

## TAXATION OF NON-PROFIT ORGANIZATIONS AND TAX ASSIGNMENTS IN THE VISEGRAD COUNTRIES

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**Abstract:** The tax regime and the subsequent funding of non-governmental non-profit organizations through the institution of tax assignments in the Visegrad countries is the main topic of this paper. The issue of taxation is discussed with the aim of proposing changes and recommendations and reducing administrative costs of non-profit organizations in the Czech Republic. In the area of financing, the issue of tax assignments as one of the options of state financial support for the non-profit sector is explored. They are not introduced in the Czech Republic, however, in the other countries of the Visegrad countries this institution is already incorporated into their tax systems. The aim of the paper is to confirm or possibly refute the benefits of the concept of tax assignments for the current Czech tax system. The impacts of the introduction of tax assignments are identified on the basis of comparison of tax models. Analysis of statistical data was used to explore whether tax assignments affected the amount of transfers to non-governmental organizations and whether tax assignments could be an additional source of funding for non-profit organizations in the Czech Republic.

**Keywords:** Donations, income tax, Non-profit organization, taxation, tax assignments, gifts

**JEL Classification:** H24, H25, H61

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### INTRODUCTION

In most countries of the world, society is divided into three sectors. These are the public, private and non-profit sectors which co-exist and complement each other. The private sector includes all companies and organizations founded to make a profit. Their role is to provide services and sell goods; and from these activities they generate a profit. Private companies do not consider whether the services provided or the goods sold benefit the entire society. Whether the services or goods are of public benefit is the focus of the second sector (public sector). The goal of the public sector is not to generate a profit but to provide a public good. Public goods are financed from government revenues, and the main source of government revenues is taxes. The public sector is not regulated by the market but it is regulated by the state.

The third sector, also referred to as the non-profit sector, develops alongside the private and the public sector. It supplies goods and services that are not provided by the private or public sectors. These are predominantly the goods and services that should be provided by the public sector. As the name of the sector implies, the non-profit sector was not created for profit.

The non-profit sector is an important part of the political and economic environment of all developed countries. This sector has the desire to help others as the main incentive to do business, it is not motivated by return on investment. Therefore, in the non-profit sector, potential profits are used as part of the main activity of the non-profit organization. Non-profit organizations are involved in publicly beneficial areas such as social services, disability assistance, environmental protection, culture, and cultural heritage protection (e.g. Pejcal and Dostál, 2017). An important area of activity of the non-profit sector is also sport.

The paper deals with non-governmental non-profit organizations and discusses the current system of taxation of non-profit organizations. The part of the paper dealing with the taxation of non-profit organizations in the Czech Republic gives special consideration to the differentiation of taxpayers with a narrow or a broad tax base as they differ in the object of the tax under the Act No. 586/1992 Coll. On Income Tax. The object of the tax of the taxpayer with a broad tax base is all income except for income from investment grants, whereas the object of the tax of the taxpayer with a narrow tax base is mainly income that exceeds expenses. After comparing the tax regimes of non-profit organizations in the Visegrad countries with corporate income tax, some recommendations and changes to the taxation of the non-profit sector in the Czech Republic are proposed. The comparison is based on a model example and on the recalculation of tax liability under the tax laws of individual countries of the Visegrad countries. For many years, lawmakers have been playing with the idea of introducing tax assignments in the Czech Republic as a complementary source of funding for non-profit organizations. In 2001, a parliamentary proposal for the determination of a portion of income tax payable by natural persons for charitable purposes was submitted. The proposal intended to assign up to 7% of the income tax payable, but was not adopted. Four years later, there was another effort to reintroduce tax assignments into legislation of the Czech Republic, but the bill was rejected again. According to the proposers, this law would bring a new source of funding to non-profit organizations. They claim that if one-third of employees and self-employed people decided to assign 1% of their income tax, non-governmental non-profit organizations would receive almost 300 million CZK per year. (Pohlová, 2005)

The Czech Republic is the last country of the Visegrad countries which still has not allowed to assign a portion of the income tax payable to non-profit organizations. In Hungary, a law was passed which allows to assign part of the tax payable to a non-profit organization. This has been possible since 1996. In Poland, this law was introduced in 2003, and in Slovakia, taxpayers have been allowed to assign part of their tax since 2002. In Hungary and also Poland, the Tax Assignment Act allows only individuals to provide part of their tax payable to non-profit organizations. In Slovakia, the Act on Tax Assignments allows both natural and legal persons to remit part of their tax paid to a selected non-profit organization. In the Czech Republic, repeated efforts have been made to adopt the Tax Assignment Act, but they have been so far unsuccessful.

Škarabelová (2005) stated that tax assignments are a non-systemic, foreign element in the tax system that may complicate the already relatively complex tax system of the Czech Republic. Many opponents of tax assignments are convinced of the disadvantages of the above-mentioned mechanism of funding the non-profit sector. One of the disadvantages reported is that tax assignments undermine the characteristics of the paid tax. Tax is defined as a mandatory, non-refundable, statutory payment to the state budget. This is a non-purpose and non-equivalent payment. (Kubátová, 2010)

Tax assignments just undermine the characteristic of tax, which is considered to be of no purpose and no equivalent. The characteristic of tax, i.e. serving no specific purpose, is undermined by the fact that taxpayers themselves decide about the use of their tax. Taxpayers choose a non-profit organization that will receive a portion of their tax. The downside of this is that the state loses control over the use of public finances as taxpayers themselves decide about part of public finances. Tax non-equivalence means that taxpayers are not entitled to claim consideration for tax payment.

Tax assignments also affect this quality of taxes. By being able to influence the purpose of taxes, taxpayers can also indirectly affect the equivalence of taxes. A typical example is tax assignments made by parents for schools where their children study. In return, their children receive better study aids, a better learning environment, foreign lecturers, etc. Another disadvantage of tax assignment is the disproportion of income from tax assignments. Large non-profit organizations are able to pay for a massive advertisement campaign and thus reach out to a large number of people to provide them with a portion of their paid tax. On the other hand, the smallest non-governmental non-profit organizations often receive negligible or even no income from tax assignments.

BBCCzech - BBC (2004) can see a negative effect in horizontal justice. This means that if we have two taxpayers and one of them uses tax assignments, then he contributes a smaller amount to the public

budget than the taxpayer who does not assign his tax and thus is less involved in financing public goods. In our opinion, the issue of horizontal justice could be argued, since non-profit organizations are also producers of public goods, which undermines this injustice.

The indisputable advantage of introducing tax assignments is the support for a moral obligation to pay taxes. Tax morale is enhanced by the fact that taxpayers themselves can determine who will receive a portion of their paid tax and at the same time taxpayers must not fail to pay taxes due to the appropriate tax authority. (Semerád and Semerádová, 2017) Another advantage is that tax assignments raise people's awareness of the non-profit sector and that taxpayers themselves can be involved in public affairs through this funding. As Otavová (2014) states, tax assignments undoubtedly bring a number of positives, such as a free decision of citizens about how to use their paid tax. Bárta (2004) positively perceives the increase in communication between non-profit organizations and the public after introducing tax assignments. Thus, tax assignments also serve as a tool for communication between the public and the non-profit sector.

Despite many opponents of tax assignments in the Czech Republic, the paper answers the question whether it is appropriate to introduce tax assignments. The answer to this question is based on the calculation of the impact of the introduction of tax assignments on the state, the taxpayer and the non-profit organization.

## 1. RESEARCH METHODOLOGY

The paper deals with taxation and financing of non-profit organizations. To obtain information about the state of the non-profit sector in the Czech Republic as well as in the other countries of the Visegrad countries, different kinds of information sources were studied. All sources are listed in the references. In addition to the literature sources produced mostly by authors from the Visegrad countries, Internet sources were searched. These were mainly used to obtain data from the statistical offices of the Visegrad countries. An important source was the data provided via email by Ms Edit Pék and her team from the Hungarian Statistical Office and used for examining the issue of financing the non-profit sector in Hungary, and also an email communication with Mr Piotr Olczyk from the Polish Statistical Office, who provided important information and data necessary for exploring the area of financing the non-profit sector in Poland.

The description method was used to characterize the issue of taxation and financing of the non-profit sector in the Visegrad countries. Within the scope of the study of taxation of non-profit organizations, the income tax of these organizations was considered. In this part, there was a comparison of taxation systems based on a model example. Particular account was taken of the distinction between a taxpayer with a broad or a narrow tax base, the object of the tax, and deductible items from the tax base. On the basis of an analysis of the results of a model example of taxation of a non-profit organization, some recommendations were formulated for changes in the taxation system of the Czech Republic.

The paper also discusses the issue of tax assignments, since the Czech Republic is the last country of the Visegrad countries that still has not introduced tax assignments as an additional source of financing for non-profit organizations. There is an effort to find the best model of introducing tax assignments for the Czech Republic, following the trend set in Poland, Hungary and Slovakia. The paper examines the relationship between tax assignments and individual donations, or possibly government subsidies. The data used for this study came mainly from the STADAT, GUS, STATdat and DATAcube databases. The data collected helped to propose conditions for the introduction of the mechanism of tax assignments also in the Czech Republic. On the basis of the data obtained from individual countries, a prediction and comparison of impacts was made. The comparison of impacts was carried out with regard to individual pre-selected scenarios of introducing tax assignments in the Czech Republic. It was shown which of the three scenarios would be suitable for the introduction of tax assignments in the Czech Republic. Using the method of synthesis, the proposed changes in the area of taxation and financing of the non-profit sector in the Czech Republic were evaluated with respect to the data from the countries of the Visegrad countries.

## 2. RESULTS

### 2.1 Taxation of non-governmental non-profit organizations in the Visegrad countries

Non-governmental non-profit organizations of the Visegrad countries, under the corporate tax law of each Member State, are unconditionally subject to the corporate tax regardless of whether or not they are engaged in business activities in a particular tax period.

Although the mechanism of calculations in individual countries of the Visegrad countries is very similar, each country has its specifics. These specifics have a significant effect on the resulting tax liability in individual states (Mazanec and Bielikova, 2018). A model example was used to compare the mechanisms of calculation and tax obligations in individual states, while the pros and cons of legislative differences between individual states were emphasized.

The Czech Republic is the only country of the Visegrad countries that distinguishes between taxpayers with a narrow tax base and taxpayers with a broad tax base (Otavová, 2015). This distinction between taxpayers is perceived as problematic for the taxation of the non-profit sector in the Czech Republic. Taxpayers with a narrow tax base are burdened with excessive administrative costs in determining their tax liability. Excessive administrative costs arise as a result of the necessity of keying the costs of individual activities. In practice, it often means that taxpayers with a narrow tax base usually have a higher tax liability than taxpayers with a broad tax base. This is often caused by the fact that taxpayers with a narrow tax base do not have an opportunity to deduct losses from their tax base. A loss-making activity of these taxpayers is not the object of the tax.

Another weakness of Czech legislation in comparison with the legislation of the V4 countries lies in the taxation of the main activity. In the V4 countries, the main activity, the activity for which the non-profit organization was set up, is exempt from tax. This seems logical because the possible profit from the main activity of the non-profit organization is not distributed among partners, employees of the non-profit organization, but is used to support the main activity (Carvalho, Ferreira and Silva, 2019).

In Table 1 we present a model example regarding the calculation of tax liability under legislation of individual V4 countries.

#### **Model example:**

A non-profit organization within the scope of its responsibility is doing its core business (CB), which is not a commercial activity, and some entrepreneurial activities. The core business is divided into three parts CB1, CB2, and CB3. For its tax period, the non-profit organization in CB1 records revenues of 5,250,000 CZK and costs related to this activity of 3,150,000 CZK. CB2 is loss-making. Revenues from CB2 amount to 3,300,000 CZK and costs related to this activity are 3,700,000 CZK. CB3 is also loss-making, the non-profit organization records in CB3 revenues of 150,000 CZK and costs of 180,000 CZK, of which 40,000 CZK is entertainment expenses.

In the tax period, the non-profit organization received a subsidy of 300,000 CZK, which was used in full. It also records advertising revenues of 200,000 CZK. The costs of advertising amount to 25,000 CZK. The non-profit organization received financial donations for its operation worth 500,000 CZK. In the tax period, the donations were used in full. The organization carries out a secondary business (SB). The revenues from the secondary business are 1,760,000 CZK and costs of the secondary business are 710,000 CZK.

Table 1: The calculation of tax liability under legislation of individual V4 countries (in thousands of CZK)

	Czech Republic – broad tax base	Czech Republic – narrow tax base	Slovak Republic	Poland	Hungary
	Profit	Profit	Profit	Profit	Profit
Core Business 1	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00
Core Business 2	-400.00	-400.00	-400.00	-400.00	-400.00
Core Business 3	-30.00	-30.00	-30.00	-30.00	-30.00
Subsidies	0.00	0.00	0.00	0.00	0.00
Donations	0.00	0.00	0.00	0.00	0.00
Advertising	175.00	175.00	175.00	175.00	175.00
Secondary Business	1,050.00	1,050.00	1,050.00	1,050.00	1,050.00
Total	2,895.00	2,895.00	2,895.00	2,895.00	2,895.00
Tax base (TB)	2,935.00	3,325.00	1,050.00	1,225.00	1,225.00
TB reduction	880.50	997.50	-	-	-
TB after reduction	2,055.00	2,327.50	-	-	-
Income tax	390.36	442.225	220.5	183.75	110.25

Source: Own compilation

The countries of the Visegrad countries, except the Czech Republic, have a very similar system of taxation of the non-governmental non-profit sector. A big advantage of the tax legislation of these countries of the Visegrad countries is the determination of the object of the tax. The object of the tax does not deny the basic purpose for which non-governmental non-profit organizations were established, as is the case in the Czech Republic. This means that the core business for which the non-profit organization was established is not the object of the tax, even if the core business revenue exceeds the expenses. Thanks to this, non-governmental non-profit organizations in Poland, Hungary and Slovakia pay mostly lower taxes than those in the Czech Republic. Secondary business activities have the same mechanism of taxation in the whole Visegrad countries. Tax systems of Slovakia, Poland and Hungary have advantages but also disadvantages.

The advantage of Slovak income tax legislation is that the Slovak Republic is the only country where since 2018 an exemption has been granted for advertising revenues of up to €20,000, which are used for charitable purposes. This exemption significantly affects the tax liability of non-governmental non-profit organizations which earn advertising revenues used for charitable activities. With regard to this new exemption and also the introduction tax assignments, we can say that the Slovak government is trying to support the non-profit sector more strongly. The disadvantage of the Slovak Republic in comparison with the other countries of the Visegrad countries is a high tax rate which reaches up to 21%. If the tax rate in Slovakia was the same as the lowest rate in Hungary, i.e. 9%, the tax in the model example would be the lowest, only 94.5 thousand CZK. This suggests that the main shortcoming in Slovak legislation of the taxation of the non-profit sector is just a high tax rate.

Poland is the only country to distinguish between small and large taxpayers. Small taxpayers have a lower tax rate than the large ones, namely 15%. Small taxpayers are those with less than €1.2 million in revenue. Thanks to this distinction, non-governmental non-profit organizations with revenues below the set limit of €1.2 million, have the second lowest tax rate within the Visegrad countries.

A big advantage of Hungary is that since the year 2017 it has had the lowest tax rate for corporate taxpayers, which is only 9%. In addition to the low tax rate, Hungarian legislation exempts non-profit organizations from paying if their business income does not reach 10 million HUF for the tax period and at the same time does not exceed 10% of all income. Such exemption for non-profit organizations is not granted by any other country of the Visegrad countries except for Hungary. The benefits of this

exemption can be enjoyed by those non-governmental non-profit organizations which carry out a small-scale business activity.

The lowest tax liability, as shown in the model example, is in Hungary, the differences between Poland, Hungary and Slovakia are due to relatively large differences in the tax rates. If we focused on the tax base, then the lowest is in Slovakia. As Table 1 shows, the taxation of non-profit organization in the Czech Republic is significantly higher than in the other countries of the Visegrad countries.

In connection with this topic, it is also appropriate to take a stand on the issue of an administratively demanding process, which concerns accounting and subsequent taxation of non-governmental non-profit organizations (NGOs) in the Czech Republic, applying taxation with a narrow tax base. Here, doing accounting in compliance with the requirements of the law consists in the division of income and subsequent keying of incurred expenses. This ultimately means that it should be known into which activity each expenditure falls and from what source it is paid. Allocation of costs in practice of non-profit organizations is very problematic because in some cases these activities cannot be easily matched or are accompanied by various operating costs that relate to more activities and must be correctly distributed. In an effort to comply with all legal requirements, there is a great demand for the analytical function of accounting, i.e. it is required to have very detailed analytical records or to keep cost centre accounting. This clearly shows that non-profit organizations with a narrow tax base have higher administrative costs than other entities. It is therefore possible to propose a single taxation mechanism for all non-profit organizations, identical with that of taxpayers with a broad tax base, where all incomes except investment subsidies are subject to tax. It can be argued here that this method of taxation is significantly more advantageous, as the loss incurred in the main activity can be compensated and consequently the tax base will be lower compared to that after adjustment of the narrow tax base. The transition to a broad tax base would certainly mean significant savings for non-profits in terms of administrative costs. However, it is also appropriate here to consider the impact on public budgets in terms of tax revenues. It is also necessary to focus on the effectiveness of collecting corporate income tax from non-profit organizations. Stejskal (2014) in his study, which covers the years 2008 to 2012, states that only about 60% of all non-profit organizations file a tax return and only 5% of them are liable to tax. Table 2 shows similar data for non-profit organizations that now have a narrow tax base for the years 2013 and 2014.

Table 2: Development of corporate income tax revenues from non-profit organizations

Year	Number of non-profits with a narrow tax base	Number of non-profits filing a tax return	Total tax in thousands of CZK	Tax per a non-profit (average) in CZK	Tax per a tax return filed (average) in CZK
2013	87,729	21,684	174,177	1,985	8,033
2014	93,029	22,644	156,256	1,680	6,900

Source: Authors' own work based on *Finanční správa ČR (2016)*, *Nadace Neziskovky.cz (2018)*

These figures clearly show the inefficiency of tax collection on the part of the state, but also on the part of the taxpayer, which results in high administrative costs. With regard to the tax collection itself, these are very small amounts. As for average values, these amounts are almost negligible. Alarming is the average value of the tax paid per the number of NGOs registered for tax with a narrow tax base, because it is less than 2,000 CZK. It can therefore be argued whether this tax is effective. It is necessary to consider administrative costs on the part of taxpayers and costs on the part of tax authority. At the same time, it would be advisable to consider whether it is appropriate to maintain a narrow tax base regime in the taxation of non-profit organizations, which makes the accounting and taxation of the group of taxpayers complicated, in some cases even difficult to implement. The question is whether it would be preferable to simplify the recording of income and at the same time lower the administrative burden of these activities, mainly for associations. At the same time, it would be advisable to limit the number of tax returns filed by non-profit entities (for example, by setting a limit on turnover) when ultimately a zero-tax liability is reported, which would mean savings in terms of the administrative costs of financial authority.

## 2.2 Tax assignments in the countries of the Visegrad countries

Hungary was the first V4 country to introduce tax assignments, specifically in the year 1996. The Czech Republic is the only country in this group where tax assignments are not introduced (Hladká and Hyánek, 2016). The following table shows the form of tax assignments in these countries, including tax reliefs on donations. Significant influence can be seen in the relationship between tax assignments and tax reliefs. The overall impact is then dependent on the overall tax system applicable in the country. As Široký (2018) states, there are differences in the methods of construction of tax bases, the system of deductible items from the tax base, and other provisions significantly affecting the calculation of the final tax (see Table 3).

Table 3: Income tax and tax assignments

Country	Personal income tax rate	Tax relief on donations for individuals	Corporate income tax rate	Tax assignments for individuals	Tax assignments for corporations
Hungary	Flat tax of 15%	No	9%	1%	No
Poland	Progressive sliding scale tax of 18% and 32%	6% of the tax base at the maximum	19%	1%	No
Slovakia	Progressive sliding scale tax of 19% and 25%	No	21%	2%	2%
Czech Republic	Flat rate of 15%, i.e. 20.1% of the super gross salary	15% of the tax base at the maximum	19%	No	No

Source: Authors' own work based on IBFD editors' team (2019a), IBFD editors' team (2019b)

In the countries studied, with the exception of Poland, it is not possible to apply tax relief on donations. Only in Slovakia legal entities are allowed to assign part of their tax and the percentage of tax assignments for natural persons (2%) is higher than in the other countries (Blaščák, 2016; Otavová, 2017).

In 2001, there was an effort in the Czech Republic to introduce tax assignments by putting forward a bill on tax assignments. In Hungary at that time, a similar law had been effective for 5 years. And just in 2001, the Act on Tax Assignments came into force in Slovakia. In Poland, the Act on Tax Assignments did not come into force until 2003. The Act on Tax Assignments of 2001 and subsequent proposals were not accepted in the Czech Republic because of concerns about their negative impact on the state budget. Another reason was concerns about taxpayers' attitudes and their unwillingness to give a portion of their tax payable to non-profit organizations. And finally, there were fears about attitudes of non-profit organizations and their unwillingness to apply for tax assignments.

If we consider the so far proposed percentage of tax assignments in Czech legislation while considering the criticism of the proposals of individual laws on tax assignments, we conclude that there are four options of the impact of the introduction of tax assignments (see Table 4).

Table 4: Comparison of options A, B, C

Option	Tax assignments (%)	Subsidies	Tax relief for donors
A	1%	No change	No change
B	1%	Reduction	No change
C	1%	No change	Abolition (reduction)

Source: Own compilation

The fourth option (Option D) means reduction in subsidies and in tax reliefs. This option is excluded as it is totally inappropriate because tax assignments are introduced in order to supplement sources of funding and not to completely replace them.

### Option A

Option A represents an ideal combination of funding for non-profit organizations. This combination is beneficial for non-profit organizations because after the introduction of tax assignments, there is neither reduction in government subsidies nor reduction (abolition) in tax reliefs for donors. However, of all possible combinations this one is the least favourable for the state. The reason is that the state has to spend a lot of money on the introduction of tax assignments, which will entail high administrative costs. After the introduction of tax assignments, the state will lose part of the personal income tax and at the same time the state will not change the amounts of subsidies. On the basis of the ratio of natural persons' assignments in Slovakia in the first 10 years after the introduction of tax assignments, we can estimate the impact of the introduction of tax assignments on the state budget of the Czech Republic.

Table 5: Estimated tax assignments in the Czech Republic (in millions of CZK)

Year	Individual Income Tax	Maximum tax assignments	Estimated tax assignments	Achieved from the maximum (%)
2007	143,391	1,434	-	-
2008	132,929	1,329	465	35
2009	116,607	1,166	408	35
2010	119,830	1,198	527	44
2011	122,312	1,223	538	44
2012	123,049	1,230	541	44
2013	128,815	1,288	618	48
2014	131,995	1,320	634	48
2015	138,623	1,386	665	48
2016	156,241	1,562	859	55
2017	176,858	1,769	973	55

Source: Finanční správa ČR (2019b)

As Table 5 shows, every year the state would lose a significant amount of money, by which the personal income tax revenue would be reduced. The illustrative situation assumes that the state would pass the Act on Tax Assignments in 2007, and in the year 2008 natural persons would assign the tax payable for the first time. Natural persons could assign income from employment and entrepreneurial activity. It would be possible to assign 1% of the tax payable, as stated in the draft of the Tax Assignment Act, which was not approved in the Czech Republic.

The question is whether the Czech Republic is willing to lose an amount of money. Since in Option A there is no reduction in subsidies, no abolition of tax reliefs and at the same time there is the introduction of tax assignments, it can be assumed that this option is unacceptable for the state. This is mainly because today's politicians strive for a balanced budget and the value of tax assignments would be lacking.

### Option B

This option would be neutral for the state. The state would reduce subsidies to non-profit organizations by just the amount of tax assignments. This would compensate for the loss of part of the personal income tax revenue. In this situation the state could bear the administrative costs associated with tax assignments or further reduce subsidies by administrative costs. If the state reduced subsidies for non-profit organizations by the administrative costs associated with tax assignments, the state would be in the same situation as before the introduction of tax assignments, but the situation would be worse for non-profit organizations. This option would not be a good solution.

However, in Poland and Slovakia, we can see a constant increase in state support for non-profit organizations even after the introduction of tax assignments. This means that neither of the countries accepted Option B while introducing tax assignments (Table 6).



Table 6: Comparison of subsidies in the Slovak Republic and Poland

Year	Sum of subsidies in €	
	Poland	Slovakia
2013	62,164,166.50	59,244,000.00
2014	67,039,670.20	66,339,000.00
2015	69,626,613.70	82,852,000.00
2016	60,709,818.10	75,904,000.00

Source: Štatistický úrad Slovenskej republiky (2019a), Główny Urząd Statystyczny (2017a)

As far as non-profit organizations are concerned, Option B is disadvantageous for them. This is because their income would not change or could be even lower. What they would receive through tax assignments they would lose on state subsidies. Such a situation may be dangerous for some non-profit organizations due to disproportion. Small organizations mostly receive negligible amounts through tax assignments, compared with large non-profit organizations. This is a typical problem in Poland where out of the total assigned amount of approximately 511 million PLN, one organization, namely Fundacja Dzieciom "Zdążyć z Pomocą", received 136 million PLN (26% of the total assigned amount). Disproportion also occurs in Slovakia but it is not so great. In 2016, the Pontis Foundation received the majority of funds from tax assignments, i.e. €2 million of the total amount of approximately €60 million, which is 3.3% of the total. Taxpayers in Option B (just like in Option A) can assign 1% of their tax payable to non-profit organizations. In Option A and Option B, there is no reduction or abolition of donor tax relief.

### Option C

In Option C, there is reduction in tax relief for taxpayers who donate to non-profit organizations. In the Czech Republic there has been an effort to introduce tax assignments for natural persons, so we will further assume that tax relief for donors (natural persons only) has been abolished. The value of donations provided by individuals to non-profit organizations is very difficult to determine. The amount in Table 7 is the amount of the non-taxable portion of the tax, which is not logically equal to the value of donations to non-profit organizations. In the Czech Republic, under the Income Tax Act, it is possible to deduct a maximum of 15% of the tax base.

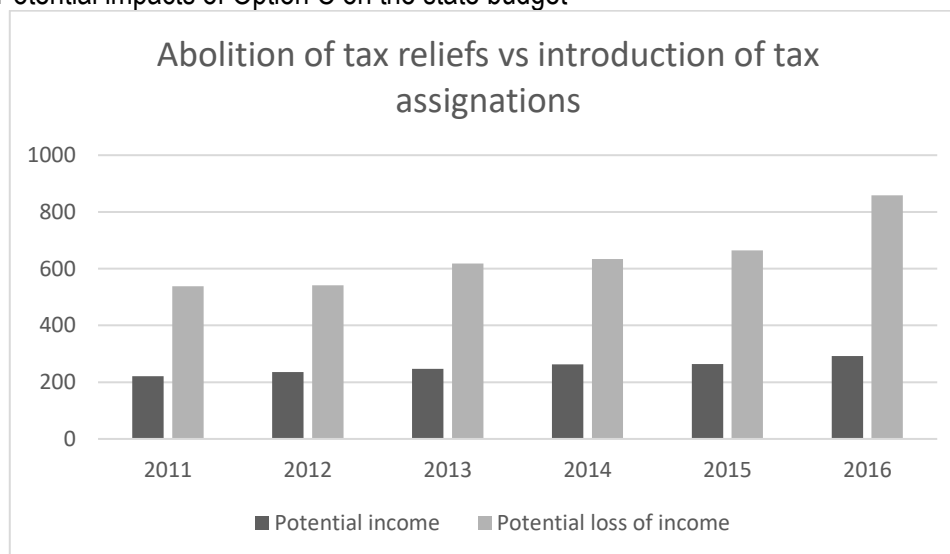
Table 7: Development of the non-taxable part of the tax base in millions of CZK

Year	2011	2012	2013	2014	2015	2016
Non-taxable part of tax base	1,472	1,572	1,650	1,750	1,760	1,944
Potential income	221	236	248	263	264	292

Source: Finanční správa ČR (2019a)

Table 7 shows the development of the non-taxable part of the tax from 2011 to 2016. It also shows the potential income that the state would receive in individual years provided it abolished tax relief for donors, individuals. As evident from the table above, both values increase each year. If we compare the income that the state would receive after the abolition of tax reliefs for donors with the tax income which the state would lose after the introduction of tax assignments, the result is that the additional income will cover very little of the additional loss of tax revenues from tax assignments.

Figure 1: Potential impacts of Option C on the state budget



Source: Own compilation

Option C seems more acceptable than Option A because the loss from the introduction of tax assignments will at least partially be covered by the additional income from the abolition of tax reliefs for donors.

Table 8: The value of donations per capita in €

Year	Donations per capita Czech Republic	Donations per capita Slovak Republic	Donations per capita Hungary	Donations per capita Poland
2013	6.15	17.73	10.06	1.50
2014	6.51	22.85	9.97	1.60
2015	6.54	25.14	10.65	1.76
2016	7.21	21.91	12.23	1.82

Source: Authors' own work based on data from the Štatistický úrad Slovenskej republiky (2019b), Nadace Via (2018) Główny Urząd Statystyczny(2017b) and Központi Statisztikai Hivatal (2019)

Non-profit organizations are concerned about this approach. Their concerns come from the fact that taxpayers will lose motivation to donate. This situation can happen if taxpayers completely meet their philanthropic needs by assigning 1% of their tax payable. However, it is difficult to prove whether this will happen. On the basis of the situation in the countries of the Visegrad countries, we can say that this situation did not occur. As shown in Table 8, the value of donations per capita did not decrease in any country with increasing tax assignments. This refutes the fact that if people give tax assignments to non-profit organization, they lose interest in giving them donations.

If we compare all three options (A, B, and C), it is hard to reach an unambiguous conclusion and choose just one option that is ideal for the Czech Republic. Each option negatively affects any of the subjects, be it the state, the non-profit organization or the taxpayer. The best option is, of course, Option C, which is supported by the development of the countries of the Visegrad countries that introduced the option of tax assignments.

## DISCUSSION AND CONCLUSION

The paper presents the results of research into the taxation and financing of non-profit organizations in the countries of the Visegrad countries.

On the basis of analysis carried out, it is possible to propose a change in the taxation of non-profit organizations, specifically for taxpayers with a narrow tax base. For the taxation of non-governmental non-profit organizations in the Czech Republic, it is possible to recommend taxation of all incomes, which would ultimately mean possible compensation for loss-making activities and consequently reduction

in the overall tax base. Therefore, it is appropriate to introduce the status of a taxpayer with a broad tax base for all non-profit organizations. This would solve the issue of high tax burden on many non-profit organizations and also reduce the administrative burden. Individual non-profit organizations are burdened with high administration in determining the tax base, for example in the cost-benefit analysis of individual activities. This would reduce the administrative burden of determining the tax base of non-profit organizations and make tax collection more effective.

In the area of taxation, it is possible to propose the introduction of taxation according to the purpose and not according to the activity the non-profit organization carries out. If a non-profit organization carries out the activity for which it was established and whose purpose is, therefore, not to make a profit, this activity should be tax exempt. This method of taxation is introduced in all the other states of the Visegrad countries. Using the activity-based taxation denies the basic purpose of non-profit organizations – non-profit organizations are not established to do business.

In the Czech Republic, it is also possible to recommend the introduction of tax assignments. The Czech Republic has been experiencing economic growth for several years in row, unemployment is at historical lows and it is the lowest in the European Union. In such a period, people are optimistic about their financial plans and are more willing to support not only the non-profit sector. The introduction of tax assignments could improve the relationship between people and the non-profit sector and also provide additional funds for non-profit organizations.

It can be assumed that about 50% of natural persons in the Czech Republic would take the opportunity to assign, similarly as, e.g., in Slovakia. By introducing tax assignments, the state would lose part of the income tax from individuals. In addition, tax relief on donations could be abolished, which could mean lower motivation to donate to non-profit organizations. This study has shown that there is no cause for concern because these concerns did not arise in practice in the countries where tax assignments are introduced. At the same time, it was proved that even after the introduction of tax assignments the value of state subsidies provided is still increasing.

If tax assignments should be introduced in the Czech Republic, it can be recommended to introduce them only for natural persons in the amount of 1% of the tax paid. With regard to the assumption that approximately 50% of natural persons will assign, it is possible to calculate the expected assignments for the Czech Republic. On the basis of data related to the collection of personal income tax for the year 2018 and the assumption that 50% of taxpayers will assign, the amount would be 50% of 1% of the collection of personal income tax, i.e. approximately 1.008 mil. CZK ( $0.5 * 201,517 \text{ million CZK} * 0.01$ ). At the same time the possibility of tax deductions on gifts by natural persons would probably be abolished. If state subsidies for the non-profit sector were not reduced, the funding of non-profit organizations would be strengthened.

In Poland and Slovakia, there is a considerable disproportion in the distribution of funds assigned to non-profit organizations. In Hungary, however, there is no such significant disproportion. The question is whether there would be distribution disproportion also in the Czech Republic after introducing tax assignments. There are a number of tools to prevent disproportions in the distribution of tax revenues. For example, taxpayers could assign taxes to a non-profit organization that is based in the region or the district where the taxpayer resides. There is also an instrument of imposing a ceiling on funds from tax assignments. If any instrument were to be introduced to reduce disproportions of tax assignments, it would be possible for taxpayers to assign taxes to non-profit organizations that have their registered office where the taxpayer resides. This instrument would promote an even distribution of funds across the country.

Despite the fact that it was considered in the Czech Republic to adopt a mechanism of 1% tax assignment, the Czech Republic may be inspired by the operation of tax assignments for natural persons in the Visegrad countries. In the Czech Republic, it would be possible to propose tax assignments for natural persons of 1%, and subsequently, following the example of Slovakia, to introduce the possibility of increasing tax assignments from 1% to 2%, if the taxpayer carries out voluntary work. It is difficult to find

out whether this mechanism will encourage people to engage in volunteering but it will certainly encourage those taxpayers who are already volunteering.

The paper quantified the impacts of the introduction of tax assignments in the Czech Republic. They were quantified from the perspective of taxpayers, non-profit organizations and the state. None of the options presented was ideal for all groups at the same time. From the viewpoint of the function of tax assignments (improvement of the relationship of citizens and non-profit organizations, additional source of financing) the best model for the Czech Republic appears to be Option C. On the basis of the findings from the other countries of the V4, it is most unlikely that people would lose willingness to donate funds to non-profit organizations after abolishing tax reliefs for donors (European Center for Not-for-Profit Law, 2016). In Hungary and Slovakia, despite the abolition of tax reliefs, donations increase every year. Subsidies should be maintained in the set regime. Small organizations that do not have the funds to reach out to people for tax assignments are often dependent on the subsidies from the state and reducing subsidies would bring these organizations to an end.

At the same time, it should be mentioned that tax assignments are a tax redistribution, not philanthropy, which is at a good level in the Czech Republic. In the case of tax assignments, the state loses part of its decision-making power and, at the same time, the introduction of tax assignments has a negative impact on public budgets. Tax assignments would only be a small part of the overall model of funding the non-profit sector. At the same time, tax assignments would become part of the tax system, which would become more complex and there would definitely be an increase in administrative costs. The introduction of tax assignments would certainly depend on their specific form and also the will of the state to support private donations, and the value of subsidies provided. It should be noted that forms of support to the non-profit sector are a political decision related to the objectives pursued.

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