

Tax & Fiscal Alert

October, 2014

Taxation of business events, trainings, entertainment

In business relationships it is a common practice for companies to try and raise, maintain and possibly increase awareness of their activities in various ways. One of the most widespread methods of achieving this is to organize promotional events, or business events (conference) to present their products/services. Taxation issues can arise in many facets in connection with these events (costs of food, accommodation, travel, rental fees, organizers' fee etc.)

Based on our experience, significant tax burden decrease can be achieved with careful planning. We would like to briefly summarize the main taxation issues in this newsletter, also considering the official standpoint of the Tax Authority published in a recent article of a professional journal.

Participation in workplace events/other events organized for business purposes is usually free of charge (or offered with a discount); employees/third party participants receive a special income or benefit in kind (e.g. food and beverage consumption at the event, entertainment, education and training services, accommodation and travel etc.). The Personal Income Tax ("PIT") Act sets out various provisions concerning the taxation of certain benefits, depending on the nature of the event.

What qualifies as entertainment on such events

Entertainment shall mean hospitality (food and beverages) provided during a business, official, trade, diplomatic or religious event in connection with the activities of the provider or during state and church festivities, and associated services (travel, accommodation, programs etc.) provided in connection with the event. However, if the given event was only seemingly official or business travel, but in fact it predominantly served recreational programmes (considering the advertisements, route, destination, duration of stay, ratio of actual professional and recreational programmes), the tax authority can reclassify the nature of the event for taxation.

The event is deemed to be official or considered as business travel if it occurred for the performance of tasks relating to the activity of the paying entity: business conference, group meeting for improving communication, cooperation; religious event (Christmas, Pentecost, Hanukkah etc); representation events in international diplomacy affairs; or public holiday (only 20th of August qualifies as such in Hungary). Other public holiday event or internal workplace meeting of the employees does not qualify as official event.

Taxation of different cost elements of such official event

The incurred costs may contain components that definitely constitute the income of the private individual and are bound to the payment of taxes and contributions, while other components do not constitute income of the private individual and therefore are not subject to taxes:

- Travel and accommodation costs of the third party guests are taxable entertainment cost;
- Travel and accommodation costs of the employees of the organizer firm, or of other individuals taking part in organizing the event is not subject to tax based on Section 7. paragraph 1) g) of the PIT Act;
- Costs elements clearly linked to the professional organized event (regardless of the other recreational program elements), such as the rental fee of rooms serving the professional programme, the rental fee of used equipment (projector, sound equipment etc.) or the cost of technicians etc. is not subject to tax;
- Catering in the form of food, beverages, refreshments and coffee, irrespective of whether it is related to the professional or the recreational event, it is taxable entertainment cost;
- Cost elements that are clearly not related to professional events, but exclusively relate to recreational programmes, will also constitute taxable income of the private individual (e.g. recreational and entertainment programmes, various sport programmes etc.)
- If the professional event is closed with a standing reception/dinner (including show program), the rental fee of the restaurant/other place are taxable entertainment cost.

If the event cannot qualify for the entertainment event (predominantly focused on recreational and non-professional programmes rather than professional ones), then catering and recreational program costs would be taxed based on Section 70. paragraph 3) b) of the PIT Act: provided to more than one private individuals simultaneously, where the payer is unable to determine the value provided to any one private individual, furthermore, the expenses covered by the payer in connection with any event organized for several private individuals (including business partners). Such event is predominantly staged to provide hospitality and recreational programs as determined from the circumstances under which they are provided),

Taxation of the taxable elements is all the same regardless of the qualification: personal income tax payment obligation and to 27% health contribution payment obligation on 1.19 times the gross amount of the allowance.

Taxation of business conference/trainings/trips

Section 3, point 10 of the PIT Act defines the official and business trips as those trips taken by a private individual with a view to obtaining its salary or to perform a task connected with the activities of its employer, with the exception of commute to the work place (including travel necessary for working on assignment (appointment), and if business nature of such travel is fictitious (e.g. suggested by ratio of actual business related and free programs, etc.). Food and beverages related to business trips is taxable entertainment costs (even if it is included in overall fee of the training participation), however, the training participation fee itself (without the catering costs) is not taxable.

CIT and VAT consequences of free gifts

Based on general rules of the VAT Act, incoming VAT on representation costs is deductible without incurring payable VAT on condition that the purchase of the services served the VAT-able business purpose of the taxpayer (unlike in case of supply of goods free of charge, where general disallowance for deduction of incoming VAT applies in case of free transfer of products, regardless of the business purpose). Special restriction rules on VAT

deduction must be followed (e.g. supplies of food and beverages, entertainment costs (rental fee of restaurant in case of standing reception). From a CIT view, the representation and costs shown under other employee benefits, and related PIT and social security obligations particularly qualify as CIT base deductible expenses.

If your company spends considerable amount on business events/trips/conference and other representation events as described in this newsletter, we suggest that the practice should be revised from a tax point of view. Professional tax advisor of Accace is pleased to help you with such an overview.

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