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Governments should strike a balance between encouraging philanthropy through tax support and ensuring effective public policy, OECD says

Governments should continue providing support to the philanthropic sector while taking steps to safeguard tax systems and ensure that the activities of philanthropic organisations continue to align with the public interest, according to a new report from the OECD.

Taxation and Philanthropy reviews the tax treatment of philanthropic entities and charitable donations in 40 countries worldwide. The report points out the significant impact of philanthropy – the non-profit sector represents as much as 5% of GDP in many countries – as well as the wide range of potential tax policy options countries can consider to improve the effectiveness of tax concessions for philanthropy.

Produced in collaboration with the Geneva Centre for Philanthropy (University of Geneva), *Taxation and Philanthropy* is the most exhaustive review of the tax treatment of the philanthropic sector undertaken to date. It details the various types of favourable tax treatment countries provide to encourage philanthropy, both to donors as well as the philanthropic entities themselves, and assesses how tax incentives are and can be used to increase philanthropic activity in areas prioritised by government to raise overall social welfare.

The report , which will be presented during a virtual conference hosted by the University of Geneva, highlights broad support amongst countries for the provision of tax support for philanthropy, while drawing attention to emerging concerns in some countries that current practices could give a small number of wealthy donors disproportionate influence over how public resources are allocated. This concern is highlighted by the rise in the 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. While risks of abuse should be addressed, this concern should not overshadow the overwhemingly positive spillovers of philanthropy in general, according to the report.

"Philanthropy plays an important role in most countries, providing private support to a range of activities for the public good, and this is especially evident in the current context of the COVID-19 crisis," said Pascal Saint-Amans, Director of the OECD Centre for Tax Policy and Administration. "Looking ahead, governments need to strike the right balance between safeguarding tax systems while continuing to provide support to the sector."

The report underlines important considerations for policy makers as they seek to strike this appropriate balance. The report discusses a range of tax policy options, suggesting that policy makers:

- Reassess the activities eligible for tax support, and ensure that favourable treatment is limited to those areas consistent with underlying policy goals.
- Consider providing tax credits rather than deductions, and fiscal caps, to ensure that tax support does not disproportionately benefit higher income taxpayers.
- Reassess the extent of tax exemptions for commercial income of philanthropic entities, to minimise the risk of putting for-profit businesses at a competitive disadvantage.

- Reduce the complexity of tax laws that disproportionately affect low-income donors and smaller philanthropic entities.
- Improve oversight and boost transparency, to safeguard public trust in the sector and ensure that tax concessions used to boost philanthropy are not abused through tax avoidance and evasion schemes.
- Reassess restrictions currently imposed on cross-border philanthropic activity.

Further information on *Taxation and Philanthropy* is available at: http://www.oecd.org/tax/taxation-and-philanthropy-df434a77-en.htm

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