



ERSTE Stiftung
Studies

**Assessment of the Impact of
the Percentage Tax Designations:
Past, Present, Future**

Edited by Boris Strečanský
and Marianna Török

tax des/ignation

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Foreword

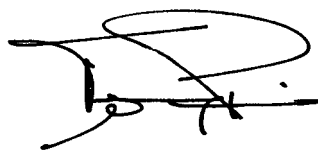
Research on Tax Designation: Learnings for a Stronger Civil Society

Non-Governmental Organisations (NGOs) play an essential role in helping to create stable and just societies and states. More civic actors means more opportunities for a wider range of disadvantaged groups to have their 'voices' heard, more autonomous organisations to act as 'watchdogs' vis-à-vis the state, and more opportunities for networking and creating alliances of civic actors. ERSTE Foundation recognises the importance of NGOs. We have been closely cooperating with the civil society sector, have been listening to their concerns and needs, and have adjusted our actions to best accommodate them.

One of the main concerns, especially among NGOs from Central and Eastern Europe (CEE), is the future of funding for this sector. Over the last 25 years, most funding for the civil society sector in CEE came from foreign donors, a trend that in recent years showed a steady decline. In addition to this, there has been a lack of government funding and slow steps in corporate funding, leaving the sector in a vacuum, vulnerable and fighting for survival, and a large number of marginalised and disadvantaged groups in jeopardy or not having their basic needs met.

Our contact with NGOs from countries which have already introduced tax designation for social and cultural purposes and our awareness of the declining number of international donors made us realise that this mechanism could be one possible solution for bridging the funding gap: a legal tool that allows taxpayers to allocate a certain percentage of their income tax to beneficiaries entitled to receive such funds. This research was primarily oriented to five countries with the aim of critically assessing its value and its impact, i.e. to evaluate the role of the mechanism in supporting civil society and in developing a philanthropic culture from a more long-term perspective.

We believe that the lessons learned and presented in this research could be instrumental and useful to policy makers, donors and civil society actors not only in the countries that currently use the mechanism, but also in other countries that are looking for innovative approaches to raising public funding for civil society or other ways to strengthen civil society.



Franz Karl Prüller

Chairman of the Board
ERSTE Foundation

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Executive summary

The subject of this study is the percentage tax designation system as a phenomenon in the nexus of public finance allocation, public benefit/civil society realm and taxation. Its focus is Central and Eastern Europe (CEE), where the system has remained to be a popular policy instrument over twenty years.

This research had been prepared in 2014 and was conducted during 2015 in five CEE countries that use the percentage tax designation system: Hungary, Lithuania, Poland, Romania and Slovakia. It focused on four areas: 1) What the percentage tax designation system actually is and what it is not, 2) What is its role in funding of the non-profit sector, 3) What are its side effects and 4) What is the connection between the policy making and the results?

The research had a form of expert panel through country research associates that worked according to the unified methodology, using secondary quantitative and qualitative data. The data including the expert opinion were organized into the project's database.

The percentage mechanism was met with enthusiasm in the transitional phase of post-communist Central and Eastern Europe. It has offered a unique way of redistribution of state resources to public benefit activities in an environment that was resource dry with bureaucratic and un-transparent, politically biased public funding mechanisms. The percentage tax designation system works as a decentralised decision making mechanism where state resources, namely certain percentages of the income tax, are channelled, mostly to not-for-profit organizations (as well as other public and private entities with public benefit purposes), based on the decision of the taxpayers and therefore reflecting the societal needs as perceived by taxpayers.

While this system is often referred to as *"percentage philanthropy"*, it is wrong to call it *"philanthropy"* as the resources used are not private resources, but resources that must be paid anyway as income tax. It is also wrong to assume that the mechanism supports the non-profit sector at large, as not only, and not all not-for-profit organizations benefit from the percentage mechanism. Nevertheless it is true that the system aims to support the public good.

The procedure, and at the same time the key feature, of the mechanism is that a taxpayer communicates its decision regarding the chosen beneficiary of the income tax percentage allocation to the tax authority and based on that, the beneficiary entity receives the financial designation together with other designations to be used in the given year- is the same throughout the years and countries. Small technicalities of the operation vary from one country to another and adjustments in the processes and procedures can influence the outcome.

The review of the perceived effects and intended policies suggests, that today, in many of the percentage club countries, there is a modest but distinctive contribution of the mechanism towards the sustainability of the public benefit organizations, especially the NGOs. The percentage mechanism has been noted as an important source of revenue to many organizations that is estimated to have provided around 5 billion EUR support to a variety of beneficiaries in Europe over the years. Still, this source is a small portion of the overall revenues of the non-profit sectors (around 2%). At the same time, it is an important and often only source of revenue to many non-profit organizations in the region. The system has grown over time in terms of the number of beneficiaries and amounts they receive. Crowding out of state and private resources can not be observed (the latter point is also supported by the cases of Poland and Hungary) even though incentives for individual private giving have lessened in most countries.

Besides the area of financial viability, the mechanism has produced visible benefits and added value to civil society organizations in all percentage club countries in the area of public image as visibility has increased and communications skills have developed. The flexibility and predictability of the mechanism has contributed to the stability of the third sector. This unique way of channelling public funds has provided state resources to recipients that would otherwise have limited access to them. In addition, in all of the studied countries positive changes occurred in the associative dimension of civil society and in philanthropic activities, but these can not necessarily be attributed to the percentage mechanism.

There have been some unintended effects that raise point of concern. On the level of understanding of the concept, there has been an ongoing misunderstanding of the percentage tax designation system with philanthropy. One of the rather negative side effects or unrelated occurrences of the percentage designation from the perspective of the sustainability of NGOs has been the abolishment of fiscal incentives for giving in several countries.

The systematic policy evaluation regarding the percentage tax designation mechanism is lacking in most countries. The system does not stagnate: changes and adjustments are frequent; the proportion of taxpayers using the system, the amounts designated, the number of beneficiaries has been growing (with a slower speed and sometimes small decline in some countries in recent years). The system that once was an innovative policy solution has become part of the in-country status quo that the societal actors live with and enjoy the benefits of. The system continues to operate in all countries and it is found to be used in new ways in these countries. In addition, after twenty years of the percentage tax mechanism was started in Central and Eastern Europe, a new country (Moldova) has enacted a percentage legislation in 2015.

tax de%ignation

Chapter I.

Background

Boris Strečanský and Marianna Török

The percentage tax designation system concept emerged in Central and Eastern Europe in the policy debates around the issue of church and civil society funding in the early nineties (1992-1995). First in Hungary (1996), then later on in other countries, newly democratized governments were looking for ways to establish new relationships with these societal actors.

After discussions among stakeholders, a mechanism emerged in Hungary and later on in Slovakia, Romania, Lithuania and Poland, as a public finance innovation that channelled public funds to civil society for public benefit purposes in a decentralized way. Today, it has a slightly different form in each country, but the core principle is the same: the mechanism grants a right to a taxpayer to designate 1%, 2% or 3% of paid income tax to a non-profit, non-governmental organization or other type of public benefit entity, as well as to a church or a political party.

The main rationale for introducing the mechanism was to support the development of civil society, to develop a philanthropic culture and tradition, as well as to de-politicize the government funding of civil society. The mechanism has had several observed side effects in some countries – such as the abolition of tax incentives for giving, or increasing public awareness of civil society.

The new mechanism attracted interest of researchers, especially in Hungary, the innovator in the region. The mechanism was described and mapped, as it was a very new instrument in both fiscal and legal environments. While there was an excitement around the mechanism, there were also voices of caution around it and the research community was looking at its potential of crowding-out other public or private funding.

Later on, between 2004–2008, after replicating the mechanism in other countries, NIOK (Non-Profit Information and Training Centre, Hungary) conducted the largest comparative research of the mechanism to date: the Percentage Philanthropy Research Project. However, the comparative part was conducted in a very early phase of the mechanism in other countries of the region, so its contribution was mostly in capturing, reflecting and identifying initial steps.

Today, twenty years after the introduction of the mechanism in Hungary and ten years after the latest and only comparative research, a need has emerged to evaluate the mechanism in light of its original ambition: to evaluate the role and impact of the percentage tax designation system on civil society based on experience in the Central and Eastern European countries (CEE): Hungary, Lithuania, Poland, Romania and Slovakia.

The lessons to be learnt from such effort could be instrumental and useful to policy makers, donors and civil society actors not only in the countries that currently use the mechanism, but also in other countries looking for innovative ways to fund civil society.

The research project that emerged from this context and whose outcomes are presented in this publication consisted of two phases.

The first and initial phase, conducted through 2015, was focused on **generating new knowledge** and answering the content questions related to the research (impact of the mechanism).

The second phase, part of which is this publication, was focused **on dissemination of results** and findings to various audiences – civil society realm, policy development arena and civil society/philanthropy research in the CEE and beyond with the purpose of providing knowledge for more informed conversation in each of the three spaces as well as among them.

Project Partners and Collaborators

The research project that has been commissioned by the ERSTE Foundation has been implemented by the Center for Philanthropy, a not-for-profit organization in Bratislava, Slovak Republic. The international team of country research associates (CRAs) from Croatia, Czech Republic, Estonia, Hungary, Italy, Lithuania, Macedonia, Romania, Serbia, Slovakia operated under the coordination and guidance of lead researchers Dr. Marianna Török and Mr. Boris Strečanský. The team combined practitioners' as well as researchers' perspectives on the tax designation issue. Researchers were not only from the tax designation countries but also from countries without the mechanism.

Four Hypotheses

The researchers formulated four hypotheses that the research attempted to test – to challenge or to confirm:

HYPOTHESIS I.

The “percentage systems”, often called “percentage philanthropy mechanisms”, are different but similar. There is no existing definition of what these similar systems really are. As they all bear some common features, it is assumed that across countries such mechanisms are used to transfer state resources to the non-profit sector in a decentralised manner, reflecting on societal needs as perceived by taxpayers.

HYPOTHESIS II.

Since the implementation of the percentage system, the non-profit sector is believed to be in a financially better position. It is also assumed by many that the percentage tax designation mechanism provides substantial financial contribution to the revenues of the non-profit sector, some believing it to be one of the most important sources of funding.

HYPOTHESIS III.

It is believed that besides providing monetary support to public benefit purposes, the system has had numerous, mostly valuable side effects, some of which are in direct relation with the sustainability of public benefit organizations, especially the non-profit sector, and some that reach beyond it.

HYPOTHESIS IV.

It is hypothesized that the lack of rigorous policy evaluation of the mechanism results in a stagnating system, where changes and adjustments are rare and the results are foreseeably reaching their plateau without using the mechanism to its full potential. The system, that once was an innovative policy solution becomes part of the in-country status quo that the societal actors live with.

Methodology

In the initial phase of work, the project leaders identified five groups of countries:

- I. The so-called “Percentage Club” countries, where some version of the percentage tax designation system is in operation: Hungary, Italy, Lithuania, Poland, Portugal, Romania, Slovakia and Spain.
- II. The so-called “Potential” countries, where the issue has been seriously discussed by one or more groups of stakeholders: Croatia, Macedonia, Serbia and Ukraine but no decision has been made regarding its implementation.
- III. The so-called “No” countries, where the issue had been seriously discussed by one or more groups of stakeholders, and it was decided not to implement the mechanism: Czech Republic and Estonia.
- IV. The so-called “Not-in-operation yet” category, where the law of a percentage tax designation system has been passed but it is not in operation yet: Moldova.
- V. The so-called “Other related countries” where something related to the percentage tax designation system is in operation: Japan.

Project leaders decided to focus on the “Percentage Club” countries in Central and Eastern Europe due to the fact that most countries with the percentage tax designation mechanism are based in this region and the socio-economic developments of these countries are relatively similar and comparable to one another. It was also decided that some attention will be given to Italy, the first country to introduce the mechanism.

In addition, to a lesser extent, information on the “Potential”, the “No” and “Not-in-Operation yet” countries will also be explored.

The project leaders organized preliminary conversations with researchers, civil society leaders and public administrators in order to determine the key questions of concern and map the available mass of “second hand” information about the various percentage tax designation systems, and to map the potential data sources (as the work did not include direct data collection).

As a result of these conversations, the key issues for the assessment have been identified and explored in three ways:

1. A common questionnaire was developed for the CEE “Percentage Club” countries with a list of qualitative and quantitative questions, which was filled in by the country research associates. It required a lot of research work, including data mining, studying financial and statistical reports, describing legal background, etc. The whole questionnaire can be found in the *Appendix 1*.

After the data gathering, the quantitative parts of the questionnaires were processed, and a common database was set up by datalogist, Dr. István Sebestény, to support the findings and tables found in the final text. The database contains various indicators calculated from the basic figures. In order to create a time series, data were drawn from each country in the year when the percentage tax designation system was introduced, as well as the fifth, the tenth and/or the most recent year of operation, respectively. Since sometimes there was no available information for a given year, and the introduction of the systems took place in different years, at the end, the four representative years – called snapshots – were assigned in time series (*Table 1*). The reference years are in each country as the follows:

Not all countries could provide all information. In these cases, the missing values were substituted by estimation or remained empty. Figures coming from the common databases are referenced in the background materials as “Per Phil database”.

Country	Introduction of percentage system	1. snapshot first year	2. snapshot fifth year	3. snapshot last/tenth year	4. snapshot last year
Hungary	1997	1997	2001	2006	2013/2014
Slovakia	2002	2002	2007	2012/2014	
Poland	2004	2004/2005	2009/2010	2013/2014	
Lithuania	2004	2004	2009	2014	
Romania	2004	2004	2009	2014	

*Table 1:
Snapshot in time series in five CEE countries to support “Per Phil Database”*

The original sources and availability of the national data are also listed in the Appendix. As no similar endeavor has taken place before, the work has faced serious challenges in data harmonization and even data availability.

The results of this work provide the core of the current publication and the www.taxdesignation.org website (that includes additional information).

2. Country Reports were collected from country associates to provide an overall and comprehensive picture of the percentage tax designation system as is (in the CEE “Percentage Club” countries and Italy) and as it has been considered (in the “Potential”, the “No” and “Not-in-Operation yet” countries). The reports contain narrative descriptions of the current state of the percentage tax designation system, with key achievements and challenges. These reports also highlight trends, key facts and figures. The published version of the work includes some of the country reports while the Internet version is complete with all additional information.
3. Additional papers were commissioned on key cross-cutting issues and challenges of the designation that raise interesting questions about the mechanism, and describe the key questions relevant in the system today, highlighting trends and expressing local researchers’ personal view with as much concrete background information as possible, interviews, case studies, references etc.

The project leaders organized two working meetings and a closing conference. The final publication was developed as a comprehensive summary and analysis from these different sources in continuous collaboration among authors and the country researchers. The project maintains a website: www.taxdesignation.org.

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List of acronyms

- CEE Central and Eastern Europe
- CIT Corporate Income Tax
- CRA Country research associate
- CSO Civil society organization
- CZK Czech Koruna
- EU European union
- HCSO Hungarian Central Statistical Office
- HUF Hungarian Forint
- NISC Non-Governmental Organization Information and Support Centre
- NPO Not-for-profit organization
- NGO Non-Governmental Organization
- NTCA National Tax and Customs Administration of Hungary
- OECD Organization for Economic Cooperation and Development
- PLN Polish Zloty
- PBO Public Benefit Organization
- PIT Personal Income Tax
- RON Romanian Leu
- USAID United States Agency for International Development

Chapter II.

What is a “percentage tax designation mechanism”?

Marianna Török

As several countries have made their own version of the percentage tax designation mechanism, the arising question is: what can be defined as the “percentage tax designation mechanism” (often called percentage philanthropy). Is it always true that by this mechanism state resources are transferred to public benefit purposes in decentralised manner, reflecting the societal needs as perceived by taxpayers? The questions, such as who can make use of this mechanism and who are the beneficiaries, what percentage is allocated through this system, and the questions around the process of designation itself are to be discussed in this chapter. The goal is to figure out a definition of the percentage tax designation system based on the case at hand. The broadly understood percentage mechanism, as well as a narrower concept (where the primary beneficiary group is civil society based not-for-profit entities), are conceptualized here.

The Concept

The *“otto per mille system”* is a mechanism through which Italian taxpayers can elect to assign a per mille of their annual personal income tax intended for social services to one of the country’s religious organizations or to the state (Allen 2007, 173) (Tremonti 2015, 231-234). The purposes of the designation in this system are primarily religious (the exact use is laid down in agreements between the government and the churches). In case of the Catholic Church, the purposes are specified in article 48 of the 1985 law: “worship needs support of the people, support of the clergy, and charitable activities in favor of Italian society and the Third World”¹.

The idea of the percentage tax designation system emerged in the policy debates beyond Italy. In some countries, the option to implement the system is still debated; in others, such as the Czech Republic and Estonia, it was discussed and decided not to adopt a similar mechanism. Some form of a percentage system was discussed and has materialised not only in Italy, but also in Hungary, Japan, Lithuania, Slovakia, Spain, Poland, Portugal, Romania, and most recently in Moldova. In Portugal, initially discussing the system for religious purposes only, one can now allocate a share of the income tax to both public (charities) and private organizations (public utility institution of benevolence, assistance or humanitarian purposes or private social welfare institutions). In Spain, taxpayers can transfer 7% of their income tax to Church or to “other social purposes” (usually these are projects related to social issues such as poverty, social exclusion, seniors, immigration, and also projects directly related to quality of life). In case of Portugal and Spain, one can not directly choose the beneficiary (Montedore and Marucci 2011, 59-74). In Spain, if the “Church” box is marked on the declaration, the money will be allocated to the liturgy expenses while the money collected through “the social causes” box is used to finance social projects selected by the Ministries of Social and Foreign Affairs. Similarly, in Portugal since 2001, a 5/1000 can be transferred, but taxpayers cannot choose a concrete beneficiary entity. Percentage allocations are part of state support that is the most important financial source for voluntary organizations in Portugal, followed by self-generated income from member contributions (Franco 2006).

These examples can be considered to be a broad interpretation of the percentage model. The Ichikawa city government in Chiba prefecture of Japan² operates with a broad variation of the model as well. It has opted for a model where the idea is based on the percentage system but it is on a local government level and not on the state government level. It is also worth to note a most exciting variation introduced in Slovakia that enables corporate bodies to participate in the tax percentage system and allocate a given percentage of their taxes that has had important positive consequences on the financial well-being of not-for-profit organizations in Slovakia.

The percentage designation mechanism, as a broadly understood concept, is a mechanism that channels public resources (collected from taxes) in a decentralized way to public benefit purposes. **The essence of the percentage designation mechanism is that it grants the right to a taxpayer to designate some part of paid income tax to public benefit purposes.**

Different countries have introduced different systems. For example, in the original Italian *otto per mille* model, the beneficiaries are churches. Later, Italy used the same model to benefit other entities as well, such as the not-for-profit organizations and political parties. In other countries, beneficiaries can be non-profit, non-governmental organizations, or other types of public benefit entities, churches, and political parties.

While this publication reflects on the broad concept of the percentage tax designation, its focus is one particular type of percentage mechanism where its primary aim is to benefit mostly civil society’s not-for-profit entities (not the ones that primarily target churches and political parties); where public resources of central government are redistributed (as opposed to local government resources); where decisions are made by individual taxpayers (as opposed to corporations) who name a concrete entity as a beneficiary and the taxpayers’ choice is not challenged.

This research focuses on the assessment of the “percentage designations benefiting not-

¹ <http://www.8xmille.it/rendiconti/ripartizione2012.pdf>

² The Ichikawa city government in Chiba prefecture, according to their website, has been running a system based on the percentage mechanism for ten years (Special thanks to Junko Chano, President of the Sasakawa Peace Foundation for providing this information).

for-profit entities” from taxes paid to central government based on the decision of tax-paying individual’s concrete choice of entities to support. There are six countries that fit the narrower definition, out of which special attention is given to countries of Central and Eastern Europe (Hungary, Lithuania, Poland, Romania and Slovakia) with reflections on the sixth country, Italy, where a 0.5% (cinque per mille, i.e. 5X1000) mechanism was introduced to benefit not-for-profit and other entities (in addition to the otto per mille (8X1000) and the 2X1000 mechanism for political parties).

The focus of our attention in this assessment is the effect of the percentage mechanism on the development of the non-profit sectors and its organizations in the CEE countries.

The Designator “donor”

Delegating the decision-making power to a taxpayer to distribute a portion of her/his taxes is an essential feature of the mechanism, and it is an innovative policy solution. Such a solution is unprecedented in the post-communist region and can be considered to be a unique form of a participatory budgeting rather than philanthropy. Generally, individual taxpayers can use this opportunity, and in Slovakia, corporations also have the option to designate a certain percentage of their taxes³.

In the percentage mechanism system examined here, individual taxpayers are making their own autonomous decisions (without any political or economic influence) that are respected and not challenged by any entity (for other than formal reasons). The individual aims to support the public good, to relieve the pains of social problems and to improve quality of life for people, as it does in the case of philanthropy and charity. Still, there is a major difference between percentage designations and philanthropy. In the case of philanthropy, private resources are used while in the case of the percentage mechanism, the allocated resources are related to personal earnings, but they are taxes that the individual would pay anyway. This is why this mechanism should not be considered philanthropy and the allocated resources are not donations. This also means that the percentage designation option is only available to taxpayers, unlike philanthropy, that is open to anyone. It is generally true that the law is applicable to all taxpaying individuals⁴ (with minor limitations in some countries).

In the five “Central- Eastern European Percentage Club/CEE Percentage Club” countries (Hungary, Lithuania, Poland, Romania and Slovakia), almost half of the population, around 17 million of all individual taxpayers (out of 40 million individual taxpayers, *Table 2*), use this designation mechanism.

An additional 16.7 million taxpayers (*Montedore and Marucci 2011*), use the mechanism in Italy totalling 34 million people a year in Europe.

	Population (millions)	Taxpayers (millions)	Designators (millions)
Hungary	9.9	4.6	1.9
Poland	38.5	24.2	12.0
Slovakia	5.4	1.9	0.6
Lithuania	2.9	1.0	0.5
Romania	20.0	7.6	1.7
“Percentage Club” total	77	40	17

Table 2:
Population, number of taxpayers and designators
in the CEE Percentage countries based (“Per Phil
database” based on national data sources)

³ A separate paper in this publication assesses this special form.

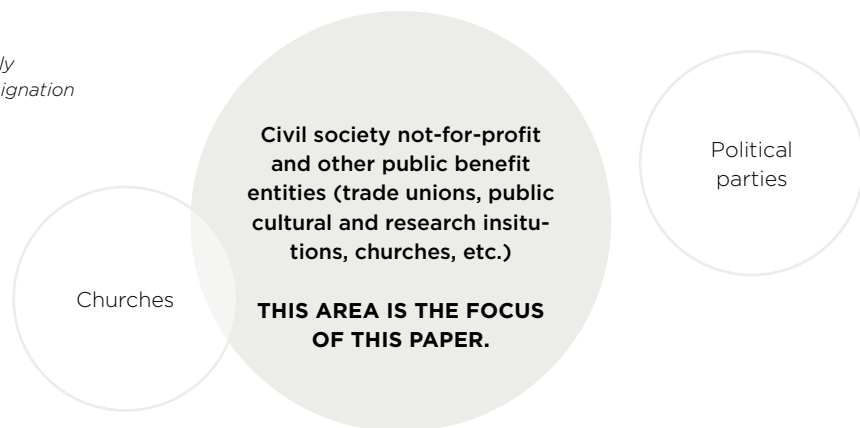
⁴ A minor variation on the basic mechanism operates in Hungary and in Slovakia, for example, that excludes those individual taxpayers whose taxes are so low that transferring their percentage makes no financial sense.

Beneficiaries of the Percentage Laws

The percentage tax designation system is often viewed as a financial support mechanism for the non-profit sector/civil society organizations. This section will provide evidence that this claim does not fully hold true for three reasons.

1. Firstly, in the broadly understood percentage tax designation mechanism, beneficiary groups can be churches as well as political parties and civil society-based not-for-profits in some countries (Figure 1). In Italy, for example, there are three different percentage mechanisms targeting different beneficiaries: there is a percentage mechanism for churches, another for political parties and another for not-for-profit entities. In the five CEE countries, there is a maximum of two separate mechanisms, mostly a mechanism for not-for-profits and another one for churches (e.g. Hungary), or a mechanism for not-for-profits and another one for political parties (e.g. Lithuania). In Poland, Slovakia and Romania, there is “only” one percentage mechanism for not-for-profit and other public benefit entities.

Figure 1:
Potential beneficiaries of broadly
understood percentage tax designation
legislations



This means that the broadly understood percentage mechanism can benefit entities that are not-profit making, such as churches and political parties, but may not necessarily be civil society-based not-for-profit ones, as is the case in most of the countries (such as cultural or research institutions).

2. Secondly, one needs to note that even in the narrowly understood percentage mechanism of this research, where the primary beneficiary group is civil society based not-for-profit entities; other types of legal entities (from the public or private sector) are often included in the same group as eligible entities for the given percentage designation.

While the mechanism is often perceived to benefit “grass-root” not-for-profits only, in some countries, churches, public entities, trade unions, and even needy individuals can be beneficiaries of this system (Table 3).

It's incorrect to assume that the beneficiaries of the percentage mechanisms are only civil society based not-for-profit organizations. There are at least three broad category variations of the percentage mechanism in the six countries examined; and even where the mechanism is generally believed to be benefiting civil society not-for-profit organizations only, other legal entities are included. Therefore assuming that the percentage designation is used for civil society (non-profit sector) only is inaccurate.

Table 3: Beneficiaries of percentage legislations in the CEE countries (not including the additional percentages in Hungary and Lithuania)

HUNGARY

1. Public institutions which are declared to be eligible at the political decision makers' discretion:
 - nation-wide cultural institutions (their list is included in Article 4 of the Law), and
 - local cultural institutions (theatres, museums, exhibition halls, community centres) which received subsidies from the municipalities in at least one of the last three years.
2. Non-governmental organizations which are engaged in preventive medicine, health care, social services, culture, education, research, public safety, human rights, environmental protection, protection of cultural heritage, sports and leisure time activities for the youth and the disabled; care for the elderly, children, the poor, the handicapped, national and ethnic minorities, and Hungarian minorities in foreign countries if they belong to the following groups of institutions and also meet some other requirements:
 - institutions run by churches which were officially registered not later than 3 years before the year of the tax declaration;
 - public law foundations regardless of their year of establishment;
 - private foundations and voluntary associations which
 - are registered in Hungary and have been in existence for at least 3 years;
 - are independent of political parties and do not support candidates for political office; *and*
 - are not in arrears with tax and duties, or they agree that the amount they would receive from the personal income tax is used to pay or decrease their debt.

POLAND

Beneficiaries include the NGOs, which obtained the status of public benefit organizations, including:

- NGOs understood as institutions, which are not public sector entities and do not operate for profit,
- legal persons and persons without legal personality, including foundations and associations,
- legal persons and organizational entities of the Polish National Catholic Church, and other churches and religious communities,
- associations of regional or local government bodies (Law of 24.04.2003).

Public Benefit Organization (PBO) - is a specific legal form of organization in Poland, which makes it possible for these institutions to use many privileges, including the 1% of income tax benefit. The donors can provide it to concrete organizations enjoying the public benefit status. In compliance with one of the conditions

introduced in 2010 (Law of 22.01.2010), the organizations must incessantly conduct their social activity for at least 2 years. In order to provide an incentive for public benefit organizations to report on their activities, a principle was introduced providing that only the organizations which duly submit a substantive and financial annual report will have the right to use the 1% "donations".

SLOVAKIA

The original legal definition explicitly provided a list of potential recipients combining "grass roots" NGOs with another type of NGOs with various specific characteristics, such as church organizations or international organizations. Among the listed NGOs, there was one with a prominent position, namely the Slovak Red Cross. Two subsequent law amendments had broadened the original list, either by an explicit definition of a particular recipient category, e.g. Fund for the Development of Vocational Training (in 2009) or by enlisting/creating a new general category of potential recipients, e.g. subjects of research and development (in 2009) that include legal entities from the state sector (research institutes of Slovak Academy of Sciences), public or private universities, and even business sector entities that are registered as R&D subjects.

LITHUANA

In Lithuania, the beneficiaries of percentage scheme were described as entities, which possess the right to receive charitable donations. The status of charitable donations recipients in Lithuania is regulated by separate legislation – the Lithuanian law regulating charitable donations stipulates that the following entities registered in Lithuania have a right to receive donations (after they had applied and been granted the above mentioned status): charitable foundations, public (state financed) institutions, associations, public enterprises (private non-profits), churches, branches of international organisations, foreign Lithuanian (expatriates) communities other non-profits. The 2015 amendments extended the eligible entities to "natural persons who have art creator status (artists)."

ROMANIA

The recipients of the initial law were "nonprofit entities". These included NGOs established under law 21/1924 (associations, foundations and federations). The 2007 amendments introduced 2 new types of beneficiaries: religious organizations (churches, parishes, etc.) and private persons as recipients of private scholarships. The rationale behind this was to create a new income stream for religious organizations and to create a decentralized funding source for merit- or need-based scholarships.

NOT-FOR-PROFIT ENTITIES AS PRIMARY BENEFICIARIES

The intent to support not-for-profit organizations as entities of public benefit purposes⁵ is evident in all the six European countries.

In Poland, beneficiaries of the percentage mechanism include only NGOs that have obtained the public benefit status; in Lithuania the beneficiaries of the original law were entities that possess the right to receive charitable donations; in Romania the beneficiaries of the original law were “non-profit entities”; NGOs established under law 21/1924 (associations, foundations and federations) and religious entities were added in 2007; in Slovakia the original legal definition explicitly provided a list of potential recipients combining “grassroots” NGOs with other types of NGOs with various special characteristics, such as church-based and international organizations.

CHURCHES AS BENEFICIARIES

The possible inclusion of the churches among the mechanism beneficiaries can be understood when looking at its history in general as well as specifically in Hungary.

The concept of the percentage tax designation has roots in church financing policies of the 19th Century (Bullain 2004), which have typically acquired a form of a “church tax” mandatory for members of the church (of various denominations). After the French revolution, other countries were looking for ways to create a system of church financing, while clearly defining its separation from the state. This was common in Austria or Germany, for example, where there was a special church-tax, still in place today. The Italian model of otto per mille, established in 1985, and originally dedicated to support the Catholic Church after the reform of the Concordate in 1984, was referenced as a model in the first presentation of the concept in the Hungarian Parliament in 1991 (Bullain 2004). It is suggested, that in the Western European experience, the percentage tax designation concept served the purpose of a “specific, non-political way of financing the (Catholic) Church (and later, other churches) and also some state-determined objectives of public interests” (Bullain 2004). Later, as the CEE experimented with targeting the mechanism at the non-profit sector, Italy also expanded its mechanism to cover other purposes and beneficiaries beyond the churches.

The intended purpose and idea of the mechanism in Hungary, the first country in Central and Eastern Europe where the percentage allocation system for civil society not-for-profit organizations was introduced, reflected the structure of the Italian otto per mille. Hungarian policy makers were planning to create a similar law to include a broader group of beneficiaries. The churches, however, opposed the idea and thus the original law included two major types of the potential beneficiaries:

1. Non-governmental organizations⁶ belonging to thematic categories of their area of work that also meet some other requirements (public law foundations; private foundations and voluntary associations)⁷.
2. Institutions run by churches⁸ were included in the first version of the law. After passing the original Law (CXXVI/1996), its amendment a year later (Law CXXIX/1997) provided a separate 1% of the personal income tax option to the churches while keeping the original 1%. This has allowed churches to

⁵ Note that „public benefit” is not used as a legal term and is understood in its common meaning of public serving. Also note that public benefit law regulations tend to be different from percentage regulations, the treatment of the percentage system as a policy mechanism that can support purposes of public benefit are universal in all of the countries using the percentage mechanism.

⁶ An addition was made to this list in 1998 when the legislation on public benefit organizations defined public benefit activities. This more complete list also includes consumer protection, rehabilitating employment, training and employment related services for disadvantaged people, promotion of the Euro-Atlantic integration, services for public benefit organizations, promotion of flood prevention, and promotion of public transport.

⁷ which are declared to be eligible at the political decision makers’ discretion:

- nation-wide cultural institutions (their list is included in Article 4 of the Law), and
- local cultural institutions (theaters, museums, exhibition halls, community centers) which received subsidies from the municipalities in at least one of the past three years.

⁸ This group of institutions lost its eligibility when the 1% law was amended by the Law CXXIX/1997, which provided that, upon the taxpayers’ decision, another 1% of the personal income tax could be transferred to the churches.

receive their own 1%⁹. In this way a 1% plus 1% mechanism was developed so that churches are not in competition with the other group of 1% beneficiaries (mainly NGOs and some state institutions). Interestingly, in Italy, a percentage mechanism had been in place for years in churches, before the 0.5% system for not-for-profits (together with some other entities, like sports and research centres, universities, municipalities of residence) was introduced.

The 2007 amendments in Romania introduced the opposite concept (which is the very first Hungarian concept) in which religious organizations (churches, parishes, etc.) can be beneficiaries of the same 1% allocations (and compete with other secular civil society entities for their share of percentage allocations). This version of the model has been replicated in the most recently passed percentage legislation in Moldova, where the state has adopted an approach similar to the original Hungarian and the amended Romanian model, in which both NGOs and churches can be beneficiaries of the same percentage designations¹⁰ and compete with each other for the designations. Meanwhile, Hungary continues to use the model of a separate percentage allocation for NGOs and churches.

In Slovakia, from the very beginning, the mechanism includes “facilities of church and religious organizations” and does not include churches per se among eligible recipients. That means the mechanism supports legal entities that derive their legal subjectivity from the officially registered churches – these could be church charitable institutions, religious orders (brotherhoods and sisterhoods), etc. that are not considered churches, but rather institutions performing social, charitable, educational or spiritual functions directly related to the church. Thus the mechanism distinguishes between the church as such and social engagement of church through its subsidiaries, that fall into the narrower space of civil society not-for-profit sphere.

PUBLIC ENTITIES AS POTENTIAL BENEFICIARIES

The other broader group of beneficiaries besides NGOs and churches is the group of public/state entities. In Hungary, the reasoning to include such entities and trade unions among the beneficiaries of the percentage mechanism was driven by the need to find suitable financial models to sustain those numerous entities (e.g. cultural centres, museums, trade unions) that serve the public and were financed by the state during the Socialist regime, but could not be sustained after the collapse of the regime in 1989.

In Lithuania, where the group of beneficiaries is taken very broadly, public institutions have been argued to be part of the mechanism beneficiary group because they, too, need resources and deserve to be eligible to participate in the percentage scheme. Therefore it was proposed that all “public benefit institutions” in Lithuania would be able to receive 2% designations, regardless of their private or public origins¹¹.

For several years, some NGOs and politicians argued¹² that the “2% scheme” in Lithuania got distorted – the majority of designations should go to public (state run) entities, because it wouldn’t be fair to leave “2%” solely to NGOs as they are not better than public schools, hospitals or museums. At the end of the day, in this competition of taxpayers’ preferences, NGOs receive more financial resources from percentage designations than public institutions. (according to data provided by the Lithuanian State Tax Inspection¹³ **Table 4**)

⁹ This assessment is not dealing with the Hungarian 1% for churches as that is a separate issue.

¹⁰ Unfortunately there is no real data available about the end users of the resources in Romania. However, analysis of data before and after broadening the beneficiary base, suggests that NGOs and church organizations split the revenue relatively evenly. On the NGO side, main end users are organizations dealing with disadvantaged groups, health issues and education. Personal communications of ARC Romania with the tax authorities indicate that currently they are not able to provide information broken down by beneficiary organizations.

¹¹ Aurelija Olendraitė, Ar filantropijos daigais vėl maitinsime biudžetines įstaigas? NVO teisės institutas, 2015, accessed August 28, 2015, <http://www.nvoteise.lt/lt/node/232>

¹² “Dviejų procentų” vertės detektyvas, accessed August 28, 2015, http://www.donoryste.eu/lt/Dvieju_procentu_vertes_detektyvas.html

¹³ State Tax Inspectorate, Paramos apskaičiavimo statistika, accessed August 28, 2015 <https://www.vmi.lt/cms/documents/10162/7002313/Paramos+apskai%C4%8Diavimo+statistika/Oe6fac99-b289-4504-a46c-2d13b2dbf7d1>

Table 4:
List of beneficiaries
in Lithuania (not
including the sepa-
rate percentage for
political parties)

Recipient's legal form	Number of designations	Number of recipients	Amount (EUR)
Year 2013			
Association	156,239	8,732	3,900,370
Public (state run) institution	160,73	2,757	3,458,179
Public (non-profit) establishment	82,392	4,087	2,446,420
Charitable foundation	31,823	575	904,064
Condominium (gardeners, apart- ment owners etc.)	30,367	3,687	852,774
Traditional church	27,814	855	702,499
Trade union	8,420	381	190,808
Church	1,796	94	35,467
Private family orphanage	112	27	2,678
Chamber of commerce	0	0	0

There is no information available as to which public benefit sector receives most of the 2% designations in Lithuania. Available is only the breakdown according to a) legal forms of recipients, b) Lithuanian counties and c) top recipients list¹⁴. Similar to Lithuania, the number of public entities among the percentage beneficiaries, and their share of allocated resources is small in Hungary (receiving around 1% of the percentage allocations).

Irrespective of whether the state public entities are formally included in the legislation or not, an interesting debate resonates in the region regarding the mechanism being a channel of additional resources to public institutions that are traditionally financed by state and/or local government resources. The phenomenon is observed in all CEE countries, even in the countries where public entities are not formally included among the beneficiaries. In this part of the world, public kindergartens, public schools, or state hospitals are traditionally expected to be fully financed by public resources from taxes and used by the vast majority of population. As the public resources are dry, donations as well as percentage designations are being sought as additional resources beyond state and local government revenues. To be able to channel percentage resources, many state entities or people around those entities have set up not-for-profits (e.g. numerous parent-teacher associations in Hungary and Slovakia) or work with intermediary not-for-profits for a certain brokerage fee (e.g. in Poland and Slovakia) to benefit the given public entity¹⁵.

Finding data on the extent of this rechanneling was found to be impossible, as in most of the countries, these entities are formally independent not-for-profit organizations (civic associations) and therefore they fall into classic catch-all not-for-profit clusters, even when they are not true functioning organizations but simple revenue channels for public entities.

¹⁴ Official Statistics Portal, Juridinių asmenų gauta parama, accessed August 28, 2015, <http://osp.stat.gov.lt/web/guest/statistiniu-rodikliu-analize?portletFormName=visualization&hash=40c2e975-3378-4783-a399-a30858ae7180>

¹⁵ Or private entity – see discussion below on individuals as beneficiaries.

Interpretations of this phenomenon vary. Some find this alarming because they believe the percentage allocation is meant to make independent not-for-profit entities better off, and rechanneling is not in line with this mission. Others argue that the purpose of the mechanism is to finance goods of public benefit based on citizens' decision and whether the end beneficiaries are not-for-profits or public entities is secondary as they all fund the public good.

INDIVIDUALS AS BENEFICIARIES

Another debated issue is when individual people become beneficiaries of the percentage mechanism and compete with not-for-profits for the same percentage designation resources, as is the case in some countries.

In Slovakia, the law on tax designation (Demeš 2001), adopted in 1999, specified that any physical or legal person can be a beneficiary of the tax designation as long as the designation will be used for the public benefit purpose. This changed through an amendment of the law in 2001, before the tax designation came into implementation (which was 2002) and only not-for-profit organizations as legal entities could be beneficiaries (Demeš 2001).

A law was introduced in Romania (2007), where private persons as recipients of private scholarships can be beneficiaries of the percentage mechanism. The rationale behind this was to create a new income stream for either merit- or need-based scholarships and low income students, but it ended up to be rarely used.

On December 17, 2015, the Lithuanian Parliament passed two amendments allowing Lithuanian residents to allocate up to 2% of their income tax to "natural persons who have art creator status" (artists). This amendment comes into effect on January 1, 2017 and therefore no results can be discussed yet.

In Poland, private persons in need as a category has not been legislated, still, some key leaders in the Polish non-profit sector, such as Kuba Wygnanski, argue that "the mechanism was somehow privatized (and it was meant to serve public benefit). Quite often the role of the organization is limited to the role of a collector and a mechanical intermediary ... to ... obtain profit ... The resources from the percentage designations are ... transferred to an individual (often in health and social needs) or to other institutions such as schools or kindergartens. In 2014, when the 1% payment was made to nearly 7,500 organizations, over 25% of the total sum was collected by literally one foundation, which has been gathering funds for years through its so-called sub-accounts, directing the funds to individual people. Ten organizations from the top of the list (six of them are known as "intermediary in collecting funds" for the benefit of individual persons or institutions that do not have the PBO status) collect approximately PLN 180 million (for the whole amount of PLN 500 million obtained in 2014 from the 1% PIT mechanism)" (Conference presentation 2015). Because of these kinds of transfers, many organizations in Poland are disappointed and believe that the mechanism is not bringing the expected results of supporting not-for-profit organizations. A few people question the whole mechanism and whether it serves its intended purpose and if it should be used at all, while others argue that the general policy is still valid but change in the mechanism is needed to reflect the original policy intention.

- 3. The third and last point regarding the assumption that the non-profit sector is the beneficiary of this mechanism, one needs to note that not the whole non-profit sector benefits from it (Figure 2). In the CEE region where the mechanism is used, around 35% of the non-profit sector benefits from the mechanism.**

There are two arguments for this:

One, based on the non-profit sector demography, looks only at the the non-profit sector benefitting from the mechanism vs. the whole non-profit sector. Lithuania leads with the highest proportion of designated organizations at 80%, followed by 35% in Hungary, and 30% in Romania, 24% in Slovakia, while in Poland it is only 7%. In Italy, 12.5% of the sector is benefiting, the second lowest after Poland, of the seven countries examined. **This means that on average in these six countries, every third organizations benefits from the system; in the CEE the percentage is slightly higher at 34%.**

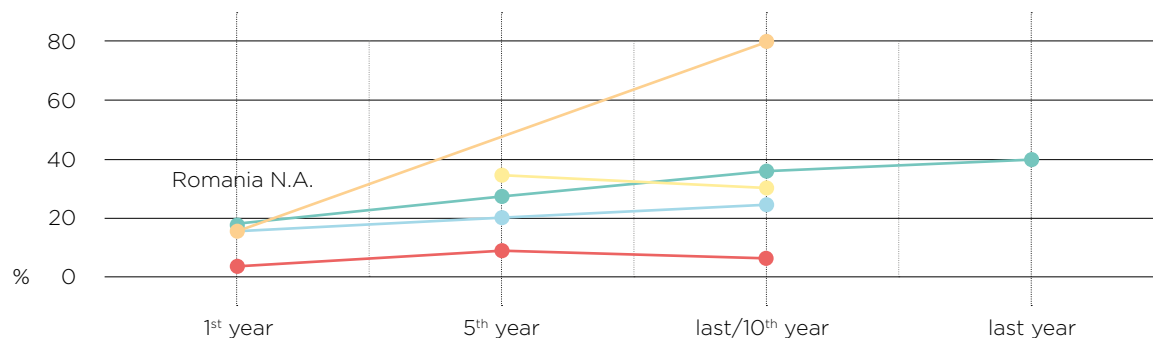


Figure 2:

Ratio of designated organizations among all NGOs over the years in five CEE countries (based on "Per Phil database" using national data sources where data is available)

● Hungary ● Slovakia ● Romania
● Poland ● Lithuania

There is a caveat in this reasoning that suggests that out of the total number of non-profit entities, there is a fair share of entities that either ceased to exist and were not taken out from the registries or are entities that are dormant and inactive, while being formally registered (Strečanský, Civil Society in Slovakia 2015) (Domaradzka 2015).

To sum up this section, one can say that the percentage laws that are often viewed as support mechanisms for NGOs, go in practice beyond being a mechanism for not-for-profit organizations¹⁶ in most countries. As of 2016, only in one country (Poland) is the group of beneficiaries limited to PBOs. At the same time, assuming that all members of the non-profit sector benefit from the mechanism is inaccurate, as in none of the above countries do all NGOs benefit from it.

Designated Percentages

The source of the tax percentage designation resources is the personal income tax that, based on the taxpayer's decision either remains at the disposal of the state or it is channeled towards public benefit (For this reason it is administered as state resource in national accounts).

The level of the possible designation is determined by the laws of different countries.

In Italy it is 0.5%, in Hungary and Poland a 1% mechanism was introduced and maintained to date (not considering the additional 1% for churches in Hungary). In Slovakia, since 2002, individual tax payers can designate 1%, and as of 2003, the percentage had been raised to 2% (moreover, the tax designation model had expanded to include corporate bodies). Today, it can even be 3% in case the individual taxpayer provides the regulatory body with a certificate of 40 hours of volunteer work. In Romania and Lithuania, the original law introduced the 2% mechanism and it has been maintained at that level (with the option of designating an additional 1% to political parties in Lithuania). Most recently, Moldova has introduced a 2% system. In Italy, there has been a policy to announce the total amount of money that can be allocated through this mechanism annually (of 500 million EUR in 2015) (Art. 1, paragraph 154, Law 190/2014 - the Italian Budgetary Stability Act 2015).

Today, in CEE countries that use the percentage systems, there is an option for tax paying individuals to make their own decision about dedicating certain percentage of the personal income taxes. It is max 3% in Slovakia, 2%+1% in Lithuania, 2% in Romania, 1%+1% in Hungary and 1% in Poland (and 0.8+0.5+0.2% in Italy). In all of these countries, one of the percentage options is primarily aimed to benefit not-for-profit organizations (Slovakia offering the most, 3%, and Hungary and Poland the least to this purpose: 1% of the CEE countries).

¹⁶ This area of the law, that regulates the group of beneficiaries, has broad variations in the different countries and was amended several times in the different countries.

The Process

The key steps in the process of allocating the percentage mechanism itself are the same in each of the five CEE countries.

Step 1:

At the end of the tax year, the taxpayer pays the full taxes to the tax authority¹⁷. If the taxpayer wishes so, he/she can decide to designate a certain percentage of the full tax to a public purpose. The decision regarding the allocation of the given percentage is fully the decision of the taxpayer and the taxpayer names a concrete entity as beneficiary. If a person pays 100 EUR in personal income tax at the end of the year, that person will pay the total amount but may decide to assign a certain percentage of that tax, say 1%, i.e. 1 Euro to an entity serving the public good of his/her choice (within the limits of the regulations). In some countries, an open, "active" system is used where the organizations are listed in advance and taxpayers can choose only from that list (Italy, Poland and Slovakia and from 2015 Hungary) while in other countries there is no list provided to the taxpayers.

Step 2:

If the taxpayer decides to use this opportunity, he/she communicates the decision to the authority that will follow up by transferring the 1 Euro amount (in our example) to the given entity. If the taxpayers decide not to use this opportunity, the personal income taxes are fully paid and used as usual by the state. In some of the countries (in Lithuania, Slovakia, Poland, and Romania), there is an option of sharing the percentage designation among several beneficiaries.

Step 3:

The entity is to receive and use the resources generated from percentage allocations according to the law (usually defining the use to be of public benefit purposes, sometimes the amount that can be used for fundraising or regulates the use of the resources for overhead etc.). In the classic model of the mechanism, due to data protection reasons, the entity receiving percentage assignments receives the resources in one lump sum without knowing who has contributed the resources. Recently (2015), Slovakia and Hungary adopted an opt-in system that allows the taxpayer to actively indicate agreement with providing information of his/her identity (but not the designated amount) to the beneficiary in case the beneficiary asks the tax office for it. In some countries, the cycle is completed with the beneficiaries reporting on the usage of the designated amounts.

The way the process is set up affects the outcome to some extent. It is easy to see that the more user friendly the system is, the more likely it is for taxpayers to use it. In Poland, for example, it was originally the taxpayer who was transferring the percentage to an NGO of his/her choice and was later reimbursed by the tax authorities, a complication that was argued not to be a user-friendly experience. This was changed in 2006 and resulted in a procedure where the taxpayer only needs to write the official number of the organization he/she wishes to designate to and the rest is done by the tax authority - resulting in higher number of people using the mechanism. This change was an important driving force behind the immense growth of the popularity of the mechanism in Poland (2006: 1.1 million, 2007: 1.6 million, 2008: 5.1 million) (for details see country report on Poland in this publication).

Another example is the case of Hungary. When the system started, the individual taxpayer had to use an envelope as an attachment to his/her personal income tax form with the necessary information needed for the allocation. This mechanism was criticised for being not only too complicated but also costly. Some worried that the taxpayers will find it too time-intensive and will not make this extra effort, while the tax authority has complained about the labour needed to open and process hundreds of thousands of envelopes. As a reaction to these complaints, a simpler mechanism was introduced as of 2008, where a line in the tax declaration itself is printed to leave space for the taxpayer to indicate his/her 1% allocation. This technical change did not result in any significant growth of usage,

¹⁷ A certain variation of the percentage mechanism operates in Japan on a local government level (not in focus of this work).

but, at least, in the middle of the financial crisis, the number of designators did not stagnate, but continued to grow.

At the time of writing this paper, the most recent percentage legislation in Moldova does not have its formal procedures in place yet, but many worry that the process itself can be a big handicap for the success of the system. In Moldova, the tax revenue received from the natural persons' salaries is planned to be transferred to the local budgets. Respectively, the 2% will have to be withdrawn from the budgets of local authorities. There are procedural questions that can hijack the system: tax incomes are transferred to the local budgets the month after being paid by the natural persons' employers, but the designations are made the following year while the local authority is supposed to spend it in the current year. (For instance, I will designate in 2016 for the income received in 2015, but the income taxes were already spent by the local authorities in 2015). One can only hope that the final design of the implementation will be user friendly to individuals, state and municipal authorities as well as beneficiaries.

A procedural point that has received a lot of criticism in all of the countries is related to the connection of the "percentage donor" and the recipient entity. As the receiving end is not aware of who its supporters are (due to data protection reasons), there is a missing link between the two. It has been argued that without this link, there will not be a real connection between the individual and the receiving entity and thus it will be impossible to develop a relationship where the individual designators could be approached by their recipients, build a long-term relationship, and work or collaborate to further their work. (The identity of the taxpayer is hidden from the recipient). Responding to this criticism, the most recent changes in Hungary and in Slovakia include an option where taxpayers can opt in to reveal their identity to the recipient by marking it on their tax papers when making their designation. Supporters of this change believe that in the long run, this technical change will strengthen the relationship between the taxpayer and the receiving organizations. With this new option, if the taxpayer wishes to, his/her identity is revealed to the recipient that can make use of this information and get in touch with the "donor" to ask not only for regular donations but also to establish a relationship beyond the percentage assignments. It is to be seen (and empirically researched) how many people are willing to share their identity and whether this technical change will contribute to a better relationship between designator and recipient.

The effect of the mechanism design is most striking in the Polish system, where taxpayers chose from a pre-prepared list of entities eligible to be recipients of the percentage donation, resulting on average in almost two thousand people giving to each organization, while in Lithuania much less people on average give to each beneficiary. Such a system also affects the ratio of potential and designated organizations. In Poland and Slovakia where organizations are pre-registered in a pre-approved limited list of potential beneficiary entities, almost all entities on the list become beneficiaries of the system.

As of 2015, an "active system" has been applied instead of "passive system" in Hungary as well, where organizations that want to collect 1% designations must be registered with the tax office in advance. Earlier, the designator could pick almost any entity as the scope of potential beneficiaries has been very broad and no lists of eligible entities were prepared in advance. It is more likely for a passive system with large number of organizations resulting in smaller number of beneficiaries and therefore more taxpayer concentration, as is the case in Slovakia. Changes in the procedures have been frequent, often resulting in some differences in outcome, but the essence of the system has remained the same.

Conclusion

To conclude the question about the percentage designation system definition, based on the variety of practices and understandings examined, it is understood as a decentralised decision making mechanism where state resources, namely certain percentages of the income tax are channelled mostly to not-for-profit organizations as well as other entities with (mostly) public benefit purposes based on the decision of the taxpayers and therefore reflecting the societal needs as perceived by taxpayers. This paper focuses on the percentage designation where the designator is an individual that makes a choice to benefit a concrete organization from the tax amount that he/she would pay anyway. Therefore it is incorrect to call the system private “philanthropy” as the resources used are not private resources, but resources that must be paid as income tax. It is also inaccurate to assume that the mechanism supports the non-profit sector at large, as not only, and not all not-for-profit organizations benefit from the percentage mechanism. Nevertheless it is true that the system aims to support the public good.

The essential procedure of the mechanism is the same throughout the years and countries (individual taxpayer communicates its decision on the personal income tax percentage allocation to the tax authority and the beneficiary receives his/her designation together with other designations), small technicalities of the operation¹⁸ vary from one country to another (Török and Moss 2004) and adjustments in the processes and procedures can influence the outcome.

¹⁸ <http://szazalekosadomany.honlaphat.hu/index.php?menu=1536&langcode=en>

Chapter III.

The financial value of the percentage designation mechanism

Marianna Török

It is assumed by many that the percentage tax designation mechanism system provides substantial financial contribution to the revenues of the non-profit sectors, some believing it to be one of the most important sources of funding. This section is to examine this assumption by focusing on the revenues this mechanism brings to the non-profit sector and its organizations. For this purpose available data and certain policy instruments of the five CEE countries will be examined with a special section on Hungary and Poland.

Revenue Growth

The percentage mechanism is estimated to be a 242 million EUR yearly revenue source in the five CEE countries (Table 5). Over the years, the mechanism has provided around 5 billion EUR of support to a variety of beneficiaries in Europe, including Italy¹⁹ (based on the different time periods of functioning of the system).

Table 5:
Amount of designated percentage allocations in the CEE countries of the percentage mechanisms in most recent years (based on "Per Phil database" using national data sources)

Country	Amount of designated percentage (million EUR)
Hungary	22
Poland	120
Slovakia	22
Lithuania	46
Romania	32
"Percentage Club" total	242

Revenues from this type of percentage designations in four countries tend to be below 50 million EUR a year per country, while in Poland it is around 120 million EUR and in Italy, for similar entities, it is 264 million EUR²⁰. The reason for these major differences lies partly in the disparity of salaries and taxes paid in different countries and partly in the number of tax payers as it is related to the number of actual designators. In Poland alone, the number of the taxpayers making use of this opportunity in most recent years is around 10-11 million people a year (i.e. more than the whole population of Hungary). Meanwhile in Italy, 16.7 million people have made percentage tax designations in 2011 (40.4% of total of 41.3 millions of taxpayers).

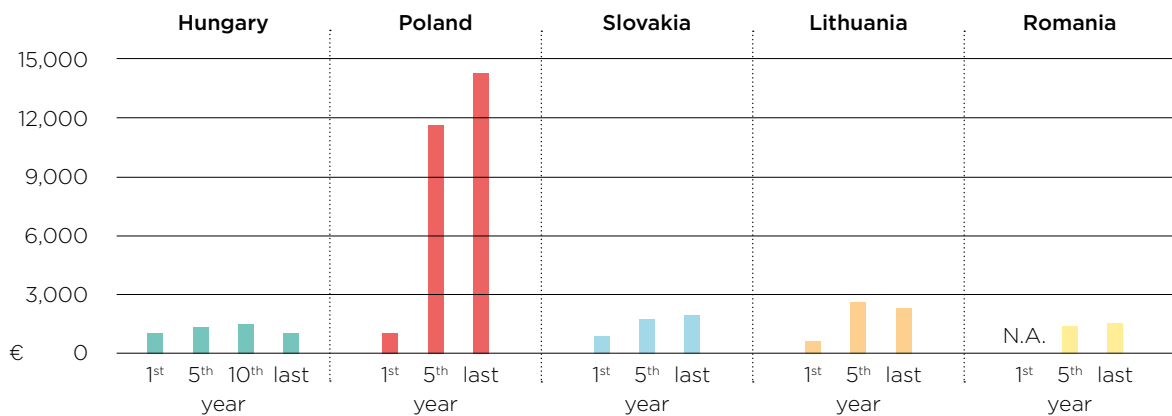


Figure 3:
Average amount of percentage designation per beneficiary in the CEE countries of the percentage system (based on "Per Phil database" using national data sources)

¹⁹ Not counting the church and the political party percentage mechanisms and the ones where no direct decision can be made about the beneficiary entity.

²⁰ 264 million EUR benefiting not-for-profit entities

While the total amounts may look substantial, the average amount per beneficiary is not high in any of the countries. When not counting the highest Polish average, the average in the remaining four CEE countries is 1,291 EUR while with Poland included, it is 4,104 EUR per organization (based on the tenth year of operation)²¹.

While not all countries issue official lists of top beneficiaries, it is clear that not-for-profits **with a strong emotional appeal are the most likely to win taxpayers' hearts to receive their percentage donations²². By the type of activity, organizations that fall into the health and healthcare related issues category are the most popular, followed by education and science; religion; environment; sports and tourism; culture and arts in the five countries** (based on reports of local researchers).

In Poland, the most effective in 1% collections has been the *Fundacja Zdążyć z Pomocą. Foundation for Children „Help on Time”*²³ that work as an intermediary for almost twenty thousand individuals who collect 1% designations for their own (mostly social and economical) needs²⁴. In Lithuania, the top beneficiary is the Foundation *„Trouble market”*²⁵, followed by two animal shelters²⁶.

It has been assumed that the percentage designations are not reaching pro-democracy, advocacy, civil rights related organizations as their mission is not appealing enough to the general public. One needs to note a new trend in Hungary that goes against this argument. In most recent years, not-for-profit organizations with an advocacy role and independent voice have been benefiting more and more from percentage designations: e.g. an independent radio channel run by the Tilos civil entity; The Hungarian Civil Liberties Union; and the Asimov Foundation that runs Átlátszó a transparency entity were supported by thousands of people. The latter one, for example, has tripled its percentage revenues in 2015 compared to the previous year (NAV 2016)²⁷, but is still not making it to the top beneficiaries list. The top beneficiaries of the percentage donations in Hungary remain to be children's health related entities, such as the *Children's Cancer Foundation* and most recently the *Foundation for the Development of the Pál Heim Children's Hospital*.

The Slovak case, where a significant part of the corporate tax designation is further allocated by corporate foundations, shows interestingly that the tax designation funding through corporate foundations as intermediaries is more frequently and in higher amounts invested in the areas that are less popular among general public (transparency, interventions among marginalized groups, etc.) (Hrica 2014).

Another important aspect that points to the vulnerability of the mechanism when it is connected with advocacy activities is based on Slovak experience. In the 2006 parliamentary debate in Slovakia, human rights and education were proposed to be excluded from the list of eligible public benefit purposes for the tax designation mechanism by a political party with strong illiberal and undemocratic background. In words of the party's deputy: "...it is mostly about limiting those non-profit non-governmental organizations that in 1998 secretly meddled with politics via their education, science and other [projects] and largely influenced election results" (Strečanský et al. 2007).

²¹ The Italian average in the 9th year of the operation is a bit less than the Polish (in 2014 total amount was 485 million EUR and the total admitted organizations beneficiaries were 53,457 out of which there were 37,904 NPOs (as reported by Agenzia delle Entrate <http://www.agenziaentrate.gov.it/wps/content/Nsilib/Nsi/Documentazione/Archivio/ArchivioSchedeAdempimento/SchedeAdempimento+2014/Richiedere+2014/Iscrizione+elenchi+5+per+mille+2014/Elenchi+5xmille2014/>).

²² In Slovakia the survey among the Association of Corporate Foundations which is representative of over 1/3 of corporate tax designations show a different prioritization of issues than the individual designation giving a highest allocations to 1) Culture, 2) Education and 3) Sports.

²³ <http://dzieciom.pl/english>

²⁴ This causes frequent criticism for two reasons: the huge concentration of resources and the end users being individuals (For details see Poland country report).

²⁵ As one observer puts it: „This entity runs a popular weekly TV show exposing different families in need and "selling their troubles" to potential donors."

²⁶ Respublika.lt, Gyvūnų globėjai surinko įspūdingą paramos sumą, accessed August 28, 2015, http://www.respublika.lt/lt/naujienos/lietuva/kitos_lietuvos_zinios/gyvunu_globejai_surinko_ispudinga_paramos_suma/

²⁷ https://www.nav.gov.hu/nav/szja1_1/tajekoztatok/Kozlemeny_a_2015__ren20150915.html

This motion was approved and human rights, education and environment were removed from the list of eligible organizations for one year. Despite the fact that this motion has been overridden in 2007, it showed the vulnerability of this mechanism to the distortions of the political discourse in a particular context.

The Broader Context

It is an undeniable fact that the percentage mechanism system provides financial resources to many not-for-profit organizations, some even assume it to be the most important revenue source for the non-profit sector in the countries where it is used. Because its true impact on the overall financial development of the sector is unexplored, **this section focuses on the broader financial impact of the percentage mechanism. First, it will give a perspective of the financial significance of this resource for the whole non-profit sector. Second, it will examine related developments taking place beyond the percentage system that have contributed to the overall financial well being of the non-profit sectors and examine the question of generation or crowding out of private and state resources focusing on the cases of Poland and Hungary.**

THE FINANCIAL SIGNIFICANCE OF THE PERCENTAGE DESIGNATIONS

To assess whether the percentage designation is a key financial support mechanism for the non-profit sectors, an important point of perspective to take is the proportionate value of the percentage designations in the overall revenue of the non-profit sectors. **The revenue from percentage designation in proportion to the overall revenue of the non-profit sectors in the five CEE countries is around 2% (Figure 4 based on data available around the tenth year of operation of the percentage mechanism). Therefore assuming that the percentage mechanism is one of the most important sources of funding for the non-profit sectors is wrong.**

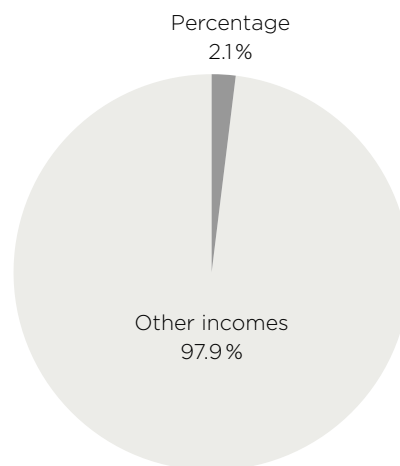


Figure 4:

Share of percentage designations within the total revenues of five CEE countries (based on "Per Phil database" using national data sources)

While the percentage designation is a small portion of the overall revenues of the non-profit sectors in the 5 CEE countries, some believe it is the most important source for three reasons:

- a) it is the most important source for many entities
- b) it is highly used by potential beneficiaries in many countries, and
- c) it has a strong communications component reaching the public.

There are a number of organizations for whom the percentage revenue is the only revenue source, and for many it is the only source from state and local government which may give the impression of being the most important source of funding for the sector. The example of Hungary illustrates the high value of this state support for many NGOs (*Figure 5*).

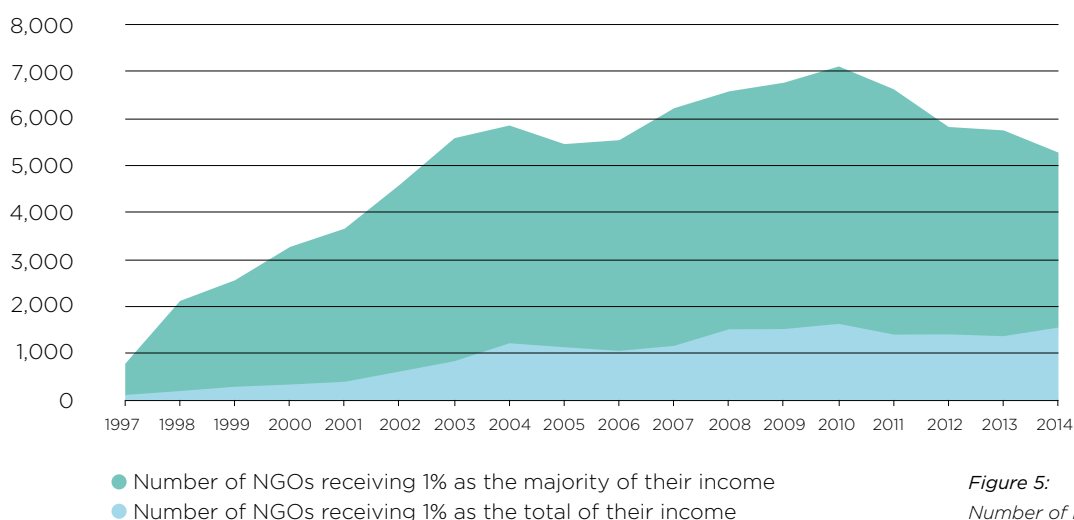


Figure 5:
Number of NGOs receiving 1% in Hungary as the majority and as a total of their revenues

Source: HCSO

In Hungary, the country where such data is available, the percentage designation has been the most important revenue stream for thousands of organizations. As much as 8% of the non-profit sector has received the majority of its revenues from percentage designations and for 2.4%, percentage revenues were their only source of income in 2010. This shows how important the percentage system is for many not-for-profit organizations in Hungary, even when it is only a minor revenue source in the overall not-for-profit financial eco-system.

The perception that the percentage designation mechanism is a support system for the whole of the non-profit sector may also have resulted from the fact that in some countries, almost all NGOs that are eligible for it end up benefiting from it (giving the inaccurate perception that it is the whole of the sector). It is a wrong perception. In Hungary, for example, where there has not been a list to choose an entity from, the proportion of real beneficiaries has been ranging between 26-43% over the years, in Slovakia, where there is a list to choose from, it has been 13-22%.

While it is not the whole of the sector that benefits financially, the voice of this segment is strong. The active promotional campaigns targeting potential beneficiaries have been unprecedented in the CEE region. Thanks to the percentage mechanism, organizations started to put more emphasis on communication with their own members and clients as well as reaching out to the broader public. It goes without saying that it has had an effect on the intensity and quality of communications of the whole of the sector as well.

The question of crowding out of resources

Claims of the significance of the percentage system are reported to be frequent in all CEE countries. Politicians, private individuals and companies often use the existence of the percentage system as an excuse for not providing support and giving enough/additional resources to certain areas and organizations, arguing that the percentage system should finance them. These observations suggest to some, that there might be a crowding out of resources taking place.

As a starting point in this discussion, it needs to be noted that based on the limited data provided by national sources of four countries, a trend of growth in the overall financial revenues of the non-profit sectors can be observed over the years (*Figure 6*) since the start of the percentage system.

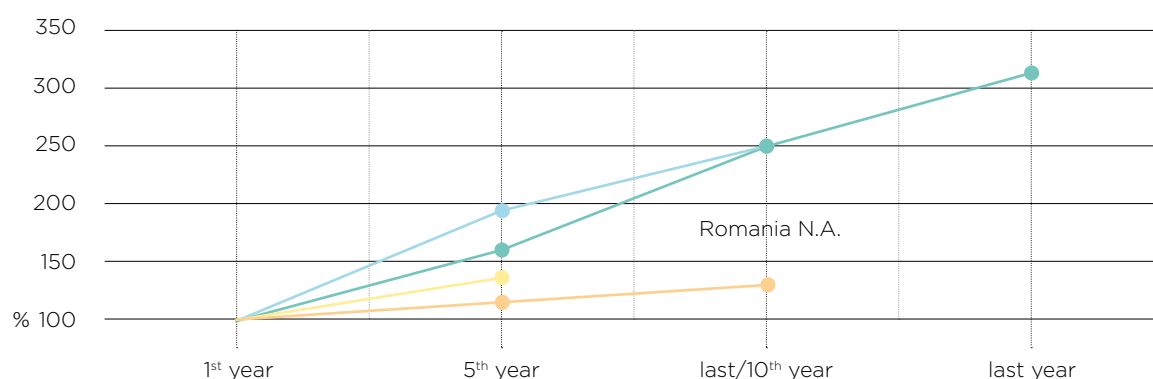


Figure 6:
Increase of total revenue of the non-profit sector in four countries over the years (based on "Per Phil database" using available national data sources)

● Hungary ● Lithuania
● Slovakia ● Romania

Unfortunately, the availability of comprehensive, reliable and precise data is limited on the support of state and private entities to the non-profit sector in all the five countries that are of the prime concern of this paper. Our experts, however, have expressed that **in the five CEE countries observed, no crowding out of direct state resources has been noted as a result of the percentage designation mechanism²⁸.**

At the same time, **decrease of indirect support can be noted in most countries in the form of fewer tax advantages for private giving.** Except for Italy²⁹ and Romania, there have been legal changes that make private giving (of individuals and/or companies) to not-for-profit entities less attractive since the start of the percentage mechanism³⁰. For example, in Hungary, the option of tax deductions and other allowances has been radically cut off. As of 2015, only corporate support can be deducted (to a limited extent). Whereas Slovakia's tax reform of 2003 completely abolished the tax deductions for both individual and corporate donations.

Whether these changes can be linked to the introduction of the percentage mechanism

²⁸ Whether the original source of direct support was European Union related resources or national and local government budgets was not traced.

²⁹ Since 2005 (the 5x1000 was introduced in 2006), Italy also has had a special deduction for donations to not-for-profit organization, called "The More You Give, The Less You Pay" (Più dai, Meno versi). It works for physical persons and companies up to 10% of total taxable income for a maximum of 70,000 EUR per year. In 2011, according to data of the Ministry of Finance, 681,672 of Italians used this option.

³⁰ In Romania, the fiscal incentives for individual donors have not changed since the enactment of the percentage system. Giving of corporations is characterized by attractive fiscal incentives. (Donations are deductible from the profit tax up to a certain amount (0.5% of revenue but not more than 20% of the owed profit tax).

is not certain, except in the case of Lithuania, and partially in Slovakia. In Lithuania, the introduction of the percentage system was conditioned on the abolition of tax deduction for private individuals, such as the 15% income tax deductions for private donors (due to concerns that a proposed “2% scheme” would represent huge costs to the national budget). While it could have only been a temporary act, that if proven to be unnecessary, could be reconsidered, the original tax incentive has not been restored ever since in Lithuania. In Slovakia, the abolition of tax incentives for giving was part of a broader tax reform that coincided with the expansion of the tax designation mechanism to include corporate entities. Among the CEE countries, Romania is the only one, where the fiscal incentives for individual donors have not changed since the enactment of the percentage system (and giving by corporations is characterized by attractive fiscal incentives).

PERCENTAGE MECHANISM AND PRIVATE PHILANTHROPY

The question of the percentage mechanism’s effect on private giving has existed ever since the idea was born: will it be a training ground for private philanthropy (“School of Philanthropy”) and encourage private giving, or will it discourage individuals from donating their own resources? The jury is still out to decide this question. Unfortunately, true comparisons have been impossible due to the lack of comparable data in the five countries. Nevertheless, this research has been able to collect some evidence that supports the argument that even with less legal incentives to encourage private giving, giving by individuals shows a clear, growing trend in the four CEE countries where data was obtained (Sičáková a Zemanovičová 2010). As for corporate giving, based on even less data, the trend is not so evident. The drop in corporate giving in Slovakia, the only country where a corporate percentage designation is available, is a sign of concern.

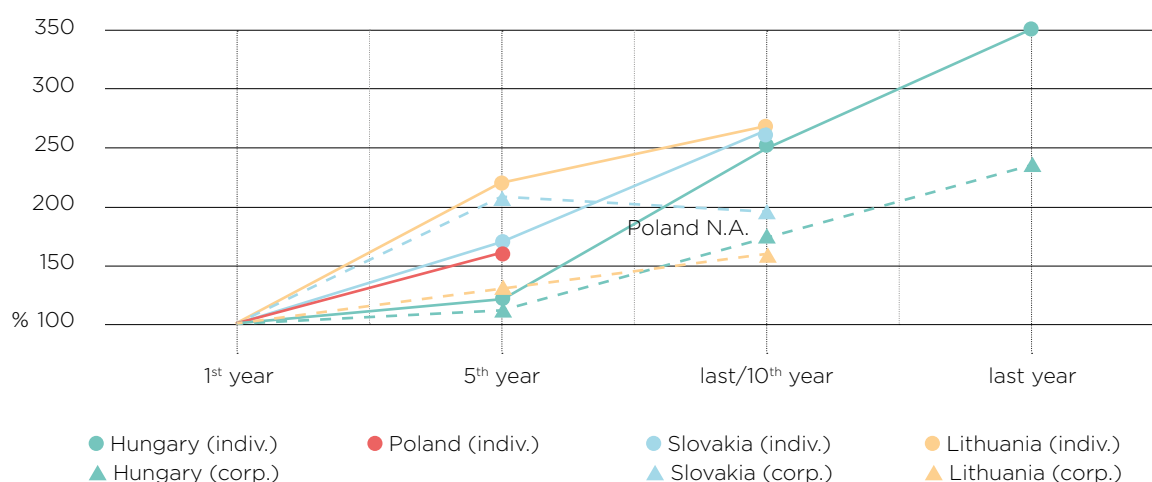


Figure 7:

The value of private donations of individuals and corporations over the years (based on “Per Phil database” using available national data sources)

In the following sections, two authors will provide case studies from Hungary and Poland. **The case of Hungary**, based on information from István Sebestény and data collected by the Central Statistics Office of Hungary for the period 1997-2013, **provides some evidence to the argument that the percentage system does contribute to the development of private philanthropy.** In the section on Poland, Kuba Wygnanski will argue that **in the case of Poland, greater public awareness of NGOs can be credited to the percentage mechanism system, but there is no conclusive evidence that it has contributed to the development of private philanthropy “...which may perhaps still require more time”.**

As a last point in this discussion, one needs to mention the results of an experimental research (Csongrádi 2008) that support the opinion that the introduction of the percentage system does not significantly lower the level of individual contributions from income. Moreover, a little increase could be observed in the first round of the experiment's second part³¹. The experiment's results demonstrate that the possibility of a crowding out effect is not significant when the whole society is observed. (Csongrádi 2008, 33).

Case Presentations

THE CASE OF HUNGARY

István Sebestény

In the debates surrounding the “birth” of the 1% system [(Bossányi 1997); (Mészáros and Sebestény 2000); (Vajda and Kuti 2000)], a central issue – certainly unresolvable at the time – was the effect its introduction would have on the levels of private giving among the general public. Those in the pessimistic camp feared that taxpayers would feel that their philanthropic act in form of their 1% designations was sufficient, and therefore it will become more difficult for NGOs to attract private donations. The optimistic camp predicted the exact opposite would happen, i.e. that taxpayers who are already persuaded to exercise the new form of costless ‘percentage philanthropy’ would also gradually be persuaded to give money from their own pockets to support NGOs (Kuti 2007).

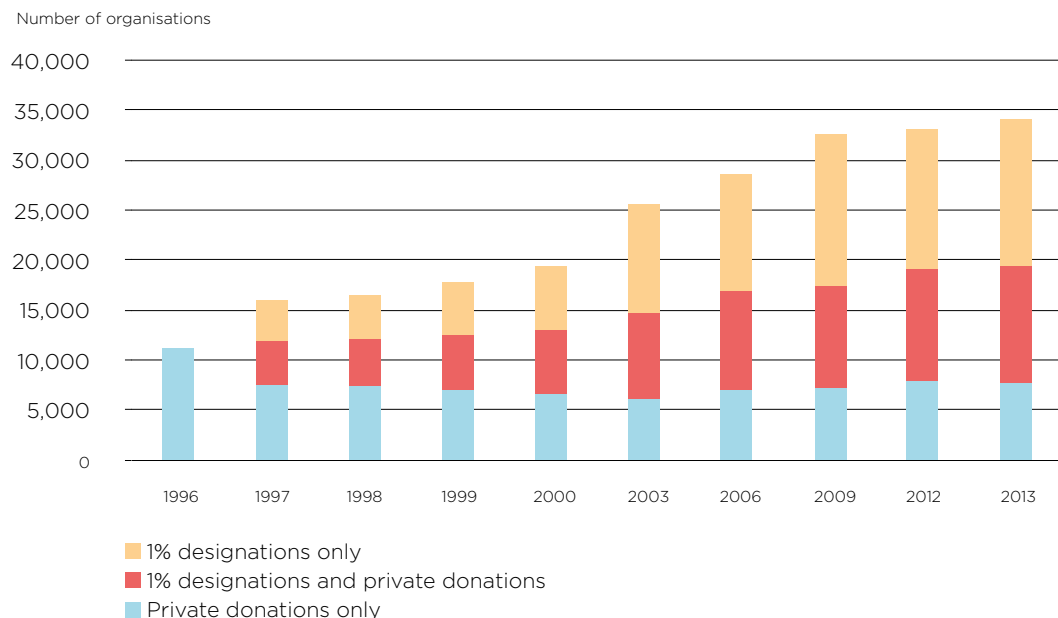


Figure 8:
Number of NGOs that received 1% designation and/or private donations, 1996-2013 (Source: HCSOa 2014)

³¹ In this public good experiment students were asked to invest some money in a group project. The experimenter collected the contributions, multiplied them according to a previously given rule and then divided the money among the group. In some cases, no one knew the individual contributions, only the total. This game was modified over time and the goal of all modifications was to answer different aspects of individual behavior. In this research, the supply of public goods was observed with and without the possibility of the percentage system. Throughout the inquiry, groups have been examined under two different situations to determine the Nash equilibrium with and without the presence of the percentage system.

In this section, some key numbers are shared from Hungary, to show that based on the data collected by the Hungarian Central Statistics Office (HCSO) for the period 1997-2013, which supports the optimist point of view (**Figure 8**). Since the introduction of the 1% system, the number of NGOs that have received private donations has continually increased, albeit not very rapidly.

The **Figure 8** above also shows that a large (and ever-increasing) number of NGOs were able to attract both private donations from members of the public as well as the 1% designations. At the same time, there was a considerable rise in the number of organisations that received 1% designations, but not private donations.

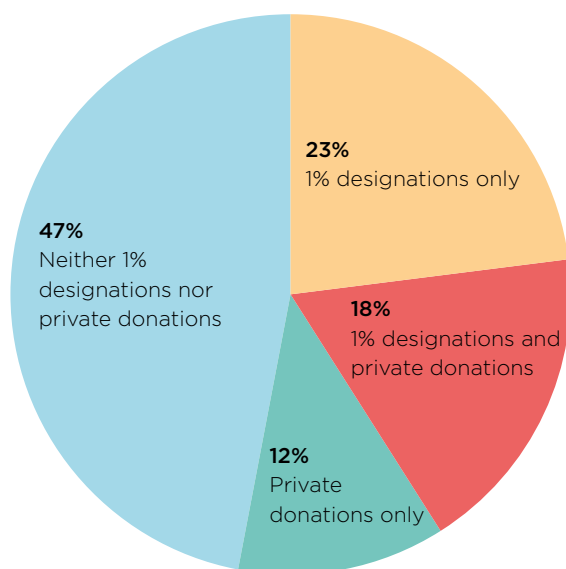


Figure 9:
Breakdown of NGOs
by receipt of 1%
designations and/
or private donations
in 2013 (Source:
HCSOa)

According to the most recent data available from HCSO (HCSOa 2014), only 23% of NGOs received 1% designations and only 18% got both 1% designations and private donations. Almost half of all NGOs received neither 1% designations nor private donations.

In terms of the number of beneficiaries, the 1% system has clearly neither overshadowed private donations, nor did it reduce its importance (HCSOa 2014). The same is true in terms of the amounts received from the two forms of funding³².

³² The explanation of the break of positive tendency in 2008 is the economic crisis and the change in tax system as we described earlier.

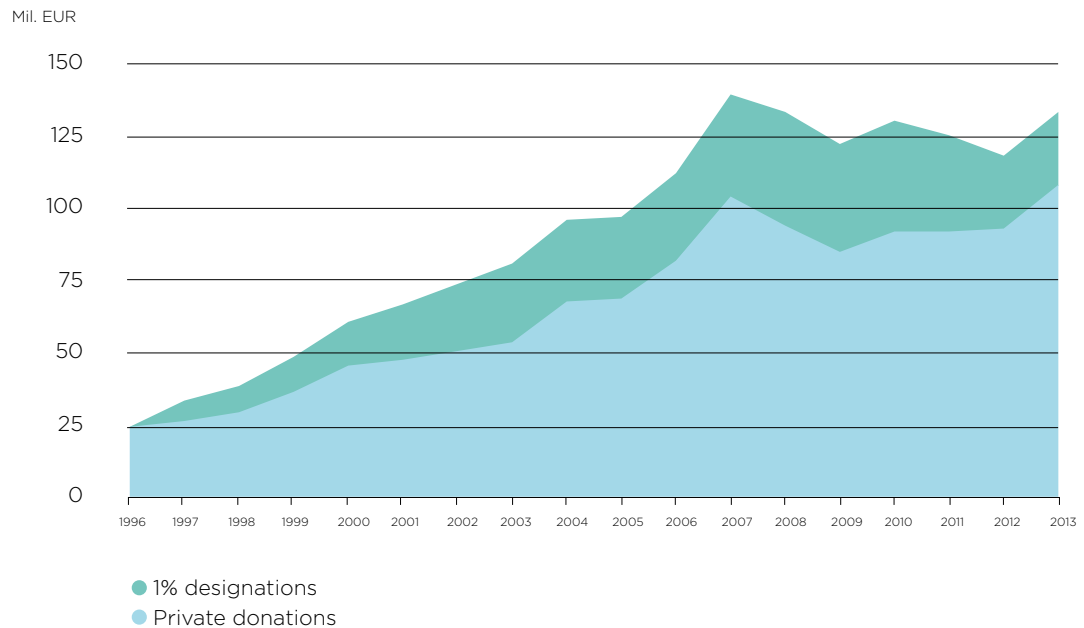


Figure 10:
Growth of 1% designations, individual donations in Hungary, 1996–2013

Notwithstanding the rapid growth in 1% designations, private donations continue to be of greater importance in the financing of the NGO sector in Hungary. At this point, therefore, it is worth noting that there is now a new kind of NGO that seems to be focusing entirely on obtaining 1% designations and not other sources of revenue.

It seems particularly inexplicable why some successful percentage beneficiaries decide not to utilize their energies on collecting private donations as well, especially in the light of the research results carried out on private donations showing a very clear, positive and close link between taxpayers' exercise of the 1% designation option and their willingness to make individual donations. (Kuti 2007).

THE CASE OF POLAND

Kuba Wygnański

One of the intentions of introducing the 1% tax deduction system was not only to provide additional funds for NGO activities, but also to inspire philanthropic activities in Poland (such intention was probably present in all countries that have adopted this kind of solution). We could say, that in some sense, this solution appeared to be a "prosthesis" for underdeveloped philanthropic practices. The system was a kind of "philanthropy by the poor" in a situation where, due to a number of reasons (particularly of political and historical nature), the existing, pre-war philanthropic tradition was in many ways impeded. In such a short time (about 5-10 years from the start of the transition), it was impossible to rebuild it - both in terms of resources/assets and the ways to use them (wealth management).

The assumed sequence of changes was supposed to be as follows: taxpayers would be enabled to easily donate 1% of their personal income tax (PIT) and this way would gradually become accustomed to philanthropic habits. At the same time, the 1% mechanism would force organizations to better communicate with citizens in order to effectively convince them to entrust their money to them. The question is, whether this assumption indeed is proven to be true? This article aims to provide some insight on this topic.

The mechanism of soliciting the transfer of 1% has a competitive character - with all its positive and negative consequences. The positive ones are that organizations must somehow make their actions accountable to citizens. This is a significant change from a situation in which their fate depended exclusively on the favor of institutional sponsors and the ability to write applications for grants (a kind of "*grantosis*"). There is no doubt that since the introduction of the 1% mechanism, the public awareness and recognition of NGOs significantly increased.

A study conducted by the Klon/Jawor Association (The image of NGOs, 2014) shows that in 2014, 60% of respondents of a national survey (representative sample) recognized and understood the concept of a non-governmental organization. The result is lower among

people coming from rural areas (50%) and those with only primary education (only 36%). The recognition radically increases with questions targeting specific organizations (many of them are very well known) which is not the case when NGOs as a whole are examined. Charities enjoy the greatest awareness among the general public, because it is charities that most often try to reach the general public by soliciting its support. But since one of the main themes of the NGO sector's communication with the public is soliciting money (and thus speaking about needs), it is hardly surprising that there is a specific distortion in the image of the sector. As many as 79% of respondents associate organizations with helping the needy and 77% with fundraising; while, in reality, only 6% of NGOs in Poland are directly involved in such practices. The consequence of such reduced communication is that often some organizations – those not involved in helping the needy or fundraising – are barely recognized as NGOs. There is no precise method of determining the exact impact of the 1% mechanism for creating such state of affairs, but considering the fact that the number of people who used the mechanism last year was higher than 12 million, it is probably significant.

The fact, however, that organizations are recognized, does not automatically mean they necessarily have a positive image. The very fact that they are often perceived as a kind of piggy banks means that they often raise suspicion. Not everyone is convinced that these organizations are effective, fair and worthy of respect. The above mentioned study shows that only 35% of respondents believe that NGOs solve important problems at the local level and 58% believe they are more efficient than public administration. Over 44% of respondents trust the organizations, but exactly the same number of respondents don't, and 48% believe that NGOs are not free of abuses. The local government has the same rating. A bittersweet comfort is the fact that the confidence in the government administration's actions is significantly lower (22%) while the level of mistrust is significantly higher (64%).

There is also a problem related to the fact that the bulk of communication between organizations and the public is purely emotional. Quite often, it takes the form of emotional blackmail ("We need your money because we have to save your life") based on using the misfortune theme as a fundraising mechanism. This mechanism is extremely well developed in Poland, where in practice the means (though formally passing through organizations) are often collected for the needs of individuals (people in a difficult situation, in terms of health or material condition) – as many as 31% of those who decided to transfer 1% of their tax admit that they personally know the recipient or that the recipient was pointed out to them by someone in their family. This results in a particular form of rivalry and betting on human misery. In addition, a fact that a very significant part of the 1% goes to NGOs only pro forma as in reality they act only as intermediaries (63% of taxpayers treats NGOs in such a way). These NGOs are often regarded as a kind of necessary evil (44% of respondents believe that NGOs waste at least a part of the funds entrusted to them). The biggest "experts" in the use of this mechanism are also the largest beneficiaries of the 1%; in the top ten beneficiaries of the 1% they are the vast majority. For years now, the No. 1 beneficiary of the 1% mechanism has been the Help on Time Foundation (it collects about a quarter of all the funds which are distributed among a total of around 8,000 public benefit organizations). With such a scale of generated resources and capabilities to rotate them (delivering the funds to the beneficiaries with a delay), the Foundation can provide an extremely attractive offer based on the fact that it nominally does not charge any fee on transferred funds (while they make profit from rotating entrusted funds). One may even suppose that if there was a possibility of transferring money directly to individuals, the organizations would prove largely redundant (such a solution functioned for a while about 20 years ago and it almost caused a disaster for the state budget due to the huge number of "mutual donations").

The role of NGOs as intermediaries (and therefore not the beneficiaries) also applies to the transfer of 1% to institutions that traditionally are (and should be) funded from public funds. Solutions in this area can be different – such a mechanism is admissible in Hungary and Lithuania, but in Poland, the legislators had no such intention. To be clear, we are not talking about well-established public institutions (such as the National Library or public museums), which can be automatically treated as public goods. In most cases, this mechanism is used (and in my opinion misused) as a mechanism for financing specific entities (e.g. schools or kindergartens), which the 1% donors' children/families attend – this way the funds meant to support public benefit are in a way "privatized". These institutions (schools and kindergartens) decide not to become direct beneficiaries of the 1%, as this would require meeting many formal requirements and they rather chose to use brokers who agree to submit the funds to them, charging a certain percentage (e.g. 25%).

Not without significance is also the fact that this market-like type of communication has

its own rules. These rules often simplify the very communication, which is based on emotions, has a competitive nature and – finally and absolutely essentially, for it to be effective – often requires very intensive and thus costly investments. These investments often come from funds previously obtained with the 1% mechanism or those that are to be collected. Therefore, this is the type of investment that does not always pay off (it happens that organizations indebt themselves to be able to bear the fundraising campaign costs or they spend more on it than they are able to collect). In total, the 1% percent campaign costs across the sector do not exceed 5% of the amount eventually collected, but isolated cases of extravagance have irritated the public. The last amendment to the law on public benefit imposed a requirement on organizations to cover the costs of these campaigns and to inform the public about it (in a press announcement, social campaigns, etc.). It is also worth noting that in many cases there is the so-called St. Matthew's effect, when those who have more, gain even greater advantage and those who have less, are left behind. We must humbly admit that very little was left from the original assumption: for the 1% mechanism to be a civic exercise in which citizens choose between competing public goods on the basis of publicly available objective information describing the organizations. For now, despite the fact that all technical requirements are in place (including broad access to information about organizations), the selection mechanism is mainly of an emotional or "interest-based" character. Perhaps the situation will change somewhat as a result of better organized information campaigns indicating the necessity of reflection before deciding on the 1% allocation. The media have also increased their scrutiny and thoroughness in the cases of those who collect the most. The news, sometimes disturbing, can result in a more critical view of some organization as a whole, but on the other hand it can make taxpayers more careful when deciding. It seems inevitable, too, that mechanisms such as rankings/certification emerge and allow for more informed choices (favored e.g. by publicly available detailed information on public benefit organizations).

To address the topic of impact on the development of philanthropy in Poland, we should start with pointing out the positive fact that currently, public benefit organizations obtain about 120 million EUR every year, as indicated in the tax return by about 12 million taxpayers. However, the intention of the launch of the 1% mechanism was not just a simple increase in the amount of funds available to the organizations, but also their more uniform distribution. Here, the effect is very distant from the intended one – the structure of these funds has been specifically distorted and almost unprecedentedly concentrated in Poland (without any doubt such a result would not have occurred even in the worst administered grant system of public administration). Let us point out the fact that the number of organizations that can benefit from the 1% mechanism is much smaller than those that can benefit from traditional philanthropy (of over 120,000 organizations, only 8,000 entities with the status of public benefit organization can be the 1% beneficiaries). In fact, the list of beneficiaries is even shorter than this, as the real beneficiaries (within the group of public benefit organizations) are a very small group of organizations. Suffice to say that a group of only ten organizations collects nearly 40% of all available funds. Indirectly, this is reinforced by an environment in which a taxpayer can choose only one organization; thus, it becomes a kind of rivalry with only one winner.

There is one more ambivalent consequence of the 1% system. This system reduces the issues of solidarity and empathy to purely financial aspects and since the giving is performed only once a year when filling the tax return form, the mere act of "donation" is thus an act done once a year and not a continuous activity – a "habit of the heart". This supports the perception of philanthropy as a "festive" act rather than a daily practice.

However, the greatest misunderstanding lies in the fact that the 1% is in fact an allocation of the public, and not one's own, money. It can be assumed that genuine philanthropy and empathy was, in this case, replaced with something of a synthetic substitute. The blame for this situation can be partly attributed to the organizations themselves, as they referred to the 1% mechanism as philanthropy at the very beginning, thus contributing substantially to the confusion. If the system was to be introduced today, we could reach for an analogy to the so-called participatory budgeting, currently popular in Poland (which is much closer to the principle of the allocation of PIT).

A very important consideration when introducing the 1% was that the citizens, accustomed to the fact that NGOs contribute positively to society, having spent their 1% of PIT, would also reach into their own pockets. It is very difficult to unambiguously interpret the net effect here. At one point, it was quite a popular belief that the idea of allocating 1% of PIT "cannibalises" philanthropy rather than develops it. It cannot be clearly confirmed, nor denied. The available data on Poland show that in recent years, both the amount of collected funds and the number of people involved in the 1% mechanism and philan-

thropy increased. According to official figures, the number of people engaging in the 1% mechanism has grown over the last 10 years (2004 through 2014) from 80,000 to more than 12 million. The amount obtained in this way increased from 2.2 million to over 120 million EUR. At the same time, the number of philanthropic operations recorded in the tax system (while certainly the majority of them are realized outside) also increased, but only slightly. We do not have accurate data for the entire period, but in 2005, approximately 215 thousand taxpayers declared such activities, while five years later, there were slightly more than 283,000 of such people. In terms of collected amount, the progress has not been particularly impressive either – the amount increased from about 28 million to about 37 million EUR. Another source of data on this matter are surveys conducted every year by the Klon/Jawor. In 2009, about 50% of respondents claimed to have exercised some philanthropic actions, while in 2013, it was around 74%. The fact that all of these indicators are rising, does not paint a clear picture yet as we do not have a control group. It's hard to carry out counterfactual reasoning (see how philanthropic behavior would have developed, had the 1% mechanism not been introduced). There is also a serious problem with the data. While the data on the 1% allocation are very precise (both on the side of donors and receivers), we know very little about traditional donations. Allocation of 1% in its entirety and without exception "passes" through the fiscal system and public statistics – individual donations do so much less regularly. Most often, the individual donations are carried out in an informal way, even in form of cash transfer or SMS messages not noted for tax exemptions (where only bank transfers are accepted) and thus are not recorded in the tax system. A case in point are donations to the Great Orchestra of Christmas Charity (which involves more than 60% of a total of approximately 75% of respondents who do engage in philanthropy). This institution organizes a huge fund-raising campaign once a year, which involves millions of Poles. It is worth noting, however, that even in this case, it is not clear whether it ultimately supports other forms of philanthropic engagement or in some cases simply replaces them.

A solid source of knowledge about the significance of 1% and philanthropy can be the systematic studies of philanthropy conducted by the Klon/Jawor in the NGOs environment. This is a very serious undertaking conducted every two years with a sample of two to four thousand organizations. One of the questions that appear in the questionnaire is the question about the frequency of using different sources of financing. The results are not conclusive. In *Table 6* you can see that since 2009, the amount of funds collected from 1% mechanism is actually comparable to the amount from donations. The latter shows a rather downward trend, but as the estimates are not quite accurate, we cannot be sure of this.

Selected sources as % of total 3rd sector income	2003r	2005	2007	2009	2011
Donations form individuals	5%	5%	4%	5%	3%
1% allocation		1%	1%	5%	3%

*Table 6:
Revenues from donations from individuals and percentage allocations over the years in Poland*

A separate issue is the frequency of using of each source. Here the trends are much clearer: the frequency of using subsidies drops significantly while the frequency of using the 1% mechanism is increasing.

Frequency of given source among 3rd sector organizations	2003	2005	2007	2009	2011
Donations form individuals	41%	36%	36%	37%	28%
1% allocation	–	6%	13%	17%	17%

*Table 7:
Frequency of donations from individuals and percentage allocations over the years in Poland*

In this section, a preliminary hypothesis about the consequences of the introduction of the 1% system in Poland was presented. The consequences are not clear. Without any doubt, one of its effects is a greater recognition of NGOs, but on the other hand there is a specific distortion (reduction/simplification) of the perception of their mission. Another important issue is whether in fact the introduction of the 1% brings the development of philanthropy – here the answer is even more ambivalent. Certainly, the mechanism had a multifarious effect here, but there is no conclusive evidence that it has developed the philanthropy in a positive way (which may perhaps still require more time). However, it is positive that we can at least state that the 1% mechanism did not significantly harm philanthropy..

Conclusion

The percentage mechanism is an important source of revenue to many organizations that is estimated to have provided around 5 billion EUR of support to a variety of beneficiaries in Europe over the years. Still, this source is a small portion of the overall revenues of the non-profit sectors in CEE (around 2%) and therefore assuming that the percentage mechanism is a crucial source of funding for the non-profit sector is wrong (The case of Hungary shows that it is an important, and often only source of revenue for many entities). Since the start of the percentage system, growth can be observed in the overall as well the percentage revenues of the examined non-profit sectors. Crowding out of state and private resources can not be observed (the latter point is also supported by the cases of Poland and Hungary) and individual philanthropy contributions show a growing trend, even though incentives for individual private giving have gone down in most countries.

Chapter IV.

Added value

Boris Strečanský

It is believed that besides providing monetary support to public benefit purposes, the system has had numerous, mostly valuable side effects, some of which are in direct relation with the sustainability of public benefit organizations, especially the NGO sector and some that reach beyond it. To test the above hypothesis we reviewed the policy intentions at the time of initiation of the mechanism in the “percentage club countries” and compared them to the effects that were attributed to the mechanism by the country experts.

Introduction

This hypothesis builds on the assumption that any policies or actions bring about unexpected benefits or drawbacks. Reasons can be numerous – errors in the analysis before the implementation of the policy, complex situations and contextual factors that are impossible to predict or take sufficiently into account, or the nature of the implementation of the policy itself. Some effects of the mechanism implementation may need more time to be identifiable; they are not visible or mature yet. Finally, some changes that are observed today are not attributable to the percentage system, but merely coinciding related and unrelated occurrences with various factors behind them.

To test the above hypothesis, we first identified what the intentions at the time of the mechanism introduction in the “percentage club countries” were and briefly discussed their relevance based on the literature. Then we compared them to the effects and phenomena that are observable today. For some of them that were attributed to the mechanism by the country experts, we looked for evidence in the data. We also discussed some selected phenomena in the civil society realm that are logically related to the intentions but that are most likely a result of various other factors related and/or unrelated to the implementation of the mechanism.

Added Value Dimensions

Added value of the tax designation mechanism can be clustered into two groups:

1. Civil society-related:
 - a. The “rootedness” of civil society and participation of citizens in NGOs.
 - b. Decentralized, flexible and less bureaucratic public funding for NGOs.
 - c. Increased visibility, transparency and public image of NGOs.
 - d. Satisfied financial needs of NGOs / Replacing the departing donors.
 - e. To help society at large to learn and practice modern solidarity („school of philanthropy”).
 - f. Clear differentiation of public benefit entities from the rest of the NGO sector.
2. Civil society-unrelated:
 - g. To figure out the reform of church financing.
 - h. To allow taxpayers to allocate part of their taxes – i.e. participatory budgeting.
 - i. Secured funding for public benefit purposes.

A. THE “ROOTEDNESS” OF CIVIL SOCIETY AND PARTICIPATION OF CITIZENS IN NGOS

The idea behind this intention was to use the percentage mechanism as a tool to intensify the connection between the public and the civil society organizations. Was such an intention justifiable and relevant?

Soon after the 1989-1990, the miraculous period of civil society in the post-communist Europe, it became clear that civil society will not play such a prominent role as was expected. The disappointment with the post-communist transformation and the political and institutional reforms combined with the legacies of mistrust towards organizations, and strong bonding social capital (family, friends) are considered the key elements that contributed to the documented weakness of civil society in the post-communist Europe (Howard 2011). That weakness is accepted in academic as well as in the policy circles, though some suggest that this view requires more differentiation and that the post-communist civil society space is rather diverse. (Ekiert a Foa 2011). The weakness is most typically manifested in the low levels of participation and volunteering as well as membership in the civil society organizations (Howard 2011) as compared to countries of Western Europe.

What do the data from our research say?

The participation in the tax designation by the taxpayers is a form of civic participation requiring relatively low effort. The data on the ratio of designators show that after 10 years, the ratio of taxpayers who participate in this system vs. those who do not participate is still growing in Hungary, Poland and Slovakia, while in Lithuania and Romania it stagnates (Figure 11).

Given the fact, that the percentage designation does not require significant effort and cost from the citizens, it is not surprising that the rate of this type of participation is quite high. The system, once it got going, reached significant popularity among the taxpayers. However, this data does not provide evidence that the system increased the rootedness of civil society organizations in society. For example, the reported research findings on motivation of tax designators show that it is a combination of pragmatic, rational, and emotional reasons. In Romania 41% of taxpayers use the provision because it does not cost them anything, 33% do not want the money to go to the state budget, and 27% feel attached to the mission of the beneficiary (Per Phil database using national data sources).

Has the rootedness of civil society organizations in the society increased in the region?

Let us address this question briefly by looking at the density of associations/non-profit organizations and using as an indicator the number of non-profit organizations per 1,000 of residents. This can be calculated based on the national statistics and data from the registries. The higher the number, the higher the density of non-profit organizations and thus, the higher the intensity of associational life, and ultimately, as the argument of the neo-tocquevillian school goes, the strength of civil society (Putnam 1995). There is an alternative view of this approach that questions the intensity of membership engagement and the participatory nature of associations (Elstub 2011). However, we find this indicator useful in a comparative understanding of the civil society development.

The period covered in the percentage designation research and the data on the number of non-profit organizations covers roughly the same period 2004-2009-2014. When compared with the percentage club countries, such as the Czech Republic and Estonia, as well as non-percentage countries, we can see that the trend in density of non-profit organizations in all countries is increasing. The Estonian case is significantly exceeding the regional average on its level.

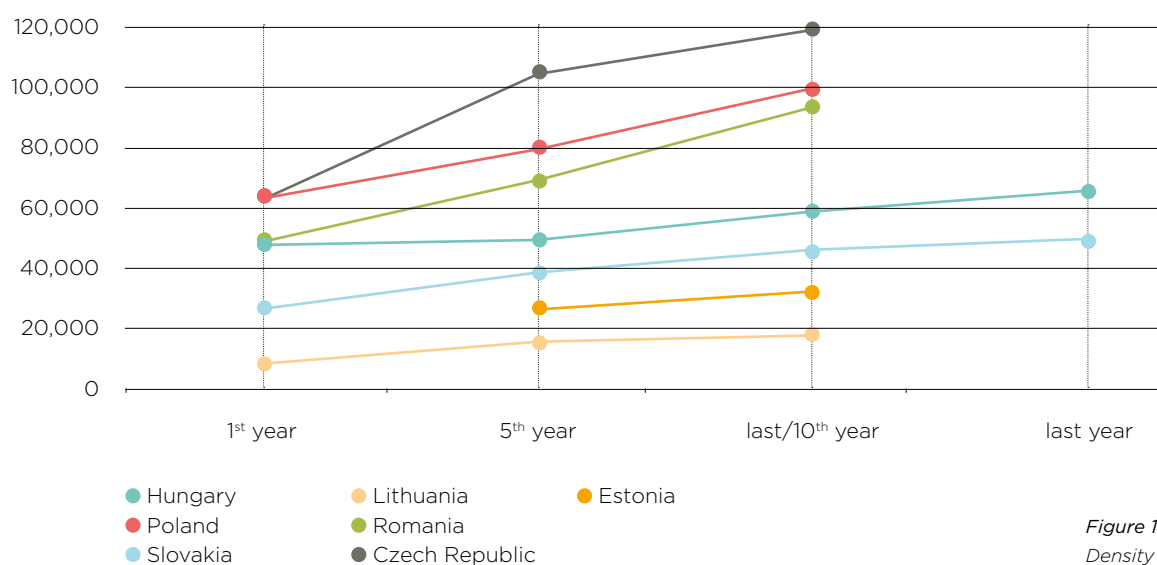


Figure 11:
Density of non-profit organizations (Number of NPOs per 1000 inhabitants, Source: Per Phil database).

From the perspective of the associational density, the rootedness of the civil society is slightly increasing in the whole region in a similar tempo, except for Estonia, that stands out from the rest of the observed CEE countries³³. Looking at the same question from another perspective, such as volunteering, there is either stable (Poland), slightly increasing (Slovakia, Hungary), inconclusive (Lithuania), or decreasing (Romania) trend. (OECD Social Indicators 2014), (Per Phil database using national data sources), (Zamfir, Mocanu a Maer-Matel 2014).

The above suggests that there was a slight growth in rootedness of civil society in the countries that we examined. However, most likely this can not be isolated as the effect of the percentage tax designation as other factors play a role in it as well, as the comparison with two non-percentage club countries suggests.

B. DECENTRALIZED AND LESS BUREAUCRATIC PUBLIC FUNDING SOURCE FOR NGOS

This aspect seems to be more a post-hoc realization of the tax designation effect, rather than a policy intention at the time of the introduction.

- **decentralized**

The data from the percentage club countries suggest that the public/state funding allocations have been, at the time of introduction of the system, to some extent politically biased. The system of government subsidies for public benefit purposes has been perceived as poorly conceived and organized. The data from our database (Per Phil database) suggest that the intensity of state influence in funding allocations to civil society has been changing over time. Sometimes it was stronger and sometimes weaker in influencing these allocations. The tax designation mechanism decentralized the provision of part of the government funding to civil society and instead of centralized bureaucracy, it is the taxpayers who make the decisions. This has effectively blocked the possibility of the state to influence that choice.

- **unbureaucratic and flexible**

The data from the percentage club countries indicate that the system is rather flexible from the perspective of the recipients. There are not as many conditions attached to the system as they are with other public subsidies. In the context of growing administrative requirements attached to various subsidy and grant schemes, the value of the funds flexibility stands out more boldly, especially for grass-root NGOs, for whom access to more bureaucratic and administratively funds is rather restricted.

To conclude, the effect of the tax designation, has been a realization that there is a decentralized and de-bureaucratized source of public funding for NGOs.

- **smooth, timely and predictable**

The system today provides correct and timely funding to its beneficiaries. The timeliness of the funds' transfer to the beneficiaries' accounts varies from 2-3 months (Slovakia) to 6-10 months (Romania). There is also an added benefit of predictability. The funds arrive in a predictable period every year and this is an important added value for financial planning and sustainability efforts of the beneficiaries. Also the financial planning skills may have improved due to the predictability of the tax designation. Except for Romania, the system is not reported to be highly erroneous and it operates rather smoothly. The costs of the operation of the system to the state are reported to be appropriate.

C. INCREASED VISIBILITY, TRANSPARENCY AND IMPROVED PUBLIC IMAGE OF NGOS

In this area, the impact is uneven. On one hand, due to its simple and unbureaucratic nature, the mechanism has been used by grass-roots beneficiaries and not only the large and well established organizations. At the same time, the mechanism facilitated intensive

³³ There are schools of thought that consider the associational aspect of civil society as not the main or only one and draw the attention to other dimensions of civil society – the normative – civil society as a good society and the deliberative – civil society as public sphere (Edwards 2014).

communication of NGOs in the public sphere. In this sense, the mechanism has helped the CSO sector to emerge from the shadows.

On the other hand, the mechanism created a rather uneven appearance in the public space through its social marketing and fundraising communication incentives, thus leading to a dominance of major established organizations with popular causes such as general charity, animal welfare, or health.

The data are not available to prove that the mechanism contributed to a higher transparency of the NGO sector, even if there are reporting requirements in several countries. At the same time, most countries report increased transparency of NGOs which had occurred at the same time when the percentage mechanism had been implemented. On the other hand, the transparency has been a rather fashionable (and justified) public policy concern and it is not surprising that it reached the non-profit sector through other channels as well. In Hungary and Slovakia, the tax designation system was the first policy that pushed NGOs to make public announcements about the use of resources. This has been unprecedented and it was a small step with major consequences on accountability and attitudes towards giving in general.

There is a common view among country experts that the above changes have contributed in unison to general public's increased understanding of civil society organizations' role and improved the public image of NGOs in the percentage club countries.

D. SATISFIED FINANCIAL NEEDS OF NGOS / REPLACING THE DEPARTING DONORS

In most of the region's countries, the percentage mechanism was introduced in the early 2000s, which was a period of democratic consolidation and emerging economic stability that led many external public and private donors to withdraw from supporting building the civil society and move to other areas of need. Thus the intention at that time was partly to satisfy the financial demands of NGOs in the context of decreased funding and in the context of yet under-developed domestic philanthropy.

This was the case especially in those countries that were catching-up with political and economic reforms and their domestic funding sources to civil society were less developed (Lithuania, Romania or Slovakia) than in Poland, Hungary or Czech Republic.

The country experts participating in this research perceive the contribution of the tax designation mechanism to financial viability of NGOs as relatively high. For example, the funds that are channeled to NGOs through the mechanism are important for the development of the sector not so much due to their total amount, but due to their nature. The mechanism in 2013 contributed a small share of the total income of non-profit sector in the subject countries (*Figure 4*). At the same time, its nature of being a very flexible financial source, substantially contributed towards the sustainability of grass roots activities.

E. „SCHOOL OF PHILANTHROPY”

In this policy rationalization, the expectation for the tax designation, was to enable taxpayers to show solidarity (at no costs to them) and act as a „school of philanthropy”, to contribute towards building a philanthropic culture that was under-developed. Based on the data available, this has been a marginal intention and maybe a post-hoc rationalization, rather than a bold policy goal.

The argument for this policy rationale is obvious. Forty years of experience in totalitarian welfare states during the communism destroyed the social fabric that had been built for centuries. The paternalistic state taught several generations that initiative is punished and that passive waiting for the state to deliver will be rewarded. At the same time, the individualism emerged as a virtue of capitalism and the concern for the common-good was pushed back. In this context, it is a sound policy to revive and nurture the social solidarity.

The data is not sufficient to make a link between the level of giving and the percentage designation. However, there is evidence, that the private philanthropy in some countries of the region is increasing.

Also, there is some evidence suggesting that the percentage designation contributed to the rise of private individual philanthropy in Hungary (*See Figure 10*). It is not as clear-cut in other countries, although there is some anecdotal evidence of this. In all studied CEE countries, except for Romania, the tax designation has been accompanied by abolishing tax incentives for giving which is a rather discouraging measure for private giving (*for details see Chapter III.*). But as the Hungarian case shows, these changes do not necessarily discourage private individual philanthropy.

The language used for the mechanism is noteworthy – in some countries the percentage system is referred to as a “*percentage philanthropy*”, implying the perceived philanthropic dimension of this action, without sufficient conditions to make that connection to philanthropy. Because of this language, it is becoming a self-fulfilling prophecy – many tax designators perceive themselves to be “*philanthropists*” who already gave their share to the common good. In this sense, the system has played a rather controversial role, as it may have caused complacency instead of call to action.

F. PUBLIC BENEFIT DIFFERENTIATION

Some key intentions were also quite pragmatic. In Poland, for example, the key discourse behind the rationalization of the tax designation mechanism was about the public-benefit organizations’ regulation and ways to differentiate this new category from the rest of the NGOs. This is reflected in the number of the NGOs that use the mechanism, which is rather low when compared to the size of the country and the third sector.

The other policy intentions that were not related to the civil society realm are only briefly covered below.

G. FIGURE OUT THE REFORM OF FINANCING OF CHURCH

The original intention of the first debates about the percentage system in the region came from Hungary in the context of financing of the church, based on an inspiration from the Italian 8/1000 system. More on the role of the tax designation in church financing can be found in Chapter VI. – Variations of the Mechanism - Hungary and Chapter VII. – Country Report - Italy.

It should be mentioned, however, that in many conceptualizations of civil society, church plays a distinct role. Churches per se are eligible to receive contributions within a separate system in Italy, Hungary and within the civil society tax designation also in Lithuania. In several countries, church-derived social organizations are eligible to receive contribution from the tax designation system (Slovakia, Hungary, Romania).

The financing and normalization of the relationship between the state and church has been an important question in the CEE countries that emerged from communist rule in the 1990s. It is no surprise that the financing of the church was one of the triggers that developed the tax designation mechanism in the region. Czech Republic and Slovakia have also considered the tax designation mechanism as a potential mechanism for financing of the church.

H. PARTICIPATORY BUDGETING

The option given to taxpayers to freely decide on the use of the tax has emerged in the policy debate in Hungary and since then, it has been repeatedly discussed in other countries. As the Government program of Hungary in 1994 mentioned above emphasized, the areas that are eligible for tax designation shall not be of political, business, or advocacy nature (Kormányprogram (Government program of Hungary) 1994). This approach has been turned around in Lithuania where the tax designation has been used also for funding of political parties.

I. SUPPORT TO PUBLIC BENEFIT PURPOSES

Support to public benefit purposes - religious, cultural, social and others – has been the main intention and impact of the mechanism. Whether these purposes are effectuated by CSOs or public sector institutions or church-based organizations, has been secondary. In Slovakia, for example, early version of the system focused only on the public benefit pur-

poses (Woleková 2000). By this logic, it is more important that the public benefit purpose is met than who is acting on it – a private civil society organization or a public institution. This was an important feature of the debate in Lithuania, which has a rather broad list of eligible beneficiaries of the system (see Table 3). Also in Hungary and Slovakia, the emphasis of the mechanism and its evaluation is on public benefit purposes and it is the main justification criterion for the use of the funds. But as observed, this approach does not bring satisfactory results. There is a broad interpretation space in the definition of “public benefit”. The discussion about it is going on in various countries:

“The main problem is the fact that the mechanism was somehow privatized (and it was meant to serve public benefit). Quite often, the (including few top income Public Benefit Organizations) role of the organization is limited to the role of an intermediary – and this does not mean appreciation of their competence as prudent re-distributor (it is not the case of United Way or Community Foundation) – the role of the organizations here is purely mechanical and they simply obtain profit from such an agency. Those resources are then transferred to individuals (often in health and social needs areas) or to other institutions such as schools or kindergartens. In 2014, when 1% payment was made to nearly 7.5 thousand organizations, over 25% of the total sum was collected by literally one foundation, which has been gathering funds through its so-called sub-accounts for years, directing the funds to individual people. Ten organizations from the top of the list (six of them are known as “intermediary in collecting funds” for the benefit of individual persons or institutions that do not have the PBO status) collect approx. PLN 180 million (for the whole amount of PLN 500 million obtained in 2014 from the 1% PIT mechanism). This kind of disproportion can be considered pathological to some extent and is a source of frequent criticism of the entire mechanism of 1% PIT. Many organizations are disappointed as the mechanism is not providing expected results. Some of them are questioning whether the whole mechanism serves its purpose and ultimately whether it would not be better to stop it completely”.

(Polish expert)

In Lithuania, some NGOs and politicians have already speculated³⁴ for several years that a “2% scheme” in Lithuania got distorted – since majority of the designations goes to public entities. Their argument is built around the belief that clients of these institutions are “blackmailed” – in case if they refuse to designate, they (or their dependent relatives – children, elderly, patients etc.) would not receive the best possible services. Contrary to that, others oppose that NGOs are not better than public schools, hospitals or museums, so it wouldn't be fair to leave the “2%” solely to NGOs. They support the attitude that anonymous electronic designation is sufficient to avoid direct pressure from interested “2% recipients”.

The situation gets somewhat similar when it comes to the considerations of the tax designation performed by corporate bodies in Slovakia. The original intent was to create a tool that would help raising funds for the then existing foundations. The reality was different. After 2003, there has been a rather strong push to establish a brand new type of corporate foundations in Slovakia. As a matter of fact, corporate foundations became some of the most relevant grant-making institutions in Slovakia, thus overtaking the position of the strong international donors operating there since 1990s and partly competing with the very few civil society based independent grant-making foundations formed in Slovakia by the end of 1990s and early 2000s..

³⁴ “Dviejų procentų” vertės detektyvas, accessed August 28, 2015, http://www.donoryste.eu/lt/Dvieju_procentu_vertes_detektyvas.html

Conclusion

The review of the perceived effects and intended policies suggests, that today, 10 years after the implementation of the mechanism in any of the percentage club countries, there is a modest but distinctive contribution of the mechanism towards the sustainability of the public benefit organizations, especially the NGOs.

Especially in the area of financial viability and public image, the mechanism produced visible benefits and added value to civil society organizations in all percentage club countries. At the same time, in parallel to the percentage mechanism, in all of the studied countries, positive changes occurred in the associative dimension of civil society or in philanthropic activities that have not been attributed as effects of the percentage mechanism. One of the most important elements of the mechanism has been its flexibility and predictability which contribute towards the stability of the third sector and channel the public funds to those recipients that would otherwise have limited access to other funding? More intensive communication and increased visibility of NGOs are other positive effects of the mechanism.

There have been some unintended effects that raise concern. As far as the understanding of the concept goes, there has been an ongoing misunderstanding of the tax designation and confusing it with philanthropy. On the level of the actual effects, the system has morphed slightly in Poland where the channeling of funds through intermediary recipients to individuals opens up questions on the original purpose of the mechanism. Similarly, the emergence of scholarships in Romania as an eligible public benefit purpose is questionable as it draws the funding out from the NGO space.

One of the rather negative side effects or (unrelated occurrences) of the percentage designation from the perspective of the NGO sustainability, has been the abolishment of fiscal incentives for giving in several countries.

Chapter V.

Policy making

Marianna Török

This section aims to examine the policymaking regarding the percentage mechanism. It describes the original intentions and looks at the assumption that there is no systematic policy evaluation of the percentage mechanism that results in a stagnating system, where changes and adjustments are rare and the system has foreseeably reached its plateau. What once was an innovative policy solution has become part of the status quo that the social actors live with.

Great Expectations

After the idea of the 0.8% was established in Italy, it has found following among Liberal and Socialist policy makers in the Hungarian government, several European countries (Hungary, Italy, Lithuania, Poland, Romania, Slovakia) and a local government in Japan adopted similar regulations. The concept has been, to some extent, considered in eight additional post-communist countries (Croatia, Czech Republic, Estonia, Macedonia, Moldova, Serbia, Ukraine, Georgia) and is still being debated in some. There is a clearly identifiable network of experts, people, and media that have served as a channel of information regarding the percentage model after its introduction in Hungary. Such networks of civil society development were strong in Eastern Europe in the late 1990s (e.g. European Foundation Centre, Orpheus Network, Environmental Partnership) and therefore sharing and dissemination of information in Eastern Europe was common. In the case of Japan, the channel has been the Sasakawa Peace Foundation that was active in the region together with the Japanese media. Meanwhile, the developments in Italy are mainly the extensions of the original Italian religious 8/1000 idea and only a minor influence of the CEE developments is noted.

The aim of policy makers have primarily been the provision of additional financial resources to (broadly defined) public benefit entities.

The intentions in Hungary were originally different from what the law ended up being. The Hungarian non-profit sector experienced a significant growth in the early 1990s, but indirect government support to voluntary organizations, and especially to foundations, had been decreasing and a series of restrictions were imposed on not-for-profit organizations, starting around 1991-1992. While the NGOs have faced financial needs, the appearance of the 1% mechanism was intended to reform the system of financing churches and some of the state cultural entities, which were separate concerns of that time. Creating an additional source of support for NGOs through the tax designation was an extension of the original idea.³⁵

In Lithuania, there was a financial need together with lack of awareness about not-for-profit entities. It was believed that the state and the municipalities, as well as individuals, are short of resources. In addition, more than half of the population could not name a single NGO³⁶. The percentage idea has fitted the need for financial resources and better recognition of not-for-profits. In Romania and Slovakia, the financial need was recognized as well. There was an expressed concern that the most important financial supporters of NGO work are foreign and international donors and agencies (e.g. USAID, Open Society Foundations, C.S. Mott Foundation, etc.) that were starting to depart the pre-EU accession Central and Eastern European countries, leaving the NGO community on a hiatus. Something was needed to fill the funding gap. Meanwhile in Poland, the idea to use the percentage mechanism was part of a broader legislative project aimed at improving the conditions for organizations to continue functioning. The Public Benefit Law, among other questions of regulation of access to public funds, "legalization" of voluntary service, and the separation of the category of public benefit organizations from all the non-governmental organizations, were important issues.

Several CEE countries have been actively searching for and some of them found (especially Hungary, Czech Republic and Poland) innovative financing models of the non-profit sector. In Czech Republic, the privatization revenues were used to build endowments; in Hungary the National Civic Fund was established; and in Poland the two were combined to some extent and added to it a flexible financing of non-profits from the pre-accession and early accession/structural funds of EU (Strečanský, 2008).

The fact that preference was given to an innovative mechanism, where allocation of state resources can follow the intent of the citizenry by using a decentralized decision making process, where people make their financially weighted choice, instead of the traditional provision of direct support to public benefit entities or offering tax advantages to donors, shows that the policy makers have seen more in the mechanism than a pure channel of financial resources. While the participatory aspect may have been appealing,

³⁵ Similar evolution was also in the Czech Republic. First tax designation emerged in a discussion of funding of church in 1997 and then in 2001 a bill was proposed to use the mechanism in funding of charitable purposes (<http://taxdesignation.org/czech-republic/>).

³⁶ Public opinion survey "Lithuanian NGOs (SIC, 2002), 12-14, accessed August 28, 2015, http://www.3sektorius.lt/docs/NVO_2002_2013-01-17_15_21_55.doc

it was rarely debated and explored by the decision makers. Participatory budgeting was a relatively new concept in those years and the term was rarely mentioned in the discussions³⁷. The enthusiasm regarding the decentralized structure of the mechanism may be a reflection of the common concern in the region about the political bias of central government decision-making in financial redistribution and the non-transparent redistribution of budgetary resources. **Experts from the CEE “Percentage Club” countries interviewed for this research all agreed that the public/state financing mechanisms to fund public benefit entities that were in place in their countries during the years of the debate and introduction of the percentage mechanism, were politically biased to some extent (to a lesser extent in Poland but a concern in Romania and Hungary even today). The decentralized decision making of the mechanism as a depoliticised redistribution model has been important and it continues to be a major strength of the percentage system as it has the potential of a democratic and transparent redistribution system.**

Besides the five CEE “Percentage Club” countries, this research could identify eight CEE countries where the percentage system was debated. In two cases, in the Czech Republic and in Estonia, it was seriously considered and later dropped (in the other six countries the debate did not become a serious discourse and the system was not considered as a weighted proposal). In the Czech Republic, the advocacy for the percentage system started after 1997 and was dropped couple of years later. The main argument of the second attempt to pass the bill was to enable people to show solidarity at no direct cost to them, i.e. focusing on the percentage system being a training ground of philanthropy (sort of a “School of Philanthropy”) and thus bringing additional resources to the sector. The concept was debated in the Parliament and the decision was not to implement it. In Estonia, a civil society-lead policy discourse has resulted in the decision not to recommend the mechanism for implementation. The *Policy Center Praxis*, with the approval of the *Ministry of Internal Affairs*, launched an evidence-based study with the aim of providing policy recommendations for the advancement of philanthropy in Estonia³⁸. It has concluded that the Estonian civil society, donors and NGOs, were too advanced for the percentage mechanism and it would mean taking a step back resulting in the development of a new structure instead of promoting and improving the existing one³⁹. In the Estonian policy paper, one can read between the lines a criticism by the Estonian authors regarding the policy making process of the CEE “Percentage Club” countries of those years. Specifically, the fact that they focused on generating additional financial resources to public benefit in a unique way, but their good intentions were followed by legal changes rather than systematic evidence-based policy analysis of the concrete effects of the proposed mechanism. A similar concern was raised in the Czech Republic, where, the bill for the percentage mechanism was denied at one point because of unjustified measures, unclear benefits and lack of clear calculations of the financial burden.⁴⁰

Evaluation of the System

There is a shortage of materials on the assessment of the mechanism. It could be assumed that there is no systematic policy evaluation of the system by national governments which can be problematic as it can result in a stagnating system, where changes and adjustments are rare. And without changes, the results of the system will foreseeably reach their plateau.

Indeed, **the assumption that systematic evaluation of the percentage mechanism is not part of the protocol has proven to be true in four out of the five CEE countries. While in most countries there is some kind of review taking place from time to time, Poland is the only country where a structured evaluation is part of the designed system by the government** (as part of the overall evaluation of public benefit development). Italy has introduced a model where every year a decision needs to be made regarding the continuation of the system, which can be considered to be an evaluation mechanism with

³⁷ It was mentioned, for example in the debates in the Czech Republic – 2001 and 2003 – as participation of citizens on the allocation of the budgetary sources.

³⁸ In detail see the original study available in Estonian: https://vana.siseministerium.ee/public/Prot-sent_tulumaksust_kodanikuyhendustele.pdf

³⁹ See www.taxdesignation.org/Estonia/

⁴⁰ See country report

a consequence. Examining and sharing the experience and lessons learnt is even more limited across borders.

Changes and Amendments

Looking at the changes that have taken place within the percentage systems, one can note that by the time Slovakia has voted on its version of the percentage law, Hungary has used the system for five years and passed two amendments. By 2003, when Poland and Romania enacted their percentage laws, Slovakia was going through its third amendment of its percentage law. All together, 22 amendments to the percentage laws were noted in the CEE “Percentage Club” countries over 19 years⁴¹ (Table 8). **The system has not stagnated and it continues to evolve. Changes are expected even today, after years and decades of operation.**

While there have been several amendments, the essence of the mechanism has stayed the same: to support entities of public benefit from public sources based on private decisions. As the original Hungarian intention was worded: “The government wishes

Table 8
Timeline of percentage legislation enactments and amendments in the CEE “Percentage Club”

■ Year when law on percentage legislation was formally accepted

■ Year of operation of the percentage mechanism

■ Year of operation and amendment of the “percentage law”

	Hungary	Slovakia	Lithuania	Poland	Romania	Moldova
1996	■					
1997	■					
1998	■					
1999	■	■				
2000	■					
2001	■	■				
2002	■	■	■			
2003	■	■	■	■	■	
2004	■	■	■	■	■	
2005	■	■	■	■	■	
2006	■	■	■	■	■	
2007	■	■	■	■	■	
2008	■	■	■	■	■	
2009	■	■	■	■	■	
2010	■	■	■	■	■	
2011	■	■	■	■	■	
2012	■	■	■	■	■	
2013	■	■	■	■	■	
2014	■	■	■	■	■	
2015	■	■	■	■	■	■

to let taxpayers freely decide on the use of a given part of their personal income tax. The recipients of this share of the personal income tax can be religious, cultural, social and other civic organizations, but not the political, business and professional advocacy groups” (Kormányprogram (Government program of Hungary) 1994).

⁴¹ In Slovakia, the amendment to the tax designation law in 2001 was adopted before the actual implementation of the mechanism.

The system becomes part of the status quo

Thinking that after more than a decade of operation, the percentage system has reached a plateau and is stagnating, is a commonly expressed concern. This research examined whether it is indeed stagnating by looking at the portion of taxpayers using it, the amounts designated and the number of beneficiaries over the years, as well as the further replication and development of the percentage idea. This information together with the knowledge on changes and amendments provides the ground for reflections on the notion that the system has become part of the status quo in the five CEE countries.

TENDENCIES OVER THE YEARS

The total number of designators in the five countries of the Percentage Club reached 17 million people in a year (based on the most recent data available for these countries), which is more than a third of all taxpayers (38.6%⁴²). The ratio of designators in all the five countries has grown, especially steadily in the early years (*Figure 12*). A relatively quick immersion can be observed until the fifth year, after which the growth has slowed down. In two countries, the growth of the ratio of those using the percentage system is declining and in one country it is stagnating. This suggests to some that a plateau has been reached in this area, but the example of Poland and Hungary shows that even after year five, growth is possible.

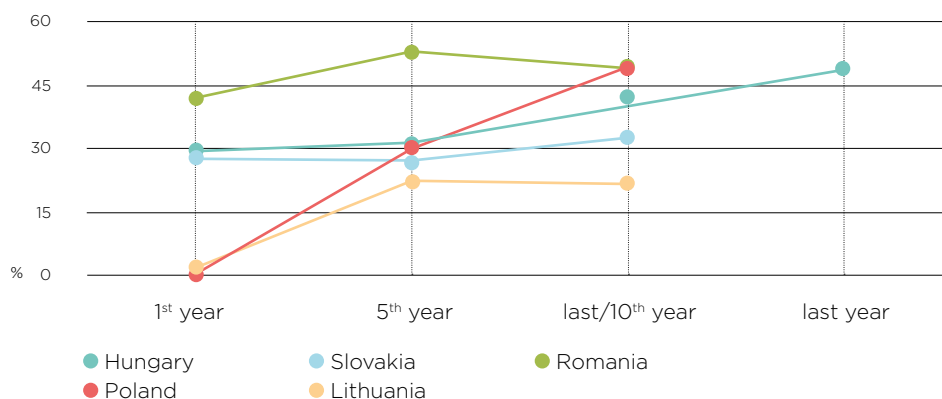


Figure 12:
Ratio of designators
(based on "Per Phil
database")

The area of revenues to beneficiaries has also shown a steady growth in the first years of the system that slowed down in a couple of years (*Figure 13*) (The observer needs to note that the growth would not look as steep if the inflation was also taken into account here.) The only drop we can observe is in Hungary, where after a steady growth, the system shows a decline that can be explained by the introduction of a flat tax system⁴³.

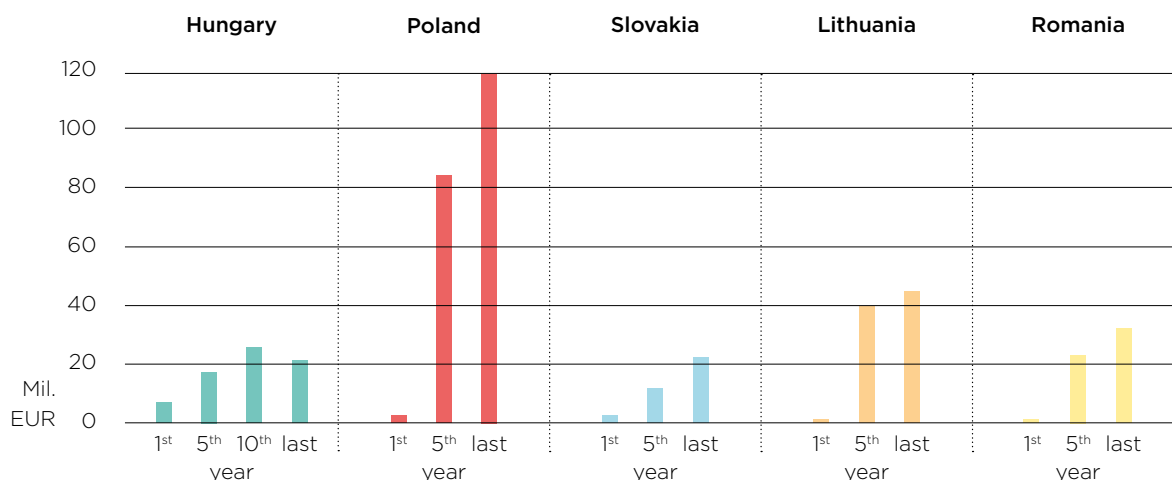


Figure 13:
Amounts designated
from the tax designation
mechanism

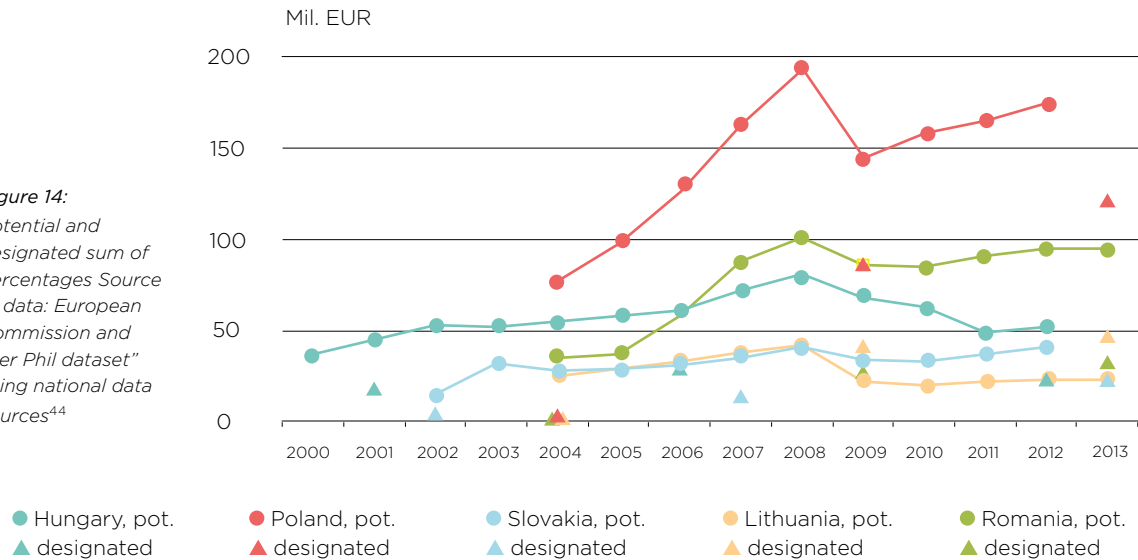
⁴² Meanwhile in the original otto per mille system it is estimated that 39% of the taxpayers make use of the system (Allen 2007, 174).

⁴³ In 2012 a dual-key personal income tax system was changed for a flat tax system resulting in less percentage designations.

⁴⁴ Taxes in Europe Database v2, http://ec.europa.eu/taxation_customs/tedb/taxSearch.html

By juxtaposing the potential (marked with lines) and the real designated sums (marked with triangles) one can see clearly that the system is not reaching its full potential (*Figure 14*).

Figure 14:
Potential and designated sum of percentages
Source of data: European Commission and "Per Phil dataset" using national data sources⁴⁴



It is clear that the system has more potential than what it delivers financially. In addition, one cannot say that the system as such is stagnating but signs of decline in its development can be noted. The key to financial success of the mechanism lies in the amount of salaries and the number of taxpayers using the system, as that can result in higher amounts going to beneficiaries. Some believe that the number of users is not going to be much higher than it currently is. Others argue that a stronger connection between taxpayers and beneficiaries, even better communication by potential beneficiaries, and some technical changes in the process of designations could help with raising the numbers and making the system reach its full potential. Growth can be noted in the number of beneficiaries (another important component, that is often used when assessing the system). **The growth is continuous in all of the CEE countries, except for Poland** (where the potential for growth in this regard is limited due to the design of the system, *Figure 15*).

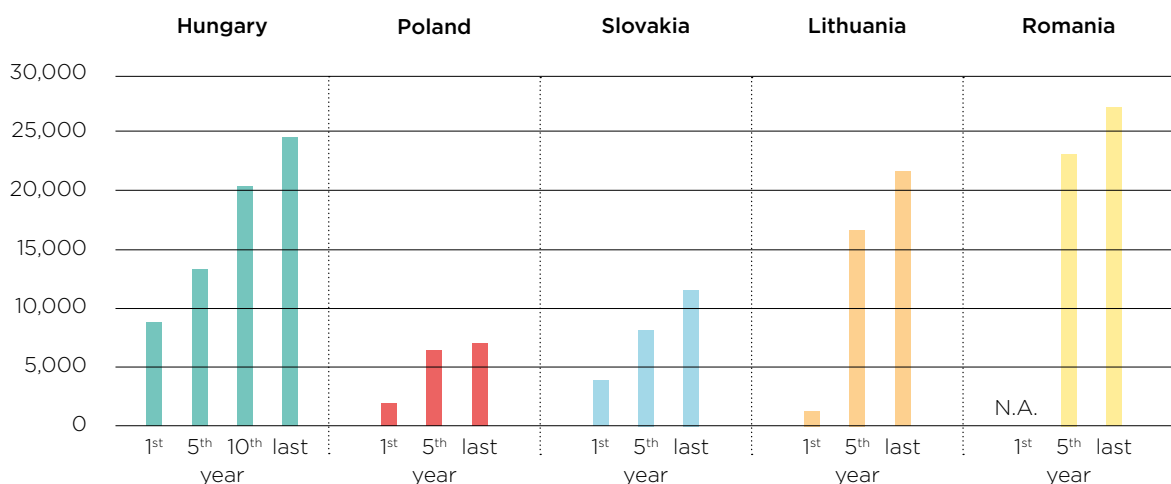


Figure 15:
Number of beneficiaries of percentage regulations in five countries (based on "Per Phil database" using national data sources)

The percentage system has shown growth in several areas and is popular among designers as millions of taxpayers are willing to make the effort to designate their percentages. Thousands of entities and millions of people involved benefit from the millions of euros designated. The system **has not reached its potential yet, and if trends continue in its course, it is most likely to remain a popular mechanism. After decades of operation, the system has become part of the status quo with the support of all political parties in all countries, the general public, and especially the NGOs.** It is even viewed to be a mechanism that would be too difficult to stop because of its popularity. When Lithuania entered into periods of economic crisis and state as well as municipalities were forced to cut off some of their funding programs, the 2% scheme was out of reach of political “scissors” (The only reduction of designated amounts was caused by separating payments to Patients Fund from the income tax⁴⁵ and by increased unemployment as less people were paying income tax).

VARIATIONS ON THE PERCENTAGE THEME

Two areas have been examined regarding the dissemination of the percentage idea: the use of the same model beyond the original mechanism within the CEE “Percentage Club” and the dissemination of the idea beyond the original five CEE countries.

The research has noted that in three cases, the designation model has been adopted to support new areas: in Hungary a separate, new percentage can be designated to churches; in Slovakia, tax percentages can also be designated by companies not only by individuals; in Lithuania, the most recent development is that a separate new percentage model was introduced to benefit political parties. Interestingly, in Italy, where the model originates, the same mechanism is used for three different purposes: churches, NGOs and political parties. **This suggests that the policy makers see value in the system itself and find it to be an appealing mechanism for redistribution of public resources for different purposes, for different entities and by different actors** (it also has to be noted that over the years, participatory budgeting, that bears some of the same values of the percentage system, has become a used methodology, especially in Poland).

Looking at the reach of the idea beyond Italy and the CEE “Percentage Club”, some Post-communist countries have been identified in this research (as described earlier) that are considering this mechanism for adoption but most of them have not shown significant development by 2015. This research could identify one country, Moldova, where the percentage legislation was recently enacted. This has happened 12 years after the last two “Percentage Club” countries have introduced their percentage systems. In Japan, Portugal and Spain, a very different variation of the model works (that would require a separate work of comparison). The authors believe that awareness of this mechanism beyond CEE is limited. It is partly due to the limited amount of information available in English and other major languages regarding the value of the mechanism, partly due to the particular niche this mechanism can meet.

⁴⁵ Rūta Vainienė. Aptrupėję ir pasiklydę 2 procentai GPM paramai, accessed August 28, 2015, <http://www.delfi.lt/verslas/verslas/rvainiene-aptrupeje-ir-pasiklyde-2-procentai-gpm-paramai.d?id=30540285>

Conclusion

The percentage mechanism offers a unique way of redistribution of state resources that was met with enthusiasm in the transitional phase of post-communist Central and Eastern Europe. It has offered a redistribution of state resources to public benefit activities in an environment that was resource dry with bureaucratic and un-transparent, politically biased public funding mechanisms. It was hypothesized that there is a lack of systematic policy evaluation regarding the percentage designation mechanism, which was proven to be true in four of the five CEE countries. Still, the system does not stagnate: changes and adjustments are frequent; the proportion of taxpayers using the system, the amounts designated, and the number of beneficiaries has been growing (with a slower speed and sometimes slight decline in some countries in recent years). The system that once was an innovative policy solution has become part of the in-country status quo that the societal actors live with and enjoy the benefits of. There was no country where abolishing the percentage mechanism would have been a concern⁴⁶. On the contrary, the model is found to be used in new ways in three of the five countries and after twelve years a new country has enacted a percentage legislation in 2015.

⁴⁶ Slovak government between 2006-2012 several times tried unsuccessfully to abolish the extension of the percentage tax designation to corporations.

Chapter VI.

Variations of the Mechanism in Hungary and Slovakia

István Sebestény

The “second” 1% to Church, the National Civil Fund and the National Cooperation Fund.

Fedor Blaščák

The Case of Corporate Percentage Tax Designation in Slovakia

The “second” 1% to Church, the National Civil Fund and the National Cooperation Fund

István Sebestény

INTRODUCTION

When the germ of the 1% idea emerged in 1991, it was as part of a parliamentary debate on how to finance the churches: the liberal party suggested that taxpayers should be authorized to transfer 1% of their personal income tax, either to churches or to voluntary organizations (Bossányi 1997). As such, the motion was intended to reform the system of church financing, not to create an additional source of support for non-profit organizations. However, the law finally adopted in 1996⁴⁷, identified only social organizations as potential beneficiaries. In 1997, the law was amended (Act No. 129/1997), which allowed a taxpayer to transfer another, so-called “second”, 1% of their personal income tax to a church (Vajda and Kuti 2000).

THE “SECOND” 1% IN HUNGARY

In the debates that preceded the passing of this law, the argument prevailed that non-governmental organizations and churches should not be forced to “start fighting” each other in the competition for the 1%. It was considered vastly unfair that not only did the taxpayer have to decide which non-governmental organization and/or church to support, they also had to choose whether they considered civil or religious activity to be more important. This could have constituted a conflicting interest for religious citizens, and they would probably have opted for their church first; therefore, despite the best intentions, they could not have supported civil organizations under the 1% law. Conversely, it would not have been attractive for churches themselves⁴⁸: given that the population in Hungary has rather weak religious ties to the churches, the vast majority would probably have supported a civil organization⁴⁹.

There are two noteworthy differences between the “civil” and “second” 1% systems. Firstly, under the current law, the Hungarian government has agreed that the state will guarantee 0.5%⁵⁰ of the total personal income tax revenue to the churches; if less money has been collected, the state will complete the sum in proportion of designations. (Sebestény 2009). Secondly, not only can the “second” 1% be designated to churches, it can also be assigned to a so-called “special budgetary allocation”. This is important, because when analyzing the religious designations, we must note that 25%–30% of both designations and total revenue is allocated to these funds, not to churches (*Figure 16*).

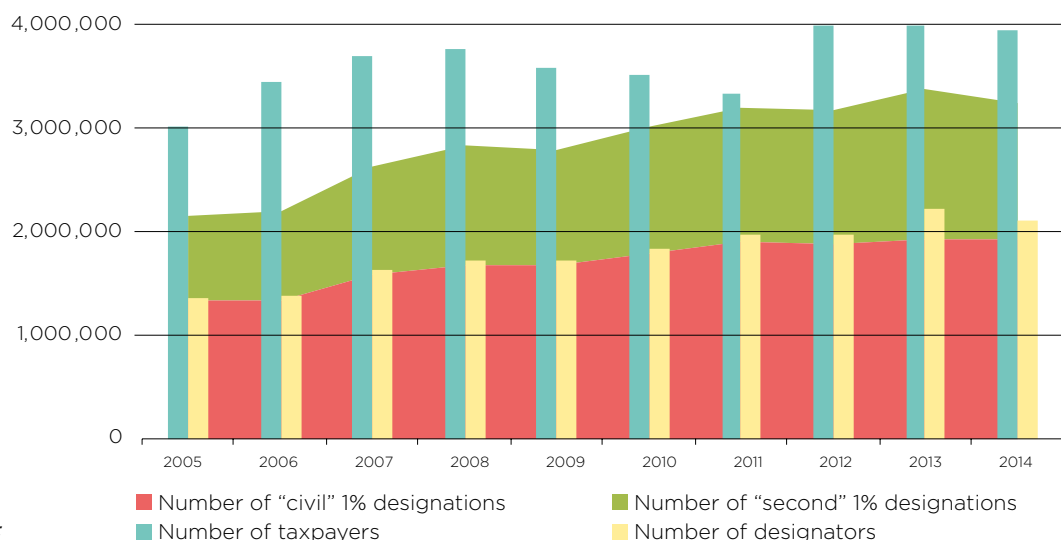


Figure 16:
Changes of 1+1%
designations in
Hungary, 2005–2014
Sources: NTCA

⁴⁷ Act CXXVI of 1996: On the Use of a Specified Amount of Personal Income Tax in Accordance with the Taxpayer's Instruction

⁴⁸ The churches argued that the 1% system would jeopardize their autonomy and undermine their freedom from state scrutiny. They also mentioned the dangers of an official register of church members and supporters. What they did not mention was the results of an opinion poll, which showed that only 4% of taxpayers would have nominated churches as the beneficiaries of the permitted 1% of their personal income tax (Bossányi, 1997, p. 102).

⁴⁹ According to various studies and rough estimates in Hungary, about one third of the Hungarian population are non-religious, a further third are “believers in their own way”, and the remaining third actively practice their religion. Among the practicing believers, almost one third go to church regularly.

⁵⁰ This share has gradually increased, nowadays it is 0.9%.

As we can see, more taxpayers use the civil 1% option rather than the “second” 1%. Specifically, 91% of all designators nominated civil organizations, even in 2014, while only 63% of them named a church or state fund.

In 2014, most designators (55%) used both options, naming a non-profit organization as well as a church. More than one third nominated a civil beneficiary only and eschewed the “second 1%”, while only 8% did the contrary. As the 1% designation does not involve any financial burden for the taxpayer, and the technical conditions are equal for the civil and “second” 1%, these figures show that citizens in Hungary prefer civil organizations to churches.

The subdivision of the “second” 1% among the different churches reflects the sectarian distribution of Hungarian society. The traditional churches gather one third of the potential 1%; surprisingly though, two relatively small churches – the Krishna conscious community of believers, and the Faith Church Hungary – comprise a significant share of the 1% market.

As trends go, the time-series implied that the willingness of taxpayers in Hungary to designate their 1% to a religious organization is continuously increasing.

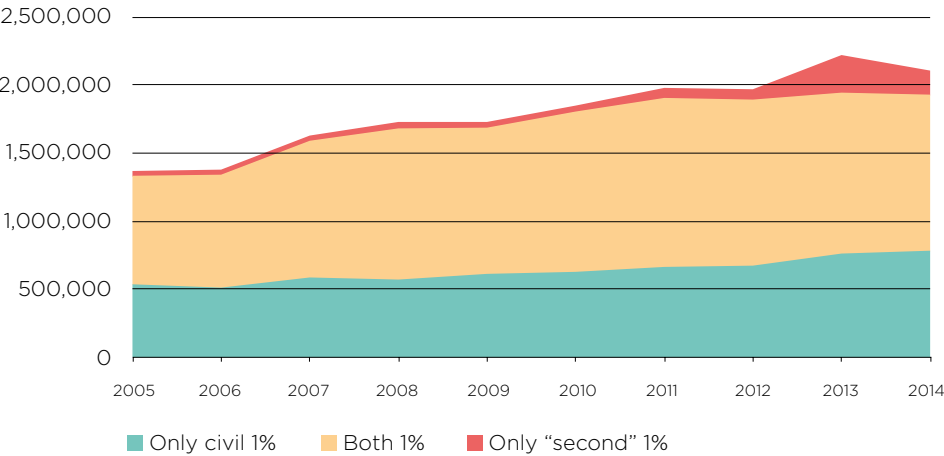


Figure 17:
Distribution of designators by their designation in Hungary, 2005-2014 Sources: NTCA

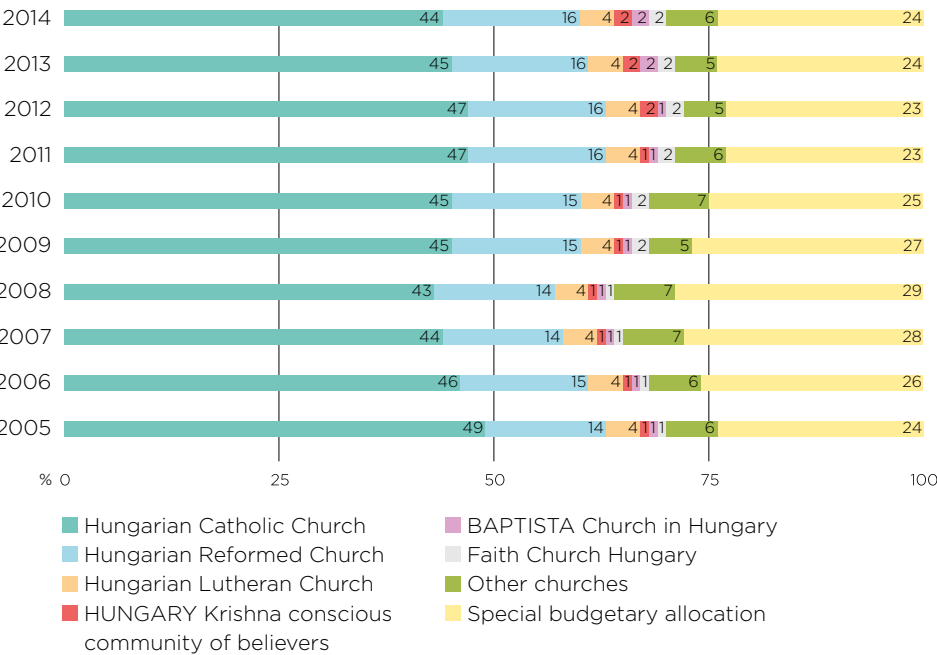
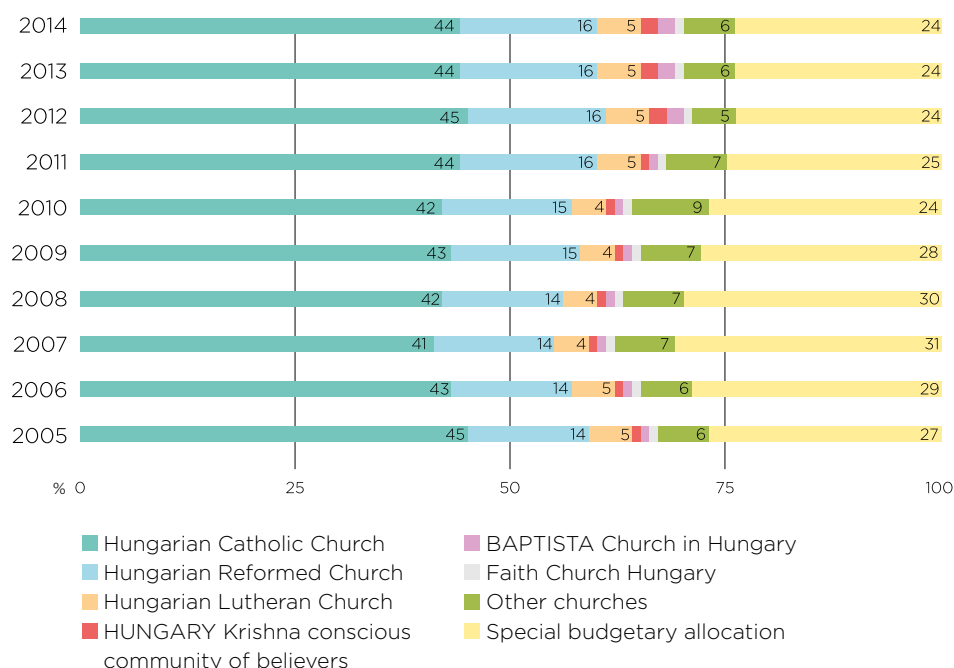


Figure 18:
The annual distribution of the “second” 1% among churches - Designations

Figure 19:
The annual distribution of the “second” 1% among churches – Sum of Money

Source: NTCA



What to do with “stuck” 1%: The National Civil/Co-operation Fund in Hungary

The “stuck percentages” have been a constant topic of discussion. In one view, the taxpayer who did not designate their 1% did so deliberately, intending this amount to remain in the state budget. In contrast, others believe that 1% of the total tax revenue should be used somehow to benefit civil organizations, as the state had already, in a way, waived this amount for that purpose.

In other contexts, it had been suggested that a simplified form of state support should be constructed to strengthen the civil society sector – especially in terms of general operating costs. Therefore, the idea emerged of setting up a special fund using the “stuck one percents”, and through an application system, a wide range of civil organizations could be helped financially. This became known as the National Civil Fund.

However, as the law was being drafted, a conflicting interest surfaced; namely, that encouraging more taxpayers to designate 1% would reduce the source of revenue for this Civil Fund. For this reason, the law that was finally passed stipulated that the government would assign exactly as much money to the civil fund as was received under the 1% scheme. This sent a message to taxpayers: “Those who give once, give twice!”

At the same time, the introduction of the law fulfilled an old idea: both in the council and in the boards, elected civil representatives were in the absolute majority, which could ensure sufficient competence, expertise, and experience against the influence of the prevailing political power. After a change of government in 2010, the National Civil Fund was abolished, and the National Cooperation Fund, which operates in a similar way, was created in its stead. However, in the National Cooperation Fund, two-thirds of the governing body members of civil organizations are appointed by the government (*see Table 9*). A short official review of the National Civil Fund can be read below; this is followed by a diagram comparing the two funds in terms of the most important indicators.

Table 9:
Composition of National Civil Fund and National Cooperation Fund

Name	National Civil Fund	National Cooperation Fund
Duration	2004–2011	2012–present
Composition of the Council	3 ministerial delegates 2 delegates of the parliamentary committee 12 delegates elected by civil organizations (Civil ratio: 71%)	3 ministerial delegates 3 delegates of the parliamentary committee 3 delegates elected by civil organizations (Civil ratio: 33%)
President of the Council	elected by the members	appointed by the minister
Composition of the Boards (in each)	1 ministerial delegate No delegates of the parliamentary committee 9 delegates elected by civil organizations (Civil ratio: 90% in each)	3 ministerial delegates 3 delegates of the parliamentary committee 3 delegates elected by civil organizations (Civil ratio: 33%)
Types of Boards	7 regional and a nationwide boards for operational support 3 Professional Boards: - International Relations - Civil services, development and information - Civil self-organizing and cooperation	5 Professional Boards: - Community environment - Mobility and adaptation - National cohesion - Social responsibility - New generations for the future
President of the boards	elected by the members	appointed by the minister
Ministerial allowance	none	10% of the budget

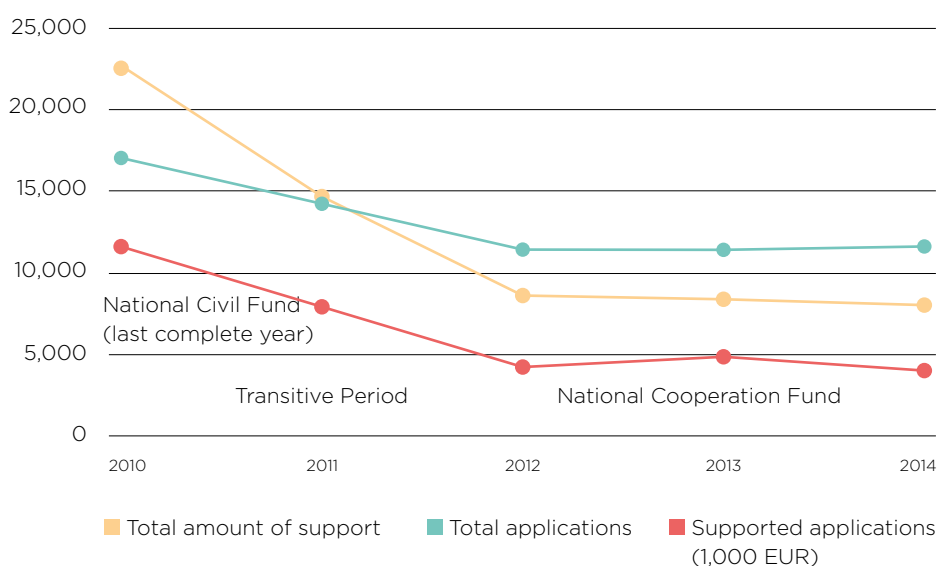


Figure 20:
Changes in base
data of National
Civil/Cooperation
Fund, 2010–2014

Source: Ministry of
Human Capacities

NATIONAL CIVIL FUND

The Hungarian Parliament enacted the Law No. 50 on the National Civil Fund on June 23, 2003 that aimed to strengthen the operation of civil society organizations and to develop the third sector through grant supports.

All those private foundations and non-governmental organizations (excluding employers' and employees' interest groups, political parties and insurance associations) who are registered and operating in Hungary at least for a year can gain support from the Fund. The grants are distributed by the Boards composed of the representatives of civil society organizations. The principles of the grant-support system are laid down by the governing body, the Council that has a majority of delegates from civil society organizations as well.

The exceptionality of the National Civil Fund is the decision-making process; civil society representatives – free from government influence – are responsible for decisions. The applicant organizations can be sure that their applications are considered by the delegated members who dispose the available resources.

The first call for applications appeared in May 2004, attracting great interest among the eligible organizations. At this stage, more than 6 billion HUF (approximately 24 million EUR) was granted as non-refundable support for the successful applicants. Although this amount is not enough to support all desired programs and aims, it facilitated the operation of many and helped the implementation of various programs and the development of the sector.” (Source: http://www.nca.hu/?page=webtext/show&wte_code=english Accessed: 28 June 2016).

NATIONAL COOPERATION FUND IN 2015

Finally, to introduce the present circumstances of the National Cooperation Fund, it is worth quoting the following news from the webpage of the Ministry of Human Capacities, which is responsible for the operation of the fund:

*“NGOs receive an additional 2 billion HUF from the state budget this year”
(February 19, 2015 6:27 PM).*

NGOs will receive a total 5 billion HUF (16.4 million EUR) this year from the state budget's National Cooperation Fund, a two billion forints increase compared to 2014, Minister of State Miklós Soltész announced on Wednesday.

Mr Soltész said that last year, about 4,000–4,500 NGOs won state support at various tenders and added that the 50 percent increase in subsidies will also mean that the number of supported NGOs will rise proportionally, which will provide a great opportunity for them.

The increase also means that the Ministry of Human Capacities will not have to impose a previously expected restriction according to which NGOs which won state funding in the past three years may not re-apply.

Mr Soltész said that the Ministry wishes to contribute both to operational expenses and specific projects. Among the latter, priority will be given to community-building, family support and helping Hungarians in neighboring countries.

He also pointed out that in light of the increased funding, the hysteria generated by a few dozen NGOs in the past months and years should die down, as the rise clearly demonstrates that the government regards NGOs as important partners.

Tenders are available on the websites nea.hu and civil.info.hu and will be evaluated by five professional committees of nine persons each.”

(Ministry of Human Capacities)

(Source: <http://www.kormany.hu/en/ministry-of-human-resources/news/ngos-receive-an-additional-huf-2-billion-from-the-state-budget-this-year> Accessed: 28 June 2016)

The Case of Corporate Percentage Tax Designation in Slovakia

Fedor Blaščák

THE ORIGINS

In 2002, before the parliamentary elections in June, a decision was made in Slovakia to open the tax designation model to corporate entities, starting in 2004. This diversion of a portion of corporate income tax to civil organizations made the Slovak version of the tax percentage system globally unique and interesting. Therefore, in this text we will describe the corporate designation in more detail, noting first of all that revenues from corporate designations are almost double those from individual taxpayers.

The government introduced corporate tax designations in response to pressure from the non-profit sector to follow the example of the Czech Republic, which at the time used 1% of its privatization revenues to fund Czech foundations. This proposal had not been accepted by the Slovak government, which instead had prepared a law extending tax designation to corporate taxpayers. Later in 2003, the percentage designation was increased to 2%, so that in 2004, both changes came into practice at the same time.

THE EVOLUTION

Since its introduction, the system of designation by corporate bodies has undergone changes; not only is the model a subject of constant political concern, but it substantially changes the overall environment for donors as well as relationships within the NGO sector. *“For example, once it became available for corporate taxpayers, the number of foundations established by corporate entity started to grow. Between 1990 and 2001 only 23 corporate foundations were registered in Slovakia. Since 2002 to 2007 there were 58 new corporate foundations established. Many would bear the same name as the founder. In 2011, there are up to 90 corporate foundations that make 20% of all foundations.”* (Strečanský 2012).

THE ARGUMENTS AGAINST

The allocation of designations into corporate foundations led to a severe concentration of funds, which became one of the main subjects of critique from each Finance Minister, regardless of the political affiliation of the government. More specifically, these corporate foundations were branded “oligarchic structures” (*sic*). Three major arguments against the scheme were raised by politicians at the time:

- a) corporations had evaded tax and misused the mechanism by designating corporate income tax to recipients with a minimum track record, non-existing public image, and zero transparency;
- b) the mechanism had been misused in that the corporate foundations had branded the projects they were supporting with the logo of their parent corporations, thus using public funds for private promotional and marketing activities;
- c) in the austere environment of 2009, designating such a high portion of corporate tax revenue seemed fiscally unfeasible.

THE BATTLE

The first serious attempt to abolish the corporate tax designations appeared in 2006, when the then Finance Minister, Jan Počiatek, outlined several direct fiscal arguments, as well as some more refined criticism. Specifically, he labelled the corporate tax designations a deviation from the original goal of the system, which was to build relationships between NGOs and individual taxpayers. In doing so, he was attacking the corporate foundations, which had adopted the role of excess intermediaries. The attempt was not successful, as the NGOs effectively mobilized broader public support with their campaign *Ludia ľuďom* (*People for people*). Moreover, one of the government coalition partners (surprisingly, the infamous movement of Vladimír Mečiar), in a move intended to increase his political capital within the coalition rather than to strengthen civil society, took the side of the NGOs.

The highest revenue from corporate tax designation was collected in 2009, a year that

also marked major changes in the tax percentage system. The government gradually reduced the percentage designation for corporate taxpayers, starting in 2010. Again, NGOs campaigned to maintain the 2%; this time however, they only managed to reach a compromise – a gradual reduction from 2% to 0.5% between 2011 to 2019. Besides reducing the percentage designation, the new amendment outlined incentives for businesses to engage with NGOs through direct financial support from their own profits; this was known as the matching principle.

The system was reconstructed to benefit corporate taxpayers who contributed to NGOs from their own profits. As of 2011, corporate taxpayers who had made private donations equivalent to 0.5% or more of their tax could assign 2%; otherwise, the designation was only 1.5%. Therefore, the gradual decrease in the tax percentage between 2011 and 2019 was expected to be subsidized by an increase in private donations of up to 1.5% of corporate taxes. However, this gradually decreasing model has never actually been enforced, as NGO leaders have successfully campaigned for its postponement every year. This process came to a head in April 2015, when a new agreement – the Memorandum between the Ministry of Finance and the non-profit sector – reinforced the corporate tax percentage model, settling the conditions as follows: if donations from company profits exceed 0.5% of corporate income tax, the company may designate 2% of their income tax; otherwise, the tax designation percentage falls to 1%. In this way, the philanthropic incentive for tax designation, rather than the financial one, is more economically relevant. Further observation of how the new model works in practice could resolve the question of whether such tax designation incentives help to engage corporations in private philanthropy, as *“the tax assignment was not seen as an optimal tool for enhancing this involvement.”* (Kuvíková a Svidroňová 2014).

Figure 21:
Distribution of corporations in terms of tax designation.
Source: The Institute for Financial Policy at the Finance Ministry, Financial Administration Office



HAPPY ENDING?

Finally, it should be stressed that the percentage system (used by individuals and corporations) in Slovakia has led, in addition to financial gain, to successful public campaigns that have mobilized ad hoc and strategic alliances – both within the NGO sector and between the sector and other relevant stakeholders in the field. In this way, the designation scheme has contributed towards the financial revenues⁵¹ and advocacy capacity of the entire non-governmental sector.

⁵¹ The cumulative revenue of corporate percentage designations exceeded 300 million EUR throughout the 2004-2015 period (Figure 22).

The revenue collected from corporate tax designation constitutes about 1.6 % of total corporate income tax; this exceeds the lowest percentage designation available⁵². The reason the percentage surpasses 1.5% is threefold:

- a) about 40% of corporations do not use the scheme, and therefore lower the total efficiency percentage; we assume that a significant portion of these companies contribute relatively little towards the overall tax revenues;
- b) around 8% of corporations are eligible to designate 2% (those whose private donations reach 0.5% of their taxes); therefore, they raise the percentage collected up to a final level of 1.57%.
- c) approximately 10% of corporations – those with the highest income taxes – contribute about 96% of corporate tax designation revenue; we assume that a significant portion of these designate the upper level of percentage available – 2%.

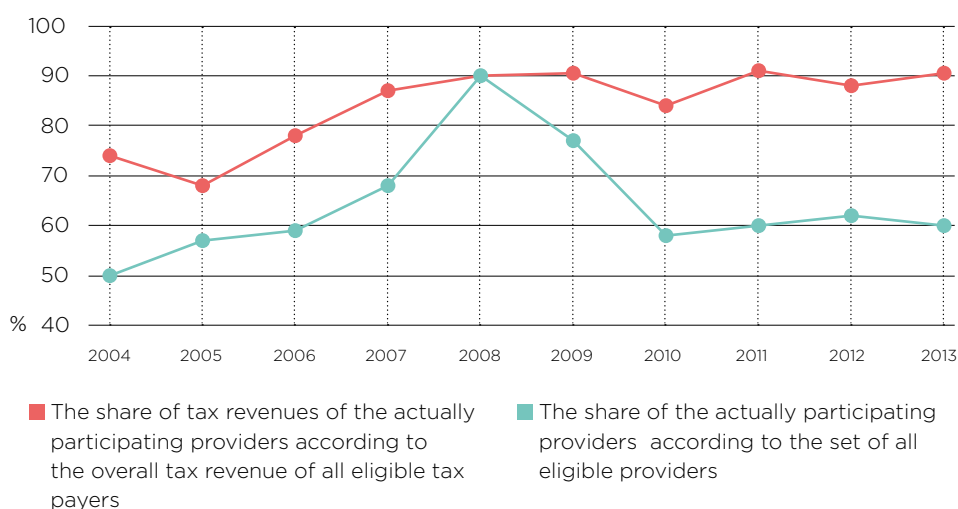


Figure 22:
The efficiency percentage of corporate tax designations

Source: The Institute for Financial Policy at the Finance Ministry, Financial Administration Office

To ascertain the additional potential of non-profits to raise funds through corporate income tax designations, we must consider the upper (orange) indicator in **Figure 22**. Unlike individuals, corporations have no significant additional potential (about 2.5 million EUR) 90% of potential revenues are already designated (by about 60% of participating providers).

The greatest challenge for NGOs is to mobilize corporate taxpayers into private giving. An increase in this sphere would substantially raise total revenues in two ways: firstly, private donations would increase, and corporations could then apply to designate 2% of their taxes. So far, only about 7%-8% of corporations with positive taxes have officially declared that their private donations match their designations. Interestingly, in 2013, the revenue of the NGO sector from private corporate donations more than doubled (about 57 million EUR) the total revenue from corporate tax designations (25.7 million EUR)⁵³, indicating that corporations partake in philanthropy without declaring it along with their tax designations.

After 2004, about 60 new corporate foundations⁵⁴ were established, due to the introduction of corporate designations. In particular, large companies – especially those in telecommunication, banking, or energy – allocated a huge proportion of the percentage designation to foundations that they themselves founded. Specifically, 12 corporate foundations were listed in the TOP 20 most successful recipients in 2014. However, such a concentration of funds is counterbalanced by a strict requirement to spend tax designations by the end of the calendar year that follows receipt of the funds; this has steered the

⁵² (Molokač and Hagara 2015) p. 3.

⁵³ Slovstat: On-line Database of the Statistical Office of the Slovak Republic, 2015.

⁵⁴ Corporate foundation is not a legal term in Slovakia, as the Act on foundations does not define the concept. We have instead borrowed the term from its use in common language, which arose because most such foundations use the name of their parent corporation.

foundations into professional grant-making. In fact, corporate foundations have become some of the most relevant grant-making institutions in Slovakia, replacing the strong international donors that operated in the 1990s. Most tax designation funds in corporate foundations are being thoroughly spent through open grant-making programs.

Year	Number of eligible recipients	Number of participating individuals	Number of participating corporations	Amount - Individual tax payer designation (thousands EUR)	Change on previous year (%)	Amount - Corporate tax designation (thousands EUR)	Change on previous year (%)	Total amount (thousands EUR)
2002	4,042	341,776	n.a.	3,382	n.a.	n.a.	n.a.	3,382
2003	3,398	286,164	n.a.	3,222	-4.7	n.a.	n.a.	3,222
2004	3,829	402,057	8,364	9,159	184.2	18,896	n.a.	28,055
2005	5,746	418,241	14,063	10,371	10.8	20,525	8.6	30,896
2006	7,100	446,973	17 740	11,713	20.9	25,629	24.9	37,342
2007	7,662	408,277	21,632	12,819	12.8	29,306	14.3	42,125
2008	7,759	449,909	26,691	15,036	16.7	34,144	16.5	49,180
2009	9,098	503,253	30,078	17,684	12.2	37,496	9.8	55,180
2010	9,585	467,983	26,172	15,553	-20	28,592	-23.7	44,145
2011	10,049	475,843	25,427	16,526	-4.9	25,444	-11.0	41,970
2012	10,711	538,814	26,621	18,548	6.5	26,146	2.8	44,694
2013	11,235	542,672	31,362	20,944	4.5	25,762	-1.5	46,706
2014	11,804	n.a.	n.a.	21,740	3.8	30,466	18.3	52,206
			TOTAL (thousands EUR):	176,697		302,406		479,103

Table 10:

Tax designation allocations: recipients, providers, and amounts 2002–2014.

Source: the Institute for Financial Policy at the Finance Ministry; the Financial Administration Office; the Ministry of Interior; the author's own calculations.

Conclusive Remarks

A year after the original percentage law was introduced in 2002, Slovakia adopted an innovative system of tax designation unlike any other in the world, where not only individuals but also corporations could divert a portion of their income tax to civil society organizations. This pioneering system substantially changed the relationships among NGOs, businesses, and the government, provided additional revenue for thousands of not-for-profit organizations, as well as better advocacy skills in the non-profit sector, and led to the proliferation of corporate foundations.

On the other hand, since their introduction, corporate designations have become the subject of constant political concern. There have been accusations of tax evasion as well as alleged misuse of the system in the PR, marketing, and business strategies of the parent companies. To the detriment of many organizations, the model underwent changes during the financial crisis: the percentage was reduced in 2009, and the model was simultaneously enriched with an incentive to enhance private giving (*the matching principle*). Nonetheless, in the decade since their introduction, corporate tax designations have generated income for NGOs exceeding 300 million EUR.

Chapter VII.

Country Reports

This chapter provides country insight into national variations of the tax designation mechanism through reports written by research associates from Hungary, Italy, Lithuania, Poland, Romania and Slovakia. Besides the “percentage club” countries, the chapter also includes a report featuring discussion among the policy-makers, politicians and experts about the tax designation mechanism and arguments for and against its adoption in the Czech Republic. The research project in its design originally focused on countries of Central and Eastern Europe that, in spite of national specificities, have a common political and economic heritage. Later in the project, the Italian case was included as well. The editors decided to include Italy into this section in order to provide a different reference framework and allow readers to compare the application of the mechanism in post-communist contexts with the case from a western country. The country reports follow a similar structure. First, each country report provides the context of the tax designation within the non-profit sector. This is followed by a description of the mechanism through its basic economic and statistical parameters and how they changed over time. Also, there are explanations of how the mechanism has been implemented in practice. Then each report provides an overview of key changes that the mechanism went through over time – at the policy or technical implementation levels. Finally, the authors discuss the meaning and contribution of the mechanism on the non-profit sector and overall.

Country Report: The Introduction of the 1% System. Development of “Activating” in Hungary

István Sebestény

INTRODUCTION

The population of Hungary was 9.849 million on 1 January 2015, which was 28 thousand fewer than one year before. In 2014, important demographic figures developed favorably – there were more births and marriages than in the previous year, and fewer deaths and divorces; the number of induced abortions decreased considerably, and the infant mortality rate sank to a record low. Moreover, the positive net international migration continued to decline (*HCSO 2015:1*).

SIZE AND STRUCTURE OF THE HUNGARIAN NON-PROFIT SECTOR

Three main indicators can be used to illustrate the growth of the non-profit sector, as well as its increasing economic and social weight: the number of organizations, the real-terms value of revenue, and the number of employees. Since 1993, when regular statistical monitoring began, all these values have increased steadily, although at different rates from each other and with the exception of a few years. Since 2008, these trends have become very moderate, with the exception of the employment trend. Indeed, 2012 was the first year in which each of these three values was lower than in the previous year, and this decline continued in 2013. Although the decrease in the number of organizations was not significant, the real-terms value of revenues fell by 3%, and the number of employees decreased by 11%. Nevertheless, these reductions, observed at a sector-wide level, were only detectable among service-providing non-profit enterprises (a 13% drop in revenues, and a 17% decline in employment). Again, the absolute number of these organizations did not change.

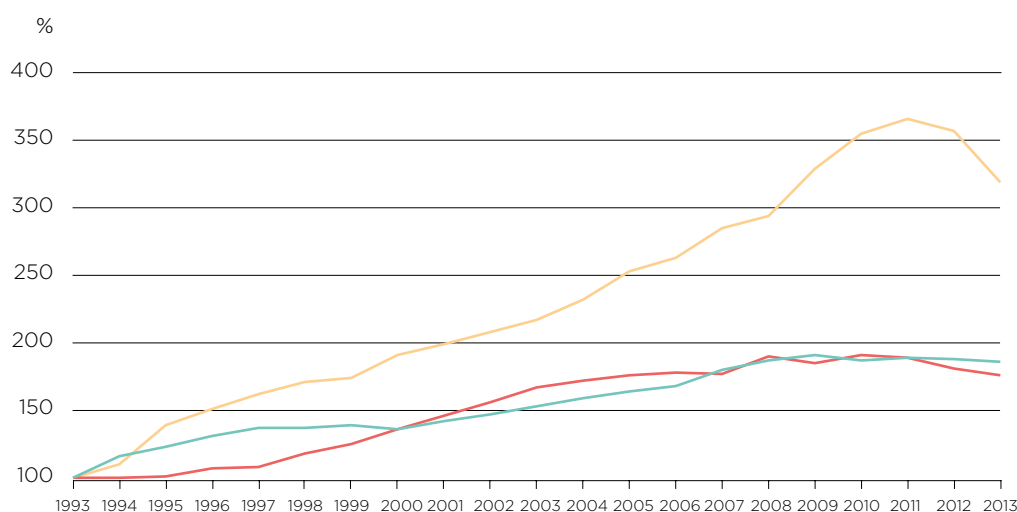


Figure 23:
The development
of the Hungarian
non-profit sector
1993–2013

Source: HCSO⁵⁵

NUMBER OF ORGANIZATIONS

In 2013, about 64.5 thousand civil and other non-profit organizations operated in Hungary – seven hundred fewer than a year before. Approximately a third (22.5 thousand) of these organizations operated as foundations, and 42 thousand functioned as social non-profit organizations. Furthermore, 62% of foundations continue to be active in three areas: education (32%), social services (16%), and culture (14%). Among the social non-profit organizations, leisure (25%) and sports (16%) associations, as well as cultural organizations (13%), still comprised the highest proportion of the total. The proportion of organizations with public benefit status was 55%.

⁵⁵ HCSO: Hungarian Central Statistical Office.

ECONOMIC BACKGROUND

Regarding the finances of these organizations, 91% had full cash flow in the reference year; 2% had only revenues, 3% had only expenditures, and 4% of the organizations did not conduct any financial activities. Revenues amounted to nearly 1.242 billion HUF (4.2 billion EUR)⁵⁶, this was a 1% decline at current prices, and a 3% decrease in real terms, compared with 2012. The proportion of organizations with revenues of less than 500 thousand HUF (1.7 thousand EUR) decreased from 45% to 42%.

The proportion of funding that came from state aid continued to decrease. In 2013, 35% of the revenues of the entire sector originated from state or local government budgets, which was 5% less than in the previous year. At the same time, the proportion of revenues that came from organizations' own activities (both basic activity and business) increased from 40% to 44%. Taken together, the support index⁵⁷ of the sector decreased from 60% to 56%. Compared with 2012, the state contribution to the sector decreased by 74 billion HUF (250 million EUR). More specifically, this figure represents 87 billion HUF (293 million EUR) of funds, previously allocated to non-profit enterprises, that were withdrawn, as well as a 1 billion HUF (3.4 million EUR) "loss" in the foundation sector; these losses were offset by a 14 billion HUF (47 million EUR) surplus that emerged throughout the different forms of associations.

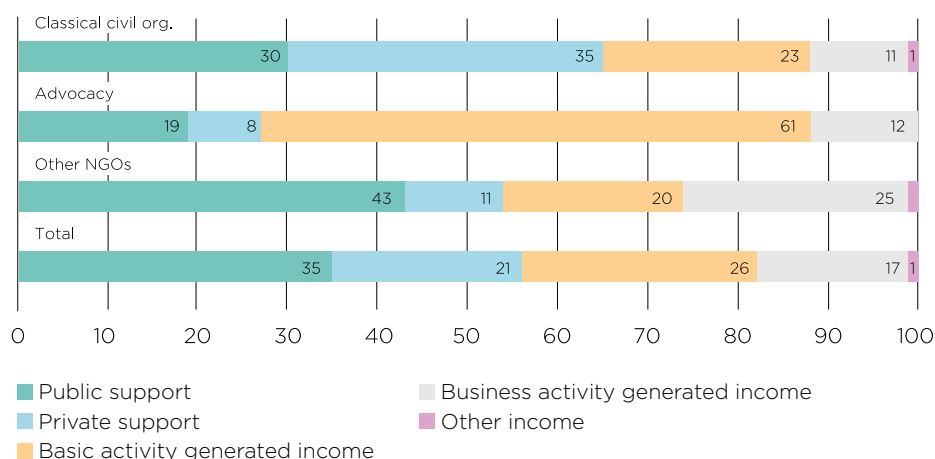


Figure 24:
The income structure of the non-profit sector, 2013

Source: HCSO

HUMAN RESOURCES

Between 2012 and 2013, the number of people who were employed in the non-profit sector decreased by 10%. In 2013, that total number exceeded 130 thousand, which amounted to more than 3% of those employed⁵⁸ in the national economy. Among these, there were 83.5 thousand full-time workers, and 46.9 thousand part-time or non-full-time employees. Therefore, the joint performance of the sector was equivalent to the work of 104 thousand full-time employees. Non-profit companies accounted for 64% of these equivalent full-time employees, while the rest were employed by associations or foundations.

In 2013, an estimated 490 thousand volunteers were active in the sector. The 51 million hours performed by them⁵⁹ corresponded to the working time of more than 24.5 thousand full-time employees; the estimated value of their work was 55 billion HUF (185 million EUR). Throughout the sector, employees accounted for three quarters of the necessary human resources, while volunteers comprised nearly one fifth.

⁵⁶ Exchange rate in 2013: 1 EUR = 297 HUF.

⁵⁷ The proportion of the total (public and private) support in all revenues.

⁵⁸ A proportion of the number of employed persons aged 15–74. Source: Labour Force Survey.

⁵⁹ This calculated value expresses how many potential full-time employees are replaced by volunteers in these organizations.

There is a close relationship between income and employment: they are not two independent variables. If we take the average of the two values, which is considered to indicate the weight of the sector in the national economy, it is clear that the weight has steadily increased. Indeed, it almost doubled and exceeded 4% during the 2010–2012 period. However, the ratio decreased in 2013, because of changes to the provision of public services that had a significant impact on non-profit companies (HCSO 2014).

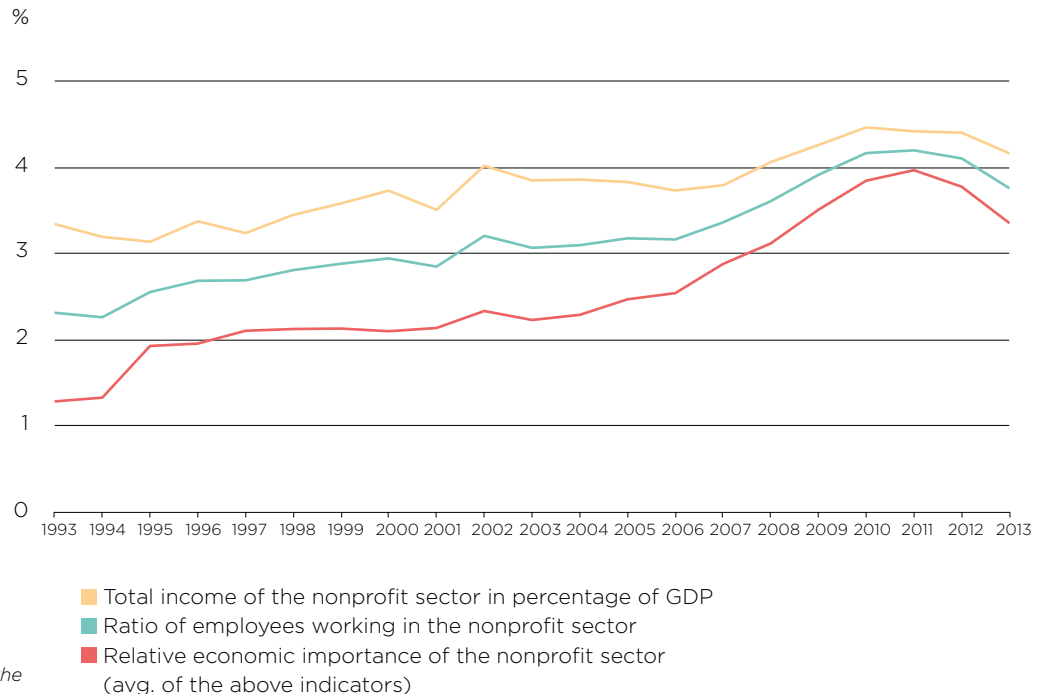


Figure 25:
The economic importance of the non-profit sector, 1993–2013

Source: HCSO

THE 1% PERCENT MECHANISM IN HUNGARY

Since 1997, Hungarian taxpayers have been able to designate 1% of their paid personal income tax to a chosen, not-for-profit organization. Beginning in 1998, they have been permitted to allocate an additional 1% to a church, in accordance with Act No. 26/1996 on the Use of a Specified Portion of Personal Income Tax According to the Designation of the Taxpayer.

Although the 1% is connected to the tax system, it is actually a peculiar type of indirect state support, rather than a tax benefit. Its source is the tax revenue of the public budget, but its distribution is based on the taxpayers' decisions, and not on a central (governmental) decision.

The Act recognizes two categories of potential beneficiaries. The first comprises certain organizations of the civil non-profit sector, while the second encompasses churches and advanced ("earmarked") budgetary purposes. As stipulated by the Act, the categories differ in terms of the requirements for beneficiary status.

Beneficiaries in the "civil" category can be civil society organizations established on the basis of Act No. 2/1989 on the Freedom of Association⁶⁰, or foundations fulfilling the following requirements: registration by the court at least two (previously three) years prior to the first day of the year in which the designation statement was made, and effective pursuit of a public benefit activity, as defined by the Act on Public Benefit Organizations and set forth in the organization's founding documents, for at least one year before the first day of the year in which the designation statement was made. Public foundations pursuing public benefit activities, non-profit enterprises (previously "public benefit companies"), and certain national public collections and other cultural institutions also belong to this category. The category excludes political parties and interest groups for employers and employees.

⁶⁰ From 2012 on the basis of the Civil Act.

With regard only to the “secular” half of the designations, the mechanism of the 1% system is the following: individual taxpayers may make their designation statements on a special form provided by the Office for Taxation and Financial Control, or a copy of this form. The only data taxpayers must indicate on the form in every case is the tax number of the beneficiary organization. Taxpayers must then put the completed forms into a standard sized envelope, seal it, and write their name, address, and tax identification code on the envelope. They must place this envelope in their tax return package. In the event that the personal income tax is reported by the employer instead of an individual, the individual must submit this envelope, along with with the designation statement, to the employer no later than 25 March. The tax return can also be completed electronically; in such a case, the taxpayer need not use an envelope, the designation of the one percents is a part of the virtual form.

Tax authorities instruct beneficiary organizations to certify that they do not have public debts due, and that they comply with other prescribed requirements of the 1% Act⁶¹. If beneficiary organizations can meet the requirements by the given deadline, the office transfers the funds to the beneficiary civil organizations. Previously, beneficiaries had to publish a press release on the proper (targeted) use of the designated funds; since 2008 however, they have had to send this report directly to the tax office, and they may publish it on their webpage if they have one. Tax authorities are entitled to check whether the designated funds transferred are used for public benefit activities.

The 1% Act was criticized in different ways. For example, some participants of the non-profit sector complained that the period between when the designation statements are completed and when the designation is delivered was too long—around six months in practice—and that it should therefore be reduced. Others have criticized the number of invalid designations, which do not reach the addressee for various reasons (e.g. incorrect tax numbers, or inability of the beneficiary to meet requirements); it has been proposed that such designations should not be left in the state budget, but rather should be used to support the sector.⁶² Some have even suggested that the state should renounce the 1% regardless of whether the taxpayer designated it. To date, this problem has not been solved, so the undesignated one percents stay in the budget (Csóka 2000).

Another problem was the anonymity of designators. Some beneficiaries wished to be aware who their designators were so that they could contact them; after all, designators also constitute possible donors. Conversely, releasing this information may embarrass those who have not designated 1% at all, or who have not done so to certain “expected” or “sensitive” organizations.⁶³ In 2013, this issue was satisfactorily resolved: designators must declare whether or not they consent to their identity being learnt by the respective organization.

Two other significant changes may have affected the output of the system. Between 2011 and 2013 the dual-key personal income tax system gradually changed to a flat tax system with a lower rate. As a consequence, the amount of funds which can be designated has been decreasing; in addition, the rate of tax is now set to be 15% rather than 16%. Above all, since 2015, an “active system” has been used, rather than a “passive system”. This means that organizations who wish to collect the 1% must be registered in advance in a list at the tax office. For this reason, the number of “spoiled”, incorrect, and unnecessary designations is expected to decrease.

⁶¹ E.g. They modified their founding documents to prove that they are not engaged in a prohibited political activity; they continuously pursue a public benefit activity.

⁶² The concept of a National Civil Fund arose from this idea in 2003.

⁶³ E.g. Consider the expectations of school foundations toward parents, or of minority organizations.

FACTS ABOUT THE 1% IN HUNGARY

To determine the economic and social impact the 1% system has had on the non-profit sector, we must sketch the main tendencies and changes that have taken place in Hungary during the last decade.

The possible sum designated increased until 2008, when it reached 70 million EUR. Later, a negative trend appeared, probably due to the economic crisis, which brought financial restrictions as wages and salaries were cut back. However, in the last four years, the government's tax policy has transformed the dual-key system into a flat tax, radically reducing the tax rate, so the sum of personal income tax has diminished.

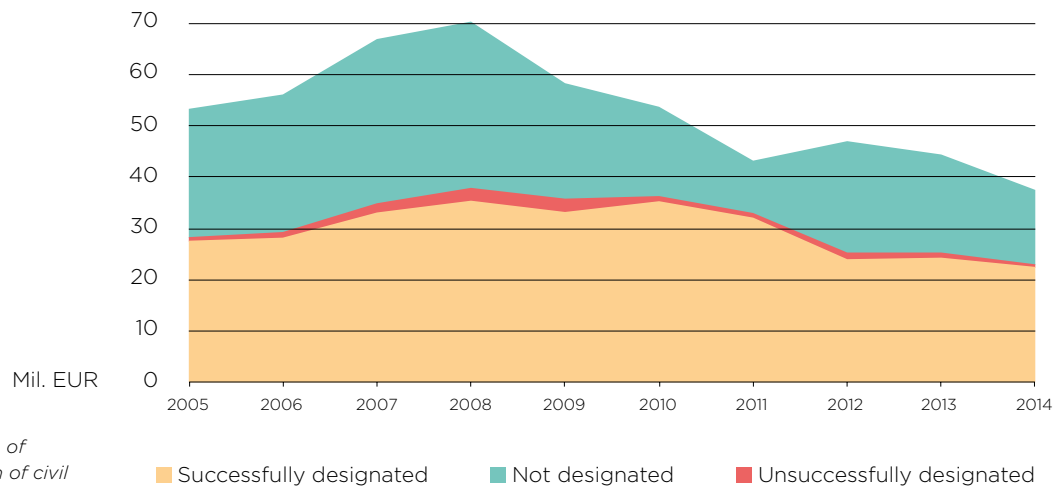


Figure 26:
Composition of
possible sum of civil
1%, 2005–2014

Sources: NTCA⁶⁴

THE WEIGHT OF THE NON-PROFIT SECTOR IN THE NATIONAL ECONOMY

Many data are available regarding the role of the non-profit sector in the national economy, its direct and indirect participation in public services, its contribution to the gross domestic product, and its employment potential. Between 1993 and 2011, the total revenue-to-GDP ratio of non-profit organizations increased modestly—by one-third—but still did not reach 5%. A much more dynamic development occurred in employment: the labour market share of the sector increased nearly threefold. During this period, the total number of employees in Hungary remained virtually unchanged, so this increase in market share also represented a real-terms expansion of the non-profit sector. This positive trend was broken in 2012, and there was a further decline in 2013.

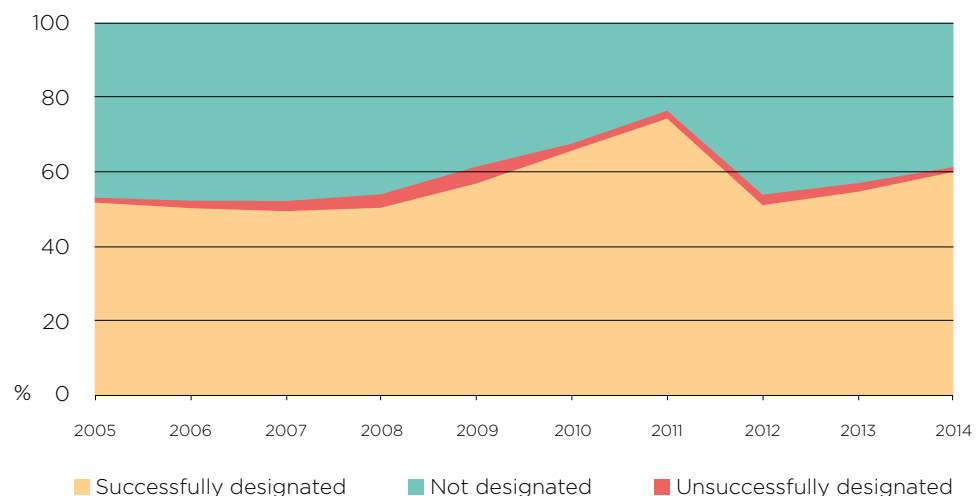


Figure 27:
Distribution of the
possible civil 1%,
2005–2014

Sources: NTCA

⁶⁴ NTCA: National Tax and Customs Administration of Hungary

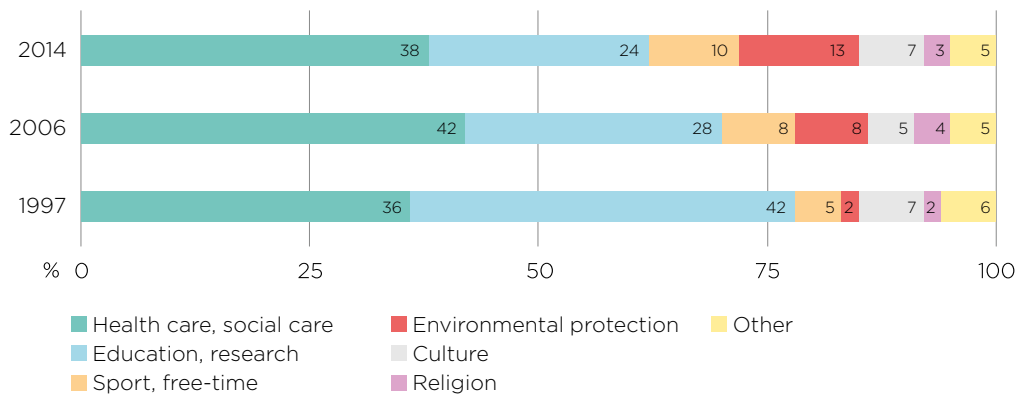


Figure 28:
Changes in the distribution of the 1% based on the field of activity of the recipients

Source: NTCA and HCSO

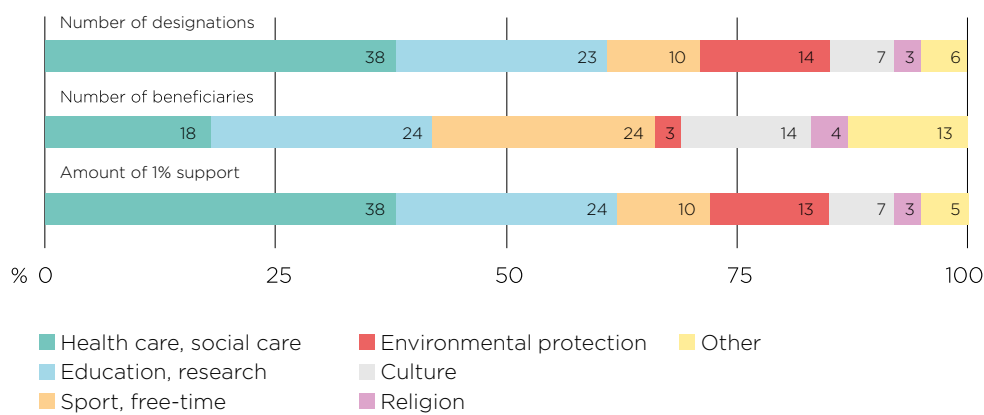


Figure 29:
Composition of designations, beneficiaries, and the amount of the 1% support allocated based on field of activity, 2014

Source: NTCA

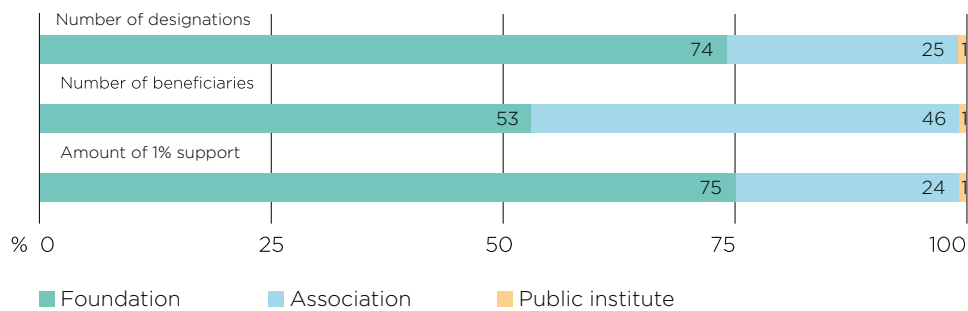


Figure 30:
Composition of designations, beneficiaries, and the amount of 1% allocated support based on type of organization, 2014

Source: NTCA

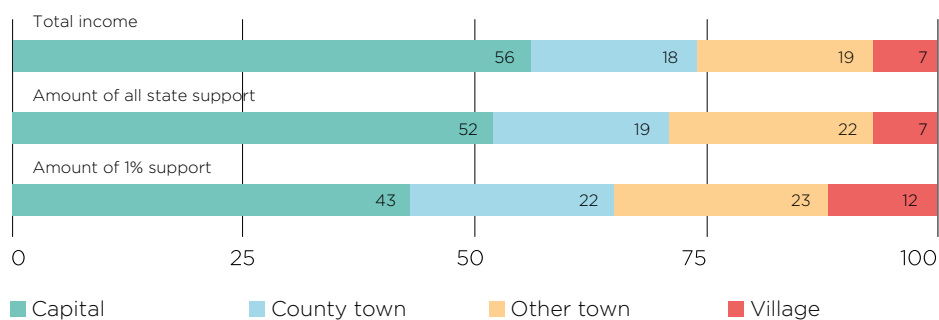


Figure 31:
Composition of amount of 1% received, all state support and total income by type of community, 2013

Source: HCSO

The willingness to designate—with the exception of 2011—seems to be relatively stable; 50%–60% of the total 1% allocation has been transferred to non-profit organizations. On average, the unsuccessfully designated amount has represented 2%–3% of the total; this has increased the mass of “stuck 1%”.

Although organizations performing healthcare and social services, or operating in the field of education, continuously receive the majority of the 1% support, the share of environmental protection and sport is growing radically, and that of recreation is increasing more moderately.

As we can see in *Figure 28* the distribution both of the designations, and of the designated sum, is very similar in terms of field of activity. This implies that, as far as the supported aims or missions are concerned, the priorities of taxpayers do not differ significantly among different income levels.

However, the breakdown of the number of beneficiaries shows that NGOs contributing to health and social care receive by far the most support. This suggests that, in these areas rather than some greater nationwide, it is mainly foundations that attract the bulk of designations. In contrast, in the field of sport and culture, a wider range of organizations are naturally supported at a lower level on average. Unsurprisingly, the most popular and “competitive” issues in Hungary are ill children and animals.⁶⁵

Three quarters of designations specify foundations as beneficiaries, because the traditional function of a foundation is as a charity, which requires public donation—and the 1% designation is a special form of such donation, according to public opinion. As mentioned above, civil organizations must compete with non-profit enterprises and public institutes as well, but these do not represent a considerable share of the 1% funds.

Not only did the 1% system increase the number of beneficiary organizations, it also replaced many organizations that had previously received central budgetary resources. Statistical data also show that small, local, non-profit organizations are more successful in persuading citizens to support them than in raising other forms of state support. Similarly, the regional distribution of the 1% is somewhat more even than that of other public support. Budapest, the capital, receives 52% of all budgetary support, and “only” 43% of the 1% income. Nearly half of the 1% income is received by non-profit organizations operating in towns. Even though the “share” of villages in the 1% “cake” is very low, they gain almost twice as much funding from 1% designations as from central budgetary support.

THE RELATIONSHIP BETWEEN 1% DESIGNATIONS AND PRIVATE DONATIONS

In the debates surrounding the birth of the 1% system (Bossányi, 1997; Mészáros and Sebestény, 1997; Kuti and Vajda, 1997; Vajda and Kuti, 2000), a central issue—unresolvable at the time—was the effect the system would have on private giving among the general public. Those in the pessimistic camp feared that taxpayers would feel their 1% designations were sufficient in terms of philanthropy, and that NGOs would therefore attract fewer private donations. In contrast, more optimistic commentators predicted that taxpayers who had already been persuaded to exercise the new form of costless ‘percentage philanthropy’ would also gradually be persuaded to give money from their own pockets to support NGOs (Kuti, 2007).

Data collected by HCSO for the period 1997–2013 seem to corroborate the position of the optimists. Since the introduction of the 1% system, the number of NGOs that have received private donations has continually increased, albeit not very rapidly.

⁶⁵ The 10 organizations that receive the most resources from percentage allocation in 2014 are as follows: the Foundation for the Development of Pál Heim Children’s Hospital, the National Ambulance Service Foundation, the Bátor Tábor (Brave Camp) Foundation, the Szent Márton Pediatric Emergency Medical Service Foundation, the Together for Children with Leukemia Foundation, the Children’s Cancer Foundation, the Noah’s Ark Animal Shelter Foundation, the Together for Children with Cancer Foundation, the Rex Dog Shelter Foundation, the Saint Francis of Deva Foundation.

Figure 32 also shows that a large (and ever-increasing) number of NGOs were able to attract private donations from members of the public as well as 1% designations. During the same period, there was a considerable rise in the number of organisations that received 1% designations, but not private donations.

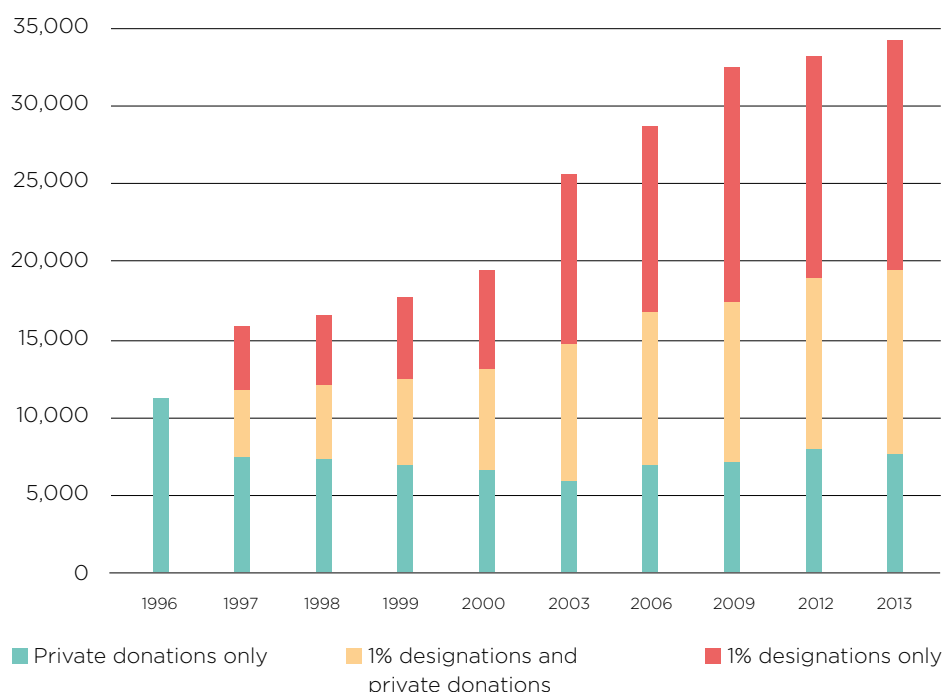


Figure 32:
Number of NGOs that received 1% designations and/or private donations, 1996-2013

Source: HCSO

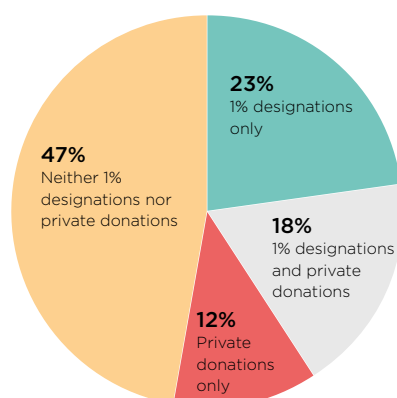


Figure 33:
Breakdown of NGOs based on receipt of 1% designations and/or private donations in 2013

Source: HCSO

According to the most recent data available from HCSO, only 23% of NGOs received 1% designations only, and only 18% benefited from both 1% designations and private donations. Almost half of all NGOs received neither 1% designations nor private donations. In terms of the number of beneficiaries, the 1% system has clearly not overshadowed private donations, nor reduced their importance. The same is true in terms of the amounts received from the two forms of funding⁶⁶.

Notwithstanding the rapid growth in 1% designations, private donations continue to be of greater importance in the financing of the NGO sector.

⁶⁶ The break in the positive tendency in 2008 was due to both the economic crisis and changes in the tax system, as described earlier.

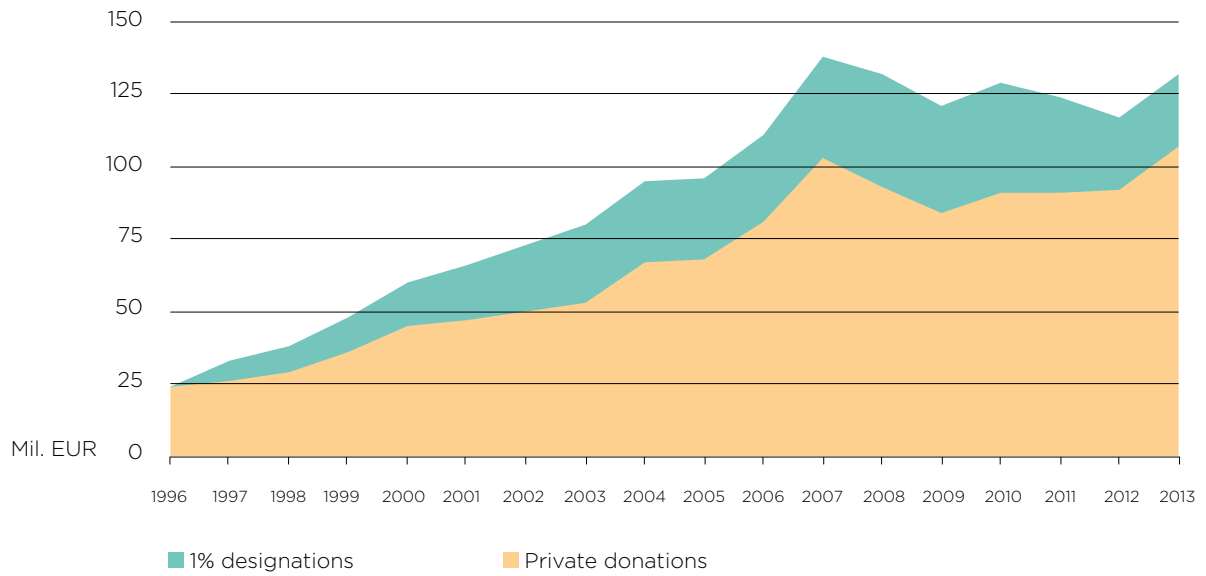


Figure 34:
Growth of 1% designations, individual donations in Hungary, 1996–2013
 Source: HCSO

On a related note, a new kind of NGO seems to be focusing entirely on obtaining 1% designations rather than on the labour-intensive process of attracting donations. It seems particularly inexplicable that such an organisational attitude seems to be spreading when research carried out on private donations shows a very clear, positive, and close link between taxpayers exercising the 1% designation and their willingness to make individual donations (Kuti 2007).

BACKGROUND

In Italy, there are three similar percentage systems in operation within the income declaration (IRE form, known in Italy as IRPEF): the 8 per thousand i.e. 8/1000 to the State and some religious entities; the 5 per thousand i.e. 5/1000 to non-profit organisations; and the newly 2 per thousand, i.e. 2/1000 to political parties.

We can't talk about the 5 per thousand for non-profit sectors without a brief preface on the first percentage system, originally completely dedicated to support the Catholic Church: the 8 per thousand. The mechanism started with a law in 1985 (L. 222/1985), in order to regulate the financial relationships between the State and the Catholic Church after the reform of the treaty (the "Concordato") in 1984. In fact, since Lateran Pacts of 1929, the Catholic Church has always received a special income guaranteed from the Italian State. In 1985, this income was substituted by a new form of compulsory deduction from citizens' income declaration: although the citizen didn't allocate the 8/1000 to a specific beneficiary, this sum was withdrawn from the tax amount. This is one of the most important differences from most of the other successive percentage systems that are based on voluntary participation and voluntary choices.

During the years, the list of beneficiaries of 8/1000 has grown beyond the Catholic church and now it includes several other denominations⁶⁷, and, by this year, also Soka Gakkai International, a Buddhist organization, to a total of 13 potential recipients, including the State. As we talk about a "compulsory donation", let's shortly explain how the allocation is divided by the total amount of those who have not indicated in the income declaration which entity they want to support: this sum is split to beneficiaries in the same percentage of the taxpayers who indicate a choice.

For instance, last data (based on income declaration of 2011) indicated that around 37% of taxpayers choices was to the Catholic Church, 6% to the State and 2% to other religious organizations. Now the 54% of taxpayers who did not choose any 8/1000 (corresponding to 690,480,720 EUR) was allocated with 37% to the Catholic Church. At the end, the Catholic Church gathered 1,054,310,702 EUR (82% of total 8/1000) instead of 473,107,160 EUR (37% of the choices). This kind of allocation was obstructed in the last years by the Italian Court of Auditors (*Corte dei Conti*) pressing to adopt another system, such as the Spanish one.

In other words, a taxpayer who doesn't choose to select the destination in the 8/1000 form in the income declaration is advised that that payment will still be done and allocated proportionally to the percentage of the choices made by other taxpayers⁶⁸. That way, also those who didn't allocate the 8/1000 of their own income taxes, are at the end obliged to pay it.

Last data reporting⁶⁹ the distribution of 8/1000 resources are listed below (*Table 11*). The total amount of resources collected was 1,245,253,247 EUR. The percentage of taxpayers who indicated a choice was 46%.

The non-profit sectors claimed the same funding mechanism and the claims were adopted by the Law n.266/2005 (Italian Stability Act for 2006). It originated the second percentage system in Italy: the 5/1000 ("Cinque per mille") to the non-profit sector. One of the main differences has been described before and regards the optionality of the donation. The second important difference is that, as for the normative disposition by which this system was created, the 5/1000 didn't have a structural and persistent form: each year the Italian Stability Act had to confirm the same disposition until 2015⁷⁰, when it was

⁶⁷ Beyond the Italian State and the Catholic Church, the list include (2016): Union of Methodist and Waldensian Churches; Seventh-day Adventist Church; Assemblies of God in Italy; Union of Italian Jewish Communities; Lutheran Evangelical Church in Italy; Baptist Evangelical Christian Union of Italy; Greek Orthodox Archdiocese of Italy; Apostolic Church in Italy; Italian Buddhist Union; Italian Hindu Union.

⁶⁸ Only the Assemblies of God in Italy and Apostolic Italian Church officially renounced to perceive the quote of 8/1000 not clearly expressed.

⁶⁹ http://www1.finanze.gov.it/finanze2/pagina_dichiarazioni/dichiarazioni.php

⁷⁰ Art. 1, comma 154, Law 190/2014 ("Stability Law 2015").

Beneficiaries*	N° choices	% of choices	% on total of taxpayers	Amount allocated	% of amount
State	2,904,884	7.03	15.35	195,612,564	15.71
Catholic Church	15,185,809	36.75	80.22	1,013,054,493	79.94
Advent Christian Church	35,119	0.08	0.19	2,399,406	0.19
The Assemblies of God in Italy	48,900	0.12	0.26	1,517,586	0.12
Waldensian Evangelical Church	604,345	1.46	3.19	40,284,765	3.24
Evangelical Lutheran Church in Italy	63,378	0.15	0.33	4,167,389	0.33
Union of Italian Jewish Communities	87,510	0.21	0.46	5,809,088	0.47
Total	18,929,945	46	100	1,245,253,247	100

Table 11:
Resources of 8/1000 based on income declaration of 2011 (resources distributed in 2015) Source: MEF- Dipartimento delle Finanze (2015 data release)

* In 2011 the list of beneficiaries was composed by seven bodies

finally endorsed by the Italian tax legislation. Linked to its temporary provision, a maximum limit to the total resources available for each year was set up. During the last years (2010-2014), the cap was established to 400,000 EUR every year: it means that if the total amount of allocations has exceeded this amount, no further resources were allocated. Since 2015, the cap was fixed to 500,000 EUR per year, according to the trend of resources given by taxpayers during the past, then by now the resources are available each year without other provisions: an experimentation lasted ten years seems to be finished.

The 5/1000 mechanism will be explained in detail in the next paragraph and meanwhile, we can make a point to the last (and least) percentage mechanism of the Italian fiscal system: the 2/1000 created to support political parties, recently introduced in the fiscal legislation. Started in 2014 and referred to 2013 incomes, it allows taxpayers to divert 2/1000 of their income to a political party with a regular charter. To cover this kind of designation, the government provided a budget of 7.75 million in 2014; 9.6 million in 2015; 27.7 million in 2016 to reach 45.1 million in 2017, with a specific fund. The public support to parties that this kind of mechanism aimed to substitute will remain in effect until 2017, when the 2/1000 system will replace the original funding mechanism to parties. The beneficiary parties must be eligible by entering in a list accessible only if at least one of the politicians of each party has been elected in the Parliamentary Chamber, the Senate or the European Parliament. For the Political Groups, the number of elected members to be admitted is 20 deputies in the Chamber and 10 in the Senate.

Figure 35:
Form used since 2014 for 2/1000 to political parties (facsimile)

CONTRIBUENTE		CODICE FISCALE (obbligatorio)	
COGNOME (per le donne indicare il cognome da nubile)		NOME	
DATI ANAGRAFICI		COWLINE (o Stato estero) DI NASCITA	
DATA DI NASCITA GIORNO MESE ANNO			
SCELTA PER LA DESTINAZIONE DEL DUE PER MILLE DELL'IRPEF			
Frattelli d'Italia		Lega Nord per l'Indipendenza della Padania	
Partito Autonomista Trentino Tirolese		Partito Democratico	

Last data on taxpayers' choices for this percentage system were released in January 2016, referring to declaration of 2015: only 2.7% of total taxpayers diverted their percentage of income tax to political parties (1.1 million of about 40 million). In 2015, the first year of 2/1000 application, the percentage of users was of 0,04%. The reason for this low participation is in line with the results of the 1993 popular referendum where more than 90% of effective votes claimed the end of the public support of political parties. The last allocation of resources with 2x1000 assigned more than 5 million EUR by 1 million people (out of 41 million) to the Democratic Party (596,290 choices) and as second beneficiary, the Lega Nord, with about 1 million EUR (138,941 choices).

Political Parties	Effective choices	% choices on total taxpayers	% choices on total choices	Resources allocated (EUR)
Partito Democratico	596,29	1.46	53.9	5,358,250
Lega Nord per l'indipendenza della Padania	138,941	0.34	12.56	1,109,082
Sinistra Ecologia Libertà	100,991	0.25	9.13	881,588
Movimento Politico Forza Italia	60,778	0.15	5.49	529,904
Fratelli d'Italia Alleanza Nazionale	56,362	0.14	5.09	472,384
Partito della Rifondazione Comunista - Sinistra Europea	46,564	0.11	4.21	342,732
Centro Democratico	19,958	0.05	1.8	137,873
Partito Socialista Italiano	18,257	0.04	1.65	114,938
Nuovo Centro Destra	16,764	0.04	1.52	168,629
SVP - Südtiroler Volkspartei	12,196	0.03	1.1	149,659
Scelta Civica	9,229	0.02	0.83	90,863
Movimento Stella Alpina	5,263	0.01	0.48	35,52
Unione per il Trentino	4,962	0.01	0.45	39,379
Movimento Associativo Italiani all'Estero - MAIE	4,429	0.01	0.4	32,38
Union Valdotaïne	4,083	0.01	0.37	35,995
PATT - Partito Autonomista Trentino Tirolese	3,014	0.01	0.27	24,68
Die Freiheitlichen	2,949	0.01	0.27	21,843
Popolari per l'Italia	2,65	0.01	0.24	22,041
Partito liberale Italiano	2,608	0.01	0.24	32,259
TOTAL	1,106,288	2.72	100	9,600,000
Total taxpayers	40,716,548			

By 2016, with the Decree of 21th March 2016⁷¹, adopting a disposition of the 2016 National Stability Law, in Italy there is another 2/1000 system, focused on associations active in the cultural heritage promotion. This choice allows each taxpayer to allocate two euro per thousand of their income tax in favour of a cultural association registered on a list established by Ministry of Cultural Heritage. The association must be in operation for at least five years and as of the date of this report? (the first year of implementation of this system), the number of associations listed in the provisional list is around 1,300⁷². The number is not high considering how many cultural associations are active in Italy, but also not as low considering this is the first year of this experiment and the system was not well promoted by authorities.

Table 12:
Allocation of re-resources of IRPEF' 2/1000 in 2015 (based on incomes of 2014) Source: MEF-Dipartimento delle Finanze (2016 data release)

⁷¹ DPCM 21 marzo 2016, "Disciplina dei criteri per la destinazione del due per mille dell'imposta sul reddito delle persone fisiche, a favore di associazioni culturali, ai sensi dell'articolo 1, comma 985, della legge 28 dicembre 2015, n. 208", published in Gazzetta Ufficiale (Serie Generale) n.95 of 23-4-2016.

⁷² The complete list of provisional 2016 beneficiaries: http://www.beniculturali.it/mibac/multimedia/MiBAC/documents/1461939239331_2permille.pdf

We could rightfully call this one the “fourth” (and last?) Italian percentage system, but I shall observe the evolution of this “new born creature” to see if it is stable or it will be unifying force to the other 2/1000 or 5/1000 measures. In fact, the extent and variability of the meaning of “cultural activity” and the variability of various kinds of associations allowed to become beneficiaries of the designation, could be one of the critiques to the introduction of this measure at present (2016).

THE 5/1000 “CINQUE PER MILLE” MECHANISM

Before deeply analysing the specific five thousandth (5/1000) mechanism and its evolution during the past years, let's go over a brief explanation of the Italian non-profit sector. Outside the main religious organizations implied with the 8x1000 system, Italian regulation has many kinds of not-for-profit organizations which that fiscal legislation identified as “ONLUS” (*Organizzazioni Non Lucrative di Utilità Sociale*, by Legislative Decree n. 460/1997), including: 1) all the Volunteering Organizations (Law n.266/1990); 2) all the NGOs (recognised by Ministry of Foreign Affairs, Law n.49/1987); 3) all the Social Cooperatives and the Consortium of all Social Cooperatives (Law n.381/1991); 4) some kind of Social Promotion Organizations (Law n.328/2000); 5) some kind of Ecclesiastic Catholic Bodies; 6) other private organizations (Foundations, Associations, Non-social Cooperatives, etc.)⁷³. Ten years ago, another body was introduced in our system: the Social Enterprise (Legislative Decree n.155/2006). Some Onlus became Social Enterprise and they preserved their status, other Social Enterprises newly founded cannot be Onlus as they are managed as properly statement “commercial activities” (nevertheless they pursue non lucrative goals). Last census of Non Profit organizations was published in 2013 on data referred to 2011. The number of Non Profit organizations (Volunteering; Social Promotion Organizations; Foundations; Social Cooperatives and others) were 301,191. The previous census on 2001 data counted 235,232 organizations.

The 5/1000 system in Italy is an important financial source for many non-profit organizations (NPOs). It's also a way for citizens to outline their philanthropy to an organization in which they are particularly involved or that they want simply to support. This measure was created on the basis of the 8/1000, the “big brother” in charge since 1985 for the Religious Institutions and it was claimed by the wide non-profit sector deeply-rooted in Italy. The rise and establishment of other percentage systems among EU countries (Hungary in 1996; Lithuania in 2002; Poland in 2003 etc.) surely helped during the following phases of “stabilization” and endorsement of the measure.

In Italy, it began in 2005, with the Law n.166/2005, and it was renewed each year with the same formula until 2014, when the “2015 National Stability Law⁷⁴” endorsed the 5/1000 permanently to Italian Tax legislation. Until 2014, each year, the Stability Law had to confirm the dispositive in the income declaration (IRPEF). The Third Sector had to mobilize during these years to end it being an “experimental” provision and to finally be recognized by the Italian fiscal system. The annual disposition made by Stability Law also designated the beneficiaries (mainly non-profit organizations, Scientific Research Centres and Universities; Sanitary Research Centres; Municipality) allowed to benefit and the total amount of resources that could be distributed each year. The principal challenges of the 5/1000 when it was still in this experimental provision, were the limited resources available⁷⁵ (usually 400 million EUR each year) and the slowness of their allocation (usually with a two year delay).

⁷³ They might obtain the qualification of ONLUS by pursuing by statute the goals listed in Art.10, co.1 of the Law n.460/1997:

⁷⁴ Art.1, Co.154, Law 23 December 2014, n.190 “Disposizioni per la formazione del bilancio annuale e pluriennale dello Stato (Legge di Stabilità 2015)”.

⁷⁵ To set a limit to the amount that can be allocated is different from the Central and Eastern European experience.

Since 2010, the Onlus and other eligible beneficiaries to access 5/1000 are the same as the ones identified by Decree of the President of the Council of Ministries 23 April 2010:

- a. Volunteering Associations and Onlus, Social Promotion Associations accepted in national or regional registry; other associations and foundations operating for social utility purposes mentioned by Art.10, co.1, letter a) of the Legislative Decree n.460/1997;
- b. Universities and Scientific Research Centres;
- c. Sanitary Research Centres;
- d. Social oriented projects of the Municipality of one's own residence;
- e. Amateur sport associations registered to CONI, pursuing social interest activities;

Furthermore, since 2012, private organizations working on preservation, promotion and support of cultural and environmental heritage (identified each year by Ministry of Cultural Heritage⁷⁶) can also receive this allocation.

The mechanism and its procedure seems to be a little bit bureaucratic, but in Italy it is not unusual to have lots of controlling procedures to verify the access and utilization of public money, even if this kind of provision is not a public expenditure *tout court*⁷⁷, but a disposition of private citizens mediated by public treasury. The procedure can be summarised by few steps:

1. Each year the Onlus or eligible body sends their candidature to the Income Revenue Authority (Italian "Agenzia delle Entrate"), usually between March-April. (There is a website that offers a form and a software to be used for it.) At the end of administrative checks, a provisional list is published. There is a lapse of time (one week) in which organizations may correct information from that list. A final list of entities that can be beneficiaries of the system in the given year is published by the Authority.
2. Listed beneficiaries have to send an Official Declaration ("Dichiarazione Sostitutiva Unica" - DSU) that is a self-certification of the possession of the requirements and send it to the Authority, usually the deadline is at the end of June.
3. Meanwhile, the taxpayers can use the module from the Personal Income Declaration form (**Figure 36**) to make their choice:
 - a. Not to allocate the 5/1000 of their income (in that case the money rests as compulsory public taxation);
 - b. To allocate the 5/1000 without specifying a beneficiary (taxpayers put a sign in one of the six macro sectors without writing the Fiscal Code of the beneficiary organization (**Figure 36**);
 - c. To allocate the 5/1000 signing the table of the macro sector (Onlus; Universities and Scientific Research Centres; Sanitary Research Centres; Cultural and environmental heritage promotion; Social activities of the Municipality; Amateur Sportive Associations) and writing the required Fiscal Code of the final beneficiary.
4. The Onlus and other eligible bodies can still ask to be listed if they met the requirements by the original deadline (end of April) until the end of September, by compiling the form and furnishing all the documentation required plus the penalty payment (around 260 EUR)
5. The Authority transmits the Ministry of Economy and Finance all the data to provide the payments to the beneficiaries (the payments under 12 EUR are not allocated). The payments to NPOs are directly deposited by the Ministry of Labour and Social Policies.
6. The beneficiary has to report the projects financed with these resources of 5/1000

⁷⁶ The 2016 call to be accepted as beneficiary was published on 19th May 2016: http://www.beniculturali.it/mibac/multimedia/MIBAC/documents/1463728000135_AVVISO_PUBBLICO__19_maggio_2016.pdf

⁷⁷ A also ratified the pronouncement of the Constitutional Court of 18 June 2007, n.202

within a year from their accreditation, using the form⁷⁸ and the Guidelines⁷⁹ published on the Ministry of Labour and Social Policies website. The reports are gathered by the same Ministry, by traditional mail or certified email (PEC – posta elettronica certificata).

Figure 36:
5/1000 in Personal
Income Tax Declara-
tion form as of 2016
(facsimile)

Source: Agenzia
delle Entrate

The resources (with a maximum cap of 500 million EUR per year since 2015) are distributed as the percentage of single taxpayer's choice and the resources of each one of the six sectors (the "b" case in the step 3: allocating 5/1000 without specifying a beneficiary) are distributed with the same percentage. For instance, in the last allocation of resources referred to in 2014 income declarations, the biggest amount was gathered by Emergency (an NGO working on international cooperation projects), that received the 3,8% of designations (choices) corresponding to 13,176,397 EUR. This association will at the end receive also the same percentage (3.8%) of the choices to the generic "Onlus sector" (that ones without specific single beneficiaries), corresponding to 719,605 EUR. So at the end Emergency will receive 13,896,002 EUR (13,176,397+719,605).

The stabilization of the measure resolved several problems in addition to the the payment delays, as the maximum cap settled each year was sometimes underestimated and resources allocated by taxpayers were not distributed. The fund of 500 million EUR per year was provided by Art. 1, paragraph 154, Law 190/2014 - the Italian Budgetary Stability Act for 2015. Furthermore, the resources not allocated for one year are to be added to the next year's budget.

THE 5/1000' LAST AVAILABLE DATA

At the end of 2016, 484 million EUR will be distributed to NPOs, Research Centres, Municipalities and Sportive Associations, related to the choices of 2014's Income declaration, according to the list of 45,332 registered organizations just published by Revenue Authority. Out of this, the total of the NPOs sector is 332,8 million EUR corresponding to 11,264,426 choices (68% of total), the main sector financed. The biggest share is for the AIRC (an Association for Cancer Cure Research) that gathers about 66.1 million EUR, the 13% of the total amount. The revenue represents half of AIRC total budget. The other "big" for the section NPOs are Emergency (13.9 million EUR), Doctors Without Borders (9.7 million EUR), and UNICEF.

⁷⁸ <http://www.lavoro.gov.it/strumenti-e-servizi/Modulistica/Documents/Modello-rendiconto-5-per-mille.pdf>

⁷⁹ <http://www.lavoro.gov.it/temi-e-priorita/Terzo-settore-e-responsabilita-sociale-imprese/focus-on/Cinque-per-mille/Documents/Nuove-Linee-guida-rendiconti.pdf>

Further, 1,243 NPOs received no preferences and 3,382 (8% of total requests) are the NPOs ruled out (*Table 13*) by Revenue Authority (to know the motivation they can ask to the same Authority). The NPOs admitted (37,904) are the 70% of total eligible bodies and they received the 83% of total choices, gathering the same percentage of resources corresponding to 332,877,367 EUR. If we compare the NPOs admitted to the last census of 2013, we state that they are 12.5%. The following data shows the allocation of resources (without the information on the choices of private organization supported by Ministry of Environmental and Cultural Heritage).

	NPOs	Scientific Research Centres	Sanitary Research Centres	Municipalities	Amateur Sportive Associations	Total
No Admitted	37,904	430	104	8,125	6,894	53,457
No of ruled out	3,382	26	0	0	1,298	4,706
Ruled out' Resources (not allocated in EUR)	9,114,269	1,249,158	0	0	1,169,645	11,533,072
N°effective choices	10,531,308	1,563,959	1,233,930	563,797	302,924	14,195,918
N°sector' choices	733,118	689,133	959,481	0	62,358	2,444,090
% choices on total taxpayers*	28%	6%	5%	1%	1%	41%
% choices on total choices	83%	17%	16%	4%	3%	100%
Resources allocated by effective choices (EUR)	313,845,088	48,053,715	36,574,468	14,934,825	9,405,747	422,813,843
Resources allocated by sector (EUR)	19,032,279	17,774,546	23,587,359	0	1,802,974	62,197,158
Total Resources	332,877,367	65,828,261	60,161,827	14,934,825	11,208,721	485,011,001
% on total Resources	83%	17%	15%	4%	3%	100%

We cannot argue exactly how much the 5/1000' resources weight in the total revenue of non-profit sector because there is no specific survey available right now. We can only estimate it with the few data we can access. The last census of ISTAT, the Italian National Statistical Agency, was made in 2011 (related to the information at 31. 12. 2010). The total revenue of the non-profit sector (that is quite different From the eligible/admitted NPOs sector related to 5x1000 system) results in 63,939,884,443 EUR (about 64 billion). If we refer to the same year, the revenue of 5x1000 for NPOs is 259,358,274 EUR, the 2.46% with all the approximation mentioned.

According to ISTAT census, 86.1% of non-profit institutions receive funding from private sector (5/1000 included) and 13.9% from public sector⁸⁰ (revenues from contracts or conventions with national or international public bodies).

If we consider the total budget of NPOs, the distribution of all the revenues shows that private funding represents 65% while public funding reaches 35%. In particular, as shown in Table 4, the highest incidence out of the total of the revenues results from contracts or conventions with national or international public institutions (29%), from members' yearly contributions (26%), from the selling of goods and services (19%). Contributions, gifts, donations and bequests account for 7%, the same share is reported by revenues from financial assets and real estate. A modest share is recorded from grants revenues and from contributions by national or international public institutions (5%).

Table 13:
Allocation of resources of 5/1000 IRPEF (2014 income declaration) Source: Our elaboration on Agenzia delle Entrate (2016 data release)

* Total Income Declarations presented in 2014= 40,716,548 (Source MEF)

⁸⁰ The institutions active mainly in Health, Social services and emergency prevention and in Development and housing sectors are mainly financed by public sector (respectively with a share of 36.1%, 32.8% and 29.9%). The revenues from private funding are higher in the institutions operating in the sector of Religion (95.5%), of Business and professional associations, unions (95.3%), of International co-operation, of Culture, sports and recreation (both 90.1 %), of Law, advocacy and politics, of Philanthropic intermediaries and voluntarism promotion (respectively 88.7% and 86.7%).

We cannot say what the exact percentage of 5/1000 mechanism of total revenues is, as it is all lumped in under the general “Contributions gifts, donations and bequests”. The percentage for the philanthropic intermediaries and volunteering associations account for 6,7% of the total revenues. This number is not far from the results of another study: an experimental survey conducted each year by the private organization “Istituto Italiano della Donazione - IID”, on a sample of 200 NPOs⁸¹. The data reveals that 46% of the NPOs receive less than 5% of their budget from 5/1000 mechanism (*Figure 37*). Furthermore, 74% of NPOs gain less than 15% of their budget from 5/1000.

Prevalent sector of activity	Public source		Private source				
	Grants and contributions free of charge from public institutions	Proceeds from contracts and conventions with public institutions	Members' yearly contributions	Proceeds from selling goods and services	Contributions gifts, donations and bequests	Proceeds from financial assets and real estate	Other proceeds from private source
Culture, sports and recreation	9.6	9.2	31	30.2	9.2	2.5	8.2
Education and research	10.9	30.9	12.4	28.4	6.8	3.4	7.2
Health	2.8	65.5	3.3	20.1	3.5	1.4	3.4
Social services and emergency prevention	4.1	52.4	7.5	22.8	6.6	2.7	4
Environment	10.1	22.4	19.4	30.8	9.1	1.4	6.7
Development and housing	1.9	27.9	37.3	19.6	3.1	4	6.2
Law, advocacy and politics	21.8	23.3	25.7	3.7	11.9	2.5	11.1
Philanthropic intermediaries and voluntarism promotion	1.8	2.1	7.6	1.9	6.7	64	15.9
International co-operation	4.7	23.1	3.6	3.6	53.8	1.2	10.1
Religion	1.7	3.9	11.8	12.7	51.3	12.1	6.5
Business and professional associations, unions	3.6	5.6	70.5	8.3	4.6	1.8	5.6
Other activities	0.2	0.9	67	2.5	0.8	17.7	10.9
TOTAL	5.1	29.2	26.3	18.7	7.2	6.8	6.8

Table 14:
Revenues by item in the balance sheet and by sector of activity (percentage values) (ISTAT 2011 Census) Source: Own elaboration on ISTAT 2013 data release

In 2011, ISFOL (Istituto per lo sviluppo della formazione professionale dei lavoratori) contributed to understanding of the percentage philanthropic mechanism of 5/1000 in Italy, by publishing a report focused on the motivations of taxpayers and utilization of revenues by NPOs (and reporting system). Almost all (88.2%) of the respondents (601 taxpayers), signed 5/1000; with 94.3% of them claiming to have indicated a specific NPO. Research reveals two very homogeneous clusters of donators: the first consists of “urban low income retirees ” and the second consists of “middle class commuter workers”. The taxpayers who decide to donate, are characterized, therefore, as a social “ordinary status” families with sons, middle class, educated, but not from the high-society or pensioners living in the city, a context where it is more complex to meet their social needs.

The media by which respondents became aware of 5/1000 are mainly direct links (35.3%); direct knowledge of the association (26.5%), and friends’ advising (8.8%). A small percentage of Citizens know 5/1000 through the mass media (TV, radio, newspapers and advertising). Finally, 7 out of 10 respondents believe that the third sector associations do not have sufficient resources to go ahead.

⁸¹ <http://www.istitutoitalianodonazione.it/it/indagini/indagini-osservatorio-iid/area-di-ricerca-organizzazioni-non-profit>

CONCLUSION

In this paper we tried to explain the many Italian percentage legislation systems that were created to achieve several goals, although they have similar functions. The first 8 per thousand to Ecclesiastic entities, was characteristic for being the only compulsory emolument, different from the Spanish system also because the “non –choices” aren’t automatically assigned to the State balance, but are proportionally distributed among all the beneficiaries. The second 5 per thousand to the non-profit sector was the more debated (and contested) as it was created as an experimental dispositive but the experimentation ended ten years later. The recent twin 2 per thousandth were created, apparently under a strategy of substituting of direct public resources, but they lead the way in which the percentage system could be a very powerful and eclectic tool under the umbrella of “taxation and self determination” principle. Furthermore, it is a tool aimed to replace the persistent cuts in public investment to social, cultural and environmental projects.

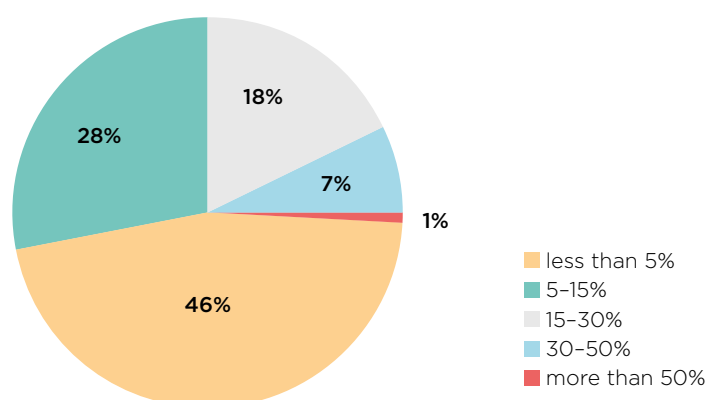


Figure 37:
Contribution of 5/1000 to the total revenues of NPOs
Source: IID 2015 data release
Source: IID (2015 data release)

In the following **Table 15** we summarise the specification of each per thousandth model.

Percentage system	Enstablishment'	Beneficiaries	Voluntarity / Compulsority	Last total amount	Reporting schemes
	year				
8/1000	1985	State, Religious entities	Compulsory (even if not signed)	1,245,253,247 (on 2011'incomes)	Report on funds utilization (often disregarded)
5/1000	2006	Non-profit, Amateur sport, Research, Cultural Heritage, Municipalities	Voluntary + eventual specific beneficiary choice	485,011,001 (on 2014'incomes)	Report on funds utilization (binding)
2/1000	2015	Political parties	Voluntary + specific beneficiary choice	9,600,000 (on 2014'incomes)	Not specified
2/1000 bis	2016	Culture	Voluntary + specific beneficiary choice	N.A.	Not specified

Table 15:
Key features of percentage systems in Italy

By this year, many NPOs were listed both in 5/1000 and 2/1000 beneficiaries. Even if the last percentage system of 2/1000 to cultural associations is still not well known (only 1300 associations were listed this year), it's possible for a non-profit organization working on cultural promotion, to receive both the emoluments by the same taxpayer. It means that for some organizations, the achievable percentage is now a 7 per thousandth of the citizens tax on income. This is a percentage that is more similar to other European Countries, where an amount of 1% is allowed.

In Italy, since 2005 (the 5/1000 was introduced in 2006) there also has been a special deduction for donations to NPOs. The law is called "More You Give, Less You Pay" (Più dai, Meno versi). It works for physical persons and companies up to 10% of total taxable income for a maximum of 70,000 EUR per year. According to the data of the Ministry of Finance, 681,672 of Italians used this benefit in 2011 for a total of 225,239,319 EUR of donations to NPOs.

There are many ways to support non-profit organizations, especially when considering the new perspectives of fundraising strategies coming from utilization of new technologies (crowdfunding platform and utilization of social media). However, a simpler way to help them is by signing a form in the annual income declaration. That is a very powerful way. Italian government seems to understand this and replication of this mechanism for supporting other activities as well is the right way to enhance the citizens' active participation at this point, although some correction to the old systems like 8 per thousand, is still necessary.

ABOUT LITHUANIA

The Republic of Lithuania is situated in Northern Europe along the southeastern shore of the Baltic Sea. As such, it is one of the three Baltic states. Lithuania regained its independence after the break-up of the Soviet Union in 1990, and the country joined the European Union in 2004. It currently has an estimated population of 3 million, with 1 million private income tax payers. Lithuania has 60 municipalities, the largest of which is the capital city Vilnius (with a population of 0.6 million).

LITHUANIAN NGO SECTOR

No precise numbers are available regarding NGOs currently operating in Lithuania, because there is no single Lithuanian NGO register. Even though a Law on the Development of Lithuanian NGOs was passed in December 2013, it is not quite clear which of the dozens of non-profit legal entities fully matches the definition of an NGO. Experts say⁸² that Lithuania was home to 25 thousand CSOs (civil society organizations) in 2013; however, at least a quarter of them may be inactive, as complicated procedures are required to deregister a non-functioning organization.

After Lithuania regained independence, the number of NGOs in the country started to mushroom rapidly, particularly in the period of 1992-1995, when the main laws regulating NGOs and charitable donations were passed. In particular, organizations that had existed before the Second World War, but which were banned during the soviet occupation period, were restored. In addition, new civic movements were established, particularly in areas where public services were absent or poorly developed: environmental protection, youth, human rights, religion, independent arts, etc. In parallel, many soviet era societies continued; these included various professional organizations, gardeners', fishermen's, or hunters' clubs, and sports associations.

For many years Lithuanian NGOs were considered weak and poorly financed; they were not thought to be influential or to play a significant role, and they lacked public support and recognition⁸³. There were no strong traditions of private philanthropy, and state financial support was very limited. Notably, the majority of public service-providing non-profit institutions involved in health protection, education, social welfare, or (to a lesser extent) culture had not been denationalized and remained state-run. For this reason, many independent NGOs felt that they were in "unequal" and "unfair" competition with state-run "rival" institutions. Often understaffed, and run mainly by volunteers, NGOs believed they were caught in a vicious circle⁸⁴.

Since Lithuania gained state independence, NGOs have relied heavily on foreign funding; for instance, the Open Society Lithuania Foundation had for many years been a major donor in this country. In addition, Later on European and other international aid programs were providing substantial assistance to strengthen the core of Lithuanian third sector institutions. However, their dependence on irregular foreign aid grants meant that organizations lacked stability, and could not ensure sustainable and long-lasting results.

In 2004, to stimulate further growth in the sector, a law was passed permitting non-profits to engage in economic activities⁸⁵. This measure, combined with the increasing use of IT tools and exploitation of the media, broadened considerably the possibilities for fundraising and allowed NGOs to provide membership services. Nonetheless, in the new millennium, it was clear that the NGO sector needed more instruments to encourage sup-

⁸² 2013 CSO Sustainability Index for Central and Eastern Europe and Eurasia, 17th edition, USAID, 2014, 128.

⁸³ Nevyriausybės organizacijos Lietuvoje, SIC rinkos tyrimai, 2002, accessed September 5, 2015, http://www.3sektorius.lt/docs/NVO_2002_2013-01-17_15_21_55.doc

⁸⁴ Lietuvos nevyriausybinių organizacijų situacijos analizė, BAPP/NIPC, 2005 (accessed September 5, 2015), http://www.3sektorius.lt/docs/Treciojo_sektoriaus_instituciju_situacija_Lietuvoje_2013-01-17_15_28_40.pdf

⁸⁵ Remigijus Šimašius, Ne pelno organizacijų ekonominės veiklos teisinio reglamentavimo problemos, Lietuvos Teisės universitetas, 2013 (accessed September 5, 2015), <http://simasius.popo.lt/files/2012/04/NPOekonomineveikla2003.pdf>

port and participation from the general public. Therefore, when in 2003 taxpayers were given the option of designating 2% of their private income tax to a chosen public benefit organization, the decision was welcomed as timely and significant.

After joining the European Union on 1 May 2004, Lithuania became a developed country-donor; this resulted in many withdrawals of foreign funding. Since then, Lithuanian NGOs have had to learn to survive on their own, appealing for support from the general public, as well as from socially responsible businesses. As a result, NGOs have been steadily growing in membership, and have begun to use the fundraising techniques of many advanced organizations in Western countries. Thus, Lithuanian NGOs have quickly caught up with those in the rest of developed world (the only drawbacks to this process were caused by world economic crises in 1999 and 2008). In recent surveys, 56% of respondents have donated money to NGOs⁸⁶, compared to a stable 12%–15% from 1998 to 2008, and 47% of Lithuanians claim to volunteer (compared to 10%–12%).

Currently, the Lithuanian NGO sector, along with others in the so-called “Northern Tier” (Baltic and Visegrad states), demonstrates a stable, high sustainability score (2.7)⁸⁷, taking into account the legal environment, financial viability, advocacy, service provision, and infrastructure. In addition, the sector is gradually increasing its organizational capacity and public image.

BEGINNING OF THE TAX PERCENTAGE SYSTEM

The Lithuanian tax percentage system was initiated mainly by the NGO Information and Support Centre (NISC). In 1999, availing of an opportunity to use a USAID DemNet Program grant, then NISC director Vaidotas Ilgius embarked on a study visit to Budapest, where he explored different aspects of a similar percentage philanthropy system that was operating in Hungary. He met NGO leaders, experts, and civil servants in charge of the percentage scheme. To promote this cause in Lithuania, the NISC created the Lithuanian NGO coalition, and launched the “2% for charity” lobbying campaign. As a part of this campaign, a survey was commissioned to discover the opinions of different political fractions on percentage philanthropy. Moreover, a national conference of percentage philanthropy was organized in the Lithuanian Parliament⁸⁸.

Notably, from 1999 to 2001, Lithuania was governed by a coalition of Liberals and Conservatives—during this period, the principal decision was made to adopt percentage philanthropy in Lithuania. After the 2001 election, a governing coalition was formed by both Social Democrats and Labor Party representatives. Under the auspices of the finance minister, Dalia Grybauskaitė, the percentage system was enacted into law. This suggests that there was a rather broad consensus among various political parties regarding the proposed percentage system and its anticipated consequences. The Lithuanian percentage system was legally enacted in 2003—private citizens have been able to use it since 2004.

THE MAIN FEATURES OF THE LITHUANIAN TAX PERCENTAGE SYSTEM

The main difference in the Lithuanian percentage system is that, in addition to NGOs, public non-profit entities can benefit from it—public schools, kindergartens, hospitals, museums, etc. This transpired due to a compromise that was reached among right and left wing politicians. The Social Democrats argued, in opposition to the Liberals, that private non-profits such as NGOs are no more deserving than state-run public schools, hospitals, or museums, so it would not be fair to design a percentage system for NGOs only. There were further concerns that the percentage system would constitute a huge loss to the national budget; as a result, the income tax deduction to private donors was abolished.⁸⁹ Data provided by the Lithuanian State Tax Inspection⁹⁰ show that more than half of the

⁸⁶ The 2014 CSO Sustainability Index for Central and Eastern Europe and Eurasia, USAID, 2015, 140.

⁸⁷ Ibid, 6, 137.

⁸⁸ Aušra Maldeikienė, Ar bus leista Lietuvos gyventojams skirti paramai 2 proc. savo pajamų mokesčio? (NIPC, 2000)

⁸⁹ Aurelija Olendraitė, Ar filantropijos daigais vėl maitinsime biudžetines įstaigas? NVO teisės institutas, 2015 (accessed August 28, 2015), <http://www.nvoteise.lt/lt/node/232>

⁹⁰ State Tax Inspectorate, Paramos apskaičiavimo statistika (accessed August 28, 2015), <https://www.vmi.lt/cms/documents/10162/7002313/Paramos+apskai%C4%8Diavimo+statistika/Oe6fac99-b289-4504-a46c-2d13b2dbf7d1>

designated funds are donated to NGOs; that is, that NGOs are still the main beneficiaries.

Otherwise, the Lithuanian percentage system works in a similar manner to that in other countries. Lithuanian citizens (or foreign residents) can designate up to 2% of their paid personal income tax to their chosen public benefit entity/ies. The taxpayer can divide the 2% into portions, unless the single designated amount is lower than 2.90 EUR. Taxpayers who wish to designate these funds must fill out the annual income declaration—the deadline for this is 1st May.

It is also possible to send a special designation form (FR0512)⁹¹, either in printed form (via post, or hand-delivered) in a signed envelope, or in electronic form (online). Nowadays, the majority of tax payers prefer to use online forms.

Each year, the Lithuanian tax authority checks whether designators have fulfilled their duties (i.e. declared their annual incomes and paid taxes), and whether form FR0512 is filled out correctly. Next, starting in July, and by mid-November at the latest, the Tax Inspection transfers the designated amounts to the beneficiaries. Moreover, the Lithuanian Tax inspection publicizes the results of 2% distribution of the given year.⁹²

Beneficiaries of the Lithuanian percentage system enjoy a relatively light administrative load. They are not required to spend their designated amounts in any prescribed way, neither are there any reporting requirements—only general rules on the public reporting of annual income and expenditure apply.

CHANGES AND DEVELOPMENT

The rules regarding the implementation of the percentage scheme in Lithuania have been amended several times; for instance, in 2003 and 2004, changes were made to the designation forms. Specifically, after the amendment, the designator had fewer compulsory fields to fill out manually, such as the beneficiaries address and identity number.

Another amendment was passed in 2008 regarding the delivery of the designation form. From this date, the Tax Inspectorate no longer accepted envelopes with designation forms that were not delivered personally; this was a reaction to the attempts of some beneficiaries to persuade reluctant individuals to sign a designation form. Before this change, it was possible to send a printed designation form, via an employer's representative (if the taxpayer had only one employer), in a sealed and duly signed envelope. This was abolished—as a preventive measure against possible manipulation.

Finally, the most important change was introduced in March 2012, whereby an additional 1% could be designated to a chosen political party. From this time on, the Lithuanian percentage system could be called “2+1%”. This change was prompted by a recently implemented national reform of political party funding. No longer were Lithuanian parties permitted to receive donations from legal bodies, and donations from private bodies became limited. Instead, political parties could receive 1% of their followers' paid income tax⁹³. At the same time, it became possible to designate up to 2% of paid income tax for a longer period (one to five years), so it is no longer necessary to fill out the same form every year.

IMPACT ON THE NGO SECTOR

From 1999 to 2003, Lithuanian civil organizations were quite dependent on foreign grants—local people did not support NGOs. More than a decade after the country gained independence, the situation remained relatively unchanged: civil participation, volunteering, and private philanthropy were quite weak. Specifically, some 12%–15% of Lithuanian

⁹¹ State Tax Inspectorate, Formos (accessed September 9, 2015), <http://www.vmi.lt/formos/pdf/FR0512.pdf>

⁹² State Tax Inspectorate, Konsultacinės medžiagos katalogas (accessed August 28, 2015), https://www.vmi.lt/cms/web/kmdb/1.4.15.3#Scroll_600

⁹³ Ingrida Šimonytė, Per gyventojų pajamų mokestį partijoms gali tekti iki 30 million. litų (accessed August 28, 2015), <http://zebra.15min.lt/lt/naujienos/lietuva/i-simonyte-per-gyventoju-pajamu-mokesti-partijoms-gali-tekti-iki-30-million-litu-253539.html>

inhabitants gave to charities or volunteered. Only half of the population could name at least one NGO—the rest were ignorant.⁹⁴ For this reason, politicians welcomed the proposal to set up a percentage system in Lithuania, hoping that this would encourage taxpayers to pay more attention to civic and community organizations, as well as to participate and interact to a greater extent. The aim was to provide potential support that would not be absorbed by the most famous and popular national NGOs, but would reach less prominent, small, younger, and regional entities as well.

Although no specific research has been performed into the impact of the percentage system on the Lithuanian NGO sector, it is clear that, during the past decade, private giving has been increasing considerably. For example, in 2012, two thirds of the Lithuanian population donated to charities—compared to 15% in 2002. It is possible that the percentage scheme contributed to this significantly. More NGOs started using social marketing and public relations instruments, and it became easy to designate and donate using electronic applications—this all helped to increase the public trust in, and visibility of, NGOs. In one sense, the percentage system disappointed traditional large NGOs—they had hoped to collect large amounts due to their reputation and appeal. However, many smaller beneficiaries have been able to receive designations from their members/clients. Therefore, the percentage system improves financial viability, particularly in the cases of less advanced NGOs.

Furthermore, several organizations or even sectors have gained a major advantage and collected considerable amounts, helping them to become bigger and better. These include charities that use television to reach out their audience, animal welfare groups that were unknown in Lithuania before the introduction of the percentage system, and some minority communities that have used the “door-to-door” method effectively to collect 2% designations.

CONCLUSIONS

The percentage system in Lithuania has become a permanent and important component of philanthropy, helping thousands of NGOs achieve their public benefit goals. Moreover, several tasks that were of secondary importance in implementing the percentage system in Lithuania may have been successfully accomplished. For example, educating Lithuanian citizens about private tax and the functioning of public benefit entities, including both public and private sector players.

Several signals have indicated that the system should be modified to consolidate beneficiaries' accountability and transparency, and thus prevent possible misuses. However, in general, the percentage system provides significant funding to many NGOs that could otherwise be deprived of resources. In this way, the system in Lithuania continues to contribute towards the sustainable growth of civil society and philanthropy.

⁹⁴ Public opinion survey “Lithuanian NGOs” (SIC, 2002), 12-14 (accessed August 28, 2015), http://www.3sektorius.lt/docs/NVO_2002_2013-01-17_15_21_55.doc

INTRODUCTION

Poland has recently celebrated the 25th anniversary of its democratic reforms. As the first country in central Europe, Poland began this complex process with the Round Table talks of 1988; these talks led to democratic elections. Part of this process of change (both a cause and a consequence) was a certain revitalization of civil society. Today, this term has many meanings, but in the early 90s, it was considered a common denominator of the changes in central Europe. The big advantage of this phenomenon was that it defined both a political objective and a method by which this was to be achieved.

Poland can probably claim to be one of the leaders of both democratic and economic transformation throughout the region. In both these areas (though more clearly in the economic section), the achievements can be clearly seen. For instance, as one of the few countries in Europe, Poland coped relatively well with the recent financial crisis. Furthermore, in studies into the quality of democracy, Poland performs relatively well compared to other countries of the former Soviet bloc, although it is still far removed from the countries of the “old EU”.

The same is true of specific indicators of third sector organizations, according to Freedom House (Freedom House 2015), USAID’s non-governmental organization (NGO) Sustainability Index (USAID 2014).

Adopted almost 20 years ago, the Constitution of Poland guarantees the freedom to establish NGOs, and to conduct the activities thereof. This has been complemented by a series of specific laws regulating the activities of associations (1989), foundations (1984), and public benefit organizations (PBOs; 2003). Based on research conducted regularly for over 20 years by the KLON/JAWOR Association, itself an NGO, we can track trends related to these changes quite well. Currently, there are more than 100 thousand NGOs operating in Poland (KLON / JAWOR Association 2015), comprising over 17 thousand foundations and 86 thousand associations. The non-government sector is an essential, sustainable, and systemic factor in Poland, and it fulfils key functions. For instance, it provides services, supervises government activities, advocates specific causes, encourages social innovation, and develops both social capital and co-operation. Of course, each of these functions could be done better, but all are present, and participants in the non-governmental environment are aware of the challenges they face and are actively seeking solutions. Indeed, NGOs are currently creating, through their own initiative (on both a national and local level), a third Sector Development Strategy (OFOP / SPLOT 2015); approximately three hundred people are involved in its formulation.

On this note, several solutions have been implemented in Poland that may also be useful outside the country. These include a national federation of organizations, and a considerable sectoral ability to act collectively, as well as an extensive and widely available sectoral infrastructure in several dozen Polish towns and cities, NGO-friendly legislation, a stable system of research, a well-functioning system of internal information, a 20-year-old tradition of national-scale meetings within the sector (the so-called Fora of Non-Governmental Initiatives [FIP]), statutorily-empowered organs of communication with both national and (in many cases) local government (the Board of Public Benefit Activity), a considerable success in managing EU funds (including the election of several dozen representatives of the sector to bodies controlling the expenditure of the funds), and a dedicated governmental Civil Initiatives Fund, which has been operating for 10 years. Finally, Poland has a statutory obligation to develop an annual program of cooperation with organizations in each of the 2500 communes throughout the country, as well as legally guaranteed access to public media, a tax incentive scheme (in excess of 1% personal income tax [PIT]), both for individuals and for companies, which encourages donations to NGOs, etc. From that point of view, 1% of PIT is just a small element of a much wider supportive environment.

KEY FACTORS OF SUCCESS

In 1996, legislators began working on a new law to allow a 1% allocation; the work lasted about seven years. This allocation was part of a broader legislative project in Poland,

namely the Public Benefit Law, which aimed to improve conditions for NGOs. The main aim of this law was to develop a so-called Third Sector Constitution, as well as to improve the relationship between the third sector and the authorities. It should be stressed that the 1% tax allocation was not the most important issue. At the time of these developments, other issues were much more important, such as the regulation of access to public funds, the “legalization” of voluntary service, and the separation of PBOs from among all NGOs.

Many institutions were involved in this undertaking, including the government (in particular the Ministry of Labor and Social Policy). However, it was the NGO sector, and especially those involved in the Polish Forum of Non-Governmental Initiatives (Ogólnopolskie Forum Inicjatyw Pozarządowych), that played the most important role. The Forum was the nucleus of the national federation of organizations, which now exists as a separate organization, while the Forum has now ceased to exist. The Forum conducted many ad-

POLAND 2015

Population: 38.4 million

Inflation rate: 0.1%

Unemployment rate: 9.7%

GDP per capita: 14,378 USD

HDI (UNDP): 35

Source: Central
Statistical Office,
Poland

vocacy activities for the benefit of organizations, including triennial meetings of organizations from all over Poland, which took place in Warsaw and brought together one to two thousand people. In several of these meetings, the bill, as well as the pressure to pass it, was an important element.

The fact that the 1% mechanism had been introduced in other countries (including Hungary) was no doubt an important incentive to its introduction in Poland. At that time, there was a noble rivalry in this regard—the level of mutual borrowings between central European states was high. One reason for this was the presence of foreign institutions that catered to the region as a whole and supported this kind of exchange of experience. Initially, the 1% law was only partially related to financial demands. It was supposed to be both a lever and a push—to make the sector more transparent and visible, as well as to promote authentic philanthropy among individuals (beyond the tax allocation).

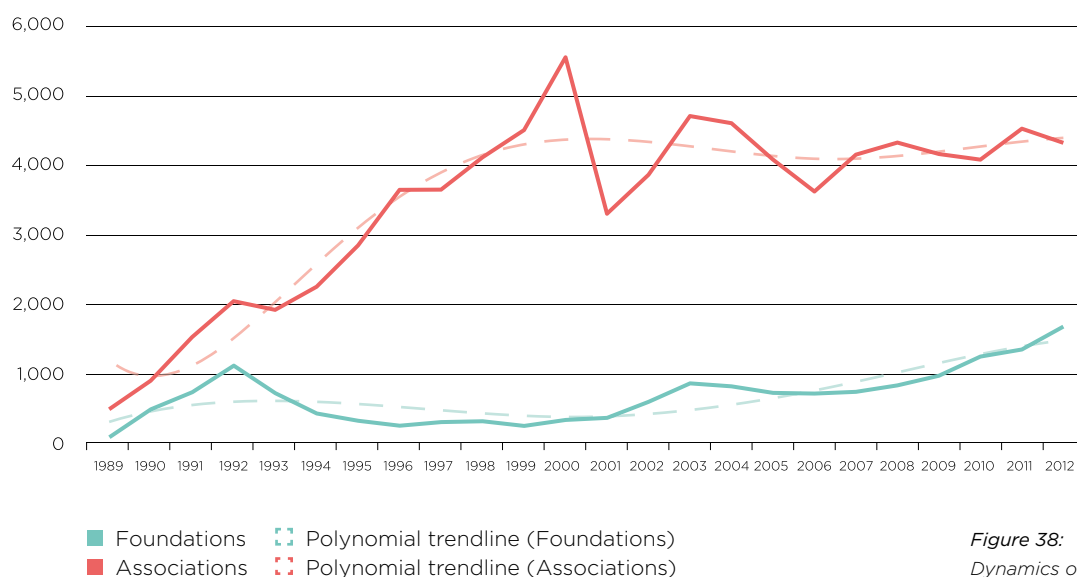


Figure 38:
Dynamics of NGO registration (number of NGOs newly registered in a given year), based on the National Court Register, Poland

THE PROCESS OF THE ALLOCATION

Ultimately, the system was introduced in 2003 as part of the new Public Benefit Law (Art. 27). Taxpayers were able to use the allocation mechanism in 2004 for their 2003 fiscal year.

Basic elements of the 1% system:

The right to direct 1% of PIT applies to individual persons (including those who run one-person enterprises).

The only beneficiaries of 1% PIT allocations are NGOs that have obtained the status of PBOs, including:

- NGOs, i.e. institutions that are not public sector entities and do not operate for profit,
- legal persons and persons without legal personality, including foundations and associations,
- legal persons and organizational entities of the Polish National Catholic Church, as well as those of other churches and religious communities,
- associations of regional or local government bodies (Law of 24.04.2003).

A PBO is a specific legal organization which can take advantage of many privileges, including the 1% allocation. In their tax return forms, donors can nominate organizations that enjoy this status.

The method of distinguishing NGOs as public benefit organizations

To receive the status of PBO, an organization must first request it. The Registration Court then makes a decision on the issue; the same court can also withdraw the status. To be granted the status, an organization must, among other things:

- perform public benefit activities (see the box) that serve either the general needs of the community, or those of a specific group of entities (for example, those who have a particularly difficult life) materially or otherwise;
- allocate the profits to public benefit purposes;
- have the statutory authority of control or supervision, and no personal or professional relationships with the members of the board;
- ban the participation in its governing bodies of persons convicted of an offense that was prosecuted by public indictment, or a tax offense;
- establish statutory bans related to the assets of the organization (private use);
- comply with one of the conditions introduced in 2010 (Law of 22.01.2010); namely, that the organizations must have been incessantly conducting their public benefit activity for at least two years before applying for public benefit status.

OBLIGATIONS OF PUBLIC BENEFIT ORGANIZATIONS

To provide better transparency to the general public, PBOs submit and present their substantive and financial reports to the minister responsible for social protection. These reports are quite extensive, although their length depends on the size of the organization concerned. They are submitted online and used to create a publicly available database (Department of Public Benefit - Ministry of Labour and Social Policy 2015). In these reports, PBOs provide information regarding revenues and expenditures, broken down by type, in particular as these relate to the 1% mechanism, as well as expenditures accrued within each type (along with those that have been incurred by collecting the 1% PIT). A special part of the report comprises information about salaries in organizations.

If the organization fails to report on time, the privilege of receiving the 1% PIT is suspended. The list of NGOs with the right to use the 1% is a public document, and it is published no later than 15 December each year. Currently, nearly nine thousand organizations enjoy such a status.

From January until the end of April each year, PIT-taxpayers may indicate one PBO as the beneficiary of their 1%; to this end, the taxpayer must enter the corresponding number from the registry. The individual tax offices transfer funds to the organizations named in the tax return.

The list of PBOs is available on official websites; often it is attached to electronic tax return programs. Many organizations conduct media campaigns during the period in which citizens typically fill out their tax returns. With these campaigns, PBOs aim to convince taxpayers to nominate them.

In the tax return form, a taxpayer can enter the so-called *detailed aim*, by which they can indicate the purpose of the organization, or one of its programs. In practice, this mechanism has been used as a form of disposal for payments to individuals who collect funds through the organization. (We will discuss that particular matter below).

Every year, the Ministry of Finance makes public a list of all PBOs, along with the proportion of the 1% PIT they obtained in the previous year.

SCALE OF THE PHENOMENON

The popularity of the mechanism has skyrocketed (Ministry of Finance 2013). In 2004, the first year of the system, only eighty thousand taxpayers donated around 10.4 million PLN to such beneficiaries, which accounted for 0.03% of the tax due. For comparison, the amount transferred in 2014 was 506 million PLN, which represented 72% of the total tax due.

Therefore, it can be said that the phenomenon is now widespread. Allocation is used by 61% of those who fill out the PIT tax return personally (which means all taxpayers except pensioners and some persons employed in one workplace, where the tax return may be filled out by the company's accounting services). Since this option is more popular among those who have higher income, the allocated 1% PIT is around 72% of all resources that could be allocated. The mean value of the 1% PIT directed by taxpayers to NGOs in 2014 was the equivalent of about 10 EUR (Ministry of Finance 2013).

One major challenge in this regard concerns the sharing of the 1% PIT revenues among the various PBOs—the funds have become hugely concentrated. For example, in 2014, when payment was made to nearly 7.5 thousand organizations, over 25% of the total sum was collected by a single foundation⁹⁵, which has for years gathered funds through its so-called sub-accounts and directed them to individuals. The ten organizations that collect the most revenue from the 1% scheme gathered around 180 million PLN (from the total of around 500 million). Six of these are known as “intermediaries”, as they collect funds for individual persons or institutions that do not have PBO status. This kind of disproportion could be considered pathological, and is frequently a target of criticism aimed at the entire 1% PIT mechanism.

The success of the allocation system may stem from many factors. The most important of which is probably the ease with which the 1% PIT can be transferred. This action costs nothing more than entering a number in the tax return. Also significant is the enormous media activity of NGOs during the period in which citizens fill out their tax returns: organizations try, in any way possible, to convince taxpayers to donate the 1% PIT to them.

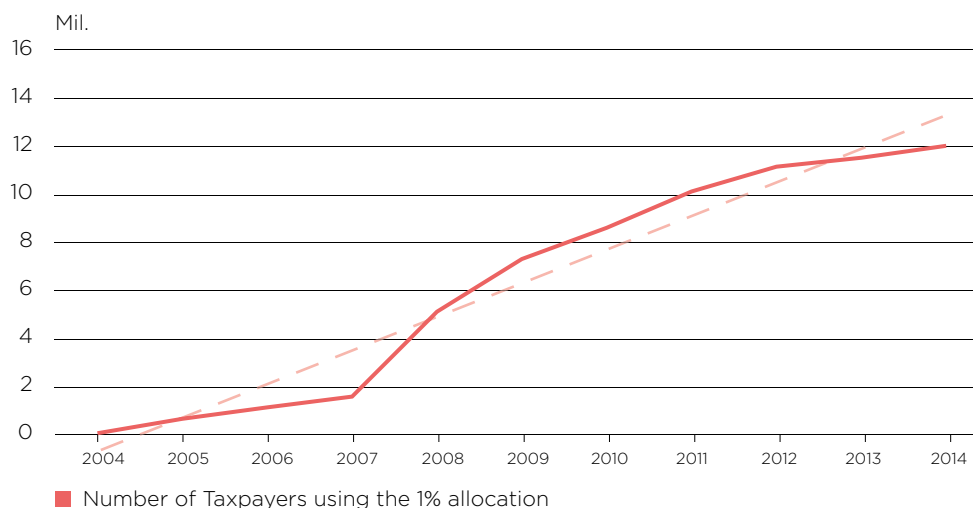


Figure 39:
Number of taxpayers using the 1% designation. Calculation based on data from the Ministry of Finance

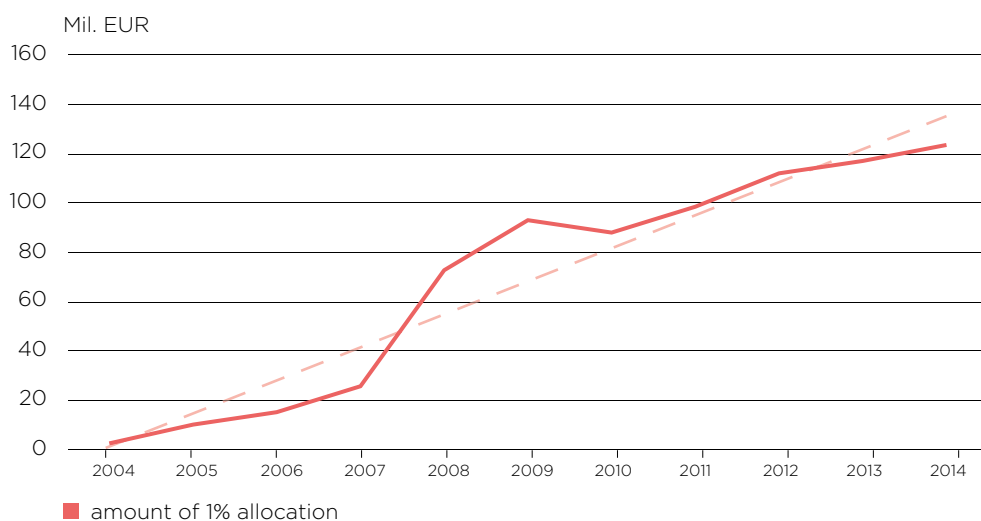


Figure 40:
Amount of 1% personal income tax allocated (million EUR) in Poland. Calculation based on data from the Ministry of Finance

⁹⁵ Data from the annual report of the Ministry of Finance

Often, the quality of these campaigns is poor, and they have a purely emotional character. The campaigns are conducted using all possible media. A certain proportion of NGOs (even those without PBO status) try to use the mechanism of 1% PIT, employing external “brokers”, who obtain a part of the revenue. In other countries, they established separate organizations; in Poland, they used the existing ones. We must also distinguish at this point between public institutions of universal access (e.g. museums) and those that limit their services to a specific group (e.g. schools and kindergartens), which themselves inform their users (i.e. parents), about the 1% PIT payment.

One argument for transferring a part of the tax to an NGO is that it is a unique and efficient opportunity for taxpayers to influence how public money is spent. Research by the Klon/Jawor Association (2015) into the image of NGOs showed that 58% of respondents believe NGOs to be more effective in their actions than public administration. This has negative implications as well; nevertheless, it reveals a real incentive to donate, which results from the critical attitude of Poles towards their own country, and towards the very obligation to pay taxes.

CHANGES OF THE SYSTEM: POLICIES, JUSTIFICATIONS AND EFFECTS

The 1% law has been amended several times. From the point of view of tax allocation, the most important change was introduced in 2006, whereby the range of bodies to which allocation was permitted was extended to include self-employed individuals (i.e. persons conducting individual economic activity, and paying flat-rate tax). Another important element of this amendment was a major change to the 1% transfer mechanism. Since 2006, the tax office has been transferring the monies on behalf of taxpayers.

This solution has dramatically increased the number of people using the mechanism, as well as the amount of capital reaching the sector. Moreover, work is pending completion regarding subsequent amendments to the law. Many of these changes concern the relationship of NGOs with local authorities, and there are also several cosmetic changes concerning the 1% mechanism itself. In particular, more meticulousness will be required in terms of informing the public about the amounts collected and spent for particular goals. Specifically, this will be achieved with a publically available register of reports.

While working on the amendments, legislators discussed various other questions, such as the necessity to inform the public about the cost of 1% campaigns, the imposition of limits on the cost of such campaigns, or the introduction of a ban on computer software for tax returns in which it would only be possible to select the distributor of the software as the 1% beneficiary, rather than choose from the full list of organizations. Due to problems with the formulation of both amendments, work on them has recently been discontinued. In Poland, the 1% PIT mechanism has had quite mixed consequences. On the one hand, it has had clear advantages: in nominal terms, it provides the third sector with around 500 million PLN, i.e. about 3%-5% of the total revenue of the sector (KLON / JAWOR Association 2015). In addition, the mechanism has also forced PBOs to be much more transparent, and to communicate better with the public. Without any doubt, it has also increased the visibility of NGOs (and of PBOs in particular), and the activities they carry out. On the other hand, the list of restrictions is quite long, and the system malfunctions in many ways. In most cases, NGOs communicate with the public not through rational argumentation, but rather through emotions; this has at times constituted emotional blackmail. For this reason, among others, respondents to the 2015 Klon/Jawor study (KLON/JAWOR Association 2014) incorrectly assumed that all NGOs are involved in helping the needy (79% of the respondents think so). In reality, only 6% of the activities of the sector can be described as such. Furthermore, the assumption proved to be wrong that taxpayers would be directed in their decisions by available data (each organization must supply such data). However, the most important disappointment of the 1% PIT mechanism is that it does not stir genuine philanthropy, but rather limits it. The 1% mechanism has been falsely portrayed as philanthropy, and perhaps this is why it has replaced, rather than awakened, true philanthropy. In its essence, the 1% PIT is closer to the principles of participatory budget, as it increases public access to the distribution of public money—but no one promoted it in this way. Fortunately, the Polish government left incentives for traditional philanthropy untouched after the introduction of the 1% PIT law. Still, both the PIT and corporate income tax (CIT) base have been reduced by 6%, which would have been transferred to charity.

The fact that the mechanism has in a way been privatized, when it was meant to serve the public, is also a problem. Based on the theory of goods, we could say that the 1% PIT all too often feeds so-called “club” goods, which are available to a small group, or even individual ones (in the case of support for individuals). After all, these are very popular targets for the 1% PIT, and they constitute a significant portion of the total amount. The role of the NGO has been reduced to that of an intermediary, and in certain cases they are far from being competent or prudent re-distributors—two cases in point are those of the United Way and the Community Foundation. In this way, the role of NGOs is simple: they obtain profit from such a system.

Another problem, in our opinion, is that PBO status has almost exclusively been reduced to a mechanism of official registration as a beneficiary of the 1% PIT. However, the original intentions of lawmakers were different; the status was meant to highlight a special competence and quality in an organization based on declared documents. In contrast, for most people, PBO status means the entitlement of an organization to spend the 1% PIT as it pleases, without any real commitment to a charitable purpose.

IMPORTANCE OF THE MECHANISM IN COMPARISON TO OTHER FORMS OF PUBLIC FUNDING OF CIVIL SOCIETY

As we have already stated, the 1% PIT mechanism is not seen by most taxpayers as public funding, but rather as a kind of personal philanthropy. There are a number of parallel mechanisms of public funding, both at national and local levels. In total, more than half of non-governmental sector funding comes from public funds (both domestic and foreign, mainly EU, programs). Apart from a small group of organizations, the 1% is regarded rather as a supplement to the traditional budget. Its advantage is that the PIT system is much more flexible than traditional public funds (which are subject to many conditions). The 1% mechanism, due to its popularity, has arisen more often lately as a possible model for financing churches, political parties, and even public media. A separate concept, which has occasionally arisen, is that of starting a similar mechanism with CIT, following the example of neighboring Slovakia.

KNOWLEDGE RESOURCES ON THE MECHANISM

Poland has a relatively well developed infrastructure of research and information dedicated to issues that concern the third sector. In particular, we should consider the activities of the Klon/Jawor Association, which maintains a database of NGOs, and every two years conducts a study into the condition of third sector (based on a representative random sample of two to four thousand organizations). Additionally, every year the Klon/Jawor researches volunteering, as well as the perception of the third sector (www.ngo.pl). The same association provides data, in the form of a publicly accessible repository, including information on the 1% PIT: its dynamics, geography, and relationships within data (www.mojapolis.pl).

In parallel, a working group set up in the Central Statistical Office conducts research into the sector (www.stat.gov.pl).

The Ministry of Finance portal (<http://www.finanse.mf.gov.pl/pit/statystyki>) is an extremely useful source of information, which annually presents detailed statistics on PIT, as well as on the 1% allocation and a list of all its beneficiaries, with the exact amount of money allocated to them.

The annual list of PBOs is a specific source of data on these organizations and the 1% mechanism; it is a publicly available database of the annual reports of these organizations, as well as a list, published each year, of all beneficiaries of the 1% PIT, with the amounts granted (www.pozytek.gov.pl).

Finally, the law on public benefit (a part of which is the 1% mechanism) requires regular parliamentary reports on the effects of the law.

One limitation of the above-mentioned sources, from the point of view of this report, is that practically all of them are available in Polish only.

Romania, a republic in Central and Eastern Europe, gained independence in the late 19th century and joined the European Union (EU) in 2007. The country has a population of 19.9 million, representing less than 4% of the total EU population. The country has 42 counties, with 54% of the population living in urban areas. Romania is the second poorest member of the EU.

CHARACTERISTICS OF THE NON-PROFIT SECTOR

The Non-profit Registry of the Ministry of Justice states that more than 92,000 non-profit organizations have been registered in Romania since 1990 in the form of associations, foundations, and federations.⁹⁶ Most of these are associations (more than 73,000). The main periods of growth for this sector were the mid 1990s and the period after 2005. Despite this, Romania still has one of the lowest rates of participation in civic organizations in the entire EU (3%–4%, compared with the EU average of 20%),⁹⁷. The weakness of the sector suggests also the fact that only 38% of Romanian non-profit organizations have filed the required annual balance sheet with the Ministry of Finance. Of these, 26% had an annual turnover of 0 EUR, and 40% an annual turnover of less than 10,000 EUR⁹⁸.

The main issues faced by the Romanian non-profit sector are⁹⁹: a lack of financial resources, especially access to public funds, and a lack of human resources, in terms both of staff and of volunteers. Secondly, NGO leaders complain that Romania lacks a “giving culture”; as a result, fewer donations are received from private donors, both large and small. According to studies from 2007–2008, only 10%–15% of the adult population had made a donation to an NGO during the previous year.¹⁰⁰

One of the main challenges facing the Romanian researcher into the non-profit sector is the lack of reliable, consistent, easily accessed and processed, statistically representative data. The Ministry of Finance does not collect easily used data regarding the non-profit sector, nor does the Ministry of Justice or the Romanian Statistical Institute. The NGO Registry is only available as a searchable .pdf file, and it contains inaccurate data (duplicates and errors). The data provided by the Ministry of Finance has severe methodological limitations, which will be discussed in the following chapters. The data from the Statistical Institute is, most likely, based on the aforementioned sources.

According to USAID’s NGO Sustainability Index, in terms of financial sustainability, Romania’s score of 4.3 places it in the category “sustainability evolving”. This score has been relatively constant for the last decade.

ORIGIN OF THE TAX PERCENTAGE SYSTEM

Regarding the origins of Romania’s tax percentage system, the similar scheme in Hungary served as a model. Certain NGOs led by members of the Hungarian minority in Romania were quite strong and popular in the late 1990s, but they lacked the necessary influence to lobby for policy changes. Nonetheless, they served as both a link to, and an information source about, what was happening in Hungary. In 2001, a coalition of support organizations, namely the Civil Society Development Foundation, Soros Foundation, and CEN-TRAS, started lobbying the Ministry of Finance, as well as MPs from all major parties, to introduce similar legislation in Romania. At that time, when Romania was in the process of EU accession, the country was under pressure to develop mechanisms to fund its growing civil society organizations; few clear, coherent, and transparent mechanisms were in place besides subsidies for some social services. Given that the economy was starting to recover, and that the financial impact on the national budget was expected to be minimal, all parties agreed in principle, and the provision was drafted in the new Fiscal Code (Act No. 571.20013) that entered into force in 2004. The Hungarian Democratic Forum, the Na-

⁹⁶ Romanian Non-profit Registry, Ministry of Justice, 2015

⁹⁷ USAID, FDSC 2013, Civil Society Index-Romania

⁹⁸ FDSC, 20010, Romania 2010 Report: The non-governmental sector-profile, trends and challenges

⁹⁹ FDSC, 2011, NGO leaders barometer

¹⁰⁰ Association for Community Relations, 2008, Trends of philanthropic behavior

tional Liberal Party, and the Social Democratic Party supported the provision by being its sponsors. In particular, Ms. Mona Musca (deputy, National Liberal Party) acted as a strong supporter and de facto ambassador for the provision. Furthermore, the Association for Community Relations played a significant role in designing the methodological norms necessary to enforce the provision, and has launched—in partnership with the initiating non-profits, the American Chamber of Commerce, and the Ministry of Finance—a national campaign to promote the provision among NGOs, taxpayers, and employers. Initially, the provision allowed for the redirection of up to 1% of income tax, but this was increased to 2% the following year (Government Ordinance O.U. 138/2004). In 2008, 35% of the adult population knew about the provision while 15% of taxpayers used it.

MAIN CHANGES AND DEVELOPMENT FROM 2004 TO 2015

The percentage tax system in Romania has undergone several major changes:

1. In 2004, the proportion of tax that could be directed to an NGO was increased from 1% to 2% (Government Ordinance O.U. 138/2004). This obviously had a very significant impact on the amount that was redirected, which grew from 1.2 million RON to 5.2 million RON.
2. In 2006, Act No. 238/2006 allowed churches (religious institutions), in addition to NGOs, to become beneficiaries of the scheme; the same law allowed the system to be used for private scholarships. This change came into effect in 2007, as the beneficiaries must be nominated before the 15th or 23rd of May of the respective year.

The second change created a far more competitive environment, as churches are perceived to have a broader influence and a more committed constituency than NGOs. Indeed, since 2008, many NGOs have complained that their income from the provision is stagnating, and personal communications from fundraisers or campaign coordinators indicate that many taxpayers use their provision to support their church.

The tax percentage system has been a strong catalyst for promoting and encouraging private fundraising in Romania, as it provides a mechanism by which private donors can become involved in a cost-effective way; this has offered an incentive to Romanian NGOs to start coherently engaging private citizens as financial supporters of their organizations.

NOTES ON THE PROCESS OF ALLOCATION

In Romania, non-profit organizations, religious institutions, or individual recipients of private scholarships can be beneficiaries of the tax percentage system. Besides legal registration, beneficiaries need not fulfil any eligibility requirements to receive the designation, and they are not required to report on its use. On the one hand, recipients appreciate this flexibility, as it basically provides them with general support funding. On the other hand, such a system creates a non-transparent and unaccountable environment, and as the funds in question are public, more transparency and accountability should be required.

The percentage tax is allocated using a special form: either Form 230 from the National Fiscal Administration Agency (for taxpayers whose only income is their salary), or Form 200 (for taxpayers whose income is from more than one source). On both forms, the taxpayer must mention the name of the beneficiary, the fiscal code, and the bank account in IBAN format. The designated amount can be mentioned, but is not compulsory as the fiscal authorities can calculate it. The forms must be submitted to the fiscal authorities, directly or by mail, by a deadline in May for the previous fiscal year, which is identical to the calendar year in Romania. It is in this process of submitting the forms that one of the major challenges of the system lies: given that most taxpayers (75% according to the Ministry of Finance) do not have to submit an income statement—as their income is pre-taxed—completing and submitting the form is seen as a hassle by many potential users of the provision. Thus, NGOs have started to assist taxpayers in submitting their forms. From a legal point of view, such submission by proxy is a rather grey area. Moreover, when the legislation was established, one important principle was the confidentiality of the taxpayer. Currently however, some NGOs have large databases (sometimes exceeding 40,000 names) for which they have no explicit agreement with the taxpayer. Fortunately, until now there have been no problems associated with this submission by proxy, except that some fiscal

authority offices do not accept the practice, particularly when they receive forms in bulk. Other offices accept it only from what they would consider reputable NGOs.

The information is collected from the designation forms by local fiscal offices (usually one per city, with the exception of major cities and the capital, where there are several), and centralized at the local level. The first payments are made to the NGOs in September, with a peak in November and December. However, contrary to the methodological norms (which set a December deadline) payments continue well into the next year (sometimes up to March or even April). Payments are not centralized at the national level but are made at the local level. Information is then centralized at the national level, but the number of beneficiary organizations is simply summed up, not taking into account the estimated huge number of duplicates.

In most cases, taxpayers are not informed if there was any problem with their designation (wrong or missing information), although exceptions, where the fiscal authorities have contacted the taxpayer, have been known to occur. In the first years of the provision, the error rate was as high as 25%, based on information from the Ministry of Finance.

On another note, NGOs have no way to predict the amount they will raised; nor do they know when they will receive the allocated monies.

Furthermore, some NGOs and taxpayers have reported abuses, especially by their employers, who sometimes offer to collect and submit the forms, but then also exert some undue pressure on the employee to donate the tax percentage to an NGO that is linked to, or preferred by, the employer.

CONCLUSIONS AND RECOMMENDATIONS

The tax percentage system has proved to be a major success in Romania, despite its shortcomings. It has allowed thousands of non-profits to interact with hundreds of thousands of supporters, and to collect 190 million EUR since the provision was introduced. It has spurred a dialogue between non-profits and individual citizens, which has most likely played a major role in developing the fundraising practice in Romania.

However, there are signs, mostly based on anecdotal information from fundraisers and campaign coordinators, that many taxpayers consider the designation a real donation. The taxpayer therefore has the feeling that “they have done their part”; according to some NGO leaders, this has a negative impact on other fundraising campaigns.

Several issues, mainly related to transparency and accountability, affect the system; however, with improved methodological norms and data management, these could be tackled. Namely, reporting at the national level must be improved by reporting the real number of beneficiaries (based on unique fiscal codes). Additionally, based on the same information, a searchable database, which would contain the amounts received, must be created (even in spreadsheet format).

The designation forms (200 and 230) must be amended to allow the taxpayer to explicitly state that they allow the NGO to submit their form and separately to process their data. This might have a negative impact on the amounts designated, but it would be in line with current data protection provision in national legislation. It would also allow NGOs to establish a formal communication channel with the taxpayers that desire one.

Slovakia, a republic in central Europe and formerly a part of Czechoslovakia, gained independence in 1993 and joined the EU in 2004. The country has 5.4 million inhabitants (1.06% of the total EU population), 44% of whom live in rural areas. Since 2000, Slovakia has been member of the OECD, and it joined the Eurozone in 2009.

NOTES ON THE NON-PROFIT SECTOR

According to various sources (e.g. the Slovstat database of the Statistical Office of the Slovak Republic, and the Interior Ministry), the number of non-profit organizations in Slovakia grows every year. Specifically, at the end of 2013, there were 49,101 such entities, comprising church-based organizations, health and social care institutions (hospitals established as non-profits), public law institutions (such as public TV, radio, etc.), political parties, associations of homeowners, trade unions, and grassroots civic associations or foundations.¹⁰¹

In 2015 the Interior Ministry reported more than 52,760 registered non-profits—46,687 civic associations (including homeowner associations and professional organizations), 536 non-investment funds, 1,559 organizations providing public benefit services, 118 organizations with an international element, 2,984 trade unions, and 447 foundations.

Of course, providing such a broad view for the purpose of official statistics blurs any further analysis of the data regarding the scope or structure, as well as—more importantly—the revenues and various aspects of the financing of non-profits. However, the principal deficit, from the point of view of any analyst or governmental authority,¹⁰² remains the overall lack of relevant, well-structured data. Specifically, no current or past information is available on a range of important questions; for example, the number of non-profits with a single focus area, or the various financial aspects of the non-profit sector (total revenues or detailed structure).

In particular, private resources—those donated either from individuals via public collections, or direct financial support of NGOs by corporations—are hard to access. Interestingly, establishing criteria for tax percentage recipients may help identify grassroots NGOs from within the wider set of all non-profits, based on the assumption that running for tax designation funds marks grassroots organizations with a broader public outreach. The law defines eligible recipients of tax designations as follows: civic associations, foundations, non-profit organizations, non-investment funds, and church-based organizations (except churches themselves). In 2015, there were 12,577 such recipients officially registered; this number provides a guideline for estimating the scope of the NGO sector in Slovakia, as well as for assessing how it fits into an internationally relevant comparative framework.

Regarding the issue of sustainability of the non-profit sector in Slovakia, the U.S. Agency for International Development's (USAID's) annual NGO Sustainability Index is a key analytical instrument. In 2014, Slovakia was awarded a score of 2.9, indicating that Slovakia ranks within the *Sustainability Enhanced category*; however, annual decreases have been reported in the legal environment, financial viability, advocacy, and infrastructure, thus confirming the ongoing trend of deterioration in the overall sustainability of the sector.¹⁰³

ORIGIN OF THE TAX PERCENTAGE SYSTEM

The roots of the political decision to introduce the tax percentage system in Slovakia can be traced back to autumn 1998, when the Prime Minister Vladimír Mečiar—who had autocratic and illiberal policies—was defeated by a pro-Western coalition led by Mikuláš Dzurinda. However, the very first impulse for introducing the mechanism came before that, at the national NGO conference in Stupava in 1997, where representatives of the non-profit sector initially discussed the newly adopted Hungarian model.¹⁰⁴

¹⁰¹ The source of this data is the author's own official communication with the Ministry of the Interior (2015). For international references please see: (USAID 2014), p. 205

¹⁰² "Rational expert discussion proves substantial deficits due to the lack of relevant data on various aspects of financing of the non-profit sector, including tax designation revenues." (Molokač and Hagara 2015)

¹⁰³ For references see (USAID 2014) p. 205

¹⁰⁴ Hungary enacted the unique tax percentage designation model in 1996.

The strong contribution of the civil society movement towards Mečiar's defeat forced the new government into negotiations with civil sector leaders, who, as a legitimate and strong driving force, pressed the new political elite into fulfilling their previous commitment to the development of civil society. In addition, a significant number of civil society activists had taken positions in the newly constituted government. The initial consultations began between the policy makers and civil society leaders in 1999; the experience with the tax percentage mechanism in Hungary at the time served as a best-practice example, and this was successfully used to argue for adopting the system in Slovakia.

The tax percentage system was enacted on 4 December, 2001 in Act No. 561/2001 of Coll., amending Act No. 366/1999 on income tax, by an overwhelming majority of 99 out of 101 MPs present. Since 2002, individual taxpayers have been able to designate 1% of their personal income tax to an eligible NGO.

According to a survey,¹⁰⁵ 71% of taxpayers were familiar with the opportunity to designate tax in the first year of its operation; however, only 341,776 individual taxpayers used the system, resulting in a total revenue of 3,381,870 EUR; this was distributed among 3,826 beneficiaries (out of 4,035 eligible). Furthermore, as *Figure 41* shows, the total number of taxpayers was much higher than the number of those who participated in the tax designation system. There are two reasons for this— (1) not all individual taxpayers were able to designate the percentage, because in a given year they would have a zero or negative tax duty; (2) employees in Slovakia typically do not file their tax statements themselves; rather, their employers do so. Unlike self-employed individuals, who must file an income tax statement with the Tax Office, employees are not prompted to directly participate in decision-making about tax designation. Instead, they go through employers (typically accounting departments), who submit the tax statements to the tax office on their behalf. Employees must therefore indicate their tax designation differently, being required to fill in a special form. This administrative complication is a limiting factor in the expansion of tax designation among employees (*Figure 43*).

¹⁰⁵ (FOCUS 2002)

PRINCIPAL CHANGES AND DEVELOPMENTS FROM 2002-2015

Regarding the designation by individual taxpayers, stakeholders have generally supported the model since its introduction; neither political parties nor civil society or the public have ever questioned the scheme. Nonetheless, since the system's inception, two major changes have taken place related to individual taxpayers:

- 1) In 2003, the designation percentage was increased from 1% to 2%; this took effect in 2004. The increase from 1% to 2% was the result of a trade-off between the civil sector and the government during major tax reforms (2003-2004) that aimed to radically simplify the tax system by reducing exemptions. This led to the abolishment of various tax benefits for NGOs, including exemptions from property tax and VAT, as well as incentives for individuals to donate income tax. Most importantly, tax write-offs for charitable donations were eliminated, for both corporate and individual taxpayers. The proposed cuts in tax benefits for NGOs and corporate tax write-offs led to negotiations and a subsequent agreement with the Finance Ministry on increasing the designation to 2%.

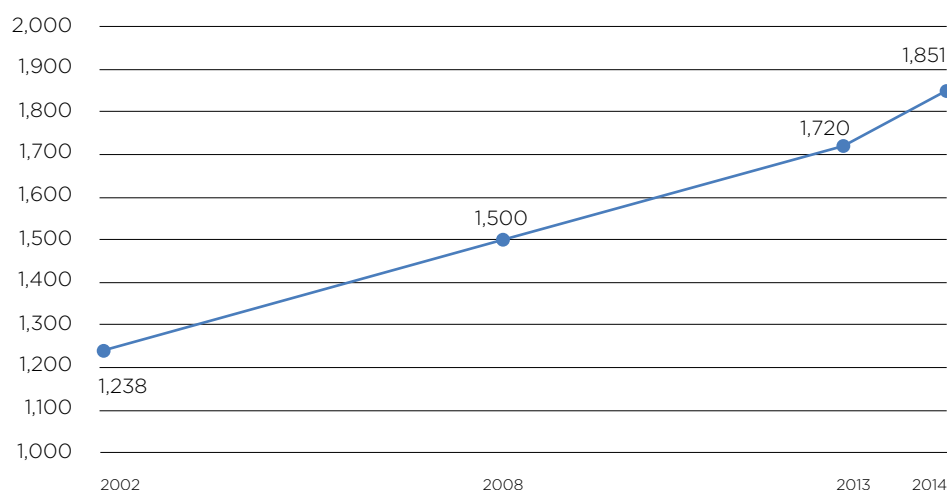


Figure 41:
Number of individual taxpayers with positive tax duty in Slovakia (in thousands)

Sources: the Institute for Financial Policy at the Finance Ministry, the Financial Administration Office, the author's own estimations

- 2) In 2011, a new amendment was introduced that raised the percentage from 2% to 3% for taxpayers who had volunteered for at least 40 hours in the previous year. This step was intended to enrich and reward the volunteering of individual taxpayers with an additional incentive; as such, it was part of the brand new Act on Volunteering, which had not existed until 2012. So far, this new addition to the mechanism has not been much used; even though official estimates suggest that around 327,000 individuals volunteered in Slovakia in 2013, only about 8,000 individual taxpayers using 3% tax designation, suggesting that people's decision to volunteer is taken independently of tax designation incentives. Notwithstanding the administrative cost of issuing the additional tax form-related confirmation letters to volunteers, the legal possibility of raising the designation to 3% remains an opportunity for NGOs to professionalize their engagement with volunteers.

Notes on the Process of Allocation

A tax designation beneficiary in Slovakia can either be a non-profit organization (predominantly NGOs) or any other type of public benefit organization explicitly listed by the respective law (e.g. a church-related charity). The organization must be registered on an annual basis by a notary public and pay an administration fee of 70 EUR; in 2015 there were more than 12,000 eligible beneficiaries.¹⁰⁶ After receiving the funds, the beneficiary must spend them by the end of the following calendar year (effectively 18 months); it must do so in pursuit of its non-profit mission and thematic focus area.

¹⁰⁶ The list of beneficiaries can be found at www.rozhodni.sk (site in Slovak).

Recipients who obtain resources of more than 3,320 EUR are obliged to report the use of received funds in the Commercial Bulletin (*Obchodný Vestník*) within 16 months of the date that the Tax Authority publishes the final list of recipients. The recipients can spend the resources as they wish in fulfilment of their published mission statement, specifying the amounts given for single purposes. If the funds received exceed 33,000 EUR, the recipient is obliged to provide an auditor's statement that conforms to special regulations.

Taxpayers (both individuals and corporations) designate the funds by filling in a separate sheet of their tax return form. A volunteering taxpayer who is applying for a 3% designation is obliged to attach an official confirmation letter from the NGO. The tax authority gradually distributes all designations to the respective beneficiaries, all of whom receive the funds 2 to 4 months after the tax return deadline (March 31st).

The number of recipients has been growing constantly since the introduction of the model—from about 4,000 in 2002 to almost 12,000 in 2015; this indicates the general popularity of the scheme among the recipients.

As regards benefactors, the popularity of the model is similar in both groups (individuals and corporations)—in recent years it is estimated that about 55% of individual taxpayers (*Figure 42*) and about 60% of corporate taxpayers with positive tax duty have taken advantage of the tax designation scheme.

Figure 42:
Number of individual taxpayers (self-employed) using the tax designation (in thousands)*

Source: The Institute for Financial Policy at the Finance Ministry, Financial Administration Office

* Number of participating individuals includes only those who file tax statements for themselves (self-employed). There is approximately similar number of those individuals for whom tax returns are filed by their employees, but there is not data available. The total number of participating individuals is therefore higher



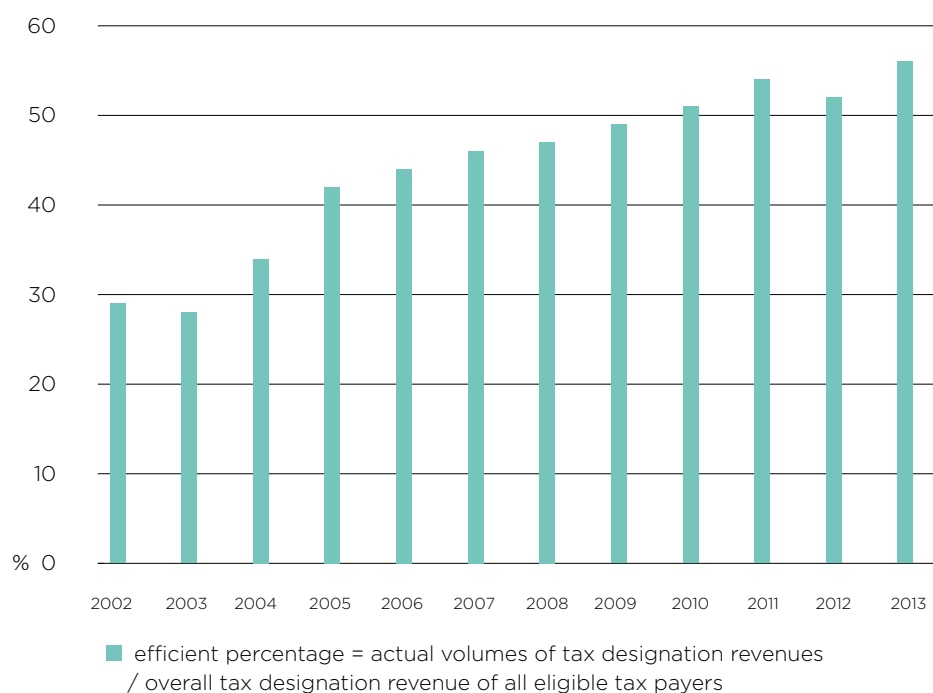
According to official data, 10% of individual taxpayers—those with the highest income—allocate more than 80% of the overall resources.¹⁰⁷ Analysts from the *Institute for Financial Policy* have recently expressed¹⁰⁸ doubts that altruistic solidarity is the main motivating principle in the decision making of individual taxpayers, arguing rather that acquisitive factors play a greater role.

In addition, the revenue obtained from the individual taxpayer designation scheme constitutes only about 1.1%, rather than 2%, of the total individual income tax. Thus, the efficiency percentage¹⁰⁹ is only about 55%; the remaining potential revenue (about 16 million EUR) is left untapped. Such unsatisfactory results challenge NGOs to build better bridges with individual donors as regards tax designation.

¹⁰⁷ Ibidem., p. 3

¹⁰⁸ (Molokač and Hagara 2015) p. 7

¹⁰⁹ Efficiency percentage is the ratio of the actual volume of revenues collected to the total potential revenue.



Year	Number of eligible recipients	Number of participating individuals	Number of participating corporations	Amount - Individual tax payer designation (thousands EUR)	Change on previous year (%)	Amount - Corporate tax designation (thousands EUR)	Change on previous year (%)	Total amount (thousands EUR)
2002	4,042	341,776	n.a.	3,382	n.a.	n.a.	n.a.	3,382
2003	3,398	286,164	n.a.	3,222	-4.7	n.a.	n.a.	3,222
2004	3,829	402,057	8,364	9,159	184.2	18,896	n.a.	28,055
2005	5,746	418,241	14,063	10,371	10.8	20,525	8.6	30,896
2006	7,100	446,973	17 740	11,713	20.9	25,629	24.9	37,342
2007	7,662	408,277	21,632	12,819	12.8	29,306	14.3	42,125
2008	7,759	449,909	26,691	15,036	16.7	34,144	16.5	49,180
2009	9,098	503,253	30,078	17,684	12.2	37,496	9.8	55,180
2010	9,585	467,983	26,172	15,553	-20	28,592	-23.7	44,145
2011	10,049	475,843	25,427	16,526	-4.9	25,444	-11.0	41,970
2012	10,711	538,814	26,621	18,548	6.5	26,146	2.8	44,694
2013	11,235	542,672	31,362	20,944	4.5	25,762	-1.5	46,706
2014	11,804	n.a.	n.a.	21,740	3.8	30,466	18.3	52,206
			TOTAL (thousands EUR):	176,697		302,406		479,103

CONCLUSIVE REMARKS

The individual percentage tax designation mechanism has not become the subject of any relevant public concern; on the contrary, higher percentages and a new incentive to volunteering were introduced. One major untapped opportunity for beneficiaries is the potential mobilization of the almost 50% of individual taxpayers who do not designate their 2%.

Table 16:

Tax designation allocations: recipients, providers, and amounts 2002–2014.

Source: the Institute for Financial Policy at the Finance Ministry; the Financial Administration Office; the Ministry of Interior; the author's own calculations.

* Number of participating individuals includes only those who file tax statements for themselves (self-employed). There is approximately similar number of those individuals for whom tax returns are filed by their employees, but there is not data available. The total number of participating individuals is therefore higher

Country Report: The Direction of Debates on Introducing a Percentage Tax Designation Scheme in the Czech Republic

Marie Hladká

The Czech Republic is the only country of the Visegrad Four that still does not use a percentage tax designation scheme to finance the non-profit sector. The mechanism has been discussed in the Czech Republic for years; however, it has not yet been implemented. Several discussions on the topic have been approached as if the discussants were seeking a vision for the future, while others have shifted to the political level, or resulted in studies on introducing the system into Czech legislation.

The idea of percentage tax designations has triggered sharp arguments from the beginning. Most NGOs have adopted a positive attitude, seeing the potential opportunity to obtain funds from the State. Conversely, the vast majority of professionals, mainly economists, disagree with percentage tax designations.

EVOLUTION OF THE DEBATE AND MAIN ACTORS

Developments before 1997

The idea that percentage tax designations could be used to support the Czech non-profit sector first arose in the 1990s in connection with the financing of one part of the non-profit sector— the churches. The separation of church and State was discussed, as were various ways of ensuring financial autonomy and other issues related to independence. The models of church designation and of church tax were discussed at the governmental level. The professional public mostly disagreed with the financing of churches through percentage tax designations; the attitude of public leaders and politicians to church designations was also rather negative, as they perceived it as a non-systemic measure. The opinion of churches was not unanimous either: an 8% designation of income tax would have been required in the Czech Republic to satisfy the demands of churches, according to estimates made by the Ministry of Culture in 1997. In the same year, the Government fell; therefore, the problem of church funding remained unresolved.

This initial association between percentage tax designation and church funding, combined with the attitude of a part of the Czech society and political scene towards churches, was a major reason for the lack of in-depth and serious discussion on the topic of percentage tax designation in the Czech Republic.

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 work on a percentage tax designation bill. The bill was submitted to the Chamber of Deputies on 12 December 2001, and was circulated to the Deputies as Print 1194 under the title "Bill to Designate a Percentage from the Personal Income Tax for Charitable Purposes" (hereafter: Bill on Percentage Tax Designations). The bill was originally intended to allow natural persons who were personal income tax payers to designate up to 7% of the decisive part of the tax. However, in the final wording, the proposed designation was reduced to only 1%. The designator could pay tax on the minimum amount of 7,200 CZK (approx. 260 EUR), and could make 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. 18 EUR). The authorized recipient was to be a legal person that was not established for the purpose of business, was registered in the list kept at the Ministry of Finance, and was established according to listed legal regulations. Moreover, the authorized recipient was to be obliged to use percentage tax designations for one or more of the publicly beneficial purposes set forth in 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, because the issue of the relation between the State and the church had not been definitively settled.

When presenting the bill, the sponsors stated four reasons they thought support for the non-profit sector was sub-optimal:

- I. a very low percentage of resources for the non-profit sector were allocated at the regional level, and thus regional and small organizations were at a disadvantage;
- II. funds were allocated for one year only;
- III. the subsidy provided by the State to NGOs was lower than that granted to budgetary organizations, and to organizations receiving contributions from the state budget that provided similar services;
- 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; they opined that 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 referred to “the gift”, and to an “income tax declaration”, even though the tax percentage was not in fact a gift;
- IV. was conceptually unclear, and even factually vague and misleading.

The Government also inquired as to the expected financial impact on the state budget, although they made no calculation of their own. In its explanatory memorandum, the bill stated that the expected amount was 2–3 billion CZK (approx. 92 million EUR).

In addition, the proposed method of percentage tax designation itself was not received positively, not even by the professional public, because, in addition to other problems, it did not address in detail

- I. the registration of subjects,
- II. how employees were to declare their percentage tax designations,
- III. the process of summarizing the financial means and their publication, or
- IV. various deadlines.

Nevertheless, debates of the bill focused on whether the percentage tax designation scheme should or should not be introduced, rather than on how the proposed system was to be properly and optimally implemented. The Deputies failed to, in a sufficiently factual manner,

- I. justify the proposed measures, their benefits, the need to find new sources of funding, and a drop in support from abroad;
- II. present calculations of the financial burden put on state administration, etc. The proposed 7% tax designation was completely unprecedented: ministers could not refer to any foreign experience.

Moreover, it was politically unfeasible. Importantly, the bill was put forward before the elections; regardless of the deputies' intent, this cannot be called appropriate timing, given the political situation of the time. Relatedly, we propose that the bill was motivated by politics, among other things. In addition, the Deputies did not seek social or, more importantly, political support for the bill, nor even for the notion of a percentage tax designation scheme itself (e.g. seminars on the topic, recommendations from reputable international NGOs, offers to support another parliamentary bill in exchange for support of their bill, etc.).

Nevertheless, the initiative extended awareness of percentage tax designations, initiating broader debate and providing a good basis for further work by the parliamentary group, among others. The bill was rejected at the first reading by 108 of the 135 Deputies present.

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, work 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 mainly based on Hungarian experience, and avoided the main problems that had occurred in Slovakia regarding amendment to percentage tax designations.

In 2005, Deputy Kořistka proposed introducing percentage tax designations to Czech legislation for the second time. The second attempt theoretically has a greater chance of success. The second reading of the government bill on income tax was on the agenda of

the 49th sitting of the Chamber of Deputies, held on 25 October 2005. Deputy Kořistka put forth his proposal to include one new section into the bill, permitting the introduction of a 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 a registered seat in the Czech Republic and which has not been set up or established for business purposes, as the recipient of 1% from the personal income tax. The details are stipulated by a special law.”*¹¹⁰

The proposed amendment was drawn up by a group affiliated with the Donors’ Forum (see below). Subsequently, the Deputy also used the arguments contained in the explanatory memorandum prepared by the Donors’ Forum. When the bill was debated, he stated that he would support the arguments with documents, but none are available in the parliamentary prints. In his arguments supporting the introduction of percentage tax designations, he repeated the problems of the non-profit sector stated in 2001. Additionally, Deputy Kořistka discussed the benefits of the measures for citizens and the State: *“Czech citizens will obtain the privilege of influencing the allocation of at least a small part of state funds; they will decide what is of public benefit 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 to help in areas that are out of the State’s reach.”* According to Kořistka, *“By adopting percentage tax designations in the amount of 1%, the State will change the distribution of a very small part of its existing income with deliberation and forethought.”* But he further noted that percentage tax designations were not intended to replace subsidies or tax reliefs for donors.

Hence, the main objective of designations was not to resolve the funding of the non-profit sector. Rather, they were intended to enable taxpayers to show solidarity at no direct cost to them; to make citizens consider the importance and attractiveness of the respective public benefit organization and its activity. This would pressure the non-profit sector into making efforts to be important and appealing. The Deputy first proposed introducing percentage tax designations; only after that, if there was political will, did he suggest adopting a special law.

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

Parliamentary Elections in 2006

On 2 June 2006, the Ministry of Finance invited professionals and other social partners to send suggestions and comments regarding the introduction of percentage tax designations in the Czech tax system. He promised that a professional team would deal with the suggestions, and that the suggestions and comments would be discussed with their authors, ensuring the best possible result. At the same time, wider groupings of non-profit organizations (unions, associations, etc.) or their umbrella bodies were invited to nominate their representatives to the working group on this issue. Support for the concept of tax designations to support the non-profit sector was also included in the election programs of the majority of parties in 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 imbue taxpayers (natural persons and legal entities) with the democratic right to designate 2% of their tax to a publicly beneficial activity through the tax administrator (at least 3.5 EUR monthly for natural persons, and 7 EUR monthly for legal entities). The Government’s Council for NGOs did

¹¹⁰ 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.

not consent to the proposed amendment.

The last active reference to the system was in 2012, when tax designations were associated not only with non-profit organizations, but once again mainly with the church; this was perceived as problematic.

THE INITIATIVE FOR 1%

In 1997, the non-profit sector learned about the successfully introduced percentage tax designation scheme in Hungary, and ideas about introducing a similar system in the Czech Republic started emerging. In 2002, a project was implemented entitled "Creating an Environment Favorable to the Development of the Non-profit Sector and Civil Society"; the project was funded by the American Trust for Civil Society in Central and Eastern Europe. The VIA Foundation and the Donors' Forum civic association cooperated in this project. Among other activities, the project analyzed the method of introducing tax designations in the Czech Republic and developed the contents of the bill on tax designations. Since October 2003, the idea has been further developed by the Donors' Forum only, being funded especially from the EU PHARE 2002 funds.

In a declaration issued by the Initiative, its members stated that the implementation of public interests requires financial means, and that these should not come solely from state institutions, but also via the participation of citizens in decision-making about public funds. Support for legislative change that would enable individuals to designate 1% of their income tax to publicly beneficial purposes would be a route to a more even inflow of money to the regions. It would also give citizens the opportunity to influence public affairs. Lastly, it would contribute to the establishment of closer relations between citizens and non-profit organizations. The possibility to designate 1% was also in accordance with the Government's program statement, which declared that it would seek to change the financing of the non-profit sector and create conditions conducive to the development of more varied funding sources for NGOs and other non-profit organizations. The statement also showed that the members perceived the percentage tax designation scheme as an important opportunity to improve the stability of non-profit organizations, as well as develop civic society in the Czech Republic.

The Initiative started by analyzing the failure of the private members' bill of 2001; as such, Deputy Kořistka and the Donors' Forum agreed to cooperate. The Deputy provided all source materials he had used for the bill; in reciprocation, the Donors' Forum promised to provide the results of their work. Two working groups were established which were associated with the Donors' Forum. The first was an expert group consisting of lawyers, auditors, tax advisers, and experts on the charitable and non-profit sector. They were responsible for preparing a specific legislative bill. The other group comprised representatives from non-profit organizations; their role was to comment on and enforce the proposed legislative bills, as well as to cooperate in organizing related communication campaigns. After about a year, the group had drafted a bill that would allow payers of natural persons' income tax to designate 1% of it to an NGO. At the same time, the group developed the subject-matter of the special bill on designations, which detailed the practical functioning of the percentage tax designation scheme.

In its explanatory memorandum to the bill, the group explained why they had opted for this procedure.

"The introduction of the percentage tax designation scheme is proposed in two related steps: an amendment to the Income Tax Act that will subsequently create a space for the adoption of a special law on tax designations that will detail the range of possible beneficiaries and the conditions on which the funds will be granted. This solution is more appropriate, from a legal standpoint, than an indirect amendment of the Income Tax Act. The proposed procedure also allows the separation of the political decision on tax designations, in the form of their integration into public finance reform, from the subsequent discussion of the specific mechanism thereof."¹¹¹

The Initiative for 1% originated on the basis of work carried out by the Donors' Forum in 2003. The Initiative is an informal grouping of non-governmental, non-profit organiza-

¹¹¹ 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

tions supporting the introduction of a possible 1% designation of personal income tax to publicly beneficial purposes. On 15 September 2003, the Declaration of the Initiative for 1% was drafted, in which non-profit organizations expressed their support for designations. They believed that i) citizens should also decide about public funds directly, ii) the percentage tax designation scheme would contribute to the even distribution of money to the regions, and iii) the system would mobilize citizens to contribute and thus nurture closer relationships between citizens and non-profit organizations.

More than 60 individual organizations had signed the Declaration as of 1 August 2005. In addition to the bill itself, the Donors' Forum focused on communication, whereby they targeted two basic groups: the first comprised journalists and non-profit organizations themselves, while the second consisted of politicians and public administration. Until non-profit organizations and politicians understood and supported the problem, information campaigns would not focus on the general public. In fact, this may be why no debate was launched in the media, and why journalists were not encouraged to address the topic of 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, wherein the principle of designations was explained, declarations and statements of the 1% Initiative were published, and updated information about designations was announced. The Donors' Forum published brochures, and attended seminars for NGOs and politicians. It also drew attention to examples from abroad that it had been monitoring.

ARGUMENTS PRESENTED FOR AND AGAINST 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 have appeared in the discussions.

Arguments Against

Economic theory does not deal in depth with the problems of percentage tax designations; nonetheless, the majority of economists in the Czech Republic reject percentage tax designations, asserting that they undermine the basic purpose and principles of taxes for several reasons:

- I. Taxes should be non-purpose.** The non-purpose character of taxes can be regarded from two perspectives. Firstly, the tax imposed on a specific tax object is not related to the financing of any area that is somehow connected to that object. Secondly, 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 fundamentally in conflict with the non-purpose character of taxes, particularly as it relates to the second perspective.
- II. Taxes are non-equivalent.** No adequate volume of goods and services is provided by the State in return for an individual's financial contribution to the State. The introduction of designations could introduce a certain degree of equivalence to the tax system.
- III. Percentage tax designations are not fair.** They undermine the horizontal fairness of taxes—that is, when two taxpayers have the same taxable income, and one of them makes designations and the other does not, the first contributes less to cover the payment of public goods than the second.
- IV. Taxes are used to finance public goods on the basis of collective decision-making.** Through tax designations, the State would favor one purpose that it has no obligation to fund, because it lies outside the State's domain. It could even be argued that no consensus exists regarding the need to support publicly beneficial activities. In that context, Deputy Kocourek expressed his opinion in the 2002 debate, held at the Chamber of Deputies, as follows: *"Through their proposal, the sponsors of the bill want to give citizens an opportunity to make 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: towards non-profit organizations. I ask, why should citizens not decide about their own taxes for themselves? This is called tax reduction. I think this is the only way to enable everyone to make decisions about their money absolutely responsibly and to declare responsibly whether they want to keep their money, what they want to do with it, or whether they want to give it to someone else. But this is called "tax reduction", not tax designation."¹¹² The same opinion was also expressed in the following way: support of publicly beneficial activities (philanthropy) should be left up to the free will of citizens in the form of donorship and volunteering.

Further arguments against the introduction of tax designations were:

- I. Tax designations represent an anonymous form of donorship.** As is this case with public collections, the organization would know neither who designated the tax to them nor how many taxpayers made a designation. Non-profit organizations would 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 in the Czech Republic.** "The public benefit" has not been defined, nor do we know how the financial needs of mutually beneficial non-profit organizations compared with those of publicly beneficial ones. Furthermore, the Czech Republic has no uniform central register of non-profit organizations active in the sector.
- III. The threat of inefficient allocation.** Taxpayers who are inadequately aware of the tax designation scheme may succumb to media pressure from financially strong non-profit organizations. Conversely, small organizations would not have sufficient financial resources to create any comprehensive marketing campaign, and would therefore fail to connect with enough taxpayers. The media can significantly affect the general public through preferences given to some organizations during promotional campaigns.
- IV. Other arguments.** Designation may prompt the State to gradually reduce subsidies, and may lead to changes in the tax system, such as cancellation of the tax relief on charitable donations.

Arguments for

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

- I. Financial securing of the non-profit sector.** Tax designations would introduce another means of financing the non-profit sector; however, they are not intended to replace any existing support, such as for example state subsidies or tax relief for donors. Tax designations are instead a new direct aid from public sources, which complements these existing tools.
- II. A tool for the decentralization of state aid to NGOs.** This can entail decentralization of resource distribution within the sector, or between individual organizations throughout the regions. For example, the Donors' Forum, in their explanatory memorandum to the bill, stated that designations should lead to more recipients of financial aid, including small organizations, as well as to a more even distribution of funds to organizations operating in the regions.¹¹³ In 2005, the sponsor of the bill, Deputy Kořistka, in his argument for the introduction of tax designations, stated: "Thanks to the introduction of designations, the state administration could be more decentralized, because the citizen could decide about helping in areas that are out of the State's reach."

¹¹² Stenography from the 46th sitting, in February 2002, of the Czech Parliamentary Chamber of Deputies, 1998-2000.

¹¹³ The draft of the bill on percentage tax designations, drawn up by a group attached to the Donors' Forum, published on www.rozhodni.cz.

III. A method of activation and motivation of the non-profit sector. Access to certain resources allows organizations to develop some activities; however, it is not always clear what these activities are and to what extent they are beneficial. Designations force organizations to increase transparency when providing their services and using their resources.

IV. Philanthropy education for citizens. Designations constitute one form of support for certain activities. For the taxpayer, this may be an attractive form, because it costs them nothing. Moreover, they must repeatedly decide on the recipients of their designation, and thus be drawn into the activities and problems of those recipients. The percentage tax designation scheme could hence be a useful tool to support civic philanthropy. Percentage tax designations enable taxpayers to decide what activities their money is allocated to, and may therefore involve citizens more closely in political co-decisions regarding what is to the public benefit.

V. Other arguments. Percentage tax designations confirm the legitimacy of non-profit organizations (Bárta 2004). The resources obtained from designations are not assigned to one single purpose, as is the case with grants (Bělohlávek). Designations affect the payment habits of taxpayers, because they alleviate the reluctance to pay compulsory taxes, and increase communication between the non-profit sector and the general public.

THE OPTIMAL MODEL OF THE PERCENTAGE TAX DESIGNATION IN THE CZECH REPUBLIC

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

The percentage tax designation scheme will be introduced for personal and corporate income tax only. In the case of natural persons, the tax is paid by a fairly high percentage of taxpayers—usually around 50% of the population of the respective state. In this way, unfairness (as for example when designations are related to property taxes such as the real estate tax, the gift tax, or road tax) can at least be partially eliminated. Nonetheless, a certain injustice remains. Some taxpayers do not reach the tax threshold, and certain population groups are not payers of personal income tax at all (students, seniors).

Percentage tax designations range from 1%–2% of the tax liability. It was discussed whether designations should be allocated as an absolute amount, or rather be correlated with the tax obligation as a percentage. Given that the purposes of percentage tax designations is stimulation 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% and 2%; such a low proportion would prevent the basic principles of State finance, collective decision making, and public choice from being undermined.

Recipients of percentage tax designations will be organizations which perform publicly beneficial activities. The taxpayer will only be allowed to select one recipient of their designations; this will significantly reduce administrative costs to financial authorities, as well as motivate the taxpayer to choose the organization they actually consider most beneficial, or whose activity they consider most useful.

Percentage tax designations shall be as little bureaucratic as possible and shall “both-er” the taxpayer as little as possible.

Organizations will be obligated to publish how the designated funds were used; they will also be subject to monitoring by the State, as well as by taxpayers themselves—the publicly beneficial organisation shall be obliged to publish an annual report containing financial statements and other specified information (number of employees, plan for future development, by-laws of the organization, bodies of the organization, etc.). Recipients of percentage tax designations would also be obliged to submit a special financial report to the Ministry of Finance regarding how the funds from percentage tax designations were used.

ESTIMATED IMPACT OF THE PERCENTAGE TAX DESIGNATION SCHEME IN THE CZECH REPUBLIC

If the percentage tax designation scheme were introduced to the tax system of the Czech Republic, the non-profit sector, the general public, and the state administration would have to change their behavior to a certain extent.

How would the State Administration Change its Behavior?

The following changes, among others, can be expected:

- I. The volume of resources allocated as part of the state subsidy policy will change. In this regard, one of three scenarios may occur: 1) Percentage tax designations will be enforced, the State will not cut any subsidies or reduce the incentives for making donations; 2) percentage tax designations will be enforced, the State will cut subsidies, but will not reduce tax incentives for making donations; 3) percentage tax designations will be enforced, the State will cut subsidies and 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. The State will enable the non-profit sector to participate in political decision-making. One major justification for percentage tax designations is that they stimulate the non-profit sector and create a relationship between citizens and the non-profit sector.

How would Donors Change their Behavior?

A poll carried out in 2005 for the Donor's Forum may be useful in predicting a change in the general public's behavior.¹¹⁴ Among the 509 respondents, 21.4% had heard at least something of percentage tax designations. To the question of whether they would like 1% of their income tax to be designated directly to a non-profit organisation of their own choice, 50.5% of the respondents replied in the positive; 21.6% of the respondents considered this unnecessary and believed that the State would take better care of non-profit organizations; 27.9% of respondents said that they did not care. Based on the opinion poll and foreign experience, it can be assumed that about 30%–40% of taxpayers would avail of the designation scheme in the first year.

In the first years of the scheme, the mass media, particularly television, will influence heavily the public's decisions regarding designation. For this reason, large, well known organizations will likely establish themselves as the most successful recipients of percentage tax designations. Nevertheless, some decentralization may occur. 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 behavior and attitudes of the general public is caused, to a considerable extent, by a change in the attitudes of NGOs to the general public.

How would the Non-profit Sector Change its Behavior?

Generally, the possibility of receiving percentage tax designations stimulates organizations to a particular activity. They are forced to communicate, as well as to distribute powers and responsibilities internally, or to actively engage volunteers. It would be a benefit if organizations in the Czech Republic were motivated to implement a real fundraising campaign, as few Czech organizations focus on the general public in their fundraising campaigns: the majority concentrate on fundraising at the level of public budgets, foundations, and companies.

¹¹⁴ Percentage Tax Designations, Public Opinion Survey for the Donors' Forum, drafted by MEDIAN, an Agency for Market Research, Media, and Public Opinion, June 2005.

THE FINANCIAL IMPACT ON STATE ADMINISTRATION AND THE NON-PROFIT SECTOR

The income to 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. a reduction corporate income tax rates, accelerated depreciation in the first to third depreciation groups, a new support system for taxpayers with a dependent child, joint taxation of spouses, etc.). The reduction in income tax collected in 2009 was mainly due to the financial crisis. Until the end of 2007, the personal income tax had been progressive, ranging from 12% to 32%, depending on the level of income. Since 2008, it has been 15% for everyone, regardless of income (flat tax).

Table 17 shows the estimated maximum development of 1% tax designations in the case of their introduction. Taking into account experience from abroad, the table has been supplemented with a calculation of the percentage tax designations that would be made if 35% of taxpayers participated in the scheme.

Year	Income tax in million EUR	An estimate of tax designations in millions of EUR, the maximum amount	Estimated designations in millions of EUR (35%)
2001	5,695	57	2.1
2002	6,537	65	2.41
2003	7,065	71	2.6
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	94	3.45

Table 17:
The development of income tax and an estimate of the designated sum (Czech Republic)

Source: The Tax Administration of the Czech Republic

Giving by individuals

No systematic statistical data are available on individual giving in the Czech Republic. To provide descriptive statistics of giving by living individuals, we have therefore looked at three separate indicators. These will not provide a full picture of individual philanthropy, but will 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 from three sources (described later). Two of these data sources are not publicly available. Here we present data from the Satellite Account of Non-profit Institutions (available up to 2012 only). The development over time of the donated amounts is shown in *Table 18*.

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

Table 18:
Uses of donations
by individuals from
2005 to 2012 (Czech
Republic) Source:
Czech Statistical
Office

The second indicator of individual giving is found in the statistics from the Ministry of Finance regarding applications by natural persons for tax deductions on charitable donations made to non-profit organizations. Most individual donations in the Czech Republic are made to collection boxes in the street and through text messages, i.e. without a request for a tax deduction. The development over time of the donated amounts is shown in *Table 19*.

	Number of taxpayers	The total value of donations in millions of 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

Table 19:
Number of taxpayers
and total value of
donations (Czech
Republic)
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 the Czech Donors Forum, and gained significant popularity both in the country and abroad. Donations via the DMS are easy to measure, and the results are available from the Czech Donors Forum. In 2014, people in the Czech Republic contributed nearly one million EUR by text message donation to a variety of non-profit projects. The number of non-profit projects involved in this donation service changes every month; in 2014, people contributed to almost 280 various non-profit projects.

Data on giving and philanthropic behavior from individual donors are not collected regularly, and are therefore available to a limited extent only, typically from ad hoc surveys conducted by market research companies at the request of local non-profits. For example, we obtained interesting information from a recent survey by STEM/MARK entitled "How Are We Doing with Charity and Philanthropy?" According to the report, in the years 2012 to 2014, 68% of Czechs (n = 2,471) contributed in some way to a charity or to charitable purposes.

Public funding

In the Czech Republic, subsidies from state funds, as well as from the state, regional, and municipal budgets, are important financial resources for 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 budgetary rules, as amended. In the following provision, the act regulates subsidies granted by the central authorities of the state administration, from the state budget, to non-governmental, non-profit organizations: *"Government Policy for Granting 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 the subsidies granted to non-profit organizations come from the Analysis of Financing of Non-governmental, Non-profit Organizations from Public Budgets (hereafter "the Analysis"). The Government's Council for NGOs has this document drafted annually.

Table 20:
The Development of the Volume of Subsidies Provided to Non-governmental Organizations from the State Budget of the Czech Republic

Source: The Analysis of Financing of Non-Governmental, Non-Profit Organizations, 1999–2012

Year	Volume in millions of EUR	Percentage change over 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	205.3	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%

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. All arguments in favor of percentage tax designations are political, not economic. This indicates that the notion of percentage tax designations, as a whole, is perceived politically and thus unilaterally. Proponents of tax designation emphasize the civic awareness within the states that have adopted the policy, as well as the significant contribution that designation would make to the decentralization of resources, which would in turn improve the situation of smaller, regional, non-governmental, non-profit organizations.

Furthermore, it is opined 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 constitute a form of tax relief. The evidence presented in this paper clearly shows that percentage tax designations are not a suitable instrument of fiscal policy. Several arguments supported this claim. I believe that percentage tax designations are not correct from a systemic point of view. They undermine the principles of both public finance and 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 regarding the public goods to be financed from tax revenues are political, i.e. collective. 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 contradicts the meaning of taxes.

None of the advocates of percentage tax designations has yet presented any exact analysis of their benefits and costs. The benefits are estimated based on the experience of a few countries. Precise quantification, or at least approximate qualified estimates of expenses, have been neglected. I am aware that this view is controversial, but I am convinced that the introduction of percentage tax designations would be a step backward, rather than forward, in the Czech Republic.

I believe it would be more beneficial in the long run if the attention paid to percentage tax designations were turned to permanent support for the development of corporate and individual philanthropy, and not only in financial terms for non-profit organizations and the state budget, but also for widespread distribution and “rooting” of the idea of altruism and philanthropy in the Czech Republic.

Appendices

Appendix 1: Questionnaire

Questionnaire on The percentage Tax Designation System to country associates Past, Present and Future

1. The introduction and the workings of the percentage systems

- 1.1. Context
 - 1.1.1. When was the percentage system enacted as a law?
 - 1.1.2. What is the legal reference to the law? What article etc.
 - 1.1.3. When was it amended? If more than once, please provide all dates.
 - 1.1.4. When was the first legislation on NGOs enacted in your country?
 - 1.1.5. Was there a law in place regarding charitable donations to NGOs?
- 1.2. Rationale for introduction
 - 1.2.1. Describe the actors who have initiated it and supported it.
 - 1.2.1.1. What was the intent of the actors?
 - 1.2.1.2. How did the percentage system fit into the political context? (Civil society support; public benefit support; philanthropic culture and tradition; outsource government funding; funding of church or state organizations; smoke screen in social spending cuts or something else? Provide explanation. Possible intentions and rationale? Elaborate on them and provide examples and quotes.)
 - 1.2.1.3. Which political party was for and which against it? (We would like to see if it tends to be un/favored by left, right, center.)
 - 1.2.2. How long did it take to get it through in the policy making process?
 - 1.2.2.1. What was the role of NGOs?
 - 1.2.3. Explain why you believe the mechanism could be enacted in your country in the given time (key success factor for passing the law).
- 1.3. Recipients of the original law
 - 1.3.1. Who were the legally defined recipients/beneficiaries of the original law? Were they NGOs/a group of NGOs, NGOs with special characteristics, like NGOs with public benefit purpose/ NGOs and other legal entities.
 - 1.3.2. Has the legally defined recipients/beneficiaries of the law changed over time?
 - 1.3.2.1. If yes, what changed since its enactment and what was the rationale behind?
 - 1.3.3. Does the law regulate the use of money received through the designations by NGOs? If yes, how?
 - 1.3.3.1. Can beneficiaries spend the resources upon their own will as flexible as they like?
 - 1.3.3.2. Does the law define the amount of money that can be spent on fundraising, personnel, operational cost, etc.? Please elaborate your answer?
 - 1.3.3.2.1. If it does, how is it defined?
 - 1.3.3.2.2. If yes, what is the effect of it?
 - 1.3.4. Did the original law require public reporting of the percentage expenditure of the organizations? (Public meaning transparent and publicly available and not only reporting to a public authority.)
 - 1.3.4.1. If yes, was it the first time NGOs needed to provide public reports?
 - 1.3.4.2. Does the current law require public reporting regarding percentage expenditure?
 - 1.3.5. Who at the *end* benefits of the resources - who are the end users, where the resources of the percentage tax designation are used/consumed?
- 1.4. The mechanism
 - 1.4.1. Please describe the mechanism in its essence as it was originally started and as it has changed. Only the very basic elements are needed here in a nutshell.
 - 1.4.2. What changes have taken place that make the mechanism better?
 - 1.4.3. Where is there room for further improvement regarding the operation of the mechanism?
- 1.5. If available, provide extreme examples of systematic misconduct of the system or dubious applications of the percentage system in your country (anecdotes, articles, stories).
- 1.6. Do you think that there are any unintended consequences of working mechanism of the system that do not serve the original purpose and may have negative effect on it?
 - 1.6.1. If there were such challenges, have they been remedied?
 - 1.6.2. Do you think that there are any unintended consequences of working mechanism of the system that were unintended and have positive effect on it?

2. Policies

- 2.1. Is there any formal requirement in your country to evaluate the system?
 - 2.1.1. If there is, please describe the requirement, its protocol, and evaluate the mechanism.
 - 2.1.2. If there is a formal evaluation produced, please attach it and give a bullet point summary of the key issues.
 - 2.1.3. How often is the system evaluated in your country, if at all? Is it an ad hoc evaluation or a

- planned one? Who is responsible for the evaluation?
- 2.1.4. If there is an evaluation of the system, what can be and what has been the consequence of the evaluation?
 - 2.2. Did any of the changes in the mechanisms result in significant change in the output of the system (more users, more designation, different people etc.)? If yes, which one and how?
 - 2.3. Was the system designed to exist for a limited time? If yes, what timeframe was imaged?
 - 2.4. How long do you think the system will exist in your country?
 - 2.4.1. Why?
 - 2.4.2. Does the system have any serious proponents/opponents?
 - 2.4.3. If yes, what reasoning is used?
 - 2.5. Please provide information and/or your opinion if the percentage system in your country is
 - 2.5.1. crowding-out private giving or a school for philanthropy? Please, summarize the main arguments and data and give a link to the referenced work
 - 2.5.2. crowding out state support to the NGO sector?

3. Contributors and recipients

- 3.1. Who is a typical percentage contributor? Describe key characteristics of major groups of taxpayers that participate in the system based on research and statistical data that is available or previous research and articles that had dealt with this question.
 - 3.1.1. Does the average percentage contributor differ from a private donor?
 - 3.1.1.1. If yes, how?
- 3.2. What does a typical percentage system recipient look like based on available data?
 - 3.2.1. Based on available data, can it be claimed that the percentage recipients differ from recipients of individual private funding?
 - 3.2.2. Can it be claimed that recipients of the percentage mechanism differ from recipient of other types of state funding?
 - 3.2.2.1. if yes, what is the difference?

4. Contribution of the percentage system to the sustainability of NGOs

To have a general understanding of the perceived contribution of the system to key areas of NGO sustainability, first fill in Table 3.

Please give a value to the areas based on your experience. We would like to know how much you believe the percentage system has influenced the given area. Your scoring should be from -5 to +5. Give the lowest ranking if you believe that it has had a very negative effect on the given area, - 4 if it was quite bad, ..., 0 if you do not think that there was an effect, ..., 5 if it has had a major effect. It is a subjective exercise to lead to the discussion of the topic. It is hoped that the views together and the detailed opinion and backup information in the following questions will provide valuable input to this question.

Elaborate your views in the section after the table by giving concrete examples, data, numbers, quotes, cases to support your opinion. You are asked to comment on all of the areas, even those that you did not feel strong about, if you have evidence for low impact, please provide that too.

Area	Score from -5 to 5
a, Legal environment E.g. the ease of registration; legal rights and conditions regulating NGOs; and the degree to which laws and regulations regarding taxation, procurement, access to information and other issues benefit or deter NGOs' effectiveness and viability.	
b, Organization capacity E.g. constituencies, mission, planning, management structures, paid staff,....	
c, Financial Viability E.g. availability of resources, philanthropy and volunteerism, government procurement, fundraising and financial management skills, diversification of funding, etc.	
d, Advocacy E.g., influencing public policy, coalition building, monitor government performance, Participation in the political processes,...	
e, Service provision E.g. Better provision of services reflecting the needs and priorities, contribution to the provision of basic social services, etc.	
f, Infrastructure E.g. information, training, and advice, resource centers, local community foundations, sharing of share information, networks, partnerships.	
g, Public image E.g. understanding and appreciation of the role that NGOs play in society, public awareness and credibility, media coverage, publicity, code of ethics, demonstrated transparency, annual reports,...	

Table 21: Perceived contribution of the system to the sustainability of the NGO sector

- 4.1. How has the percentage designation system contributed to the (please state examples, cases and justify your scoring)
 - 4.1.1. legal environment of the NGO sector in your country?
 - 4.1.2. organizational capacity of the NGO sector in your country?
 - 4.1.3. financial viability of the NGO sector in your country?
 - 4.1.3.1. Please, rank the following areas of activity regarding their revenue from percentage designation. Use a year when you also have information on private giving. If your statistics do not use the same areas of activity, please move around the areas to match the ones here. If you need to do that, please describe what and where you have moved. As usual, provide your source of information.
 - Health and Social Care
 - Education
 - Sports, hobby
 - Environmental protection
 - Culture
 - Religion
 - Other
 - 4.1.3.2. Please, rank the following areas of activity regarding their revenue from individual private giving. Use a year when you also have data on percentage tax designation. If your statistics do not use the same areas of activity, please move around the areas to match the ones here. If you need to do that, please describe what and where you have moved. As usual, provide your source of information.
 - Health and Social Care
 - Education
 - Sports, hobby
 - Environmental protection
 - Culture
 - Religion
 - Other
 - 4.1.4. advocacy of the NGO sector in your country?
 - 4.1.5. service provision of the NGO sector in your country?
 - 4.1.6. infrastructure of the NGO sector in your country?
 - 4.1.7. public image of the NGO sector in your country?

- 4.1.7.1. Can you provide any information on the argument that due to the percentage system, the familiarity with the public with NGOs has risen (numbers, case studies, quotes)?
- 4.1.7.2. Can you provide any information on the argument that due to the percentage system, the NGO sector has improved transparency (numbers, case studies, quotes)?
- 4.1.7.3. Can you provide any information on the argument that due to the percentage designation system, NGOs are more active at communications? (numbers, case studies, quotes)
- 4.1.7.4. Please link, paste in or attach 3 communications pieces from your country that is about fundraising for the percentage/s (e.g. a short film, a poster, a Facebook ad). Provide a very brief description about the organization and the message.
 - 4.1.7.4.1. A)
 - 4.1.7.4.2. B)
 - 4.1.7.4.3. C)
- 4.1.8. Any other issue that would relate to the system's contribution to NGO sustainability, not mentioned above?

5. Innovation, decentralization, fairness, targeting, efficiency.

Is it true in your country?

Please note that the comment section is very important in Table 4. Feel free to use any additional space to make your point. Add further comments on a separate paper using the references (e.g. 5.1.1.) correctly referencing all data you use.

Issue	Yes/ No/ N/A	Comment and provide evidence, if available (data, quotes, papers etc.). It is O.K. to use extra space bellow to provide additional materials.
Is there any other mechanism in your country where the decision on central budget is outsourced to the individual? ¹¹⁵		
Does the mechanism allow the designation of 1%? If it is not 1%, explain in comments how much is designated.		
Does the mechanism allow allocations to NGOs only? If no, explain in the comments.		
Does the system allow dividing the designation among several beneficiaries? If yes, please explain in the comments.		
Do you agree that it is an innovative mechanism in your country? Give a brief argument in the comments section why yes and why no.		
Would the money stay in central budget if the taxpayer did not decide to designate this money?		
The percentage allocation decision of the taxpayer is not challenged for other than formal reasons (i.e. whatever the taxpayer decides, is executed).		
Is the system designed so that the tax-payers in their allocations is independent of any private and political influences.		
Was there any public/state and local government financial support to NGOs in place at the time of enacting the percentage system?		
Do you think that public/state budget allocations to public benefit entities were politically biased in your country during the years of the start of the system? Is there any research or other evidence to support your view (e.g. any Transparency International report, any publication, research, interviews ,...)?		

¹¹⁵ The first question asks whether other mechanism exists beside percentage system. The following ones are referring to the percentage system and not to the other possible one.

Do you think that state budget allocations to public benefit entities are politically biased today?		
There are NGOs that do not receive state and local government funding other than the percentage revenue. If yes, in the comments section, please provide numbers for the proportion of such entities in the sector.		
The percentage tax designation system provides resources to recipients in timely fashion (it is highly predictable when the resources are transferred).		
The percentage tax designation system provides the resources correctly i.e. the system works accurately. The failure/omission rate is low.		
The costs of percentage tax designation system are perceived by its administration (state) as appropriate and not excessive, or at least there is no serious publicly expressed views to be contrary.		
The costs of joining and staying in the percentage tax designation system on the side of recipients are perceived by the recipients as appropriate, or at least there are no publicly expressed opinion to be contrary.		
Does the law define the amount or proportion of resources that can be used for resource mobilization from the percentage revenue? If yes, how is it defined?		
Is there a concern that the revenue from percentage tax designation system is spent to benefit private needs of individuals? Provide any evidence in the comments, if available.		
Is it true that the end users of the revenue from the NGO percentage tax designation system are often public institutions: schools, hospitals, galleries etc.. Provide any evidence in the comments, if available.		
Since the start of the percentage system there have been legal changes in your country that make private giving of individuals less attractive to potential donors due to taxation changes.		
Since the start of the percentage system there have been legal changes in your country that make private giving of corporations to NGOs less attractive for them due to taxation changes.		
Is there any concern expressed that the mechanism is not transparent? If yes, explain?		
Was there a research on why tax payers chose to make use of the system? If yes, please give key points in the comments with reference.		
Was there any research on the reasons why some people do not use the system? If yes, please give key reasons in the comments with reference.		

Table 22: Clarification on related issues

Provide available information on the issues in Table 5. It is important that you note that the comment section is very important here. Feel free to use any additional space to make your point. Do add further comments, use the area after the table or a separate sheet of paper using the references (e.g. for the first question it is 2.2.1.) correctly referencing all data you use. Please use EURO and consult the Introduction/Guidelines for writing the paper section regarding the currency exchange and usage. Table 3 is looking at a progression and wants to provide information on how in a given period of time the system evolved: the first, fifth, tenth are the bases of the expected data. In case of Hungary they are 1997, 2002, 2007 and 2014. In addition, we should have a column for year 15 for Hungary, i.e. 2012, this is the only country that will have that information. They all will have year 2014.

The common calendar year is going to be only 2014 (when some countries have had it for 17 years, others for less).

Year: Issue:	1st: ...	5th:	10th:	15th year:	Most recent:	Comment and provide evidence, if available (data, quotes, papers etc.).
Official inflation rate in the given year (provide source in comments):						
Population size of the country:						
Official number of registered NGOs in the given year:						
Number of NGOs registered in the capital city:						
Number of eligible NGOs to be beneficiary of the percentage system in the given year (could be the same as number of NGOs or different):						
Number of actual beneficiaries of the system in the given year:						
Total revenue of the sector in the given year:						
How much was public (state and local government) support (including percentage designation) to NGOs in the given year in Euros?						
How many individuals have donated private resources in the given year according to official information?						
How much was donated as official private personal donation by private individuals in the given year to NGOs in Euros?						
How much was donated as official private donation from corporations in the given year to NGOs in Euros?						
How much was designated from the percentage system to NGOs in the given year in Euros by individual taxpayers?						
% of state/public support going to capital city:						
% of private individual support going to capital city:						
% of percentage designation going to capital city:						
Average amount of percentage designated per beneficiary (in Euros)						
Average personal income tax/capita in the given year:						
Number of taxpayers in the given year:						
Number of taxpayers who legally qualify to assign a percentage from their personal income tax in the given year (in some countries the number is different because income level regulations):						
Percentage of tax-payers familiar with the percentage designation opportunity:						
Number of individual taxpayers that used the percentage designation opportunity?						

Is there a minimum amount defined in the percentage law that determines the minimum amount that can be designated? If there is, what is the minimal amount in the given year?						
Number of volunteering individuals in the given year.						
Number of people with membership in at least one NGO.						
Most popular area of activity of NGOs receiving percentage designation in the given year (i.e. the most number of PEOPLE designating their resources to this area).						
Most popular area of activity of NGOs receiving private giving from individuals in the given year (i.e. the most number of PEOPLE designating their resources to this area).						
Area of activity of NGOs receiving the highest amount of money from percentage designation in the given year (i.e. the area with most MONEY).						
Area of activity of NGOs receiving the highest amount of gift money from private individuals in the given year (i.e. the area with most MONEY).						
What % of the non-profit sector receives its revenue solely from % donation?						
The TOP 10 organizations receiving the highest amount of resources from percentage allocation in the given year.						
The names of the Top 10 organizations (in English) receiving the highest amount of financial resources from private individuals in the given year and their field of activity.						
The highest amount received by an NGO from percentage allocation in the given year.						
Do you have access to data on all percentage designation recipients with amounts they received for the given year? Is this information in the public domain? Is it available as an excel sheet? Where is this information located?						

Table 23.: Data through years of operation

Appendix 2 on sources of data in the different countries

Hungary

Reference	Institute	Availability of used figures, data and statistics
NTCA	National Tax and Customs Administration of Hungary	<p>Az Szja 1+1% 2011. rendelkező évi és a korábbi rendelkező évek főbb adatai http://www.nav.gov.hu/data/cms226615/2_melleklet_OGY_2011.pdf Kimutatás a 2001-2011. évi lehetséges nyilatkozók és az érvényesen rendelkező magánszemélyek számáról a nyilatkozatok származási helye és az 1 % alapja szerint http://www.nav.gov.hu/data/cms226619/3_melleklet_OGY_2011.pdf in: Tájékoztató a Magyar Országgyűlés Emberi Jogi, Kisebbségi, Civil- és Vallásügyi Bizottsága részére a személyi jövedelemadó 1+1 %-áról tett rendelkező nyilatkozatok feldolgozásának 2011. rendelkező évi tapasztalatairól http://www.nav.gov.hu/nav/szja1_1/tajekoztatok/ogy_tajekoztato_2012.html http://www.tetalap.hu/hirek/item/nav-31-ezer-szervezetnek-13-milliardnyi-egy-szazalek-2013-evben NAV-évkönyvek (2010–2014) (NTCA Yearbooks) http://nav.gov.hu/nav/kiadvanyok/Evkonyvek/NAV_evkonyvek.html http://www.tetalap.hu/hirek/item/nav-31-ezer-szervezetnek-13-milliardnyi-egy-szazalek-2013-evben</p>
HCSO	Hungarian Central Statistical Office.	<p>HCSO (2014): Characteristics of the Nonprofit Sector, 2013. Hungarian Central Statistical Office. http://www.ksh.hu/docs/eng/xftp/stattukor/nonprofit/enonprofit13.pdf HCSO (2015): Hungary 2014. Hungarian Central Statistical Office. https://www.ksh.hu/docs/hun/xftp/idoszaki/mo/hungary2014.pdf</p>

Italy

	Agenzia delle Entrate	http://www.agenziaentrate.gov.it/wps/content/Nsilib/Nsi/Documentazione/Archivio/ArchivioSchedeAdempimento/Schede+adempimento+2013/Richiedere+2013/Contributo+5xmille2013/Elenchi+5xmille2013/
		http://www.agenziaentrate.gov.it/wps/content/Nsilib/Nsi/Documentazione/Archivio/ArchivioSchedeAdempimento/Schede+adempimento+2014/Richiedere+2014/Iscrizione+elenchi+5+per+mille+2014/Elenchi+5xmille2014/
ISTAT	Non-Profit Census ISTAT	http://dati-censimentoindustriaeservizi.istat.it/Index.aspx

Lithuania

Reference	Institution	Availability of used figures, data and statistics
EUROSTAT	Statistical Office of the European Union	http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tec00118&plugin=1
WB	World Bank	http://data.worldbank.org/indicator/FP.CPI.TOTL.ZG/countries/LT?display=graph

STI	State Tax Inspectorate (Paramos apskaičiavimo statistika)	http://webcache.googleusercontent.com/search?q=cache:qyhW4ZNk5OgJ:https://www.vmi.lt/cms/documents/10162/7002313/Paramos%2Bapskai%25C4%258Diavimo%2Bstatistika/Oe6fac99-b289-4504-a46c-2d13b2dbf7d1%3Bsessionid%3DE6621786C41416162E921E749E9AE51F%3Fversion%3D1.0+&cd=1&hl=en&ct=clnk&gl=lt https://www.vmi.lt/cms/documents/10162/7002313/Paramos+apskai%C4%8Diavimo+statistika/Oe6fac99-b289-4504-a46c-2d13b2dbf7d1 https://www.vmi.lt/cms/gyventojams-bendrai/-/asset_publisher/Gizm3fjHUUgi/content/id/8223085 https://www.vmi.lt/cms/documents/10162/7002313/Paramos+apskai%C4%8Diavimo+statistika/Oe6fac99-b289-4504-a46c-2d13b2dbf7d1
OSP	Official Statistics Portal, Lietuvos juridiniai asmenys paramos teikėjai	http://osp.stat.gov.lt/web/guest/statistiniu-rodikliu-analize?portletFormName=visualization&hash=b4301751-c0ac-4254-996d-1b90cc6b6955
BAPP	Baltic American Partnership Program	http://www.bapp.osf.lt/downloads/2_proc_skyrimo_tyrimo_ataskaita.pdf
DELFI		http://www.delfi.lt/verslas/verslas/vbutkaus-ir-jo-zmonos-2-proc-parama-virto-400-tukst-lt.d?id=51525433

Slovakia

Reference	Institution	Availability of used figures, data and statistics
NBS	National Bank of Slovakia	http://www.nbs.sk/_img/Documents/_Publikacie/OstatnePublik/ukazovatele.pdf
SLOVSTAT	Statistical Office of the Slovak Republic	http://www.statistics.sk/pls/elisw/katalog.listObj?objekt=3726 http://www.statistics.sk/pls/elisw/objekt.send?uic=3746&m_sso=4&m_so=73&ic=19 http://www.statistics.sk/pls/elisw/objekt.send?uic=4326&m_sso=4&m_so=73&ic=19 http://www.statistics.sk/pls/elisw/katalog.listObj?objekt=3806 http://www.statistics.sk/pls/elisw/katalog.listObj?objekt=3726
IVES	Institution for Informatization of Public Administration	2015 - http://www.ives.sk/registre/start.do
ROZHODNI	1st Slovak Non-Profit Center	http://rozhodni.sk/prijimatel/databazy/ http://itretisektor.sk/clanok-0-4402/1_diel_Pocet_organizacii_v_Zozname_prijimatelov_v_jednotlivych_rokoch.html http://rozhodni.sk/prijimatel/databazy/
FS	Financial Administration, Slovak Republic	https://www.financnasprava.sk/sk/financna-sprava/vyroczne-spravy
MFSR	Ministry of Finance	State National Accounts
ASFIN	Association of Corporate Foundations	www.asfin.sk
FOCUS	Focus - Center for	http://www.cpf.sk/files/files/VV%20Analyza_financovania_MNO.pdf (page 28)

Poland

Reference	Institution	Availability of used figures, data and statistics
GUS	Central Statistical Office (GUS)	http://stat.gov.pl/ Most recent (2015) report on public benefit organizations http://stat.gov.pl/obszary-tematyczne/gospodarka-spoieczna-wolontariat/gospodarka-spoieczna-trzeci-sektor/organizacje-pozytku-publicznego-i-1,4,2.html
Report	Run by Klon/ Jawor Association Mojapolis.pl is web based – repository map based local indicators (including data on PBO and 1%PIT)	http://www.mojapolis.pl/
DPB	Department of Public Benefit – Ministry of Social Welfare	http://www.pozytek.gov.pl/ Open data base of PBO annual reports http://sprawozdaniaopp.mpips.gov.pl/
MF	Ministry of Finance	Repository of statistics related to distribution of Personal Income Tax http://www.finance.mf.gov.pl/pit/statystyki
KJ	Klon-Jawor	Main information portal of 3rd sector in Poland http://www.ngo.pl/ Key statistics related to 3rd sector including those delivered by KLON/JAWOR research team http://fakty.ngo.pl/
DS	Diagnoza Spoieczna	Annual panel research of more than 12.000 households (2000-2015) http://www.diagnoza.com/

Romania

Reference	Institution	Availability of used figures, data and statistics
MIJ	Ministry of Justice	Romanian Non-profit Registry, Ministry of Justice, 2015
NIS	National Institute of Statistics	
MF	Ministry of Finance	

This research has used information from secondary sources. If additional data is available in the future, or corrections are recommended it would be most welcome to notify the research team through the www.taxdesignation.org website.

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Hungary - István Sebestény, PhD made his degrees on economics, sociology, history and demography, and works in the Central Statistical Office since 1992 where he is involved in nonprofit statistics. He established Civitalis Association, and member of the editorial board of Civil Review, and Civil Forum in Cluj (Romania). He took part in the work of National Civil Fund since 2004 to 2009, His PhD dissertation deals with the functions and results of the cooperation between local governments and civil organizations.

Italy - Marco Marucci, Bachelor degree in Economics, now researcher at ISFOL (the Italian National Research Institute for the Development of Vocational Training of Workers). Master Degree on Project Cycle Management and decentralized cooperation, involved in reports and analysis regarding social issues as inclusion, poverty, social promotion, minimum income schemes and Third Sector dynamics. He was research project coordinator in many national essays regarding: the NPO fund rising politics and the 'percentage philanthropy'; new welfare society; immigration and migrant woman; volunteering; non-profit organizations in Italy. Most recently he works on monitoring of the first scheme of minimum income in Italy (SIA Programme), on fundraising strategies and opportunities and on monitoring special volunteering programmes.

Lithuania - Vaidotas Ilgius is an experienced activist of Lithuanian NGO sector, head of largest Lithuanian charity "Maisto bankas" ("Food bank"). During 1995-2005 Vaidotas was leading Lithuanian NGO Information and Support Center. He initiated public debates on percentage philanthropy in Lithuania and promoted the adoption of 2% PIT designation for public benefit. Vaidotas served as expert in numerous Lithuanian and regional grant making programmes, runs training courses on philanthropy and fundraising in Lithuania.

Macedonia - Nikica Kusinikova, MA, is the Executive Director of Konekt, non-profit organization from Macedonia dedicated to promoting philanthropy and Corporate Social Responsibility. Nikica holds Joint European Master Degree in Comparative Local Development from the University of Trento, University of Regensburg and Corvinus University from Budapest. For the last sixteen years she works as manager and consultant for international and local organizations. Nikica is one of the key experts in the country on the issues of philanthropy and CSR, and author of several publications in this field. She is a member of national and multisectoral professional bodies such as: President of the National Council for Development of Volunteerism, Member of the Global Compact Local Networks Advisory Group, Deputy Member of the National Coordinating Body for CSR, and President of the Local Advisory Group for the EU Technical Assistance for Civil Society Organizations. Nikica volunteers and serves on the Board of a number of Macedonian non-profit organizations.

Poland - Jakub Wygnański is sociologist by training. He started his public activity as Solidarity activist. He was participating in historical Round Table talks. After 1989, he became deeply involved in numerous initiatives aiming to support civil society in Poland and other countries. He has started several NGOs including KLON/JAWOR Association (main support, research and information centre for Polish non-profit centre) and Forum of Nongovernmental Initiatives (FIP) which plays key role as representative of Polish Third Sector. FIP has initiated series of sector wide debates and meetings including six national forums of several hundred organisations. Kuba was one of the authors and main advocate for Law on Public Benefit and Voluntarism in Poland (introduced in 2002) containing so called 1% allocation. Currently he is member of Public Benefit Council. For over 20 years Kuba is deeply involved in research field of non-profit sector in Poland (including almost all international efforts of that nature in Poland - Johns Hopkins University, USAID (Index) and Civicus - Civil Society Index). Kuba was initiator and coordinator of multi-year systemic project of Polish Model of Social Economy. In 2003 he was Yale University - World Fellow.

Romania - Cătălin Gheorghe has almost two decades of experience in organizational development process and has focused in the last 15 years on developing philanthropy and fundraising in Romania through research and training and consulting processes. As a program director with the Association for Community Relations in Cluj, a non-profit organization, he has worked to improve the fundraising capacity of organizations like WWF Romania, SOS Children Villages, World Vision, Save the Children and many others. He has been involved in three nationwide researches regarding the philanthropic behavior of Romanian and in advocacy work to create a better framework for private resource mobilization in Romania.

Serbia - Aleksandra Vesić, with over 17 years of experience in non-profit sector, is an independent consultant and Senior Adviser at Catalyst Foundation. As a consultant, her specific areas of expertise are organizational development, strategic planning, sustainability and monitoring and evaluation and topics of interest include civic engagement and local philanthropy. She holds a B.Sc. in Electrical Engineering and a Postgraduate Certificate with Merit in Developmental Donors Practice from the London Metropolitan University. Previously, Aleksandra worked as a director of Balkan Community Initiatives Fund (currently Trag Foundation), coordinator at Autonomous Women's Center and volunteer in various NGOs in Serbia. Since 2005, she was involved in a number of research initiatives related to giving; with Catalyst Foundation, she focuses on analyzing data on the status of philanthropic giving and trends in Western Balkans region. Aleksandra serves as a member of the Trag Foundation Board of Trustees, chair of Autonomous Women's Center Board of Trustees, member of Project Advisory Board of Royal Norwegian Embassy and is an author of a number of publications related to philanthropy, evaluation, organizational development and civic/community engagement. She lives in Belgrade, has disability and is a feminist.

Slovakia - Fedor Blaščák is a philosopher by profession, currently working as an activist. In 2015 he was awarded with an Effective activist fellowship from OSIFE (Open Society Initiative for Europe). He is affiliated as a researcher, lobbyist and secretary of the Association of Corporate Foundations in Slovakia. He lives in Bratislava.

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