

Civil Society Regulations and Effects

**Sustainability and Operation of NGOs
Influenced by Tax System:
The Case of Slovakia**

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In this article we summarize and analyze the tax system affecting nongovernmental organizations in the Slovak Republic. We chose the field of tax law based on results from questionnaire research with Slovak nongovernmental organizations, results from an expert evaluation employing the Delphi method used in the dissertation “Self-Financing Strategy and Sustainability of Non-Profit Organizations,” and rankings of the American agency USAID. The most important elements of the tax system which affect the sustainability and operation of NGOs are, first, exemption of their core work from income/profit tax, and, second, tax assignation – the mechanism of distributing a percentage of the income tax to a qualifying NGO. The second element is enacted in only few countries.

Slovakia is one of the four countries in the CEE region to adopt tax assignation. The article analyzes the reasons for the introduction of the mechanism in 2001, as well as the reasons for the amendments adopted since then. We focus on the option for corporations to assign a share of their income tax. The corporate income tax accounts for an important part of tax revenues, and this option has undergone major changes since its first adoption. Our aim is to analyze the tax laws affecting the sustainability and operation of NGOs in Slovakia, as well as the changes in tax assignation and their impact on both public finance and NGOs.

1. Introduction

One of the principles of the financing of nongovernmental organizations (NGOs) is tax exemption. This principle is applied in two directions: it can refer to the legal form of the organization, or it can refer to the activities of an organization irrespective of its legal form.

In this article we will focus on public funding of nongovernmental organizations, especially the form of indirect support where the state waives certain income and thus enables NGOs to “save.” This category includes the following:

- exemption from taxes (e.g., value added tax, customs fees)

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- tax reductions for NGOs
- tax reductions for donors (who can deduct donations from their tax base) and others (Stejskal et al, 2012)

Indirect public support of NGOs confers advantages on these organizations in the field of taxation as well as on those individuals and corporations that support the NGOs through donations. NGOs must heed the non-distribution constraint principle: i.e., they can make a profit, but it must be fully reinvested in their operations to support the mission and purpose for which they were founded; it cannot be used to enrich the owners, members, or employees. Weisbrod (1988) considers tax relief as a form of compensation for this restriction on profit distribution. Other authors indicate different reasons for tax exemption, such as the fact that exemption based on the character of NGOs' activities enables them to fund charitable or generally beneficial services in education, health, social care, or other areas (Anik et al., 2009; Billis & Glennerster, 1998; Hansmann, 1996; Sokolowski, 2012; Markowska-Bzducha, 2012).

This article analyzes the changes in the exemption of NGOs from different types of taxes and the changes in the mechanism of assignment of the income tax, as well as the outcome of primary research conducted for the dissertation "Self-Financing Strategy and Sustainability of Non-Profit Organizations." The outcome of the dissertation confirms the importance of the tax laws that affect NGOs.

According to the U.S. Agency for International Development (USAID, 2013), which has been assessing the sustainability of nongovernmental organizations in Central and Eastern Europe since 1997, the legal environment should support the needs of the nonprofit sector, allow the entry of new organizations, prevent political interference with NGOs, and provide conditions under which NGOs can conduct entrepreneurial activities to ensure income and to enhance their stability. Among the monitored factors are the difficulty of registering new organizations and the laws governing their operations, their taxation, and their access to information.

The importance of the legal environment in general and the tax laws in particular is confirmed not only by USAID but also by the results of the primary Delphi research, as presented later in this article.

We examine the tax laws that affect the operation of NGOs, with emphasis on the law on income tax. The article further provides an overview of changes in tax laws, particularly those providing for tax assignment. Here we focus on the impact of this change on public finance and the state budget. In the end we develop models to predict the amounts that NGOs in Slovakia will receive from income tax assignment, and on the basis of these models we propose recommendations for NGOs to ensure their financial stability.

2. Methodology

The aim of this article is to analyze the tax system affecting the operation and sustainability of NGOs in Slovakia, the changes in tax assignment, and the impact on both public finance and NGOs.

The material consists of primary and secondary information on NGOs and the Slovak tax laws. As secondary data we use the NGO Sustainability Index³ compiled annually by USAID, which rates NGOs in Central and Eastern Europe and Eurasia on seven dimensions: legal environment, organizational capacity, financial viability, advocacy, service provision, infrastructure, and public image of NGOs. The scale runs from 1 to 7, where 1 means a very high level of sustainability of a nongovernmental sector and 7 is a very poor level. According to their scores on NGO sustainability, countries fall in three basic stages of development: Sustainability Enhanced, Sustainability Evolving, and Sustainability Impeded (USAID, 2013).

Primary data was obtained through a structured questionnaire sent to 670 NGOs; 182 respondents completed the questionnaire with applicable information. Appropriate structure and scope of the sample were confirmed by statistical significance of the results of a Chi-square test.

We also collected primary data by the Delphi method. We addressed a group of experts on the nonprofit sector and NGOs with a questionnaire. Based on the analysis of the NGO sustainability index and our research results, we confirmed the importance of the legal environment on the operation of NGOs, particularly tax laws. The result led us to compose two regression models for the development of the percentage of income tax assignment as stated in the amendment of Act No. 595/2003 on Income Tax. The first model presumes that corporations will provide an additional percentage from their own sources (direct donation); the second model presumes that corporations will not give any direct donation.

The expert group in the Delphi research was made up of specialists from scientific, public, and nongovernmental spheres. From the nongovernmental sector, we chose representatives of the so-called umbrella organizations as well as significant figures in this field who examine the issue from a practical point of view. We asked experts from all three spheres to assess the significance of various factors that affect the sustainability of NGOs and to assess the state of the six selected dimensions in Slovakia. The expert group was assembled based on citation analysis (the most frequently cited names in scientific publications) and purposeful selection (our own decision after consultation with another expert).

Electronically we contacted 40 experts. Of them, 22 responded to the questionnaire, four did not want to be involved in the research, and three indicated by marking “other” that they did not consider themselves experts in the field. After the first round we addressed 33 experts, of whom 15 answered (for more detailed description of the selection process see Svidroňová, 2014). The participation of experts in both rounds of research and their expertise are shown in Table I and Table II:

Table I: Number of participating experts in both rounds

	TOTAL	Public sphere		Nongovernmental sphere		Scientific sphere		other	
Round 1	22	6	27%	8	36%	5	23%	3	14%
Round 2	15	4	27%	5	33%	5	33%	1	7%

Source: own research, 2012.

³ In 2011 it was renamed the CSO Sustainability Index (Civil Society Organizations), but the subject of analysis, methodology, and content remain the same. We use the term NGO to correspond with the abbreviation in this article.

The experts evaluated the significance of the selected determinants as well as the current state of Slovak NGOs in terms of sustainability in accordance with the USAID methodology.

To examine the rating of the sustainability by the expert group we compiled a questionnaire, which asked the experts first to identify the significance of the selected determinants according to their impact on the sustainability of nongovernmental

Table II: Expertise of participating experts

Criteria of expertise	TOTAL		Public sphere		Nongovernmental sphere		Scientific sphere	
	Round 1	Round 2	Round 1	Round 2	Round 1	Round 2	Round 1	Round 2
Years of experience	4.5	4.6	5.5	5.5	5.2	5.5	4.4	3.9
Number of expert publications	6	7.2	4	6.6	7	8.6	9	7.7

Source: own research, 2012.

organizations, and, second, to assess the level of the determinants in Slovakia on a scale from 1 to 5, where 1 means the most important determinant and 5 the least important. The determinants were grouped into six dimensions corresponding to those in the Index (legal environment, organizational capacity, financial viability, service provision, infrastructure, public image). The experts also had an option to propose their own determinant.

Based on the responses in the first round we evaluated the importance of the determinants as ordinal variables using median and variance. We added other determinants stated by experts in the first round. After one month we again sent the questionnaire to the experts with the results from the first round. Experts could modify their opinions or could argue their original opinion. After the second round we conducted an overall evaluation, and the changes of opinions resulted in the changes of values of median and variance (Table III).

3. Legal environment affecting operation of NGOs in Slovakia

The U.S. Agency for International Development (USAID) annually publishes the NGO Sustainability Index. It is a key analytical tool that measures the development of the civil sector in Central and Eastern Europe and Eurasia. The Index analyzes and assigns scores to seven interrelated dimensions: legal environment, organizational capacity, financial viability, advocacy, service provision, infrastructure, and public image of NGOs.

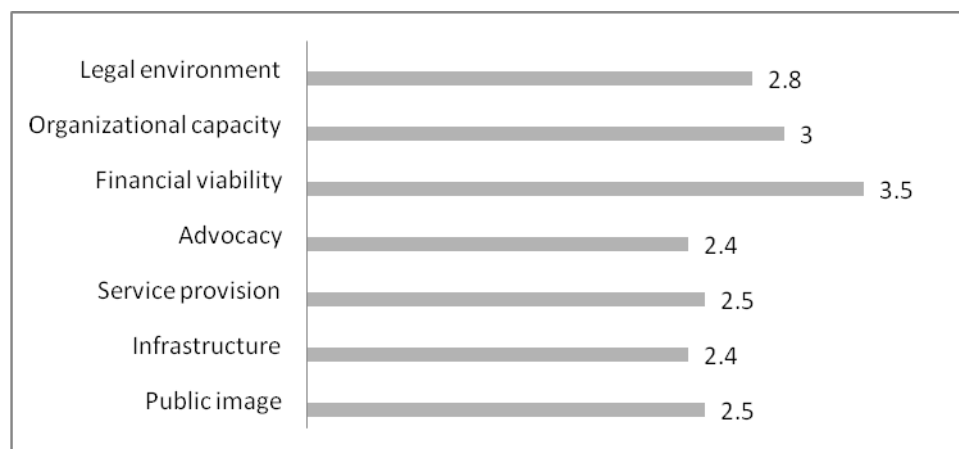
The Index is always published retrospectively for the previous year; the currently available document, from July 2013, evaluates the year 2012. In that year, the sustainability index (overall score) for Slovakia was 2.7, which ranked Slovakia in the top five of the 29 countries from Central and Eastern Europe and Eurasia. In Slovakia, USAID has implemented sustainability research since 1997 in cooperation with the Pontis Foundation. Individual dimensions and their scores are in Chart 1.

In this article we focus only on the dimension of the legal environment. As mentioned above, the legal environment should allow the entry of new organizations, prevent political interference in NGOs, establish conditions under which NGOs are able to conduct entrepreneurial activities to ensure income, and enhance their stability. Among the monitored

factors are the difficulty of registering new organizations and the laws governing the organizations' operation, taxation, and access to information. The index score for the Slovak legal environment in 2012 reached 2.8, unchanged since 2009.

This score is affected by the acceptance of the proposal of the Ministry of Finance to change the rules for the assignation of 2 percent of the income tax; the organizations expected a reduction in income from this source. The need for legislation on volunteering has been filled by Act no. 406/2011 Statutes on Volunteering. One positive factor in the score is the simple procedure of establishing NGOs without unnecessary bureaucratic steps, although the report suggests that the global trend is to place the documents for establishing NGOs online, which Slovakia has not yet done. One negative influence is the changes in the Labour Code at the end of 2012, which modified the conditions for various part-time workers other than contractual employees. According to the amendments, the wages of these workers will be levied by contributions to social insurance and health insurance as if they were employees on regular contracts, which has increased the costs for NGOs. On the other hand, a positively perceived factor is the activities of the first Slovak nonprofit center, which provides legal advice as well as information on its website concerning legislative changes and proposals affecting NGOs.

Chart 1: NGO sustainability index for Slovakia, 2012



Source: USAID, 2013.

The respondents in the structured questionnaire evaluated (among other areas of sustainability) legislation, especially the tax system in Slovakia. On a scale from 1 to 5, nearly 48 percent of NGOs said they consider Slovak tax laws complicated and unclear. On the other hand, 56 percent of respondents consider these laws favorable in terms of NGOs' operations and sustainability, or at least as neutral in this respect. Only 16 percent of respondents see the tax laws as totally unfavorable, and 28 percent see them as more restrictive than favorable. From the responses we calculated a rating for Slovak legislation environment, in the opinion of NGOs, as 2.78.

The evaluation of the experts in terms of significance and development (current state) of determinants of the legal environment in Slovakia is summarized in Table III.

We can compare the three scores for the Slovakian legal environment. The experts scored it at 3.4, placing it in the transit phase (Sustainability Evolving). USAID's NGO Sustainability Index scored it at 2.8, placing it in the consolidated phase (Sustainability Enhanced). The Slovak NGOs assigned a score very close to USAID's, 2.78. In other words, USAID and Slovak NGOs

place Slovakia in the consolidated phase, whereas the expert group puts it in the transit phase. This disparity underscores the need to examine the legal environment and its influence on the operation on NGOs closely. Because the topic is very broad, we focused on those determinants that scored the worst median (in our case a value of 4). As shown in Table III, those determinants

Table III: Significance of the determinants influencing NGO sustainability

Determinants	Significance					
	Round 1		Round 2		Total significance of the determinant	
	median	variance	median	variance	Round 1	Round 2
Legal environment	2,3	x	2,4	x	62%	60%
Suitability of laws governing the operation of NGOs	1,5	0,45	2	0,42	70%	60%
Clarity of laws governing the operation of NGOs	2	0,62	2	0,49	60%	60%
Tax laws (allowances for NGOs)	2	0,53	2	0,53	60%	60%
Availability of legal advice for NGOs	3	0,6	3	0,46	40%	40%
Opportunities to apply for government / public contracts	3	0,55	3	0,43	40%	40%
Determinants	State in the SR					
	Round 1			Round 2		
	median		variance	median	variance	
Legal environment	3,4		x	3,4	x	
Suitability of laws governing the operation of NGOs	3		0,41	3	0,37	
Clarity of laws governing the operation of NGOs	3		0,37	3	0,51	
Tax laws (allowances for NGOs)	4		0,44	4	0,29	
Availability of legal advice for NGOs	3		0,48	3	0,45	
Opportunities to apply for government / public contracts	4		0,49	4	0,44	

Source: own research, 2012.

are “Tax laws” and “Opportunities to apply for government / public contracts.” We focus here on the first determinant, reflecting its significance. In addition to the expert evaluation regarding the current state of sustainability of NGOs, the research by the Delphi method provided an assessment of the significance of individual determinants and dimensions. The significance of the legal environment for the operation of NGOs reached the value of 60% after the second round. Among the other surveyed dimensions, a higher ranking was achieved only by public image, at 67%, and by organizational capacity and financial viability, both at 63% (on the outcome of research, see Svidroňová, 2013; on enhancing financial viability with modern managerial tools, see Vaceková, 2013).

We focused on determinants where the significance on NGO activities was identified as important and deemed to be underdeveloped currently in Slovakia. From Table III it is clear that the category of tax laws represents such a determinant. For this determinant, the difference between significance and current state was 2 points. (Besides the legal environment, other dimensions were financial viability, service provision, and public image, but these are not the focus of this article.) Based on this result, we selected the tax laws affecting NGO activities and sustainability for closer analysis.

Table IV: Taxation of NGOs in Slovakia

Revenue from the perspective of income tax	Definition of the income
Income subject to tax (§ 12)	income from activities that generate a profit for NGOs
	income from activities that may lead to generating a profit
Income not subject to tax (§ 12)	income gained from the tax assignment
	income gained from donation or inheritance
Income exempted from tax (§ 13)	income from activities for which the NGOs (taxpayers) were founded or activities that are their core work, except income from business activities and income on which withholding tax is levied
	income from church collections, religious acts, and allowances for registered churches and religious societies
	income from membership fees stated in statute or constituent documents received by civic associations, including professional associations, trade unions, political parties, and political movements
	income from grants provided by international treaties by which the Slovak Republic is bound
Income subject to withholding tax (§ 43)	interest, win, or other income accrued on deposit saving books or cash balances on current accounts
	income from assets in a mutual fund, income from shares obtained from redemption (repayment), income from deposit certificates, income from bonds and treasury bills

Source: Own processing based on DUBIELOVÁ, V. 2011. Entrepreneurial activity and the taxation of non-profit entities.

4. Tax laws affecting the operation of NGOs in Slovakia

Due to their nature as organizations or the nature of their activities, NGOs are either totally or partially or conditionally exempted from most taxes in the Slovak Republic. Tax exemptions are mainly regulated in Act no. 595/2003 Statutes on Income Tax, as amended. Table IV categorizes the types of NGO income and their tax status.

In the past, NGOs enjoyed additional tax benefits, including relief on property taxes, VAT, income tax, and road tax. Income from entrepreneurial activities was also exempted up to 300,000 SKK, with income over this amount taxed (abolished in 2006). Amendments to the Act on Income Tax in the years 2001 to 2006 eliminated these tax benefits and provided for the possibility of tax assignment to NGOs, which will be discussed further below.

The current tax system of the Slovak Republic influencing NGO activities consists of the major tax types listed in Table V.

Exemptions from the Income Tax are described in Table IV. Except for the motor vehicle tax, the Acts allow tax exemption or tax relief for legal entities not founded or constituted for business purposes, i.e., NGOs. The tax exemption or relief is regulated in some Acts; in other cases, it can be established by a local tax collector applying a regulation to local conditions (local taxes are determined by the municipality or higher territorial unit).

Table V:
Overview of selected taxes affecting the function of NGOs in the tax system in Slovakia

Type of tax	Act
Income tax from individuals and legal entities	Act no. 595/2003 Statutes on Income Tax as amended.
Tax on transfer of property	Act no. 554/2003 Statutes on Tax on Transfer of property
Property tax	Act no. 582/2004 Statutes on Local Taxes and Fees for municipal waste and construction waste
Motor vehicle tax (road tax)	
Gift tax	Abolished from 1 January 2004
Inheritance tax	Abolished from 1 January 2004
Value added tax	Act no. 222/2004 Statutes on Value Added Tax

Source: Own processing based on relevant Slovak legislation valid to 31 August 2013

Act no. 563/2009 Statutes on Tax Administration (Tax Code) is also important. It governs tax management, tax collection, tax control, filing of tax returns, remedies, and sanctions that the tax authorities may impose.

5. Tax assignment

Tax assignment is a mechanism that allows individuals and corporations to assign a percentage of the paid income tax to benefit a selected NGO. Tax assignment can be regarded as a mixed source: it has the characteristics of public funding (the state foregoes part of the income tax) and private funding (the allocations are based on the private choices of individuals and corporations). In the event that they do not decide on a particular NGO, the entire amount of the

paid income tax remains in the state budget. Tax assignment thus can be seen as a unique form of support, at the crossroads between public funds and private funds.

The tax assignment in Slovakia has been developed thanks to an initiative of the NGOs themselves. The first impulse was at a conference in Stupava (1997) which brought together representatives of the nonprofit sector. After the 1998 elections and the onset of a coalition led by Mikulas Dzurinda, the representative of the Committee of the Third Sector succeeded with the proposed amendments to the Income Tax and tax assignment. The main argument was a gradual withdrawal of foreign foundations that had previously supported the Slovak NGOs but now shifted their support to NGOs in the less developed countries of Eastern Europe. Philanthropy was still underdeveloped in Slovakia, and NGOs sought further sources of funding. Inspiration was found in implementing the tax assignment mechanism in Hungary.

In 1996, Hungary enacted a unique “tax designation” law that permits taxpayers to designate 1% of taxes paid to be turned over to civil sector organizations, and an additional 1% to be turned over to churches, provided that each of the two designated amounts is at least 100 HUF. In 2001, this law resulted in \$25 million USD worth of 1% designations by 1.4 million taxpayers. In the next three years, Slovakia, Lithuania, and Poland followed Hungary’s lead and enacted 1% type laws, though Lithuania’s law allowed for a 2% designation (International Center for Not-for-Profit Law, 2003).

This funding mechanism appeared to be successful, and the conditions were similar in these countries. The goal was not only to bring additional resources to the nonprofit sector but also to help build relationships between NGOs and citizens – the assignment of a percentage of income tax would give corporations and individuals to participate a more significant way to participate in financing NGOs.

The mechanism of tax assignment has undergone several important changes since its introduction in 2001, which we briefly summarize.

Act no. 561/2001 Statutes on Income Tax amended the Act no. 366/1999, and one of the changes allowed individual taxpayers to assign 1% of their personal income tax to the public benefit services provided by defined nonprofit organizations which operate in the fields of education, health care, social services, physical education and sport, environment, culture, and restoration of cultural monuments. This amendment abolished the option of tax relief on the value of the donations for public purposes, which had been up to 10% of the tax base for individuals and up to 2% of the tax base for corporations.

In 2003, Act no. 595/2003 Statutes on Income Tax changed the amount to 2% of the paid income tax and gave corporations as well as individuals the option of assigning this percentage of income tax (hereinafter also referred as “2% law”). By allowing tax assignment to corporations, Slovakia became unique in the world. Other amendments in this Act established criteria for determining which organizations and which activities would be eligible for the tax assignment. A tax assignment recipient must be registered by a notary. The received funds must be used by the end of the next year for advancing the organization’s core work. If the recipient fails to fulfill these obligations, it must return the funds within 90 days to the state budget, and it is subject to a breach of budgetary discipline under a special regulation. An organization that receives more than €3,319.39 from tax assignment in one year is required to specify precisely the use of the received funds in the Business Journal (*Obchodný Vestník*) within 16 months from the date that the Tax Directorate publishes the list of recipients. The organization must specify in

the amount of received funds and the purpose for which they were used, as well as provide an auditor's statement that conforms to special regulation.

Based on this amendment, the Ministry of Finance estimated that funds from the tax assignment for nonprofit organizations should have been around 300 million SKK (approximately 10 million Euros). The estimation of the 1st Slovak Non-profit Service Centre doubled the sum, i.e. 600 million SKK (approximately 20 million Euros). There was shock when the total amount of tax assigned was 845,222,347 SKK (over 28 million Euros) (Marček, 2007).

Act no. 504/2009 Statutes on Income Tax, which came into effect in 2010, amended the responsibilities of recipients. Under it, a recipient of more than €33,000 in one calendar year must within 30 days open a special account used only for the funds from tax assignment. The recipient can use the funds for advertising but only for the purposes defined in Act no. 504/2009 and for the purpose for which the NGO was established. The recipient can also use the funds to purchase movable and immovable property, if these are to be used for the core work of the NGO. The core work is certified by a notary at registration for tax assignment.

A major change in the Act was the reduction of the percentage from 2% to 0.5% starting in 2010. The main reasons for these changes were outlined in 2006 by Jan Počiatek, the Finance Minister at that time, who argued that 2% of corporate income tax was too high; it threatened the core goal of the tax assignment, which was to build relationships between NGOs and taxpayers. Although research indicates that tax incentives help involve businesses with the nonprofit sector (Guthrie, 2008), the tax assignment was not seen as the optimal tool for enhancing this involvement. Another argument was that large companies established and assigned their 2% of tax to their own foundations. An example is the SPP foundation, whose income from the corporate tax assignment was on average about €3,375,590 (www.rozhodni.sk). Jan Počiatek originally proposed the abolition of assignment of the corporate income tax. NGO representatives campaigned to preserve the 2% assignment. Thereafter, a compromise was implemented, under which the limit for corporate income tax assignment will gradually reduce from 2% to 0.5% during the years 2011 to 2019.

This amendment also seeks to ensure that large corporations support the NGOs established for public purposes from their own resources, and not solely via tax assignment. The main aim of this amendment is thus to encourage corporate philanthropy. The state will assign an

Table VI: Possible development of Corporate Income tax assignment

Year	If corporations do not donate directly, they can assign:	NGOs get:	If corporations donate directly	State assigns additionally:	NGOs can get:
2012	1,5%	1,5%	0,5%	0,5%	2,5%
2013	1,5%	1,5%	0,5%	0,5%	2,5%
2014	1,0%	1,0%	1,0%	0,5%	2,5%
2015	1,0%	1,0%	1,0%	0,5%	2,5%
2016	0,5%	0,5%	1,5%	0,5%	2,5%
2017	0,5%	0,5%	1,5%	0,5%	2,5%
2018	0,5%	0,5%	1,5%	0,5%	2,5%
2019	0,5%	0,5%	1,5%	0,5%	2,5%

Source: Own processing based on Act no. 504/2009 amending Act no. 595/2003 Statutes on Income Tax.

additional percentage of corporate income tax if a company provides a direct donation in that tax year as a corresponding percentage of the tax paid. An overview is provided in Table VI.

Act no. 504/2009 also changed the percentage for individuals for 2012. An individual who volunteered for at least 40 hours in 2012 could assign 3% of their income tax instead of 2%.

The overview of funds raised through the tax assignment for the period since the introduction of the mechanism is shown in Table VII. From Table VII it is clear that the mechanism of tax assignment is very popular among NGOs. The number of NGOs registered has been growing since 2005 which corresponds to the development and increasing number of NGOs in Slovakia (see more in Kuvíková & Svidroňová, 2013). The use of tax assignment is also confirmed by the results of the primary research in 2011 focused on NGO funding, which found that 92% of respondents received funds through tax assignment (Svidroňová & Vaceková, 2012).

Another obvious reason for the abolition or reduction in the percentage of tax assignment mechanism, so far unmentioned, was the government's effort to keep the full amount of the tax in the state budget instead of assigning any percentage to registered NGOs. This trend was associated with the economic crisis and efforts to sustain economic growth, which was reflected in several countries (Izák, 2011). According to an estimate by the state, the decrease in the percentage of corporate income tax assignment should have brought to the state budget about €6.7 million in 2011 and about €7.3 million in 2012 (Faiglová, et al., 2010). Table VII shows that in 2011 the amount assigned by corporations dropped by €3.15 million, which was less than half of the estimated amount that should have remained in the state budget. This fact is due to both a decrease in economic growth, which reduced the state revenue from corporate income tax, and a decrease of 745 corporations that participated in tax assignment in 2010 (i.e. their income tax automatically became part of the state budget; the state did not consider any percentage that should be assigned to NGOs and Table VII does not show this amount).

Table VII: Income tax assignment from individuals and corporations, 2002-2012

Year	Number of recipients	Number of participating individuals	Number of participating legal entities	Personal Income tax assignment (thousands €)	Corporate Income tax assignment (thousands €)	Total amount of Income tax assignment (thousands €)
2002	4 042	341 776	-	3 382	- €	3 382
2003	3 398	286 164	-	3 222	- €	3 222
2004	3 829	402 057	8 364	9 159	19 792	28 951
2005	5 746	418 241	14 063	10 371	20 525	30 896
2006	7 100	446 973	17 740	11 713	25 629	37 342
2007	7 662	408 277	21 632	12 819	29 306	42 125
2008	7 759	449 909	26 691	15 036	34 144	49 180
2009	9 098	503 253	30 078	17 684	37 496	55 180
2010	9 585	467 983	26 172	15 553	28 592	44 145
2011	10 049	475 843	25 427	16 526	25 444	41 970
2012	10 565	n/a	n/a	18 548	26 146	44 694

Source: Own processing based on data the Tax Directorate of the Slovak Republic - Annual reports on the activities of tax authorities for years 2004 - 2011(www.drsr.sk)

We cannot determine the number of corporations involved in the mechanism of tax assignment for 2012, but from the overall tax collection on corporate income tax, the state transferred €26.1 million for public purposes, i.e. the annual increase was € 0.7 million (2.8%). Compared to 2010 (before the amendment) the total amount of corporate income tax assigned declined by just €2.5 million, which is only about a third of the planned volume that had been supposed to stay in the state budget.

From the above, it can be deduced, first, that the amendment has not had the expected effect; and, second, that revenues from corporate income tax that actually stayed in the budget and did not have to be transferred to the NGOs were not particularly high. The argument that corporations support mainly their own foundations (founded by the corporations themselves) contradicted by data from the Centre for Philanthropy, which finds that more than two-thirds of the 2% of the corporate income tax is assigned to NGOs that are not directly linked to, established by, or controlled by these corporations. That the tax assignment is not an enrichment of corporations via their foundations can be proved by another fact: among the 200 largest recipients of the assignment in 2011 were 16 corporate foundations which together received the amount of €7.6 million. In the same year, however, the top 20 corporate foundations reallocated grants to a total amount of more than €9 million (www.cpf.sk).

6. Models of development of raising funds from the tax assignment

Based on the experience with the corporate income tax assignment from 2004 to 2011, we created two models to estimate the income for NGOs from the tax assignment up to 2015. From a statistical point of view, an attempt to estimate beyond 2015 would decrease the reliability of the model, given the relatively short period for which data is available.

The first model estimates the income if all corporations make direct donations to the amount as shown in Table VIII, such that the total amount that NGOs can receive would increase from 2% to 2.5%. To calculate the model we used a linear regression; because the share is fixed (2.5%), it would not make sense to calculate a regression model based on the change in the percentage. We therefore modeled the state budget revenues from corporate tax, which we estimated up to 2015, and from that amount we calculated 2.5%, on the assumption that all corporations would engage in tax assignment. We recalculated this amount using the coefficient of 64.76%, which was the actual usage of the maximum allowable amount in 2011.

**Table VIII: Estimated Development of Corporate Income Tax Assignment
Combined with Direct Donations from Corporations**

Year	State budget revenues (in €)	percentage of corporate income tax paid	theoretical assignment of corporate income tax paid: maximum possible amount	total amount if participation remains unchanged from previous year	percentage of maximum possible amount
2011	1 946 920 981,62 €	2%	38 938 419,63 €	25 216 755,00 €	64,76%
2012	2 048 692 491,43 €	2,5%	51 217 312,29 €	33 168 639,81 €	
2013	2 150 464 001,24 €	2,5%	53 761 600,03 €	34 816 335,88 €	
2014	2 252 235 511,05 €	2,5%	56 305 887,78 €	36 464 031,94 €	
2015	2 354 007 020,86 €	2,5%	58 850 175,52 €	38 111 728,00 €	

Source: Own processing based on data by the Tax Directorate of the Slovak Republic and own calculation.

Table VIII shows that the total amount that NGOs could receive would be gradually increased to €38 million in 2015. The significance of the model as a whole was confirmed at level $\alpha = 0.05$. The reliability of the model is 67%, and we can interpret it as follows: annually, the volume of revenues to the state budget from corporate income tax increases by €101.77 million due to the time component. It will influence the increase of the corporate income tax assigned by €1.65 million per year. The problem is that the model assumes 100% involvement of corporations in the direct donation from their own sources (financial or non-financial), so the total percentage for tax assignment would be 2.5%.

The second linear regression model estimates the income from the tax assignment for NGOs if corporations do not allocate additional funds from their budgets, i.e. the total amount that NGOs could receive would be gradually reduced from the original amount of 2% of the tax paid to 0.5%. The significance of the model as a whole was confirmed at the level $\alpha = 0.05$, the reliability of the model is 90.6% and it can be interpreted as follows: 82% of the changes in the total amount of assigned corporate income tax can be explained by the change in the percentage of tax assignment (other changes can be explained, e.g., by a smaller volume of corporate income tax due to a decrease in their income or by reducing the number of corporations, but we do not know how to illustrate these influences in the model). The estimated amount of the income that NGOs can acquire is shown in Table IX.

Table IX illustrates the real development of the percentage of corporate income tax paid in years 2004 to 2011. As we can see, it rose until 2009 and then dropped in 2010 and 2011. In the event that corporations would not support NGOs by additional direct donations, this drop would continue. In 2015, the model estimates that the amount for NGOs would be less than a third of what NGOs received in 2011. The model assumes that no corporation would support NGOs with direct donations, which is probably exaggerated; corporate philanthropy is at least partially developed in the Slovak Republic.

**Table IX: Estimated Development of Corporate Income Tax Assignment
Without Direct Donations from Corporations**

Year	percentage of corporate income tax paid	corporate income tax assignment – total amount
2004	2%	19 686 174,00 €
2005	2%	20 525 144,00 €
2006	2%	25 629 046,00 €
2007	2%	29 306 225,00 €
2008	2%	34 144 247,00 €
2009	2%	37 495 973,00 €
2010	2%	28 591 712,00 €
2011	2%	25 216 755,00 €
2012	1,5%	20 680 807,25 €
2013	1,0%	13 787 204,83 €
2014	1,0%	13 787 204,83 €
2015	0,5%	6 893 602,42 €

Source: Own processing based on data by the Tax Directorate of the Slovak Republic and own calculation.

Comparing the calculated and real data available for 2012 from the Finance Directorate of the SR, we can conclude the following: the first model, which assumes that all corporations would engage in the tax assignment and also donate 0.5% from their own sources, indicated that the amount which NGOs could have received in 2012 should have been €33.168 million. However, the actual amount in that year was €26.148 million, which is 7 million less than the estimation of model 1. The second model, which skeptically calculates that no corporation involved in the tax assignment would donate the percentage from their own sources, forecasts for 2012 that NGOs should have received €20.68 million. The reality in 2012 shows that this amount is lower by almost €5.5 million, i.e., model 2 underestimates the amount obtainable from the tax assignment. The second model is closer to reality; however, a comparison based on one year cannot draw decisive conclusions. It is interesting that averaging the amounts of model 1 and model 2 comes to €26.924 million, which differs from the real amount in 2012 by only approximately €778,000.

We believe the second model is more likely to apply to the development of raising funds from the tax assignment, i.e., corporations will not be motivated to make up the percentage from their own sources as direct donations to NGOs. The mere amendment in the legislation as an incentive for corporations to undertake more philanthropic activities is not enough. NGOs must have the reputation of credible and transparent organizations in order to attract more corporate philanthropy. We therefore recommend that NGOs regularly inform their donors about their activities and involve donors in the activities in order to raise awareness. We also recommend that NGOs build long-term strategic partnerships with corporations identified with the values and missions of NGOs. The long-term partnerships can be created either through networking or through cooperation in the field of corporate social responsibility (CSR). These and other steps based on the initiative of NGOs may lead to corporations willing to fund NGO activities from their own resources.

7. Conclusion

NGOs are favored in many areas of the tax system of the Slovak Republic. One of the benefits is the tax exemption, the terms of which we stated in the article. Another benefit is the possibility of obtaining funds from tax assignment. After 12 years of the existence of this mechanism, the NGOs have grown used to it and the number of registered organizations as recipients has been increasing since 2005. Therefore, NGOs will observe and comment on any changes to the mechanism. Lobbying may seem to be the optimal solution regarding the tax laws. This could improve the NGO Sustainability Index evaluation of the legal environment as a whole from the current score of 2.8. On the other hand, the legal environment includes other factors in addition to the tax laws, e.g. Labour Code, which the USAID evaluates for their impact on the sustainability of NGOs.

NGOs may be able to stabilize their income from tax assignment by changes to the tax laws. But doing so requires long-term effort, and the results are volatile; a new government may disregard the previous government's promises to the NGOs. Then there are the other possibilities of cooperation between NGOs and corporations (networking, CSR, shared marketing) which help to build long-term partnerships. In our opinion, these partnerships are more effective than tax assignment. However, NGOs also have to make an effort if they want to be involved in the mechanism of tax assignment; they must comply with the administrative regulations (register for the tax assignment at a notary), and they have to persuade corporations and individuals to assign the 2% of their taxes, e.g., by proving their reputation, transparency and credibility. Registering

as a recipient for the tax assignment might be sort of “lesson” for NGOs to learn how to act in a transparent and credible way, which is another positive aspect of this mechanism. We recommend that NGOs continue in their efforts to obtain funds from tax assignment, as these activities contribute to building their sustainability.

There is only a short time series of data available for further expert analysis using the relevant mathematical and statistical methods. We want to continue to monitor these issues in the coming years and conduct more detailed analyses to establish the effects of the legislation.

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