Centre for Social Impact and Philanthropy

ASHOKA UNIVERSITY

CBGA

Report on

Tax Incentives for Philanthropic Giving: A Study of Twelve Countries

This study was commissioned by the Centre for Social Impact and Philanthropy (CSIP) and completed in a research partnership with Centre for Budget and Governance Accountability (CBGA).

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List of Abbreviations

AY	Assessment Year
BDT	Bangladeshi Taka
BRL	Brazilian Real
CAF	Charities Aid Foundation
CAPS	Centre for Asian Philanthropy and Society
CIT	Corporate Income Tax
COC	Commissioner of Charities
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
EUR	Euro
FY	Financial Year
GBP	Great British Pound
HMRC	Her Majesty's Revenue and Customs
HNWIs	High-Net-Worth Individuals
INR	Indian Rupee
IRAS	Internal Revenue Authority of Singapore
IRS	Internal Revenue Service
ITR	Income Tax Return
NPO	Non-profit Organisation
PAN	Permanent Account Number
PAYE	Pay-As-You-Earn
PBAs	Public Benefit Activities
PBO	Public Benefit Organisation
PIT	Personal Income Tax
PM CARES	Prime Minister's Citizen Assistance and Relief in Emergency Situations
PSID	Panel Study of Income Dynamics
SARS	South African Revenue Service
SDGs	Sustainable Development Goals
SDO	Social Delivery Organisation
USD	United States Dollar
ZAR	South African Rand

1. Introduction

Charitable organisations are often viewed as entities that complement the provisioning of public goods and services by the government. A less recognised fact is that charitable organisations are equally essential for a vibrant and well-functioning democratic society. The critical role played by the charitable sector has once again been brought to the fore by the ongoing socio-economic crisis caused by the Covid-19 pandemic.

The importance of the charitable sector is acknowledged by governments across the world, which support the sector through various measures. One of the most common and visible government support is in the form of tax incentives for donations made by individuals or corporates to the sector. Tax incentives are supposed to induce higher level of charitable donations and thereby increase the resources available to the charitable sector.

In this report the words Charitable Donation and Philanthropic Giving have been used interchangeably to denote donations made to the charitable sector by individuals or corporates.

Tax incentives for charitable donations have a long history. While it is difficult to confirm the exact origins of tax incentives for philanthropic giving, literature on the subject suggests that they have existed since at least 1842 in the UK[i], and have subsequently become more prevalent around the world. A 2014 study analysing the legal structure of 193 countries found that some form of tax incentives exists in 77 per cent of those countries for corporate donors, and in 66 per cent for individual donors.[ii]

a. Why is it Important to Study Tax Incentives?

The widespread prevalence of tax incentives notwithstanding, the relationship between tax incentives and philanthropic giving remains a relatively less studied area in most countries, with the exception of the USA and the UK. The paucity of literature on this subject is particularly pronounced in the case of developing countries.

The lack of literature means that the efficacy of these policies has not been examined, i.e., it is not known whether, and to what extent, these policies are effective. Furthermore, while on the face of it, governments supporting philanthropic giving through tax incentives may seem like a simple and relatively easy way to improve overall societal welfare, there is another aspect that is relatively less recognised. The existence of tax incentives creates at least three outcomes that can be deemed socially undesirable, namely: tax revenue foregone by the government, the crowding out of certain sections of civil society, and the impact tax incentives can have in exacerbating inequality.

When tax incentives are provided, they lead to governments losing tax revenue that they would have otherwise received. Secondly, governments can choose to provide tax incentives for donations made only to certain charitable activities and not to others that they deem less desirable. In this manner, governments can direct resources towards charitable causes that they find acceptable, and this can lead to the marginalisation of other causes and sections of civil society.[iii] Lastly, tax incentives, by their very design, can benefit higher-income groups disproportionately, aggravating income or wealth inequality, which has become one of the defining social problems of our times. This aspect of tax incentives, which favours high-income groups, has received considerable political and media attention in some countries, most notably in the USA.[iv]

Given the concerns associated with tax incentives as well as the reliance on them to increase philanthropic giving, there is an urgent need to develop a better understanding of the relationship between tax incentives and charitable donations.

b. What does This Report Examine?

This study examines whether there is evidence indicating that tax incentives affect donations, and if so, to what extent. This has been done by analysing the tax incentive system and the literature about its effect on donations in 12 countries. Selection of countries was done with the aim to include countries with different levels of economic development, cultures, and geographical regions.

Within each of these 12 countries, the study examined the following aspects of the tax incentive regime:

- Tax and the accompanying tax incentive structure.
- Charitable causes eligible for tax incentivised donations.
- Evidence on the effectiveness of tax incentives in promoting philanthropic giving, including the methodology and datasets used.

In addition to the tax systems of the countries and the existing literature, the report also looks at the relevant data available in these countries. This was done to assess if the countries have adequate data to carry out a quantitative analysis of the relationship between tax incentives and charitable donations with a sufficient level of rigour.

c. What does the Report Hope to Accomplish and for Whom?

Tax and tax incentives generally elicit relatively little engagement from the members of the civil society and the general public perhaps because they are considered to be a technical issue. It is hoped that this report will facilitate de-mystifying the linkages between tax incentives and philanthropic giving and make the issue accessible to a wider audience. Secondly, it tries to map the different approaches adopted by countries for providing tax incentives for charitable donations. To this end, various aspects of tax and tax incentive structures that can affect philanthropic giving have been analysed. It is hoped that this will help in understanding similarities and differences in the tax incentive structures across countries. Third, by reviewing the wide array of literature on the causal relationship between tax incentives and philanthropic giving, this study provides, in one place, evidence of the effectiveness of tax incentives on donations, or the lack of it – both equally important from the perspective of policy making.

Several studies have assessed the cross-country tax and tax incentive structures of both developed and developing countries. Some literature also examines the causal relationship between tax incentives and philanthropic giving across a number of countries. However, these studies focus only on a few developed countries. To the best of the authors' knowledge, this report is the first to conduct a cross-country review of literature on the effectiveness and impact of tax incentives on philanthropic giving, taking into account not just developed but also developing countries. It has also included countries that generally receive little attention, such as Bangladesh in Asia and Norway in Europe.

Finally, the study makes key recommendations to Indian policymakers, which may be relevant to those in the other study countries as well.

d. How is the Report Organised?

This report is divided into eight sections. Section two details the methodology of the study, including the period considered for review of literature, as well as the limitations of the study. Section three discusses some of the technical terms and concepts used in this report. It also tries to explain the theoretical link between tax incentives and charitable donations. Section four provides the findings of the study on the tax and tax incentive structure for philanthropic giving in the 12 countries. Section five presents the findings from the review of the available literature on the relationship between tax incentives and charitable donations in all the study countries. Section six examines, in each of the study countries, various types of datasets on tax incentives for charitable donations, which are critical to examine the causal relationship between them. Section seven contains the conclusions of the study. In section eight, policy recommendations are provided that may help to make the tax incentive regime more enabling for philanthropic giving in India.

2. Methodology

This section discusses the methodology used in the study, as well as the scope and limitations of the study.

There are two steps in the methodology:

1. Selection of countries.
2. Review of literature.

a. Selection of Countries

Twelve countries were chosen for this study with purposive sampling. As the focus of the study, India was auto selected. The remaining 11 countries were selected based on the following criteria:

- The level of giving in the country proxied by its annual ranking in the 'World Giving Index'.[v] This index ranks countries based on the incidence of charitable giving. The countries were chosen to balance high-ranking and low-ranking countries.

- Tax incentive structures for charitable giving for both individuals and companies, proxied by two indices:

    - Rules to Give by Index[vi] : This index evaluates the tax and tax incentive structures of 193 countries and provides a score to rank countries in terms of their regulatory structure to promote donations.

    - Doing Good Index[vii]: This index analyses select Asian countries and categorises them based on whether their regulatory and institutional infrastructure enables charitable donation or hinders it.

- Level of income as given by the World Bank. Six countries are from the high-income group, four from the upper-middle, and two from the lower-middle-income group.

- Geographical representation.

- Culture as proxied by anglophone and non-anglophone.[viii]

Figure 2.1: Countries Selected for Study

b. Research Methodology

A qualitative research methodology was adopted with a detailed review of secondary literature publicly available online. The review focused on three thematic areas:

- Tax incentive structure.
- Relevant literature on the relationship between tax incentives and charitable donations.
- Relevant data related to tax incentives, revenue forgone, etc.

The literature reviewed included academic journals, working papers, research reports, policy papers, government documents, news reports, opinion pieces, websites of philanthropic organisations, etc. The search was aided by discussions with subject experts from the respective countries. The experts included lawyers, policy analysts, academics, tax practitioners and philanthropy researchers.[ix]

The following data was reviewed for each country with the objective of ascertaining if it can be used for analysis of the causal relationship between tax incentives and charitable donation.

- Tax data with details on charitable giving.
- Revenue forgone data related to charitable giving.

c. Scope and Limitations of the Study

Tax incentives for charity have two beneficiary groups:

1. Donors.
2. Charitable organisations that receive donations.

This study covers only the tax incentives offered to donors. Literature and provisions related to the recipient organisations were outside the scope of this review.

Initially, review was to be done only on the literature from the last 10 years in order to focus on the most recent evidence. But because of the paucity of literature, except in the USA and the UK, the timeline was extended for other countries to consider literature going beyond the last 10 years, wherever available and and accessible.

This study focuses only on the literature available in English, though it is also available in other languages in Bangladesh, Brazil, China, France, Mexico, Norway and South Korea.[x]

3. What are Tax Incentives and how do they Influence Philanthropic Giving?

Tax incentives are considered to be important for encouraging philanthropic giving. It is assumed that by helping donors derive monetary benefits, tax incentives can induce them to make bigger charitable donations. At the same time, the non-monetary aspects of tax incentives also have an important role to play.

This section tries to explain the theoretical link between tax incentives and philanthropic giving.

a. How do Tax Structures Affect the Provisions of Tax Incentives?

Tax incentives are premised on an existing tax structure, because if there are no taxes, then there can be no incentives. Equally important are the rates of taxation, as explained below.

There are two main types of taxes that are relevant from the perspective of tax incentives for philanthropic giving:

1. Taxes on Income
2. Taxes on Assets

Personal Income Tax (PIT) and Corporation Income Tax (CIT) are levied on income earned by individuals and companies, respectively.

Taxes on assets such as property, financial assets, cash, etc., include Wealth Tax, Estate Duty/Inheritance Tax, Gift/Donation Tax and Capital Gains Tax.

b. What are Tax Incentives?

Tax incentives, in general, can be defined as:

All tax-related measures that provide more favourable tax treatment to certain activities or sectors compared to what is granted to general economic activities.[xi]

Tax incentives have two defining features:

1. They are aimed at *promoting* specific sectors and hence are available *only for certain sectors and activities* in an economy[xii].

2. They reduce the tax payable for targeted taxpayers.

Philanthropic giving is one of such activities that attracts tax incentives.

From the donor's point of view, the second feature is of paramount importance as it determines the extent to which tax payable can be reduced.

C. How do Tax Incentives Influence Charitable Donation?

When an individual makes a charitable donzation, she incurs a cost or a price. When there are no tax incentives, the price of giving is the same as the monetary value of donation. Tax incentives reduce a donor's tax outgo or result in tax saving for the donor. By reducing the tax payable by the donor, tax incentives help reduce the price of giving and thereby, arguably, motivate philanthropic giving.

When expressed as a formula:

Price of giving[xiii] *= Amount of donation – (minus) the tax saved*

The amount of tax saved due to tax incentives depends on the following factors:

- The form of tax incentives.
- Rates of taxes.
- Rate of incentives.
- Ceiling on incentives.

1. The form of tax incentives

Tax incentives for philanthropic giving take three main forms[xiv] . All three forms reduce the tax payable, but in different ways.

a. **Deduction:** When a tax incentive is provided in the form of deductions, the taxpaying donor can subtract (all or part of) the value of the donation from their taxable income. The reduction in taxable income then results in lower tax payable.

Consider a taxpayer whose total taxable income is INR 100, and the tax rate she faces is 30 per cent. In this case, the tax payable is INR 30 (30 per cent of INR 100). If the taxpayer makes a donation of INR 10, the amount will be deducted from her taxable income[xv] and it will become INR 90 (INR 100 - INR 10). As a result, the tax payable reduces to INR 27 (30 per cent of INR 90).

b. **Credit:** When tax incentives are provided in the form of credits, they directly reduce the *amount of tax a donor owes*[xvi].

Taking the previous case of a taxpayer whose total taxable income is INR 100. In this case, too, the tax payable is INR 30. If the taxpayer donates INR 10, she can get a tax credit. Assuming the credit rate is 100 per cent, the tax payable reduces by the amount donated. Thus, the tax payable reduces from INR 30 to INR 20[xvii].

Unlike in the case of a deduction, in which tax saved depends on the marginal tax rate applicable on the taxpayer, tax saved under the tax credit system is the same for all tax rates/taxpayers.

c. **Hybrid[xviii]:** This is a relatively more complex and unusual approach compared to the deduction or credit-based approach[xix]. In this form, when donors make a donation, they do so after they have paid the taxes they owe, i.e., donors donate out of their after-tax income. The tax already paid by the donors on the donation can be reclaimed by charities from the government. This is known as the 'match' element. There is an additional 'deduction' element[xx] that applies only to taxpayers who fall in higher-income tax brackets. Those paying higher than the standard rate of tax can claim a deduction equivalent to the difference between the higher tax rate and the standard tax rate[xxi].

From the perspective of the donor, the basic difference in the three forms is that in the cases of deduction and credit, it is the donor who receives the entire amount of tax saved. In hybrid forms, on the other hand, a part of the benefit goes to the charity (or, is claimed by the charity) as a 'match' given by the government, and only donors who fall in the higher income tax bracket can claim the rest of the benefit[xxii].

2. Rates of taxes

In deduction-based and hybrid systems, the extent of the benefit donors can derive from tax incentives depends to a large extent on the tax rates donors' incomes attract (i.e., the tax brackets donors fall in).

As the price of giving is the difference between the amount donated and the tax saved, for any amount donated, the higher the tax saved, the lower the price of giving (and vice versa). The tax saved, in turn, depends on the tax rate applicable on the donor in a deduction-based and hybrid systems. ***In sum, in deduction-based and hybrid systems, the higher the tax rate, the higher the tax saved and the lower the price of a unit of charitable donation (and vice versa).***

Take the earlier example of a donor with taxable income of INR 100. The tax rate she faces is 30 per cent and she donates INR 10. If the entire amount donated is eligible for deduction, her tax payable reduces from INR 30 to INR 27. If, however, the donor falls in the 20 per cent tax bracket, then her tax payable is INR 20 (20 per cent of INR 100) before donation and INR 18 (20 per cent of INR 90) after claiming a deduction for the donation. So, for the same amount donated, the tax saved is INR 3 when the tax bracket is 30 per cent and INR 2 when the tax bracket is 20 per cent.

3. Rate of incentives

The extent of the benefit tax incentives provide also depends on the rate of incentives, i.e., whether the *entire* amount donated can be claimed for deduction or credit, or only a part of it. Other things remaining the same, the higher the rate of incentives, the higher the benefit of tax incentives that donors can derive.

Continuing with the previous example, if the entire amount donated (INR 10) is eligible for a deduction, i.e., the rate of incentive is 100 per cent, her taxable income will reduce to INR 90 and tax payable reduces to INR 27. If instead only 50 per cent of the amount donated is eligible for deduction, then her taxable income will reduce by INR 5, and the tax payable reduces from INR 30 to INR 28.5 (30 per cent of INR 95). Therefore, the price of giving is lesser when the rate of incentive is 100 per cent compared to when the rate of incentive is 50 per cent.

4. Ceilings on incentives[xxiii]

The other factor that matters crucially in determining the benefits of tax incentives is the ceiling on them. Ceilings are often put in place to reduce the extent of loss of tax revenue for the government. At the same time, such ceilings also reduce the benefit that can be derived from tax incentives.

For example, a ceiling of 30 per cent of income means that the tax incentive (whether in the form of a deduction or tax credit), can only be applied on the amount donated, up to a maximum of 30 per cent of a donor's income. So, even if a donor donates her entire income, she will only be able to claim a deduction on 30 per cent of it[xxiv].

The ceilings reduce the benefits that can be derived from tax incentives. The lower the ceilings, the lower the benefits derived from a tax deduction or tax credit.

d. How do the Non-Monetary Aspects of Tax Incentive Design Influence Philanthropic Giving?

The *non-monetary aspects of tax incentives* also matter in deciding the benefits of tax incentives derived by donors. These are discussed in detail below.

Eligible causes: When tax incentives are offered only for limited causes, they can act as a disincentive since donors might be interested in giving to causes that do not attract tax incentives.

Complexity: When the tax regime is very complex, it can "have the effect of dulling responsiveness" of donors to the tax incentives on offer[xxv]. Convoluted provisions with multiple rates for different causes and different types of donors can deter donors from using tax incentives[xxvi]. Elaborate procedures to file returns by either itemising deductions or filing a "complete" annual tax return or filing Self-Assessment tax returns have the potential of demotivating donors from claiming incentives, especially small donors.

Fairness: The form of a tax incentive can give an unfair advantage to a certain section of taxpayers and affect donors' inducement to give. For example, deduction-based or hybrid tax incentives benefit higher-income groups more, which "means that when two donors make precisely the same gift, one may receive a greater deduction by virtue of earning more money, despite their greater ability to afford the gift"[xxvii]. In other cases, corporate organisations get more tax incentives compared to individual donors. Such provisions *risk discouraging giving by the majority if incentives are perceived to be unfair*[xxviii].

Price (Tax) Elasticity of Giving

Whether and to what extent philanthropic giving responds to changes in tax incentives is measured using the concept 'price elasticity of giving'.

Price (Tax) Elasticity of Giving refers to the change in the amount of donation as a result of a unit change in the price of giving. It has two components:

1. The value, which shows the extent of change
2. The sign that shows the direction of change

Positive elasticity means that donations increase when the giving price increases [xxix]; while negative price elasticity means that when the price of giving decreases, donations increase. Since, an increase in tax incentives or tax rates reduces the price of giving, negative price elasticity means that such an increase results in an increase in the level of philanthropic giving (and vice versa).

The extent of change can be seen from the numerical value of elasticity. If the (absolute) value is greater than zero, it means that the level of philanthropic giving responds to the change in the price of giving.

Tax incentives are seen to be effective only if price elasticity is negative and greater than 1 (in absolute terms). This is because negative price elasticity of 1 or more (in absolute terms) means that the additional contributions received by charitable organisations exceed the tax revenue forgone by the exchequer due to the tax incentive.

Conversely, if the price elasticity is negative but less than 1 in absolute value, tax incentives are not seen as being effective in increasing philanthropic giving.

The total price elasticity of giving can be further broken down into:

- Intensive-margin price elasticity: Existing donors changing the amount they donate in response to a change in the price of giving.

- Extensive-margin price elasticity: Non-donors becoming donors or existing donors stopping donation in response to a change in the price of giving.

4. Findings about Tax Incentives

All 12 countries were analysed for what kinds of tax incentives exist for charitable donation.[xxx] The findings of that analysis are discussed in this section.

Given that the extent of benefit from tax incentives depends on three different aspects: the form, rate and ceiling, the findings have been discussed separately for these three features.

a. Incentives on Personal Income Tax (PIT)

All 12 countries studied provide tax incentives on PIT for philanthropic giving, though, there are wide differences in the three main features of tax incentives.[xxxi]

The cross-country differences in the three features make it difficult to draw generalised inferences about the overall level of benefit. With that caveat, Singapore, France and the UK seem to be the countries with the most generous tax incentive structure. At the other end, Bangladesh seems to have the least generous benefits.

Forms of Tax Incentives: Except for France and South Korea, all the countries provide tax incentives for individuals in the form of deduction from taxable income. France and South Korea provide tax incentives in the form of credit.

The UK has the most unique and complex design of tax incentives. One scheme, the Gift Aid, which is also the most popular scheme in the UK, is a combination of direct deduction and a match donation by the government.[xxxii] Other tax incentive schemes for individuals (such as Payroll Giving and inheritance tax) are offered in the form of a deduction.

Figure 4.1: Forms of Tax Incentives

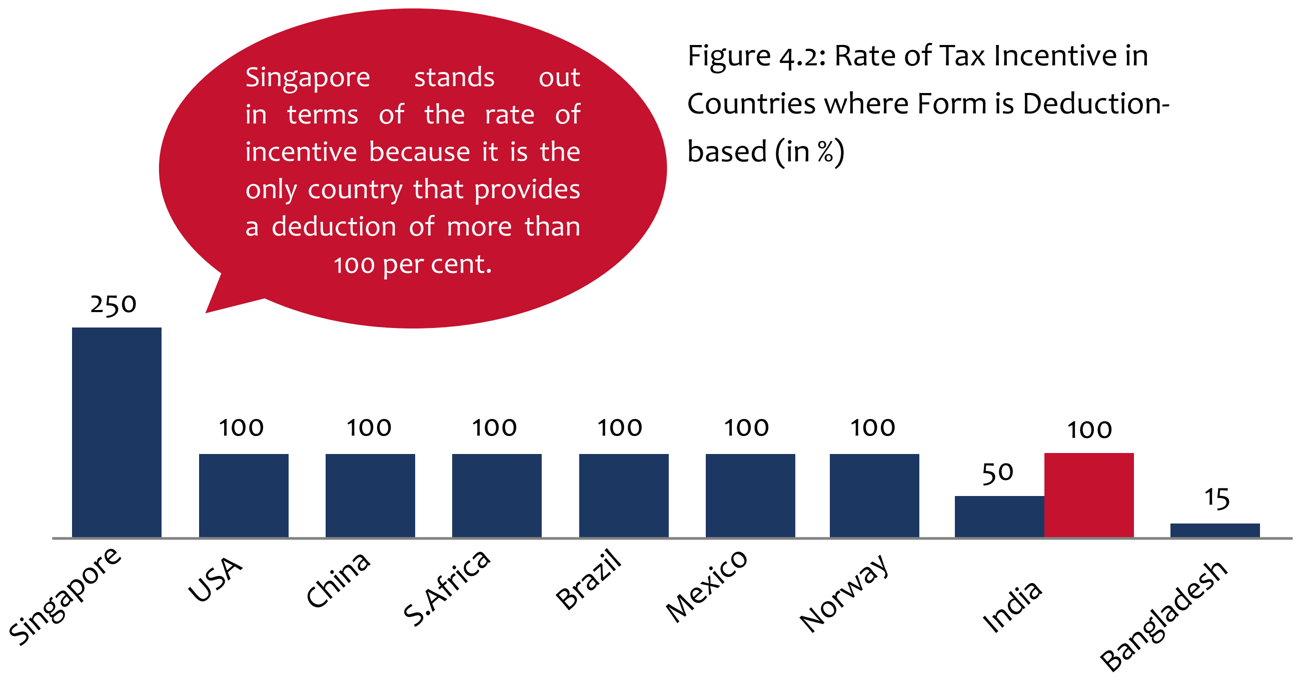
Deduction		Credit	Mixed
Bangladesh	Norway	France	UK
Brazil	Singapore	South Korea	
China	South Africa		
France	USA		
India	UK		

From the literature, it is not very clear if one form — either credit or deduction — induces higher philanthropic giving than the other. Only one study[xxxiii] was found that analysed the impact of the form on the level of charitable donation. The study concluded that there was no or a negligible effect on charitable donations when the form of tax incentive was changed from deduction to credit. However, since the study was done for South Korea, it is not clear if the findings can be applied to other countries as well.

Rate of Incentive: The same rate of incentive for different forms of tax incentives can result in different levels of incentives. Therefore, the rate has to be read with the form of incentive to understand the level of benefit. Coming first to deductions, out of 12 countries, nine provide incentives in the form of a deduction. Among these nine countries, Singapore has the highest rate of incentive of 250 per cent, while Bangladesh has the lowest, at 15 percent.

India offers two different rates of deduction on its most popular tax incentives scheme (also known as the 80G scheme), 50 per cent and 100 per cent, depending on the recipient. The 50 per cent deduction is applicable mainly when donations are made to non-profit organisations, while 100 per cent applies when the donation is made to select government-affiliated entities, such as the Prime Minister's National Relief Fund. Similarly, in Brazil, the rate is lower for certain recipient organisations.[xxxiv]

Figure 4.2: Rate of Tax Incentive in Countries where Form is Deduction-based (in %)



In the two countries that provide incentives in the form of credit, France has a rate of credit of 66 per cent for most charities; however, for select charities, it is 75 percent. In South Korea, the tax credit has two rates: 15 per cent if the donation amount is 10,000,000 Korean Won or less, and 30 per cent for amounts larger than that.

Ceiling on Incentives: All 12 countries surveyed put a ceiling on the extent of incentives that can be claimed. However, here too, there are differences across countries.

Countries can be divided into four categories depending on which indicator the ceiling is linked to:

- **As a percentage of taxable income:** The countries in this category are Singapore (100%), USA (60%), China (30%), France (20%), India (10% and 100%), South Africa (10%), Brazil (8%) [xxxvi], and Mexico (7%). In Singapore, if the entire amount donated cannot be claimed for deduction in one year due to the ceiling, the remainder can be carried over for the next five years. The 100 per cent ceiling in India is only for charitable donations made to select government entities; for the rest, the ceiling of 10 per cent applies. While all these countries put ceiling as percentage of taxable income of current year, Mexico is the only country where the taxable income of the previous year is considered.

- **As a percentage of tax payable:** The countries in this category are South Korea and the UK, both of which have a ceiling of 100 per cent.

- **As a fixed monetary value:** Norway is the only country that puts a fixed ceiling of NOK 50,000 as the annual deduction.

- **On the amount donated:** Bangladesh is the only country that puts a ceiling on the amount of donation that is deductible, at 30 per cent of the taxable income, or 15 million BDT, whichever is lower.[xxxvii]

Design and Accessibility: The complexity and/or inaccessibility of a country's tax incentive structure can have an adverse effect on donors' motivation to donate.[xxxviii]

The complexity of tax incentives, whether it is because they are difficult to understand or because they create confusion owing to having multiple rates for different causes and different types of donors often mitigates effectiveness of tax incentives.[xxxix] This has been highlighted in countries such as Bangladesh, Brazil, China[xl] as well as the UK in the case of the Gift Aid scheme.[xli]

Accessibility to tax benefits or the process of claiming tax benefits was also found to be difficult in some countries, such as China.[xlii] In many countries, the incentive benefit is available only to taxpayers who itemise their deduction (USA), and those who file full tax returns (Brazil) or Self-Assessment tax returns (the UK). However, the process of itemisation is often complex and requires a certain degree of skill. Many, especially those in the lower income group who file their own income tax returns, might find the process difficult, and hence forgo the benefit.

b. Incentives on Corporate Income Tax (CIT)

All 12 countries surveyed provide tax incentives for charitable donations on corporate income tax.

As with PIT, it is difficult to generalise a cross-country comparison of CIT. Broadly speaking, Singapore and the UK seem to have the most generous incentives, while the least generous seem to be those offered by Bangladesh.

The ranking of countries in terms of the level of benefit is similar to that of PIT except for France. The very low-level ceiling in France, at 0.5 per cent of turnover, means that the benefits for CIT are much lower than those for PIT. The findings on the three features of tax incentives — form, rate and ceilings— are presented below[xliii].

Form of Tax Incentive: In the 12 countries, deduction is the main form of incentive for CIT, with France as the only exception which has incentives in the form of credit.

Rates of Tax Incentives: The 11 countries that offer incentives in the form of a deduction can be categorised as follows:

- **More than 100 per cent:** Singapore is the only country in this category with a rate of incentive of 250 per cent.
- **100 per cent:** There are seven such countries. They are the UK, South Korea, USA, China, South Africa, Mexico and Norway.
- **More than one rate:** There are two countries in this category. In the case of India, the rate of deduction is 50 per cent when donated to charitable organisations, whereas it can be 100 per cent when donated to government funds and entities. Similarly, in Brazil, donations to certain recipients receive less than 100 per cent deduction.

- Less than 100 per cent: Bangladesh is the only country in this category, with the rate of deduction at 10 per cent

In France, the only country that offers tax incentives in the form of credit, the rate of incentive is 60 per cent.

Ceiling on Tax Incentives: As with PIT, all 12 countries have a ceiling on the extent of incentives that can be claimed.

The 12 countries can be divided into five categories depending on which indicator their ceiling is linked to. These categories are:

- **As a percentage of taxable income:** The countries in this category are Singapore (100%), the UK (100%), South Korea (50%), USA (30%), China (12%), South Africa (10%), India (10% in most cases), and Mexico (7%). In Singapore, if the deduction claimed exceeds taxable income in a year, the remainder can be claimed over the next five years, subject to the annual ceiling of taxable income. In India, the ceiling for select government donations is 100 per cent. Mexico is slightly different from the others as the income considered is of the previous year.

- As a percentage of tax payable: In Brazil, the ceiling on incentives is 4 per cent of the tax payable.

- As a fixed monetary value: Norway is the only country in this category, with a fixed ceiling of NOK 50,000 for annual deduction.

- On the amount donated: Bangladesh is the only country that has imposed a ceiling on the amount donated, at 10 per cent of the taxable income, or 120 million BDT, whichever is lower.

- As a percentage of annual revenue: France has a ceiling as 0.5 per cent of annual turnover on the tax incentive to be claimed.

Dis-incentive in Brazil

One peculiar case in terms of tax incentives is that of Brazil, where the tax liability design is such that instead of acting as an incentive, it can actually deter donations. In Brazil, charities are required to pay taxes on the donations they receive. However, if they fail to do so, the tax liability falls on the donor, and this can act as a serious deterrent against charitable donations. [xliv]

Table 4.1: Taxes on which Incentives Exist for Charitable Donations

Countries	PIT	CIT	Inheritance tax	Wealth tax	Capital gains tax	Donation/ Gift Tax
USA	Y	Y	Y		Y	
UK	Y	Y	Y		Y	
France	Y	Y	Y	Y		
S. Africa	Y	Y	Y			Y
Brazil	Y	Y	Y			Y
S. Korea	Y	Y	Y			
Bangladesh	Y	Y				Y
Mexico	Y	Y				
Norway	Y	Y				
China	Y	Y				
India	Y	Y				
Singapore	Y	Y				

'Y' denotes yes.

In the sample of 12 countries, nine countries also provide tax incentives for cross-border donations, i.e., when a citizen makes donation to a charitable organisation based outside the country. India (along with China and Singapore) stands out in this regard as it does not have such a provision. For details about cross-border donations, please see Annex F

c. Incentives on Other Taxes

Other than PIT and CIT, tax incentives for charitable donations are also given on the following taxes:

Incentives on Inheritance Tax: All the six countries in the sample that have inheritance tax provide an incentive on it. These countries are: Brazil, France, South Africa, South Korea, the UK and the USA. In all these countries, the form of incentive is a deduction and the rate is 100 per cent, which essentially means that the entire value of the donation is exempted from inheritance tax[xlv].

Incentives on Donation Tax[xlvi]: Bangladesh and South Africa provide tax incentives on donation tax[xlvii]. In South Africa, on donation of property to a charitable organisation (including shares in a listed company), the value of the property donation is totally exempted from tax.[xlviii] In the case of Bangladesh, "gifts to any institution for charitable or religious purpose established in

Bangladesh and approved by the government or established or registered under any law in force in Bangladesh" are exempted from taxation.[xlix] In this case, the gifted amount cannot exceed 20 per cent of the total income of the assessee or Bangladeshi Taka (BDT) 100,000, whichever is lower in the respective assessment year.[l]

Incentive on Wealth Tax: Incentive on wealth tax exists only in France. The from is credit and rate is 75 per cent, subject to a ceiling of EUR 50,000.

Incentive on Capital Gains Tax: The USA and the UK also provide incentive on capital gains tax. In the USA, if an asset is donated before realising capital gains, such an asset is exempt from capital gains tax, and the fair value of the asset can be deducted from the taxable income for personal income tax, subject to a ceiling of 30 per cent of the taxable income. Similarly, in the UK, assets that are donated are exempt from capital gains tax.

d. Which Sectors Receive Incentives for Charitable Donation?

While charitable donation generally refers to the act of donating for the public good without the expectation of any reward, not all such donations receive tax incentives. All 12 countries define, in their own way, which activities or sectors are eligible for a tax incentivised donation. Broadly, these include:

- Assistance to vulnerable groups features in all countries. The exact terms are different across countries, but it comes up in all of them.
- Education and health are also present in almost all countries.
- Religion, sports, culture, science seem to be among the sectors where countries differ. Not all countries provide tax incentives to these sectors.

Overall, there are more similarities than differences across countries in terms of the sectors that can receive tax incentivised donations. Nonetheless, the countries differ in their approach. Countries such as France, Singapore[li], the USA[lii]and the UK, where tax incentives are available for donations to a very wide range of causes, are often seen as being relatively more generous; not just because of the monetary benefits but also because of the large number of causes that can receive tax incentivised donations. Whereas in Bangladesh[liii], Brazil[liv], China[lv], tax incentives are offered on limited causes.

Since countries define sectors in their own ways, there is no consistency in these definitions. For example: France lists one of its sectors as 'human welfare', which can refer to anything from caring for vulnerable groups to education to disaster relief. Similarly, one of the categories in

India and Mexico is ‘the advancement of any other object of general public utility’ and ‘social assistance’, which again can refer to a number of sectors and causes. Such inconsistency makes a cross-country comparison difficult. With that caveat, table 4.2 tries to summarise the findings on sectors that receive tax incentivised donations.

Table 4.2: Causes to which Charitable Donations Attract Tax Incentives

	Health	Education	Human Rights	Religion	Arts/ Culture/ Heritage	Science	Poverty reduction	Sports	Environment
Bangladesh		Y							
Brazil	Y							Y	
China	Y	Y			Y	Y	Y	Y	Y
France	Y	Y			Y	Y		Y	Y
India	Y	Y			Y		Y		Y
Mexico									
Norway	Y		Y	Y	Y				Y
Singapore	Y	Y		Y	Y		Y	Y	Y
S. Africa	Y	Y							Y
S. Korea				Y				Y	
UK	Y	Y	Y	Y	Y	Y	Y	Y	
USA	Y	Y	Y	Y	Y		Y		

Note:
This table has been created based on the authors’ understanding of the legal definitions of charitable sectors in each country. These definitions have the scope of subjective interpretations.
‘Y’ denotes yes

Apart from the list of sectors, there are other noteworthy aspects as well. For example: Bangladesh, Brazil and South Africa are countries where the sectors are different for individuals and businesses. In all three countries, businesses have more sectors to donate to and receive higher tax incentives than individuals. In South Africa[lvi], only businesses are eligible for tax incentives for cross-border donations.[lvii]

e. Recent Changes in Tax Incentives for Charitable Donations, Including in Response to Covid-19

Four countries of the 12 surveyed changed their existing tax incentives for charitable donations in response to the Covid-19 pandemic. They are China, India, South Africa and the USA.[lviii] The changes in China and the USA resulted in an increase in the level of benefits from incentives.

The changes in India and South Africa were about increasing the scope of tax incentivised donations, such that more causes received incentives, but with the level of benefit remaining the same.

Broadly, these changes can be put into two categories:

Increase in the Ceiling: China and the USA have raised the ceiling.
China increased the ceiling from 30 per cent and 12 per cent for individuals and businesses, respectively, to 100 per cent. In the USA, the ceiling of 60 per cent has been raised to 100 per cent of taxable income.

Expansion of scope: South Africa, India and the USA have expanded the scope of tax incentives to new taxpayers and/or causes. In South Africa, donations made to Covid-19 relief entities were made eligible for tax incentives. In India, a new government fund called The Prime Minister's Citizen Assistance and Relief in Emergency Situations (PM CARES) was created, donations to which attract a rate of incentive of 100 per cent, with no ceiling on the percentage of taxable income that can be claimed as deduction. The USA allowed deductions for donations up to USD 300, even without itemisation by taxpayers.

Even prior to Covid-19, however, tax incentives were changing across a number of countries.

The major changes in the last 10 years[lix] can be broadly categorised as follows:

- Those that are likely to increase the benefit for donors and hence likely to further incentivise donation.
- Those that reduce the level of incentives, and are hence likely to disincentivise donation.

Among the changes that improve the benefits derived from incentives, some refer to those that are the result of a change either in the rate of incentive or in the ceiling. This kind of change has taken place in South Korea, Norway, Singapore, South Africa and the UK.

The incentive can also increase as a result of a broadening of the definition of charity, or with new sectors or causes becoming eligible for tax incentivised donations, as has happened in Bangladesh, India, South Africa and the UK. However, in the case of India, the broadening of the causes has been mainly for government schemes or entities.

Among the changes that are likely to reduce the benefits derived from incentives, the major factor seems to be the reduction in personal income tax rates and corporate tax rates. This is the case in the USA, Singapore, France and India[lix]. In addition, the introduction of a higher threshold, as has been done in the USA and the UK for inheritance tax, is likely to have the same effect.

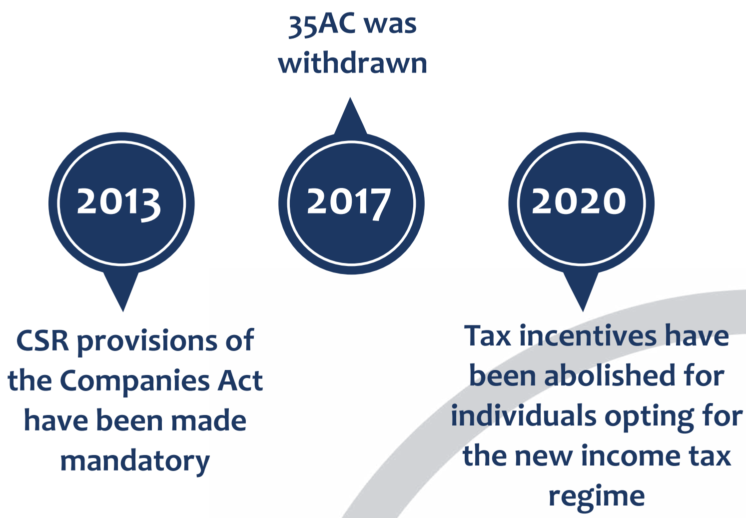
While none of these changes would have been made with the objective of reducing the benefits of tax incentives for charitable donation, the fact remains that the lowering of tax rates would, in all likelihood, have reduced the level of benefits to the donors, and hence reduced their incentive to donate.

Changes in India

Some very important developments that stand out relate to India. In India's case, until recently, the tax incentive structure has remained more or less unchanged since 1975[lxi]. At the same time, income tax rates have been declining consistently, and some taxes, such as wealth tax and inheritance tax, have even been abolished. These, in effect, have reduced the benefits that donors can derive from tax incentives for giving.

Further, since 2013, contributions to social impact activities under the Corporate Social Responsibility (CSR)[lxii] provisions of the Companies Act have been made mandatory and do not attract any tax incentives.

In 2017, a tax incentive provision known as 35AC was withdrawn. This act allowed donors to deduct the full value of their donations from their taxable income when donating to certain priority areas such as drinking water projects, home building for the poor, etc.



Additionally, since FY 2020, tax incentives have been abolished for individuals opting for the new income tax regime (which is optional). But while income tax rates are lower, this is with the proviso that individuals shifting to the new tax regime will no longer be able to avail most of the tax incentives offered in the old regime, including those for donations to NPOs/CSOs.

5. Evidence on Responsiveness and Impact

There are several studies available in the 12 countries surveyed that analyse the causal relationship between tax incentives and charitable donation. These studies can be divided into two broad categories:

1. **Studies that analyse the 'Responsiveness' of Tax Incentives:** These try to estimate the extent to which tax incentives influence the level of giving. In general, responsiveness in such studies is represented by a numerical indicator called 'price elasticity of giving' which measures the percentage change in the level of giving due to a 1 per cent change in the price of giving.

2. **Studies that look at the 'Impact' of Tax Incentives:** These analyse whether tax incentives play any role in inducing philanthropic giving by donors. Such 'impact' studies mostly try to understand whether tax incentives have an effect on giving, without going into the issue of the extent to which they affect the level of philanthropic giving in precise quantitative terms.

a. Challenges in Assessing Responsiveness

Philanthropic giving is influenced by a number of factors, such as pure altruism, a warm-glow feeling, the personality trait of donors, economic and cultural factors, etc. As a number of factors affect philanthropic giving, it is challenging to single out whether tax incentives have an effect on the level of giving. And if they do, then the other challenge is how to delineate the effect of tax incentives from other factors, especially socio-cultural factors[lxiii].

b. Methods to Overcome Challenges in Estimating *Responsiveness*

To overcome such challenges, studies on responsiveness try to assess the change in the level of giving in response to changes in tax incentives (or more precisely, changes in the benefit derived from tax incentives), while keeping all other factors constant[lxiv]. For this purpose, statistical/ econometric modelling is employed to estimate the 'price elasticity of giving'. The indicator 'price elasticity of giving' is used to understand whether and to what extent philanthropic giving is influenced by tax incentives. Studies on responsiveness differ on the basis of the type and size of the dataset, the statistical modelling used, and the particular change in tax incentive. Often, changes in the level of philanthropic giving are assessed against actual changes in tax incentives or tax rates to measure responsiveness. Some studies also use field experiment-based surveys or even simulations to measure the responsiveness of philanthropic giving.

c. Methods of Assessing *Impact*

Impact studies, on the other hand, mostly employ surveys in which respondents are asked whether tax incentives play a role in their giving behaviour. These studies generally differ on the basis of the characteristics of the respondents, the sample size, and the kind of questions asked.

Of these two types of studies, those analysing 'responsiveness' are more rigorous because they try to establish a causal relationship between tax incentives and philanthropic giving. Detailed data, including tax related data, is needed to carry out such studies but is generally unavailable in most countries.

Most of the studies on responsiveness focus on the USA, where good quality tax data suitable for research is available. While a number of studies are also available for the UK, most are based on survey data.

In addition to these two countries, a few studies can also be found for France, South Korea, Singapore and India.

In the case of the remaining six countries, only 'impact' studies were found. Some of these 'impact' studies are systematic and methodologically sound in terms of the sample size chosen, etc. Others rely on anecdotal evidence to establish a causal relationship between tax incentives and donations.

d. Evidence of *Responsiveness*

The focus of most studies on responsiveness is on philanthropic giving by individuals (and mainly on PIT); only a few studies look at the influence of tax incentives on corporate giving.

In this report, the literature analysing responsiveness of philanthropic giving by individuals to tax incentives has been classified into those that:

a. Predominantly indicate low levels of responsiveness.
b. Show marginally high to very high responsiveness of philanthropic giving to tax incentives.

Categorising Degrees of Responsiveness

Low responsiveness = Price elasticity greater than zero but less than 1 (in absolute terms).

E.g., price elasticity is 0.25 in absolute terms. This means that a 10 per cent reduction in the price of giving results in a mere 2.5 per cent increase in philanthropic giving.

Marginally high responsiveness = Price elasticity between 1 and 1.5[lxv] (in absolute terms).

E.g., price elasticity is 1.03 in absolute terms. This means that a 10 per cent reduction in the price of giving results in only a 10.3 per cent increase in philanthropic giving.

Fairly high to very high responsiveness = Price elasticity greater than 1.5 (in absolute terms).

E.g., price elasticity is 1.9 in absolute terms. This means that a 10 per cent reduction in the price of giving results in a 19 per cent increase in philanthropic giving.

e. Individual Donors

Summary of Findings

- Overall, empirical studies on the price elasticity of philanthropic giving show mixed results.
- In the case of the USA (which has the maximum number of studies), although responsiveness varies across studies, on the whole, evidence of responsiveness being on the higher side is more prevalent than evidence on low responsiveness.
- But even in the USA, responsiveness with respect to the average taxpayer, is only marginally high in most cases.
- On the other hand, studies from other countries (such as France, South Korea and the UK) show responsiveness to be low.
- A common finding in many of these studies is that contributions by higher-income groups and from larger donors tend to be more sensitive to changes in tax incentives than contributions from smaller donors.
- Very few studies indicate responsiveness to be very high. These studies are outliers, and the results arise either because of the type of data used for analysis or the period of analysis.

i) Evidence of low responsiveness

Taking the case of the USA, for instance, a study based on data[lxvi] from a biennial household survey[lxvii] conducted between 2000 and 2012 finds that responsiveness amongst taxpayers (barring the top 10 per cent of income earners) is 0.25[lxviii]. Another study using a long-term tax dataset for the period 1917 to 2005 indicates that responsiveness even for the top decile is low at 0.6[lxix].

A number of studies conducted across different countries, over different periods, using both survey and tax filer data, show that responsiveness of philanthropic giving by individuals to tax incentives is low (i.e., the price elasticity of giving is less than 1 in absolute terms).

Similar results come up in studies of other countries as well. A study for France, for example, measures responsiveness in the context of an increase in the rate of tax incentive from 50 per cent credit to 66 per cent redit effected between 2003 and 2005. Making use of tax data[lxx] for the period between 1998 and 2006[lxxi], the study estimates that responsiveness to tax incentives is very low (with the price elasticity varying from 0.2 to 0.6)[lxxii].

Another study based on survey data for South Korea[lxxiii] (between 2004 and 2007[lxxiv]) also concludes that responsiveness to tax incentives is low, with price elasticity at 0.86[lxxv]. Responsiveness is low even when there is a change in the form of tax incentives offered (from deduction to credit). An analysis using tax data pertaining to the period between 2005 and 2014 as well as household survey data on the level of giving between 2008 and 2015 shows that a change in the form of the tax incentive from deduction to credit (effected in 2014) has little effect on the level of donations, as price elasticity ranges between 0.12 and 0.63 in absolute terms[lxxvi].

Studies in the UK mainly focus on individual donors' responsiveness to changes in the f*orm of its hybrid tax incentive scheme*, the Gift Aid. These studies estimate how various hypothetical changes in the Gift Aid scheme[lxxvii]— because of changes in either the 'match element' or the 'deduction element' — would likely affect donations (both cash donations by donors and gross donations received by charities[lxxviii]). Such studies show that the responsiveness of philanthropic giving by all taxpayers[lxxix, lxxx] is higher to changes in the match element than to changes in the deduction element[lxxxi]. Similar results are found for studies focusing only on higher-rate taxpayers. An analysis based on around 1,400 individual higher-rate taxpayers' response to a hypothetical variation in the price of giving shows that the match elasticity[lxxxii] (1.20) is much higher than the deduction elasticity[lxxxiii, lxxxiv](0.31)[lxxxv]. In short, these field experiment-based studies, which analyse the implications of a change in the form of the UK's Gift Aid on donations, indicate that the *form* in which a tax incentive is offered influences the level of philanthropic giving[lxxxvi]. However, by and large, the responsiveness of cash donations by individuals to changes in the deduction element tends to be low[lxxxvii].

These finding are corroborated by studies using tax data[lxxxviii] (specifically self-assessment Income Tax Returns data for the period between 2004-05 and 2012-13[lxxxix]), as well. The analysis of responsiveness has been carried out in the background of the UK's 2010 income tax reforms, when the top tax rate for individual taxpayers increased from 40 per cent to 50 per cent for incomes above GBP 150,000. It finds the responsiveness of philanthropic giving to tax incentives to be very low[xc]. The study estimates the total price elasticity of giving by measuring both the intensive-margin price elasticity and the extensive-margin price elasticity. The estimated total price elasticity ranges between 0.25 and 0.37 (comprising intensive-margin elasticity ranging from 0.16 to 0.28 plus an extensive-margin elasticity of 0.09). In sum, while the amount of giving responds positively to a change in the price of giving, responsiveness is very weak, as a 1 per cent reduction in the price of giving generates at the most a 0.37 per cent increase in donations[xci].

- **A common finding in many of these studies for India[xcii], France, the UK[xciii] and the USA[xciv] is that contributions by higher income groups and larger donors tend to be more sensitive to changes in tax incentives than contributions from smaller donors.**

For instance, a 2013 study in the USA, based on sample data[xcv] from Internal Revenue Service (IRS) Public Use Tax Files for the period between 1970 and 2007, finds that responsiveness to tax incentives is on the higher side among taxpayers with an annual income of more than USD 200,000 (price elasticity of more than 1.5)[xcvi]. Similarly, the study based on income tax returns in the UK shows that the positive response to tax incentives is mainly driven by existing donors (most of whom are in the higher tax brackets), giving more, with the average taxpayer being less responsive to changes in the price of giving. While studies in France, too, indicate that responsiveness increases with income, the level of responsiveness is low (price elasticity is less than 1), even for higher income groups[xcvii].

On the other hand, contrary evidence is found for South Korea[xcviii] and Singapore[xcix], showing responsiveness is higher among lower income groups.

ii) Evidence of high responsiveness

Marginally high responsiveness

Some studies (mainly in the USA), also point towards marginally high responsiveness of *all donors* to tax incentives, albeit the price elasticity of giving is only marginally higher than 1 in some cases. For instance, a study for the 1979-2006 period, based on the observation of about 330,000 itemised returns by taxpayers in the USA, finds the level of responsiveness for all income groups to be 1.1.[c] Similarly, a 2019 study for the period between 2000 and 2017, based on data culled from a biennial household survey, Panel Study of Income Dynamics[ci], estimates the responsiveness of donations to tax incentives to be 1.03[cii, ciii]. Apart from individual studies, a meta-analysis of 69 studies carried out over the period 1967-2004, shows the weighted mean of the price elasticities to be 1.11[civ, cv]. Similarly, a meta-analysis of 31 studies undertaken in the USA between 1990 and 2012, shows that "the various estimated elasticities lie, broadly speaking, in a range of about -0.5 to -1.5" [cvi].

Very high responsiveness

Albeit small in number, some studies do point towards very high responsiveness of individual donors to tax incentives. A study in the USA, based on the tax return data of charities eligible to receive tax incentivised donations and required to file tax returns, estimates responsiveness of giving in the context of the tax reform in 1986 that resulted in different rates of tax incentives across different states in the USA[cvii]. Unlike most studies, which use data on donors to arrive at the level of donation, this study uses data from recipient charity organisations. The data contains information on about 3,200 charities[cviii]. The study estimates that a 1 per cent increase in the price of giving (due to a reduction in the level of tax incentives) can cause up to a 4 per cent fall in charitable giving. The magnitude of responsiveness is much larger than in most other studies. One explanation for this large responsiveness is that instead of donor data, the study uses data from recipient charity organisations. As many charities, especially religious ones and those with assets less than USD 10 million, are not required to file tax returns, data for these charities tends to be absent from tax datasets. The absence of religious charities from the tax dataset, which are one of the largest recipients of donation as well as donations to which are less likely to be affected by changes in tax incentive, is one likely reason behind the unusually high price elasticity. Another study pointing to unusually high responsiveness pertains to South Korea. The study, using panel data on wage earners who filed tax returns, finds price elasticity of giving to be in the range of 7.5 to 9.9 in absolute terms, which is among the highest value of responsiveness across all the countries surveyed in this study[cix]. Since the study is in Korean, further details about the data and methodology could not be analysed.

Other than these, studies carried out in the 1990s (mainly in Singapore), show that the responsiveness of individual donors to tax incentives tended to be high. One such study[cx] shows strong price elasticity for donations, varying from 2.0 to 5.5[cxi], implying that taxpayers are highly responsive to tax incentives for philanthropic giving. Another study,[cxii] using confidential tax file data for the year 1998, also found donations by individuals to be highly responsive to tax incentives. While these studies, conducted using data for the 1990s, show that responsiveness to tax incentives was high, it is uncertain whether the same holds true today. This is because these studies pertain to a period when tax rates for individuals were higher compared to the rates prevalent in the more recent period.

f. Corporate Donors

Compared to individuals, studies assessing the responsiveness of corporate donors to tax incentives are rare as well as dated. One such study, conducted in the USA in 2006 using tax data of about 26,000 firms for the year 1991, finds that corporate philanthropy declines with an increase in the price of giving[cxiii]. The level of responsiveness (price elasticity) varies from 1.8 to 2.0, depending on the difference in statistical modelling used, implying that philanthropic giving by corporates is responsive to tax incentives. Similarly, in the case of India, estimated price elasticities are found to be high (ranging from 2.775 to 2.974) in a study using unpublished tax assessment data of a representative sample of 564 donor companies for the year 1978-79.

In other words, the study shows that tax incentives helped increase the quantum of charitable contributions substantially[cxiv].

However, it also needs to be pointed out that the studies mentioned above pertain to periods when tax rates in these countries were higher compared to the rates prevalent more recently. For example, the tax rates for different categories of companies applicable in India for the years between 1974-75 to 1983-84 ranged from 45 to 80 per cent, whereas since September 2019, the corporate tax rate stands at 25 per cent for all except the very large companies. The relatively higher tax rates prevalent in the 1970s and 80s had the effect of lowering the price of giving and hence made philanthropic giving comparatively more attractive.

g. Evidence of *Impact*

A number of studies that examine the impact — i.e., whether tax incentives have any effect on the level of donation (without looking at the extent of responsiveness) — are available for 8 of the 12 countries in this study. Most of the 'impact' studies seek to find out whether tax incentives play a role in motivating individual donors to give.

- **A clear finding in most such studies is that for *average donors*, tax incentives do not play a significant role as a motivation to give.**

That tax incentives do not play a significant role for the general population is demonstrated across several countries. In the case of South Korea, for instance, a study based on in-depth interviews with two NPOs that have received in-kind donations, and four corporations that have made in-kind donations (not necessarily to the above NPOs), finds that the biggest motivation are the warm-glow feeling and the intention to help others, with tax incentives not being a significant determinant of giving[cxv]. Other research examining the level of giving in South Korea, based on survey data[cxvi, cxvii] for the year 2002, finds that tax incentives are not a significant factor for individual donors in either deciding whether to donate or the amount to donate[cxviii]. In surveys where respondents were asked to rank the motivations behind their charitable giving, a sense of civic duty was the motivation for 31 per cent of respondents followed by sympathy for people in need for 29 per cent, in 2017. Tax incentives are a deciding factor only for 3 per cent of the respondents[cxix] in 2016 and 2018. Likewise, in the case of India, a 2011 study based on interviews of 8,985 people (of them, 1,195 had donated money to an organisation for charitable purposes and nearly 4,000 people had given money to organisations or individuals for religious or charitable purposes in the previous 12 months), found that tax incentives acted as a motivation for giving only for 3 per cent of the donors[cxx]. A more recent study based on interviews of 1,057 people, completed online in August 2018, also notes that tax incentives do not figure among the top reasons that would make people donate more in the future[cxxi]. The same holds for Brazil. A survey-based study for Brazil shows that in 2015, about 46 per cent donated money to social organisations, but tax incentives did not play a role as an incentiviser[cxxii]. Another study, based on 1,313 interviews completed online and conducted in 2017, notes that tax incentives are not seen as an important reason to increase giving and very few individuals made use of incentives to donate[cxxiii].

- **For the wealthy, however, tax incentives seem to play a role. In some cases, tax incentives help, if not in terms of motivating current giving, then in terms of motivating giving in future.**

For example, a 2015 study in the UK, based on a qualitative survey of 32 higher-rate taxpayers and additional-rate taxpayers with an annual income of at least GBP 1,00,000, shows that the role and importance of tax incentives in participants' charitable giving behaviour is complex. The results show that even though participants believed that tax incentives had little impact on their decision to donate, and were not perceived as a motivation by itself, such incentives did have an impact on donation behaviour, as many of the participants felt tax incentives encouraged them to be more generous. For many, the incentives were simply seen as a bonus, while others felt that they had an impact on charitable giving behaviour, either as a pure financial incentive to give, or because they created a wider expectation of charitable giving within society. In some cases, tax incentives seemed to have a disproportionately positive impact on donation behaviour as participants reported that the knowledge of being able to claim tax relief encouraged them to increase their donation by more than the amount they would receive in relief[cxxiv].

In Brazil, for instance, it is found that tax incentives may encourage those with a higher family income (of more than BRL 100,000) to donate more in the future[cxxv]. Similarly, in the case of South Africa, CAF's survey-based[cxxvi] South Africa Giving Series show that in the urban population, 23 to 26 per cent of people with an annual family income of over ZAR 500,000 are likely to say that they might donate more over the coming year if they had more tax incentives to do so[cxxvii]. Surveys focusing entirely on High-Net-Worth Individuals (HNWIs) in South Africa[cxxviii] (sample of 400-odd[cxxix] interviews conducted in the years 2010, 2012, 2015 and 2019 across the country) show that only a marginal percentage of donors (1 per cent in 2010, 2 per cent in 20121; 5 per cent in 2015; 1 per cent in 2019) cited tax incentives as a motive for giving. However, with regard to future giving, nearly a quarter of HNWIs in most years of the surveys undertaken (15 per cent in 2010; 29 per cent in 2012; 21 per cent in 2015; and 22 per cent in 2018) stated that an increase in tax benefits would encourage them to give more. For non-givers, however, better tax incentives did not seem to be a motivating factor to begin donating; only 6 per cent in 2015 and 1 per cent in 2018 stated that incentives could have an impact in terms of their becoming givers in future[cxxx].

- **An interesting finding, corroborated by studies in India, shows that the absence of taxes that affect the wealthy more, such as estate duty, means that existing tax incentives do not act as a powerful motivator to give, unlike in developed countries (such as the USA) where such taxes exist[cxxxi].**

An impact study in India, based on a survey of more than 300 wealthy individuals (including nearly 100 HNWIs) and more than 20 philanthropists and experts on philanthropy, notes that "restrictive Indian tax laws are one of the top reasons for not donating more" for 60 per cent of those surveyed[cxxxii]. Opinions such as these could be read as implying that while tax incentives may not be the primary motivation for donating to philanthropic activities, they play a role in encouraging people to give money for philanthropy.[cxxxiii]

- **While tax incentives may not be the main driver, they can encourage more people to give. Also, they have a signalling effect.**

There is a paucity of systematic studies in the cases of Bangladesh, China, Mexico and Norway on this subject. To be sure, there are a few studies that mention about the relationship between tax incentives and philanthropic giving, but their methodology seems very rudimentary and/or is based on anecdotal evidence. For example, in interviews of select philanthropists in the Scandinavian region, many respondents emphasise the importance of tax incentives to promote philanthropic giving, but they do not see it as the prime motivation[cxxxiv]. Similarly, a study based on interviews of select individuals in Mexico suggests that tax incentives might help in increasing donations[cxxxv]. Thus, while tax incentives may not be the main driver, they can encourage more people to give.

Some literature for Singapore, including media reports, notes that with the increase in tax incentives over time, charitable contributions have gone up significantly[cxxxvi]. The argument is that the increase in tax incentives helps in increasing donations, "not only because of the tax benefit, especially as the tax rate in Singapore is low, but also because it signals to the public that the government endorses this kind of giving"[cxxxvii]. Thus, donations increased by more than 24 per cent in 2015 from the previous year's figure[cxxxviii] as a result of the one-time increase in tax deductions to 300 percent (from 250 per cent). However, in 2016, tax-deductible donations decreased by 36 per cent, owing in part to the reversal of the tax deduction to 250 per cent from 300 per cent[cxxxix].

6. Findings about Data

As the previous section indicates, both survey data and tax data are used in studies measuring the responsiveness of philanthropic giving to tax incentives. At the same time, tax data is considered to be more useful for such studies as responsiveness measures tend to be inflated when derived on the basis of survey data[cxl]. It is important to note that the actual data requirement will ultimately depend on the actual design and methodology of the study. Nonetheless, based on a review of the literature, some broad pointers about tax-related data can be drawn. Basically, there are three data types that are used in responsiveness studies:

- Amount donated
- Amount of deduction/credit claimed
- Amount of Tax Relief or Revenue Forgone

All 12 countries were reviewed for these three datasets. It should be noted that this exercise was conducted focusing only on tax data provided by the respective governments that is publicly accessible.

Based on the availability and level of granularity of the data on these three indicators, the 12 countries in this study can be divided into the following four categories:

1. **Extensive data:** Countries that provide data on all three indicators with a level of granularity that allows for responsiveness studies.

2. **Intermediate level data:** Countries that provide data on the amounts donated or those that provide data on deduction claimed or tax relief. This data, in itself, is not sufficient to study responsiveness. However, it can be useful when used with other required data.

3. **Rudimentary data:** Countries that make available some data related to tax incentives. This data is, however, not useful to carry out a further analysis of the causal relationship between tax incentives and donations.

4. **No data:** No relevant data is made publicly available.

Figure 6.1: Countries according to Status of Data

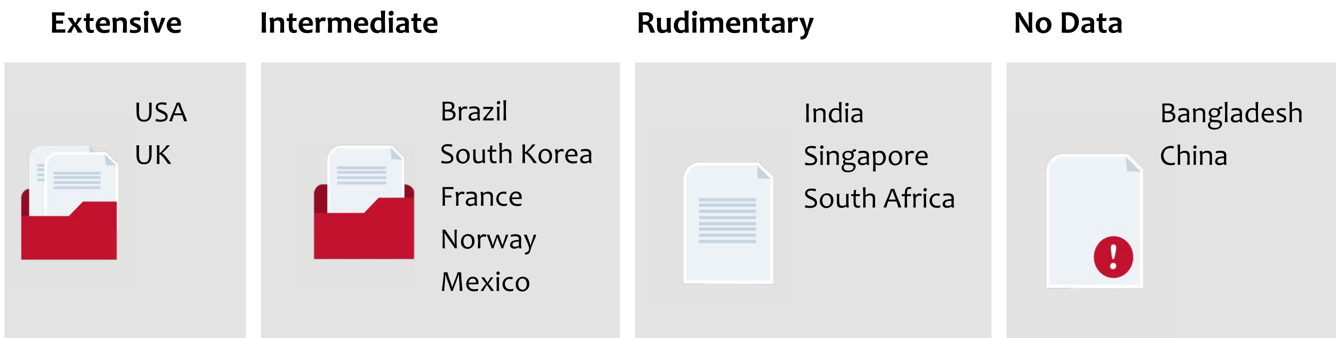


Table 6.1: Status of Data

S. No.	Country	Amount Donated		Amount of Deduction/ Credit received	Tax Relief/Revenue Foregone		Overall State of Data
		Availability	Level of detail	Availability	Availability	Level of detail	
1.	USA	Yes	Income slabs	Yes	Yes	Sector Level	Extensive
2.	UK	Yes	Aggregate; by different tax incentive schemes	Yes	Yes	For higher rate taxpayers and or charities	Extensive
3.	Brazil	Yes	Income Range by different tax incentive schemes	Yes	No	-	Intermediate
4.	South Korea	Yes	Income Slabs	Yes	No	-	Intermediate
5.	France	Yes	Aggregate	Yes	No	-	Intermediate
6.	Norway	Yes	Aggregate	No	No	-	Intermediate
7.	Mexico	Yes	Aggregate	No	No	-	Intermediate
8.	India	No	-	No	Yes	Aggregate, for individuals and companies	Rudimentary
9.	Singapore	No	-	Yes	No	-	Rudimentary
10.	South Africa	No	-	No	Yes	Aggregate	Rudimentary
11.	Bangladesh	No	-	No	No	-	No Data
12.	China	No	-	No	No	-	No Data

a. Extensive Data Available

The UK and the USA.

Among the datasets the USA provides, the following are relevant for donation and tax incentives:[cxli]

- Summary of Individual Income Tax Returns: This dataset details income, number of returns filed, total amount of deduction claimed, etc.
- Data related to itemised deductions by individuals, which provide details of how much was claimed as a deduction for a charitable donation in each income group.
- Income tax returns of charitable organisations, detailing the aggregate amount received by the organisations as donations, which can be used to create time-series data.
- This data is available for individuals, but the corresponding data for businesses is lacking. There is tax data for businesses but data related to donations and their related tax incentives does not seem to have been updated after 2007 / 2013.
- The USA also provides data on revenue forgone due to tax incentives offered for charitable donations. The available data is aggregated at the sector level, and that too for three sectors only: health, education, and others.

The UK publishes some relevant data on the HMRC website, such as[cxlii]:

- Data on tax relief provided to individuals with respect to Inheritance tax[cxliii], Payroll, Gifts of shares and property, and higher-rate relief on Gift Aid for the period from 1990 to 2016-17.
- Data on amounts donated and tax repayments to charities on donations from individuals or companies for the period from 1990 to 2018-19.
- Data on the number of donors, amounts donated and cost of relief for the Payroll Giving scheme for the period from 1990 to 2018-19. Data on the number of individuals who declared a donation via Self-Assessment, by the tax year, for the period from 2007 to 2018.
- The UK also publishes summary statistics on tax relief or revenue forgone relating to charities.[cxliv] These are mainly estimates and the term used for denoting revenue forgone is "costs of tax reliefs".
- Data on the cost to HMRC or the amount received by charities under the Gift Aid and Payroll schemes as well as donations made under the schemes.
- Data on the amount of tax relief on charitable donations received by higher-rate taxpayers and additional-rate taxpayers from HMRC.

b. Intermediate Level Data Available

Brazil, France, South Korea, Norway, and Mexico

There are five countries in this category, but the details provided across these countries are very different. Also, the data for Brazil and France is available in Portuguese and French, respectively[cxlv].

The **Brazilian** Federal Revenue Department (*Receita Federal do Brasil*, **'RFB'** [cxlvi]), which is part of the Ministry of Finance, provides data on tax, including on donations and bequests.

Data related to tax and donations include the following:

- Summary of Individual Income Tax Returns by Declaration Type: This gives the breakup of the number of complete and simplified returns filed.
- Data on donations and bequest amounts by income range (by fiscal year); time series available from at least 2007.
- Summary of declarations of tax due and deductions, including data on taxes paid on donations and inheritances by the declarant's residence municipality; time series available from 1998 to 2018.
- Data is also provided according to recipients, such as i) Donations in assets and rights ii) Donations – Child and Youth Statute iii) Culture incentive iv) Incentive to the national support programme for oncological care v) Sports incentive vi) Donations – Elderly statute and vii) Other Payments and Donations. This data is available for various fiscal years; data for fiscal year 2013 was accessed for this study.

In **France,** the data gives only the aggregate of the number of tax returns filed claiming tax incentives for donations, the total amount of tax incentives claimed, and the sectoral breakdown of the donation. The Tax Department also occasionally produces tax data known as '*Echantillon lourd*', which provides sample data for 45,000–55,000 taxpayers in anonymised form. This data can be accessed by individuals on payment of a fee.[cxlvii]

Every year, the **South Korean** Government publishes a 'Statistical Yearbook of National Tax', which provides wide ranging data on tax.[cxlviii] The data on philanthropic donations is presented as follows:

- Aggregate amount of donation deducted from tax
- Number of taxpayers making a donation and availing of tax incentives. These data are available separately for individuals and businesses

- For Individuals, details are not only given at the aggregate level but also by income slabs, gender, age, and different tax-return forms
- The data is available publicly in this form with records starting from 2015.

Statistics **Norway**[cxlix], which is the official government portal for all of Norway's public data, publishes a number of different databases related to tax paid by different taxpayers on its website. It provides data on the average donation and the number of taxpayers. The aggregate level of donation can be derived by combining the two. However, this only gives the total countrywide number or the geographical distribution, but not the distribution according to income groups.

In the case of **Mexico,** tax data on donors could not be found. Organisations authorised to receive tax-deductible donations need to file a special tax report, which is made public. A consolidated report by all such organisations can give an estimation of the total amount donated. Although limited in scope, this is the only official data of any kind related to tax and donations.

c. Rudimentary Level Data Available

India, Singapore and South Africa

The main data available in India with regard to tax incentives for philanthropic giving is the revenue-forgone data. While revenue-forgone data is given for the corporate sector and individuals separately, the data is aggregated across different sets of donors, i.e., aggregated across the different tax slabs that donors fall in. This data is available from 2008-09 onwards.

Singapore's tax data makes available the total tax deductions granted in respect of qualifying donations for individuals as well as companies[cli].

The National Treasury of **South Africa** publishes tax statistics annually, compiling them from the South African Revenue Service's registers of taxpayers and from tax returns.[clii] Information on tax expenditure or tax forgone due to incentives offered on donations, too, is provided[cliii]. However, it needs to be noted that while "the phrase and use of the word 'donation' are most often associated with donations to a charity or a similar non-profit organisation", in the case of South Africa "this connotation of donations only constitutes a minority of donations that occur daily"[cliv], as even donating a car to children attracts a donation tax. Thus, tax expenditure on donations is likely to account for exemptions given to all kinds of donations lower than R 100,000 and not just donations made to public benefit organisations carrying out Public Benefit Activities.

d. No Data Available

Bangladesh and China

As per the National Board of Revenue, the Government of **Bangladesh** does not publish any data on tax expenditure or revenue forgone due to tax incentives[clv].

Similarly, in the case of **China,** no relevant tax data were found. It is not clear if such data exists as the language barrier made it difficult to get access.

7. Conclusion

The objective of this study was to review existing literature for evidence on whether tax incentives affect charitable donations; and if yes, then to what extent. The extensive review of literature on this topic shows that answering that question is anything but simple.

Deriving any straightforward conclusion about the effect of tax incentives on donations is difficult because of at least three factors: first, the lack of literature in most countries; second, the methodological difficulties in assessing the effect of tax incentives; and third, the wide variation in results across countries, as well as within a country.

Why so little literature exists except in the USA and the UK, even though tax incentives have been in existence for a long time, is puzzling. It does seem that, barring a few exceptions, the issue hasn't received much attention from the research community; but it could also be due to the lack of adequate data required to carry out such quantitative studies.

Even when data is available, finding out the effectiveness of tax incentives is difficult as donations are affected by a number of factors other than tax incentives. Most studies simply assume that during the period of study, other factors have not changed and hence their effect has remained the same. This assumption can distort the result, making the studies less reliable.

Notwithstanding these difficulties, a number of studies estimate the 'price elasticity of giving' — what this report refers to as the responsiveness of philanthropic giving to tax incentives. Studies across countries show that there is a wide variation in the responsiveness of philanthropic giving to changes in the price of giving. Even in the USA, where the prevalence of studies indicating high responsiveness outweighs those showing otherwise, there is little consensus on the issue. On the other hand, research for other countries — especially more recent studies — universally reports positive but low responsiveness. When it comes to impact, tax incentives are not found to be an important factor in motivating philanthropic giving, except for wealthy and large donors. This could be due to several reasons, such as the complex design of tax incentives, low tax rates, low incentive rates, low ceilings, under-reporting to claim deductions, etc.

There are also country-specific issues in the studies undertaken that affect the findings as well as their applicability to other countries. For example, the USA has a federal tax structure where the federal government and the State governments impose taxes separately. Most studies, however, focus only on the tax incentives offered at the federal level, limiting the applicability of the results of these studies. Similarly, most studies on the UK's hybrid scheme (Gift Aid) are based on field experiments and not on a general population sample, implying that care needs to be taken in drawing conclusions from these studies.

Also, the fact that philanthropic giving is affected by various socio-political factors makes it difficult to take the results found in one country and apply its lessons in another county. In other words, the results of the studies conducted in the USA or the UK on the effectiveness of tax incentives on charitable donations might not be able to provide insights into donor behaviour in India or South Africa.

Independent of the responsiveness or impact of philanthropic giving to tax incentives, the literature shows that tax incentives play an important role in signalling the importance of CSOs in a society, and also because they create a wider expectation of philanthropic giving within society. In fact, as some commentators note, perhaps the presence of tax incentives alone is sufficient, because their existence indicates a legal environment that is inherently enabling. Tax incentives, therefore, can be seen as part of a wider package of policies that create an enabling environment for civil society to develop, regardless of whether incentives are actually claimed by donors or how responsive donors are to the tax incentives offered.

The challenge in making generalisations across countries along with the lack of literature highlights the need to carry out studies in each of the countries. The need for such studies goes much beyond an academic pursuit and has serious implications for policymaking, and in turn, on the resources resources available for the charitable sector and the effective functioning of the sector as a whole.

However, for policy making it is not enough to consider the value of 'price elasticity of giving' alone to argue for or against the efficacy of tax incentives. This is because any discussion that compares the efficiency of tax incentives for donation against the revenue lost is based on an incomplete view of the role and requirements of the charitable sector. Comparing the revenue forgone to the additional donation generated would suffice only if the charitable sector acts as a mere complement to the government in providing public goods. However, the charitable sector plays a much wider role, such as raising awareness among people on various crucial issues, providing a voice to the marginalised, and demanding accountability from the government — all absolutely critical features of a democratic society. These roles that the charitable sector plays are critical and cannot be substituted by the government. Also, while governments have the option of raising additional resources by changing tax regulations other than those on tax incentives for donation, the charitable sector is significantly dependent on donations. The additional amount generated by the tax incentives, even in cases where the responsiveness is not very high, can be crucial for the charitable sector. Hence, the comparison of revenue forgone versus the additional donation generated (as indicated by the price elasticity of giving) to judge the utility of tax incentives is grossly inadequate.

Therefore, it is hoped that governments will carry out studies so as to gauge the effectiveness of existing tax incentives in their respective countries, and then make improvements where necessary. Even if governments do not conduct studies on their own, they can and should make the tax data related to charitable donations available publicly, as this will remove one of the big impediments researchers face in conducting such studies.

Given the criticality of a well-functioning charitable sector in a modern democratic society, and the resources required for its sustenance, much of which come from donations, the issue of resourcing of the sector deserves much more attention. Since tax incentives, which can affect donations, are the main policy instrument of the government to support the charitable sector, a better understanding of the relationship between tax incentives and donations is necessary. Through the review of existing literature on tax incentives for charitable giving in 12 countries, it is hoped this report has provided not just the current status of that literature, but also pointed out gaps, thereby indicating where work is required in future.

8. Recommendations pertaining to India

The review of the literature on the structure of tax incentives across these 12 countries and the changes therein over time suggests that the tax incentive structure in several countries has become more generous over time (i.e., if only tax incentive structures are looked at and not the changes in tax rates). In the case of India, on the other hand, the tax incentive structure had remained more or less unchanged until the recent past, barring the abolition of 35AC, and an increase in government schemes and entities donors can avail tax incentives on. However, the new (optional) tax regime introduced for individuals in the Union Budget 2020-21, under which individual taxpayers can avail of lower tax rates if they forgo most tax incentives (including those for donations), reduces the scope of such tax incentives. Similarly, corporates that forgo tax incentives and exemptions are eligible for a reduction in the base tax rate to 22 per cent from 30 per cent. While both these regimes are optional at present, given that they entail the option of transitioning to a lower tax slab, they have far-reaching implications for tax incentives for philanthropic giving. In light of this background the following recommendations are being made.

- **Rigorous studies for evidence-based policy making:** There is a need to carry out rigorous studies on the role of tax incentives for the charitable sector in India to understand their importance and effectiveness. Some such studies are available[clvi] for certain others types of tax incentives provided within the corporate tax regime[clvii]. Such studies are important as they help in providing a sense of whether tax incentives have been effective in achieving their intended objectives. However, there is an acute lack of such literature when it comes to assessment of the effectiveness of tax incentives for charitable donations. Similarly, it is also necessary to undertake studies to assess the importance of tax incentivised charitable donations from the point of view of NPOs.

- **Improve availability of tax data:** For evidence based policymaking it is important that more disaggregated data is made available by the government on the revenue forgone due to tax incentives for donors. The government of India provides aggregate numbers on revenue forgone for charitable donations to charities in the statement "Revenue Impact of Tax Incentives under the Central Tax System" (earlier known as Revenue Forgone statement) in the Union Budget. However, the reporting structure on tax revenue forgone does not provide any further details in terms of the number of corporates/ individuals donating, the amount donated by different tax slabs donors fall under, sectoral composition of donations, etc. From Financial Year 2012-13 (A.Y. 2013-14), the Income-tax Department has introduced an e-filed return (ITR-7) for charitable entities, in which information about donations received by the entity has to be provided. Similarly, all persons with incomes above Rs 5 lakh are compulsorily required to file returns electronically. With regard to the 80G deduction, the tax return of the donor contains the details of the donee and her/his Permanent Account Number (PAN) along with the amount on which the deduction has been claimed. Therefore, data capturing the details of the donation made by a donor along with details of the recipient are available with the Tax Department[clviii]. The government may consider making such data public in line with good practices in other countries.

- **Raise the level of incentives provided:** In light of the massive gaps in India's achievement of the Sustainable Development Goals, which have been exacerbated by the impact of the Covid-19 pandemic, an increase in the rate of incentive provided as well as raising of the ceiling would send a strong message to donors on the desirability of philanthropic contributions.

- **Re-introduce taxes that affect the higher-income groups:** Given the significant increase in inequality especially during the Covid-19 pandemic, it is recommended that the government re-introduce wealth and inheritance tax. These taxes were removed on the ground that the administrative costs associated with collecting revenue outweigh the revenue collected from them. However, with digitalisation of tax returns and other moves, administrative costs are likely to have reduced whereas the revenue collection from these taxes can be significant given the increase in wealth held by the rich. Since these taxes affect the rich relatively more, providing tax incentives on these taxes could help make philanthropic giving more attractive for wealthy donors, while ensuring that the government does not lose revenue.

Endnotes

[i] Davies, Rhodri, 2014
[ii] CAF & Nexus, 2014
[iii] CAF, 2016 a
[iv] Gelles, D., 2018; Schiller, A., 2019
[v] CAF, 2019, World Giving Index
[vi] Nexus, McDermott Will & Emery and Charities Aid Foundation, 2014
[vii] CAPS, 2018
[viii] While culture is admittedly a very wide subject and hence can have a number of different indicators to consider, language has been chosen as a simple but strong proxy for it.
[ix] For the list of country experts, please see Annex A
[x] In the case of France and Brazil, a few publications and datasets were translated from French and Portuguese, respectively, to English. Nonetheless, barring these exceptions, literature in languages other than English has not been reviewed.
[xi] Adapted from Klemm, Alexander, 2009
[xii] There can also be tax measures targeting specific sectors; however, these may be aimed at discouraging rather than promoting an activity. Some examples are higher taxes on cigarettes and alcohol. These are not tax incentives.
[xiii] In some cases, this is also mentioned as 'tax price of giving' in the literature.
[xiv] Adapted from CAF, 2016
[xv] This is of course based on the assumption that the entire amount donated is eligible for deduction. If instead only 50 percent of the amount donated is eligible for donation, then the amount deducted will be INR 5, instead of INR 10.
[xvi] Nerd Wallet, 2020
[xvii] If instead the credit rate is 50 per cent of the amount donated, then tax payable reduces from INR 30 to INR 25.
[xviii] Also referred to as 'grossed-up donations' in the literature.
[xix] The Gift-Aid tax incentives scheme in the UK is an example of the hybrid form of tax incentives. See Annex B for details.
[xx] In the literature this is often referred to as the 'rebate' element
[xxi] Scharf and Smith, 2015.
[xxii] As in the case of the UK's Gift Aid scheme
[xxiii] In the literature this is also referred to as 'ceiling'.
[xxiv] CAPS, 2020
[xxv] CAF, 2016 a.
[xxvi] CAPS, 2020

[xxvii] Toynbee P, 2012.
[xxviii] CAF, 2016
[xxix] Only negative price elasticities are of importance as positive elasticity implies that decreases in the price of giving reduce philanthropic giving, i.e., they do not follow the expected logic.
[xxx] Since the extent of the benefit from tax incentives also depends on the tax structure of the country, the tax structures of each of the 12 countries were also studied. The findings have been presented in Annex C
[xxxi] For exact details about the rate and ceiling, please see Annex D
[xxxii] For further details about Gift Aid and the tax incentives on it, please see Annex B
[xxxiii] Park and Jeon, 2017
[xxxiv] In certain cases, the deduction allowed is less than 100%. For instance, an individual can deduct 80% of the value of her/his donation from the income tax when donating to the National Cultural Programme (*Pronac*), which allows projects approved by the Ministry of Culture. (Liu, 2019)
[xxxv] These are for charities dedicated to people living in extreme poverty, and charities dedicated to the distribution of free meals.
[xxxvi] This is the overall ceiling of donating to all charities, but the ceilings are lower for donations to different types of charitable organisations.
[xxxvii]Haq, 2018
[xxxviii] CAF, 2016 a and b
[xxxix] CAPS, 2020
[xl] Ibid.
[xli] Godley, 2009; Davies, Rhodri, 2014
[xlii] UNDP, 2015; Johnson and Saich, 2017
[xliii] For detail finding on corporate income tax, please see Annex E
[xliv] Hartnell, Caroline and Andrew Milner, 2018b
[xlv] For instance, in the case of South Africa, if a donor donates or bequeaths R250,000 to an approved PBO, the value of the estate on which estate duty is payable (at 20%) would be reduced by this amount. See Nedbank, 2012
[xlvi] India has a gift tax but no incentive on it.
[xlvii] Islam and Zayed, 2018
[xlviii] SARS, 2015
[xlix] Islam and Zayed, 2018
[l] Ibid.
[li] Tan, 2018; CAPS, 2018; CAPS, 2020
[lii] Hart and Pickering, 2016
[liii] Johnson, 2018 b
[liv] Adelman, Carol, Yulya Spantchak & Hudson Institute. 2013 a, b; CAF, 2016; Johnson, 2018 a
[lv] Johnson, and Saich, 2017

[lvi] To certain specific activities in a trans frontier area involving Mozambique and Swaziland as well as South Africa.
[lvii] Nexus, McDermott Will & Emery and Charities Aid Foundation, 2014
[lviii] For details of the changes, please see Annex G
[lix] For a country-wise detail of major changes in last 10 years, please refer to Annex H
[lx] In India this applies mainly for CIT.
[lxi] Agrawal, 1989
[lxii] For details about CSR, please see Annex I
[lxiii] Bakija, J. and Haim, B,. 2011.
[lxiv] Clotfelter, C., 2002.
[lxv] Cut-off taken on the basis of elasticity ranges found in the literature, which can sometimes be higher than 9.
[lxvi] Korean Labor and Income Panel Study
[lxvii] The survey, Panel Study of Income Dynamics (PSID), collects information on income, wealth as well as charitable giving by households.
[lxviii] Backus and Grant, 2019
[lxix] Fack and Landais, 2012
[lxx] Also known as "*Echantillon lourd*"
[lxxi] And with a sample of 45,000-55,000 taxpayers each year
[lxxii] Fack and Landais, 2010
[lxxiii] Korean Labor and Income Panel Study data
[lxxiv] Which surveys about 5,000 individuals and households
[lxxv] Kwak, 2012
[lxxvi] Park and Jeon, 2017
[lxxvii] Such that either the deduction currently claimed back by higher-tax rate-paying donors is given to charities or the deduction element is abolished, and, in its place, charities can reclaim a larger rate of tax relief than they do currently.
[lxxviii] I.e., the amount given by donors ***plus*** the amount of tax relief they can reclaim.
[lxxix] Based on an online survey of 3,000-odd donors. This represents a sub-sample of respondents as some were left out of the initial sample. For details see Scharf, K. & S. Smith, 2009a.
[lxxx] Donors comprise basic-rate taxpayers as well as higher-rate taxpayers (and among these, both, those who claim, and those who do not).
[lxxxi] Scharf, K. & S. Smith, 2009a; Scharf, K. & S. Smith, 2009b
[lxxxii] Match elasticity measures how philanthropic giving responds to changes in the amount of tax relief that charities can reclaim.
[lxxxiii] Deduction elasticity (also known as rebate elasticity) measures how donations respond to changes in the amount of tax relief that higher-rate donors can claim.
[lxxxiv] One possible explanation for why total contributions respond more to changes in the match than to the rebate may be because donors do not always adjust their donations in

response to these changes. This may be because it involves some small 'effort costs' of processing changes in tax incentives and adjusting donations. As a result, unless the benefits derived from tax incentives outweigh these costs, donors do not adjust their donation amount.

[lxxxv] These studies have been clubbed as evidence of low responsiveness (even though the match elasticity in these studies is higher than 1), as the deduction elasticity, which is what is estimated in other countries, therefore making it comparable, is less than 1.

[lxxxvi] Smith, Sarah, 2012b; Scharf, K. & S. Smith, 2015. Several versions of the paper with a similar title (Scharf, K. & S. Smith, 2010a and Scharf, K. & S. Smith, 2010b) are available, however, here we have discussed the one that appears to be latest such study or the final version, i.e., Scharf, K. & S. Smith, 2015.

[lxxxvii] Some commentators (McKenzie, T. and Cathy Pharoah, 2009) point out that care needs to be taken in drawing conclusions from such studies, as they are not based on a general population sample. Besides, the results only predict small benefits for charities for many of the scenarios of change, which points to the fact that it might be prudent to continue with the current system, rather than change it to increase the match element while reducing the rebate element.

[lxxxviii] In the UK, income tax is collected via two systems: pay-as-you-earn (PAYE) and self-assessment (SA). Under the PAYE system, taxpayers do not need to file a tax return as employers calculate their employees' tax liability and withhold income tax. Taxpayers with non-wage sources of income (e.g., self-employment, partnerships, savings, dividends), those who want to claim specific tax benefits (such as charitable donations and contributions to private pension plans) and everyone with income above £100,000 are required to file a self-assessment tax return.

[lxxxix] The self-assessment income tax returns used contain approximately 8-9 million returns per year or more than 75 million observations from the period over 2004-05 to 2012-13.

[xc] Almunia, I. Guceri, B. Lockwood and K. Scharf, 2019-August. While several versions of the paper are available (Almunia, I. Guceri, B. Lockwood and K. Scharf, 2017; Almunia, I. Guceri, B. Lockwood and K. Scharf, 2019-July), we have mentioned the most recent one published in August 2019, as this appears to be the latest version.

[xci] The study also finds that while the intensive-margin price elasticity increases in magnitude with income, the opposite is true for extensive-margin elasticity. The latter finding is surprising as it means that as incomes go up, people stop donating. This could be explained by the fact that some taxpayers making donations choose not to declare their donation — i.e., claim the deduction in their tax return — due to costs associated with reporting a deduction. To account for this kind of under-reporting, the study estimates the cost of declaring donations. This is found to be around GBP 47, amounting to about 10 percent of the median declared donations in the tax data. They also find that eliminating the cost associated with reporting donations would increase the average reported donation by 18 per cent and hence recommend that the tax incentive in the Gift Aid scheme should be

increased.

[xcii] Exact elasticity numbers are not known as the study is not available in the public domain. See GOI, 2001

[xciii] Scharf, K. & S. Smith, 2009, Scharf, K. & S. Smith, 2010; Scharf, K. & S. Smith, 2015; Almunia, I. Guceri, B. Lockwood and K. Scharf, 2019 and Smith, 2012 for large donors. Responsiveness of large donors who reported giving GBP 25,000 and GBP 50,000 is high to the rebate element of Gift Aid, with elasticity of 1.19. This implies that a reduction in the rebate element can have a potentially negative impact on donations made by big donors.

[xciv] Bakija, 2013; Backus and Grant, 2019

[xcv] The study takes a sample of about 10,000 for each of the 50 States, for each year between 1970 and 2007. For details about methodology and data selection, please see: https://web.williams.edu/Economics/wp/Bakija-Tax-Policy-and-Philanthropy-Web-Appendix.pdf)

[xcvi] Bakija, J., 2013

[xcvii] Fack and Landais, 2010

[xcviii] Park and Jeon, 2017

[xcix] Chua, V. C., & Wong, C. M., 1999

[c] Bakija, J. and Haim, B., 2011

[ci] The survey collects information on income, wealth as well as charitable giving by households.

[cii] However, it is likely because the survey data under-represents higher-income groups who contribute a disproportionately higher amount to overall donation, the under-representation of the higher income groups might have induced underestimation of the price elasticity.

[ciii] Meer, J. and Priday, B., 2019

[civ] This is when studies with significantly higher estimated price elasticity are removed.

[cv] Peloza, J and Steel, P., 2005

[cvi] Zycher, B., 2012

[cvii] Duquette, N., 2014

[cviii] The study uses different models with different samples to account for inter-State and intra-State donation and has about 17,000 observations.

[cix] Song, 2013

[cx] The study by Wong, Chua, and Vassoo (1998) is cited in Bekkers, René and Pamala Wiepking, 2011 as well as Koh, A., Swee-Sum Lam and Weina Zhang, 2017

[cxi] See, Koh, A., Swee-Sum Lam and Weina Zhang, 2017

[cxii] Chua, V. C., & Wong, C. M., 1999

[cxiii] Carroll, R. and Joulfaian, D., 2006

[cxiv] Aggarwal, Pawan K., 1989

[cxv] E J Lee, 2015

[cxvi] of about 1,500 individuals

[cxvii] The study looks at various possible influencing factors such as the level of income, tax incentive, attitude, education, age, and religion.

[cxviii] Park & Park, 2004.
[cxix] The Beautiful Foundation, 2016, Giving Korea; The Beautiful Foundation, 2018, Giving Korea
[cxx] CAF India, 2012
[cxxi] CAF India, 2019
[cxxii] IDIS, 2015
[cxxiii] CAF Global Alliance, 2017
[cxxiv] Booth, Caroline, Katrina Leary and Fiona Vallance, 2015
[cxxv] Ibid.
[cxxvi] CAF, 2017; CAF, 2019
[cxxvii] The surveys each year comprise around 1,000 (952 respondents in 2017, 1,001 in 2019) interviews of middle-income adults, completed online, and are said to be representative of the urban population given that the estimated level of internet penetration in South Africa ranges from 40% to 54%.
[cxxviii] Nedbank, 2010; Nedbank, 2012; Nedbank, 2016 and Nedbank, 2019
[cxxix] The sample varies from 400 HNWIs in 2010 to 430 in 2019.
[cxxx] See Nedbank, 2016 and Nedbank, 2019
[cxxxi] Jhunjhunwala, 2013; Godfrey, 2015; Hartnell, 2017
[cxxxii] Sheth and Singhal, 2011
[cxxxiii] Manku, Moyna, 2016
[cxxxiv] Braunerhjelm and Palmberg, 2018
[cxxxv] UBS & The Hauser Institute for Civil Society, 2015, Mexico – From Prosperity to Purpose
[cxxxvi] Chew Hui Min, 2015; Tai, Janice, 2015; Shapiro, R. A., 2018 a
[cxxxvii] Shapiro, R. A., 2018 a
[cxxxviii] Goy, Priscilla, 2016; Ministry of Culture, Community and Youth, 2017
[cxxxix] Ministry of Culture, Community and Youth, 2017
[cxl] Peloza, J and Steel, P., 2005
[cxli] Data is made available by the Internal Revenue Service (IRS) on their website: https://www.irs.gov/statistics
[cxlii] https://www.gov.uk/government/collections/charitable-donations-and-tax-reliefs-statistics
[cxliii] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/832085/Table_12_2.pdf
[cxliv] https://www.gov.uk/government/collections/charitable-donations-and-tax-reliefs-statistics
[cxlv] Some tax data for Brazil and France were translated for this study from Portuguese and French, respectively, to English.
[cxlvi] Brazilian Revenue Service Agency (Receita Federal do Brasil) website
[cxlvii] Based on our conversation with country experts
[cxlviii] The data is available at: https://www.nts.go.kr/eng/resources/resour_31.asp?minfoKey=MINF7520080211223206

[cxlix] Accessed at: https://www.ssb.no/en

[cl] Accessed at: https://data.gov.sg/dataset/income-of-individuals-by-income-type-annual?view_id=dfaa6df6-b71f-4415-92cc-3dc77e7eed41&resource_id=2403315c-93b9-4f65-b97b-8132077037eb

[cli] Accessed at: https://data.gov.sg/dataset/income-of-companies-by-income-type-annual?view_id=96448118-2381-4b08-9c52-cdf2764fd240&resource_id=ec8ed20b-707f-41a6-80d0-1f2be8025261

[clii] https://www.sars.gov.za/About/SATaxSystem/Pages/Tax-Statistics.aspx

[cliii] Republic of South Africa, National Budget, 2011; Republic of South Africa, National Treasury, 2019; and Republic of South Africa, National Treasury, 2020

[cliv] Dylan, 2018

[clv] Rahman, Mahbubur, 2015

[clvi] Rao, K. et al., 2016

[clvii] These are incentives provided for investment in backward areas, special economic zones and for expenditure on research and development.

[clviii] Twenty Seventh Report, Public Accounts Committee (2015)

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Annexes

Annex A: List of Experts Interviewed for This Study

Country	Expert	Affiliation
Bangladesh	Sumaiya Khair	University of Dhaka
	Shahedul Azam	Advocate, Supreme Court of Bangladesh
	Muhammad Naw-shad Zamir	Jurists Chambers
Brazil	Graziela Silva	GIFE Brazil
	Gustavo Bernardino	GIFE Brazil
	Carolina Magosso	GIFE Brazil
	Aline Viotto	GIFE Brazil
	Thiago Spercel and other attorneys	Machado Meyer Advogados
	Marcos Kisil	IDIS, Brazil
China	Huang Ximing	Charity Law Center, Beijing Normal University China Philanthropy Research Institute
France	Laurence de Nervaux	Fondation de France
	Anne Cornilleau	Fondation de France
India	Noshir Dadrawala	Centre for Advancement of Philanthropy, India
	Sanjay Patra	Financial Management Service Foundation
Mexico	Itzia Goyenechea	Centro Mexicano para la Filantropía A.C.
	Lourdes Sanz	Centro Mexicano para la Filantropía A.C.
	Romina Farias	Centro Mexicano para la Filantropía A.C.
Norway		
Singapore		
South Africa	Shelagh Gastrow	Gastrow Consulting
South Korea	Eujin Lee	The Beautiful Foundation
UK	Michael Mapstone	Charities Aid Foundation, UK
	Rhodri Davies	Charities Aid Foundation, UK
USA	Una Osli	Lilly Family School of Philanthropy, Indian Universi-ty, USA
	Sasha Katarina Zarins	Lilly Family School of Philanthropy, Indian Universi-ty, USA
Other Experts	Hanna Surmatz	European Foundation Centre
	Mehvesh Mumtaz Ahmed	Centre for Asian Philanthropy and Society
	Ruth Shapiro	Centre for Asian Philanthropy and Society
	Henry Peter	Geneva Centre for Philanthropy
	Giedre Lideikyte Huber	Geneva Centre for Philanthropy

Annex B: Gift-Aid Scheme in the UK

In this scheme, when a taxpayer in the 20 per cent income tax rate bracket, makes a contribution to a charity, the charity can claim the tax paid on the amount donated. In other words, the donation to charity by the taxpayer is matched by the government with an amount equivalent to the tax paid on the donation by the taxpayer. However, in the case of taxpayers who are in the higher income tax bracket (40% and 45%), they can reclaim the tax paid above the 20 per cent rate, i.e.: a taxpayer in the 45 per cent tax rate bracket can reclaim 25 per cent (45 minus 20), of the tax paid.

Annex C: Findings on the Tax Structure

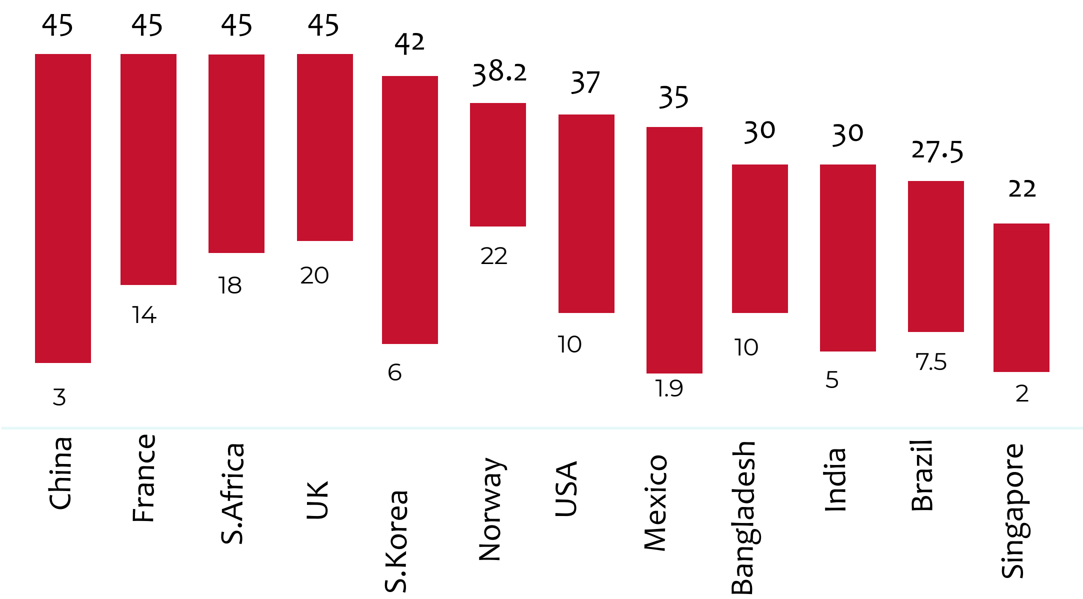
In the 12 countries surveyed in this study, the most important taxes from the perspective of charitable donations are: personal income tax (PIT), and corporate income tax (CIT). Some other taxes on which tax incentives also exist, but have a lower usage, are: estate tax/inheritance tax (IHT), capital gains tax (CGT), and gift tax.

a Personal Income Tax (PIT)

In all the 12 countries, PIT has progressive tax rates whereby taxpayers face a higher marginal tax rate as their income goes up. There are, however, two major differences. First, there is a wide difference between the lowest and the highest rates across countries, as visible in Figure 1. Second, countries differ on the number of rates they have. For example, USA has seven different rates, such as 10, 12, 22, 24, 32, 35, and 37 per cent, while the UK has three rates, namely, 20, 40 and 45 per cent.

India's case is slightly more complex as reflected in the 2020 budget, where tax payers were given the option to choose from two different tax structures. In the earlier system, three rates of 5, 20 and 30 per cent existed. Under the new optional system, there are six rates, specifically, 5, 10, 15, 20, 25 and 30 per cent. However, if a tax payer chooses the second option, they cannot claim any tax incentive, including for any charitable donation.

Figure C.1 : Highest and Lowest rates for Personal Income tax (in %)



Note: India's tax rates are given for the old tax regime under which the tax incentives can still be availed.

The tax rate is one of the determinants of the price of giving, and the higher the tax rate, the lower the price of giving[i]. The highest marginal tax rates are especially important as they are applicable to the large donors who contribute a disproportionately large amount to the overall donation. It follows then, that for a given tax incentive structure, China, France, South Africa and the UK are likely to have the strongest motivation to donate. On the other hand, a country like Singapore, which has a lower level of taxation, is likely to result in a weaker motivation.

b Corporate Income Tax (CIT)

For businesses, the tax incentive for donation is provided on the Corporate Income Tax. The CIT structure also varies among the 12 countries studied. Broadly, the CIT structures can be divided into the following three groups:

- Countries with a single tax rate
- Countries with different tax rates based on income level
- Countries with different tax rates for different sectors

Figure C.2 : Countries with single rate for Corporate Income Tax (in %)

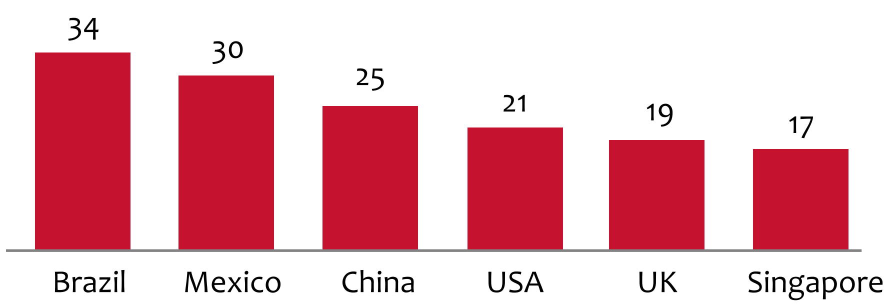


Figure c.3: Countries where the Rate Varies for Sectors (in %)

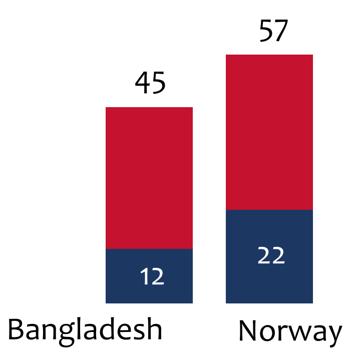
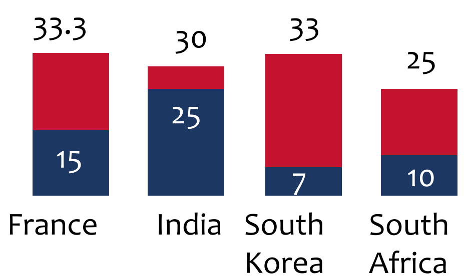


Figure c.4: Countries where the Rate Varies with Income



As opposed to PIT, in which China, France, the UK and South Africa have the highest marginal tax rates; in the case of CIT, it is Brazil and France which have higher rates. Bangladesh and Norway have the highest tax rate but they are only for selected sectors. Consequently, it follows that the motivation for donation, based purely on CIT, is highest in Brazil and France while the UK, USA and Singapore are likely to have a relatively weaker motivation.

c Other Taxes

Inheritance Tax (IHT) or Estate Tax: IHT exists in six out of the 12 countries in our sample. In the USA and the UK, there is a flat rate. In the remaining four countries, the rate varies. In South Africa and South Korea, the rate differs according to the value of inheritance, while in France it alters depending on the relationship between the deceased and the heir. In Brazil, the rates vary across states.

Figure C.5: Countries with Single Rate (in %)

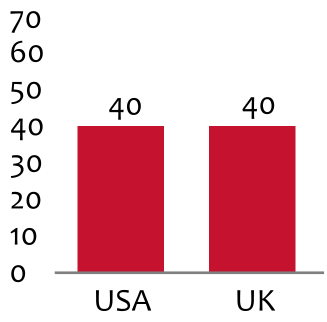
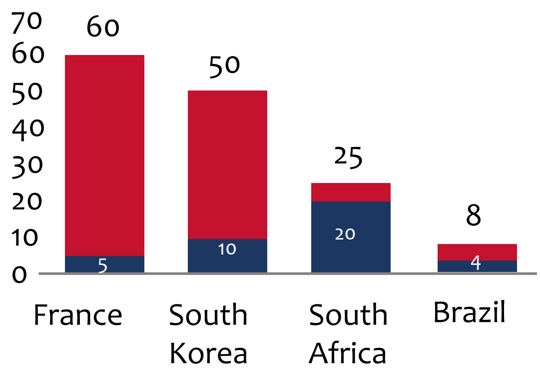


Figure C.6: Countries where the Rate Varies with Value (in %)



Generally, the IHT is complemented by the gift tax in the above countries, so that tax payers cannot evade the IHT by giving away the property before passing away. The rates for the gift tax are the same as those for the IHT in the above six countries. Two countries: Bangladesh and India, do not have any inheritance tax but do have a gift tax. In Bangladesh, the rate varies between 5 to 20 per cent for gifts valued above the threshold limit; while in India, the gift tax rate is the same as the income tax rate for gifts valued above INR 50,000[ii].

Given the higher rates, the UK, USA and France are more likely to induce a higher motivation for giving. In contrast, a very low tax rate as in Brazil does not make it very attractive for people to donate their fortunes.[iii]

The absence of an inheritance tax in countries such as India and China are considered one of the constraints in promoting donations of large estates and inheritances.[iv]

Annex D: Findings on Tax Incentives for Personal Income Tax

Table D.1 lists the three main features of tax incentives in all the 12 countries.

Table D.1 : Tax Incentives Structure on Personal Income Tax

Country	Form	Rate of Incentives	Ceiling
Singapore	Deduction	250%	100% of taxable income[v]
USA	Deduction	100%	60% of taxable income
China	Deduction	100%	30% of taxable income
S. Africa	Deduction	100%	10% of taxable income
Brazil	Deduction	100%[vi]	8% of tax payable[vii]
Mexico	Deduction	100%	7% of previous year's taxable income
Norway	Deduction	100%	NOK 50,000
India	Deduction	50%, 100%	10% of taxable income in most cases, 100% when donating to select government funds and entities
Bangladesh	Deduction	15%	Maximum donation allowed is 30% of taxable income or BDT 15 million, whichever is lower
UK	Deduction and mixed/ grossed up	100%	100 percent of tax payable
France	Credit	66%, 75%	20% of taxable income
S. Korea	Credit	15%, 30%	100% of tax payable

Annex E: Findings on Tax Incentives on Corporate Income Tax

Table E.1 provides the structure of tax incentives in the case of corporate income tax.

Table E.1: Rate of Tax Incentives and Ceiling for Businesses

Country	Form	Rate of Incentives	Ceiling
Singapore	Deduction	250%	100% of taxable income
UK	Deduction	100%	100% of taxable income
S. Korea	Deduction	100%	50% of taxable income
USA	Deduction	100%	30% of taxable income
China	Deduction	100%	12% of taxable income
S. Africa	Deduction	100%	10% of taxable income
Brazil	Deduction	100%[viii]	4% of tax due[ix]
Mexico	Deduction	100%	7% of last year's income
Norway	Deduction	100%	NOK 50,000
India	Deduction	50%, 100%	10% of taxable income, in most cases
Bangladesh	Deduction	10%	Maximum donation allowed is 10% of taxable income or BDT 120 million, which-ever is lower
France	Credit	60%	0.5% of the annual revenue

Annex F: Cross-Border Donation

Out of the 12 countries in this study, only four countries, namely Brazil, China, India, and Singapore, do not have any provisions of tax incentives for cross-border donations. In the remaining eight countries, which allow tax incentives for cross-border donations, the approaches of countries vary widely, but they can be categorised into the following three broad groups:

1. Incentives based on some international agreements or economic region: three countries, namely France, Norway and the UK provide incentives for organisations based in countries within the European Union (EU) and the European Economic Area (EEA). Although, there are additional criteria for eligibility too, such as an organisation being pre-approved by the tax department, as in the case of Norway and the UK.

2. Incentive for particular activities: Mexico and South Korea seem to follow a particular policy goal, where they allow tax incentives for organisations whose work is beneficial for their international relations. South Korea allows donations to organisations that promote Korean interest, while Mexico allows tax incentivised donations to multilateral organisations, in which Mexico is a member.

3. Incentive based on other factors: Bangladesh[x], South Africa and USA do allow tax incentives but in very restrictive manner in terms of the recipient organisation and the base country. In Bangladesh, a donation to a particular organisation based abroad can be eligible for a tax incentive if the government declares that that particular organisation qualifies. South Africa allows tax incentives for cross-border donation only for businesses and that too for specific activities in a trans-frontier area involving Mozambique and Swaziland. USA allows tax incentives for cross-border donations in the case of select organisations in only three countries, namely, Canada, Israel, and Mexico.

Annex G: Changes in Tax Incentive in Response to Covid-19

China[xi]

- The earlier ceiling of 30% for individuals and 12% for businesses has been increased to 100%[xii]
- Businesses:
  - Import of overseas-purchased supplies for donation is free from customs tax.
  - Goods donated through charity organisations, through government authorities, or donated directly to hospitals leading coronavirus containment: these are exempted from VAT, CT, and surcharges.

India

- Setting up of a new fund: The Prime Minister's Citizen Assistance and Relief in Emergency Situations (PM CARES) Fund to which donors (both individuals and businesses) can donate and get 100 per cent tax deduction on the amount donated. Further, the ceiling on deduction of 10 per cent of taxable income is also not applicable for a donation made to the PM CARES Fund.

- Both individuals and corporates, paying concessional tax on the income of FY 2020-21 under the new tax regime, can make donations to the PM CARES Fund up to June 30, 2020 and claim deduction under Section 80G against the income of FY 2019-20, which is otherwise not allowed for any other donations.[xiii]

- Businesses: Donations to the PM Cares Fund can be counted against a company's CSR obligations.

South Africa

- During the limited period of four months, donations made to a Covid-19 disaster relief trust will qualify for a tax deduction in the hands of the donor. The donation will be subject to the limitation of 10 per cent of the taxable income under section 18A. The definition of 'Covid-19 disaster relief trust' includes any trust established for the sole purpose of disaster relief in terms of the Covid-19 pandemic.

- In addition to this, a separate and additional 10 per cent tax deduction would be allowed for donations to the Solidarity Fund. Donations made to such organisations are exempt from the donations tax and also deductible, subject to the base ceiling. Also, taxpayers can deduct up to 20 per cent (10 per cent addition to the base ceiling) of their taxable income in respect of any amount they donate to the Fund. This 20 per cent will, however, only be valid for donations made up to 31 July 2020. Any donations over the ceilingmay be carried forward and deemed to be a donation in the 2021/2022 year of assessment. The donations carried forward will be subject to the base 10 per cent limitation.[xiv]

United States[xv]

- Individuals: For the year 2020, the ceiling of 60 per cent of deduction has been removed, and instead 100 per cent of the adjusted gross income can be deducted. Any additional amount can be carried over for the subsequent 5 years, subject to the 60 per cent ceiling. A tax payer can deduct up to USD 300 for donation even if they do not itemise.

- Businesses: An increase in the ceiling on deductions for charitable contributions for corporations who make cash or certain food inventory contributions in 2020 to 25 per cent of taxable income from 10 per cent earlier, subject to certain restrictions.

Annex H: Major Changes in the Last 10 Years

a Bangladesh

In 2005, tax incentives were re-expanded to include all philanthropic and educational institutions approved by the government.

In 2011, corporate taxpayers became eligible to get a 10 per cent tax deduction for donations made under Corporate Social Responsibility (CSR). The ceiling for deduction was BDT 80 million or 20 per cent of the taxable income, whichever is lower.

In 2014, the upper ceiling of BDT 80 million for deduction by businesses was revised to BDT 120 million.

b Brazil

Brazil has two types of ceilings, an individual ceilingwhich varies by charitable causes and an overall ceiling for all causes combined. In 2012, both types of ceilings were increased, with the new ceiling being 8 per cent of tax payable, as opposed to 6 per cent previously.

In April 2019, the Federal Government reduced the threshold of donations that can be made for cultural projects. As a result of this, the maximum amount that could be donated to one project came down to BRL 1 million from BRL 60 million.

In 2019, the Ministry of Finance announced that all Federal tax incentives will be subject to a 10 per cent cut. It is yet to be ascertained which tax incentives will be affected by this new proposal.

c China

In 2016, two new laws were adopted, namely: The Charity Law and the Law on Administration of Activities of Overseas Non-governmental Organisations (Overseas NGO Law) in Mainland China. These laws brought new regulatory requirements; however, the tax incentives were left unchanged.

d France

France had a ceiling on tax incentives at 0.5 per cent of the turnover, which many smaller companies were frequently able to meet. In 2019, to encourage smaller companies to donate more, an alternative ceiling of € 10,000 was introduced.

In the 2017 budget, major changes were announced related to taxes. The wealth tax was redefined and now is applicable only on property instead of all assets as earlier. This significantly reduces the scope of wealth tax, and hence the incentive to donate wealth. Another change was in the corporate income tax, which is planned to be scaled down to 25 per cent in 2025 from the existing 33.3 per cent in a phased manner. While both of these changes were not directly about tax incentives, they are likely to reduce the overall incentive as the motivation to give also depends on the tax rates.

e India

In 2015, new government schemes were added to the list of schemes, a donation to which is eligible for tax incentives.

In 2017, a tax incentive provision known as 35AC of the Income Tax Act 1961 was withdrawn. This act allowed donors to deduct the full value of their donations against their taxable income when donating to certain priority areas, such as: drinking water projects, home building for the poor, and school building in poor areas.

In the 2020 budget, a new tax regime has been introduced for individual taxpayers. This is optional and has lower income tax rates than the earlier ones. It comes with the proviso that individuals shifting to the new tax regime will no longer be able to avail of most of the tax incentives offered, including those for donations to NPOs/CSOs.

f Norway

The limit on the amount deductible from taxable income has been increased from NOK 12,000 in 2013 to 25,000 in 2016 and further to 40,000 in 2018. It has been proposed that this will increase to NOK 50,000 in the financial year 2020.

g Singapore

Double tax deduction, i.e. the deduction of 200 per cent, was introduced in 2005. Prior to this change, the tax incentive was a single tax deduction, i.e. 100 per cent.

In 2009, following the global financial crisis, the tax deduction for donations to Institutions of a Public Character (IPCs) and other approved institutions was increased from 200 per cent to 250 per cent.

In 2015, a one-off higher tax deduction of 300 per cent was brought in.

The 2.5 times deduction has subsequently been extended further and continues till date.

h South Africa

Over the years, the list of what is categorised as a public benefit activity (PBA) has been progressively broadened.

The maximum amount of such deductible donations during a year of assessment was increased from 5 to 10 per cent for both individuals and companies in the late 2000s.

In 2014, the tax law was amended to allow the carry-forward of donations exceeding the 10 per cent limit in a year. Because of this change, when donations are made in excess of the 10 per cent limit in a particular year, the tax deduction is not permanently lost, as was previously the case prior to this amendment.

i South Korea

In 2014, the form of a tax incentive on PIT was changed from deduction to credit.

For individuals, there are two credit rates. If the donation is up to Won 10,000,000, such donations receive a tax credit of 15 per cent; however, for donations above Won 10,000,000, the tax credit rate is 30 per cent. The threshold of 10,000,000 was introduced in 2019, before which it was 20,000,000 in 2016 and 30,000,000 in 2014. The lowering of the threshold means that benefits to donors have increased over time.

j The UK

In 2010, the income tax reform in the UK raised the top tax rate from 40 to 50 per cent for incomes above £150,000. Subsequently, in 2013, the government lowered the higher tax bracket to 45 per cent.

In 2011, the UK adopted a new definition of charity that resulted in applying UK tax relief to certain charities and other organisations in the EU, Norway, and Iceland. As per the rules, in order to be eligible for deductible donations, these charities must meet the new definition of charity under the new law.

In 2012–13, a new provision for estate tax was introduced. According to this if more than 10 per cent of a deceased individual's estate is left to charity, a reduced tax rate of 36 per cent is applicable as opposed to the standard rate of 40 per cent. However, from April 2017, an additional threshold in estate tax or Inheritance Tax was introduced for a residence passed on death to a direct descendant, such as children (including stepchildren), or grandchildren. The introduction of the additional threshold in effect raises the threshold for IHT from GBP 3,25,000 in 2017 to GBP 1 million by 2020.

Since 2012–13, tax incentives are offered to people donating works of art and historical objects of national importance.

k The USA

In 2017, USA passed a major new tax law known as 'Tax Cuts and Jobs Act', which has many changes that are relevant for tax incentives. These include:

- Reduction in top marginal tax rates for individuals from 39.5 per cent to 37 per cent
- Reduction in corporate tax rates from 35 per cent to 21 per cent
- Increase in the standard deductions for individuals from USD 6,350 to USD 12,000 for single filers, and from USD 12,700 to USD 24,000 for joint filers
- Increase in deduction limit from 50 per cent to 60 per cent of adjusted gross income for individuals
- Increase in the exemption limit for estate duty from USD 5.5 million to USD 11 million

Annex I: Corporate Social Responsibility (CSR) in India

In 2013, India made CSR mandatory, becoming the first country in the world to make such a move. Enacted in April 2014, India's Companies Act mandates that businesses with a revenue of INR 10 billion or more, and with more than INR 50 million as net profit for a year donate a minimum 2 per cent of their average net profit in three consecutive years on CSR activities. To implement CSR initiatives, often companies partner with or set up their own not-for-profit or charitable organisations, as permissible under the rules. While expenditure incurred on CSR activities is not allowed as a deduction for tax purposes under the Income Tax Act, for contributions made to any charitable institutions, tax deduction may be claimed from the total income subject to certain conditions.[xvi]

Endnotes to Annexure

[i] When incentive is given in the form of deduction

[ii] In all these cases, gifts from certain type of relations are exempted from gift tax.

[iii] Lewis and Magalhaes, 2017; Hartnell and Milner, 2018

[iv] Xiaoming, 2013; Burton, 2015

[v] If the amount exceeds the taxable income in that year, a surplus deduction can be carried over for five years.

[vi] In certain cases, the deduction allowed is less than 100%. For instance, individuals can deduct 80% of the value of her/his donation from their income tax, when donating to the National Cultural Programme (Pronac), which allows projects approved by the Ministry of Culture. See, Liu, Lily (2019)

[vii] This is the overall ceiling on donating to various causes, but the ceilings are different for different causes. While for donating to cultural activities the ceiling is 6%, that on cancer related is 0.5%.

[viii] In certain cases, the deduction allowed is less than 100%. For instance, companies can deduct 40% of the value of its donation from its income tax, when donating to the National Cultural Programme (Pronac), which allows projects approved by the Ministry of Culture. See, (Liu, 2019)

[ix] This is the overall ceiling on donating to various causes, but the ceilings are different for different causes. While for donating to certain cultural activities the ceiling is 4%, for funds used to support public policies for children and youth, it is 1% of the income tax due. See (Liu, 2019)

[x] Only if such charities operating abroad are declared eligible by the Government (See, CAF. 2016. Donation States)

[xi] https://home.kpmg/us/en/home/insights/2020/02/tnf-china-tax-challenges-and-policy-options-coronavirus-epidemic0.html

[xii] https://www.internationaltaxreview.com/article/b1kjjn20mxcfyj/china-announces-tax-relief-measures-to-tackle-coronavirus-disruption

[xiii] Anand, 2020; Jagannath, 2020

[xiv] KPMG, 2020

[xv] Based on: https://home.kpmg/xx/en/home/insights/2020/04/united-states-tax-developments-in-response-to-covid-19.html; https://www.forbes.com/sites/morgansimon/2020/04/08/now-is-a-great-time-to-give-new-charitable-rules-incentivize-generosity-during-covid-19/#7ca6754c66d2

[xvi] PricewaterhouseCoopers India, 2020

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