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Executive summary

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Most 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 typically able to receive tax incentives that lower the cost of giving. This report provides a detailed review of the taxation of philanthropic entities and philanthropic giving in 40 OECD member and participating countries, and draws on this analysis to highlight a range of potential policy options for countries to consider.

The report first examines the various arguments for and against tax concessions, highlighting that there is no single generally accepted rationale for the preferential tax treatment of philanthropy. Economic theory, for example, provides a limited 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. 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. Arguments against tax concessions for philanthropy highlight, for example, their fiscal cost, as well as potential distributional and democratic concerns. In particular, richer taxpayers often receive larger tax incentives than poorer taxpayers. Meanwhile, as a tax incentive effectively reallocates tax revenue towards the favoured philanthropic entity, richer taxpayers who make larger donations may gain a disproportionate influence over how public resources are allocated.

The report then considers, in turn, the tax treatment of philanthropic entities and of giving to philanthropic entities, before considering cross-border issues. For an entity to receive philanthropic status and the associated tax benefits, it typically must meet “not-for-profit”, “worthy purpose”, and “public benefit” requirements, as well as being subject to other 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 – most commonly 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.

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 (received gifts or grants) 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 VAT treatment to philanthropic entities, and concessions regarding various other taxes (e.g. property taxes).

All the countries surveyed also provide some form of tax incentive to encourage philanthropic giving to eligible entities, although the generosity and design of the incentives vary. In the large majority of countries surveyed, 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. 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.

Regarding cross-border philanthropy, the report finds that, beyond the European Union, there is little tax support provided by countries for cross-border giving. With regard to philanthropic entities that operate across borders, beyond the European Union, 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.

Drawing on the preceding analysis, the report highlights a number of key issues that countries face in the design of their tax rules for philanthropy. First, the report highlights that countries need to ensure that the design of their tax incentives for philanthropic giving is consistent with their underlying policy goals. For example, countries that are particularly concerned about restricting support to areas prioritised by government may wish to consider limiting the breadth of their eligibility criteria. Countries particularly concerned about the distributional impact of the tax incentive, may wish to provide a tax credit, which will ensure that the same proportionate tax benefit is provided to taxpayers irrespective of their income level. Conversely, countries with a progressive personal income tax system wishing to provide a greater incentive to richer donors in order to maximise total giving, may wish to provide a tax deduction.

Second, countries should reassess the merits of providing tax exemptions for the commercial income of philanthropic entities, at least insofar as this income is unrelated to the entity's worthy purpose. In undertaking such a reassessment, countries will need to consider the added complexities associated with distinguishing between taxable (i.e. unrelated commercial income) and exempt income and weigh the additional compliance and administrative costs against the pursuit of competitive neutrality. Furthermore, countries that currently provide an exemption should consider fully subjecting philanthropic entities to the VAT.

Third, the report identifies a number of ways countries can look to both reduce the complexity and improve the oversight of the concessionary tax regimes for philanthropy. These include: applying the same eligibility tests for both philanthropic entities and philanthropic giving; imposing a minimum value threshold for a non-monetary donation to receive a tax incentive; establishing a publicly available register of approved philanthropic entities; introducing an annual reporting requirement; implementing a combined oversight approach (e.g. tax administration and independent commission); clearly differentiating between corporate donations and sponsorship; improving data collection and tax expenditure reports; implementing limits to fundraising expenditures; implementing rules that limit certain types of operating expenses of philanthropic entities; and limiting the remuneration of staff, managers, and board members of philanthropic entities.

Finally, the increasingly global nature of many policy challenges – such as environmental and public health concerns (including the COVID-19 pandemic) – may require countries and institutions to cooperate across borders. 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. To address concerns regarding oversight, countries could impose equivalent requirements as apply in the domestic philanthropy context, or require additional checks before providing tax-favoured status.