Downloaded from Blogs on 09.10.2026 04:06h

By PwC Deutschland | 11. März 2026

Sponsoring payments to charitable association deductible as business expenses

A non-profit association that entitles its sponsor to market the sponsorship measure as part of its advertising while at the same time indicating the association's promotion on its products is a service in return for the sponsorship funds received and as such fully deductible as business expense and not treated as donations. This was decided by the Hamburg Tax Court.

Downloaded from Blogs on 09.10.2026 04:06h

Background

The parties were in dispute on the tax treatment of sponsorship expenses. In 2011, the plaintiff (a limited liability company) entered into a sponsorship agreement with an association recognized as a (charitable) non-profit organization. In this agreement, the plaintiff undertook to support the association by, among other things, paying a minimum amount per product sold. In return, the association allowed the plaintiff to use the association's name, emblems, and logos in all media to promote its support of the association. From 2017 onwards, the plaintiff allowed the association to use its contractual trademarks free of charge.

The tax office took the view that the expenses claimed under the sponsorship agreement were not fully deductible as operating expenses. They are operating expenses in the context of donations that must be classified as hidden profit distributions because they were prompted by a special relationship with the recipient of the donation.

The plaintiff, on the other hand, argued that the association's consideration should be understood as granting the plaintiff the right to publicly present the sponsorship as such for advertising purposes, in particular to advertise the association's (charitable) projects. In return, the association - among others - referred to its support on posters and in reports (in newspapers, on the radio, on the Internet, and/or on TV), among other things.

Decision

The tax court upheld the appeal. The tax office had wrongly treated the sponsorship expenses as donations and refused to allow the unlimited deduction of business expenses because the plaintiff had incurred the sponsorship expenses to derive its own economic benefit.

The tax court considers it economically plausible that the consideration for the association's services is calculated based on the number of products sold (sales volume). The fact that the sponsorship funds are only to be paid by the sponsor upon request from the non-profit association even after the due date and that until then they are only to bear interest at a low rate does not result in a hidden distribution of profits.

The plaintiff's sponsorship commitment was therefore driven by commercial motives. The plaintiff's intention was to develop a “promotional brand” to create incentives for consumers to buy, increase their willingness to pay higher prices, and obtain support from major customers for advertising measures and product placements.

Through its sponsorship of the association, which is engaged in the producing countries of the raw materials, the plaintiff can establish a viable connection to its products.

By providing the association with a sponsorship amount for each product sold, the plaintiff fulfills the brand promise made to consumers that consumption “helps.” In doing so, the plaintiff also takes into account the growing social expectation that companies promote

Downloaded from Blogs on 09.10.2026 04:06h

charitable projects for the common good as part of their corporate social responsibility. In return and as consideration the association allows the plaintiff to publicly refer to the association's promotion and the plaintiff's products on its products and corresponding websites.

There was no hidden distribution of profits because the contract's content and execution were consistent with an arm's length comparison. The negotiating position of the non-profit association is weakened when agreeing on the interest rate due to the requirement to use funds within a reasonable time. The agreement of a low interest rate on amounts due but not yet drawn is therefore not a valid reason for objection.

Finally, the plaintiff was also entitled to the input VAT deduction from the association's invoices since the association had provided taxable services.

Source:

Hamburg Tax Court, decision of 13 November 2025 (case ref. 2 K 67/23). – The decision is final since no legal action has been taken by the tax office.

Schlagwörter

charitable organization, donations, sponsorship