

4 The tax treatment of giving

This chapter provides an overview of the tax treatment of donors and philanthropic giving across OECD member and selected participating countries. The first two sections of the chapter discuss the tax design of incentives for giving by individuals and countries' tax incentives for corporate giving. The last section highlights the potential risk of tax avoidance and evasion and the anti-abuse policies countries have put in place as a result.

4.1. Introduction

4.1.1. Characteristics of philanthropic giving

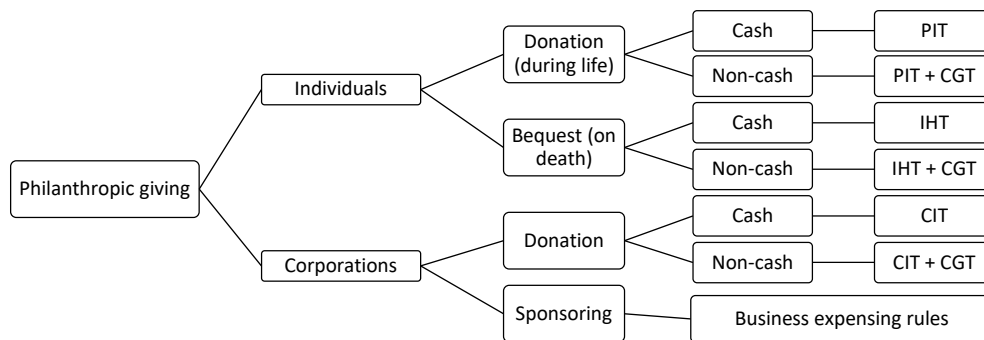
Philanthropic giving is the act of voluntarily transferring private resources to qualified philanthropic entities without receiving, or expecting to receive, anything of equal value in return. Both natural and legal persons can engage in philanthropic giving. Any benefit to the donor that arises from the gift must be within the statutory limits that apply. A number of countries (e.g. Australia, Austria, Canada, the United Kingdom, and the United States) have rules in place to accommodate the above fair market value purchase of goods and services from a philanthropic entity. Examples of such forms of philanthropic giving may include the purchase of tickets to a fundraising event (in the case of individuals) or the sponsoring of funds and PBOs in return for advertisement (in the case of corporations).

Philanthropic giving is a significant source of funding for funds and PBOs. All of the countries surveyed provide some form of tax incentives to encourage philanthropic giving. The generosity and design of the incentives varies. Countries may choose to encourage only some forms of giving or offer more support to some donors based on their income or wealth, or whether they are individuals or corporations.

The design of tax incentives for philanthropic giving depends on four characteristics of the transfer: (1) who is giving; (2) how is it given; (3) what is the gift; and (4) who is the recipient? As shown in Figure 4.1, giving

can occur at an individual or corporate level, which has implications on motives as well as the tax used to incentivise this behaviour. At the individual level, we differentiate between donations during one's lifetime and testamentary giving on death. At the corporate level, we differentiate between donations and sponsorship payments to philanthropic entities, which may be considered part of the donor's business expenses. The gifts (or donations) themselves can be in the form of cash, or non-monetary assets (e.g. real estate, stocks, cultural assets, and in some cases even blood or organ donations). Finally, the type of recipient is important as it determines the philanthropic nature of the gift. This chapter will compare and contrast how countries use their tax systems to incentivise giving and how those incentives are designed to apply to the different forms of philanthropic giving.

Figure 4.1. Different tax implications depending on the characteristics of philanthropic giving



Note: This shows the most likely tax implications of philanthropic giving to funds and PBOs. Giving to individuals directly, in most cases, does not qualify as philanthropic and could instead lead to inheritance, estate or gift tax liabilities. Abbreviations: personal income tax (PIT); capital gains tax (CGT); Inheritance tax (IHT); corporate income tax (CIT).

4.1.2. Eligibility for tax incentives

For philanthropic giving, of any kind, to be eligible for tax incentives, the recipient must be an eligible (i.e. recognised) fund or PBO. None of the countries surveyed (see Box 4.1 for unique exceptions) offer tax subsidies to gifts made directly to individuals in need without passing through a fund or PBO. Moreover, such transfers may trigger estate, inheritance or gift tax liabilities. Gifts made to funds or PBOs that are earmarked for specific individuals usually do not benefit from tax incentives either. There are a number of reasons countries may want funds and PBOs to act as intermediaries between the donors and the final beneficiaries of philanthropy. Ensuring that each individual gift is distributed in a way that meets the not-for-profit, worthy purpose, and public benefit criteria would create a large administrative burden for governments and donors. As a result, it is more efficient to make funds and PBOs responsible for meeting the conditions necessary for philanthropic giving to be tax incentivised.

Box 4.1. Exceptions to the rules on giving to individuals directly

Chilean law concerning national emergencies

In Chile, philanthropic gifts to individuals directly (i.e. without passing through a fund or PBO) are exempt from any tax affecting them, and are deductible from the corporate income tax base, if they are given during a national emergency.

The Virginia Beach Strong Act in the United States

The Virginia Beach Strong Act states that a cash contribution made for the relief of the families of the dead or wounded victims of the mass shooting in Virginia Beach, Virginia, on May 31, 2019, shall be treated as a philanthropic donation despite being for the exclusive benefit of such families.

4.1.3. Key findings

The key findings of this chapter are that:

- The majority of countries surveyed, offer tax deductions to incentivise individual and corporate philanthropic giving. Other countries offer tax credits instead, and in some cases, donations are matched or facilitated through an allocation scheme. Furthermore, deductions are more common for corporate tax incentives than personal income tax incentives.
- Countries generally limit the value of their tax deduction or credit to a share of taxable or total income; a share of the income tax liability; a fixed value; a combination of ceilings; or limit the size of the donation itself.
- In countries with no tradition of philanthropic giving, an allocation scheme can create awareness among taxpayers, financially support funds and PBOs, and develop stronger ties between the general public and philanthropic entities.
- Countries that levy inheritance or estate taxes generally provide preferential tax relief for philanthropic bequests. In countries with an inheritance tax, the funds or PBOs receiving the bequest is liable for the tax and thus are the ones that receive the tax relief. In countries with an estate tax, on the other hand, the tax liability as well as the corresponding tax relief is with the estate of the deceased.
- The majority of countries that incentivise cash donations of individuals, also incentivise non-monetary donations. Countries may require appraisals if the value of a non-monetary donation exceeds a threshold, have different valuation rules for different types of assets, not require valuations or review valuations through audits.
- Corporate payments to philanthropic entities in return for advertising are considered business expenses in most countries, if they have a sufficient nexus with producing business income. However, these payments may have tax implications for the PBOs receiving them.
- Common types of tax avoidance and evasion issues with tax relief for philanthropic giving include: eligible philanthropic entities that wilfully participate in a tax evasion scheme to benefit their donors; falsified donation receipts prepared by the philanthropic entity, tax preparers or donors; payments for goods and services disguised as donations; overvalued gifts; and donations of assets in which the donor retains an interest in.

This chapter proceeds as follows. Section 4.2 summarises countries' tax policies that are intended to incentivise philanthropic giving by individuals. Within this section, the individual incentive schemes of countries are discussed in detail, followed by an analysis of tax rules for non-monetary donations by individuals. Section 4.3 provides an overview of tax policies incentivising philanthropic giving by corporations. This section covers the design of countries' tax incentives, as well as the tax rules concerning the sponsoring of the philanthropic entity in return for advertising. Finally, section 4.4 discusses the risks of tax avoidance and abuse that are related to the tax policies discussed in this chapter.

4.2. Philanthropic giving by individuals

In most of the countries surveyed, individual taxpayers that give to a qualifying fund or PBO during their lifetime receive some form of tax incentive. Philanthropic giving of individuals can occur during life, in the form of donations, or on death, in the form of philanthropic bequests. Donations by individuals are encouraged, directly or indirectly, through personal income and/or capital gains tax incentives. Almost all countries surveyed have tax incentives for individuals that donate during their lifetime to qualified funds or PBOs. In the absence of such an incentive, individual taxpayers that give would do so entirely from their post-tax income and with no change to their personal income tax liability or size of their gift (this is the case in Malta).

The design of tax incentives for individual donors differs across countries and depends on the nature of the gift. A philanthropic donation can be in the form of cash or non-cash, frequently referred to as non-monetary or in-kind donations. Non-monetary donations may include:

- real and intellectual property;
- stock or shares;
- trading stock;
- cultural assets;
- other personal property;
- services (volunteering); or
- blood and organ donations.

None of these forms of donating are always eligible for tax-subsidies. Countries may choose to limit their tax incentives to cash donations only (e.g., Austria, Finland, Israel, New Zealand, Norway and Sweden), or severely restrict the size and nature of non-monetary donations. Non-monetary donations also raise valuation concerns, which may have capital gains tax implications.

This section provides an overview of countries' tax treatment of donations made by individuals and is organised as follows: an overview of the design of the tax policies meant to support and incentivise philanthropy (deductions, credits, matching schemes, and allocation schemes), followed by a discussion of tax incentives for philanthropic bequests. Lastly, this section covers the tax policies for in-kind donations with a particular focus on the applicable valuation rules, as well as the potential capital gains tax implications.

4.2.1. Tax incentives for cash donations by individuals

In the large majority of countries surveyed, donations are deductible. Other countries offer tax credits and in some cases, donations are matched or facilitated through an allocation scheme. Although allocation schemes are not tax incentives, they are included in this discussion as they are part of the toolbox of tax policies intended to support philanthropy and are administered through the tax system. Table 4.1 shows that donations are deductible in 22 of the countries surveyed. Tax deductions effectively subtract the donation, or a portion of the donation, from the personal income tax (PIT) base before the tax liability is computed, thereby reducing the taxable amount before calculating the tax. Deductions that are tied to progressive tax brackets can become regressive since the value of tax deductions increases with marginal tax rates. In the context of deductible donations this means that in countries with a progressive personal income tax, the cost of giving is lower for the wealthy.

Another aspect to consider is whether countries have a comprehensive or schedular income tax system. In the case of the latter, the gross income, deductions, and credits are determined separately for each type of income (e.g., labour and capital income). Since rates may vary from type to type, the impact of the incentive may also. For example, countries with a dual income tax system may have a progressive tax rate for labour income, but a flat rate for capital income. As a result, a deduction would only be regressive if it is allowed against labour income.

Twelve countries incentivise donations through tax credits. A tax credit is an amount subtracted directly from the tax liability, after the liability has been computed. Unlike tax deductions, the value of tax credits is equal for all taxpayers (as long as their tax liability is equal to or larger than the value of the credit). If the value of the credit is larger than the tax liability of an individual, the credit would have to be refundable for the taxpayer to benefit fully from the incentive (this is the case in New Zealand for example). One country (Japan) offers donors a choice between a tax deduction and credit.

Table 4.1. Tax incentives for donations by individuals

Country	Deduction	Credit	Matching	Allocation	Other
Argentina	X				
Australia	X				
Austria	X				
Bulgaria	X				
Czech Republic	X				
Estonia	X				
Finland	X				
Germany	X				
India	X				
Indonesia	X				
Italy	X	X		X	
Japan	X	X			
Latvia	X				
Luxembourg	X				
Mexico	X				
Netherlands	X				
Norway	X		X		
Singapore	X		X		
Slovenia	X			X	
South Africa	X				
Switzerland	X				
United States	X				X ²
Belgium		X			
Canada		X			
Chile		X			
Colombia		X			
France		X			
Greece		X			
Israel		X			
New Zealand		X ¹			
Portugal		X		X	
Sweden		X			
Ireland			X		
United Kingdom			X		
Hungary				X	
Lithuania				X	
Romania				X	
Slovak Republic				X	
Malta					X ³

Note:

1. The tax credit is wholly refundable.
2. Some states have tax credits for certain donations.
3. In cases of shares and immovable property donations to a qualifying PBO, such transfers would not be subject to tax.

Source: OECD Taxation and Philanthropy Questionnaire and Ministry of Finance websites

The United Kingdom, Ireland, Norway, and Singapore have a matching scheme, where government tops up donations at a given rate so that the entity receiving the donation is able to claim the tax relief. In the United Kingdom and Ireland the matched amount is linked to the personal income tax rate of the donor.

Romania, Slovenia, Portugal, Hungary, Lithuania, and the Slovak Republic use a tax allocation scheme to support philanthropic entities. In countries with an allocation scheme, the tax administration allows

taxpayers to designate a fixed percentage or amount of their income tax to a fund or PBO directly through their tax return. In itself, such a scheme is neither a tax incentive nor an act of giving. As discussed at the beginning of this chapter, philanthropic giving involves the voluntary transfer of private resources, and the money directed at funds and PBOs through a pure allocation scheme is public. Nevertheless, some have argued that allocation schemes can be used to help develop a culture of philanthropic giving in countries where there is no tradition of philanthropy (Bullain, 2004_[1]). On the other hand, such a scheme may curb philanthropic giving as individuals will be less inclined to use their private resources to support funds and PBOs if they can do so with public resources (Bullain, 2004_[1]).

4.2.2. Tax deductions

In countries with tax deductions, a donation (or a portion of it) is deductible from the personal income tax (PIT) base up to a limit that may be a fixed value and/ or expressed as a share of taxable or total income. To limit the size of the deduction, countries can: limit the share of the donation that is deductible (e.g. 50% of the donation is deducted from the PIT base); limit the size of the deduction to a share of taxable or total income (e.g. up to 20% of the PIT base); or limit the size of the deduction to a fixed value (e.g. up to EUR 1000). Table 4.2 shows that countries use any combination of tax deduction ceilings with different levels of generosity.

Decisions over what ceilings to use have policy implications on what income groups the tax subsidies target and what size of donations they most incentivise. For example, if the ceiling is a rather low share of total income but allows for a high fixed limit, high-income taxpayers will still receive a marginal benefit for large donations. If on the other hand, the ceiling is set to a high share of total income but the fixed limit on the deduction is low, the marginal benefit for any donation exceeding the fixed value limit will be zero. In Germany, for instance, deductions are simply capped at 20% of 'total income'¹, while in Estonia deductions are capped at 50% of 'taxable income' but may not exceed EUR 1 200.

Limiting the deduction to a share of taxable or total income

Table 4.2 shows that a number of countries (Argentina, Austria, Bulgaria, Switzerland, Germany, Indonesia, Italy, Mexico, the Netherlands, Slovenia, the United States, and South Africa) have ceilings that are only tied to income (as opposed to those limited to a fixed value). In these countries, the marginal cost of giving for large donations is lower for wealthy individuals regardless of the personal income tax rate, as higher income raises the deduction ceiling. Of course the fact that most countries have progressive personal income taxes leads to the cost of giving being even lower for those in higher tax brackets but this effect is independent of whether or not the ceiling is a function of total income or a fixed value.

Of the above mentioned countries, Argentina, Indonesia, Italy and Slovenia have the lowest ceilings. In Argentina, individuals can deduct donations up to 5% of 'annual earnings' of Argentinian source. In Indonesia, donations of up to 5% of current net income are deductible from the personal income tax base and for a taxpayer to be eligible for the deductible deduction, they must have net fiscal income (not a loss) based on the income tax return of the previous year, and the donation may not cause a loss in the current year. In Italy, individual taxpayers can choose between a deduction and a tax credit. Higher marginal tax rate taxpayers have a greater incentive to opt for deductions. Additionally, the gift may not be made through cash payments (i.e. it must be made through bank transfers, digital payments, etc.) in order to reduce the risk of abuse and tax evasion. For the tax deduction, individuals can deduct donations up to 10% of their taxable income. In Slovenia, a taxpayer with business and professional income can deduct donations but wage earners are incentivised through an allocation scheme. A taxpayer with business and professional income may claim a deduction for donations for humanitarian purposes, disabled persons assistance, social assistance, charitable, scientific, educational, health, sporting, cultural, ecological, religious and generally useful purposes. The deduction can be up to 0.3% of the taxpayer's 'taxable revenue' in the tax period. Additionally, a taxpayer may claim a deduction of up to an added 0.2% of the taxpayer's taxable

revenue in the tax period concerned, for donations to cultural purposes and voluntary societies established for the protection against natural disasters. Donations for these purposes (culture and disaster relief) can be spread over three tax periods. As a general rule the sum of all tax incentives (not just those for philanthropic giving) cannot exceed 63% of the tax base.

Table 4.2. Limitations to personal income tax deductions

Country	Share of the donation that is deductible	Ceiling	Floor
Argentina	100%	5% of annual earnings	
Australia	100%	A deduction for a gift or contribution cannot add to or create a tax loss.	AUD 2
Austria	100%	10% of total income	
Bulgaria	100%	65% of taxable income (after the deduction)	
Czech Republic	100%	15% of taxable income	2% of the tax base or CZK 1 000
Estonia	100%	EUR 1 200 and 50% of the taxable income	
Finland	100%	EUR 500 000	EUR 850
Germany	100%	20% of total amount of income	
India	50% - 100%	10% of Gross Total Income	
Indonesia	100%	5% from current net income	
Italy	100%	10% of the taxable income.	
Japan	100%	40% of total income	JPY 2 000
Latvia	100%	EUR 600 and 50% of the annual taxable income	
Luxembourg	100%	EUR 1 000 000 or 20% of net income	EUR 120
Mexico	100%	For donations to private institution: 7% of last year's cumulative income. For donations to governmental institutions: 4% of last year's cumulative income.	
Netherlands	100%	10% of the total income.	1% of total income and over EUR 60.
Norway	100%	NOK 50 000	NOK 500
Singapore	250%	No limits	
Slovenia	100%	0.5% of taxable revenue	
South Africa	100%	10% of taxable income	
Switzerland	100%	20% of taxable income	CHF 100
United States	100%	60% or 30% of adjusted gross income depending on the beneficiary	

Source: OECD Taxation and Philanthropy Questionnaire and Ministry of Finance websites

In Bulgaria, Mexico, the Netherlands, and Slovenia the deduction rules vary across worthy purposes. In Bulgaria the limitations of deduction varies depending on the worthy purposes that the recipient fund or PBO is engaged in. Donations are deductible from the annual personal income tax base up to a total ceiling of 65% of the tax base after the deduction. For individual donations, the ceilings further differ depending on the beneficiary:

- Up to 5% of the annual tax base, where donations are in favour of:
 - healthcare and medical-treatment establishments;

- social services for residential care, as well as of the Social Assistance Agency and of the Social Protection Fund under the Minister of Labour and Social Policy;
- public nurseries, kindergartens, schools, higher schools or academies;
- budgetary organisations, within the meaning given by the Accountancy Act;
- any religious denominations registered in the country;
- any specialised enterprises or cooperatives of persons with disabilities;
- the Bulgarian Red Cross;
- cultural institutes and community centres;
- PBOs with the exception of any organisations supporting culture;
- the Bulgaria Energy Efficiency and Renewable Sources Fund;
- therapeutic communities for the treatment of drug-addicted persons;
- the United Nations Children's Fund (UNICEF);
- Up to 15% of the annual tax base, where donations are in favour of culture;
- Up to 50% of the annual tax base, where donations are in favour of:
 - the National Health Insurance Fund: for activities related to the medical treatment of children.

In Mexico, the deduction limits vary depending on the nature of the receiving entity. Donations to private philanthropic entities are only deductible for an amount that does not exceed 7% of the 'cumulative income' earned by the taxpayer in the year immediately preceding the deduction. Mexico also incentivises donations to local government entities. Donations in favour of the Federation, the Federal Entities, the Municipalities, or their decentralized organisations, are only deductible in an amount that does not exceed 4% of the taxpayer's cumulative income in the previous year (donations to local government entities or institutions are outside the scope of this report and therefore not covered in more detail elsewhere). The sum of donations to private philanthropic entities and governments entities must not exceed 7% of the 'cumulative income' earned by the taxpayer in the year immediately preceding the deduction.

In the Netherlands donations are deductible if the amount of the donation is at least 1% (minimum EUR 60) and up to 10% of the donor's total income. A donation that is pledged for at least 5 years in a written statement (by a notary) can be deductible without the threshold and ceiling. For donations to a cultural PBO, there is a multiplier of 1.25 times the gift (up to a maximum of EUR 1 250). There are no rollover provisions and gifts are only deductible in the year they were given. Sole traders and unincorporated entities can deduct donations as business expenses as long as they do so for the purpose of producing income. Otherwise, the payment to philanthropic entities is deductible as a donation.

In the Czech Republic, donations to municipalities or qualifying philanthropic entities are deductible from the personal income tax base up to a ceiling of 15% of taxable income adjusted for deductible expenses. For the donation to qualify, it must be greater than the lesser of 2% of taxable income or CZK 1 000.

Austria, Australia, Germany, and the United States provide a deduction for donations to a broad range of philanthropic entities but also have rules to regulate donations for which the donor receives a benefit (donor-benefit rules). In Austria, cash donations of individuals are deductible from the personal income tax base in the year the money was donated. The only restriction is that the deduction may not exceed 10% of the total income. Donations cannot be carried over to a subsequent year. Austria also has very specific donor-benefit rules, for example, in relation to a fundraising event. Donors that give to funds and PBOs by purchasing an overpriced good or service, may deduct the amount paid that exceeds the fair market value of the good or service purchased. In a fundraising auction, where one individual donates a good and the other purchases it, the donor of the good may deduct its fair market value. The buyer of the good may in return deduct the amount paid in excess of the fair market value of the good.

In Australia, donations of more than AUD 2, are deductible from the personal income tax base. There is no specific upper limit on the value of a donation that may be deducted. The only limit is that deductions for donations cannot create or add to a tax loss. However, taxpayers can spread a donation over up to five income years. Furthermore, Australia differentiates between a gift for which the donor receives no benefit at all and a contribution for which the donor does receive a benefit. When the donor does receive a benefit (e.g. purchasing a ticket for a philanthropic fundraising event), the transaction is only tax deductible if the benefit to the donor is no more than AUD 150 and 20% of the value of the donation.

In the United States, deductions by individuals to philanthropic entities are generally limited to 60%² of 'adjusted gross income', although donations to private foundations are limited to 30% of adjusted gross income. Donations in excess of these limits can be carried over to up to 5 years. For taxpayers to benefit from the deductible deduction, they must itemise their deductions and cannot take the standard deduction (see Box 4.2). In the case of an above fair market value purchase of goods and services from a qualified fund or PBO (e.g. philanthropic fundraiser tickets), the excess payment (difference between the payment and the fair market value of the good or service) can be considered a philanthropic contribution and is tax deductible. However, for the excess amount to qualify, the individual must pay it with the intent of making a charitable contribution (i.e. the individual must be aware that they are paying more than the fair market value of the good or service).

In Germany, donations are considered special expenses and are deductible from the personal income tax base. The deduction is limited to 20% of 'total income' (or 4% of the sum of the total turnover and wages and salaries paid during the calendar year). Membership fees to entities that promote sports, certain cultural or heritage activities as well as customs and traditions are not deductible. Similarly, Germany has strict donor-benefit rules so that, unlike in the United States or Australia, the above fair market value purchase of goods and services from a fund or PBO (e.g. fundraiser tickets) is not tax deductible.

In Japan, the amount of a qualifying donation exceeding JPN 2 000 is deductible from donors' income up to 40% of total income. A donation qualifies for the tax incentive if it is made to public interest incorporated associations, public interest incorporated foundations and other corporations or groups that carry out business for the public benefit, which meet the requirements discussed in Chapter 3. Japan is a unique case because it allows donors to choose between a tax deduction and a tax credit (for some donations). The design of the tax credit is discussed in the next section.

In Switzerland, donations over CHF 100 are deductible up to 20% of 'taxable income' for federal income tax purposes. For cantonal (i.e. regional) income tax purposes, the thresholds are sometimes different. The majority of Swiss cantons have adopted the federal threshold and minimum donation amount. Some cantons, however, have eliminated the minimum donation amount or given its regional council the authority to waive the 20% threshold on a case by case basis if there is found to be 'a considerable public interest' in the relevant purpose. In South Africa, donations for the purposes of healthcare, conservation, education, and welfare activities, are deductible from the personal income tax base up to a limit of 10% of 'taxable income' (rollover provisions apply).

Limiting the deduction to a fixed value and/or a share of income

Countries with a fixed value limit (Estonia, Finland, and Norway) keep the size of the deduction under a certain maximum regardless of how high a donor's income is. This means that in these countries individuals with lower incomes can deduct a higher proportion of their income for philanthropic giving than those with high incomes. In Finland, donations between EUR 850 and EUR 500 000 are deductible from taxable income. Only donations for the purpose of promoting science, or art given to a publicly financed university, can qualify for the tax deduction. The ceiling is significantly lower in Norway, where the donation must be between NOK 500 and NOK 50 000 (~ EUR 4 500) to qualify for the tax deduction.

Furthermore, the design of the tax deduction in Estonia, Latvia, and Finland shows that there are regional similarities. In Estonia, donations of up to EUR 1 200 and 50% of the taxable income may be deducted. In

Latvia, donations can be deducted as part of the total eligible expenses including the acquisition of education and the use of health and medical treatment services. Total deductions are limited to 50% of the annual taxable income, and no more than EUR 600. So the deduction limit is set to the same share of total income in both Latvia and Estonia, but the fixed value limit is double the size in Estonia.

India is a unique case where the donations are limited if they are made in cash. All donations above INR 2 000 made in cash are not deductible and must be made by cheque or wire transfer. In India, 100% of the donation is deductible if it is given to certain funds (e.g. Prime Minister National Relief Fund) only 50% of the donation is deductible if it is given to most other philanthropic entities. In most cases, the deduction is capped at 10% of the gross total income (after all other eligible tax exemptions and deductions).

In Luxembourg, tax deductible donations must be at least EUR 120 and may not exceed 20% of the donor's total net income, or EUR 1 000 000. Donations that exceed these limits may be reported over the next 2 tax years. Additionally, the initial donation made by the founder of an eligible foundation or fund is also considered deductible donation.

Box 4.2. Implications of the Tax Cuts and Jobs Act (TCJA) for philanthropic giving

Signed into law on 22 December 2017, the TCJA is considered the biggest overhaul of the United States tax system in more than thirty years. It includes corporate and individual tax changes, which have implications for giving and philanthropic entities.

In the United States, taxpayers can choose between itemising their deductions on their income tax returns and claiming the standard deduction. Only taxpayers that itemise can deduct charitable contributions from their taxable income. Since the tax-subsidy for donations does not apply to those that claim the standard deduction, only itemisers have a tax incentive to give to philanthropic causes.

The TCJA just about doubled the standard deduction and capped the deduction for state and local taxes at USD 10 000. Since taxpayers only choose to itemise if the sum of their potential itemised deductions is larger than the standard deduction, this is likely to reduce the number of households claiming an itemized deduction especially among middle-income households.

Coupled with a slight decrease in PIT rates, the TCJA reduced the average tax subsidy for charitable giving considerably. In other words, the price of giving has increased and the overall design of the tax incentive has become even more focused on big donors.

Source: (Urban-Brookings Tax Policy Center, 2018^[2]).

4.2.3. Tax credits

Belgium, Canada, Chile, Colombia, Greece, Israel, New Zealand, Portugal and Sweden all incentivise donations by individuals through tax credits. As discussed above, a tax credit is an amount subtracted directly from the tax liability, after the liability has been computed. Unlike a deduction, the value of a tax credit does not depend on the income tax rate paid by the donor and is, in itself, not regressive in countries with a progressive personal income tax.

To limit the size of tax credits countries may adjust the share of the donation that is creditable (e.g. 50% of the donation is creditable); limit the value of the credit to a share of taxable or total income (e.g. up to 20% of the PIT base); limit the value of the credit to a share of the total PIT liability (e.g. the credit cannot exceed 20% of the tax liability); limit the value of the credit to a fixed value (e.g. the credit cannot exceed EUR 1 000); or limit the size of the donation to a fixed value (e.g. up to EUR 1 000). Table 4.3 shows that countries use a combination of limitations to design their tax credits for philanthropic giving. The minimum

amount necessary for a donation to qualify for the tax credit may be used to increase the efficiency of administrative costs and incentivise larger donations.

Table 4.3. Limitations to personal income tax credits

Country	Tax credit	Ceiling	Floor
Belgium	45%	Total amount of the donation may not exceed 10% of global net income nor EUR 375 350 per spouse	EUR 40 per institution
Canada	15% - 33%	Up to 75% of net income can be claimed (for cash donations)	
Chile	35-50%	Credits received for donations to charity, and education, culture and sport are limited at 20% of the amount of the donation subject to beneficial tax treatment or UTM 320 (approx. USD 20 558).	
Colombia	25%	Credit received is limited to 25% of the income tax liability (the excess may be carried over to the following year)	
France	66%	20% of taxable income	
Greece	20%	Total amount of the donation may not exceed 5% of taxable income	EUR 100
Israel	35%	The credit cannot exceed 30% of taxable income or NIS 9 000 000	
Italy	30% (35% for specific PBOs)	Up to EUR 30 000 of total giving	
Japan	40%	The donated amount cannot exceed 40% of total income and the value of the tax credit may not exceed 25% of the income tax liability.	JPY 2 000
New Zealand	33.33%	Total amount of the donation may not exceed 100% of taxable income.	NZD 5
Portugal	25%	The credit cannot exceed 15% of tax liability (no limit for donations to public institutions).	
Sweden	25%	The credit cannot exceed SEK 1 500	SEK 2 000 total donations and at least SEK 200 per individual donation

Source: OECD Taxation and Philanthropy Questionnaire and Ministry of Finance websites

Limiting the value of the credit to a share of taxable or total income

Canada offers tax credits for donations at the federal and provincial level. The federal tax credit is 15% on the first CAD 200 and 29% on donations above that amount, with the exception of individuals with taxable income exceeding the highest income tax bracket (which is indexed to annual inflation and approximately CAD 200 000), where the tax credit is 33% on all donations above the first CAD 200. Thus the value of the tax credit is larger for wealthier donors for all donations above CAD 200. Take, for example two donations of CAD 1 000 by donor A and donor B. Donor A has a taxable income above the highest income tax bracket (approximately CAD 200 000) and donor B does not. The monetary value of the tax credit for donor A and B is CAD 330 and CAD 290 respectively. Provinces tend to extend similar credits for provincial income tax at lower rates (e.g., Ontario provides a credit of 5.05% on the first \$200 and 11.16% on donations above that). Generally, individuals are only able to claim up to 75% of their net income for the year but donations can be carried forwarded for 5 years. If the donor receives a benefit (e.g., the purchase of a ticket to a fundraising event), the fair market value of the benefit must be determined by the philanthropic entity (this is referred to as the 'split receipt' method) and deducted from the amount of the payment before the tax

credit is applied. Furthermore, a donation is only eligible for tax relief if the value of the benefit received is less than 80% of the value of the donation. This is referred to as the ‘intention to make a gift’ threshold as gifts with a benefit to the donor above that amount are considered to have been made with no true intention of donating.

France provides a 66% tax credit for donations to philanthropic entities. The reduction applies within the limit of 20 % of taxable income. For donations to PBOs providing free meals, care or accommodation for people in need, the tax credit is 75% of a donation less than or equal to EUR 546. For the part of the donation that exceeds EUR 546, the tax credit is 66%. The 20 % of the taxable income limit remains constant. Additionally, France provides a reduction on the real estate wealth tax (“Impôt sur la fortune immobilière”). The reduction is 75 % of the amount of the donation with a cap at EUR 50 000.

In New Zealand, donors receive a fully refundable tax credit of 33.33% of the donation. Furthermore, the amount an individual can donate and claim a donation tax credit for is capped at 100% of their taxable income for the year the donation was made. The value of the tax credit is limited to 33.33% of the donor’s taxable income. For a donation to qualify, it must be a gift of NZD 5 or more. The credits can be claimed by sole traders as well as individuals who are wage-earners.

In Japan, donors can select a 40% tax credit in place of the tax deduction for certain types of donations. However, the tax credit is only applied to the part of the donation that exceeds JPN 2 000. Furthermore, the donated amount cannot exceed 40% of total income and value of the credit cannot exceed 25% of the personal income tax liability.

Limiting the value of the credit to a share of the income tax liability

In Colombia and Portugal, the credit ceiling is tied to the tax liability instead of total taxable income. In Colombia, the tax credit is 25% of the value donated in the year or taxable period, limited to 25% of taxpayers’ income tax liability of the year in which the donation was made. The excess may be offset against the income tax liability in the following tax year. For example, if an income taxpayer makes a donation of COP 150, such donation creates a credit of COP 37.5 (25% of COP 150). If the tax liability of the income tax payer is COP 80, the total amount of the credit that may be offset in the taxable year of the donation is COP 20 (25% of USD 80); the remaining COP 17.5 credit may be offset in the following tax year if it does not exceed 25% of the total income tax liability. In Portugal, the tax credit is set at 25% of the donation but limited to 15% of the tax liability which is ten percentage points lower than in Colombia.

Limiting the value of the credit to a fixed value

In Sweden, donors receive a 25% tax credit of up to SEK 1 500, corresponding to a maximum of SEK 6 000 a year in eligible donations. For the donation to be eligible for the credit it must be at least SEK 2 000 a year and SEK 200 at each giving occasion.

Limiting the value of the credit to a combination of ceilings

In Belgium, a 45% tax credit is granted for donations made to eligible philanthropic entities, provided the gifts amount to at least EUR 40 per beneficiary fund or PBO. The total amount of donations for which the tax credit is granted cannot exceed 10% of ‘global net income’ nor EUR 376 350 per spouse for a married couple.

In Chile, the size and limits of the tax credit depend on the worthy purpose of the entity receiving the donation. For donations to culture and sports, the tax credit can be 35% or 50%. Donations to social and public purposes and education, may receive a tax credit of 50%. The donation, however, is limited to 20% of the amount of the donation subject to beneficial tax treatment or 320 UTM (which is equal to about CLP 16 000 000 and EUR 18 000). For so called ‘reconstruction donations’, the tax credit is 40% and there are no limits to the size of the donation.

In Israel, the donor receives a tax credits equal to 35% of the eligible donations in the tax year. The value of the credit is limited 30% of the donor's yearly income or NIS 9 000 000.

Limiting the size of the donation

In Greece, donations are incentivised through a 20% tax credit provided that the sum of all donations exceeds EUR 100 during the tax year. The total amount of donations eligible for the tax credit cannot exceed 5% of taxable income and there are no carry over provisions. For individuals that have a business activity, donations can be considered business expenses without a limit or ceiling (as long as they comply with the business expensing rules).

Box 4.3. Tax measures to incentivise philanthropy in response to the Covid-19 pandemic

China

- In-kind donations to help combat COVID-19 are exempt from VAT and other consumption taxes. In addition, donations made by enterprises or individuals through qualified Public Benefit Organisations or government authorities can be fully deducted for corporate income tax and personal income tax purposes. Before the measure, Chinese taxpayers could only deduct part of their donation from their PIT base.

Chile

- Due to the Covid-19 crisis, a decree was issued by the Chilean government triggering the application of the tax benefits of Chilean law concerning national emergencies (see Box 4.1) to donations related with this catastrophe.

United States

- For 2020, up to USD 300 of monetary donations are deductible from the personal income tax base, whether or not the taxpayer itemises or takes the standard deduction (see Box 4.2).
- The United States also increased the limitations on deductions for charitable contributions by individuals who itemise, as well as corporations. For individuals, the 50% of adjusted gross income limitation is suspended for 2020. For corporations, the 10% limitation is increased to 25% of taxable income. This provision also increases the limitation on deductions for contributions of food inventory from 15% to 25%.

Italy

- Offered tax deductions of 30% for philanthropic donations linked to the COVID-19 emergency.

Belgium

- Companies donating medical material and equipment to hospitals do not have to pay VAT on these donations.

Iceland

- Persons and entities building, renovating or maintaining residential housing or vacation homes can seek reimbursement for 100% of the VAT incurred due to certain craftsman labour. The reimbursement rate has been increased from 60% to a 100% and now includes more types of labour, for example architects. This measure is further extended to PBOs such as charities and sports associations. These measures will remain in effect until end 2020.

Source: OECD Tax Policy Responses to COVID-19 database (<http://www.oecd.org/tax/covid-19-tax-policy-and-other-measures.xlsm>).

4.2.4. Matching schemes

In a matching scheme, the government tops up donations with a specific amount, which means that the fund or PBO receiving the donation is able to claim the tax incentive. The United Kingdom and Ireland both have matching schemes. The matching scheme in the United Kingdom is referred to as Gift Aid. The donation is treated as if the donor has had the basic tax rate (20%) deducted (i.e. a donation of GBP 1 000 is treated as GBP 1 250). The PBO or fund receiving the donation is then able to claim Gift Aid from the tax administration (HMRC in the United Kingdom) at the basic tax rate (see Table 4.4 for an illustration of Gift Aid). Higher rate taxpayers can claim the difference between the basic rate and the higher rate as personal tax relief.

The fiscal devolution of Wales and Scotland allows for differential tax rates across the United Kingdom. Nevertheless, Gift Aid claimed by charities regardless of their location within the United Kingdom is determined using the United Kingdom basic rate. On the other hand, the tax relief claimed by the Welsh or Scottish donor is determined using the difference between the United Kingdom basic rate and the Welsh or Scottish higher rate respectively.

Table 4.4. Example of Gift Aid in the United Kingdom

Income tax rate of the donor	Donation	Gift Aid claimed	PBO and fund receive	Personal tax relief
Basic (20%)	GBP 1 000	GBP 250	GBP 1 250	GBP 0
Higher rate (40%)	GBP 1 000	GBP 250	GBP 1 250	GBP 250

Note: $(\text{GBP } 1000 / 80) * 100 = \text{GBP } 1\,250$.

Source: Government website (<https://www.gov.uk>).

In the United Kingdom, payments to funds and PBOs in return for goods or services (including the purchase of a ticket to a fundraising event or raffle) are not considered donations and cannot qualify for Gift Aid. However, specific rules apply to a charity auction where individuals are willing to pay substantially more than market value in order to support the philanthropic entity. For auctioned goods that have a retail price and are freely available, the benefit to the individual for Gift Aid purposes is considered to be the retail price. Any excess payment can be treated as a donation if the donor is aware of that the item's retail price and that it is freely available elsewhere (e.g., if an individual knowingly purchases a TV with a retail price of GBP 500 for GBP 700 at a charity auction, the excess GBP 200 pounds can qualify as a donation for Gift Aid purposes). The value of goods that are not freely available and have no retail price (e.g., items belonging to celebrities) or services that are not usually available (e.g., babysitting for an evening) are considered to be worth the price that they are purchased for and therefore do not qualify for Gift Aid.

Ireland also has a matching scheme for incentivising charitable donations (called Charitable Donation Scheme). Philanthropic donations from an individual which are greater than EUR 250 per year, but do not exceed EUR 1 000 000 per year, attract tax relief. The relief may be claimed by the approved body to which the money is donated at a rate of 31%, or 10% if there is a connection between the donor and the organisation. The matching payment to an approved body cannot exceed the amount of tax that the donor has paid for that year. The donor cannot claim a refund of any tax that has been paid to the approved body.

In 2014, Norway introduced a matching scheme (also known as the gift reinforcement programme) in addition to the available deduction. The purpose of the program is to stimulate increased private sector funding for art and culture in the form of monetary donations. Recipients of donations receive an additional gift reinforcement sum, usually 25% of the donated amount. Applications for the receiving the reinforcement sum must be submitted to the Ministry of Culture.

4.2.5. Allocation schemes

In countries with no tradition of philanthropic giving, an allocation scheme (also referred to as ‘percentage philanthropy’ or ‘tax percentage designation’ scheme) can create awareness of philanthropy among taxpayers, financially support funds and PBOs, and develop stronger ties between the general public and philanthropic entities. Allocation schemes were introduced mainly in post-communist Europe during the transition period and reports have estimated that by 2016 these schemes have provided philanthropic entities in the region with around five billion in funding (Strečanský and Török, 2016^[3]). Of the countries surveyed, Romania, Slovenia, Portugal, Hungary, Italy, Lithuania, and the Slovak Republic have a tax allocation scheme to support their philanthropic entities. Hungary was the first country to introduce an allocation scheme in 1997, followed by Portugal in 2001, the Slovak Republic in 2002, Lithuania in 2003, Poland, and Romania in 2004, and Slovenia in 2007 (Bullain, 2004^[1]).

Allocation schemes decentralise the decision-making process of allocating a certain percentage of income tax revenues to the taxpayers themselves. As discussed above, allocation schemes are not a form of philanthropic giving because they do not involve the transfer of private funds. Instead, taxpayers are able to indicate to the tax authorities what philanthropic entities or causes a set percentage of their income tax liability should be allocated to. The details of the scheme vary across countries, but typically taxpayers need to choose the philanthropic entity or worthy purpose from a list provided by the tax authority.

Some countries that have allocation schemes do not have incentives for individual philanthropic giving (e.g., Hungary, Lithuania, and the Slovak Republic), while others (e.g. Slovenia and Portugal) also offer tax incentives such as deductions or credits. This is worth noting because while allocation schemes can complement deductions, credits, or matching schemes, they should not be viewed as a replacement of this kind of tax relief for philanthropic giving because the scheme comes at zero cost to the taxpayer making the allocation. In Hungary, taxpayers can designate 1% of their personal income tax to an eligible PBO since 1997 and since 1998 they can designate an additional 1% to churches. In Lithuania, a taxpayer can designate up to a total of 1.2% of their personal income tax to eligible PBOs. In the Slovak Republic, individuals can allocate 2% of their income tax to a philanthropic entity and they can do so when submitting their tax return. If the taxpayer has volunteered for a ‘worthy’ purpose entity, for at least 40 hours during the tax year, the amount that can be allocated increases to 3% of the personal income tax liability. In Romania, individuals can allocate 2% or 3.5% of their personal income tax liability to philanthropic entities by submitting a form with the list of preferred recipients to the tax authority. The 2% share can be directed to philanthropic entities that are established and operate according to legal provisions, but also to religious units (including parishes). The share of 3.5% can be directed to PBOs and religious units that are also providers of social services. From 2021, the share will become 3.5% and can be directed to all PBOs and religious units that operate according to legal provisions.

What distinguishes Italy, Slovenia and Portugal is that they have tax deductions and credits to incentivise philanthropic giving, but have also implemented a tax allocation scheme. In Slovenia, taxpayers can allocate either 0.1%, 0.2%, 0.3%, 0.4% or 0.5% of their personal income tax to eligible funds and PBOs by submitting a form online, in person, or by mail at any point before end of the year for which the personal income tax is assessed. In 2018, a total of about EUR 5 million was allocated to over 5 000 entities, in 2017 the total sum allocated this way was around EUR 4.6 million and in 2011 it was around EUR 3.8 million.³

In Portugal a taxpayer can allocate 0.5% of their personal income tax for religious or charitable purposes, to a church, religious community, or PBO. They can do so as part of their annual personal income tax declaration or through an online portal by April. In addition to the personal income tax allocation scheme, Portugal also introduced a VAT allocation scheme in 2019 (see Box 4.4 for a more detailed overview of how it works).

In Italy a large amount of the financing for the philanthropic sector comes from the “5 per mille” option, an allocation scheme which enables taxpayers to allocate the 0.5% of their PIT to public and private entities operating in cultural, educational, scientific and charitable fields. PBOs represent a relevant part of the entities entitled to receive these funds. In 2018 this kind of financing amounted to EUR 439.8 million for PBOs.

Box 4.4. The Portuguese VAT allocation scheme

In addition to being able to allocate a share of their personal income tax, individuals in Portugal can also direct a share of some of their VAT payments to the same entity that they specified for the allocation of their income tax.

Contrary to the allocation of personal income taxes, the VAT allocation scheme comes at a cost to the taxpayer and is therefore a form of philanthropic giving. In Portugal 15% of the VAT paid to car workshops, restaurants, accommodation services (e.g. hotels), hairdressers, beauty salons and veterinaries, and 100% of the VAT paid for social passes (i.e. public transportation) is tax deductible. The allocation scheme allows taxpayers to direct their VAT deductible VAT payments to a philanthropic entity and forgo the tax benefit themselves.

4.2.6. Philanthropic bequests

Countries that levy inheritance or estate taxes generally provide preferential tax relief for philanthropic bequests. In countries with an inheritance tax, the PBO or fund receiving the bequest is liable for the tax and thus entitled to receive any tax relief. In countries with an estate tax, on the other hand, the tax liability as well as the corresponding tax relief is with the estate of the deceased.

The Brussels-Capital region in Belgium, for example, has a reduced regional inheritance tax rate of 7% for bequests of moveable and immovable assets to accredited philanthropic entities (as opposed to the standard rate of 25%).

In France, bequests made to PBOs recognized as being of public utility (see Chapter 3) are subject to the inheritance tax rate provided for inheritances between siblings:

- 35 % up to EUR 24 430;
- 45 % above EUR 24 430.

For other PBOs which do not benefit from the public utility status, the tax rate is set at 60%. Nevertheless, some type of donations and bequests are exempted from the inheritance tax:

- endowment funds of a philanthropic, educational, scientific, social, humanitarian, sporting, family, cultural nature, or contributing to the enhancement of artistic heritage, the defence of the natural environment or the dissemination of culture , French language and scientific knowledge;
- endowment funds whose management is selfless and which transfer the income from donations to other non-profit organizations,

In Bulgaria, bequests to the Bulgarian Red Cross, registered religious denominations and community centres are exempt from inheritance tax. Funds and PBOs are also exempt from inheritance tax in the Netherlands, Slovenia and Finland.

In countries with an estate tax, the estate receives the exemption or other tax relief. In South Africa, for example, bequests to PBO's are exempt from estate tax. In the United States, philanthropic bequests are fully deductible from the estate tax base.

Norway, Canada and Australia do not have an inheritance or estate tax, but donations on death or in the year before can still qualify for tax deductions. In Canada, the tax credit for a donations made by an individual in the year of death (but prior to the date of death) can be claimed either on the deceased individual's final tax return or the return for the preceding year. Additionally, the limit of the tax credit for donations made in the year of death is raised to 100% of the deceased person's net income or the eligible amount of gifts made in the year of death (in addition to any eligible unclaimed portion of the amount of any gifts made in previous years). In Norway, testamentary donations (i.e. bequests) are deductible under the same conditions as donations made before death. If the conditions are fulfilled, philanthropic bequests are deducted from the estate when the tax for the estate of the relevant deceased person is calculated. In Australia, a gift on death is not subject to capital gains tax, if the gift would have been deductible if made during the donor's lifetime. In Japan, assets donated by the heir to a PBO, are not included in the taxable value of inheritance tax.

4.2.7. Non-monetary donations of individuals

In countries that extend tax incentives to non-monetary donations by individuals, the limitation rules or form of tax relief may differ from cash donations. Not all countries that incentivise philanthropic giving of individuals include non-monetary donations. Of the countries that do (Argentina, Australia, Belgium, Bulgaria, Canada, Chile, Colombia, Estonia, France, Germany, Greece, India, Indonesia, Ireland, Italy, Latvia, Mexico, the Netherlands, Portugal, Singapore, Slovenia, South Africa, Switzerland, and the United States), some have specific rules that are different from those for cash donations discussed above. Non-monetary, or in-kind donations, refer gifts such as property, services, and in some cases even blood and organ donations (see Box 4.5). Donations of property can include real and intellectual property; stocks or shares; trading stock; cultural assets; or other personal property. Donations of goods and services typically refer to the provision of the kind of goods and services that PBOs themselves provide to those in need (e.g. clothing, food, medicine, volunteering at a homeless shelter, etc.). Not all of these different forms of in-kind donations are eligible in all countries, but most allow for the donation of property. A disposal of property may also give rise to a capital gain in some countries.

In Australia, the same rules that apply to cash donations apply to donations of shares and items of trading stock. For donations of property other than shares, the gift must be valued at more than AUD 5,000 unless it is donated within 12 months of purchase. Shares listed on a stock exchange must be valued at less than AUD 5 000 and acquired within the last 12 months. A disposal of property to a philanthropic entity as a gift could give rise to a capital gain (or loss), but this may be offset, in whole or part, by the gift deduction. In Belgium, donations in the form of works of art are eligible to receive a tax credit, provided that the donations are made to state museums, public welfare centres or communities such as regions, provinces, and municipalities.

In Canada, the valuation rules and by extension limitations to tax incentives also depend on the nature of the donated assets. In Canada, generally speaking, non-monetary property can be donated and the donor is entitled to claim the charitable donation tax credit on the full fair-market value (FMV) of the donation. Dispositions of such property may be subject to capital gains tax. Generally, individuals are only able to claim a credit up to 75% of their net income for the year and may be carry forwarded for 5 years. However, gifts of ecologically sensitive land to certain qualified PBOs (not private foundations) are not limited to a percentage of net income and may be carried forward for up to 10 years. Gifts of certified cultural property are not limited to a percentage of net income.

In Italy, the monetary value of the donation is evaluated according to the open market value of the asset. If the giving is higher than EUR 30 000, the donor has to provide with a technical report certifying the estimated value of the given asset. Donations of primary goods, such as food, drugs and hygienic products, are not taxable for income tax purposes and are exempt from VAT.

Box 4.5. Tax incentives for volunteering and blood and organ donations exist in only a few countries

Tax incentives for donations of services

Tax incentives for donations of services are difficult to design since PBOs often have both employees and volunteers and distinguishing between the two can be challenging.

Germany, for instance, extends preferential tax treatment to income from civic engagements and volunteering. Income from a 'side-line' activity paid to individuals by a PBO is tax-exempt up to EUR 720 per year. For certain side-line activities (trainer, instructor, childcare work, support work, artistic activity, part-time care of an old, sick or disabled person), the tax exemption is EUR 2 400 per year.

In the United States, volunteers cannot deduct the value of their services for income tax purposes. Expenses incurred as a result of the volunteering may however be deductible. For expenses to qualify for tax relief they must be unreimbursed, directly connected with the volunteering, expenses that only occurred because of the services given, and not personal, living or family expenses.

In the Netherlands, volunteers can deduct expenses of up to EUR 1 500 per year (and not more than EUR 150 per month) without having to itemise. Expenses above EUR 1 500 have to be itemised and justified. If unjustified, any reimbursements that individuals receive for these expenses are treated as income and taxed accordingly.

The Slovak Republic's allocation scheme indirectly incentivises volunteering because it enables taxpayers that have volunteered to designate one percentage point more of their income tax to a philanthropic entity of their choice (see section 4.2.3 for more information).

Incentives for blood and organ donations are less frequent

In Ireland, compensation received by living donors of kidneys for transplantation are exempt from income tax and not included in computing the PIT rate.

In some states of the United States, organ donations are eligible for certain tax deductions. In New York state, for example, a taxpayer that, while living, donates one or more of their human organs for human organ transplantation can deduct up to USD 10 000 from their PIT base for any expenses incurred. The deductible expenses are limited to travel expenses, lodging expenses, and lost wages.

In the Czech Republic, blood donations are valued at CZK 3 000 per donation and can be deducted from the donor's PIT base. The donation of bone marrow is also deductible from the personal income tax base and valued at CZK 20 000.

In the United States, contributions of certain 'long-term capital gain property' is deductible but generally limited to 30% of adjusted gross income (AGI). Qualified farmers and ranchers (over 50% of gross income from farming) can deduct up to 100% of AGI, less any other contribution deductions, for donations of qualified real property provided that the property remains generally available for agriculture or livestock production. In addition, deductions for certain contributions are limited to the donor's basis in the property.

Valuation rules of non-monetary donations

For non-monetary donations to receive any form of tax relief the value of the gift has to be determined. Regardless of whether it is a deduction, credit or matching scheme, the valuation of a non-monetary gift determines the amount that can be deducted, credited, or matched. The undervaluation of a gift will decrease the incentive power of the tax relief. If a gift is overvalued, on the other hand, the donation will increase the benefit to the donor and, in extreme cases, could exceed the actual value of the gift. The

valuation of non-monetary donations is therefore essential for tax incentives for philanthropic giving to function efficiently. Generally, the fair market value (FMV) is used to calculate the respective tax subsidies but the regulations concerning who is responsible for the valuation, and how the fair market value is determined, typically depends on the size of the gift and varies across countries. The different approaches are discussed below.

Regardless of whether the donor, beneficiary, or tax administration is responsible for determining the monetary value of a gift, the valuation process comes at a cost. In some cases it may be as simple as looking up the retail price of an item or the market value (e.g., of shares), but for real estate, used goods, or artwork, the process tends to be more time and resource intensive. Therefore countries tend to make the probable value of a good a determining factor of whether or not it needs to go through a more extensive valuation process. Small non-monetary donations (such as gifts of used clothing) are not worth getting appraised by an expert and may therefore not qualify for tax relief.

Require appraisals if the value is likely to exceed a threshold

In Australia, property valued at over AUD 5 000 (other than shares in a listed company) must be valued by the revenue authority i.e. the Australian Taxation Office and the cost of the valuation must be paid by the donor. Additionally, the cost of the valuation may be claimed as a deduction if the sole purpose of the valuation was to determine the value of a gift.

In Canada, it is the responsibility of the PBO to ensure that donations are properly valued at their fair market value (FMV). If the FMV of the property is less than CAD 1 000, a member of the registered PBO, or another individual, with sufficient knowledge of the property may determine its value. If, on the other hand, the FMV is greater than CAD 1 000, the valuation or appraisal will generally be carried out by a professional third-party appraiser. If it is appraised, the name and address of the appraiser must be included on the official donation receipt. In the case of donations of ecologically sensitive land and donations of certified cultural property, special rules apply with respect to valuation. Generally, there are rules that provide, respectively, the Minister of Environment and the Canadian Cultural Property Export Review Board, with the responsibility of determining the FMV of the donation.

Valuation rules depend on the nature of the asset

In Colombia, the valuation rules depend on the nature of the asset. The value of gold and other precious metals is the commercial value of such goods. The value of motor vehicles is the commercial appraisal established annually by the Ministry of Transportation; the value of shares, contributions and other rights in companies is determined in the donors' tax basis of these assets. The value of real or immovable property is the one registered in the donor's last tax return, according to special tax rules.

In Mexico, the value of donations of land or shares is equal to the Original Investment Amount (MOI), updated for the effects of inflation, generated from the date at which the land or shares were acquired until the month immediately prior to the donation. In the case of fixed assets, the value of the donation should be the updated Original Investment Amount. For other real estate the amount of the donation is valued by updating the amount paid to acquire the good for the period of the month in which it was acquired up to the month of the donation for inflation. In the event that merchandise/trading stock is donated it would not be deductible since it was already considered within the cost of sales for tax deduction purposes.

The valuation of real estate for tax purposes in Germany, depends on whether the property is developed. The value of undeveloped real estate is determined and published by the committee of land valuation experts responsible for the local area. In the case of developed property, the value is calculated using the comparative value method, the rental value method or the material value method depending on the situation.

- The comparative value method is generally used to value detached and semi-detached houses as well as residential apartments and non-residential rooms forming part of larger properties. The value of the property is determined by comparison with the prices of similar properties.
- The rental value method is used to value property rented for residential purposes, as well as mixed-use and business property, for which it is possible to determine the customary amount of rent paid on the local market. The value of the property is calculated by determining the value of the land in the same way as for undeveloped property and adding a value representing the yield from the building.
- The material value method is used for real estate, for which neither the comparative value nor the rental value method is practical. Under this method, the value of the property is determined on the basis of the standard construction costs for the building and for other facilities together with the value of the land. If the taxpayer provides evidence substantiating a lower market value, this is to be recognised instead.

In the United States, donations of property (except publicly traded stock) above USD 5 000 must have a qualified appraisal. The appraisal must be signed by a qualified appraiser using generally accepted appraisal standards and, in most cases, the receipt of the donation must be acknowledged by the receiving entity. For donations of artwork over USD 20 000 and any donations valued over USD 500 000, signed copies of the appraisal must be filed with the tax return in which the deduction is claimed. Donations of artwork to a philanthropic entity are subject to review by art advisory committee. In general, a deduction is not allowed if the donor retains any interest in the property, or if the donation is of a partial interest in property. The primary exception is that a contribution of a conservation easement is deductible even though it is a contribution of a partial interest. The valuation of the easement is based on the loss of value due to the easement restrictions determined by a qualified appraiser.

In France, securities (e.g., stocks, bonds) are valued according to the last price known on the stock market (closing price the day before the donation) and the value of real estate (e.g., individual houses, apartments, forests, etc.) is estimated according to its market value.

In the Netherlands, the value of listed shares and bonds is based on the stock market price. For other assets the value is based on the FMV, which has to be determined before the donation is made.

No appraisals are required and valuation may be reviewed through audits

In some countries the appraisal of donated assets is not required, but the donor's valuation may be audited, in which case the indicated price of the asset has to be confirmed. This is the case in Chile, Estonia, and Ireland. In Chile, as a general rule, appraisal of non-monetary donations should be made according to special provisions of the inheritance and gift tax law. Special appraisal rules may apply in some cases. In Indonesia, the value of a non-monetary donation is determined according to historical value, book value, or the retail cost of other goods sold. In the case of in-kind donations such as the construction of infrastructure, the value is determined using the actual construction cost necessary to build the donated infrastructure.

Capital gains tax relief

Donations of assets that have increased in value may have capital gains tax implications in countries that levy a capital gains tax (CGT). If, for example, an individual donates property to a PBO that they purchased for EUR 50 000 but is now valued at EUR 100 000, a capital gain will be realised. In a country where donations are exempt from capital gains tax, the individual may benefit from the tax incentive schemes, but may also not have to pay the capital gains tax they would have otherwise had to pay once they had either sold or disposed of the asset.

Canada provides a full capital gains exemption for donations of certain types of property (in addition to such donations receiving the charitable donation tax credit). Specifically:

- Gifts of publicly-traded shares and stock options may be eligible for an inclusion rate of zero on any capital gain realised, subject to certain conditions. The capital gains tax on donations of shares in private companies, on the other hand, does apply and is not subject to CGT relief.
- Gifts of ecologically sensitive land to certain qualified funds (not private foundations) are eligible for an inclusion rate of zero on any capital gain realised, subject to certain conditions.
- Gifts of certified cultural property are also not subject to capital gains tax, subject to certain conditions.

Ireland exempts from capital gains tax the disposal of a work of art that has previously been loaned to an approved gallery or museum or to the Irish Heritage Trust, for a period of 10 years or more (6 years or more for loans made before 2 February 2006) and has been on display to the public. To qualify for this relief, a work of art must have a value of at least EUR 31 740 at the time it is loaned to the gallery. For information on the capital gains tax relief for the donation of shares, see Box 4.6.

Box 4.6. Irish capital gains tax (CGT) relief

Donation of property

Capital gains tax (CGT) relief is available for donors (both individual and corporate) of tangible assets, such as real property. A donation of property will be deemed to have been made at the value it had on the date the property was acquired by the donor. This is an exception to the normal rule requiring the disposal consideration to be treated for tax purposes as the market value at disposal. The donor will therefore be treated as having made neither a gain nor a loss on the disposal and will not be subject to capital gains tax.

Donation of shares

If an individual donor in Ireland, makes a donation of shares which have increased in value since the date on which they were acquired by the donor, the disposal would give rise to a CGT liability. The donor can claim CGT relief on this disposal, but the PBO would then not be able to claim the income tax relief (described in Box 3.2). If the donor chooses not to claim the CGT relief, then the PBO will receive the FMV of the shares plus the relief of 31% (or 10% if there is a connection between the donor and the organisation).

The charity will have no CGT liability on any subsequent sale of the shares provided the proceeds on the sale are applied for its charitable purposes. The donor, however, may (subject to their personal exemption on capital gains of EUR 1 270 per year) be liable for capital gains tax at 33% on the difference between the value of the shares transferred and the original cost of the shares.

A company making a donation of shares to PBO may choose between claiming corporation tax relief at 12.5% and deducting the donation as a trading expense, or claiming CGT relief, whichever is higher. If corporation tax relief is claimed then the company will be liable for CGT on the disposal and the charity will not be able to claim a repayment.

In the United States, no capital gains tax is imposed on donations of appreciated property, provided that the one-year holding period requirement is met.

In Australia, a gift of property, including shares, may trigger a capital gain or loss event. This is treated separately, i.e. the taxpayer may claim a deduction for the gift and must also record a capital gain or loss as applicable. Such a gain or loss is treated normally, increasing or decreasing the tax liability as

applicable. However, a donor is exempt from paying CGT on donations of property to PBOs under the Cultural Gifts Program and donations of exempt personal use assets to PBOs (and will also be able to claim a deduction for the value of the gift). Testamentary gifts are not subject to CGT provided the gift would have been deductible if made during the individual's lifetime.

In Norway, a non-monetary donation to a philanthropic entity is not considered an event of realisation/divestment for tax purposes. Therefore, potential capital gains arising from donations, do not trigger capital gains tax in the hands of the donor. This is also the case in Argentina and Israel. In Indonesia, non-monetary donations are exempt from capital gains tax if they are given to a religious body, educational or other social entity including a foundation, or cooperative. In Colombia, Estonia, Latvia, Portugal South Africa, and Switzerland, donations in the form of assets are not exempt from capital gains tax.

4.3. Philanthropic giving by corporations

Of the countries analysed in this report, all except for Sweden incentivise corporate philanthropic giving to qualifying funds or PBOs. Corporate giving can occur in the form of donations or sponsorship payments. However, for corporate giving to be considered philanthropic it must comply with the country's donor-benefit rules. Since sponsoring payments to funds and PBOs are in return for publicity that generates a benefit to the donor, it will only be considered philanthropic giving if the benefit is within the statutory limits that apply. Corporate donations are encouraged through corporate income and/ or capital gains tax incentives. In the absence of such an incentive, corporate taxpayers that donate to philanthropic entities would do so from their post-tax profits and receive no tax benefit. In some countries, the donation would be considered an expense unrelated to economic activity and therefore remain part of the corporation's taxable income.

4.3.1. Tax incentives for donations by corporations

Tax incentives for donations by corporations include tax deductions, credits, and matching schemes. Additionally, this section also discusses allocation schemes, on the same basis as for individuals. Unlike the incentives for individuals, businesses can also use business expensing rules, which are linked to deductions, to incentivise corporate sponsoring of philanthropic entities. Table 4.5 shows that corporate donations are deductible in 29 countries.

Compared to the information in Table 4.1, Table 4.5 shows that deductions are more common for corporate tax incentives than personal income tax incentives. For instance, three countries that have personal income tax credits to incentivise individual giving (Belgium, Canada, and New Zealand), encourage corporate giving through deductions instead. A possible explanation for this difference is that countries view corporate donations as business expenses and thus simply allow them to deduct the gift through the same mechanism that other business expenses are deducted. Another contributing factor for the difference between corporate and individual tax incentives is that countries use personal income tax credits to avoid the regressive effect of tax deductions when rates are progressive. Since corporate income tax rates are typically flat, tax credits are no longer necessary to avoid the regressive effect (this is not the case in the Netherlands and discussed in more detail below).

Six countries incentivise donations using tax credits, three of which (Chile, Latvia, and Portugal) also offer deductions. Corporate tax credits allow corporations to subtract a share of the value of their donation from their income tax liability, after the liability has been computed. In a number of countries, corporations can choose whether they want to make use of the deduction or the credit depending on which incentive would benefit them more.

Table 4.5. Tax incentives for donations by corporations

X denotes the tax incentive for corporations; **O** denotes the tax incentive for individuals (if different from that of corporations).

Country	Deduction	Credit	Matching	Allocation	Other
Argentina	X				
Australia	X				
Austria	X				
Belgium	X	O			
Bulgaria	X				
Canada	X	O			
Chile	X	X			
Czech Republic	X				
Estonia	X				
Finland	X				
Germany	X				
Greece	X				
Hungary	X			O	
India	X				
Indonesia	X				
Ireland	X		O		
Italy	X	O		O	
Japan	X				
Latvia	X	X			
Lithuania	X			O	
Luxembourg	X				
Malta	X				O
Mexico	X				
Netherlands	X				
New Zealand	X	O			
Norway	X		X		
Portugal	X	X		O	
Romania	X			O	
Singapore	X				
Slovenia	X			O	
South Africa	X				
Switzerland	X				
United Kingdom	X		O		
United States	X				
Colombia		X			
France		X			
Israel		X			
Slovak Republic				X	
Sweden		O			X ¹

Note:

1. No tax incentive for donations by corporations

Source: OECD Taxation and Philanthropy Questionnaire

Norway is the only country with a matching scheme for corporate giving and the Slovak Republic is the only country with an allocation scheme. The advantages of allocation schemes – such as their ability to foster a culture of giving by increasing the awareness of the general public – relate mainly to donations of individuals. Thus a potential explanation of the difference in the frequency of allocation schemes between incentives for individuals compared to corporations, is that aside from directing public funds to philanthropic

entities (which can be done through grants) their effect on the visibility of the philanthropic sector is not as powerful when the scheme is applied to corporations.

The design of tax incentives for corporate donors differs across countries and depends on the nature of the gift. A philanthropic donation can be in the form of cash or non-cash, frequently referred to as non-monetary or in-kind donations. In the case of corporations such gifts may include

- real and intellectual property, stocks, and cultural assets;
- the provision of goods (e.g., a medical equipment producer donating its wheelchairs);
- or the provision of services (e.g., a construction company building infrastructure).

As with non-monetary donations of individuals, countries have rules regulating the valuation of gifts. Section 4.2.7. (above) provides an overview of these valuation rules and unless countries have specific regulations for corporate donations the valuation rules are not repeated in this section of the report.

4.3.2. Limitations for tax incentives to corporate donors

Tax deductions and credits for corporate donations are tied to the corporate income tax and may be limited to: a share of total revenue; a share of total taxable income; a share of the sum of total turnover and wages and salaries paid; a share of the corporate income tax liability, a share of the gift itself, a monetary value; or a combination of these tax relief ceilings. Furthermore, unlike individuals, corporations can deduct business expenses, and thus the sponsoring of philanthropic entities, as well as donating, may partly be encouraged through normal business expensing rules.

Countries can use a combination of limits to their deductions and credits with different levels of generosity. In some cases those limits depend on the worthy purpose of the receiving fund or PBO (e.g., Bulgaria, Chile, Hungary, and Slovenia). Other countries may offer the taxpayer a choice of limits or even type of tax-subsidy (e.g., Germany and Latvia). A number of countries limit their tax relief to a fixed monetary value in addition to a ceiling defined as a share of, for example, total revenue or taxable income (e.g. India, Belgium, and Lithuania).

Offering similar incentives for individual and corporate donors

In Argentina, Australia, Austria, Bulgaria, Colombia, the Czech Republic, India, Indonesia, Luxembourg, Norway, Singapore, Slovenia, and Switzerland, the same or similar treatment applies to donations by individuals and corporations (thus see section 4.2.3. and 4.2.5. for more details). The difference between tax reliefs for corporate donations is that the tax credits or deductions apply to the corporate instead of the personal income tax. The floors, ceilings, and type of tax subsidy remain the same. In Argentina, corporations can deduct donations up to a limit of 5% of annual earnings. In Australia, donations are deductible from the corporate income tax base with no upper limit as long as the deduction does not create a negative tax liability (and the donation can be spread over 5 years). In Austria, donations by corporations are deductible but cannot exceed 10% of total profit. Contrary to donations made by individuals, however, corporate donations receive preferential tax treatment for both cash and in-kind donations. In Colombia, corporations that make donations to philanthropic entities receive a tax credit of 25%, limited to 25% of the corporation's income tax. In the Czech Republic, corporations can deduct cash and in-kind donations up to a ceiling of 10% of the corporate income tax base if the value of the donation is above CZK 2 000. In India 100% of the donation is deductible if it is given to certain funds (e.g. Prime Minister National Relief Fund) but only 50% of the donation is deductible if it is given to most other philanthropic entities. In most cases, the deduction is capped at 10% of the gross total income (after all other eligible tax exemptions and deductions). In Indonesia donations are deductible from the corporate income tax base up to a limit of 5% taxable income. In Luxembourg, the tax deduction cannot exceed EUR 1 000 000 or 20% of total net income, where total net income consists of the revenue remaining after deducting expenses incurred for the purpose of acquiring, ensuring and maintaining revenue. In Norway, corporate donations up to NOK

50 000 are deductible. Singapore provides a 250% tax deduction on certain types of donations, such as cash donations, gift of shares and works of art given to qualifying philanthropic entities. In South Africa donations can qualify for a tax deduction of up to 10% of taxable income. In Slovenia, a corporation can deduct donations up to 0.5% of their taxable revenue. Deductions for donations to worthy purposes such as social assistance science, and religion are limited to 0.3% and deductions for donations for culture and disaster relief are capped at 0.5% of their taxable revenue. In Switzerland, donations are deductible up to 20% of the corporation's taxable income.

In Bulgaria the ceiling of the tax deduction varies depending on the worthy purpose and the percentages are similar to those for individual donors. Donations are deductible from the corporate income tax base (annual accounting profit) up to a total ceiling of 65% of the tax base. The ceilings differ depending on the beneficiary as follows:

- Up to 10% of annual accounting profit where the expenses on donations are incurred in favour of:
 - healthcare and medical-treatment establishments;
 - social services for residential care, as well as of the Social Assistance Agency and of the Social Protection Fund under the Minister of Labour and Social Policy;
 - homes for medical and social care for children;
 - public nurseries, kindergartens, schools, higher schools or academies;
 - public-financed enterprises within the meaning given by the Accountancy Act;
 - religious denominations registered in the country;
 - specialised enterprises or cooperatives of persons with disabilities or the persons with disabilities as well as their technical aids;
 - victims of disasters, or of the families thereof;
 - the Bulgarian Red Cross;
 - socially disadvantaged persons including children with disabilities or parentless children;
 - cultural institutes and community centres;
 - PBOs with the exception of any organisations supporting culture;
 - the Bulgaria Energy Efficiency and Renewable Sources Fund;
 - therapeutic communities for the treatment of drug-addicted persons;
 - the United Nations Children's Fund (UNICEF)
 - social companies listed in the Register of Social Companies, for the conduct of their social activities and/or for attainment of their social goals
- Up to 15% of the accounting profit for the assistance provided gratuitously under the terms and according to the procedure established by the Financial Support for Culture Act;
- Up to 50% of the accounting profit where the expenses on donations are incurred in favour of:
 - the National Health Insurance Fund: for activities related to the medical treatment of children which are financed by transfers from the budget of the Ministry of Health, and of the Assisted Reproduction Centre.
- Any expenses for donations of computers and computer peripheral equipment, which are manufactured within one year prior to the date of the donation, and donated to Bulgarian schools, including higher schools, shall be recognized for tax purposes.

Any expenses for donations of computers and computer peripheral equipment, which are manufactured within one year prior to the date of the donation, and donated to Bulgarian schools, including higher schools, shall be recognized for tax purposes.

Finland, Ireland, Mexico, the Netherlands, Germany, France and Israel, have the same tax incentive for corporate donors as they do for individual donors, but their limits differ significantly from the personal income tax incentives. In Finland, corporations can deduct cash donations to publicly funded universities between EUR 850 and EUR 250 000 euros for the purpose of promoting science, art or the Finnish cultural heritage. Additionally, cash donations between EUR 850 and EUR 50 000 are also deductible if they are made for the purpose of promoting science, art or Finnish cultural heritage and given to associations, foundations or other institutions on the condition that they have been nominated by the tax administration and that their purpose is promoting art, science, or the maintenance of Finnish cultural heritage.

In Ireland, a corporation which donates over EUR 250 to an approved philanthropic entity may claim a deduction for the donation as if it were a trading expense or an expense of management for the accounting period in which it is paid. For the donation to be tax deductible it must not confer any benefit, either directly or indirectly, on the donor or any person connected with the donor, and it must not be conditional on, or associated with, any arrangement involving the acquisition of property by the approved philanthropic entity. Capital gains tax relief is available for donors of tangible assets, such as real property (for more information on the donation of shares see Box 4.6). The capital gains tax relief for donations of works of art is the same for individuals and corporations and is discussed in Section 4.2.7.

Corporations in Mexico can deduct donations to private institutions up to 7% of taxable profit obtained in the previous tax year. For donations in favour of the Federation, Federal Entities, Municipalities, or their decentralized agencies, the deductible amount cannot exceed 4% of fiscal profits. The sum of both must not exceed 7% of taxable profits.

In the Netherlands, corporate donations are deductible up to a limit of 50% of fiscal profit to a maximum of EUR 100 000. Additionally the deductibility of donations cannot lead to a loss and excess donations cannot be spread over multiple years. Donations to PBOs with a cultural worthy purpose are marked-up and can be deducted at 1.5 times the value of the gift with maximum EUR 2 500. Because the Netherlands has a progressive corporate income tax rate (16.5% for profits up to EUR 200 000 and 25% for profits above € 200 000) the value of the deduction is higher for corporations with profits over EUR 200 000.

In Germany, donations are deductible up to 20% of taxable income (before the deduction) or 4% of the sum of the total turnover and wages and salaries paid (this is similar to the design of the corporate tax incentive for giving in Latvia, summarised in Box 4.7. Carry-over provisions apply and donations can be considered business expenses. If goods are donated, the corporation can choose between the common value approach and the book value approach (see section on valuation rules for more details on the approaches).

France provides corporate donors a 60% tax credit for the share of the donation up to EUR 2 million and a 40% tax credit for amount over EUR 2 million. For organizations providing free meals, care or accommodation for people in need the tax credit is 60 % of the total amount of donation. The annual cap of the tax reduction is EUR 20 000 or 5 % (5 per thousand) of annual turnover excluding tax (ceiling applied to all payments made). If the ceiling is exceeded, it is possible to carry the excess over the next 5 years.

In Israel, corporations that donate to an eligible philanthropic entity can benefit from a 30% tax credit. For the donation to qualify for the credit it must be between USD 50 and USD 2.5 Million. The deduction cannot exceed 30% of gross income and excess donations cannot be spread over more than one year. Furthermore, donations cannot be considered a business expense and capital gains tax applies when a non-monetary donation is made.

In Italy, corporations can deduct philanthropic gifts from their taxable income in the same way as individuals. However, they cannot opt for tax credits.

Offering tax credits to individual donors and tax deductions to corporate donors

Belgium, Canada, and New Zealand offer tax credits to individual donors and tax deductions to corporate donors. In Belgium, corporate donations to accredited philanthropic entities are deductible up to 5% of the taxable profit or 500,000 euros. In Canada, donations are deductible up to a limit of 75% of the corporation's taxable income. The limit is increased by 25% of the amount of taxable capital gains arising from donations of appreciated capital property and 25% of any capital cost allowance recapture arising from donations of depreciable capital property. The net income percentage limit does not apply to certain gifts of cultural property or ecologically sensitive land. As with individuals, gifts of publicly traded shares and stock options, ecologically sensitive land, and certified cultural property may be eligible for an inclusion rate of zero on any capital gain realised. Donations in excess of the limit may be carried forward up to 5 years with the exception of gifts of ecologically sensitive land, which may be carried forward up to 10 years. In New Zealand, corporations can claim tax deductions for all donations made to an approved funds and PBOs providing the deduction does not exceed their total annual net income. For a donation to qualify for the deduction it must be a gift of NZD 5 or more of cash. Gifts of property are not eligible for the tax deduction and excess donations cannot be spread over multiple years.

Japan provided individual donors with a choice between a deduction and a credit. Corporate donors, on the other hand, may only benefit from a tax deduction. To determine the deduction limit of general donations, Japan uses the following formula: $[(\text{Amount of capital at the end of the fiscal year} \times \text{Number of months in the current fiscal year} / 12 \times 2.5 / 1\,000) + (\text{income in the current fiscal year} \times 2.5 / 100)] \times 1/4$. The limit of donations to PBOs with a special status is determined through this formula: $[(\text{Amount of capital at the end of the fiscal year} \times \text{number of months in the current fiscal year} / 12 \times 3.75 / 1\,000) + (\text{income in the current fiscal year} \times 6.25 / 100)] \times 1/2$. The deductible limit is calculated in each fiscal year when the donation is made. It is not possible to carry over the deductible limit amount which is not used.

Offering both tax credits and deductions

Chile, Latvia and Portugal, offer both tax credits and tax deductions to corporate donors. Corporate donors in Latvia are able to choose from three tax relief options to receive a tax benefit from their donation (see Box 4.7 for more information). The options are a deduction with a limit tied to profits, a deduction with a limit tied to total gross work remuneration, and finally a tax credit tied to the tax on income from dividends. In Portugal, corporate donations can be deducted from the tax base by up to 8/1000 of total turnover. Depending on the worthy purpose, the donations receive a mark-up of 120% to 150% of their total value for deduction purposes. For example, if a corporation makes a donation of EUR 1 000 to a PBO with an educational purpose, the corporation will be able to deduct EUR 1 200 from their taxable income.

In Chile, certain corporate donations can benefit from a 50% tax credit and a tax deduction equal to the remaining amount. Others can benefit from a full deduction as a tax incentive. National emergencies' donations and donations made under municipal law are deductible from the tax base. Donations for reconstruction are eligible for a 50% tax credit and the remaining is deductible. Cultural donations are eligible for a 50% tax credit capped at the lower value of 2% of the tax base or a fixed amount and the remaining is deductible. Donations to charities are eligible for a 50% tax credit which is capped to a fixed amount and the remaining is deductible. Cultural donations are eligible for a 50% tax credit capped at the lower of 2% of the tax base or a fixed amount and the remaining is deductible. Donations for sporting associations are eligible for a 50% or 35% tax credit which is capped at 2% of the tax base or a fixed amount and the remaining amount is deductible. Donations to philanthropic educational entities qualify for a 50% tax credit and the remaining amount is deductible with different limits according to the type of educational entity. Additionally, in the majority of cases a general limit on the amount of the donation applies corresponding to 5% of the taxable base (special limits apply to entities in a tax loss position and other cases).

Box 4.7. Tax incentives for corporate giving in Latvia

The three relief options

Corporations that have made an eligible donation to an eligible philanthropic entity are entitled to choose one of the following three tax relief options:

- Tax deduction: Deduct the donated amount from the corporate income tax base, where the value of the deduction is limited to 5% of the profits from the previous reporting year (after the calculated taxes);
- Tax deduction: Deduct the donated amount from the corporate income tax base, where the value of the deduction is limited to 2% of the total gross work remuneration (e.g. wages paid) calculated for employees in the previous reporting year;
- Tax credit: Reduce the corporate income tax liability but only on income from dividends by 85% of the donations, where the value of the credit does not exceed 30% of the income tax on income from dividends.

The conditions for a donation to be eligible for the tax relief

A corporate donation is only eligible for the three tax relief options if the following conditions are met:

- The donation is not directed at a specific recipient who is related to the donor, an employee of the donor or a family member of an employee of the donor;
- The recipient of the donation does not perform activities of a compensatory nature that are related to having received the gift (e.g. advertising, invitations to high-value entertainments).
- The total amount of tax debt of the donor on the first day of the taxation period does not exceed EUR 150.
- The beneficiary of the donation has not publicised the donor's brand. This could be the case if the name of the beneficiary of the donation has an obvious link to the donor's brand (e.g., *Company A* donates money to the *Company A Foundation*). If the recipient publicises a list of all the donors, the name of each individual donor must not exceed 1/20th of the text area.

Offering allocation schemes to individuals but not to corporations

Of the six countries that have an allocation scheme for individual taxpayers (Hungary, Lithuania, Portugal, Romania, the Slovak Republic, and Slovenia) the Slovak Republic is the only country that has an allocation scheme for corporations. In the Slovak Republic, corporations can attribute 1% or 2% of their income tax to an approved non-profit entity. The minimum amount that can be allocated is EUR 8. In Lithuania, corporations are allowed to deduct twice the total amount of donations (except for donations in cash exceeding EUR 9 750 each to a qualifying philanthropic entity in a tax year). The total deduction amount cannot exceed 40% of the corporation's taxable income during the tax year. In Hungary, a set share of corporate donations are deducted from pre-tax profits as a business expense. If a corporation donates to a PBO, it can deduct 20% of the total value of the donation. If the donation is made under a long-term agreement, the corporation can deduct 40%. Additionally, 50% of donations to the Hungarian Fund for Clean-up and Salvage, the National Culture Fund or the Agricultural Compensation Fund are deductible.

4.3.3. Sponsoring philanthropy in return for advertisement

This report distinguishes between two kinds of sponsorship payments to philanthropic entities: (1) corporations purchase publicity and advertising from philanthropic entities for the fair market value of those services; and (2) corporations donate to philanthropic entities and the fair market value of the publicity and

advertisement they receive as a result is below the value of the donation and in line with the country's donor-benefit rules. In most countries (e.g., Belgium, Latvia, Mexico, the Netherlands, New Zealand, Norway, the Slovak Republic, Sweden, and the United States), the first form of sponsoring is fully deductible. In some cases, advertising contracts tend to be required to ensure that the PBO does in fact provide publicity for the corporation. In Belgium, donations are capped at 5% of taxable profits or EUR 500 000 but sponsoring is fully deductible. In France, on the other hand, all payments towards philanthropic entities are considered donations. However, there must be an advertisement contract in which the PBO is obliged to ensure the visibility of the brand or its products. In New Zealand and Australia, a payment to a PBO could be considered a business expense and is deductible under the general rules if the payment is incurred in deriving assessable income. Thus a sponsorship payment to a PBO may be deductible under the general rules for business expenses if the sponsorship is likely to increase the business's taxable income. In the United States, contributions that are directly related to the taxpayer's trade or business that are made with a reasonable expectation of a financial return commensurate with the amount paid may be deductible as a business expense. The deduction for a business expense is not limited to the 10% of adjusted gross income that the charitable deduction is limited to.

Although payments can be considered business expenses in many countries (as long as they have a sufficient nexus with earning income), these payments may have implications for the PBOs receiving them. The income from activities different to those related to the worthy purposes for which they were granted PBO status for, may be regarded as commercial activity and limited accordingly. In Mexico, for example, income from advertising activity is regarded as commercial and cannot exceed 10% of the PBO's income if it wants to be able to receive tax-incentivised donations. PBOs receiving sponsorship payments rather than donations may impose a set of obligations on the PBOs, which they may not be able to fulfil or that may trigger an increase in their tax liability. The income tax rules for PBOs are discussed in more detail in a separate chapter of this report.

When sponsoring is part of philanthropic giving, corporations may give more than they receive in publicity. For example, if a business in Canada receives special recognition for its donation, or if it receives more than minimal recognition (for example, banners or advertising of products), this is considered philanthropic sponsorship, and donor-benefit rules may apply. In some countries, the payment may not be eligible for tax relief (e.g., see Latvia's strict donor-benefit rules discussed in Box 4.7). In Canada, the fair market value of the publicity given to the corporate donor, is subtracted from the amount of the donation for tax deductibility purposes. When the value cannot be calculated, the charity cannot issue the business an official donation receipt and the business may be entitled to claim the payment as a deduction against income as an advertising expense (i.e. not necessarily a form of philanthropic giving).

4.4. Tax avoidance and evasion risks

4.4.1. Abuse of tax incentives for philanthropic giving

The abuse of tax incentives for philanthropy occurs when the sanctioned government status of a fund or PBO is abused either by the entity itself, by taxpayers and donors, or third parties, such as fraudsters who pose as philanthropic entities or tax return preparers who falsify tax returns to defraud the government (OECD, 2009^[4]). The abuse of the tax incentives discussed in this chapter do not just lead to losses in tax revenue but erode the public's trust in the philanthropic sector as a whole. Common types of tax avoidance and evasion issues with tax relief for philanthropic giving include: philanthropic entities that wilfully participate in a tax evasion scheme to benefit its donors (see Box 4.8 for an example); falsified donation receipts prepared by the philanthropic entity, tax preparers or donors; payments for goods and services disguised as donations; overvalued gifts; and donations of assets in which the donor retains an interest.

Box 4.8. The Cup Trust Case in the United Kingdom

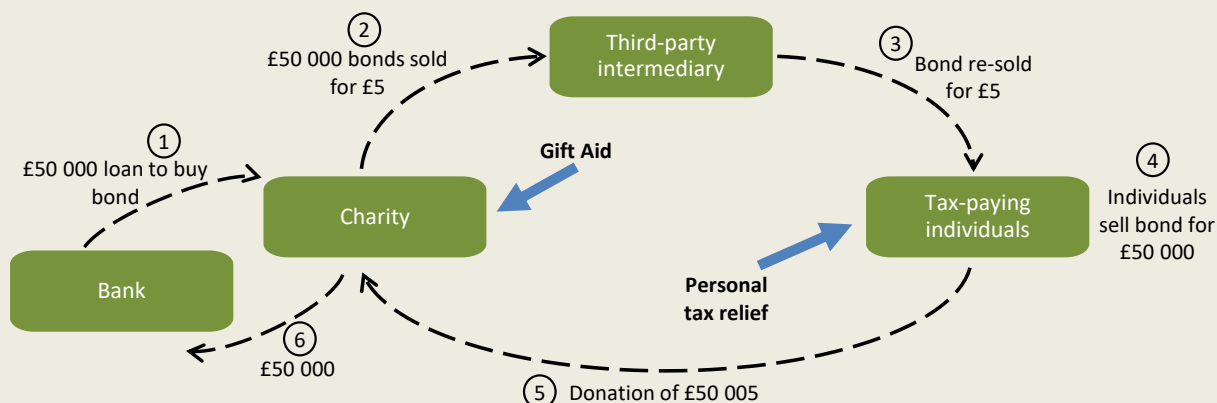
Background

In 2009 the Charity Commission for England and Wales registered the Cup Trust as a charity, with a company based in the British Virgin Islands as its only trustee. Of the GBP 176 000 000 that the Cup Trust received in so-called donations, it claimed GBP 46 000 000 in Gift Aid and only gave GBP 55 000 to philanthropic causes.

Overview of the scheme

The Cup Trust charity was found to be involved in a circular transaction scheme with the objective of receiving Gift Aid from the government and obtaining personal tax relief for individuals. The infographic below shows a simplified version of how the scheme was designed to work in a 24-hour transaction. In summary, the Cup Trust charity took up a loan with which it bought a government bond worth GBP 50 000. Cup Trust then proceeded to sell the bond to a third-party intermediary for GBP 5, under the condition that it would either receive a donation of GBP 50 005 within 24 hours or the legal title to the bond would be returned to the charity. A tax-paying individual would then purchase the bond from the third-party intermediary for GBP 5, sell the bond for its full market value of GBP 50 000 and donate the sum of GBP 50 005 back to Cup Trust, with the intention of receiving personal tax relief for the full GBP 50 005. The Cup Trust then used the donation to pay back the loan, which was interest free as long as it was paid within 24 hours. The intention was then to claim Gift Aid on the donation it received.

One 24-hour transaction



Lessons on how to prevent such schemes

- Regular exchange of information about philanthropic entities of common concern between a registering authority and the tax administration to help focus limited resources on suspicious entities and track tax avoidance and evasion schemes in the philanthropic sector.
- Due diligence by registering authorities to check whether there is a clear public benefit to an entities purpose before granting them the preferential tax status.
- The importance of regulation of philanthropic entities is important to safeguarding access to tax concessions. Need to improve accountability and transparency through reporting requirements and make better use of data from different agencies.

Note: The infographic is a simplification of the scheme using the transaction of one government bond.

Source: <https://www.gov.uk/government/publications/the-cup-trust-charity-commission-inquiry-results/the-cup-trust-inquiry-results-formerly-a-registered-charity>

Overvaluation of non-monetary gifts

Lax valuation rules and lack of oversight can lead to overvaluation schemes. Overvaluation schemes refer to cases in which taxpayers, for example, buy property at a low price and donate it at a much higher value (often with supportive valuations) thereby generating excess benefits when claiming the charitable donation tax relief. These schemes often utilize foreign entities (foreign PBOs and offshore trusts in tax havens) to obscure, but also legitimise, the transaction. In Canada, this was a significant problem in the 2000s. As a result, the country passed legislation and increased audit resources to address valuations of donations, which appears to have curbed the problem. Colombia and Germany too, have experienced schemes in which the value of the donations were artificially inflated to increase the tax benefit.

In the United States, the valuation of donated property has long been an issue. Over time, requirements for appraisals and other requirements have been made stricter by legislation or regulation when abuses were found. One example is the valuations of donations of used vehicles, which was frequently abused. To curb the overvaluation of used vehicles, legislation required appraisals for vehicles valued over USD 500 and forms required to be submitted to the revenue required information about the year, model and vehicle identification number for auditing purposes.

The falsification or sale of donation receipts

A lack of oversight and targeted tax audits has, in some countries, led to the sale or falsification of donation receipts. The sale of receipts involving PBOs, and tax preparers selling donation receipts for a fraction of the value indicated on the receipt, has resulted in an excess tax benefit when claiming the tax incentive. In Canada, this was a particular issue in the late 1990s and early 2000s.

In-kind donations deducted as business expenses

In some countries, in-kind donations have falsely been deducted as business expenses. This occurs in Indonesia, where in-kind donations are not deductible. In some cases, businesses will deduct an in-kind donation as a business expense and financial assistance is often misused as a personal expense.

Payments for goods and services disguised as gifts

Individual donors may, together with the entity involved, want to disguise a payment for goods or services as a donation. Common examples of these schemes involve charities that receive donations and then use the funds to provide a scholarship to a donor's child or pay tuition at a private school attended by a donor's child. This was identified as an issue by Canada as well as New Zealand (see Box 4.9).

4.4.2. Anti-abuse policies

To ensure that the tax expenditures used to encourage philanthropic giving is efficient, it is important for countries to tackle tax avoidance and evasion schemes related to philanthropic giving, and implement regulations and policies in response to these schemes. On the other hand, excessive rules and requirements can significantly increase the administrative burden to the tax administration/regulatory authority, as well as philanthropic entities and their respective donors. Thus countries report that the use of targeted audits, increased fines and legal consequences, better use of data, as well as clear tax rules have been effective anti-abuse policies.

The majority of anti-abuse policies, however, are in the form of regulations and transparency and reporting requirements for funds and PBOs discussed in chapter five. This is because, a key anti-abuse policy is that the recipients of philanthropic giving must be accredited philanthropic entities. This allows the tax administration to focus its resources on these entities and shifts the worthy purpose and public benefit requirement on to the funds and PBOs that receive the donation. The registration process for entities to

qualify as funds and PBOs that are eligible to receive tax subsidies donations is intended also to legitimise philanthropic entities, which in return can foster public trust and financial support for the sector as a whole. This suggests that a key part of a regime that provides tax concessions for philanthropy is a robust system of approval and regulation of philanthropic entities.

Box 4.9. Common avoidance and evasion schemes related to philanthropic giving in New Zealand

Avoidance schemes

- Beneficiary and donors treat payments for goods and/or services as gifts (e.g. private school fees). Such a scheme would allow the 'donor' to receive the goods or services and claim 33% of the price paid as a tax credit on their personal income tax.
- In New Zealand, tax relief for individual donors is limited to gifts of cash. Thus some donors make cash 'gifts' to philanthropic organisations on the understanding that the organisation uses those funds to buy an asset owned by the donor (turning the effective gift of an asset into a gift of cash for tax purposes).
- Donors pay cash 'gifts' to a related charity on the understanding that it is immediately loaned back to the donor, or an associate, for use in its ongoing business activities (the donor claims a tax concession whilst the charity may effectively never have use of the funds).

Evasion schemes

- Fraudulent alteration or manufacturing of donation receipts.
- Using other people's ID to make a fraudulent donation claims.

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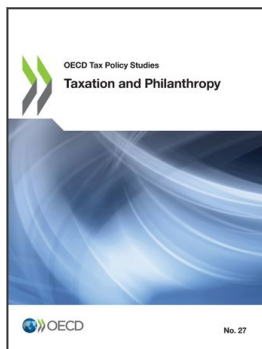
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Notes

¹ In the German income tax code, the "total amount of income" (Gesamtbetrag der Einkünfte) is a precisely defined intermediate amount during the assessment process. It roughly refers to taxable income minus related business expenses or entrepreneurial costs, reduced by some special allowances for single parents and retirees.

² The TCJA created a 60% contribution limit for gifts of cash until 2026.

³ Data published by the Slovenian Ministry of Finance. <http://edavki.durs.si>.



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