

PART II: COUNTRY REPORT: PERCENTAGE TAX DESIGNATION

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The Direction of Debates on Introducing Percentage Tax Designation Scheme in the Czech Republic

The Czech Republic is the only country of the Visegrad Four that still does not apply the percentage tax designation scheme as one of the forms of financing of the non-profit sector. The mechanism has been discussed in the Czech Republic for years, however the idea has not been put to practice yet. A number of these discussions was approached as seeking a vision for the future while in other cases the discussions shifted to the political level or studies were drawn up on introducing the mechanism to the Czech legislation.

The idea of percentage tax designations has triggered sharp arguments since the very beginning, with most NGOs adopting a positive attitude with the prospect of more opportunities to obtain funds from the State, and the vast majority of professionals, mainly economists, disagreeing with percentage tax designations.

Developments before 1997

The idea that percentage tax designations could also support the Czech non-profit sector first arose as early as in the 1990s in connection with the financing of one part of the non-profit sector - the churches. Separation of the church and the State and various ways of ensuring financial autonomy, among other independence issues, of churches were discussed. The model of church designations or the model of church taxes was discussed at the governmental level. The professional public mostly refused the financing of churches through percentage tax designations; the attitude of public leaders, politicians to church designations was rather negative as they perceived it as a non-systemic measure. The opinion of churches was not unanimous either. The percentage required to be designated in the Czech Republic so as to satisfy the demands of churches would have to be at least 8% according to the estimates of the Ministry of Culture from 1997. In 1997, there was a fall of the Government and the problem of funding of churches therefore remained unresolved.

It was the initial association created between the notion of percentage tax designation and the funding of churches and the attitudes of a part of the Czech society and political scene towards churches that was considered to be one of the significant reasons why there had not

been any in-depth and serious discussion on the topic of percentage tax designations in the Czech Republic until then.

The First Private Members' Bill on the Introduction of Percentage Tax Designations in 2001

In the Czech Republic, the major breakthrough in introducing the percentage tax designation scheme was achieved in 2001 when a group of Deputies headed by Monika Mihaličková and Zdeněk Kořistka started to work on a bill on percentage tax designations. The bill was submitted to the Chamber of Deputies on 12 December 2001 and was circulated to the Deputies as Print 1194 under the “Bill to Designate a Percentage from the Personal Income Tax for Charitable Purposes” (Bill on Percentage Tax Designations) title. The bill was originally intended to allow natural persons who were the payers of personal income tax to designate up to 7% of the decisive part of the tax, however only 1% was subsequently proposed to be designated in the final wording. The taxpayer could pay the tax in the minimum amount of CZK 7,200 (approx. EUR 260). The taxpayer could make percentage tax designations to more than one authorized recipient, determining the precise amount of a percentage tax designation, provided that the minimum amount of every percentage tax designation is CZK 500 (approx. EUR 18). The authorised recipient was to be a legal person that was not established for the purpose of business and that was registered in the list kept at the Ministry of Finance; was established according to the listed legal regulations; the authorized recipient was to be obliged to use percentage tax designations for one or more of the publicly beneficial purposes set forth by the bill. In addition to these indirectly defined entities, the bill listed the Academy of Sciences and the Grant Agency as legitimate recipients. Churches were not included among the eligible entities in the bill (since the issue of the relation between the State and the church had not been settled down definitively).

When presenting the bill, the sponsors stated four reasons why, in their opinion, the support to the non-profit sector was not optimal: i) a very low percentage of resources for the non-profit sector was allocated at the regional level, and thus regional and small organization were at a disadvantage; ii) funds were allocated only for one year; iii) compared to budgetary organisations and organisations receiving contributions from the state budget that provide the same type of services, the subsidy provided by the State was lower; iv) it was very difficult for the non-profit sector to raise funds from non-governmental sources.

In the annex to the resolution, the Government expressed its disagreement with the bill

because, in its opinion, the bill i) represented a non-systemic intervention in the funding of the non-profit sector; ii) contained indirect amendments to other acts; iii) was self-contradictory since it used the concepts of "the gift", "income tax declaration", although it was not a gift factually; iv) was conceptually unclear even factually vague and misleading. The Government also questioned the expected financial impact on the state budget. However, they failed to execute their own calculation. The bill stated the amount of CZK 2-3 billion (approx. million EUR 92). in its explanatory memorandum.

The proposed method of percentage tax designations itself was not received positively, not even by the professional public, because it did not address in detail registration of subjects and the manner of declaration of percentage tax designations by employees, did not specify enough the process of summarizing the financial means and their publication, was not clear about various deadlines, etc.

The bill debate was about whether the percentage tax designation scheme should or should not be introduced rather than about whether the proposed system was properly and optimally set. The Deputies failed to justify the proposed measure, its benefits, the need to find new sources of funding coupled with a drop in support from abroad, present calculations of the financial burden put on the state administration, etc. in a sufficiently factual manner. The proposed 7% tax designation was absolutely unprecedented, it was not possible to refer to any foreign experience. Moreover, the 7% tax designation was completely politically unfeasible. Regardless of the Deputies' intent, it can be stated that the bill was put forward before the elections, which cannot be called the right timing under the given political situation. We cannot help thinking that it was a political issue, among other things. The Deputies completely failed to seek social and especially political support for the bill, in particular the idea of the percentage tax designation scheme itself (e.g. in the form of seminars on the topic, recommendations of reputable international NGOs, by offering to exchange their support to another bill on the parliamentary level for support to their bill, etc.).

Nevertheless, this initiative contributed to the extension of knowledge about percentage tax designations, setting off a wider debate and providing a good basis for further work to be done not only by the parliamentary group. The bill was rejected in the first reading by 108 out of the 135 present Deputies.

The Second Private Members' Bill on the Introduction of Percentage Tax Designations in 2005

After the unsuccessful attempt of the group of Deputies in 2001, works started on a new draft law that would not contain any serious flaws and could gain political support. The Czech model of percentage tax designations was developed mainly on the basis of Hungarian experience while avoiding the main problematic areas of the amendment on percentage tax designations in Slovakia.

In 2005, the Deputy Kořistka comes up with the proposal to introduce percentage tax designations into the Czech legislation for the second time. The second attempt has theoretically more chances to be successful. The second reading of the government bill on income taxes was on the agenda of the 49th sitting of the Chamber of Deputies held on 25 October 2005. Here, the Deputy Kořistka put forth his proposal to include one new section into the bill, permitting to introduce the percentage tax designation scheme in the Czech Republic. The section wording is stated in the proposed amendment: *“Section 16a Percentage Tax Designations: The taxpayer referred to in section 2 may nominate a legal entity with its registered seat in the Czech Republic which has not been set up or established for business purposes as the recipient of 1% from the personal income tax. Details are stipulated by a special law.”*¹

It is literally a proposed amendment which was drawn up by a group attached to the Donors' Forum (see below). Subsequently, the Deputy also uses the arguments contained in the explanatory memorandum prepared by the Donors' Forum. He states in the bill debate that he will support the arguments with documents, but there are none of them contained in the parliamentary prints. In his arguments supporting the introduction of percentage tax designations, he repeats the problems of the non-profit sector once again as he stated them in 2001. Newly, the Deputy Kořistka discusses the benefits of the measures for citizens and the State. *“Czech citizens will obtain the privilege to influence the allocation of at least a small part of the state funds. They will decide what a public benefit is in the places where they live. They will decide how to express their solidarity, ... They will consider the attractiveness and importance of a selected publicly beneficial organization. They may simply decide about help in the areas that are out of the State's reach.”* According to Kořistka, *“By adopting*

¹ *Parliamentary Print 1194/0, the Private Members' Bill on Designation of a Percentage of Personal Income Tax Revenues for Charitable Purposes (Law on Percentage Tax Designations), the Chamber of Deputies of the Czech Parliament from 1998 to 2002.*

percentage tax designations in the amount of 1%, the State will change distribution of a very small part of its existing income with deliberation and forethought.” But he further notes that percentage tax designations are not to replace subsidies or tax reliefs for donors.

Hence, the main objective of designations is not to solve the funding of the non-profit sector. Percentage tax designations are supposed to enable people to show solidarity at no direct cost to them, to make people consider the importance and attractiveness of the respective organisation and the respective publicly beneficial activity. This certainly creates pressure on the non-profit sector to make efforts to be important and appealing. The Deputy proposed to enable introduction of percentage tax designations at first and only after that, if there was political will, to adopt a special law.

The voting on the proposed amendment took place on 1 November 2005. Out of the present 159 deputies, 46 were for the proposal and 93 against. Thus, the proposal was not adopted. The Minister of Finance comments on the vote in printed media on 3 March, explaining why the Deputies of his party voted against during the last vote: *“The proposed amendment was then poorly drawn up and would cause chaos in the administration of taxes (Patočková, 2006)”*. Unfortunately, it is not possible to find any detailed explanation of what makes the proposed amendment poorly drawn up and how exactly would the bill cause chaos in the state administration according to the Minister.

Parliamentary Elections in 2006

On 2 June 2006, the Ministry of Finance invites professionals and other social partners to send in suggestions and comments regarding the possibility of introducing percentage tax designations in the Czech tax system. He promises that a professional team will deal with the suggestions and that suggestions and comments will be discussed with their authors so that the best possible result would be achieved. At the same time, wider groupings of non-profit organizations (unions, associations, etc.) or their umbrella bodies are invited to nominate their representatives to the working group on this issue. Support for tax designations as one of the alternatives of support to the non-profit sector is also included in the election programmes of the majority of the parties in the Parliament.

In December 2008, a member of the Government’s Council for NGOs drafted an amendment to the Income Tax Act; this provision was intended to entitle tax payers (natural persons and legal entities) with the democratic right to designate a sum in the amount of 2% of their tax to the publicly beneficial activity through the tax administrator (at least EUR 3.5 monthly for

natural persons and EUR 7 monthly for legal entities). The Government's Council for NGOs did not consent with the proposed amendment.

The last active reference is from 2012 when tax designations were associated not only with non-profit organizations, but once again mainly with the church, which was perceived as problematic.

The Initiative for 1%

In 1997, the non-profit sector learns about the successfully introduced percentage tax designation scheme in Hungary and ideas about introducing a similar system in the Czech Republic start emerging. In 2002, the project titled Creating an Environment Favourable for the Development of the Non-profit Sector and Civil Society is implemented, being funded from the American Trust for Civil Society in Central and Eastern Europe. The VIA Foundation and the Donors' Forum civic association cooperate under the project. One of the activities implemented within the project is an analysis of the method of introducing tax designations in the Czech Republic and development of the subject-matter of the bill on tax designations. Since October 2003, this idea has been further developed only by the Donors' Forum, being funded especially from the EU PHARE 2002 funds.

In a declaration issued by this initiative, its members state that implementation of interests requires financial means obtained not only through state institutions but also through participation of citizens in the decision-making about public funds. Support to a legislative change that will enable individuals to designate 1% of their income tax for publicly beneficial purposes is the way to a more even inflow of money to regions. It also gives citizens an opportunity to influence public affairs. Last but not least, it contributes to the establishment of closer relations between citizens and non-profit organizations. The introduction of the possibility to designate 1% is also in accordance with the programming statement made by the Government, which declared that it would seek to change the system of financing of the non-profit sector and create conditions for the development of plurality of funding resources for non-governmental non-profit organizations. The statement shows that the members perceive the introduction of the percentage tax designation scheme as an important opportunity to improve not only the stability of non-profit organizations, but also the development of the civil society in the Czech Republic.

The works were commenced with an analysis of the failure of the private members' bill of

2001, and cooperation was agreed between the Deputy Kořistka and the Donors' Forum. The Deputy provided all of the source materials he used for the bill and vice versa the Donors' Forum promised to provide the outputs of their work. Two working groups were established to operate attached to the Donors' Forum. The first was an expert group composed of lawyers, auditors, tax advisers, and experts on charitable and non-profit sector. They were supposed to prepare a specific legislative bill. At the same time, the other group was established, composed of representatives of non-profit organizations. This group was supposed to participate in commenting and enforcing the proposed legislative bills and in the cooperation on organizing the related communication campaigns. After about a year of work, the group came up with a bill that would allow for natural persons-income tax payers to designate 1% of their tax. At the same time, the group was developing the subject-matter of the special bill on designations which describes the specific mode of functioning of the percentage tax designation scheme.

In its explanatory memorandum to the bill, the group explains why they opt for this procedure. *"The introduction of the percentage tax designation scheme is proposed in two steps: an amendment to the Income Tax Act that will create a space for the subsequent adoption of a special law on tax designations that will set the range of their beneficiaries and the conditions of their granting. This solution is more appropriate from a legal standpoint than an indirect amendment of the Income Tax Act. The proposed procedure also allows to separate the political decision on tax designations to be taken in the form of their integration into the public finance reform from the subsequent discussion about the specific mechanism."*²

The Initiative for 1% originated on the basis of the work of the Donors' Forum in 2003. The Initiative for the 1% is an informal grouping of non-governmental non-profit organizations, supporting the introduction of the possibility to designate 1% of the personal income tax to publicly beneficial purposes. The Declaration of the Initiative for 1% was drawn up on 15 September 2003, in which non-profit organizations expressed their support for the implementation of designations. They were of the opinion that i) citizens should also decide about public funds directly; ii) the introduction of the percentage tax designation scheme would help to make the inflow of money to regions more even; iii) would mobilize citizens and contribute to establishing closer relationships between citizens and non-profit

² *The draft of the subject-matter of the bill on tax designations, drawn up by a group attached to the Donors' Forum, published on www.rozhodni.cz.*

organizations.

More than 60 individual organisations signed the Declaration as of 1 August 2005. In addition to the work on the bill itself, the Donors' Forum focused on communication. The communication targeted two basic groups. The first group included journalists and non-profit organizations themselves, the second group consisted of politicians and public administration. Until sufficient support and understanding of the problem was received from non-profit organizations and politicians, information campaigns would not focus on the general public. (The given fact may be the reason for the failure to launch a media debate and to encourage journalists to deal with designations.)

The Initiative for 1% drew its inspiration for the campaign from foreign, especially Slovak experience. In 2003, the information website www.rozhodni.cz was launched. The principle of designations is explained, declarations and statements of the Initiative 1% and updated information about designation are published on the website. The Donors' Forum published brochures, attended seminars for NGOs and politicians. It draws attention to examples from abroad that it has been monitoring.

The Arguments Presented for and Against Introducing the Percentage Tax Designation Scheme

Opinions on the introduction of the percentage tax designation scheme in the Czech Republic have not been unanimous. Both pros and cons of its introduction appear in the discussions.

Arguments Against

The economic theory does not deal with the problem of percentage tax designations in depth; the majority of economic opinions in the Czech Republic refuses percentage tax designations asserting that percentage tax designations undermine the basic purpose and principles of taxes for several reasons:

- i) Taxes should be nonpurpose. The nonpurpose character of taxes is seen from two perspectives. The first perspective emphasises the fact that the tax imposed on a specific tax object is not related to the financing of any area that is somehow connected to the object. The second view emphasises the fact that the taxpayer is not allowed to select the area that will be funded from his or her taxes. According to opponents, the introduction of designations would be basically in conflict with the nonpurpose character as seen from the latter point of view.
- ii) Taxes are non-equivalent, no adequate volume of goods and services is provided by

the State as a consideration for the individual financial performance towards the State. The introduction of designations could enable a certain degree of equivalence in the tax system.

iii) Percentage tax designations are not fair, they undermine the horizontal fairness of taxes – i.e. when there are two taxpayers with the same taxable income and one of them makes designations and the other does not, the first contributes to cover the payments of public goods less than the second taxpayer.

iv) Taxes are used to finance public goods on the basis of collective decision-making. Through tax designations, the State would favour one of the purposes that do not basically have to be funded as they are outside the State's domain. It can even be assumed that there is actually no consensus on the need to support publicly beneficial activities. In that context, the Deputy Kocourek expressed his opinion in the debate on the bill on designations from 2002 held at the Chamber of Deputies as follows: *“Through their proposal, the sponsors of the bill want to give citizens an opportunity to take their own decisions about a percentage of their taxes. ... The sponsors give citizens an opportunity to decide about a percentage of their taxes themselves, however, only in one direction, i.e. towards non-profit organizations. I ask, why shouldn't citizens decide about their own taxes for themselves? And this is called tax reductions. I think that this is the only way to enable everyone to make decisions about their money absolutely responsibly and also to declare responsibly whether they want to keep them, what they want to do with them, or whether they want to give it to someone else. But this is called “tax reduction”, not tax designations.”*³ The given opinion is further presented in the sense that support to publicly beneficial activities (philanthropy) should be left up to free decisions of citizens and should rather acquire the form of donorship and volunteering.

The following can be listed among further arguments against the introduction of tax designations that were declared:

i) Tax designations represent an anonymous form of donorship – as with public collections, the organisation will know neither who designated the tax to them nor how many taxpayers made a designation. Non-profit organizations will not be able to establish a deeper relationship with the payers of tax designations.

ii) There is no uniform definition of the non-profit sector determined in the Czech Republic – the public benefit has not been defined, there is no key to the ratio of the need for financial assistance between mutually and publicly beneficial non-profit organisations, there

³ *The stenography of the 46th sitting, in February 2002, of the Chamber of Deputies of the Parliament of the Czech Republic, 1998-2000.*

is no uniform central register of non-profit organisations that are active in the non-profit sector.

iii) The threat of inefficient allocation – there is a risk of inadequate or imperfect foreknowledge of taxpayers who would succumb to the media pressure of financially strong non-profit organizations. Small non-profit organizations do not have sufficient financial resources for the creation of a comprehensive marketing campaign and fail to reach a sufficient number of taxpayers. The media can also significantly affect the general public through preferences given to some organisations during promotion campaigns.

iv) Other arguments – the introduction of designations brings along the risk of gradual reduction of subsidies provided by the State and the risk of changes in the tax systems, such as cancellation of the tax relief on charitable donations.

Arguments for

The arguments for the introduction of the percentage tax designation scheme are mostly formulated by representatives of non-profit organizations and their supporters; they can largely be described as non-economic arguments.

i) Financial securing of the non-profit sector – the introduction of tax designations extends the scope of possibilities of financing of the non-profit sector. However, tax designations are not supposed to replace any of the existing means of support to non-governmental non-profit organizations, such as for example state subsidies or the tax relief for donors. Tax designations are a new direct aid from public sources, which complements the existing tools.

ii) The tool for decentralisation of the state aid - decentralisation of the state aid to non-governmental organizations can be understood in two ways: decentralization in terms of distribution of resources within the sector and between individual organisations in terms of distribution among the regions. For example, the Donors' Forum in their explanatory memorandum to the bill states that designations should lead to a greater number of recipients of financial aid, including small organisations, and secondly to more even distribution of funds to organizations operating in the regions.⁴ In 2005, the sponsor of the bill, the Deputy Kořistka, in his arguments for the introduction of tax designations states: *"Thanks to the introduction of designations, the state administration could be more decentralized because*

⁴ *The draft of the subject-matter of the bill on percentage tax designations, drawn up by a group attached to the Donors' Forum, published on www.rozhodni.cz.*

the citizen can decide about help in the areas that are out of the State's reach."

iii) The method of activation and motivation of the non-profit sector – the possibility to access certain resources stimulates organisations to develop some activities, but the question is what are the activities and to what extent are they beneficial? Designations force organisations to increase the transparency when providing their services and using their resources.

iv) The manner of philanthropy education for citizens. Designations represent one of the forms of expression of support to certain activities. For the citizen – taxpayer, it may be an attractive form because it actually costs him or her nothing. Thus, he or she is repeatedly forced to decide on designation recipients and is drawn into the activities and problems of the recipients. The introduction of the percentage tax designation scheme can hence be a useful tool that supports civic philanthropy. Percentage tax designations enabling people to decide what activities their money is to be allocated to could enhance the possibilities of involving citizens into the procedure of political co-decisions determining what the public benefit is.

v) Other arguments- percentage tax designations confirm the legitimacy of non-profit organisations (*Bárta, 2004*), the resources obtained from them are not assigned to one single purpose as for example grants are (*Bělohávek, 2004*), percentage tax designations affect payment habits of taxpayers because they alleviate reluctance to compulsory taxes, increase communication between the non-profit sector and the general public.

The Optimal Model of the Functioning of the Percentage Tax Designation Scheme in the Czech Republic

The theoretical preconditions for the introduction of designations into the tax and legislative system of the Czech Republic were formulated by the professional public in connection with the submitted bill in 2005 as follows.

The percentage tax designation scheme will be introduced only for the personal and corporate income tax. In the case of natural persons, this tax is paid by a fairly high percentage of taxpayers, usually around 50% of the population of the respective state, therefore, the unfairness (as for example when designations are related to property taxes such as the real estate tax, the gift tax or road tax) could be at least partially eliminated. Certain injustice, however, remains. Some taxpayers would not achieve a sufficient tax base, also some population groups are not payers of personal income tax (students, seniors).

Percentage tax designations will range between 1-2% of the tax liability. The question was

discussed whether percentage tax designations should be expressed as an absolute amount or will be correlated to the tax obligation as its percentage. If the purpose of the introduction of percentage tax designations is activation of the non-profit sector and philanthropy education (not the financial security of the non-profit sector), the percentage may be relatively low. The percentage tax designations proposed in the Czech Republic were between 1-2%, which would prevent the undermining of the basic principles of the functioning of the State and the principles of collective decision making, and public choice.

Recipients of percentage tax designations will be organisations which perform publicly beneficial activities. The taxpayer will be allowed to select only one recipient of percentage tax designations. The aforementioned condition significantly reduces administrative costs of financial authorities on the one hand, and on the other hand motivates the taxpayer to choose the organization he or she actually considers to be the most beneficial, or whose activity he or she considers to be the most useful.

Percentage tax designations shall be as little bureaucratic as possible and shall "bother" the taxpayer as little as possible.

Organizations will have the obligation to publish the manner of utilization of designated means; organisations will be subject to control by the State. Public control shall be performed not only by state institutions, but also by taxpayers (the publicly beneficial organisation shall be obliged to publish an annual report containing financial statements and other specified information – the number of employees, the plan for future development, the by-laws of the organisation, bodies of the organisation, etc.). The organization, which is also a recipient of percentage tax designations, would be obliged to submit a special financial report on used financial means from percentage tax designations on a form issued by the Ministry of Finance.

Estimated Impact of the Introduction of the Percentage Tax Designation Scheme in the Czech Republic

In the case of introduction of the percentage tax designation scheme to the tax system of the Czech Republic, behaviour of the non-profit sector, the general public and the state administration would have to change to a certain extent.

The Change in the Behaviour of the State Administration

With the introduction of the percentage tax designation scheme, changes can be also expected in the performances of the state administration. Among others, the following changes can be expected in particular:

- i) In the volume of the resources that are allocated in the framework of the state subsidy policy. Three possible scenarios of development can be expected. 1) Percentage tax designations will be enforced, the State will not assent to any cuts of subsidies or reduction of the incentives for making donations; 2) percentage tax designations will be enforced, the State will assent to the cuts of subsidies but will not reduce tax incentives for making donations; 3) percentage tax designations will be enforced, the State will assent to the cuts of subsidies and will reduce tax incentives for making donations.
- ii) In the area of control. The control of the management of public funds will have to be strengthened, on the other hand, it can be expected that awareness and qualification of the officials will be increased, standards will be defined and simple control manuals will be created. This could lead to overall simplification, but mainly to increased efficiency and transparency of the control process.
- iii) As regards the overall approach to the non-profit sector, participation will be enabled in the political decision-making. One of the main reasons for the introducing of percentage tax designations is activation of the non-profit sector and creation of a relationship between citizens and the non-profit sector.

Change in the Behaviour of Donors

A change (if any) in the behaviour of the general public can be estimated from the poll, which was carried out in 2005 for the Donors' Forum.⁵ Of the entire sample of 509 respondents, 21.4% of them replied that they had heard (at least something) of percentage tax designations. To the question if they would like 1% of the income tax to be designated directly to a non-profit organisation of their own choice, 50.5% of the respondents replied that they would like to, 21.6% of the respondents considered this unnecessary and were of the opinion that the State would take better care of non-profit organizations. 27.9% of respondents said that they did not care. On the basis of the results of an opinion poll and foreign experience, it can be assumed that during the first year of the introduction of the percentage tax designation scheme, about 30-40% of taxpayers would make use of the possibility.

⁵ *Percentage Tax Designations, Public Opinion Survey for the Donors' Forum, drawn up by MEDIAN, an Agency for Research of the Market, Media and Public Opinion, June 2005.*

It can be expected that about 30-40% of taxpayers would use the possibility to make percentage tax designations in the first year after their introduction. The main source of information which designation-related decisions will be based on in the first years will be mass media, in particular television. For this reason, it can be expected that large, already well known organisations will establish themselves as the most successful recipients of percentage tax designations. Nevertheless, some decentralization may still happen. The vast majority of taxpayers will select an organization that they themselves or some of their close ones have personal experience with. A change in the behaviour and attitudes of the general public is caused, to a considerable extent, by a change in the attitudes of NGOs to the general public.

Change in the Behaviour of the Non-profit Sector

Generally, it can be stated that the possibility to obtain additional funds in the form of received percentage tax designations stimulates organisations to a particular activity. Organizations are forced to learn to communicate and distribute powers and responsibilities internally, or actively engage volunteers. A benefit would be if organisations in the Czech Republic were motivated to implement a real fundraising campaign. In the Czech Republic, only a minimum of organisations focus on the general public in their fundraising campaigns; the majority of organisations concentrate on fundraising at the level of public budgets, foundations and companies.

Calculation of the Financial Impact on the State Administration and the Non-profit Sector

The income of the state budget from personal and corporate income taxes has been almost continuously growing since 2003. The decline in 2006 was due to legislative changes (e.g. the reduction in tax rates for corporate income tax, accelerated depreciation in the first to third depreciation group, new support system for taxpayers with a dependent child, joint taxation of spouses, etc.). Reduction of the income tax collected in 2009 is mainly due to impacts of the financial crisis. By the end of 2007, the personal income tax had been progressive, ranging from 12 to 32% according to the level of income. Since 2008, the personal income tax has been 15% for everybody regardless of the amount of incomes (flat tax).

Table 1 shows the estimated maximum development in case the one percent tax designation is introduced. Taking into account the experience from abroad, the table has been supplemented with a calculation of percentage tax designations that would be made if 35% of taxpayers participated in the scheme.

Table 1: The development of income tax and an estimate of the designated sum

Year	Income tax in million EUR	An estimate of tax designations in million EUR, the maximum amount	An estimate of designations in million EUR (35%)
2001	5,695	57	2.10
2002	6,537	65	2.41
2003	7,065	71	2.60
2004	7,711	77	2.84
2005	9,146	91	3.37
2006	8,866	89	3.27
2007	10,399	104	3.83
2008	10,646	106	3.92
2009	8,169	82	3.01
2010	8,353	84	3.08
2011	8,431	84	3.11
2012	8,857	89	3.27
2013	8,818	88	3.25
2014	9,366	2540,5	3.45

Source: The Tax Administration of the Czech Republic

Giving by individuals

There are no systematic statistical data on individual giving available in the Czech Republic. To provide descriptive statistics of giving by living individuals, we have therefore looked at three separate indicators, which will not provide a full picture of individual philanthropy but can at least indicate trends over the past several years.

The first indicator is from data on giving in the Czech Republic that are collected by the Czech Statistical Office by means of three sources, which are described later. Two of these data sources are not publicly available. Here we present data from the Satellite Account of Non-profit Institutions (available only up to 2012). The development over time of the donated amounts is shown in Table 2.

Table 2: Uses of donations by individuals from 2005 to 2012

Year	2005	2006	2007	2008	2009	2010	2011	2012
Amount of gift in million EUR	478	441	598	418	406	397	396	407

Source: Czech Statistical Office

The second indicator about individual giving is found in the statistics from the Ministry of Finance about applications by natural persons for tax deductions on charitable donations made to NPOs. Most individual donations in the Czech Republic are made to collection boxes in the street and through text messages, i.e. without a consequent request for a tax deduction. The development over time of the donated amounts is shown in Table 3.

Table 3: Number of taxpayers and total amount of the value of donations

	Number of taxpayers	The total amount of the value of donations in million EUR
2006	132 470	49
2007	141 093	53
2008	110 614	52
2009	113 928	54
2010	116 959	55

2011	121 216	53
2012	124 096	57
2013	138 966	55

Source: Ministry of Finance

The third indicator is the Donors Message Service (Dárcovská DMS). The Czech Republic was the first country to introduce the DMS. The project was initiated by Czech Donors Forum, and gained significant popularity in the country and abroad. Donations via the DMS are easy to measure; the results are available at Czech Donors Forum. In 2014, people in the Czech Republic contributed nearly one million EUR to a variety of non-profit projects by text message donations. The number of non-profit projects involved in this text message donation service changes every month; in 2014, people contributed to almost 280 various non-profit projects.

Data on giving and philanthropic behaviour from individual donors are not collected on a regular basis and are, therefore, available to only a limited extent, typically from ad hoc surveys conducted by market research companies at the request of local non-profits. We obtained interesting information, for example, from a recent survey by STEM / MARK titled “How Are We Doing with Charity and Philanthropy?” According to reports over the last three years (2012-2014), 68% of Czechs (n = 2471) contributed in some way to the charity or charitable purposes.

Public funding

In the Czech Republic, subsidies from the state budget and budgets of regions, municipalities and state funds represent important resources in the area of financing of non-profit organizations. Some projects are also co-financed from EU funds.

The basic law governing the financing of non-governmental non-profit organizations is Act No. 218/2000 Coll., on the budgetary rules, as amended. Detailed provisions regulating subsidies granted by the central authorities of the state administration from the state budget to non-governmental non-profit organizations are contained in the *"Government Policy for the Granting of Subsidies from the State Budget of the Czech Republic to Non-governmental Non-profit Organizations by the Central Authorities of the State Administration"*.

Data on subsidies granted to non-profit organisations are drawn from the data referred to in the Analysis of Financing of Non-governmental Non-profit Organizations from Public Budgets (herein after only the Analysis). The Government's Council for NGOs has this document drawn up annually.

Table 4: The Development of the Volume of Subsidies Provided to Non-governmental Organizations from the State Budget of the Czech Republic

Year	The volume in million EUR	The percentage change as compared to the previous year
1999	80.04	--
2000	90.95	13.6%
2001	--	--
2002	118.69	30.5%
2003	140.76	18.6%
2004	160.35	13.9%
2005	129.38	-19.4%
2006	205.30	58.7%
2007	243.32	18.5%
2008	232.67	-4.4%
2009	210.18	-9.7%
2010	212.59	1.1%
2011	211.64	-0.5%
2012	246.28	14.9%
2013	258.47	4.9%

Source: The analysis of financing of non-governmental non-profit organizations, 1999-2012

Personal perspective

In my opinion, the argument expressed in the Parliament of the Czech Republic when the bill on percentage tax designations was rejected, namely that "percentage tax designations are an extraneous element in the tax system" is justified from an economic point of view. In my opinion, all the arguments that speak in favour of percentage tax designations are political, not economic ones. For me, it is a proof that the issues related to percentage tax designations, as a whole, are only perceived politically, thus unilaterally. Proponents of this approach to the support provided to non-profit organizations emphasize civic awareness of members of the respective state and of course the fact that this will contribute significantly to decentralization of resources, which will improve the situation of smaller regional non-governmental non-profit organisations. Furthermore, appeals are made that it should be an option, not an obligation to designate this part of the tax to publicly beneficial purposes. From this perspective, percentage tax designations basically represent some kind of a tax relief. The evidence presented in this paper clearly shows that percentage tax designations are not a very suitable instrument of fiscal policy. Arguments supporting this claim were several. I believe that the introduction of percentage tax designations is not correct from the systemic point of view. Percentage tax designations undermine both the principles of public finance and the principles of tax fairness. Hence, percentage tax designations should be rejected not on the basis of the type of the public goods that they are related to, but on principle. It is crucial that decisions about the public goods to be financed from tax revenues are political, i.e. collective decisions. The legal institute of percentage tax designations is therefore an incoherent, illogical combination of the obligation to pay determined taxes and the option to take individual decisions about how they will be used, which denies the sense of taxes.

None of the advocates of percentage tax designations has presented any exact analysis of their benefits and costs yet. Benefits are estimated based on the experience of a few countries. Precise quantification or at least approximate qualified estimates of expenses have been neglected. Although I am aware that this view is controversial, I am convinced that the introduction of percentage tax designations would not be a step forward but a step back in the Czech Republic.

I believe that if the attention paid to percentage tax designations were turned to permanent support to the development of corporate and individual philanthropy, it would be more beneficial in the long run. And not only for non-profit organizations and the state budget in

financial terms, but mainly for widespread distribution and “rooting” of the idea of altruism and philanthropy in the Czech Republic.

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