

# Tax Assignment as A Source of Financing for Non-Profit Organizations in Slovakia

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## ABSTRACT

Non-profit organizations represent an important part of the economy and as any other type of organization, they also need funding to provide their services. Their specificity is in their non-profit nature which makes their funding more difficult. There are great many different sources of funding for a non-profit organization. In this paper, we focus on tax assignment – assignment of a portion of income tax to non-profit organizations as a source of financing for non-profit organizations in Slovakia. It is a very specific source of funding found only in a few countries around the world. We focus on its mechanism in Slovakia and provide an overview of its functioning. We find that most of the money redistributed through this mechanism goes to a minority of recipients.

**Keywords:** Tax assignment, financing non-profit organizations, non-profit funding

## 1. INTRODUCTION

In the economic activity of contemporary societies, there is a progressive increase in the importance of non-profit organizations. [1] Non-profit organizations play an important role in life of a society by providing services that the private nor public sector fulfills. They do this while not having profit as their main objective, usually substituted by some form of betterment of a society – social, political, civil, economical, ecological, etc. To fulfill their goals, they are in need of resources as any other type of organization on Earth. Their position is however different from private or public entities – they don't make profit and thus don't attract investments, nor can they impose taxes and finance themselves through them. That's why they have to get their funding in a somewhat different way. There exist many different sources of financing for non-profit organizations in general. Some sources are more country specific. And that's what we are going to focus on in this paper. We are focusing on tax assignment as a source of financing for non-profit organizations in Slovakia.

### 1.2. Our Contribution

This paper presents some basic theoretical and practical information about tax assignment in Slovakia and other countries, while focusing on its use as a financing source for non-profit organizations in Slovakia.

### 1.3. Paper Structure

The rest of the paper is organized as follows. Chapter 2 deals with the current research on the topic with sources used mainly from the Web of Science scientific database. Section 3 presents the tax assignment as it is currently in Slovakia, in theoretical and also practical terms.

## 2. CURRENT RESEARCH ON THE TOPIC

Scientific research focuses on many aspects of the economic life. As for the tax assignment and its implications for non-profit organizations, Hladka and Hyanek [2] focused on the use of tax assignment and they found it's used mainly in central European countries. Their research was aimed at the discussion of the usefulness of tax assignment in Czech Republic, which is the last country in the Visegrad Four group of countries that does not have a tax assignment system for funding non-profit organizations. Otavova et al. [3] also studied introduction of tax assignment in Czech Republic. Moniz [4] researched the use of tax assignment for financing churches and religious organizations in European countries. Marianna [5] studied the use of the percentage tax assignment system in five European countries that use it: Hungary, Lithuania, Poland, Romania and Slovakia and found it being an important source of revenue to many organizations.

Accountability, transparency of a non-profit organization is also important for its functioning and to be trustworthy enough to attract funding and also tax assignment. Carvalho et al. [1] did a case study of accountability

process on a Portuguese non-profit organization. Trust is important also in tax compliance [6]. Kurnia Susanto et al. [7] studied the tax aggressiveness. Kral et al. [8] focused in their paper of financial ratios as indicators of financial health. Quantitative analysis is important, Ashander et al. [9] focused on decision-making using big-data algorithm. Non-profit organizations usually have to decide on what to focus among many projects. Kral et al. [10] proposed a model for project portfolio optimization. Credit is also important for non-profit organizations when they are providing paid services and products. They have to keep in mind the credit risks involved. Siekelova et al. [11] studied the credit risk management and Weisssova et el. [12] studied the rating as a useful tool for credit risk management.

**3. TAX ASSIGNATION IN SLOVAKIA**

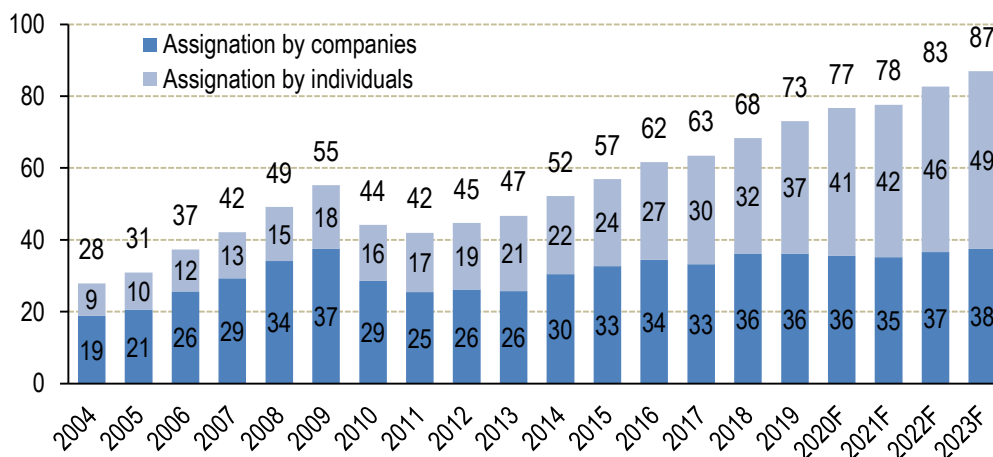
Tax assignation represents a support mechanism for non-profit organizations created by the government. It is essentially the state forgoing a part of its income tax collected and letting the taxpayer to divert a percentage share of its income tax paid to a non-profit organization. It constitutes an indirect source of public funding for the non-profit sector, since the money is diverted from the income tax collected, it is not a gift from the specific person. It gives the taxpayer the possibility to decide the destination for a part of its tax paid depending on his preferences, with conformity to the rules. Tax assignation is available for both individuals and legal entities. Slovakia is the only country in the world that lets legal entities to assign part of their income tax paid to non-profit organizations. [13] It is defined in the law 595/2003 of the Slovak Collection of Laws.

Individuals can assign up to 2 or 3% of their income tax paid. 3% is only possible if said individual worked at least 40 hours as a volunteer over the year. An individual can

assign it's amount only to one organization. Minimal amount assigned is 3 €. Legal entities can currently assign up to 1% in general and up to 2% if they gave a donation to non-profit organizations amounting to at least 0,5% of the tax paid. Legal entities can assign the money to more than one organization, minimal amount assigned being 8 €. Government also dictates the array of possible recipients of tax assignation. It can be a civil association, foundation, non-investment fund, non-profit organization providing generally beneficial services, purpose-built facility of church and religious society, organization with international aspect, Slovak Red Cross, subject of research or development. All of these are some sort of non-profit organization according to the Slovak law or types of organizations the state wants to support. Moreover, government clearly state the purposes the money received by these organizations from tax assignation can be used. They are as follows: protection and support of health, sports, providing social care, protecting cultural values, support of education, protection of human rights, environment, science and research, organization of voluntary services. The usage of funds is under supervision of a notary. Also, all recipients of the tax assignation have to register in the list of recipients kept by the Chamber of Notaries. The registration has to be renewed every year and costs approximately 55€. [14]

**3.1. Current Realities of Tax Assignation in Slovakia**

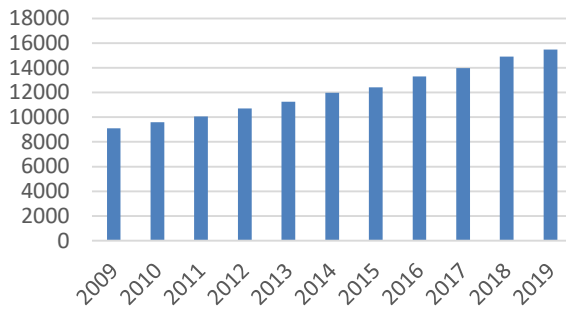
Figure 1. shows the evolution of the amount of money assigned to non-profit organizations through tax assignation. [15] We can see a growing trend over the years, with a slump only after the recession in 2009. 73 million € was redistributed to non-profit in the most recent



**Figure 1** Evolution of the amount of money assigned to non-profit organizations through tax assignation for period 2004–2019 and forecast for 2020–2023 by IFP (in mil. €)

Source: Institute of Financial Policy at the Ministry of Finance of Slovak Republic  
<https://www.mfsr.sk/sk/financie/institut-financnej-politiky/ekonomicke-statistiky/asignacia-dane/>

data for the year 2019. Latest predictions by the Institute of Financial Policy at the Ministry of Finance suggested a growing trend in the amount assigned to continue in the following years. What is also important to notice on the figure, is the increasing importance of the assignation by individuals. They made up around 30% of the amount of tax assignation in the years 2004-2009 but then grew to have more than a half of the amount assigned in 2019, while more than doubling their absolute amount.



**Figure 2.** Number of registered recipients of tax assignation 2009-2019

Source: Financial Administration of Slovak Republic, author's own compilation  
[https://www.financnasprava.sk/sk/elektronicke-služby/verejne-služby/zoznamy/zoznam-](https://www.financnasprava.sk/sk/elektronicke-služby/verejne-služby/zoznamy/zoznam-...)

Currently, there are 15 484 organizations registered as recipients of tax assignation in Slovakia. As we can see on Figure 2., there is a steady growing trend in the number of registered recipients of tax assignation, at a pace of 5-7% a year. [16] Last year (2019), as visible in Figure 1., taxpayers divided 73 million € among these 15 484 recipients, with average amount received by recipients is 4 719 €. However, there are huge differences in amount received among organizations that can be seen after analyzing the list of recipients published by the Financial Administration of Slovak Republic. 400 recipients received more than half of the money. Top 20 recipients received more 17,5 million € or approximately 24% of the money redistributed through tax assignation.

#### 4. CONCLUSION

Tax assignation redistributes more and more money in recent years, and the amount is expected to grow even further. The number of registered recipients is also growing steadily. There is however a huge inequality in amount of money received by registered recipients, with majority of the money going to as few as 400 recipients, which is only 2,5% of all registered recipients. There is a lot more to study on this topic, we were limited by the possible extent of the paper. We judge it to be important for exploration of the role the tax assignation has as a

source of non-profit financing. Not only for Slovakia, but also for other countries who might be interested in the tax assignation as a model to support their own non-profit sectors and follow Slovakia, that was the first country in the world to implement it.

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