

Charitable giving: analysis and recommendations for Estonia

Summary

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Active and knowledgeable people use diverse ways and channels to participate in the decision-making processes that affect their lives and are engaged as volunteers, members of associations and donors, and organisations that enable such activism form the corner stone for the sustainability of civil society. With the analysis of practices and trends of philanthropy, we are targeting one of the main challenges of civil society – how to secure strategic, regular and transparent giving. This analysis is our contribution to strengthening civil society in Estonia.

The purpose of the analysis was to describe the experiences and patterns of charitable giving in Estonia and abroad, to draw conclusions and to present recommendations and suggestions for the advancement of philanthropy in Estonia. We described the factors affecting the environment of charitable giving:

1. positive image and recognition of charitable giving;
2. smart and considerate donors;
3. ethical and effective organisations;
4. favourable tax environment;
5. prevention of fraud and misuse of giving and ethics of philanthropy;
6. statistics and research on charitable giving.

To learn from other countries, we studied the practices of giving in Canada, New Zealand and Great Britain and examined the trends around the world. Finally, we studied the taxation and legal environment/ conditions affecting charitable giving around the world and the good practices and ethical methods related to charitable giving that are used. In addition to the analysis, we also published a handbook for organisations describing best practice to effectively collect, use and report donations.

In order to understand the situation in Estonia, we analysed statistics of charitable giving between the years of 2005–2009, highlighted the trends, examined the work and practices of five Estonian organisations which collect donations and analysed Estonian legal environment affecting charitable giving. Based on what we learned from Estonia and from other countries, we prepared recommendations and suggestions for the advancement of charitable giving.

Official statistics tells us that charitable giving in Estonia is progressing – 5,4% of tax payers declared donations in year 2009 (in comparison to 3,7% in 2005). According to the World Giving Index 2010, Estonia is in the 121st place with 12% of people saying they had given money in the month preceding the study. Economic downturn has had no serious effect on individual giving, but it has negatively influenced corporate giving.

Here are the key findings and recommendations:

Charitable giving needs to be recognised and valued in the society.

The most significant task ahead of us lies in recognising the value of charitable giving to be supported by the improvement of legal environment, the advancement of donors and organisations and the promotion of info technological solutions. In Estonia, we are still far from donating being an intrinsic part of our behaviour and thinking. For that purpose, we are recommending to form a working group of organisations, donors and government officials to launch a programme for the promotion, communication and advancement of charitable giving. Although there are organisations whose work

touches upon philanthropy, it is not the main mission of any organisation in Estonia. In addition, we suggest that donors and organisations discuss and compose a code of good practice for charitable giving.

Charitable giving needs supportive legal environment that does not set obstacles.

Although there are no universal laws or international treaties on charitable giving, two conclusions can be drawn: first, countries with stronger economies and fiscal climate offer bigger direct and indirect support to civil society in general, and second, donations that do not directly benefit donors, should offer tax incentives for donors and should be tax exempt for recipients (in Estonia, the latter is not relevant since legal entities do not pay taxes on their income, unless it is further distributed).

We are recommending:

- to clarify the definition of charities (i.e. which organisations should enjoy tax incentives on the donations they receive);
- to calculate the actual cost of various tax incentives to the Estonian state;
- to raise the limits of tax incentives on donations both for individuals and legal entities.

In Estonia, donations given to public benefit foundations and associations (organisations) that have been granted tax-exempt status may, up to a certain extent, be deducted from the income of the donor. The basis for the tax relief is the inclusion of the foundations and associations in the government's list of organisations benefiting from income tax incentives. The list includes only organisations registered in Estonia. For individual donors, the total of donations deducted from the taxable income cannot exceed 5% of the donor's total income. For corporate donors, the total of donations deducted from taxable income can be either up to 3% of the sum of the salaries paid during the year and subject to social insurance tax, or up to 10% of the calculated profit of the latest fiscal year. The treatment of non-monetary donations is the same as for monetary donations, and taxation is based on their market value. In addition, we are suggesting introducing the concept of payroll giving and a modification of the Gift Aid system used in Great Britain in Estonia.

Charitable giving needs smart and motivated donors.

The more focused and planned the actions of the donors are, the more advanced and effective their giving is. The empowerment of donors contributes to the same aim as the development of philanthropy – to increase the donations that go to organisations for public benefit and common good. Charitable giving is valuable to corporations' competitive advantage since it is an investment in the future and in the internal culture of the business. For individuals, giving provides satisfaction and allows people to help and promote issues and groups that are important to them. We are recommending the launch of a programme (mentioned above) to promote charitable giving, help corporations to find good causes, facilitate their philanthropic deeds, and raise the value of donating among individuals. We are suggesting a focus on younger donors who are increasingly discerning about the causes they wish to support. In addition, we suggest promoting leaving legacies to charitable organisations.

Charitable giving needs skilful and empowered organisations.

Not all organisations receive donations but for many, that is the main income. It is important to develop a strategic approach to secure regular donations that can be factored into the budgetary planning process. We are recommending organisations to better communicate the value of charitable giving to their target groups and donors, use social media in collecting and reporting donations and be transparent and accountable about the actual cost and benefit of donations. In counselling and training the organisations, we are suggesting that good governance and the prevention of fraud should be treated seriously. Also, we suggest investment in the improvement of a joint web portal to promote and facilitate donations that is especially useful to smaller organisations.

Charitable giving requires the prevention of deception and fraud.

For charitable giving to be a valued and recognised conduct, donors need to be reassured that any potential risks of donations being misused have been addressed by the organisations. In addition to the principles of good practice (mentioned above), we are suggesting a cross-departmental group consisting of organisations, donors and civil servants to continue their joint meetings and recommending them to collect reliable information about the cases of deception and to analyse the risks on charitable giving. In addition, the programme of charitable giving should focus also on the legitimacy, accountability and transparency of charitable giving.

Charitable giving requires proper statistics and research.

Charitable giving needs to be treated seriously and with precision in official statistics and research. It is important that data on charitable giving is accessible and public. Otherwise it is hard to analyse and evaluate the true volume of donating and donors. We are recommending several amendments to the current system and suggesting that four distinct categories be identified: (1) volunteering time, (2) giving money regularly, (3) giving money as a single act or response to a call for help, and (4) giving things or services.

We believe that these conclusions and following recommendations will advance charitable giving in Estonia and that charitable giving will become a custom valued and recognised by people, corporations and the society. It is vital to understand that charitable giving requires collective approach from the parties involved and is an opportunity to invest in the future and in the quality of life in the widest sense.

The full report is available in Estonian at : <http://www.praxis.ee/index.php?id=917> (raport) and for any comments, please contact Ms. Kristina Mänd Kristina.mand@praxis.ee or Ms. K lvi Noor kylvi.noor@praxis.ee at Praxis Center for Policy Studies, Estonia.