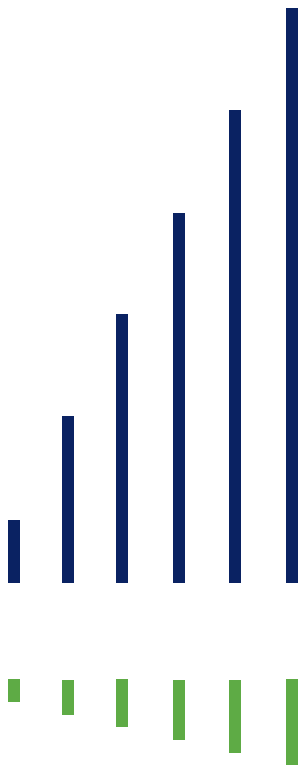




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# LEARNING BY DOING: EXPERIENCES ON THE IMPLEMENTATION OF THE PERCENTAGE DESIGNATION MECHANISM

Case studies from Hungary, Poland and  
Slovakia

European Center for Not-for-Profit Law

2016

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# Good Practices of a nonprofit sector development organization for Promoting Percentage designation in Hungary

CASE STUDY

*Developed by: Balázs Gerencsér- Judit Oprics, NIOK Foundation*

*August 2016*

Our case study gives a short overview of the most important changes in the Hungarian 1% mechanism or in other words the percentage designation (designations for civil society organizations (CSOs) based on Act CXXVI of 1996 on the Use of a Specified Portion of Personal Income Tax According to the Designation of the Taxpayer<sup>1</sup>). We present some of the activities aimed at promoting the percentage designation mechanism<sup>2</sup> which we believe can be successfully applied in other countries as well.<sup>3</sup>

## INTRODUCTION

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### Percentage designation

Hungary introduced the so-called 1% Law<sup>4</sup> in 1997 under which individuals can designate 1% of Personal Income Tax they paid to a beneficiary indicated in their tax declarations; the amount will be transferred by the tax authority. Beneficiaries can be foundations and associations that carry out public benefit activities and some other institutions and funds<sup>5</sup>.

The percentage designation mechanism created and established a unique way of funding civil society organizations. „*The new law allowed ... for a right of self-determination of taxpayers (even if the amount is only of a symbolic nature) and created a **new relation in the interrelationship between the taxpayer and civil society organizations.***”<sup>6</sup>

It is important to point out that the amount raised from the 1% designations by CSOs is per definition **not a donation but a budgetary support**. Although the decision through which civil society organization is supported by the 1% designation is made by individual taxpayers it is not their own resources that are offered as donation but part of their tax paid.

### The Creation of the Law

The 1% Law was adopted by the Parliament in its session of 19 December 1996. In the first couple of months of 1997, CSOs familiarization with the 1% Law, adjustment of their statutes, a nationwide awareness raising campaign by NIOK and the first fundraising activities of CSOs with no prior experience were running simultaneously. In the light of the above, the fact that **nearly 16.000 civil society organizations were supported by over one million taxpayers in**

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<sup>1</sup> The term „percentage designation” conforms to the terminology used throughout the case studies. We apply the term “percentage philanthropy” in other researches.

<sup>2</sup> We primarily focus on the activities of NIOK Foundation because NIOK has been engaged in 1% since the very beginning.

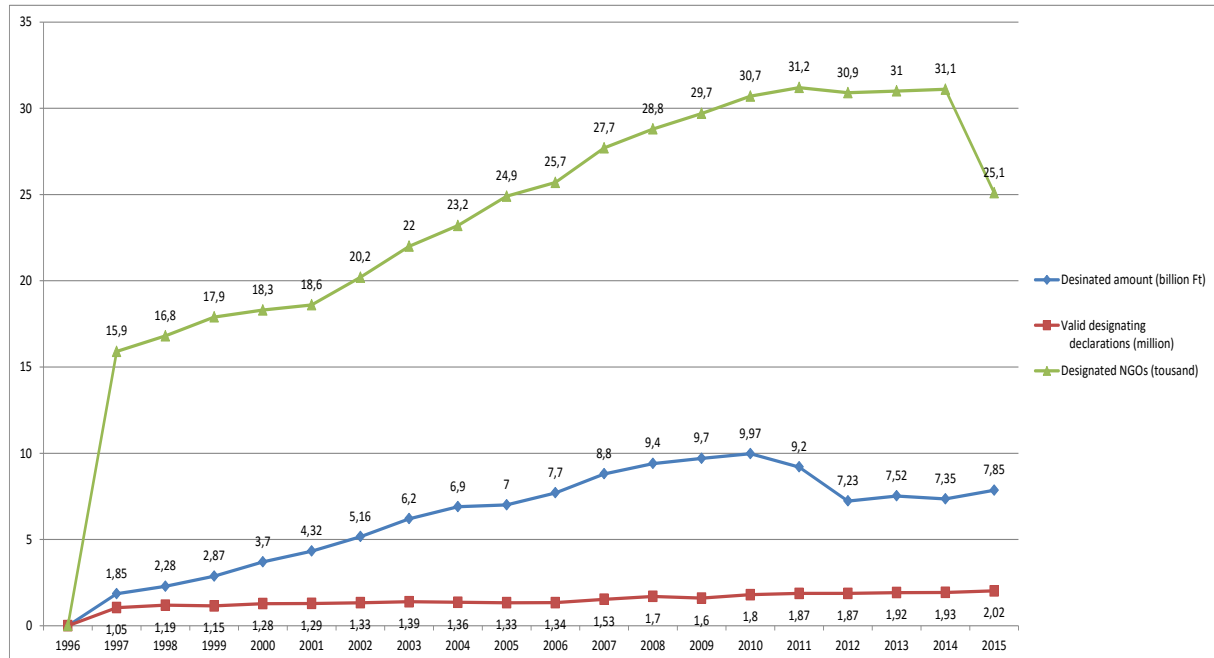
<sup>3</sup> The solutions that were worked out by NIOK have contributed to the adoption and introduction of percentage designation in many countries. These solutions must be adapted to the respective socio-economic environments, which is to be carried by ECNL in this programme.

<sup>4</sup> Act CXXVI of 1996 on the Use of a Specified Portion of Personal Income Tax According to the Designation of the Taxpayer, the legal basis of which is laid down in Act CXVII of 1995 on personal income tax.

<sup>5</sup> A range of state institutions (e.g. the Hungarian Academy of Sciences, Hungarian Opera House), specialized museums and certain cultural institutions; higher education institutions; the National Cooperation Fund and the Hungarian Academy of Arts.

<sup>6</sup> Source: Gy. Bódi, NIOK 2007, Budapest

**the first year** of the application of the law was considered a great success. In the past 18 years the number of designating taxpayers, the designated amount and the recipient CSOs increased significantly. In 2015 25,1 million CSOs benefited from this mechanism and received altogether 7,8 billion HUF designations.<sup>7</sup>



## Changes in the Law: ongoing advocacy

The history and the functioning of the 1% Law have been accompanied by professional consultations mainly initiated by CSO experts.<sup>8</sup> On the one hand, the formulation of the **Law has been continuously adapted to the changing legal environment** (for example the public benefit status); and particularly, it has reflected the changes in tax regulations. On the other hand, its provisions have also been amended several times reflecting the consultations and debates among professionals; the advocacy of CSOs; the intention of the legislator; and feedback from past experience.

**Simplification of the designation process was a central topic of professional discussions and proposals.** NIOK carried out minor opinion researches among CSOs<sup>9</sup> and communicated them - along with expert opinions - to the tax authority, to the competent ministry and the parliamentary committee engaged in CSO issues. NIOK took part in their sessions, formed an opinion and submitted proposals. In addition, NIOK has been regularly organizing national and international conferences on the topic to which it also invites representatives of the tax authority and leaders of the competent departments of the ministry. It has founded professional bodies

<sup>7</sup> Source: National Tax and Customs Administration

<sup>8</sup> There were initiatives from the church as well.

<sup>9</sup> Civil society organisations found mechanisms too complicated.

and organized cooperation (see further details later). As a result, NIOK became the best known expert of the topic in the media (with nearly 100 interviews).

The most important changes were the following:

- Right after the first year of the application of the **law the designation procedure was separated for CSOs and churches**: taxpayers can now designate 1% to CSOs and 1% for the churches<sup>10</sup>.
- In 2014, **prior registration of intended beneficiaries was introduced**. This change was necessary to increase transparency. According to the new rules civil society organizations shall announce their intentions to become beneficiaries of 1% designations in advance and certify the compliance with the legal criteria. Before this change, compliance was controlled by the tax authority only after the designation, which discouraged many potential designators. NIOK proposed prior registration for 15 years; good advocacy therefore requires patience.
- Since 2015 **taxpayers are to indicate in their declarations that they consent to revealing their names, postal or email addresses to the beneficiary** civil society organizations. Previously the law did allow beneficiary organizations to learn about the designators and the amount of the individual designations. Importantly, the tax authority does not communicate the amount of the individual 1% designation of taxpayers to anyone. It was a result of the advocacy activity NIOK carried out in cooperation with the Self-Regulation Coalition of Fundraising CSOs (ASZÖT)<sup>11</sup>. We consider this change important not only because it increases transparency but also because it helps beneficiary organizations to prepare for traditional philanthropy.

Due to such positioning, networking activities and the professional work carried out by NIOK and many other experts the formulation of the law on designation has become more and more accurate. It has also become more and more differentiated in order to adapt to the growing number of tax declaration types. This way the text of the 1% law itself has got longer and longer and more and more diverse but **the actual process of designation became much simpler**.

Despite the many problems Hungarian civil society organizations generally believe that the present 1% mechanism serves well the interests of the CSO sector. **It is a useful and efficient**

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<sup>10</sup> Alternatively, taxpayers can designate the second 1% to a specific budgetary priority objective defined in the Budget Act of the given year.

<sup>11</sup> Adománygyűjtő Szervezetek Önszabályozó Testülete, Self-Regulation Coalition of Fundraising CSOs. The Self-Regulation Coalition of Fundraising CSOs is a self-organizing group. It aims at strengthening the trust of supporters in the nonprofit sector and at coordinating the advocacy work of fundraisers. Only those can gain membership and the right to use the logo 'Ethical Fundraising Organization' who declare using the donations in a standardized, transparent and accountable way. The members of the Self-Regulation Coalition of Fundraising CSOs consider it important to present their operation and fundraising activities to their donors and, in doing so, to strengthen their credibility as well. For that purpose they created their own Code of Conduct.

**model of supporting civil society organizations from the central budget.** Its stable functioning proves that this structure is known and used by both civil society organizations and taxpayers. However, it should be remembered that political decision makers tend to eclipse or neglect the development of other equally important and effective ways of promoting philanthropy. Using percentage designation as a specific tool provides them with good opportunity to do so.

NIOK believes that it must be ensured that this mechanism is only of a complementary nature; it cannot be a substitute for true individual philanthropy or for civil society fundraising activities; it should rather be stimulation or a kind of educational process.

## **WHY IS PROMOTION OF 1% AND ONGOING CONTACT TO LEGISLATORS AND EXECUTIVE AGENCIES IMPORTANT?**

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As already mentioned, percentage designation is an efficient tool for promoting the culture of philanthropy and the CSO sector. At the same time, however, several constraints must be taken into account; percentage designation is not an omnipotent tool.

**It helps the CSO sector and potential donors to realize how important and useful donation is,** how it works, what elements the process of donation include. For civil society organizations and individual donors, percentage designation functions in a similar way as philanthropy as a whole or its other forms.<sup>12</sup> Thus, percentage philanthropy may help civil society organizations to learn how to raise funds. Besides, it may enhance the attitude of donation and may help to make it a common practice in the society where it has been established. This is also evidenced by the fact that other individual donations have also increased since percentage designation mechanism was introduced in Hungary (after a short period of decline); both civil society organizations and individuals report an increase both in the amount and in the role of donations, which is supported by statistical data.

- For this, however, awareness must be raised of the fact both among the population and civil society organizations that this system does not provide for sufficient resources needed for the operation of civil society organizations. (In Hungary it makes up only 1% of the annual revenues of CSOs) Unfortunately, it is little known in Hungary that this tool is only a complementary element in the total revenues of the sector. This in our opinion might affect philanthropy in a negative way as well, although we do not know about any relevant research data.

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<sup>12</sup> More detail: Gerencsér Balázs – Oprics Judit: The Role of Percentage Designation in creating a Culture of Giving, NIOK Alapítvány, 2007

Percentage designation also **promotes an improvement of communication and development of efficient and diverse interaction** between the donor side and the beneficiary side. This in turn will result in better social embeddedness of the work being done by the CSO sector and its organizations; it can also lead to increased awareness and funding of civil society organizations among individual stakeholders.

- This on the one hand requires an appropriate regulation; on the other hand, adequate knowledge in the field of communication and PR are needed along with trainers, platforms and information that provide for the above. There may be a lot of organizations that have no experience in this field because they never had any similar task yet. 1%, however, makes organizations deepen their knowledge in fundraising and communication.

**Designation also requires efforts from the taxpayers;** the willingness to assign designation is highly dependent on the educational background of the taxpayer and the amount of tax to be paid.

- Raising awareness among taxpayers by campaigns; promoting designation by information services; later on tackling problems by further action - based on research data - can be also a highly important activity.

The **campaigns of CSOs for percentage designations strengthen each other** despite the fact that there is severe competition between organizations. The campaign period (February 1 - June 21) is the time of the year when the activities of civil society organizations are being talked about everywhere; most people realize only that time that there is a CSO sector as well. The many small 1% campaigns draw more attention to the sector than individual fundraising campaigns running at other times of the year. As in other competitions, ill-speaking of others and negation of the work of others do appear here as well.

- A positive general campaign can improve the image of the sector as a whole; regulatory and certification bodies can prevent some of the problems.

**Percentage designation** – in accordance with the primary intent of the decision makers at the time of its introduction - **raises extra and alternative funds for the CSO sector;** the funds come on the one hand from the state, but are free of political influence; on the other hand, it is based on individual taxpayer's determination and designation; its use is mainly controlled by the community – thus, it plays a major role in the revenues of the CSO sector. Its role in the funding of the sector is however contested. It does not provide organizations with equal opportunities to complement their funds and revenues by this method. From year to year the biggest amounts are raised by organizations engaged in helping children with disability or orphaned pets. Organizations supporting schools and kindergartens are very successful fundraisers as well. As designators of 1% in Hungary must choose one organization their

decisions are usually influenced by strong effects - emotional impacts (dogs or children) or personal interest (the school of their own children). Organizations that are chosen by many taxpayers one year will have relatively much money for their campaigns the next year. For 15 years, it was impossible to obtain the tax identification numbers of organizations from an official source in Hungary; so organizations that were unable to organize a campaign and communicate their tax identification numbers and activities had little hope for designations.

- **Creation of services, for example, a database, where all have equal opportunities to participate** and are free of charge will not eliminate, but decrease inequalities of opportunities. A free public database with an appropriate promotion can be a good complement of individual campaigns of civil society organizations. With a search function, taxpayers can come across organizations – based on activity, location or other key words - whose 1% campaigns they have not met anywhere else.

## **PROMOTION OF GOOD PRACTICES**

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In order to promote the 1% mechanism, NIOK Foundation has also pioneered in creating and operating tailored services for organizations, including consultation on 1%; preparing and carrying out 1% campaigns and trainings; and providing advertising opportunities on our donation portal.

### **Research**

There is little chance for increasing the effectiveness of the 1% mechanism without a thorough understanding and exploration of how the system functions. In the past few years we have carried out five major and several minor researches and studies.

### **Training**

The trainings and consultations for CSOs are inevitable to increase their capacities to carry out campaigns for percentage designation. In the past 22 years NIOK organized dozens of trainings, conferences in the capital and throughout the country.

### **Cooperation**

In the process of the introduction and the operation of the 1% mechanism in Hungary NIOK Foundation aimed at widespread cooperation. It maintained **regular contact with professional, decision-making and executive bodies and agencies**. This way it was able to actively exercise influence over the preparation of the legislative framework and later on over its recasts and evaluation. As a result, several amendments were made in the legislation over time.

Furthermore, it initiated and established **widespread cooperation with CSOs**, including the following two most recent initiatives:



1. A few years ago NIOK Foundation started its Transparency program in cooperation with many other fundraising civil society organizations. It founded **Self-Regulation Coalition of Fundraising CSOs** (Adománygyűjtő Szervezetek Önszabályozó Testülete) which now has 19 members; its significance in the field of fundraising including 1% is paramount.

It aims at strengthening trust of supporters in the CSO sector and at bringing together the advocacy work of fundraisers. Its members seek to set an example by carrying out their own fundraising activities. In 2014, the Coalition formulated proposals to improve the operation of the 1% mechanism and Law. At present, it brings together professional opinion and proposes changes to the Tax Authority in order to simplify administrative procedures that were modified by the changes to the law.

2. NIOK Foundation, as an organization that represents the interest of the sector, was one of the initiators of **MACI movement** (Magyar Civilszervezetek, Hungarian Civil Society Organisations) which now has nearly 400 members. It was MACI that put focus on 1% as a common cause of the sector in 2015. The main partner of the 1% campaign of MACI was [adhat.hu](http://adhat.hu), the donation portal operated by NIOK Foundation; this portal provided the campaign with an information and organization database. Taxpayers could meet the campaign video online or on the channels of RTL Klub as a Public Service Announcement campaign commissioned by NIOK Foundation. On YouTube and Facebook the reach of the campaign was also outstanding. Partly as a result of the campaign the number of 1% designations for civil society organizations increased significantly, by 7%.

### *New Communication Opportunities*

A communication campaign of the 1% is a good opportunity for an organization to introduce itself, to reach supporters, people interested, or stakeholders. The simplest and most effective way of reaching this group with messages and advertisements is that of using online communication tools. Thanks to Google Hungary, NIOK Foundation offers two different products free of charge, ensuring that organizations can carry out much cheaper campaigns. Above all, the opportunities provided by **AdWords** are of main importance but **Facebook and Youtube** are significant media for civil society organizations in their 1% campaigns as well. Features reflecting those needs are under development.

### *Campaigns*

When introducing a new mechanism both taxpayers and civil society organizations have little appropriate information. Many of them do not know why, how and who their designations would be important to. In this case **introductory campaigns** are useful. Some years later – due to CSO scandals or decreased interest - awareness raising campaigns are still very important. It is the whole CSO sector that benefits from a good campaign (as the pie will be increased); the benefit for an individual civil society organization is hard to measure (although the size of a slice is growing along with the pie). In order to promote percentage designation in Hungary,

NIOK Foundation has carried out its annual campaigns over 15 years to assist taxpayers and CSOs in learning about the mechanism and the opportunities involved. It has also aimed at increasing the number and the amount of 1% designations along with the number of beneficiary organizations.

A **well introduced and advertised CSO database** allows taxpayers to choose a recipient organization for their 1% designation using their own selection criteria. In a database, a standardized data structure provides for data comparability and easy navigation. It allows civil society organizations to provide an accurate picture of them even without having significant financial resources. NIOK provides taxpayers, CSOs and anyone interested with **information on practical issues of percentage designation by means of its Internet portal<sup>13</sup> and a CSO database<sup>14</sup>** available on that same site. An important factor here is also that Google search engine usually displays central data bases in front of the sites of individual civil society organizations; the database that was set up by NIOK meets these requirements. The database is updated both continuously and occasionally through campaigns.

This work is completed and strengthened by a **media campaign and a telephone information service**. Campaigns can promote not only the willingness to donate but - by integration of information services – they can also increase the number of orderly designations. Information services can be created for civil society organizations as well. The telephone services that had been operated by NIOK for several years were completely replaced by an Internet portal where visitors can find relevant information, suggestions and explanations according to the target group they belong to.

Further elements of the 1% campaign are dependent on the changing conditions, tasks and opportunities each year. If there are no resources available for establishing and operating those services one certainly must rely on the information provided by different state authorities but this can hardly be an ideal solution.

## **WHAT AND WHY IS IT WORTH...?**

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As regards to the positive impacts of the introduction of the percentage philosophy several observations can be made:

In societies where philanthropy has no antecedents and there are no models for civil society organizations and individuals that would help them join in philanthropy, a careful application

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<sup>13</sup> nonprofit.hu, then adhat.hu

<sup>14</sup> It does not only contain data that are necessary for filling in the designation forms but - in order to assist responsible decision - we sought to gather more detailed information, such as the mission and current activities of the organization, the results achieved in the previous years, the purposes for which they collect donations and others.

of the percentage designation mechanism – whilst taking local socioeconomic realities into account - may serve as a useful tool of promoting philanthropy.

**Our recommendations are as follows:**

As the promotion of this mechanism requires both civil society organizations and tax payers to be active, informing stakeholders and motivating taxpayers through stimulating campaigns may help a lot after its introduction.

1. **Improve the mechanism based on CSOs needs.** In the past decade the percentage designation mechanism has been applied by a growing number of countries and municipalities. Since its introduction, there has been significant interest in percentage designation on the part of all actors. Nearly all data on philanthropy evidence the fact that a growing number of tax payers and beneficiaries designate and receive an increasing amount of tax percentage from year to year. However, if the designation process is too complicated it can discourage taxpayers from its use or civil society organizations from this way of fundraising.

Our recommendation is as follows:

It is worth collecting the opinions of civil society organizations on the regulation and the mechanism, and analyzing designation data. Action must be taken by means of public information campaigns, trainings or in form of advocacy for a change in regulations.

2. **Communication as awareness raising of the sector.** Communication activities of CSOs aimed at obtaining percentage donations; efficient campaigns; more open and transparent operation - all clearly serve advancement and strengthening of the sector both in the short and the long term. When exploring the role of percentage designation in this context attention must be drawn on the fact that communication and advertising activities play an outstanding role in the struggle for percentage donations; this way they might obscure both information on the professional activities of civil society organizations and their significance in the donors' process of decision making.

Our recommendation is as follows:

It is worth examining the changes of the Hungarian regulations in terms of transparency and presenting it to legislators so that negative examples from Hungary can be avoided in future. It is very easy to reach people with the issue of helping children with cancer. This fact is unfortunately often used by many dishonest people, so there have been a lot of abuses. The scandals of daganatos.hu (cancer), and Gyermekrák (Childcancer) are probably the best known examples.

3. **Trainings for more professional fundraising.** The success of an organization in percentage donation is determined by its specific features, powers and efforts.

Furthermore, successful and less successful types of organizations can be identified by the criteria of activities. For some organizations and for taxpayers with only a small amount of tax to be paid percentage designation is not a relevant form of support.

Our recommendation is as follows: Trainings and information forums on 1% fundraising help – through decreasing false hopes and useless efforts – civil society organizations to carry out more realistic and at the same time more professional fundraising activities. As long as there is no sufficient experience in a country on how the 1% mechanism works organizations often have false hopes for potential funds, target groups and pursue bad strategies in their 1% campaigns. Fundraising and communication experts and also an analysis of outcomes of other countries might help a lot.

- 4. Information services and databases for well-founded decision-making.** If the data needed for 1% designation is not easily accessible, if rules and regulations are unclear and there is no popular database that presents the operation of organizations in a comparable way designators may feel discouraged and their activity of searching for data or the designation itself may fail.

Our recommendation is as follows: For each stakeholder, a FAQ should be prepared in a popular and easily understandable form and a database that present the activities of CSOs should be set up or promoted.

- 5. Experience sharing across borders.** A significant proportion of civil society organizations have no adequate experience or resources to organize professional, but often costly campaigns.

Our recommendation is as follows: Although organizations can learn a lot from each other it might be much more efficient if they are educated through nation-wide trainings, by consultants and through websites in how to communication and do PR.

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# How human rights and watchdog organizations can make use of the mechanism?

Good practices of reaching out to taxpayers in Poland

CASE STUDY

*Developed by Katarzyna Batko-Toluć, Citizens Network Watchdog Poland*

*August 2016*

## INTRODUCTION

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The mechanism of giving **1% of the annual tax by a taxpayer to a chosen CSO** was introduced by the Law on Public Benefit and Voluntary Activity (“Law”) enacted in 2003.

Only physical persons can do a designation. Their income can come from the employment, pension, scholarship, public aid, different types of contracts and additional income from e.g. renting premises or selling securities.

**Organizations that are entitled to receive 1% designation** must be foundations or associations, churches’ organizations<sup>1</sup>, non-profit stock offering companies, non-profit limited liability companies and non-profit sport clubs. They must work at least in one sphere of the 39 types of public benefit activity listed in the Law<sup>2</sup>.

Not each organization is entitled to receive the 1%. The organization must have the special status of Public Benefit Organization (in Poland this is shortened to “OPP”) and be included on the list run by the Ministry of Social Assistance<sup>3</sup>. Applying for the status of public benefit is possible after two years of the organization’s existence and after two years of uninterrupted activity in the public benefit sphere. The status is given by a court-register and requires the submission of the articles of association or other statutory documents that guarantee the independence of the supervisory bodies from the management boards and ban on benefits that the members of the organization or its employees, as well as their families, can receive from the organization.

There are also other general rules that impact the whole construction of the organization’s activity. The organization cannot focus only on its members’ needs (in case of the associations) but should work either for a given group of people or the general public. In addition, any economic activity should be supplementary to the statutory one.

As a result, in 2015 around 8,000 organizations were entitled to 1% tax designation<sup>4</sup> out of 100,000 associations and 17,000 foundations<sup>5</sup>.

**Income from 1% designation can only be spent on the public benefit activity.** This provision occurred owing to the fact that companies are also entitled to have public benefit

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<sup>1</sup> Under the Law, the church organizations are those that organize e.g. education or social assistance and are established on the basis of the special regulations concerning the relationship of the state and a given church, in contrast to religious organizations focused on religious cult.

<sup>2</sup> Article 4(1) of the Law on Public Benefit and Voluntary Activity.

<sup>3</sup> The name of the Ministry changes, sometimes it also covers labor and family issues.

<sup>4</sup> According to the lists of the organizations regularly updated by the Ministry of Social Security <http://www.pozYTEK.gov.pl/Wykaz,Organizacji,PozytKu,Publicznego,3666.html>

<sup>5</sup> On the basis of data from Central Statistical Office (register REGON) and Klon/Jawor Association’s own research from 2015 entitled „Situation of the CSOs’ sector” <http://fakty.ngo.pl/liczba-ngo>

status. Such condition does not allow companies that hold the OPP status to abuse rules and spent money for another activity, if it has any.

## CHANGES IN THE LAW AND TYPICAL DILEMMAS

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Over 13 years, the provisions connected with public benefit organizations were amended a few times due to the reasons of some omissions but also because of the misconducts and abuses.

The status was thought as something special. While at the beginning it was easy to get it and also obligations concerning reporting were not followed, the requirement of two years of uninterrupted activity was introduced. Also a more transparent system of controlling the reporting was applied.

- **Simplification of the mechanism.** Till 2007, the taxpayer was obliged to send the 1% to the organization directly. Since 2008 it is done by tax offices providing that the taxpayer filled in this information on his or her tax form.
- **All self-employed taxpayers became eligible to designate.** Also 2007 was a year as of which it is also accessible for the flat tax self-employed taxpayers to assign their tax. Before that there was an unequal situation for the self-employed taxpayers. Those who paid their taxes according to general rules could assign their 1% to a chosen organization holding special status. Those who earlier had chosen paying a flat tax could not do it mostly due to the fact that the Law on Physical Persons Taxes did not allow for that<sup>6</sup>. The advocacy for changing the situation took a few years.<sup>7</sup> As a result, in 2015, 57% of those who have income tax to pay assigned 1% to a Public Benefit Organization, while in 2004 it was only 0,3% of all taxpayers.
- **Changes in reporting requirements.** Since 2011, the Public Benefit Organizations must publish their financial and activity reports in a special online database.<sup>9</sup> The report is standardized. Some questions more often attract citizens and journalists interest than others. These are namely, information on the amount of tax designation collected in a given year; goals for which it was spent; share of the 1% income spent on promotion; amount spent on

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<sup>6</sup> <http://wiadomosci.ngo.pl/wiadomosc/91216.html>

<sup>7</sup> The Ombudsman submitted a complaint to the Constitutional Tribunal claiming that this is an unequal treatment<sup>7</sup>, however the Tribunal rejected the case. The Ombudsman continued his efforts by addressing the Minister of Finance<sup>7</sup>. The latter claimed that 1% is a kind of tax relief while the idea of introducing a flat tax assumed lack of any reliefs. See further information at: <http://wiadomosci.ngo.pl/wiadomosc/102134.html> and <https://www.rpo.gov.pl/pliki/1175081358.pdf>

<sup>8</sup> In the first year of the new provisions, the group of new taxpayers made around 5% of the whole amount from 1%. This group was also more committed to designate a tax than the rest of the taxpayers - around 50% of the flat tax taxpayers decided to do that for the year 2007, comparing to 20% of the others<sup>8</sup>. It is important to underline that although the flat tax payers group is relatively small, it is usually wealthier.

<sup>9</sup> <http://sprawozdaniaopp.mpips.gov.pl/Search>



remunerations; the highest salary of the employee and the highest salary of the board members in one month (including all types of contract); and average salary of employees and board members. Organizations that are late or do not submit their reports are withdrawn from the list of Public Benefit Organizations for a year. The list is sent to all tax offices in Poland. In 2011, in the first year of introducing the new provisions, 25% of the organizations were cancelled from the list.

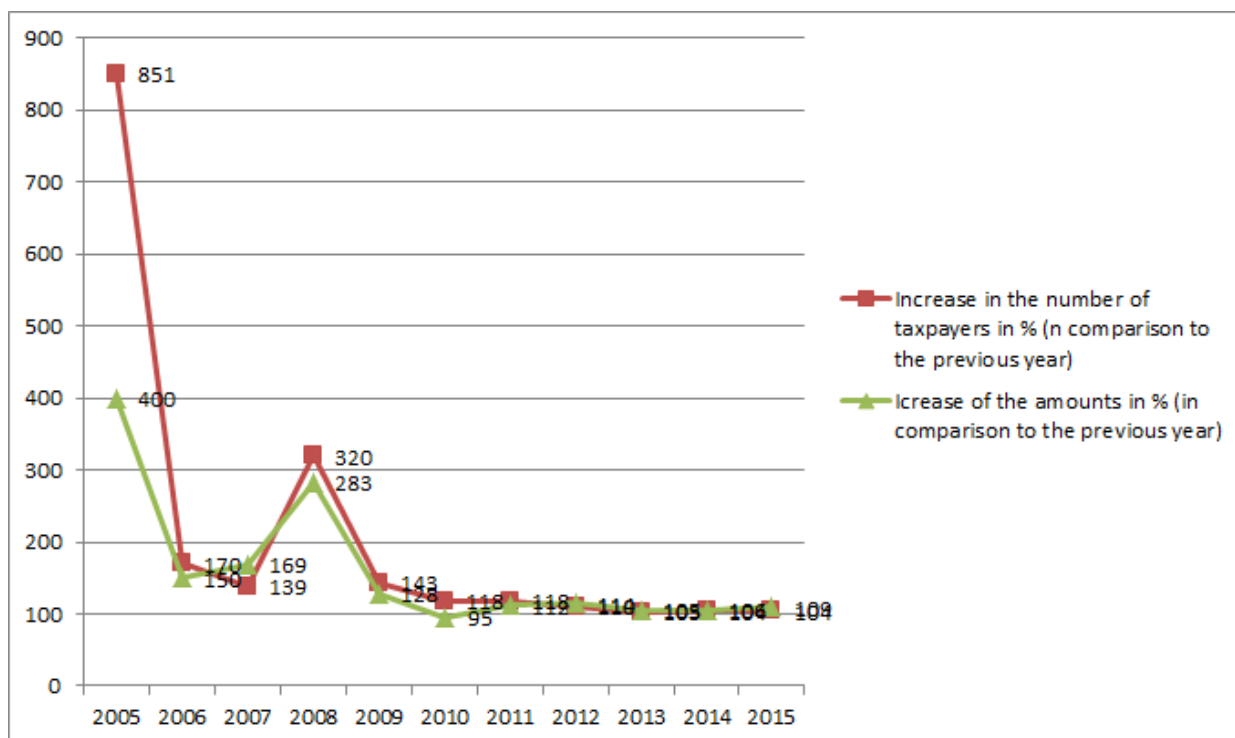
- **Promotional costs.** Debate is also focused on the share that can be used for promotion of the 1% actions. Although there is no limit on that, since 2016 the organizations that pay for promotional materials from 1% money have to make this fact known through adding to leaflets, posters, radio, TV or Internet spots the following sentence: „This promotional material was financed/co-financed from 1% of the tax coming from physical persons” or if it is not possible by “Financed by 1% of tax”. According to Central Statistical Office, those organizations that run a promotional campaign spent on average 20% of the designated money on it<sup>10</sup>.

Over 12 years there was a sharp increase of 15,571% in the number of taxpayers who assign 1% of their tax to some organization. In 2004 only 80,000 taxpayers did the designation, in 2015 the number was 12,457,000 taxpayers. The increase in the amounts was 5,361%. In 2004 it amounted to around EUR 2,600,000, in 2015 – to around EUR 139,400,000.

The increase was the highest in the second year (the first year – 2004 – is not included as there was no basis for the comparison) and in 2008 (for the tax year of 2007). The first increase was probably due to the fact that after the first year people learned about the possibility of tax designation. Second increase is connected with making procedures simpler.

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<sup>10</sup> The Central Statistical Office’s information on Public Benefit Organizations and 1% mechanism: [http://stat.gov.pl/files/gfx/portalinformacyjny/pl/defaultaktualnosci/5490/4/2/1/organizacje\\_pozytku\\_publicznego\\_i\\_1\\_proc.pdf](http://stat.gov.pl/files/gfx/portalinformacyjny/pl/defaultaktualnosci/5490/4/2/1/organizacje_pozytku_publicznego_i_1_proc.pdf)



However, the 1% mechanism is criticized for changing its main goal. According to some experts,<sup>11</sup> it was meant to be a tool showing trust to the organization and building relationship between the citizen and the organization. But it also became a tool to support concrete people. It is because the Law allows the taxpayer to add information in a tax-form for which activity organization should spend the money. 1% mechanism started to be a way for massive fundraising for persons with illnesses and disabilities through opening sub-accounts. As a result, the organizations raising 1% for individual persons take most of the money.

There is also a lot of practical problems connected with abuses<sup>12</sup>. The legal obligation to pass on the money to the specific persons with illnesses and disabilities is not existing. It is also not clear what to do with the money when the person dies. Some families expect to be anyway given the “fundraised” money. There are also questions whether a person who is supported with the 1% money should report it to the tax office as a donation and should pay a tax.

Using the organization as an intermediary for the organization that lost its OPP status or has no chance to get it, is another type of abuse connected with indicating a purpose by a taxpayer.

<sup>11</sup> e.g. dr Magdalena Archewska from the Warsaw University, a CSOs specialist <http://opinie.ngo.pl/wiadomosc/872474.html>, but the topic is also debated in media <http://biznes.onet.pl/podatki/wiadomosci/1-procent-z-pit-najczesciej-trafia-na-subkonta-opp/fhvz61> and law makers discussions <http://wiadomosci.ngo.pl/wiadomosc/766591.html>. However it is important to mention, that the defenders of the subaccounts mechanism underline that the success of the 1% mechanism is based on supporting individuals and in other circumstances such high level of taxpayers support would be impossible <http://opinie.ngo.pl/wiadomosc/767674.html>.

<sup>12</sup> Abuses are understood on ethical level because finances are usually correct. The organizations with net income above 5,000,000; fixed assets above 2,500,000 EURO or full-time employment above 50 persons have an obligation of auditing their finances. It is enough to meet two requirements out of three to have such obligation.

Those intermediaries usually are rewarded for their “service”. There is also a practice of establishing CSOs at public schools. The organization applies for the OPP status and all parents designate 1% or even encourage others to support public institution, which directly is not entitled to get such support.

Although the 1% mechanism is criticized for described reasons and for replacing the traditional philanthropy, from the individual organization’s point of view there is a simple advantage of getting some independent money, sometimes pretty significant, even if the organizations is far behind the leaders of fundraising. In 2015, 1% of the OPP organizations raised above 250,000 EUR, out of which 4 raised extreme amounts like 34,000,000 EUR, and following 4,000,000; 3,000,000 and 2,500,000 EUR. These were all organizations offering sub-accounts. However, there was a large number of the organizations that still raised impressive amounts. As such it can be treated results between 25,000 and 250,000 EUR, which managed to do 5% of the organization. 21% of the organizations raised money allowing to implement a small or medium size project (5,000-25,000 EUR), and 34% raised some additional money to use for urgent issues or for things that are not usually covered by donors – between 1,000 and 5,000. EUR. 44% of the OPP organizations raised less than a 1,000 EUR.

The 1% campaign can also be a good opportunity to think on the organization’s visibility and communication. It requires explaining why the organization is important and why the taxpayers should designate their tax. It inspires creative thinking and may make the organization aware that media relations are important. It also helps in building relation with own constituency. These conclusions are connected with the observation of developing the campaigns by the CSOs whose good practice are presented in the text.

## **HOW HUMAN RIGHTS AND WATCHDOG ORGANIZATIONS CAN MAKE USE OF THE MECHANISM?**

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**Percentage designation is also a chance for watchdog and human rights organizations.** Although they usually work for unpopular groups, such as migrant community, or abstract issues such as surveillance or right to know, they manage to raise some significant money on the basis of their media presence, credibility and high motivation coming from the lack of financing. For several years watchdog and human rights organizations were financed from the international foundations. Around 2010, foreign donors started to gradually withdraw from Poland. Some organizations decided to apply for the OPP status. There is only a few of them but **all those who have broader constituency are able to raise some significant income.** In 2016 it was increased several times as due to political changes, watchdog organizations started to be hope of the society for better future. The newcomer to the OPP watchdog community, Panoptykon Foundation dealing with surveillance raised around 15,000 EUR, which is a very

good result for the first year; the Civic Fund – a new grant making fund raised similar amount; Watchdog Poland dealing transparency raised around 32,000 EUR. This was also a **result of earlier investments in constituency building and good support of donors** that helped in development of CSOs capacity to communicate better and get people engaged.

However, it is worth mentioning that some organizations, such as Helsinki Foundation for Human Rights, believe that watchdog organizations should not take 1% designation as the state gets additional opportunity to control the activity of its controller. Also for the Watchdog Poland the fact that ¼ of its budget comes from public money becomes to be a new phenomenon and requires re-thinking what kind of consequences it can bring for accountability of the organization. These questions have never been practically discussed, therefore they are given only as a signalization of possible approaches.

## **INSTRUMENTS AND GOOD PRACTICES ON REACHING OUT TO TAXPAYERS**

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There are different methods taken by the organizations on reaching people for designations. Some of them are based on smart ideas, some are more connected with developing communication. Some are a mixture of both.

### **1. Maintaining relations with the existing constituency or partners and informing**

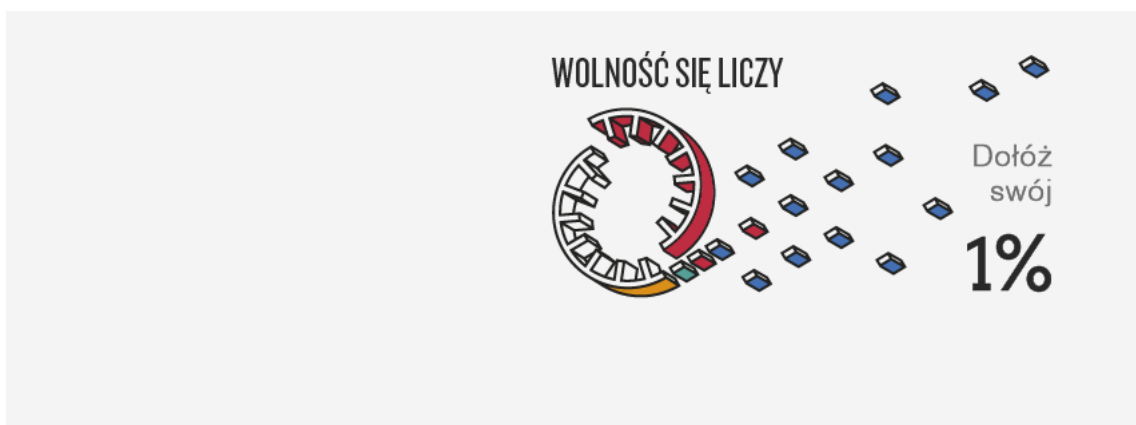
The easiest way is to **send information on 1% designation to all contacts of the organization**. If the organization has several subcontractors, such as trainers, experts, authors and it needs to send them any letters<sup>13</sup>, it can add a leaflet or another information on the fact that organization holds the OPP status and on the activities of the organizations.

Usually they show stories, e.g. Batory Foundations sends information on children who were supported with scholarships funded from the tax designation. The Citizens Network Watchdog Poland uses a huge stamp on the envelopes which is similar to the stamps necessary to accept financial documents. It contain basic information like “This is OPP, this is name and number, please support”. There is also a place to sign and people in the organization sign with full name, handwriting. The person that signs is usually the one that is the closest to a given addressee of the letter.

The standard activity is also connected with Facebook or Twitter. In the period of collecting designation it should be easy to find information that organization holds OPP status. The cover photo should inform on it. Several organizations think how to make it attractive.

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<sup>13</sup> In Poland it is compulsory to send information on all earnings till the end of February to all contractors.



1% krs  
0000181348  
sieć obywatelska  
**WATCHDOG**^



A good idea is to encourage the followers to **share the photo in their social media or to make it a cover photo**. Also some organizations prepare a special profile photo (avatar). Commenting on any content in the social media, the organization reminds that it holds an OPP status. Members and supporters of the organization can also use their own social media capital and use such avatar.





The information on 1% should be also available on the website of the organization in a visible way.

## 2. Promotion to new groups and reaching them with advertisement

There are several ways to reach a new audience. The Association of Leaders of Local Civic Groups (now the Citizens Network Watchdog Poland) made a viral campaign based on **playing with a main word “Transparency” and historical sentences, pictures or heroes** in 2013. It was popular thanks to an absurd sense of humor and allowed to reach more taxpayers.



*For Yours and Ours Transparency (national hero)*

*Several languages, one Right to Know*



*I think, therefore I open files (Rene Descartes)*

Some organizations make viral films explaining their mission. If they are not able to afford professional advertising company and plan a campaign, they often ask the beneficiaries of their support to speak about them or their work. Such as in case of Homo Faber – the association that helps migrants to live in Lublin. Their film concerned learning a language. As a first screen there is a typical text from the medical leaflet that asks to read it before using a medicine. However, this time it is only stylization. It asks to read on 1% action. Then the girl pronounces a tongue-twister in Polish and says that she is from Ukraine and learns Polish<sup>14</sup>.



Some organizations just **make themselves closer to the public opinion by showing their team and telling what they do on the every-day basis**. It may be several people on single

<sup>14</sup> <https://www.facebook.com/222576883645/videos/10153289409423646/>

films like in case of the Association of Legal Intervention whose team was regularly showing in the course of the 1% campaign in the organization's social media.<sup>15</sup>

Organization can also think on making a **campaign in social media showing their subject of activity as closer to the experience of the average citizens**. As in case of the Citizens Network Watchdog Poland in 2014 when it made a campaign entitled “Transparency is on Your Side” and prepared a series of logos, research and articles showing the concrete issues, e.g.

“Transparency is on Parents Side”:



The team of the organization asked schools about the acts of reported violence and then wrote articles showing that parents can check the school before choosing it for their child. The goal of the article was to show that transparency matters, therefore it is worth supporting an organization that cares about it.

or “Transparency is on Patients Side”



In another case the team of the organization asked for the information on hospitals' level of errors in medical treatment claiming that people should be aware of how their hospital deals with such problems.

Another idea is to ask supporters to help by taking leaflets and distributing them in their places of living, working etc.

All this efforts, not made by professionals in advertisement and promotion, allow to raise some funds. Depending on the organizations outreach at the beginning. The cases chosen to this study present watchdog and human rights organizations whose topics seem to be remote from the experience of the everyday life of citizens. Therefore **they must think more on explaining why their work matters**. The process of working on communication around the 1% campaign creates an opportunity to think on communication of the organization in general. **Organization has to ask question to itself why it is important, whom it serves, whether people know about its activities, what message people understand** etc. Usually the reflection shows where some changes should be introduced. The results of such campaign allow the organization to be

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<sup>15</sup> <https://www.youtube.com/watch?v=OwNG1-iKABk>  
<https://www.youtube.com/watch?v=a0dgMYBdsQo>  
<https://www.youtube.com/watch?v=nRYMLWi6T9E>  
<https://www.youtube.com/watch?v=gPAV5w6IEOI>



visible and to sustain a level of support or expand it gradually. Therefore it is not a way to get significant support. It is however enough to have some additional money in the organization.

### 3. Professional campaigns with PR companies

Increasing an outreach is possible through making a **professional campaign with support of specialist**. It does not necessarily mean that the organization has to have money for the PR agency. It can ask for pro bono help but money is needed for costs of production e.g. time of the film operator, good camera etc.

For example, a good result was achieved in 2014 by the organization named INSPRO. It is an organization working on good governance. Therefore, the topic is not heart-taking. However, the organization prepared a professional campaign with the PR Agency, set up goals and **invited a celebrity to play a role**. It was also present with the campaign in media<sup>16</sup>. As a result it raised EUR 58,000, which was almost 6 times as much money as in 2013 (EUR 10,000). The following year organization was not able to sustain the same level of assignment and raised only EUR 13,500 as it did not run a similar campaign.

### 4. Outreach on the everyday basis

The important thing is therefore **maintaining relations and reaching the public**. It can be only done by constantly proving that the organization is useful, does something that matters and is important to somebody. The more people the organization is able to reach with this information, the better, as the scale matters. Therefore media coverage matters. It can be planned or it can be a result of some external factors.

This is visible on the case of the Citizens Network Watchdog Poland. Its income from 1% increased significantly three times. Once in 2012, which was a result of the changes in the Right to Know Law in 2011. It started a period of constant Watchdog Poland's presence in media as an expert organization. The 1% increased 50%. Again the coverage and scale increased in 2015. The organization organized an interview<sup>17</sup> in one of the most popular daily's supplement containing interviews and reportages. It was maintained in the light style, with short questions and answers with a very good picture of the organizations' members.

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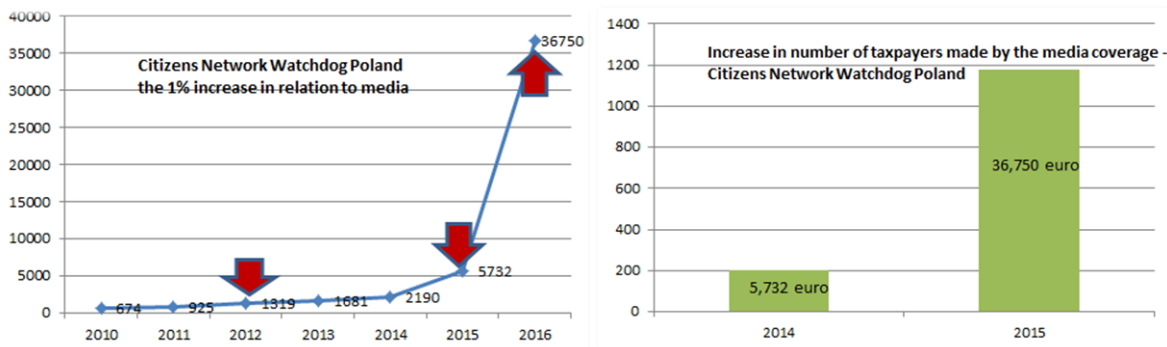
<sup>16</sup><http://www.proto.pl/case-studies/kampania-1-dla-fundacji-instytut-spraw-obywatelskich-inspro-z-udzialem-piotra>)

<sup>17</sup> [http://wyborcza.pl/duzyformat/1,127290,16696081,Niech\\_minister\\_pokaze\\_kalendarz.html](http://wyborcza.pl/duzyformat/1,127290,16696081,Niech_minister_pokaze_kalendarz.html)



The interest in the article was enormous and increased popularity. At the same time organization started to **be very active in social media**. It informed regularly on its court cases and reminded on possibility to support it with 1% designation. The 1% income increased 150%.

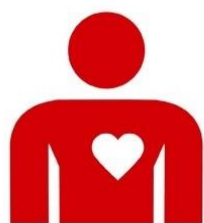
The last increase started in relation to political situation in Poland. The organization was attacked by one of the unpopular politicians. The FB number of followers increased twice and there was a good media coverage in the popular TV station connected with this attack. Later on, two other newspapers informed that the organization can be supported with 1% designation. This brought an outreach to much more people than before and a raise of 550% more money than in the previous year.



There is no better solution to get outreach than **cooperation with media and constant work on engaging, easy to understand, open for feedback and evaluated communication**. According to the research made in 2014 by the Association Klon/Jawor<sup>18</sup>, a research institutions for the CSOs sector, 38% of the taxpayers support the organization as they want to help a given person. This explains the phenomena of the sub-accounts, 6% is motivated by emotions, 4% is motivated by advertisement, 14% has personal ties to the organization, 7% wants to support given type of activity, such as education, ecology, culture, 4% want to support the local organization. This show limitations and opportunities for communication.

<sup>18</sup> <http://fakty.ngo.pl/opp>

## Czym kierują się przekazujący?



chcą pomóc konkretnej osobie – znajomej, polecanej przez rodzinę, znajomych

**38%**

wybierają spontanicznie, kierują się odruchem serca

**6%**

sugerują się mediami i reklamą

**4%**



osobiście znają organizację lub jej działaczy

**14%**

chcą przekazać pieniądze na konkretną dziedzinę (np. edukacja, ekologia, kultura) i szukają organizacji, która się tym zajmuje

**7%**

chcą wesprzeć lokalną organizację, ze swojej okolicy

**4%**

### 5. Methods connected with strategic allies

It is also important to **be aware that taxpayer's income matters**. The organization which has contacts with poorer constituency has to work on the number of taxpayers, the one that has more wealthy constituency can focus on convincing fewer people, e.g. 25% of taxpayers who supported Citizens Network Watchdog Poland in 2016 paid their taxes in Warsaw, which is wealthier than the rest of the country and they made 40% of the income.

To achieve better results, some organizations contact bigger companies and address their promotion to the employees of this company or identify local entrepreneurs and wealthier people to convince them to designate 1% to their organization. Another way is to **be in touch with people who make tax declarations, usually accountants, who can recommend an organization to their clients**.

### 6. National and regional promotion of the 1% mechanism

There were also **activities undertaken for the whole sector as a public promotion**. In Poland, public TV broadcasted a spot prepared by INSPRO<sup>19</sup>, civic organization. It was an own initiative by the organization that is dealing with financial sustainability of CSOs among others, and is experienced in making campaigns. It submitted its project for the call of Civic Initiatives Fund, which is budget money for supporting CSOs' projects. The Ministry of Social Services gave a patronage to this spot. The grant supported production and management, as in Poland, **according to the Law, CSOs holding an OPP status have free access to public media**<sup>20</sup>.

<sup>19</sup> <https://inspro.org.pl>

<sup>20</sup> This opportunity is rarely used by CSOs. In 2014 only 10% of the TV time available was used. <http://opinie.ngo.pl/wiadomosc/1258610.html>. This is partially because organizations are not prepared to do a TV spot. In the radio it is much easier to meet the requirements. On the other hand it is difficult to get time due to the discretionary rules <http://wiadomosci.ngo.pl/wiadomosc/1894718.html>. There were at least two resonating cases of the rejection. One was INSPRO's spot that was encouraging to vote and make politicians accountable by saying "Tell stop to being ignored". However, the spot was based on a buzz-words. Instead of neutral "ignored"

The spot tells a story of a person who brought his tax declaration to the tax office and says that he indicated the OPP organization to support with the 1% of his tax. The staff of the office claps their hands. The film ends with a slogan: “You can also feel special. Give your 1% to a chosen public benefit organization<sup>21</sup>”



Another type of **promotion stresses leaving taxes in the region or city**. Usually it is a project undertaken by some local or regional federation of CSOs. They run a dedicated website with a list of OPP organizations from a given territory, are present at local public events, wait for the taxpayers in the local tax office. Although according to the mentioned research only 4% of taxpayers take such motivation into account, still the issue is worth to be raised. According to the evaluation of a campaign in Kujawsko-Pomorskie Voivodeship (a name of a region), the amount designated to CSOs in 2014 increased with 12% thanks to this<sup>22</sup>.

### 7. Transparency as a means to credibility building

Transparency of spending 1% seems to be a topic for discussion, but not a key decision-making factor for the taxpayer.

There is a group of taxpayers who seek information on how the 1% is spent. Some of them go to a court and win cases as regards to access to invoices paid from the 1% budget<sup>23</sup>. On the other hand, some organizations, such as the Citizens Network Watchdog Poland **build trust on the basis of publishing its whole spending from the tax designation**. There is a list of

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it used popular expression associating ignoring with pissing. But this association is not direct. It can be also associated with “pouring”. And the spot was based on images of pouring. It was decided by the body giving permissions to broadcast a spot as too vulgar: <https://www.youtube.com/watch?v=QzFPme5FwU>. Another spot was rejected due to unclear message and not relevant colors. The spot was aimed to put a message to the pregnant women to take care of their rights <https://youtu.be/4Lx0FfBXmPE>.

<sup>21</sup> <https://www.youtube.com/watch?list=PLV050r-UYQA2zc2B8-PYUjBISkSglt4A8&v=IC3WMZQuvRA>

<sup>22</sup> <http://www.1procentregionalnie.pl/1procent/34/1-regionalnie--podsumowanie>

<sup>23</sup> <http://ochrona.jawne.info.pl/2013/12/30/czy-jawnosc-dotyczy-takze-trzeciego-sektora-praktyczny-test/>

annual income from 1%<sup>24</sup>, then a list of spending – invoice by invoice<sup>25</sup> and finally the scans of documents<sup>26</sup>. For the constituency of the Citizens Network Watchdog Poland it works. Another organization, Wikimedia Association in Poland has a special website where it informs on its activities funded under 1% designation<sup>27</sup>.

## RECOMMENDATIONS FOR SIMILAR INITIATIVES

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Most of the practical experience in Poland is not a discovery. Several issues have been probably discussed in Moldova. What can be recommended concerns mostly the communication and friendliness of the system.

On the level of the legal regulations it is worth to think on good reporting to public opinion and making the tax designation system as simple as possible.

It would be advisable to organize some **national or local campaign to promote the mechanism**. If public money is not available for such purpose it may be financed by foreign donors or worked out in partnership of organizations and donors community.

**It is also important to monitor how the mechanism work**, to analyze public data, and to have one place in the internet where all amendments and all important links, as well as commenting articles, are gathered. In Poland such function was taken by the CSOs portal [ngo.pl](http://ngo.pl) and public portal [pozytek.gov.pl](http://pozytek.gov.pl).

**Organizations that want to be successful in raising money should think on their communication**. It should not be one action annually but constant work on constituency building. The benefit of such approach is also building strength of the organization in all other aspects. These efforts should be supported by donors who should help in capacity building, finance employees responsible for communication, finance training and planning meeting for communication, support research into community of organization supporters, graphic materials etc. Such investment should be planned over the years and organizations should set goals for their achievement measured in money, FB followers, number of press articles, etc.

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<sup>24</sup> <http://bip.siecobywatelska.pl/index.php?id=469&id2=500>

<sup>25</sup> <http://bip.siecobywatelska.pl/userfiles/file/Darowizny/ca%C5%82y%202015%20do%20udost%C4%99pnienia%20anonimizacja%20BIP.pdf>

<sup>26</sup> [http://bip.siecobywatelska.pl/userfiles/file/JedenProcent/JEDEN\\_PROCENT\\_skany.pdf](http://bip.siecobywatelska.pl/userfiles/file/JedenProcent/JEDEN_PROCENT_skany.pdf)

<sup>27</sup> <http://opp.wikimedia.pl/2016/>

## FURTHER READING AND REFERENCES

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### Information:

The advice for CSOs is run by the portal dedicated to CSOs in Poland and available for everybody <http://poradnik.ngo.pl/jeden-procent>

The information on the main developments of legal situation concerning the Law of Public and Volunteer Activity is available on the Ministry of Social Security's dedicated website <http://pozytek.gov.pl/>. There is also a section on 1% there <http://pozytek.gov.pl/INFORMACJA,W,SPRAWIE,ZASAD,PROMOCJI,1,PODATKU,465.html>

### Reports:

The Central Statistical Office's information on Public Benefit Organizations and 1% mechanism [http://stat.gov.pl/files/gfx/portalinformacyjny/pl/defaultaktualnosci/5490/4/2/1/organizacje\\_publicznego\\_i\\_1\\_proc.pdf](http://stat.gov.pl/files/gfx/portalinformacyjny/pl/defaultaktualnosci/5490/4/2/1/organizacje_publicznego_i_1_proc.pdf)

The Ministry of Finance's report on the 1% of the 2014 tax <http://www.finanse.mf.gov.pl/documents/766655/5008832/Wykaz+organizacji+po%C5%BCytku+publicznego,+kt%C3%B3re+w+2015+otrzyma%C5%82y+kwoty+1+proc.>

A report of the INSPRO on the 1% mechanism „Tylko jeden, a procentuje. Raport na temat mechanizmu 1% podatku dochodowego” <https://inspro.org.pl/polecamy/raport-tylko-jeden-a-procentuje/>

A report of the Supreme Audit Office on the supervision by the Ministry of Social Security over using 1% of tax by the Public Benefit Organizations <https://www.nik.gov.pl/plik/id,7646,vp,9587.pdf>

A summing up of the 1% designation functioning in the years 2003-2007 [http://www.pozytek.gov.pl/files/pozytek/Pliki\\_aktualnosci/proc.pdf](http://www.pozytek.gov.pl/files/pozytek/Pliki_aktualnosci/proc.pdf)

# Good practices on the transparent and accountable spending of the income from the % designation mechanism

SLOVAKIA

CASE STUDY

*Developed by: Fedor Blaščák*

*August 2016*



## INTRODUCTION

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The very first impulse for introducing the tax designation mechanism in Slovakia came in 1997 when the leaders of the CSO sector started to discuss the newly adopted Hungarian model. The outflow of international donors after 1998 highlighted concerns on how to develop the system to secure the further economic vitality of the CSO sector. Almost three years with consultations, the tax designation mechanism was enacted in December 2001 by an overwhelming majority of 99 out of 101 present MPs through the Act No. 561/2001 of the Collection of Laws. Pioneering Hungarian model served at the time as an important incentive to its introduction.

**The framing of the debate at the time sometimes associated the tax designation with philanthropy thus bringing confusion about the concept.** The tax designation mechanism should not be falsely portrayed as philanthropy and mixed therein in policy discourse both within and outside the CSO sector. Its purpose is to **decentralize the decision-making on tax allocations as well as to support public transfers to CSOs.** In its essence, **the tax designation is a version of participatory budget**, as it enforces individual access to the distribution of public money.

**As of 2002, individual Slovak taxpayers can opt to designate 1% of their personal income tax to an eligible CSO<sup>1</sup>.**

A tax designation beneficiary can only be a civil society organization of a certain type explicitly listed by the given Act<sup>2</sup>, including predominantly non-profit organizations providing public benefit services, civic associations, foundations and non-investment funds or, in a smaller scale, some other type of organizations like church related charities or CSOs with an international element.

The registration of CSO into the system takes place on annual basis through the public notary offices. In 2016 there are 47 557 registered CSO in Slovakia, **25% of them opt to participate at the tax designation mechanism.**

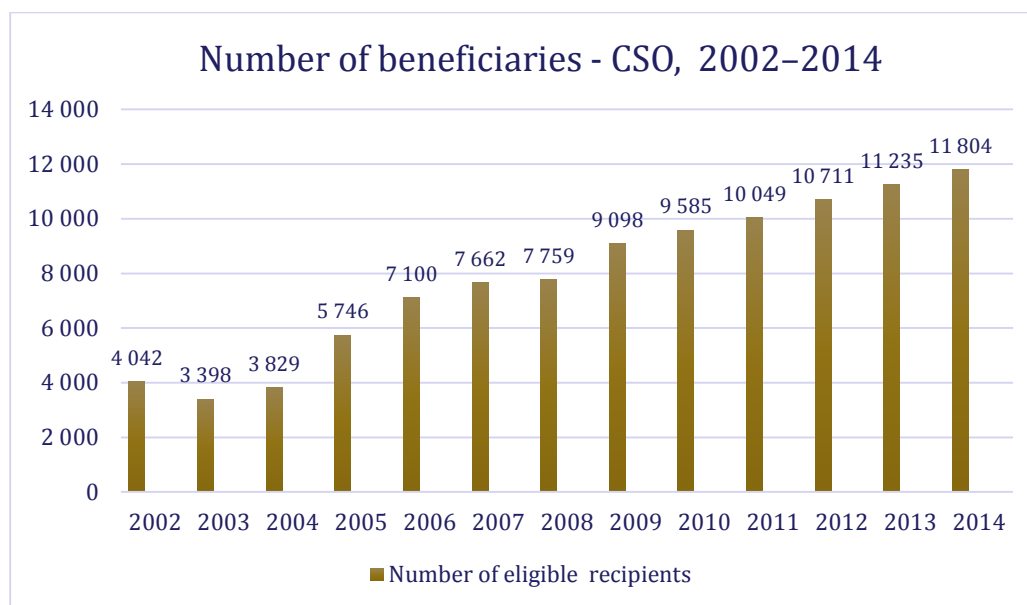
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<sup>1</sup> Out of 1.2 million individual taxpayers, only about 350 000 used the opportunity in the first year (2002). As of 2014 the participation rate reaches about 55%. For detailed overview of allocations and historic data please see (Blaščák, F. 2016). Available online: <http://taxdesignation.org/slovakia/>

<sup>2</sup> Two subsequent amendments had broadened the original list, either by an explicit definition of a particular recipient e.g. *Fund for the Development of Vocational Training* (in 2009) or by enlisting a new general category of potential recipients, e.g. subjects of *Research and Development* (in 2011).



Figure 1.



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

The unsatisfactory financial results in the first year of operation in combination with the preparation for the major tax reform led into the series of changes and adjustments of the mechanism soon after.

## PRINCIPAL CHANGES OF THE TAX DESIGNATION MECHANISM IN SLOVAKIA

- **In 2002 a decision was made to open the tax designation model to corporate entities**, beginning in 2004. The percentage had been raised from 1% to 2% for both groups of providers.

The introduction of the corporate tax designation makes the Slovak designation mechanism unique. It was a result of a trade-off between the CSO sector and the government while adopting the tax reform (2003-2004), which eliminated the tax write-offs for charitable donations from corporate bodies to CSO. **Raising the percentage has led to unprecedented growth of the revenues from about 3.2 million € in 2003 to more than 28 million € in 2004** (see Figure 2.).

- **In 2009 the government pushed through the gradual reduction** of percentage for the corporate taxpayers. The “matching principle” was introduced.

In 2009 Finance Ministry labeled corporate tax designations as deterioration from the original goal of the system, which was to build relationships between CSO and individual taxpayers. The attempt to completely abolish the system for corporations was not successful, as the CSOs

effectively mobilized broader public support with their campaign *People for people*<sup>3</sup>. However, the percentage had been lowered to 1.5% with prospects to gradually decrease on annual basis (down to 0.5% in 2018). Besides reducing the percentage designation, **the new amendment outlined incentives for businesses to engage with CSOs through direct financial support from their own profits**; this was branded as the “matching principle” (corporate taxpayers who donated to a CSO from their own profits could designate a slightly higher percentage).

- As of 2011, an **individual taxpayer active as a volunteer was given the opportunity to designate 3%** of their personal income tax.

The CSO in question must acknowledge the respective individual taxpayer’s engagement in volunteering exceeding 40 working hours per year. Such official confirmation letter needs to be attached to the tax return form.

- In 2015 the **new agreement between the Ministry of Finance and the CSO sector**<sup>4</sup> **reversed the harmful changes of corporate tax designations** made in 2009 and put forward a model that motivates corporations to donate even more<sup>5</sup>.

The actual adjustments reinforce the “matching principle” of corporate tax designation mechanism, fixing the conditions as follows: if private donations from company profits exceed 0.5% of corporate income tax, the company may designate 2% of their income tax; otherwise, the tax designation percentage falls to 1%.

- As of 2016 the tax designation providers (both groups) **can opt to disclose their identity to beneficiaries** (by marking the box in tax-return form).

## **THE FINANCIAL OUTPUT OF THE TAX DESIGNATION MECHANISM**

After the principal changes in 2003 the pioneering innovation grew to provide the CSO sector in Slovakia with substantially higher revenues ranging from about 30 million € in 2004 to more than 55 million € in 2009 (for overall overview in revenues during 2002-2014 see Figure 2.) The influx of the resources from the tax designation mechanism makes up approximately 6-10% of the total revenues of the whole CSO sector in Slovakia<sup>6</sup>.

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<sup>3</sup> <https://www.ludialudom.sk/> (Slovak site)

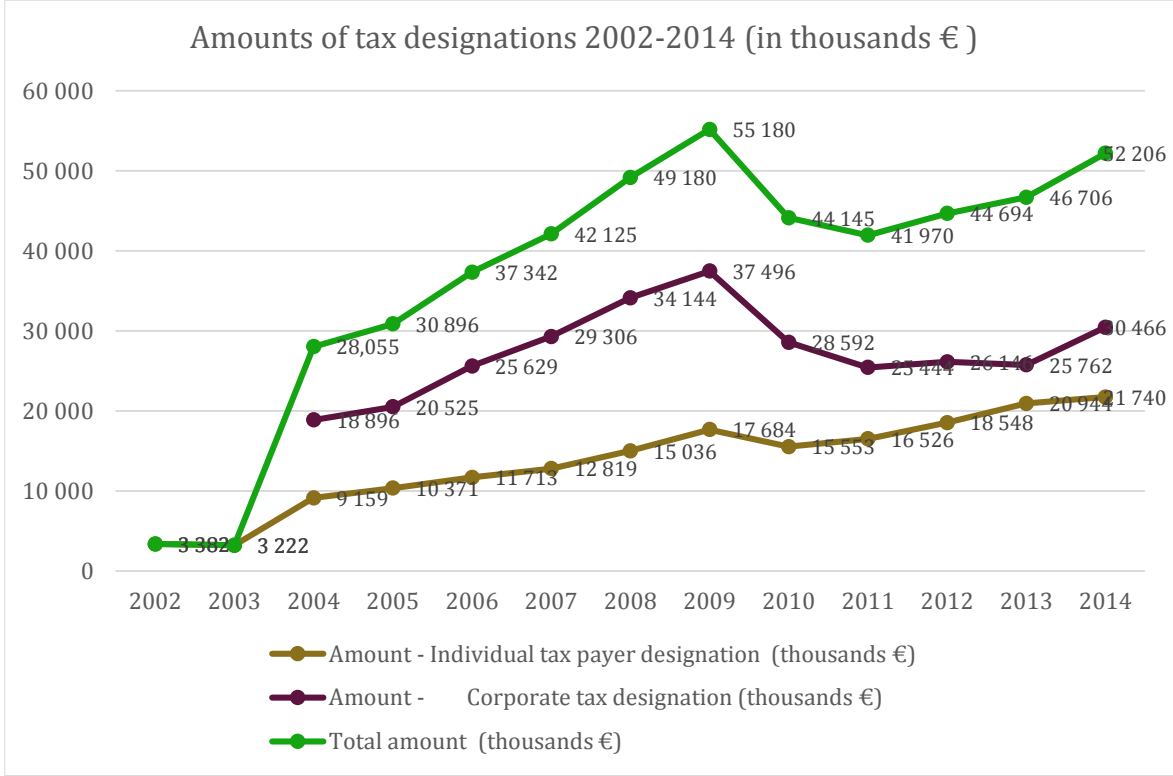
<sup>4</sup> The text of the memo available at: <http://www.finance.gov.sk/Default.aspx?CatID=84&NewsID=848> (Slovak site)

<sup>5</sup> According to the calculations from the Institute of Financial Policy the new arrangements will bring an additional 7 to 8 million € to CSOs annually. For reference please see: Molokač, T., & Hagara, E., 2015.

<sup>6</sup> According to the data from the Institute of Financial Policy at the Finance Ministry. For reference please see (Molokač, T., & Hagara, E., 2015).

**As of the period 2002 – 2015 the total revenue from the tax designation system exceeds the sum of half billion Euro**, thus substantially contributing towards the financial sustainability of public benefit services such as culture, education, drug rehabilitation, and support for vulnerable communities.

Figure 2.



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

## THE TAX DESIGNATION SYSTEM AS A "GAME CHANGER"

Since its introduction in Slovakia the tax designation mechanism substantially changed the relationships among civil sector, taxpayers, businesses, and the government.

The revenues of the mechanism remain public finances therefore the process of allocation and spending naturally becomes the subject of closer policy scrutiny and regulation. Political concerns and frequent adjustments required **on-going negotiations between policy makers and civil society leaders**. Approaching individual taxpayers as well as corporations through numerous campaigns forces the individual CSOs into professional fundraising, not to mention rising of the awareness on civil society issues among the broader public.

**Financial stability for CSOs is thus not the only win**, the abovementioned key aspects of the tax designation mechanism helped to:

- hold the CSOs more accountable and transparent which makes up competitive advantages while running for the funds;
- achieve wider public outreach and building alliances with donors;
- strengthen partnerships between CSOs and businesses in achieving social impact; and
- proliferate the advocacy capacities of civil sector leaders.

## INSTRUMENTS AND BEST PRACTICES ON HOW TO HOLD CSO MORE TRANSPARENT AND ACCOUNTABLE

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Tax designation mechanism created twofold influence upon better transparency and accountability of civil sector in Slovakia. **The legislation does not comprise any significant restrictions regarding the use of the tax designation resources.** The flexibility of the tax designation resources substantially helps the popularity of the model among the recipients.

Obligatory reporting is complemented by various communication strategies of CSOs that go beyond the obvious reporting standards. Prominent theoretician of public leadership Ronald Heifetz claims that “*aiming at positive changes in society we need to differentiate between technical issues and adaptive challenges*”. Accordingly, we could assume that **obligatory reporting standards are sort of “technical issues”, while voluntarily adopted communication strategies fall under the category of “adaptive challenges”**. Avoiding the penalty or reputation risk (e.g. associated with the misuse of funds) does not seem to be the decisive factor for taking the “adaptive challenge”, rather competing for the resources, or aiming at long-term benefits of positive and trustworthy public image.

The beneficiary must spend the received funds by the end of the next year after receiving the designated amount (effectively in 18 months) following its non-profit mission and thematic focus area. The recipients can spend the resources flexibly upon their own will specifying the given amounts for single purposes.

The recipients obtaining the resources **of more than 3,320 € are obliged to report the use of received funds** within 16 months from the date that the Tax Authority publishes the final list of recipients. The data are collected via *Commercial Bulletin*, which is a public register under the authority of the Ministry of Justice.<sup>7</sup> **In case the received funds exceed 35,000 € the recipient is obliged to provide an auditor’s statement** that conforms to special regulations (and publish it at the annual report).

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<sup>7</sup> Since 2011 the register collects the data in raw data format (namely .xms).

**If the organization fails to report on time, the privilege of receiving the tax designation is suspended** for the upcoming fiscal year.

In 2013 the *Association of corporate foundations* in collaboration with IT experts and graphic designers launched an **online application<sup>8</sup> that tracks the spending of tax designation's resources within the sector of corporate foundations**. So far, this online tool provides a visualization of grant making activities of more than 50 corporate foundations within the period of 2011-2016. The user can sort the data in user friendly and visually compact way according to year, thematic focus, or search for the amounts and project's description. The application currently includes information on more than 7000 projects.

In its beginnings the tax designation mechanism was promoted by the national campaign *Youdecide (Rozhodni)* launched by the 1st Slovak Nonprofit Service Centre. One of its outcomes is the **online database that contains information<sup>9</sup> on all eligible beneficiaries along with the basic step by step guidelines** for the providers on how to designate via tax return form and the applicable legislation.

Recently, the corporate foundations that operate with big portions of the revenues from tax designation (half million Euro and more) adopted the ***Code of transparency*<sup>10</sup> deliberately obliging themselves to special online reporting on the use of tax designation revenues** that goes far beyond the obligatory reporting standards. The Code obliges the foundations to publish detailed information through their websites on the issues of:

- **Governance** (e.g., list of the members of all organs, or CVs and profiles of employees etc.)
- **Financial reports** (e.g., structure of donations, or structure of expenditures, including information on spending the tax designation resources on running costs etc.)
- **Grant-making** (description of the selection process, or list of members of selection committees)
- **Communication** (e.g., obligation to answer each single request within 30 days).

Throughout the years many organizations from the top of the list of most successful beneficiaries (e.g. *Good Angel* or *League against cancer*) developed **various innovative forms<sup>11</sup> and channels of reporting** e.g., publishing blogs on how the resources were spent and delivered to their clients. Essentially, these are the individual stories delivered to the public via

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<sup>8</sup> Application is available at <http://neon.sk/test/>. Detailed description of the workings of the app here: [http://www.asfin.sk/?page\\_id=1009](http://www.asfin.sk/?page_id=1009) (Slovak sites).

<sup>9</sup> The database, although run by the activists, is still in operation at: [www.rozhodni.sk](http://www.rozhodni.sk) (Slovak site). Information on beneficiaries includes official name, address and Tax Identification Number.

<sup>10</sup> Full version of the Code is available at [http://www.asfin.sk/?page\\_id=1172](http://www.asfin.sk/?page_id=1172) (Slovak site).

<sup>11</sup> <https://www.dobryanjel.sk/financovanie-rezie/> (Slovak site)  
<https://www.lpr.sk/pouzitie-financii/> (Slovak site)

popular blogs<sup>12</sup> or viral videos on social media. In these cases, annual campaigns aimed at increasing the numbers of designators make up a climax of ongoing public relations systematically built throughout the year.

**Some organizations voluntarily commit not to use the tax designation resources on running costs.** Such commitment can promote the “adaptive challenge” of higher accountability for civil sector and can **become strong competitive advantage of the individual CSOs while running for the funds.**

Transparent and accountable spending is a premise of an increase in the income from donations and philanthropic giving. In these cases of best practices the driving force is the **voluntarily adopted ethos of transparency** (=“adaptive challenge”) as the most important asset of the CSOs while considering long-term benefits of reliability and positive reputation, rather than short-term particular interests while running for revenues from tax designation (=“technical issue”).

Running for the tax designation revenues by itself does not comprise the sufficient cause for the “adaptive challenge” of higher transparency standards for the civil sector as whole. This can be observed in cases of the thousands of CSOs from the bottom of the list that do not publish any information on their spending (as far as they are not obliged to). **Therefore more scrupulousness is necessary in informing the public by CSOs that are obtaining smaller amounts.** Misuse of the funds represents high reputation risk to the tax designation mechanism<sup>13</sup>.

**Specifically, this will be achieved with an easy public accessibility of the register of reports.**

The data must be provided in raw format and the structure of the reports must be clearly fixed beforehand – providing information on the revenues and expenditures. A special part of the report could comprise information about salaries in organizations – however, this is recommended to remain optional – while the demand for transparency collides with the need to preserve the flexibility in using the funds.

**The major challenge for policy makers here is to find proper balance between imposing too much bureaucracy and preventing misconduct.** In Slovakia, the key issue of the debate was whether the reporting on the spending of tax designation resources should be obligatory for each beneficiary no matter the level of the revenue or should there be a certain threshold? The latest agreement between civil sector and the government from April 2015 adopted the idea of the “certain threshold”. CSOs will be required to publicly share more information about how they spend their funds, however, the technical arrangements of such registry are still

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<sup>12</sup> The director of Good Angel (Ludmila Kolesarova) was awarded with the Journalistic prize 2015 for her series of blogs.

<sup>13</sup> The official data on the number of the cases of misuse are not available.

subject to negotiations between the Ministry of Finance and Ministry of Interior.

Another, rather subtle aspect of the mechanism that contributes to increased accountability is the so called “de-anonymization” of the designations by the providers. For years the CSOs were frustrated about not knowing the identities of their designators. **Since 2016 the designators can opt to disclose their designation to the beneficiaries.** In this way the CSOs can start building bridges with their donors, using the list of designators in further communication.

## THE ROLE OF OFFICIAL AUTHORITIES AND WATCHDOGS

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Adopting the tax designation creates an opportunity for providing data about the civil society sector by central authorities like Tax Administration Office or Ministry of Finance. **Regular evaluation of the tax designation mechanism is vital for sustaining it as well as making further adjustments.** Public access to relevant, well structured, either current or past data<sup>14</sup> form a fundament for evidence-based policy discourse.

Unfortunately, Slovakia missed that opportunity. **The authorities failed at the provision of regular official statistics, they did not share data. The tax designation mechanism was not evaluated systematically.** The first publicly accessible analysis about the implementation of the mechanism appeared only in 2015 (and published as commentary by the Institute of Financial Policy<sup>15</sup>). Herein, the authors admitted that “*so far, there is an overall lack of accessible information on the use of the tax designation resources*” that in consequence disables the “*constructive policy debate on tax designation mechanism*”.

The aforementioned agreement from April 2015 paved the way for the improvement as the Ministry of Finance is now obliged to annually publish the whole list of beneficiaries with their revenues in raw format.

In the past, the information were accessible thanks to several watchdogs’ activities (e.g., 1<sup>st</sup> Slovak Nonprofit Service Centre). They obtained the data on the revenues on ad-hoc basis from the Tax Administration Office and published them online thorough the website [www.rozhodni.sk](http://www.rozhodni.sk) or in the series of analytical commentaries on website [www.itretisektor.sk](http://www.itretisektor.sk).<sup>16</sup>

In closing, the frequent negotiations on adjustments of the tax designation mechanism in Slovakia substantially contributed towards strengthening the advocacy capacities of civil sector leaders. Reflecting on the process of negotiations in Slovakia the need of evidence-based

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<sup>14</sup> For example: number of beneficiaries with a single focus area or various financial aspects of the spending of the resources (e.g. annual revenues of single CSOs).

<sup>15</sup> Available online at: <http://www.finance.gov.sk/Default.aspx?CatID=10126> (Slovak site)

<sup>16</sup> The site serves as a legal and economic resource and advisory center for the civil sector in Slovakia. The full content is available upon registration and is being charged. It is being run by the 1st Slovak Nonprofit Service Centre.



approach comes to the fore. Therefore I recommend to regularly evaluate the implementation of the mechanism despite the lack of such experience in Slovakia. This is a lesson that we have learnt. The latest agreement with the government from April 2015 reflects on these issues comprehensively.

## RECOMMENDATIONS

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1. Compiling and publishing statistical information on the designations contributes to the systematic evaluation of the tax designation mechanism. **Therefore we recommend to public authorities to pro-actively publish the datasets on revenues from the tax designation mechanism** (e.g. in total, broken by type of the thematic focus of the beneficiaries as well as by single beneficiaries). The statistics on beneficiaries providing the information on their revenues should be published regularly and made available at raw data format (e.g. .xls, .xms).
2. Transparency of the tax designation mechanism contributes to its sustainability and prevents misuse. **Therefore we recommend to public authorities that CSOs should submit financial reports on spending of tax designation revenues to a public register.** We recommend implementing certain threshold to avoid excessive regulatory burden for CSOs obtaining small amounts from designation.
3. Easy access to information on beneficiaries helps to raise the participation rate of taxpayers.

**Therefore we recommend to public authorities and to civil sector to jointly launch the official website which would contain the database of beneficiaries with basic information necessary to process the designations via tax-return form.** The database could be interconnected to electronic tax-return form programs.

4. Trustworthy public image based on high level of transparency helps CSOs while running for the tax designation resources. Ad hoc campaigns also help, but in the longer run make no substantial difference, because “everybody” will do so soon. **Therefore we recommend to CSOs to focus on systematic (under-link) communication via blogs and social media.**
5. User-friendly online tools (visualizations) facilitate public control thus contribute towards better transparency. **Therefore the promotion of public registers to IT, graphic designers and watchdogs community could pay off.** The public register (alike Commercial bulletins) of financial reports should be easily accessible for further use of the data (datasets must be stored in raw format).
6. Not knowing the identity of donors frustrates CSOs while attempting for better



accountability and outreach. **Therefore we recommend that the designator should be given an opportunity to disclose his/her identity to the beneficiary via tax return form.** The information should be delivered to CSOs through the Tax Authority.

7. Building bridges with the donors is essential for strategic fundraising. **Therefore we recommend to CSOs to systematically build databases of their designators and subsequently approach them with direct mailing** (e.g. “thank you” letters).

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