Corporate and personal income tax treatment of prizes 1/20/21

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The Covid-19 pandemic has changed everyone's life. With live entertainment still restricted, companies are holding online events that offer a prize to the winner of a competition. This article explores the tax treatment of prizes using a practical example.

Background

A company plans to organise a competition online. The entrants are not employed by the company. The winner will receive the main prize of EUR 1,000, with consolation prizes going to the entrants:

1. Non-cash prizes – mainly low-value items bearing the company's logo worth up to EUR 20;
2. Non-cash prizes worth between EUR 20 and 100.

Below we explain the tax implications for the competition organiser and for the prize winner.

Tax treatment

The table below summarises information about potential tax liabilities depending on the prize value, with a reference to relevant pieces of legislation.

Prize value	Taxation	Person in charge of taxation	Legislation
Up to EUR 20 (a non-cash prize – a low-value item bearing the company's logo)	N/A	N/A	If the prize is a low-value item bearing the company's logo worth up to EUR 20, this amount is a business expense free of CIT. There are no PIT implications either. *Section 8(6)(3) of the CIT Act* *Paragraph 68 of Rule 677, "Application of Provisions of the CIT Act"* *Section 9(1)(10) of the PIT Act*
Between EUR 20 and 143 (a non-cash prize)	CIT	The organiser	If the prize value is between EUR 20 and 143, the excess over EUR 20 will be a non-business expense subject to an effective CIT rate of 25%. There are no PIT implications. For example, if the prize value is EUR 50, the excess (EUR 30) attracts CIT of EUR 7.5. *Sections 3, 4(2)(2), 8(6)(3)* and *8(9) of the CIT Act* *Section 9(1)(10) of the PIT Act* *Paragraph 68 of Rule 677, "Application of Provisions of the CIT Act"*

Over EUR 143 (a non-cash or cash prize)	CIT, PIT	The organiser and the entrant	The value between EUR 20 and 143 is charged to CIT, and the excess attracts a 23% PIT. In this case the PIT liability can be settled by the organiser or by the entrant, to be agreed in advance. If the organiser does not pay the PIT charge, the winner has to report the prize value on their annual income tax return and pay PIT on the slice above EUR 143. The legislation is silent as to how the company should record the expense if it undertakes to settle the PIT liability. We asked the tax authority and received an affirmative reply: if PIT has been paid the prize is free of CIT. So if the organiser undertakes to settle the PIT liability this will be a non-business expense free of CIT. However, if the individual is liable to pay PIT, then a CIT charge is likely. So, to minimise the total tax burden it is best to pay PIT, as the individual will then go free of PIT. In our example the cash prize value is EUR 1,000. If the company settles the PIT liability, the following amounts will be due: - CIT of EUR 30.75 ((143 – 20) x 25%) and - PIT of EUR 197.11 ((1,000 – 143) x 23%) *Sections 3, 4(2)(2), 4(3), 8(6)(3)* and *8(9) of the CIT Act* *Sections 9(1)(10)* and *15(4) of the PIT Act* *Paragraph 68 of Rule 677, “Application of Provisions of the CIT Act”*