Taxation and Philanthropy

POLICY BRIEF

OECD
BETTER POLICIES FOR BETTER LIVES

UNIVERSITÉ DE GENÈVE
GENEVA CENTRE FOR PHILANTHROPY

"A key issue for policy makers is how to design tax rules that support the important work of the philanthropic sector, while ensuring that these rules prevent abuse, do not disadvantage for-profit businesses, and are aligned with the public interest."

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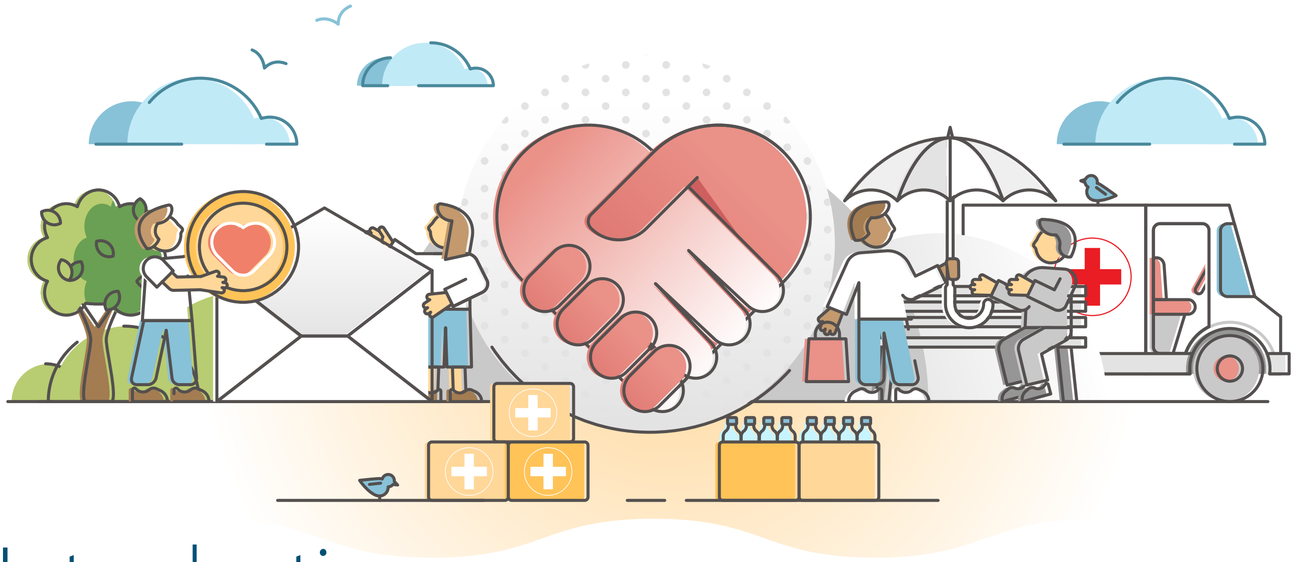


Introduction

Philanthropy plays an important role in most countries, providing private support to a range of activities for the public good. The work of philanthropic organisations is especially evident in moments of crisis and hardship. Natural disasters, national emergencies or, most recently, the COVID-19 pandemic, are high profile examples of challenges in which philanthropy can mobilise resources to people and places in need.

While it is difficult to assess the size of the philanthropic sector across countries, the sector's economic contribution is significant. Cross-country studies have suggested that the non-profit sector typically contributes in the order of 4.5% to 5% of GDP, or even higher.[1] In the United States, for example, the non-profit sector is estimated to have contributed 5.5% of GDP, or USD 1.185 trillion, in 2019 (US Bureau of Statistics, 2020).

Given the important role played by the philanthropic sector, many countries provide some form of preferential tax treatment for philanthropy. Entities with a philanthropic status typically receive tax relief directly in relation to their activities, while both individual and corporate donors to these entities are often able to receive tax incentives for philanthropic giving. The size of the sector and the large levels of government support make the taxation of philanthropy an important area of study that has rarely been given the focus that its economic significance deserves.

Tax concessions for philanthropy can efficiently increase philanthropic activity in the areas prioritised by government and raise overall social welfare. However, poorly designed systems can have less desirable impacts such as creating unfair competition between philanthropic entities engaging in commercial activities and for-profit businesses, or by giving a small number of wealthy donors disproportionate influence over how public resources are allocated. In particular, this latter concern has been highlighted by the rise of a number of very large private philanthropic foundations established by ultra-high-net-worth individuals, who are able to channel substantial resources into the priorities of their choice, while significantly minimising their tax liabilities. Therefore, a key issue for policy makers is how to design tax rules that support the important work of the philanthropic sector, while ensuring that these rules prevent abuse, do not disadvantage for-profit businesses, and are aligned with the public interest.

The OECD's *Taxation and Philanthropy* report, produced in collaboration with the Geneva Centre for Philanthropy, provides the most detailed and comprehensive cross-country review of the tax treatment of the philanthropic sector to have been undertaken. After examining the policy arguments for and against the provision of tax support for philanthropy, the report reviews the tax treatment of philanthropic entities and philanthropic giving in 40 OECD member and participating countries, in both a domestic and cross-border context. Drawing on this analysis, the report also highlights a range of potential tax policy options for countries to consider. This policy brief provides a summary of the key findings from the report.

1. In 2002, the Johns Hopkins University Comparative Non-profit Sector Project (JHU Project) surveyed 35 countries and estimated the sector's economic contribution to be in the order of USD 1.3 trillion or 5.1% of GDP. In 2013, the JHU Project surveyed 15 countries and estimated the sector's economic contribution to be 4.5% of GDP (Salamon et al., 2003, 2013). Note that the non-profit sector is larger than the philanthropic sector, where pursuit of an approved 'worthy purpose' for the public benefit is typically also required.

Why provide preferential tax treatment for philanthropy?

There is no single generally accepted rationale for the preferential tax treatment of philanthropy. Economic theory, for example, provides a rationale for preferential tax treatment of philanthropy where there is under-provision of a public good or where there are positive externalities associated with the philanthropic activity. In this regard, tax concessions will be justified where they result in a larger increase in social welfare than that which government could have otherwise achieved through direct spending. Additional arguments include that the surplus of a philanthropic entity is different in nature to income (and therefore beyond the scope of the income tax base), and that philanthropic giving strengthens civil society and so should be encouraged.

While most governments have viewed the above arguments as persuasive, a number of arguments are also commonly raised either against the provision of tax preferences for philanthropy, or to limit their extent. The cost of providing concessions is often highlighted as a concern. By reducing government revenue, tax concessions for philanthropy reduce the fiscal resources available to governments and will likely require other taxpayers to bear an increased tax burden (or alternatively result in less government expenditure on other policy priorities). Another argument is that taxpayers are often relatively unresponsive to tax incentives for philanthropic giving, suggesting they may not be "treasury efficient" in the sense that they increase giving by less than the tax revenue foregone. While grants could be more effective when tax incentives are not "treasury efficient," concerns of government grants crowding out private donations may in some instances still justify the use of tax incentives, especially if the benefit to society of the activity funded by the giving is sufficiently large. A concern regarding exemption of commercial income of philanthropic entities is that this may create an unfair competitive advantage for philanthropic entities over for-profit businesses.

Two related concerns that are raised regarding tax incentives for giving are that they may be regressive and undemocratic. Tax incentives may be regressive in that higher income taxpayers receive a greater benefit from a larger tax incentive than lower income taxpayers. This can be the case in both aggregate terms, but also in proportionate terms as a tax deduction will provide a greater benefit to higher income taxpayers if they are subject to higher marginal tax rates than lower income taxpayers. The democratic argument highlights the concern that, as a tax incentive effectively reallocates tax revenue towards the favoured philanthropic entity, higher income taxpayers – who have both the capacity and incentive to make greater donations – benefit from a disproportionate influence in determining how public resources are allocated. This may be of particular concern where the priorities of donors are not consistent with those of society in general. Both these concerns are heightened in the context of the significant increases in inequality experienced in many countries in recent years, and a growing number of ultra-high-net-worth individuals and large private philanthropic foundations.

How do countries' tax systems support philanthropy?

Irrespective of the arguments for and against, most countries do provide tax incentives for giving, and in general provide exemptions from some taxes for philanthropic entities. For an entity to receive philanthropic status and the associated tax benefits, it typically must meet a number of specific requirements, including that it must: (i) be "not-for-profit"; (ii) have a "worthy purpose"; and (iii) be for the "public benefit". In addition, the entity must satisfy a range of administrative and oversight requirements. Not-for-profit requirements prevent any form of profit distribution. Worthy purpose requirements specify the types of activities eligible for support. As seen in Figure 1, the categories of worthy purpose can be diverse, but the most common include welfare, education, scientific research, and healthcare. Public benefit requirements typically stipulate that the benefit must be open to a sufficiently broad section of the public.

Countries typically follow one of three broad approaches in determining the appropriate administrative and oversight body for philanthropic entities.

The most common approaches include:

1. The accreditation and oversight responsibility is assigned to **the tax administration**.
2. The accreditation and oversight responsibility is assigned to **both the tax administration and a competent authority** such as another government department or an expert commission.
3. The accreditation and oversight responsibility **lies entirely with another department and not the tax administration.**

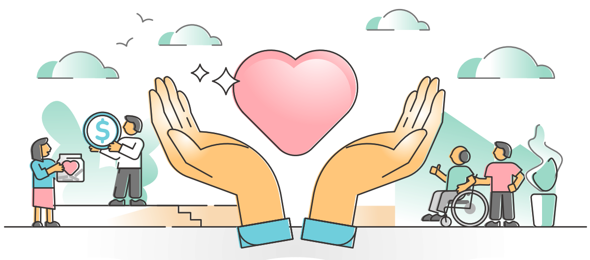
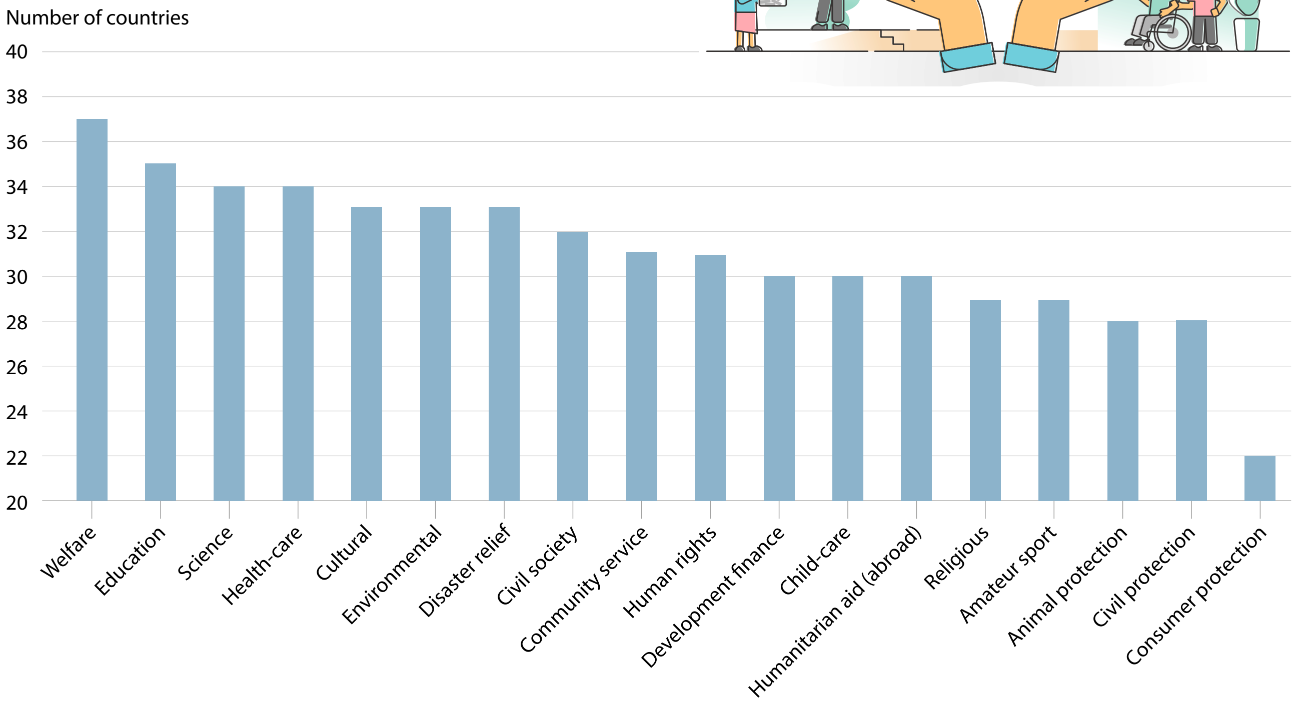


Figure 1. **MOST COMMON WORTHY PURPOSE CATEGORIES**



Source: OECD (2020), *Taxation and Philanthropy*, OECD Tax Policy Studies, No. 27, OECD Publishing, Paris, https://doi.org/10.1787/df434a77-en.

TAX INCENTIVES FOR PHILANTHROPIC ENTITIES

Most countries surveyed provide concessionary income tax treatment for approved philanthropic entities. The report identifies two approaches commonly taken: the first is to exempt all (or specific) income, and the second is to consider all forms of income taxable, but to allow the entity to reduce its taxable income through current or future reinvestments towards the fulfilment of its worthy purpose. Countries following the first approach generally exclude non-commercial income (gifts or grants received) from the tax base. Approaches to dealing with commercial activities and the income generated from those activities, diverge. A common approach is to exempt commercial income that is related to the worthy purpose and tax unrelated commercial income. A number of countries also provide preferential value-added tax (VAT) treatment to philanthropic entities, and concessions regarding various other taxes (e.g. property taxes).

TAX INCENTIVES FOR PHILANTHROPIC GIVING

All of the countries surveyed provide some form of tax incentive to encourage philanthropic giving to eligible entities, although the generosity and design of the incentives vary. Table 1 shows that in the majority of countries surveyed in the report, donations are deductible from an individual's taxable income. Other countries offer tax credits instead and, in some cases, the donations of individuals are matched by government or facilitated through an allocation scheme (see Box 1). Furthermore, as long as there is a sufficient nexus with earning income, most countries consider corporate sponsoring of philanthropic entities a deductible business expense. Additionally, most countries that levy inheritance or estate taxes generally provide preferential tax relief for philanthropic bequests. Restrictions on the size of tax incentives for giving are common and vary across countries. Some countries limit the size of the tax incentive by adopting a cap of a fixed amount, while others adopt caps based on a percentage of the donor's income or tax liability, and some adopt a combination of both. To limit the cost of matching schemes, countries set the rate at which the relief may be claimed by the receiving philanthropic entity. Lastly, the majority of countries that incentivise cash donations of individuals also incentivise non-monetary donations.

LIMITED TAX SUPPORT FOR CROSS-BORDER PHILANTHROPY

Member States of the European Union (EU) are required by EU law to provide a degree of reciprocity in the tax treatment of cross-border giving and of philanthropic entities that operate across borders, subject to a 'comparability' assessment. Beyond the EU, there is little tax support provided by countries for cross-border giving, and most countries do not provide tax relief for foreign philanthropic entities operating domestically. However, many countries do allow domestic entities to operate abroad without losing their tax-favoured status, though they are potentially subject to additional restrictions or reporting requirements.

Box 1. ALLOCATION SCHEMES

A small number of countries apply allocation schemes, where taxpayers can designate a fixed percentage or amount of their income tax to a philanthropic entity directly through their tax return. Allocation schemes can increase the visibility of the philanthropic sector and are intended to help foster a culture of giving in a country where there is no such culture. However, allocation schemes do not provide a tax incentive to give and so are unlikely to have a significant impact on the level of giving. As such, the use of tax incentives should generally be preferred where the aim is to increase the level of giving.

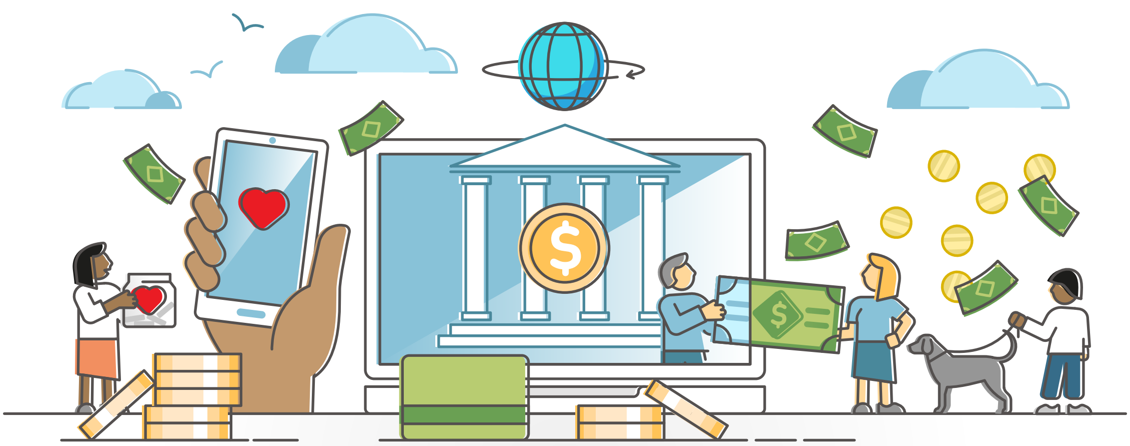
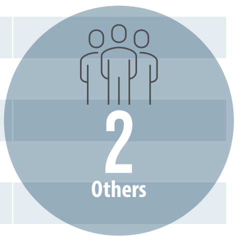


Table 1. **TAX INCENTIVES FOR DONATIONS BY INDIVIDUALS**

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



Note: 1. The tax credit is wholly refundable. 2. Some states have tax credits for certain donations. 3. Donations of shares and immovable property to qualifying philanthropic entities are not subject to taxes.

Source: OECD (2020), *Taxation and Philanthropy*, OECD Tax Policy Studies, No. 27, OECD Publishing, Paris, https://doi.org/10.1787/df434a77-en.

What reform options are available to policy makers?

The *Taxation and Philanthropy* report highlights a number of key issues that countries face in the design of their tax rules for philanthropic entities and philanthropic giving. First, it is important that countries ensure that the design of their tax incentives for philanthropic giving are consistent with their underlying policy goals. Second, there is scope in many countries to reassess the design of tax concessions for philanthropic entities. More broadly, countries should also look to both reduce the complexity and improve the oversight of their concessionary regimes for philanthropic entities and philanthropic giving. Finally, there may be merit in countries reassessing the restrictions that are typically imposed on cross-border philanthropic activity.

THE DESIGN OF TAX INCENTIVES FOR PHILANTHROPIC GIVING SHOULD BALANCE POLICY TRADE-OFFS

Designing tax incentives for philanthropic giving is complicated due to the need to balance a range of potentially conflicting policy goals. While the overall aim of a tax incentive is to maximise social welfare, determining how to achieve this is challenging and requires various value judgements to be made. Broadly speaking, trade-offs must be made between incentivising giving, limiting fiscal cost, and managing both the distributional and democratic impacts of the tax incentive. A range of design choices will need to be considered when pursuing these goals.

Choice of eligibility criteria

Most countries allow tax incentives for a broad range of worthy purposes, as can be seen in Figure 1 above. The choice of eligibility criteria offers policy makers a means of targeting the benefit of tax concessions. Narrower eligibility conditions will ensure tax concessions are more tightly targeted to activities that align with the priorities of policy makers, but may result in a lower level of total giving. In contrast, wider eligibility conditions will ensure that the philanthropic priorities of a wider range of taxpayers are eligible for concessionary treatment, which will likely lead to increased giving, but a higher fiscal cost.

Countries that are particularly concerned about restricting support to those areas prioritised by government may wish to consider limiting the breadth of worthy purpose categories. For example, by restricting eligibility to activities that directly support those suffering from poverty, illness and disability. Ensuring that tax incentives are limited to a narrow scope of activities is likely to be a more effective means of targeting support than by imposing fiscal caps to their incentive. Conversely, if countries wish to have wider eligibility conditions, that will increase the importance of fiscal caps.

Tax deductions vs tax credits

As noted above and highlighted in Figure 2, the most popular tax incentive for philanthropic giving across the countries examined in the report is a tax deduction. However, for countries with a progressive personal income tax (PIT) system, a deduction will disproportionately benefit higher income taxpayers because the benefit of the deduction increases with the marginal tax rate of the giver. This may create distributional concerns in light of the broader goals of progressivity and redistribution associated with the progressive PIT systems adopted in most countries. Furthermore, it may also create concern regarding the increased degree of influence that high-income taxpayers are given in determining how public resources (i.e., the foregone revenue associated with the tax expenditure) are allocated. For example, richer households may potentially have different preferences than poorer households in terms of the types of philanthropic activities they may wish to support. As a result, there may be a concern that this provides richer households with disproportionate influence and is not consistent with democratic principles. At the same time, providing a greater tax incentive to richer taxpayers is likely to result in greater increases in aggregate philanthropic giving both because the bulk of giving comes from higher income as compared to lower income taxpayers and they are also more responsive to tax incentives.

In contrast, countries particularly concerned about distributional impacts, may wish to consider moving to a tax credit. A tax credit will ensure that the same proportionate tax benefit is provided to taxpayers irrespective of their income level. Providing a credit that is lower than the deduction currently available to top-PIT rate taxpayers may reduce the incentive to give among high-income earners. Alternatively, matching the top-rate may come at some additional fiscal cost. At a minimum, countries providing tax deductions should reassess the merits of maintaining the deduction to ensure that the decision to maintain the deduction is based on a clear policy decision to provide a greater incentive to higher income taxpayers.

Fixed vs percentage-based fiscal caps

Restrictions on the size of tax incentives are common in light of countries' desire to restrict the fiscal cost of their tax incentives for giving. Some countries adopt caps on the size of the tax incentive set equal to a specific fixed currency amount, while others adopt caps based on a percentage of the donor's income or tax liability, and some adopt a combination of both.

The adoption of such caps, however, does have an impact on both the degree of the incentive provided by the concession and its distributional impact. A fixed cap will result in no taxpayers above the cap receiving any additional incentive to give on their marginal earnings, which can be expected to reduce the amount of giving. Such a cap may improve distributional outcomes as it will ensure that the maximum potential aggregate benefit available to both poor and rich households will be the same. It will also cap the influence of high-income taxpayers in the determination of how public resources are allocated.

A percentage-based cap will instead equalise the maximum potential proportional benefit available to both poor and rich households. Richer households will still benefit more in aggregate terms, but not in proportional terms. For a given fiscal cost, this may result in a greater increase in giving than a fixed cap due to the greater responsiveness of higher income taxpayers. As such, if a country aims to maximise total giving for a given fiscal cost then it should consider applying a percentage based cap, rather than a fixed cap. However, if distributional concerns are of high importance then consideration may be given to applying a fixed cap. An alternative option in balancing these goals could be to combine a percentage-based cap together with a generous fixed cap. Such an approach may be have particular merit for countries concerned about the disproportionate influence of high-income taxpayers.

CAREFULLY DEFINE THE LIMITS OF THE PREFERENTIAL TAX TREATMENT OF PHILANTHROPIC ENTITIES

A common approach of countries that provide tax concessions to philanthropic entities, is to exempt all or specific income of these entities. Furthermore, a number of countries exempt philanthropic entities from having to collect VAT on certain (or all) supplies. This section discusses the challenges that may arise as a result of these concessions and provides policy options that may reduce complexities and distortions as well as increase compliance.

Commercial income of philanthropic entities

Philanthropic entities may have commercial and non-commercial income, but the distinction is not always clear and varies across countries. Generally, non-commercial income refers to income from philanthropic gifts and government grants, or grants from supporting funds. Broadly, commercial income is income derived from the supply of goods or services in return for some form of payment.

If there are no restrictions on the commercial activities a philanthropic entity can engage in and all of the income from its activities are fully tax exempt, this may give rise to competitive neutrality and revenue loss concerns. To avoid such concerns, the report identifies a number of policy options available to governments. A common approach is to only exempt income generated from commercial activities that are related to the philanthropic entity's worthy purpose. While many countries adopt this approach, the definitions of related and unrelated commercial income vary widely across countries and such an approach often results in significant complexity.

Other approaches are less complex but may not fully exclude unrelated commercial income from the preferential tax treatment. One approach is to only exempt income generated from commercial activities where it is reinvested towards the entity's worthy purpose in a timely fashion. Another approach may be to limit the size of the philanthropic entity's expansion into commercial activities through a threshold above which income from commercial activities is taxed.

In light of competitive neutrality concerns, countries should reassess the merits of providing tax exemptions for the commercial income of philanthropic entities, at least in so far as this income is unrelated to the entity's worthy purpose.

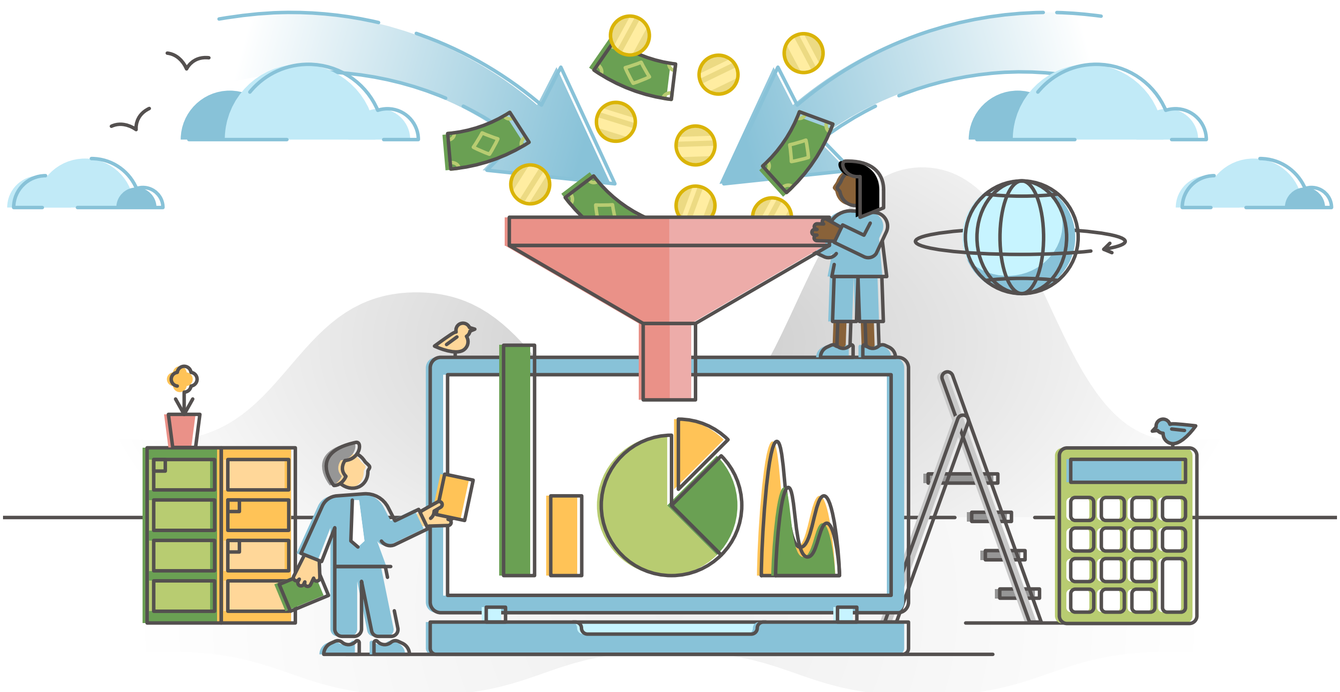
Value-added tax

Exempting philanthropic entities, or their activities from VAT may also lead to competitive neutrality concerns between for-profit and philanthropic entities. Furthermore, policies intended to refund parts of the tax paid on inputs tend to be very complex. Therefore, countries that currently provide an exemption should consider fully subjecting philanthropic entities to the VAT. As is typically the case with for-profit businesses, a registration threshold should be applied to exclude small philanthropic entities for whom compliance costs are likely to be disproportionate relative to the VAT revenue collected.

REDUCE COMPLEXITY

Another challenge for designing tax incentives for philanthropy is to find a balance between tailoring policies to the wide range of philanthropic activities and limiting the complexity of the tax system. The report identifies three key areas that could benefit from reducing the complexity of the tax rules in a number of countries: (i) by aligning eligibility requirements for different kinds of tax incentives; (ii) by simplifying the tax rules for non-monetary donations; and (iii) by facilitating payroll giving.

Overly complex tax rules risk increasing compliance costs and uncertainty. This, in turn, can lead to both accidental and deliberate tax compliance issues.



Complex tax rules and the related compliance costs may also disproportionately affect low-income donors and smaller philanthropic entities. Therefore, limiting complexity where possible has the potential to make tax incentives for philanthropy more efficient and less regressive, and to increase overall compliance.

Eligibility requirements for different kinds of tax incentives

The report finds that, in most countries, entities with a philanthropic status typically receive tax relief directly in relation to their activities, while both individual and corporate donors to these entities are often able to receive tax incentives for philanthropic giving. In some countries, the tax rules applying to these two different kinds of tax incentives differ. To reduce complexity, countries should consider applying the same eligibility tests for both kinds of incentives.

Non-monetary donations

A philanthropic donation can be in cash or non-cash form, with the latter frequently referred to as non-monetary or in-kind donations. Non-monetary donations may include: real and intellectual property; corporate stock or shares; trading stock; cultural assets; other personal property; services (volunteering); or in some cases even blood and organ donations. The valuation of a non-monetary donation determines the value of the tax incentive for the donor, and thus creates an incentive for donors to inflate the value of their donation. Therefore, valuation rules may require a professional assessment (e.g., for the valuation of artwork), which increases the compliance costs for whoever is responsible for the valuation.

In light of the complexities around valuation and the associated compliance costs, imposing a minimum value threshold for a non-monetary donation to receive concessionary tax treatment, may be warranted. Furthermore, countries may consider reassessing the kinds of non-monetary donations eligible for the tax incentives. When considering what kind of non-monetary donations to incentivise, the benefit resulting from the donation being non-monetary (as opposed to cash), should be weighed against the additional cost associated with the required valuation process and risk of abuse.

Payroll giving

A number of countries have introduced payroll giving schemes. These schemes enable employees to elect to have donations to approved philanthropic entities deducted from their income by their employer, and for them to receive the relevant tax incentive (deduction or tax credit), within an extended pay-as-you-earn withholding tax system. Effectively, they shift the compliance costs associated with giving from employees to employers – who may be able to more efficiently bear this compliance burden. This may be the case, where the donor wishes to make a regular ongoing commitment to giving to a specific philanthropic entity. Such schemes may, in some circumstances, be an administratively efficient way to increase the effectiveness of a tax incentive for giving.

IMPROVE OVERSIGHT

Improving oversight of the philanthropic sector is important for protecting public trust in the sector as well as ensuring that the tax concessions used to subsidise philanthropy are not abused through tax avoidance and evasion schemes. This section provides an overview of policy options that may help protect public trust, increase compliance, limit loopholes and ultimately improve oversight of the philanthropic sector and its activities.

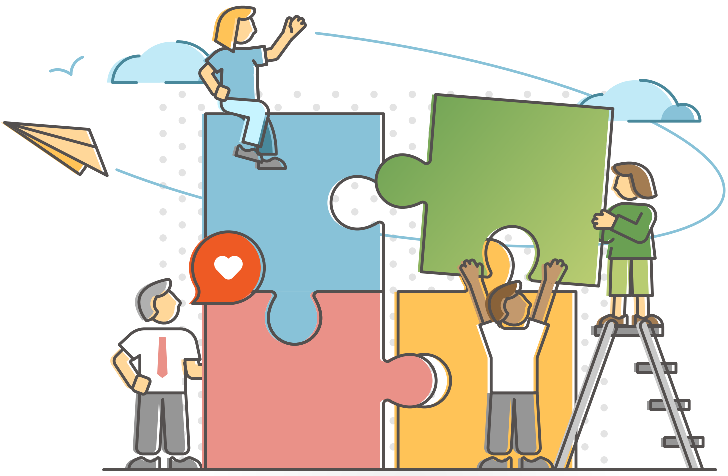
Publicly available register of approved philanthropic entities

Public trust and confidence in the philanthropic sector is a key priority for government as well as the sector itself. A key way in which many countries improve transparency, certainty and accountability regarding what entities are eligible for receiving tax concessions as well as tax incentivised gifts, is to make publicly available a register of approved philanthropic entities. Countries that do not currently do so, should consider adopting such a publicly available register of approved philanthropic entities.

Such a policy may also help combat schemes in which fraudulent entities pretend to be eligible philanthropic entities in order to receive donations. Having a publicly available register would enable donors to cross-reference the information. Furthermore, a publicly available register invites public scrutiny, which may help to increase compliance and improve the detection of abuse.

Annual reporting requirements

A key challenge for oversight bodies is to be able to collect the information needed to evaluate whether the philanthropic entities are complying with existing regulations and meeting the necessary requirements of organisations benefitting from preferential tax status. Imposing annual reporting requirements on philanthropic entities could improve oversight. This is because the oversight bodies are able to use the annual reports to keep track of philanthropic entities even after they



have been granted preferential tax status. Furthermore, annual reports also have the potential to increase public trust, especially if some of the information in the report is made public. As annual reporting requirements may increase compliance costs, countries may wish to consider the adoption of a *de minimis* amount of revenue above which the reporting requirements would apply.

Combined oversight approach

The range of activities that philanthropic entities may engage in is typically very broad and it may be challenging for a tax administration to properly assess and oversee entities that are involved in fields that are not within the expertise of the tax administration. Additionally, it may be difficult for a revenue administration to justify the allocation of significant resources to the oversight of a largely untaxed philanthropic sector, resulting in a degree of under-supervision. To both improve the level of oversight in areas that require specific expertise, and alleviate the workload on the tax administration, countries should consider the adoption of a combined oversight approach. In a combined oversight approach, the tax administration and a competent ministry or commission with experts in a field related to the worthy purpose, would oversee the philanthropic entity and its activities.

Tax avoidance and evasion schemes

Abuse of incentives for philanthropic giving could deprive governments of much-needed revenues and risks undermining public trust in the government and the philanthropic sector. To reduce the risk of tax abuse, countries should consider a number of policy options:

- Maintaining a database of suspicious activities related to tax concessions for philanthropy.
- Exchanging good practices as well as information with tax administrations and law enforcement agencies.
- Implementing limits to fundraising expenditures.
- Implementing rules that limit certain types of operating expenses of philanthropic entities.
- Limiting the remuneration of staff, managers, and board members of philanthropic entities.
- Screening non-resident philanthropic entities that are eligible for receiving tax-incentivised donations.
- Implementing clear and transparent procedures for authorities to deal with non-compliance quickly.

Rules for corporate and individual giving

Corporate philanthropic giving can occur in the form of donations or sponsorship payments. Sponsoring philanthropic entities are payments in return for publicity and thus generate a benefit to the donor. In many countries, sponsorship or advertising payments (which have a sufficient nexus with earning income) are deductible under business expensing rules and not subject to the limitations placed on deductions for corporate donations. This in turn may create an incentive for managers or owners of businesses to support causes through business sponsorship payments instead of personal donations in order to circumvent the limits placed on the tax incentives for philanthropic giving in a number of countries. Therefore, countries should better align rules for corporate and individual giving to limit distortions and ambiguities. This may be achieved by, for example, implementing similar limits for tax incentives for corporate and individual donations.

To do so, tax rules should clearly differentiate between donating and sponsoring. This may be done by, for example, requiring a sponsorship contract that clearly specifies the publicity the corporation will receive. This, in turn, allows policy makers to only provide deductions for sponsorship equal to the market value of the publicity/advertisement received in return for the payment. The amount of the payment in excess of the fair market value should be treated as a donation and subject to the respective limits.

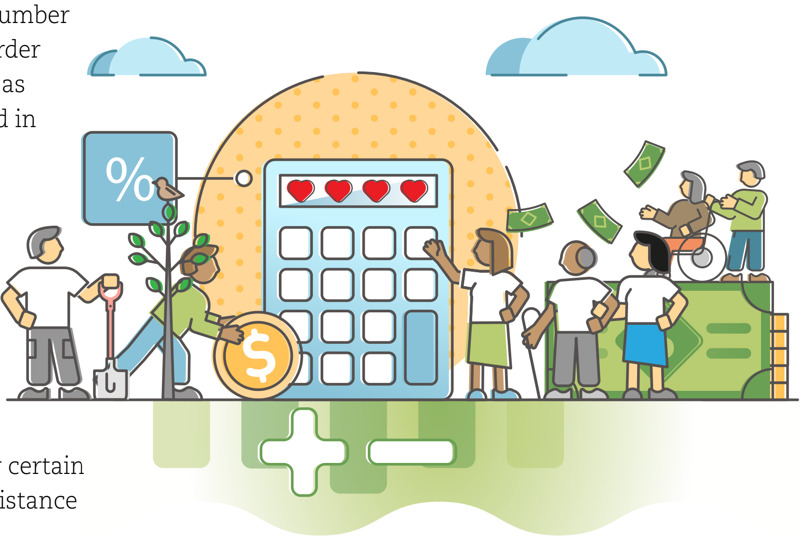
Data collection and tax expenditure reports

Part of improving oversight of the tax incentives provided for philanthropy is to be able to estimate the cost of these incentives. To do so, countries should collect data and estimate as well as publish the level of tax expenditures used to subsidise philanthropy. Furthermore, tax expenditure data may also enable countries to conduct studies that evaluate the efficiency of their individual incentives.

REASSESS THE CURRENT RESTRICTIONS FOR INTERNATIONAL GIVING

The global nature of many of the challenges facing the world emphasises the importance of countries taking a global perspective. In particular, responding to issues such as poverty, war and conflict, environmental concerns, medical research, and public health issues such as pandemics, may require countries and institutions to cooperate across borders. A number of countries now also see a role for cross-border philanthropy in limited circumstances such as the provision of development assistance, and in relation to conflict situations.

In this context, there is merit in countries reassessing whether there may be some instances where equivalent tax treatment should be provided to domestic and cross-border philanthropy. For example, countries may wish to consider ensuring that domestic philanthropic entities operating overseas for certain health, environmental and development assistance purposes, or those providing direct humanitarian support in conflict situations, should receive equivalent tax treatment to those operating domestically. To address concerns regarding oversight and risks of abuse of tax concessions, countries could impose equivalent requirements as apply in the domestic philanthropy context, or require additional checks before providing tax-favoured status.



Box 2. **KEY POLICY OPTIONS**

- Consider limiting the breadth of eligibility criteria for tax-favoured philanthropic status.
- Consider providing a tax credit for donations instead of a deduction.
- Consider applying a fiscal cap to the size of any tax incentive provided to donors.
- Reassess the merits of providing tax exemptions for commercial income of philanthropic entities that is unrelated to their worthy purpose.
- Subject philanthropic entities to the standard VAT rules.
- Establish a publicly available register of approved philanthropic entities.
- Introduce annual reporting requirements.
- Implement a combined oversight approach (tax administration + competent ministry or commission).
- Improve data collection and report annually the tax revenue foregone of all tax expenditures in relation to the philanthropic sector.
- Limit certain operating expenses of philanthropic entities that are at an increased risk of being misused for private benefit.
- Limit the remuneration of staff, managers, and board members of philanthropic entities.
- Better align rules for corporate and individual giving, including by clearly differentiating between donations and sponsorship.
- Reassess the restrictions on tax support for cross-border philanthropy.

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This policy brief provides a summary of the key findings of the OECD's *Taxation and Philanthropy* report. The report, produced in collaboration with the Geneva Centre for Philanthropy, provides a detailed review of the tax treatment of the philanthropic sector in 40 OECD member and participating countries. This brief first summarises the various arguments for and against the provision of preferential tax treatment for philanthropy, before reviewing the tax treatment of philanthropic entities and philanthropic giving in the 40 participating countries. It then highlights a range of potential tax policy options for countries to consider.

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