costs	(6,000,000)	1/2
Less: direct costs related to sale	(200,000)	1/2
Less: value increasing investments (restoration)	(1,000,000)	1/2
Taxable gain	<u>4,800,000</u>	
Tax on the gain at 15%	720,000	1/2
Less: tax free amount (200,000 x 15%)	(30,000)	1
Personal income tax payable	<u>690,000</u>	<u>3</u>
		<u>10</u>

4 Spare Kft

(a) Corporate income tax liability for the year 2017 (if NOT a medium or small sized entity)

	HUF '000	HUF '000	
Profit before tax (per question)		1,500,000	
Tax base increasing item (accounting depreciation) ((500 million – 45 million)/7 years x 9/12)		48,750	1
Tax base reducing item (tax depreciation) (500 million x 25% x 9/12)		(93,750)	1
Corporate tax base		<u>1,455,000</u>	
Calculated corporate income tax at 9%		130,950	1/2
Tax relief is the lowest of:			
– 30% of the investment value (30% x 500 million)	150,000		1 1/2
– 70% of corporate income tax (70% x 130,950)	91,665		1 1/2
– €15 million (€15 million x 310)	4,650,000		1
		(91,665)	1/2
Final corporate income tax liability		<u>39,285</u>	<u>7</u>

(b) Maximum relief available if a medium-sized or small-sized entity

If Spare Kft were a medium-sized entity, the first limit of the relief would be 40% of the investment value, i.e. HUF 200 million (40% x HUF 500 million).

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If Spare Kft were a small-sized entity, the first limit of the relief would be 50% of the investment value, i.e. HUF 250 million (50% x HUF 500 million).

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The other limitations would not change, so the maximum relief available to Spare Kft in both cases would still be HUF 91.665 million.

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310**5 Hyper Kft****(a) Tax base adjustment in respect of investments in start-up entities**

If an entity acquires shares in a start-up entity (or increases the value of its investment after acquisition by an additional contribution), then it can decrease its corporation tax base by three times the cost of the investment in equal instalments in the year of acquisition and in the following three tax years.

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The maximum of the tax base reduction is HUF 20 million per annum.

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The tax base reduction is only available if:

- the taxpayer has not held shares in the start-up entity before the acquisition; and
- the taxpayer has an official certificate confirming the start-up company as being registered as one.

½

½

This tax base reduction qualifies as a '*de minimis*' support.

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5**(b) Corporate income tax liability for the year 2017**

	HUF '000	HUF '000	
Profit before tax (per question)		100,000	
Increasing items:			
Accounting depreciation for Asset W			
((200 million – 5 million)/10 years x 10/12)	16,250		1
Impairment losses on registered shareholding	10,000		1
		26,250	
Decreasing items:			
Start-up adjustment ((3 x 100 million)/4 = HUF 75 million, limited to HUF 20 million)	20,000		1
Tax depreciation for Asset W (200 million x 14.5% x 10/12)	24,167		1
Royalty income (lower of 50% of royalty income of HUF 50 million and 50% of the profit before tax of HUF 100 million (50% x 50 million))	25,000		1½
Provisions derecognised	5,000		1
		(74,167)	
Corporate tax base before tax loss carry forward adjustment		52,083	
Less: tax losses generated in 2016, limited to 50% of tax base before considering the tax loss carry forward adjustment (50% x 52.083 million = HUF 25.0415 million)		(25,000)	1½
Corporate tax base		27,083	
Calculated corporate income tax at 9%		2,437	½
Tax relief for interest expense of HUF 11 million, limited to 70% of the calculated tax (70% x 2.437 million)		(1,706)	1½
Final corporate income tax liability		731	
			<u>10</u>
			<u>15</u>

6 Robert

(a) Tax residence

Robert will be resident for tax purposes in Hungary in 2017 because:

- he spent more than 183 days (195 days) in Hungary in 2017;
- his centre of vital interest will be considered as in Hungary due to his family and his employment both being in Hungary.

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(b) Personal income tax liability for the year 2017

	HUF	
Consolidated tax base		
Non-independent income		
Salary (2.5 million x 12 months)	30,000,000	1/2
Consolidated tax base	30,000,000	
Family allowance (2 x 100,000 x 12 months)	(2,400,000)	1
Total consolidated tax base	27,600,000	
Tax on consolidated tax base at 15%	4,140,000	1/2
Tax on income taxed separately		
On net gain on regulated market transactions (7 million – 200,000 – 1.8 million) x 15%	750,000	1
On foreign capital gain (working)	175,000	W
Total personal tax liability	5,065,000	

Working:

	HUF	
Gross capital gain ($\$10,000 / (1 - 0.20) \times 280$)	3,500,000	1
Personal income tax payable in Hungary (3,500,000 x 15%)	525,000	1/2
Tax paid abroad reducing the Hungarian tax (3,500,000 x 20%)	700,000	1/2
Minimum tax payable (5% x 3,500,000)	175,000	1
		<u>6</u>

(c) Personal income tax and health care contributions payable by Red Kft for the year 2017 on the benefits in kind provided to Robert

	HUF	
On private use of mobile phones		
Tax base (20% deemed private usage) (200,000 x 1.27 x 20% x 1.18)	59,944	2
Personal income tax (59,944 x 15%)	8,992	1/2
Health care contribution (59,944 x 22%)	13,188	1
On amounts to Széchenyi Card for accommodation purposes		
Tax base (15,000 x 12 months x 1.18)	212,400	1
Personal income tax (212,400 x 15%)	31,860	1/2
Health care contribution (212,400 x 14%)	29,736	1
		<u>6</u>
		<u>15</u>