

Views from New Member States Tax Environment for Philanthropic Giving

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European Center for Not-for-Profit Law

- ❑ Assist governments and NGOs to develop an enabling legal framework for civil society.
- ❑ Elaborate and implement laws affecting foundations.
- ❑ Focus: Central and Eastern Europe, South-East Europe, European Neighbourhood Policy countries.

Tax Tools: www.icnl.org
www.ecnl.org

- [Survey of Tax Laws Affecting NGOs in Central and Eastern Europe](#)
- [Survey of Tax Laws Affecting NGOs in The Newly Independent States](#)
- [The Tax Treatment of Nongovernmental Organizations - A Survey of Best Practices from Around the World](#)

Overview

- ❑ General picture in the region
- ❑ Tax treatment of corporate donations
- ❑ Tax treatment of individual donations
- ❑ Tax treatment of testamentary bequests
- ❑ The percentage designations
- ❑ Do tax advantages really matter?

General picture

- In most countries, there is some kind of tax benefit available for donations made by companies and individuals.
 - Exception: Slovakia; Lithuania – individuals
- In most countries, only a limited class of foundations/NGOs are eligible for receiving tax-benefited donations.
 - Public benefit status as such a requirement in Hungary and Latvia
 - Public benefit purposes and other conditions in most other countries

General Picture

- Types and amounts of tax benefits vary greatly although deductions from taxable income are typical.
 - 30% to 200% of donation may be credited or deducted
 - 2% to 40% of taxable income may be deducted
 - Tax credit used in Hungary and Latvia only

- Percentage designations are a special feature of new member states' philanthropic tax environment.

Tax treatment of corporate donations

- “Most generous” countries:
 - Lithuania – double the amount of the donation may be deducted up to 40% of taxable income.
 - Hungary - 150% of donation value – cash, goods or services - may be deducted in case of prominently public benefit organizations and up to a maximum of 25% of taxable income.

Tax treatment of corporate donations

- Limits of deduction:
 - Slovenia: 3 % of gross revenue
 - Estonia: 3% of base of social tax (related to employee compensation)
 - Most common is % of taxable income:
 - 5% in Czech Republic, 10% in Slovakia and Poland, 20% in Hungary, 40% in Lithuania

Tax treatment of corporate donations

- “Special treatment” for certain activities
 - Poland: list of purposes incl. scientific research for which limit of deduction is 15% (not 10%)
 - Hungary: donations to prominently public benefit organizations receive higher benefits
- Tax credit of up to 20% of tax liability in Latvia (85% of the donation may be credited).
 - 90% of donation may be credited in case of certain listed organizations

Tax treatment of individual donations

- Usually same treatment as businesses (deductions) but different rates:
 - Deductions ranging from 2 % of taxable income (Slovenia) to 5% (Estonia); 10% (Czech Republic) or 20% (Latvia).
- Hungary: tax credit of up to 200 Euros or 400 Euros in case of prominent PBOs (30% of the donation may be credited).

Tax treatment of testamentary bequests

- No payment
 - Estonia: no gift or estate tax
 - Lithuania, Poland: such taxes apply only to natural persons
 - Czech Republic, Hungary, Slovakia: transfers to NGOs exempt from such taxes
- No exemption
 - Latvia
- Slovenia: only humanitarian associations are exempt, i.e. foundations need to pay gift and estate taxes

Percentage designations

- So-called Percentage laws in effect in 5 countries and under way in several others
 - Hungary (1997), Slovakia (2001), Poland (2003), Lithuania (2004), Romania (2005)
- Variations of models
 - 1% (Poland), 1+1% (Hungary), 2% (Lithuania, Romania), 2+2% (Slovakia)

Percentage designations – issues

- Is it really philanthropy? Does it help develop a philanthropic culture?
 - May not help but does not hinder it:
 - Hungarian research in 2004: those who designate their 1% to NGOs also give donations and volunteer to a greater extent.
 - Outcomes depend highly on concrete model and implementation mechanism.
 - Low results in Poland due to complicated designation scheme.

Percentage designations – issues

- Effect on other tax incentives problematic:
 - Lithuania: tax deductions for individuals were discontinued upon introduction of 2% law.
 - Slovakia: due also to general tax reform (flat tax) both corporate and individual tax deductions were abolished.
 - Poland: government wanted to abolish tax benefits for donations, issue still on the agenda.

Do tax advantages really matter?

- Case study from Hungary
 - Overall % of philanthropic income of nonprofit sector decreased from 18% in 1993 to 8% in 2005; but grew about 20% in real terms.
 - Recent research on both company and individual giving shows:
 - **Increasing philanthropic involvement of private actors**
 - **Little, if any, role of tax incentives in such involvement**

Corporate philanthropy research

Willingness to support NGOs

(2003)

Would never

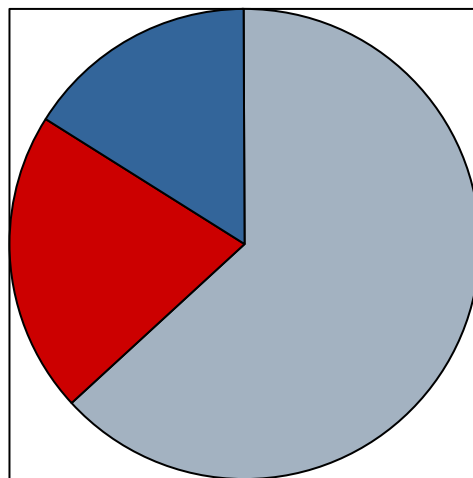
give

16%

Does not give

but would

21%



Gives to NGOs

63%

Who is more likely to give?

- Larger companies
 - Revenue over 1 billion HUF: 78% give
 - Revenue under 20 million HUF: 56% give
- Towns (mid-size settlements)
 - **Companies based in towns: 67% give**
 - Budapest based companies: 62% give
- Domestically owned
 - **Companies with Hungarian owners: 74% give**
 - Companies with foreign owners: 42% give

What do companies give for?*

Areas to give	% giving
Health	36,5
Social	17,2
Education, research	14,2
Sports, free time	13,9
Culture, religion	9,4
Other	8,8

*monetary donations



Why do companies support NGOs?

- 72% - out of compassion and solidarity
- 45% - due to emotional reasons (e.g. old school, own child involved etc.)
- 25% - personal relationships
- 21% - emergency situation
- 20% - just got to like the NGO
- ...
- 5% - NGO activities match our profile
- 4% - prestige events, well-known charities

“When would you support an NGO?”

- 61%: if our financial situation gets better
- 21%: if we receive good proposals, the NGOs are transparent, we are able to check the spending of our money
- 3,6%: if there were better tax incentives
- 11,7%: no specific conditions

Individual giving and volunteering

- 80% of Hungarian population donated and/or volunteered in 2004; 65% donated cash funds.
 - Only 20% of these people donated money to an NGO
 - 47% of all donated funds were given to NGOs
- Education and scientific research is the fourth most “popular” issue to give.
 - 2,4% of people gave 8% of all donated funds to education and research (as compared to 16% of all funds in 1993)
 - Leading issues were religion (38% of all funds), social care (31%) and culture (9,5%)

Individual giving – use of tax benefits

- ❑ Less than 10% of donors received a certificate from the NGO they donated to.
- ❑ Less than 50% of those who received such certificate actually took advantage of the tax benefit for donations.
- ❑ Altogether 3,8% of donors chose tax benefits as one of the reasons for making a donation (only 1,2% chose as a main reason).

THANK YOU!
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