

Donations to films, sports and performing arts organizations in 2015

From 2015, a proportion of corporate income tax liability (maximum 80 percent) is allowed to be offered to artistic performance organizations, film makers and certain sports bodies. In our present newsletter we would like to inform our clients about this new opportunity.

Direct donations based on the regime applied in 2014

Over several years, taxpayers can reduce corporate income tax liabilities via donations to films, sports and performing arts' organizations with a relatively low administrative burden. The donation system effective for 2014 will remain in place in 2015 as well, therefore taxpayers can donate to film makers, performing arts and certain sports bodies (up to 70 percent of their corporate income tax liabilities) based on the previous regime. Remaining in the previous donation regime, taxpayers would have to face higher administrative burdens (donations and supplementary donation contracts and announcement of the donations to the tax authority were needed within 8 days). However, the maximum amount of the tax relief remains 4.75 percent of the donation.

Tax offer regime applicable from 2015

From 2015, a new way of making a donation, by a so called tax offer, is available. This can be applied **instead of** the direct donations described above. The new method brings donors higher tax benefit and much lower administrative burdens.

In the new system, the taxpayer can decide to offer max. 50 percent of their tax advances payable (by submitting form Nr. 15RENDNY electronically, indicating the name and the tax number of the recipient organization) to the above mentioned organizations. Declarations regarding these tax advance offers can be modified five times a year. If the total amount of tax advance offered does not reach 80 percent of the tax payable, further corporate income tax can be offered during the fulfilment of the top-up liability and the annual tax return.

The new donation system significantly decreases administrative burdens, as neither donation nor supplementary donation contracts are required to be concluded with the donated organisations. The taxpayer has no other administrative task than the submission of the above mentioned 15RENDNY form to the tax authority.

Taxpayers should pay the corporate income tax amount in question to the Tax Authority, who transfers the offered part of the tax and the tax advances automatically within 15 working days to those organisations which were indicated on the Form 15RENDNY submitted, provided that neither the taxpayer's nor the donated organisation's net tax debt exceeds HUF 100,000 and where other administrative obligations described in the law (paying corporate income tax, submitting tax returns, etc.) are fulfilled.

12.5 percent of the amount offered to the recipient organisation (one directly operating in certain sports) is

considered to be a supplementary donation and 1 percent of the offered amount qualifies as an administrative service fee on the part of the professional sporting body (e.g. MLSZ, MOB). These will be separated automatically by the Tax Authority and will be transferred to the related organisations. Taxpayers can, at their own discretion, conclude a sponsorship contract as a reimbursement of the supplementary donation (to cover advertisement services etc.). In such a case the additional donation is considered to be a net amount, so VAT should be paid additionally.

Neither additional donations, nor the above mentioned administrative service fees are to be separated in relation to donations provided to film and performing arts' organizations, so in the case of such a donation the whole tax amount offered will be transferred to the organizations concerned.

Taxpayers are entitled to 7.5 percent tax credit for the net amount (tax offered reduced by the supplementary donation and administrative service fee) of the tax advances and a tax top-up and 2.5 percent of the offered amount from the year end corporate income tax amount. Both of these will be credited to the donor's tax account. Thus a company which offers its corporate income tax can obtain higher tax advantages, than was the case in the former directly applied support system (in the case of sports donations this was a max. of 6.5 percent and max. 7.5 percent for donations to film and performing arts organizations)

The accounting treatment of the tax offers also differs from the accounting treatment of the direct donations applicable from 2014 and before. Direct donations granted, and additional donations, were to be accounted for as extraordinary expenses according to the Hungarian accounting law in the old system and in some cases they also reduced the profit before taxation determined based on the IFRS accounting system. Contrary to the previous accounting regime, tax offers (also including supplementary donations and the compensation value of the administrative service fee) have to be accounted for as corporate income tax expenditure based on both the Hungarian and the IFRS system. Furthermore, the obtained tax credit was accounted for as other income in both accounting systems, and this also had to be taken into account as a tax base reducing item.

If you have further questions in connection with these donating and tax offering opportunities please feel free to contact József Zsolt Garabuczai (josef.garabuczai@kpmg.hu; 06703701669) or your usual tax advisor.

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