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SPECIALITIES OF THE CORPORATE TAX IN CONNECTION WITH THE SPORTS ORGANIZATIONS

Adrienn Herczeg, Ildikó Orbán Mrs. Tamás Dékán, Patrícia Becsky-Nagy, Veronika Fenyves

University of Debrecen
Institute of Accounting and Finance
e-mail: herczeg.adrienn@econ.unideb.hu, orban.ildiko@con.unideb.hu,
becskynagy@econ.unideb.hu, fenyves.veronika@econ.unideb.hu

Abstract: *In 2004 Hungary joined the EU, therefore its tax system is harmonized with EU directives and its trade with the EU is liberalized and exempt from customs restrictions. In the past few years Hungarian government introduced significant corporate tax advances in order to increase Hungary's competitiveness for foreign capital. With the flat 10% corporate tax rate, Hungary has one of the the lowest corporate income tax rate in the European Union. Since 2011 new corporate tax incentive was adopted in order to create a tax advantageous economic environment for supporting the five most popular team sports in Hungary, namely, football, handball, basketball, water polo and ice hockey. The following article provides a rough guide on the corporate taxation – in particular of sport organizations in Hungary*

Keywords: *taxation, sport organizations, corporate tax* (JEL code: H25)

INTRODUCTION

Hungary is an open economies in East-Central Europe, with significant sectors tied closely to Western Europe through trade and foreign investment. This small country has a very fragmented system of local government. The role of the governments has changed as has their level of responsibility since 1990. By contrast, the local taxation system still reflects the residue of the previous system (*Nagy et al, 2014*).

Taxation system in Hungary is harmonized with EU law and provides a legal framework for the conduct of business. Tax is a financial charge imposed upon a taxpayers by the state to fund various public expenditures (*Herich, 2015*). Taxes are levied by the Parliament, or other bodies holding the authorization of the Parliament, and are valid with rare exception throughout the country. "Uniform rules are applicable in the whole country and determine the subjects of the taxes, the taxable income or other bases for taxes, the collection of the taxes by the tax authority as well as the procedures. Besides the major national taxes, the Local Taxes Act empowers local governments to levy five different local taxes at rates maximized by the Act" (*Jalsovszky, 2013*).

In practice the taxpayers pay the taxes on a self assessment basis, they file the return and make payments by the due date without receiving any formal notice from the tax authorities. Only a limited amount of information must be submitted, but, the tax authority from time to time carries out audits. In the case of late payments or false data provision, interest and penalties may be levied. The Hungarian tax system is designed to tax income, sales and other specific transactions, rather than capital. Most often individuals are subjected to pay personal income tax, while businesses, irrespective of their legal form, pay corporate income tax. Domestic sales are typically subjected to value added tax, to which other taxes are occasionally added. The basic methodology of the taxation system is unlikely to be changed even in the longer term. However, modifications may occur from year to year (*Jalsovszky, 2013*).

In Hungary the tax revenue stood at 39 % of GDP. The most important revenue sources include the income tax, social security, corporate tax and the value added tax, which are all applied on the federal level. Among the total tax income the ratio of local taxes is solely 5% while the EU average is 30%. As the *1. table* shows in 2014 the payments of economic organizations in central government revenues was 1 305 055 million HUF, in which the value of the corporate tax was 394 813 million HUF. The value of the corporate tax is the 3,34% of the total central government revenues.

***Table 1.:** Central government revenues (million HUF)*

	2014	2015
Revenues, balance	**completion**	**budget estimates**
Payments of economic organisations	1 305 055	1 305 952
Corporate taxes	394 813	341 400
Fees of financial institutions	20 582	15 420
Simplified business tax	96 829	83 800
Tax on energy	14 613	15 500
Environmental protection fee	5 471	6 000
DPPT	62 963	49 000
Gambling tax revenue	34 563	39 700
Other payments	24 151	27 000
Other central payments	323 670	377 132
Income tax of energy suppliers	34 959	44 700
Tax on corporate cars	31 673	28 800
Special tax on financial institutions	148 555	144 200
Special tax on certain branches	-970	–
Itemized tax on minor taxpayers	42 207	56 300
Tax on small corporations	12 681	16 400
Tax on public utilities	55 021	54 000
Tax on advertisement	3 273	6 600
Taxes on consumption	4 335 948	4 396 685
Value added tax	3 035 580	3 172 385
Excise tax/excise duty and motor vehicle registration duty	937 740	933 100
Telecommunications tax	55 955	56 400
Financial transactions duty	277 923	206 200
Insurance premium tax	28 749	28 600
Payments of households	1 753 750	1 806 600
Personal income tax revenues of central budget	1 589 055	1 639 700
Tax payments	444	500
Fees	120 274	120 000
Motor vehicle tax	42 402	45 500
Registration fee on domestic help	26	–
Special tax on certain incomes related to the termination of the legal relationship of private individuals	1 548	900
Central budgetary institutions and chapter administered appropriations	3 489 666	2 925 573
Payments of general government subsystems	248 363	64 254
Payments related to state property	266 096	245 869
Interest and other revenues	373 393	91 497
Revenues from EU	28 679	54 275
Total revenues	**11 800 950**	**10 890 705**
Balance of central budget	**-837 130**	**-826 454**

***Source:** www.ksh.hu*

CORPORATE TAX IN HUNGARY

In Hungary revenues obtained from economic activities, performed for profit on a regular basis and other similar gainful activities (business operations) are liable to corporate income tax pursuant to the provisions of Act LXXXI of 1996 on Corporate Income Tax Act.

In Hungary the corporate tax base is the earnings before taxation modified by the items identified in the Corporate Tax Act, such as

- Loss carried forward
- Provisions Depreciation and amortisation
- Declared share
- Declared intangible goods and chattels
- Dividends
- Royalties received
- Research and development
- Costs and expenses not incurred in the interest of business operations
- Penalty
- Thin capitalisation
- Controlled foreign company (CFC)

If the sum of a taxable basis does not reach the so called “profit-minimum”, then the taxpayer has to make a declaration to the tax authority as to its taxable basis, or it has to pay its tax based upon the profit-minimum regarded as its taxable basis, instead of calculating the tax in accordance with the general rules. The profit-minimum is 2% of the total revenue adjusted by certain decreasing and increasing items described by the act. Taxpayers may choose between these alternatives on their own decision.

From January 2011 the tax rate was divided into two parts: The taxable income of Hungarian companies is subject to corporate income tax at a rate of 10% up to HUF 500 million tax base and 19% for the exceeding part. The corporate income tax rate applies to the taxable income of all business forms without distinction. The amount calculated this way is the corporate income tax which if the conditions prevail, may be reduced by the tax allowances. If the taxable person is not eligible for a tax allowances, then the calculated corporate income tax will be the payable tax amount.

In Hungary, business associations are required to file a so called XX29 corporate tax return every year. Generally, the business year is identical to the calendar year, but companies may use a different business year. Business associations are required to file their corporate tax returns and pay corporate tax by 31 May following the tax year. If the taxpayer opts for a different tax year, the filing and payment deadline is the last day of the fifth month after the last day of the business year (I1).

TAX ALLOWANCES – CORPORATE TAX SAVING THROUGH SPORT FINANCING

In Hungary there are some tax allowances, the calculated tax may be reduced by no more than 80 % under the title of tax allowance for development, and any other allowance can be claimed against the tax reduced in the manner indicated above up to 70 %, so the calculated tax cannot be reduced to zero (*Becsky-Nagy – Fazekas – Tálas, 2015*)

One of these tax allowances came from as part of the 2011 tax package, when new corporate tax incentive was adopted in order to create a tax advantageous economic environment for supporting the five most popular team sports in Hungary: football, handball, basketball, water polo and ice hockey (*Bács and Bácsné, 2014*). „The amount of the financial support provided to sport teams and national sport organisations in the aforementioned fields of sports reduce both the corporate tax basis (as a recognised expense) and the tax liability, with the tax credit being limited to 70% of the annual tax liability. As the combined result of the recognised cost and the tax credit, taxpayers, in fact, can achieve a tax saving amounting to 110% of the financing provided" (*Jalsovszky, 2010*).

„The sponsors of sport development programmes filed from the 2013/2014 sponsorship season have to pay supplementary sport development support in the tax year of support as well to the national federation of the prominent team sport team to which they paid the support forming the basis of the tax relief" (*Hegedűs-Fajcsák, 2014*).

Based on the rules, the saving is only 10 percent or, in the case of a tax base exceeding HUF 500 million, 19 percent of the amount granted in the case of organizations with a sport development plan submitted and accepted in the 2012/2013 sponsorship season at the latest (Bács-Szilágyi, 2010). The sponsoring of organizations with a sport development plan submitted and accepted later will only generate a saving of 2.5 or 4.75 percent of the amount granted (*Table 2.)*.

Table 2.: *Calculation for saving achieved through prominent sport support (HUF)*

	sponsoring a 2012/2013 eligible sports organization	**sponsoring an organization with a sport development plan submitted and accepted in the 2013/2014 support season**
tax base calculated on final result	150.000.000	150.000.000
projected corporate tax liability (in normal case)	15.000.000	15.000.000
enforceable support	9.813.000	9.813.000
rate of supplementary sponsorship		735.975
new tax base	140.187.000	140.187.000
new corporate tax	4.206.000	4.206.000
saving realized	981.000	245.025
rate of saving	10%	2,5 %

Source: *Own calculation by the Corporate Income Tax Act*

Achieving the corporate tax savings required the following:

- choosing of sports organization with an approved sport development programme;
- statement that the sponsor is not entitled to receive any form of counter-performance;
- procurement of the support certificate issued by the sports directorate body or federation;
- the provision of funding within the year;
- in the case of pre-financing – with transfer to specified independent bank accounts available for entitlements defined in the support certificate; in the case of support with post-financing – with transfer to a segregated bank account to be opened with the sport directorate body or national sporting federation.

The support and the payment of the supplementary sport development support should be reported by the sponsor to the State Tax Authority within 8 days of financial settlement. If the notification is not submitted, no application can be submitted for a sponsorship certificate. The notification must be made on the SPORTBEJ form.

In the case of support provided after 30 November 2013, the supporter may apply the tax relief in the 6 tax years following the year of granting unlike in the previous years.

CONCLUSION

In Hungary the main national taxes are the corporate income tax, local business tax, value added tax, an innovation contribution and a special surtax on certain companies. Hungary's corporate tax rate is competitive in the region, although the relatively low corporate rate is balanced by high local business taxes levied by the municipalities. In 2014 the value of the corporate tax was 394 813 million HUF, this value of the corporate tax is the 3,34% of the total central government revenues. In the past few years Hungarian government introduced significant corporate tax advances in order to increase Hungary's competitiveness for foreign capital. A tax credit may be used up to the amount stated in the sponsorship certificate issued of the sponsorship or benefit given without the obligation to be repaid to spectacle team sports in the tax year of granting and subsequent tax years until the tax year ending in the sixth calendar year from the calendar year of granting provided that the taxpayer has no public debt at the time of submission of the request for the issuing of the sponsorship certificate. Since 1st July 2011, the support of prominent team sports has not only been one element of corporate social responsibility on the part of market players but also a new form of corporate tax relief which, with the appropriate planning, can result in significant savings.

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