

Chapter VI

ASSESSMENT

The impact of 1% Laws in Hungary and Slovakia – a comparative overview

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The goal of this chapter is to describe, analyse and evaluate the social effects of the so-called 1 % Laws in Hungary and Slovakia.¹ Further, it should show which of the experiences gained in these two countries may be useful for others considering similar laws.

While writing this study, we have come up against several very serious obstacles. We were much surprised by the limited available literature, mainly the lack of analyses and statistical surveys. Only a handful of surveys and studies deals with the impact of the 1% systems in the two countries.² In addition, the variety of literature on the NGO sector in Slovakia is very poor. As for official data, the Ministry of Finance and the tax authority in Slovakia provide little comprehensive information on participating taxpayers and beneficiaries involved in the 1% system. By contrast, the Hungarian tax authority publishes detailed data.

The comparability of collected data presented a further difficulty. The legal background, the application of laws and the time frame in the two countries differ significantly. Therefore, in order to compare data, we tried to concentrate on that data which could be considered similar, meaning data and results from the starting-period of the percentage system in each country.³ In the case of Hungary, the available data was several years old mostly covering the period 1997 - 2000. While in Hungary it is possible to speak about trends and tendencies, this is not yet the case in Slovakia as, at the time of writing, there was only information from the first year's implementation (2002). The picture we have tried to outline in this paper will be completed by future analyses.

Before starting it is important to mention that the two countries' percentage laws are governed by different philosophies. In the case of Hungary, the 1+1% arrangement allows individual taxpayers to allocate 1% of their income tax to NGOs and a further 1% to churches. In Slovakia, during 2002 and 2003, the first two years of the system's operation, individual taxpayers were able to transfer 1% of their income tax to eligible NGOs.⁴ When this paper was being finalised, the situation in Slovakia changed: the Tax Code was amended to permit both physical entities (individual taxpayers) and also legal entities (companies) to transfer 2% of their tax to support the public benefit activities of not-for-profit, non-governmental organisations that meet certain legal requirements. Such a decision is a positive and welcome step, but one that will also complicate future comparisons between these two countries. Briefly, the Hungarian 1+1% arrangement does not equal Slovakia's new 2% system.

¹ The term "1% Law" is used here as a general term. Hungary's 1% system was introduced in a separate law. Slovakia's 1% provisions were adopted as part of the Tax Code.

² From this point of view Hungary is in a better position. (The studies and analyses of Ágnes Vajda, Éva Kuti, Geyza Mészáros, István Sebestény, Lajos Biro, György Bódi, Balázs Gerencsér and others prove it). In Slovakia, perhaps because of the shorter time frame, much less literature exists and only internal reports (Myrtill Nagy), the civil sphere's annual analyses (Pavol Demeš) and one report (Zsuzsanna Lampl) form the basis of our study.

³ The list of sources used in this paper provided at the end of this paper.

⁴ Unlike Hungary, church funding is not included within Slovakia's 1% provisions; NGOs linked to churches may receive 1% designations if registered in compliance with the requirements.

In addition to the differences in the percentage systems themselves, a final and important challenge we faced were differences in population size and the numbers of NGOs in the two countries. Therefore, we mostly used data we found in both countries. In spite of the various obstacles mentioned above, we decided to undertake this task as it is the first comparative study of this novel percentage instrument. We also hope that the findings in this paper will be important and useful for other countries.

Civil society development in Hungary and Slovakia

Although the Hungarian and the Slovak percentage laws came into being at different times and under different circumstances, their goals and roles can be regarded as similar. Both sets of laws have several common features and share a common historical background as well as providing answers to the challenges that influenced the NGO sector's development in Central Europe after the collapse of communism. Even though the needs and environments that led to the framing of the two laws were different, the results and social effects of both laws are similar. Consequently, they do provide an important source of experience and example for others.

From the very first days of the political changes at the end of the 1980s, bottom-up civic initiatives formed in both countries.⁵ Foundations, societies, associations etc. were established and played an important part in the new systems' democratic institutional structure. Although the changes in society after 1989 in Hungary and Slovakia were very similar, the difference in political traditions and political development – in particular the foundation of an independent Slovak state in January 1993 – meant that civil society's role in the two countries was also very different.

In Slovakia – mainly “thanks” to the Mečiar era (Prime Minister 1993-1998) – the NGO institutional system was (and is) more organised with much more emphasis on co-operation among NGOs. NGOs played a leading role in nation-wide campaigns organised to protect democratic values. The consequence was that, in contrast to Hungary, nation-wide forums co-ordinating the joint representation of NGO interests were present in Slovakia by the end of the 1990s. The “Third Sector Panel” became the legitimate civil society representation.⁶ The biggest campaign – which attracted much international attention – was the so-called “OK 98”.⁷ The campaign's aim was to ensure that the 1998 elections were transparent as well as to persuade indecisive voters to vote. Such a demonstration of the NGO sector's power increased its prestige in Slovakia as well as abroad. Needless to say, the campaign was successful.

The above described process that brought NGOs together did not mean centralisation then or now. The nation-wide conciliation forums, called the “Stupava Conference”, were established voluntarily: any decisions made are only recommendations that are followed by each

⁵ In Hungary the process started earlier. Changes to the Civil Code came into effect in 1987 enabling the existence of foundations (see Csanády, 2003, p. 1, and Bódi, 2002, p. 15-21). In Slovakia, somewhat surprisingly, after 1989 the first foundations were established on the basis of a law from the 1960s. At present, foundations are regulated according to legislation passed in 1990.

⁶ The Third Sector Panel still exists and on NGO issues it may still be regarded a partner of the government.

⁷ “OK 98” is the abbreviation of the “Civic Campaign 1998”. Nation-wide campaigns still play a decisive role in Slovakia such as the campaign for passing the “Information Law” in 2001.

organisation at its discretion. The actual decisions are not so important – the Panel, the nation-wide harmonisation of interests, the possibility of joint representation, the continuous and intensive exchange of information are all more significant features of this process.

In Hungary NGOs did not play such a mobilising, campaigning role for the simple reason that there was no direct need to do so. Rather, they concentrated on their organisational mission and activities. There was much less of a perceived threat; consequently, they were not forced to take on a nation-wide “political” role. Hence relations between the state and the NGO sector developed in a different way in Hungary. From the late 1980s onwards, state support and privileges were available to NGOs and in 1997 the Law on Public Benefit Organisations granted special privileges to NGOs that met the requirements for acquiring public benefit status whatever their particular legal form. In Slovakia such a step was, and still is, unimaginable; it worth noting that in Slovakia only organisations in the social welfare sector may receive direct state support.

As a result of the two countries’ quite divergent development, the 1% Law’s introduction in Hungary was quite different to the way the legal provisions based on the same “percentage principle” arose in Slovakia.

The introduction of “percentage principle” in Hungary and Slovakia

Already in 1991 the possibility of a 1%-type law had been raised as a “top-down” initiative in the Hungarian Parliament.⁸ But it was only much later, in 1996, when the government faced various social pressures and significant social questions that it decided to sponsor the 1% Law supporting NGOs.⁹ If the responsibility of legislation in a democratic state is to fulfil social needs that are legitimate and necessary for the functioning of a democratic system, then the law’s introduction can be considered to be a positive step. This is all the more true if on the basis of international and other experiences, such legislative solutions promote the longer term preservation of social peace and the foundation of a prosperous society. The “wise decision” of the Hungarian Parliament to enact the 1% Law did take account of the NGO sector’s interests since the majority its members, mainly the law’s initiators, had been actively involved in various civil society initiatives (Vajda/Kuti, 2000, p. 160-163). However, the lack of social dialogue and the fact that NGOs’ needs were not articulated in the process that led to the 1% Law’s introduction in Hungary should also be noted.

Slovakia’s 1% provisions were passed on the basis of the nation-wide co-operation of NGOs and the lobbying activities of the “NGO sector elite” that had emerged, mainly as a result of the “OK 98” campaign. The new, democratic Dzurinda government recognised the NGO

⁸ At this time it was raised only as a new form of support for churches.

⁹ In Hungary the debate focused primarily on financing churches. The main issue was that the large churches saw the proposed 1% Law as an alternative to state support and therefore resisted it. The debate only finished when the 1% Law was amended in 1997 to introduce the 1+1% arrangement whereby taxpayers can designate 1% amounts to both NGOs and churches. The interesting thing was that even though the goal of the 1991 proposal was aimed at solving the question of church funding, the above mentioned debate was longer than expected and therefore, in the first year (1997) taxpayers could only designate 1% of their income tax to NGOs and not to the larger churches. It is also important to mention that later, after the adoption of the Hungary’s 1% Law and based on its practice, various surveys and evaluations were carried out which resulted in much debate (see Vajda/Kuti, 2000, p. 160-163).

sector's importance and consequently voted in favour of providing support to NGOs through a 1% mechanism.¹⁰

While in Hungary the 1% Law was passed after careful political consideration, the passage of the 1% provisions in Slovakia was due to lobbying by the NGO sector. In both cases, a narrow group of people initiated the legislation – something that could very well happen in any other country. The legislative system requires that groups having influence on the legislative process take a decisive part in it. However, political will is also required to pass laws with social and budgetary implications. It is true that in Slovakia and Hungary the background and the reasons were different, but in both cases there was sufficient political will to adopt such laws.

What constitutes 1%?

During the debate that followed the new system's introduction in Hungary, the question was raised about how valid it was to call this piece of legislation the "1% Law". From the taxpayers' point of view, this term is absolutely right, as they are the ones who designate 1% of their personal income tax. However, experience shows that it does not mean the full 1% of the state's total income tax revenue, as only a part of it is designated. In Hungary, its proportion was between 0.6-0.7% in 1997-1999.¹¹ Furthermore, it could be argued that the state is not interested in motivating maximum use of the designation option, as, in consequence, the state's revenue would be lower.

In Hungary, already at an early stage, an interesting proposal emerged, namely that the whole 1% of income tax revenue should be transferred to the third sector.¹² Either the amount should be realised through the taxpayers' personal designations or the remaining part should be distributed to beneficiary organisations through a (public) foundation. In Hungary this remaining part of undesignated amounts represented millions of Hungarian forints. The debate on this issue, conducted over many years in Hungary, has finally borne fruit.¹³

In Slovakia such issues have never been debated either in relation to the use of money in invalid designations or 1% designations lower than the administrative costs involved (and that therefore never get to beneficiaries). The full state budget 1% allocation in Slovakia has been estimated to be in the range of 300 million koruny (about 7 million euros), the potential income the 1% system could generate for the sector if all taxpayers made use of the opportunity.¹⁴ The actual amount of 1% transfers in the first year of operation (2002) totalled 101,882,272 koruny (about 2.5 million euros).

¹⁰ The Slovak 1% model as well as the information campaign that followed its adoption could build on the earlier Hungarian experience. The Hungarian NGO, NIOK (Nonprofit Information and Training Centre) helped Slovak partner organisations and worked with them for several months in 2001.

¹¹ See Bódi, 2002, p. 59.

¹² This proposal was presented in an article by Geyza Mészáros and István Sebestény (Vajda/Kuti, 2000, p. 147).

¹³ Some small changes were made to allow correctly designated but unclaimed 1% amounts to be centrally allocated to NGOs. More recently, in 2003, a solution to the question regarding remaining non-designated funds was found when the Hungarian Parliament approved a plan to set up an annual state fund, the National Civil Fund to allocate funds to NGOs equal to those designated by taxpayers the previous year.

¹⁴ See SEAL, Social Economy and Law, European Centre Foundation, Winter 2002-2003, p. 19, article submitted by Matus Minárik.

So, if the philosophy deriving from the financial transfer implied in the law's name is considered, it is not so sure from the budgetary results achieved that we should speak about "1%". Looking at the moral and social effect of the law's basic philosophy from the citizen's point view, the same conclusion is also true.

The wider significance of the 1% model

The significance of the 1% model cannot only be considered from financial point of view. All analysts agree that percentage laws offers a special way to measure the NGO sector's presence and results as well as public support for NGOs. Apart from the financial support provided to particular organisations, the laws have social, philosophical and moral importance.

If we compare the designation process to the institutions of parliamentary democracy, then the process involved would be the **elections**,¹⁵ providing a way of enforcing individual interests.¹⁶ In their study, Ágnes Vajda and Éva Kuti describe the process as "votes by citizens" which are used to distribute state funds and judge NGOs' usefulness from the general public's point of view (Vajda/Kuti, 2000. p.156).

Consider the following definition of the process and various roles involved: *The 1% Law regulates a form of redistribution of state resources by individuals. The process involves anonymous "donations" to eligible beneficiaries by a significant number of people, administered by the state but without its classical redistribution role. Meanwhile, NGOs are free to use the received support legally according to their needs and wishes.*

From our point of view, each part of the above definition is important and deserves further examination.

Who is the "donor"?¹⁷ Is it citizens who do not provide the designated amount from their own income, but make a "**donation**" with 1% of their taxes? Or is it the state which waives a part of its income tax revenue? Significantly, it is citizens who decide to which organisations the financial support is transferred, not the state. These are important questions because they identify the participants. Our opinion is that both citizens and the state represent "donating" participants in the process.

Through the 1% process, a citizen may "personally" contribute to the work of an NGO. On the basis of the citizen's conscious step, a connection is formed between the citizen and the NGO. The citizen is able to see what happens to their designation and its results. Such behaviour may even affect the whole taxation process: the taxpayer becomes experienced in the use of such a technique and it can be applied to other state-related issues as well.

¹⁵ The role of foundations is more comparable to the role of a parliament i.e. strict rules, decision-making, decisions etc.

¹⁶ "Beside the role it plays in financing the nonprofit sector, the 1% provision is also a new mechanism for the decentralisation and democratisation of decision-making in the field of supporting civic organisations." (Vajda/Kuti, 2000, p. 156)

¹⁷ Questions surrounding these "mixed roles" were raised by Geyza Mészáros and István Sebestény (Vajda/Kuti, 2000, p. 143-144).

Meanwhile, through the process, an “old/new system” of values is reviving: philanthropy, help, trust and respect for each other, mutual support, while the “everyone loses” situation is fading away. The process involved is also about the formation of new civic behaviour: by playing an active role in the community the citizen has an influence by providing material resources.

The principle of **anonymity** excludes any kind of lobbying. When campaigning for 1% support, organisations concentrate on certain groups but they do not receive any information about their “donors”.¹⁸ Such is also the character of an election where voting is secret and each voter is anonymous. Through the “votes” received, particular NGOs as well as the NGO sector in general receive a degree of recognition from society that some people require the activities provided or appreciate and understand their importance.

Any taxpayer has the opportunity to participate in the 1% process, which involves the **mass-mobilisation** of a significant part of the population. It is up to individuals to decide whether they take the opportunity. Everyone, not only the rich, may designate 1% of their personal income tax, a fact which should be underlined.

Both in Hungary and Slovakia the main argument was the fact that, in contrast to centrally allocated state support, the **financial support** provided through the 1% process would serve mainly smaller organisations and its geographical distribution would also be more balanced. The reason is that applications for national or international funds require professional know how small organisations do not possess whereas the allocation of 1% support is influenced by personal contacts, visible results and the immediate neighbourhood. These assumptions have been proved correct in Hungary: while 95% of central state support went to large NGOs with strong financial and professional backgrounds, only 34% of 1% support was transferred these large organisations. Small organisations received 16% and medium-sized organisations 50% of 1% funds (Vajda/Kuti, 2000, p. 177–179).

In Hungary the 1% system almost doubled the number of those organisations that received support from the central budget: financial resources were also allocated to those foundations and associations that previously had not been supported via central decision-making bodies (Vajda/Kuti, 2000, p.177-179). In Slovakia the situation was the same. The only difference is that financial resources to NGOs are mostly provided by large, central (mainly foreign) foundations. These are as unreachable for small and medium-sized organisations as state funds are in Hungary. In other words, in terms of access to central funds, the 1% system helps decrease handicaps and increase opportunities within the NGO sector.

Organisations that meet the specified requirements can receive 1% support.¹⁹ It is up to an organisation to decide whether to take advantage of the opportunity. An organisation is able to calculate potential income. This influences an organisation’s strategy, plans and results and, in the longer term, can lead to more balanced work.

¹⁸ Anonymity is important as the personal income of individuals could be calculated on the basis of their 1% income tax designations. In Slovakia the amendment to the 2004 Tax Code which increased designations to 2% did not include a requirement keeping the anonymity of corporate entities, as their financial results are public.

¹⁹ In Slovakia, NGOs must register to participate in the 1% system; in Hungary, NGOs have to fit a list of criteria.

The 1% support can be seen as **central budgetary support** transferred with the state administration's assistance, but without the state making decisions about the redistribution of the funds.

The state, in effect, waives 1% of income tax revenue and contributes this amount to support the functioning of civil society. The state's role can also be reassessed: the 1% system is an important form of **decentralisation**, a demonstrative tool for asserting **democratic values**. Last but not least, the 1% system provides a novel, positive model for re-shaping state-NGO sector relations. The process promotes solidarity, interdependence and co-operation between the sectors, while divisions, so typical in the countries of Central and Eastern Europe, are pushed to the background.

On the other hand, state institutions should be more aware of the opportunity to promote the 1% system and draw the public's attention to it. The state may not seem to be very interested in promoting the 1% option as its logical self-interest is to keep the numbers using the designation opportunity as low as possible so that more resources stay in the state treasury. Clearly defining the various interests involved, and having a smooth and efficient mechanism for transferring 1% funds are important "lessons" for other countries considering similar legislation. In Hungary and Slovakia, the bureaucracy related to 1% procedures, especially in the first years of operation, has been cumbersome.²⁰

From the NGO sector's point of view, it is very important that the 1% system provides **discretionary support**, meaning that each beneficiary can decide how to use the funds provided. This is important as other forms of support (from central funds or other donors) are goal or project orientated and so their use is "tied" (Vajda/Kuti, 2000, p. 178). Income from 1% income may also be used to cover the organisation's overheads, something that cannot usually happen in the case of other funds awarded. The 1% funds represent a source of income that increases the sector's efficiency, prestige and future role. Meanwhile, market rules remain in place: the citizens' "votes" decide which organisations receive the 1% support.

We can conclude that the 1% model can have a very positive effect on social as well as state behaviour, on NGOs and the NGO sector as such. The process involved is a form of self-determination that shapes civic behaviour, redefines the relationship between the state and the taxpayer and promotes equal competition among NGOs. Given that the gains are so much bigger, potential negative effects are negligible. The solution offered is a long term one that not only shapes civic behaviour but also gives new meaning to state-civil society relations.

²⁰ In Slovakia, for example, it is notaries which have to register organisations wishing to be 1% beneficiaries. This procedure was undertaken without any guidance. One of the consequences was that organisations were charged very high fees in a quite arbitrary fashion. Sometimes this amount exceeded possible income from the 1% scheme. It goes without saying what a negative impact this treatment had on organisations, not to mention the several days' long and tiring administration process. As for registration by notaries, there is much room for improvement. Their lack of preparation and accuracy, the confusion of roles and competencies etc. overshadowed the whole process.

Popularity of the new 1% measure among the public and NGOs

In Hungary the 1% Law began operating in 1997. Five years later – in 2002 – Slovak citizens had their first opportunity to decide which organisation carrying out public benefit activities they wished to support with 1% of their personal income tax. At the time of writing this paper, Hungarians had used the opportunity seven times, Slovaks only twice. This single fact also shows that the various Hungarian participants (the tax office, the NGO sector, taxpayers, employers, accountants) are more experienced than their Slovak counterparts, not only in terms of everyday practice but also regarding statistical data collected. While in Hungary several analyses have been carried out to explore the results,²¹ in Slovakia there has been only one survey.²² Our study is primarily based on these sources.

In Slovakia the adoption of the 1% provision was well received by both civil society actors as well as the public. This might be the reason for not having researched the possible effects of such legislation in advance; it also means there is no data regarding this issue. By contrast, the situation in Hungary was different. The 1% Law's enactment instigated a heated debate in Parliament as well as among experts. Not everyone welcomed the new law with enthusiasm, including some NGO representatives. Mainly those organisations protested which were "closer to the political decision makers than to the citizens" (Vajda/Kuti, 2000, p. 163). They could get financial support without the 1% Law, and they were even worried that after its introduction they would receive less state support. In 1996 Hungarian public opinion varied as well. Although the majority approved of the opportunity offered by the 1% designation scheme, at that time this represented only 56% of the adult population – slightly more than half of it (Vajda/Kuti, 2000, p. 164). By spring 1999 public opinion had changed: in the third year of its existence, 86% of the adult population supported the 1% Law. Support was even higher among taxpayers at 90% (Vajda/Kuti, 2000, p. 165). To sum up, the new system was generally welcomed and by 1999 even earlier disapproval had vanished; the majority of NGOs as well as the public supported the idea of Hungary's 1% Law.

Research findings show that there were different reasons for how warmly Hungary's 1% Law was regarded. Citizens had different motives for favouring the law than NGOs. If we regard organisations as a tool and their fields of activities as a goal then, from the very first moment, the goal has been important for citizens. As the research carried out by Ágnes Vajda and Éva Kuti in 1999 proves (Vajda/Kuti, 2000, p. 167), people wished **to help**. Taxpayers intended to help the poor, ill, people with disabilities and disaster victims (22.8%), support health care, social services, education (22.6%), and improve the situation of children in need (10.1%). In these cases, NGOs were seen as just a tool. Only 20.3% of respondents linked their designation intentions to a specific organisation.

On the other hand, Hungarian organisations favoured the 1% Law because they saw it as a possible way to improve their situation – which is understandable (this was also shown in the survey conducted by Lajos Bíró and Balázs Gerencsér – Vajda/Kuti, 2000, p. 238). While

²¹ Already in 1996 an opinion poll was carried out in Hungary on public approval of the proposed 1% designation scheme. (Vajda/Kuti, 2000, p. 164). In the period April – June 1999, Ágnes Vajda conducted surveys about citizens' attitudes toward the 1% provision and their actual designation decisions (Vajda/Kuti, 2000, p. 210). In June 1999, NIOK surveyed organisations in its database between August and October 1999 and personal interviews were organised with 22 organisations (Vajda/Kuti, 2000, p. 221).

²² In June 2002 the Forum Minority Research Institute prepared a standard questionnaire on a representative population sample (Lampl, 2002, p. 77–87). There is very limited information regarding 1% "donors" and the breakdown of 1% designations in Slovakia.

63% of the organisations interviewed believed that the 1% Law helped improve their financial status, 61% thought that the law drew taxpayers’ attention to NGOs. Further, 43% of respondents believed that the law reinforced “donating” behaviour. We can speak about two sides of the same coin – the aim of the taxpayer as well as the organisation is **to help**, but such help can only be realised through a tool, namely the organisation. If the organisation wishes to accomplish its goal, that in this case coincides with the taxpayer’s aim, it needs financial resources. In order to receive funds, an organisation has to promote itself publicly because this link (between the goal and the tool) is not always clear to the taxpayer who may not be deeply knowledgeable about the situation. The organisation’s campaign should make this link comprehensible for him or her.

However, several examples show that campaigning organisations were not fully aware of the *tool-goal dimension*. There have certainly been examples in Hungary, but we would like to mention one in Slovakia when a particular organisation tried to present itself as a goal and not a tool. This resulted in distrust and reactions like “who knows what they are going to use the money for” or “did they use it as they promised”. But it applies the other way round as well: those organisations that have been the most successful (in receiving the highest 1% income) have precisely defined their goals and also pointed out their role as a tool during their campaign (in Slovakia, for example, the League Against Cancer, Freedom For Animals or the Linguagym Secondary School Foundation that received more than 400,000 koruny – about 10,000 euros).

Level of public awareness

Regarding the level of public awareness, Table 1 shows that in Hungary a larger number of citizens knows about the 1% Law than in Slovakia.

Table 1: Have you heard of the 1% Law in your country? (%)

	Total population*		Taxpayers**	
	Informed	Not informed	Informed	Not informed
Hungary	94	6	98	2
Slovakia	71	29	62	38

*The total population of Hungary in 2001: 10,198, 315 persons.

**The number of Hungarian taxpayers: 4,355,000

*The total population of Slovakia in 2001: 5,379,455 (out of this number there are 2,665,840 economically active persons

**The number of Slovak taxpayers (private individuals) in 2002: 1,238,347

Source: data from Hungary, Vajda/Kuti, 2000, p. 165; data from Slovakia, Lampl, 2002, p. 77.

In Hungary most of the population and almost all taxpayers had already heard about the 1% Law by 1999. In Slovakia less than three quarters of the population and only two thirds of taxpayers were familiar with the existence of the adopted 1% provisions. The level of knowledge depends on the level of education achieved – citizens with a higher level of education are better informed. Still, university graduates in Slovakia were not as well

informed as their counterparts in Hungary (92%). Regarding age groups, people aged 35-55 were the best informed who, at the same time, also had the highest level of education.

If we look at the goals of the campaigns about the 1% opportunity aimed at the general public, we can deduce that even though the Hungarian campaign informed everybody, it was not so successful in persuading people. However, the Slovak campaign did not succeed in spreading information so widely but managed to convince a higher proportion of people than in Hungary. We can conclude that in the first stages, the Hungarian information campaign proved to be more effective, while Slovak information efforts had more effect on the more educated part of the population. However, it is important to mention that being familiar with the 1% opportunity does not automatically mean that the designation option is exercised. This is shown in Table 2.

Table 2: Proportion of people who know about the 1% Law in their country, approve of it and use the opportunity provided

	Total population		Taxpayers		
	Informed	Approve	Informed	Approve	Designated
Hungary	94	86	98	90	31**
Slovakia	71	*	62	*	40

* In Slovakia such a question was not asked.

** The total number of people that designated once, twice, three times between 1997-1999 (Vajda/Kuti, 2000, p. 179 and 219).

Source: data from Hungary, Vajda/Kuti, 2000, p. 165-166; data from Slovakia, the research of the Forum Minority Research Institute, 2002.

The above-mentioned data reveal that in Hungary only a small proportion of the informed population and taxpayers disapproved of the 1% Law. Out of all taxpayers familiar with it, 90% approved but only 31% of them (!) took the opportunity to designate a part of their personal income tax (see last column of Table 3). In Slovakia no research has been carried out regarding public approval. Regardless of what people thought about the law, only 40% out of 62% of “informed taxpayers” exercised their 1% designation right.²³ In fact, less than a third of taxpayers in Slovakia actually used the opportunity in 2002.

²³ When we speak about 40% it means 40% of taxpayers informed about the 1% opportunity, not the total number of taxpayers. In everyday practice such a clear division is not made and is not even possible. Because of missing information, it is impossible to know how many of them were or were not informed.

Assessing the impact of the 1% Laws

It is difficult to measure the exact impact of the laws on society. Criteria have to be well specified in order to conclude whether the legislation fulfilled expectations. The concrete results can be measured in two ways by looking at:

- number and composition of participating NGOs
- amount and distribution of designations.

In the following sections we highlight the 1% Laws' impact through the results of concrete research and analyses previously published. Naturally, before moving on the deal with the results achieved, a number of questions emerge, namely:

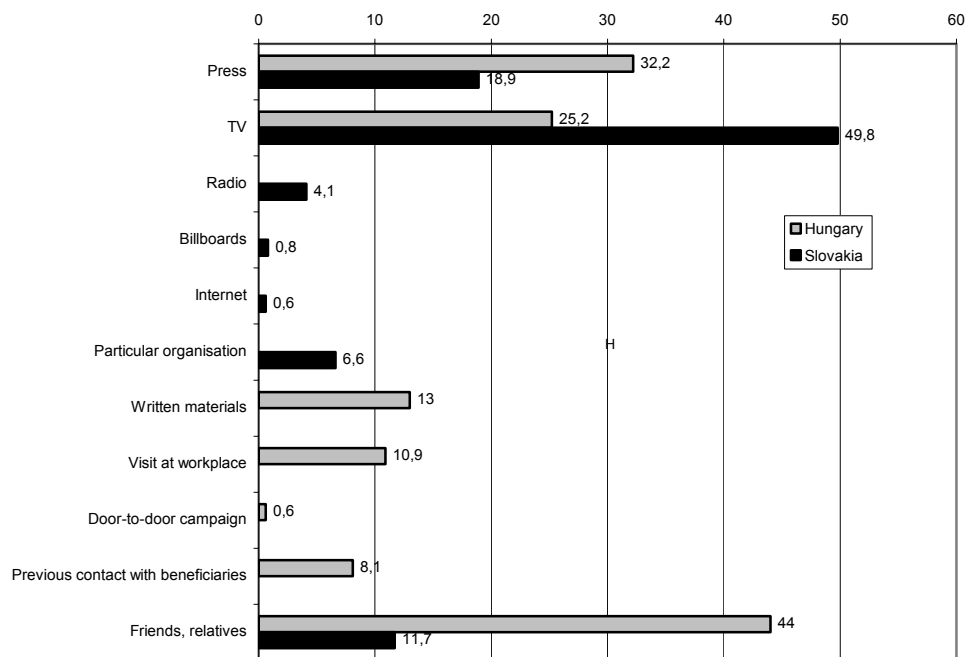
- the effect of administrative problems (as discussed elsewhere in this study, obstacles have been faced in both Hungary and Slovakia, especially in the start-up phase)
- the way the information campaigns organised in the two countries to help implementation affected the number and types of designations
- the role of subjective donation behaviour or attitude (which may have also been influenced by the campaigns along with other elements).

These are rather complex issues and neither in Hungary nor Slovakia have they been thoroughly investigated. Data available answer only a small part of these wider questions. Regarding the impact of campaigns, however, we can look at which campaign tools were used most frequently.²⁴

In each country there were efforts to educate the population about the 1% giving opportunity as well as various individual campaigns run by NGOs as part of their own individual fund-raising strategies. Graph 1 shows what sources of information were used by taxpayers who decided to “support personally unknown organisations” in Hungary (Vajda/Kuti, 2000, p. 197) and by taxpayers in Slovakia, including both those who did and did not designate. We are certainly aware of the fact that groups of taxpayers defined in such a way are not identical; the sources of information in the conducted surveys were not the same either. However, as there is no other data, we were able to compare only this.

²⁴ We do not mention efficiency on purpose. Campaigning is a complex activity. Each communication tool has its own role. Although some of the tools seem to have only a small influence (for example, billboards), it is impossible to state what role they played.

Graph 1: Source of information in Hungary and Slovakia



Source: data from Hungary, Vajda/Kuti, 2000, p.198; data from Slovakia, research of the Forum Minority Research Institute, 2002.

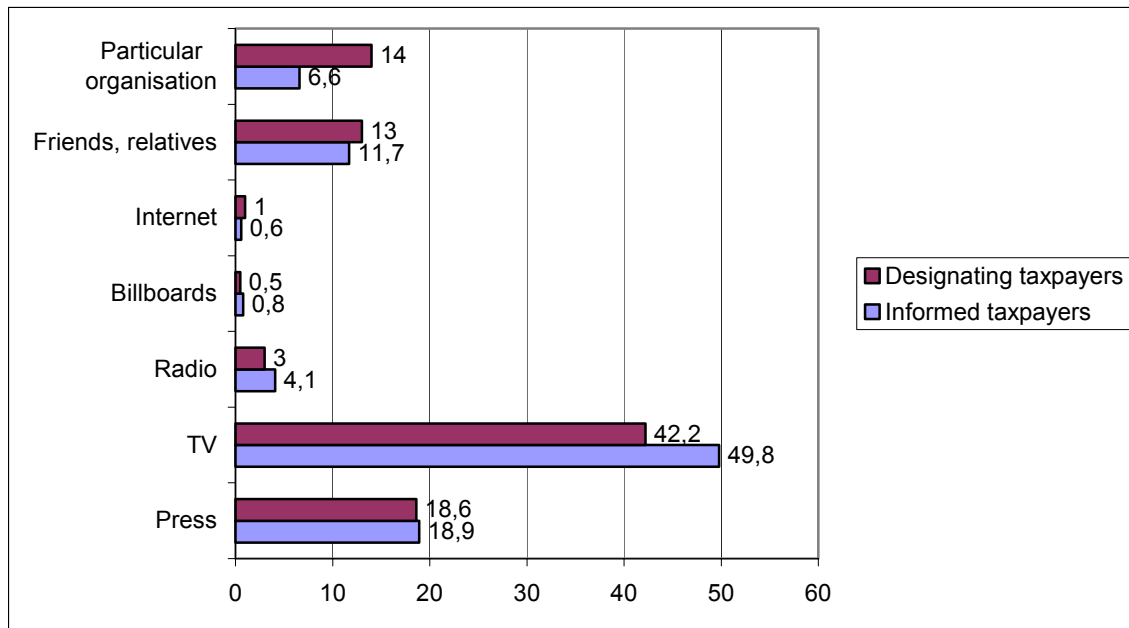
In Slovakia every second taxpayer heard about beneficiaries from television broadcasting, followed by the press which informed every fifth taxpayer. Almost 12% of taxpayers mentioned friends and relatives as their source of information. In Hungary the situation was the reverse. Most people (44%) were informed by friends and relatives, every fourth respondent by television and radio (together 25.2%), every third taxpayer read about beneficiaries in newspapers and magazines.²⁵

What are the implications? Do classical communication tools contribute more to the persuasive character of the campaign than informal, confidential channels? If yes, then the former ones should be used more, but would result in higher expenses for campaigning organisations – or the campaign may be conducted by an umbrella body, general support organisation or resource centre, for example like the Nonprofit Information and Training Centre (NIOK) in Hungary, which covers the necessary costs (Bódi, 2002, p. 120).

Another interesting point is that while internet use was an important tool in Slovakia for providing information to NGOs about 1% issues, this was not a decisive source of information for the public – less than 0.6% of taxpayers used it. This number is very low especially as the rate of internet availability is estimated to be around 10%. One more comment: in Slovakia 6.6% of taxpayers received information from particular organisations. In Hungary such direct contact was much more intensive, for example, door-to-door visits, visits to workplaces and the availability of leaflets during the first years of campaign efforts there.

²⁵ There is no explanation of the fact why in Slovakia television broadcasting while in Hungary personal contact proved to be more efficient. There could have been numerous reasons for which we have no data. Some years on the situation in Hungary may now be quite different.

Graph 2: How did informed taxpayers and those who designated in Slovakia learn about the 1% opportunity?



Source: research of the Forum Minority Research Institute, 2002.

The above graph seems to show that in Slovakia particular organisations should have campaigned in a more assertive way. Organisations should have got closer to taxpayers and not only relied on campaigns conducted centrally or by large organisations (taking the view that people will learn from other campaigns e.g. the League Against Cancer’s campaign and distributing leaflets will be sufficient).

In Hungary around 30%,²⁶ in Slovakia 40% of “informed taxpayers” allocated 1% of their income tax to an NGO. If we look at taxpayers who chose not to support NGOs – this represents 70% of taxpayers in Hungary and 60% of informed taxpayers in Slovakia. The research of Ágnes Vajda and Éva Kuti in 1999 reveals significant differences between the group of taxpayers whose annual tax return was prepared by their employers and those who submit their own annual tax return. When questioned on the reasons for not making a designation declaration in favour of an NGO, the answer of the former group was “negligence” of payroll clerks, lack of information, etc. The explanation of the latter group of taxpayers was that their income tax did not exceed 10,000 forints (about 40 euros), the minimum limit required at that time to make a designation (Vajda/Kuti, 2000, p. 191). Table 3 shows the reasons for not making a designation declaration in Hungary.

²⁶ In Hungary 29.4% of taxpayers made a designation in 1997. This number has increased every year and in 2001 those designating represented 32.3% of taxpayers (Bódi, 2002, p. 41).

Table 3: Reasons in Hungary for not exercising the 1% designation option. Both groups of taxpayers: those whose tax declaration was prepared by their employers or themselves (%)

Personal income tax was less than 10,000 forints (40 euros) ²⁷	22.3
Negligence, carelessness	18.8
No information from employer who handled the tax return	17.3
Not informed about potential beneficiaries	12.4
Do not agree with the 1% Law	12.2
Did not find deserving beneficiaries	9.4
Technical and administrative problems	5.1
Had some frustrating former experience	2.5

Source: Vajda/Kuti, 2000, p. 192

In Slovakia respondents were not asked how their tax returns were prepared. Subsequently, it is difficult to differentiate taxpayers. However, there is information available on the reasons in Slovakia for not exercising the 1% designation option shown in table 4 below.

Table 4: Reasons in Slovakia for not exercising the 1% designation option (%)

N=292

Did not know what to do	21.5
Demanding administrative process	20.0
Wanted to, but forgot about designation option	17.0
Do not trust NGOs	10.5
Do not know, forgot the reason	10.0
Did not know who to support	9.3
Do not find it correct to make designations	6.1
Do not trust tax office employees	5.4

Source: Lampl, 2002, p. 82

Comparing the answers shown in Tables 3 and 4 reveals that almost the same percentage of respondents did not designate due to negligence (18.8% in Hungary, 17% in Slovakia). In both countries 9% did not know to whom to make the designation (although the two statements i.e. did not find deserving beneficiaries and did not know who to support – are not identical). In both countries there was a certain lack of trust in NGOs, the law or the designation process.

All in all, the findings show that both in Slovakia and Hungary taxpayers had different reasons for not making a 1% designation. None of these reasons is exclusive or decisive. In

²⁷ Initially in Hungary a designated amount had to exceed 100 HUF (about 0.4 euro). This limit no longer applies.

both countries hostility towards the 1% Law or NGOs was not the main reason for not designating the 1% amount, though it was present. The main reasons were: lack of information (do not know what to do, regard the administration process of designation demanding), negligence and carelessness (forgot, missed the deadline; the attitude of those “not informed” also implies negligence – they could also have inquired about what to do), or the fact that their income tax did not exceed 10,000 forints (about 40 euros), a requirement in Hungary at that time.

Profile and preferences of designating taxpayers

The Hungarian survey results explicitly show that the level of education is crucial in deciding to allocate 1% of income tax. Taxpayers with a higher level of education were more likely to exercise their 1% designation option (Vajda/Kuti, 2000, p. 182). At the same time, there was a significant connection between taxpayers’ occupational level and the participation in 1% decisions. The involvement of top managers (with a university degree) was more intensive than white-collar employees (Vajda/Kuti, 2000, p. 183). Ágnes Vajda and Éva Kuti’s 1999 survey reveals other links as well: “in the public sector where the overwhelming majority of the employees’ income is fully ‘visible’, 70% of the taxpayers exercised their 1% designation option” whereas only slightly more than one quarter of self-employed people did. When examining industries, taxpayers were less willing to designate 1% of their personal income tax in industries where the presence of the second economy is more significant (construction, agriculture, household services) than in the ones being more transparent from a taxation point of view. Women (32.4%) were more enthusiastic 1% “donors” than men (29.1%). As far as age groups are concerned, people aged between 30 and 60 were the most active (Vajda/Kuti, 2000, p. 187).

In Slovakia very similar tendencies have been experienced even though they were not as significant as in Hungary. In general taxpayers with a higher level of education, women and higher age groups (taxpayers above 55 had the highest percentage) were more willing to designate.

Regarding preferences, in Slovakia one third of those who designated transferred the 1% amount to organisations whose services members of their families had used, followed by organisations known to the taxpayer (23.4%), and almost in equal proportion to organisations of which they are active members or ones connected to their workplace.

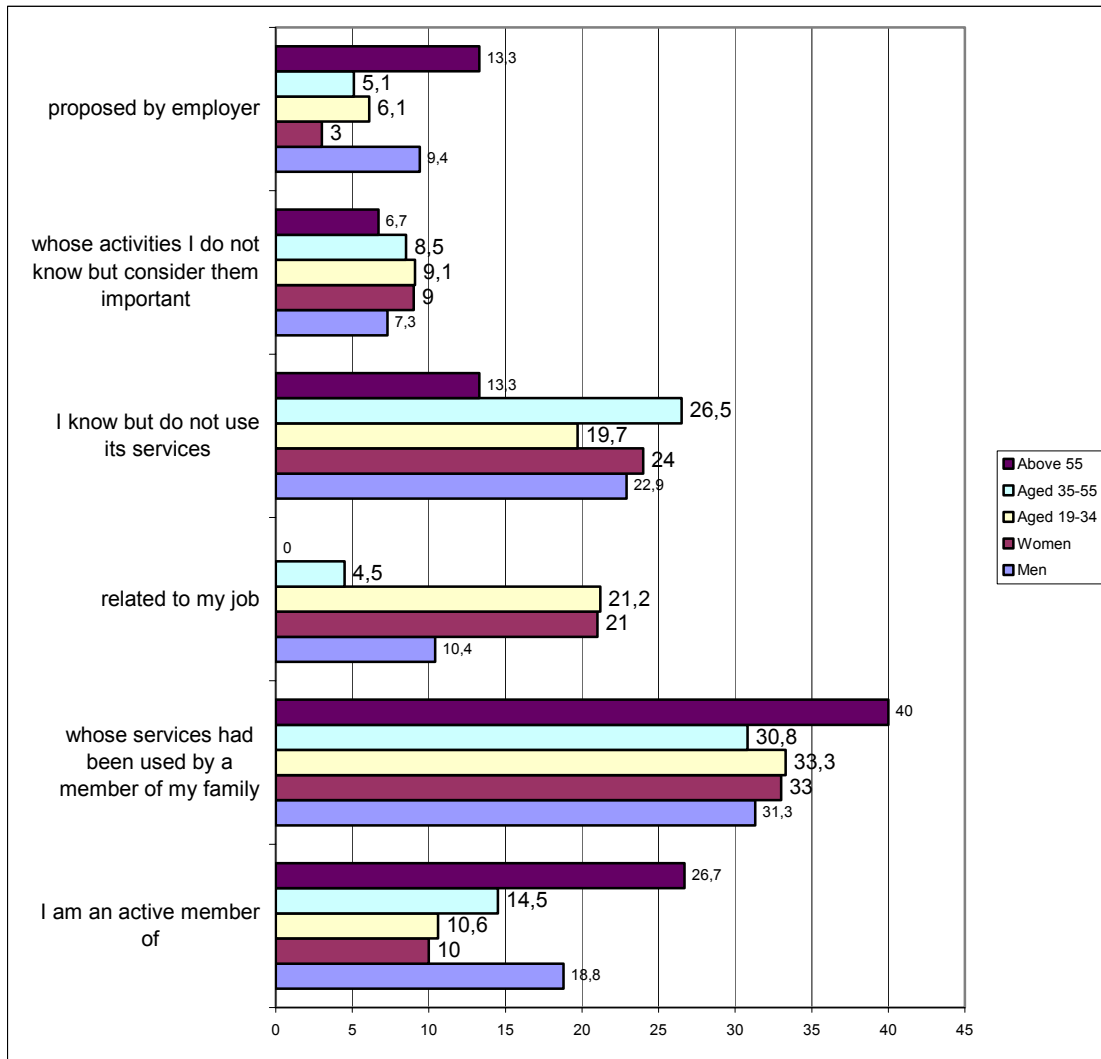
Table 5: Who did you support with 1% of your tax? (%)

	Slovakia
Organisation I am an active member of	14.0
Organisation whose services had been used by a member of my family	32.2
Organisation related to my workplace	15.8
Organisation I know but do not use its services	23.4
Organisation whose activities I do not know but consider them important	8.3
Organisation recommended by my employer	6.3

Source: Research of Forum Minority Research Institute, 2002.

At the same time, the experience in Slovakia has been that women and men, different age groups and people with a different level of education do not designate identically. As illustrated by Graph 3, more men than women in Slovakia contributed to their own organisations or to the ones proposed by their employers.

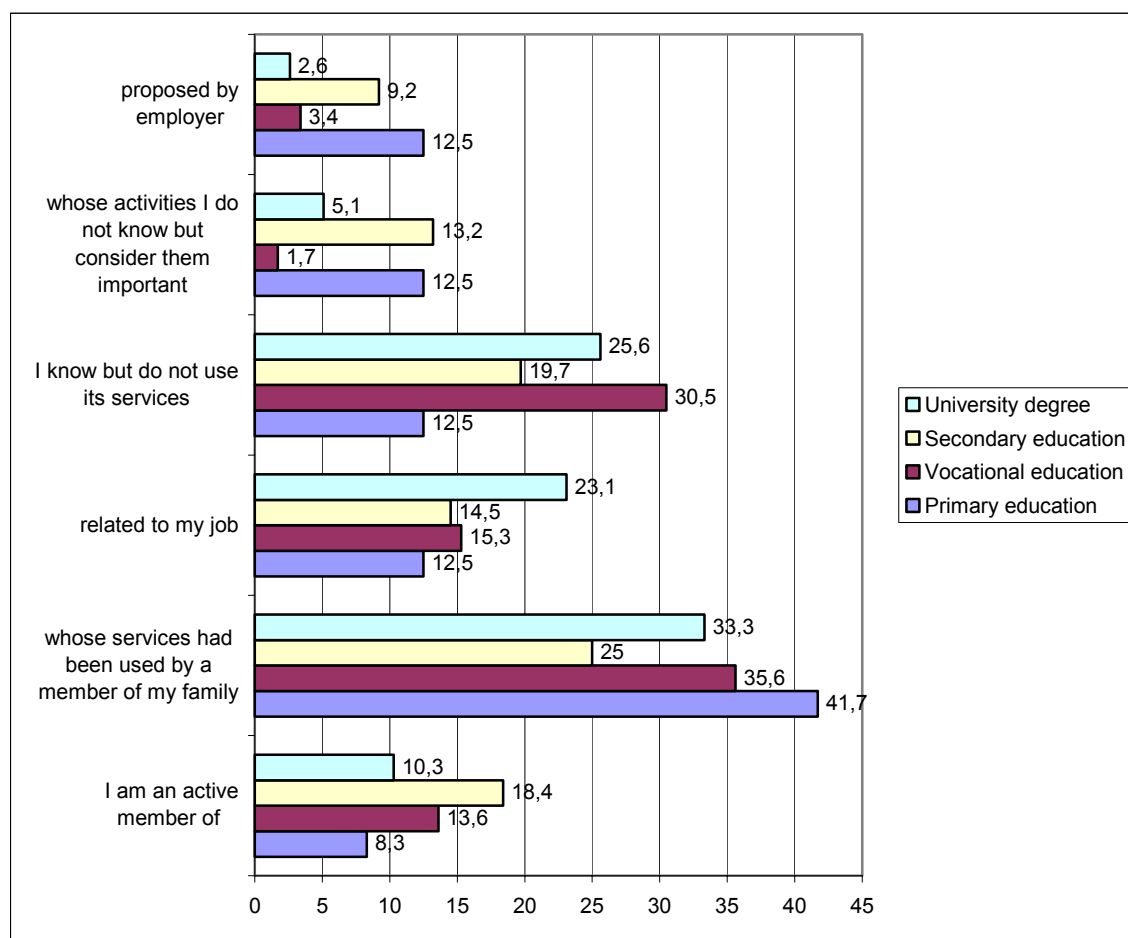
Graph 3: With 1% of your tax you supported the organisation ... (I.) Slovakia



Source: Research of Forum Minority Research Institute, 2002.

As Graph 4 shows, people in Slovakia with primary education were the most active in contributing to organisations providing services used by their family members and also to organisations proposed by their employers. Those who had completed secondary education preferred to support organisations they are connected to through active membership. Organisations related to their workplaces were least favoured by people who had completed higher education.

Graph 4: With 1% of your tax you supported the organisation ... (II.) Slovakia



Source: Research of Forum Minority Research Institutes, 2002.

Why did people make designations? In the case of Hungary this question was answered by the research conducted in 1999 by Ágnes Vajda and Éva Kuti, referred to earlier. The Slovak data provide similar explanations. The primary goal of those designating is the desire to help. There are several aspects of how help is provided (to whom, to what organisations, through which organisations). However, one can presume that in the mind of those designating they formed one group. These aspects are:

- relationship to the organisation
- organisation's field of activities
- organisation's geographical coverage.

The relationship to the beneficiary organisation (see Table 6) proved to be important in both countries. Most of the respondents support organisations with which they are personally associated (from active membership to sponsorship). In Hungary 42.3%, in Slovakia 48% allocated 1% of their income tax to such organisations. This was followed by those organisations (36% of Hungarian and 31.7% of Slovak respondents) which the taxpayers had only heard about, but considered their activities important and where they could imagine possible co-operation in the future.

Table 6: Composition of taxpayers according to their relationship to beneficiaries²⁸

	Hungary	Slovakia
Personally known organisation		
providing the taxpayer's family with services related to the taxpayer's job	24.7	32.2
also supported by the taxpayer in other ways	10.0	15.8
the taxpayer is an active member	7.6	14.0
Organisations known by friends and relatives	17.1	
Organisations known only by repute		
involved in activities preferred by the taxpayer	32.1	*31.7
potential future service providers	4.0	
Haphazard and surrendered decisions	4.5	**6.3

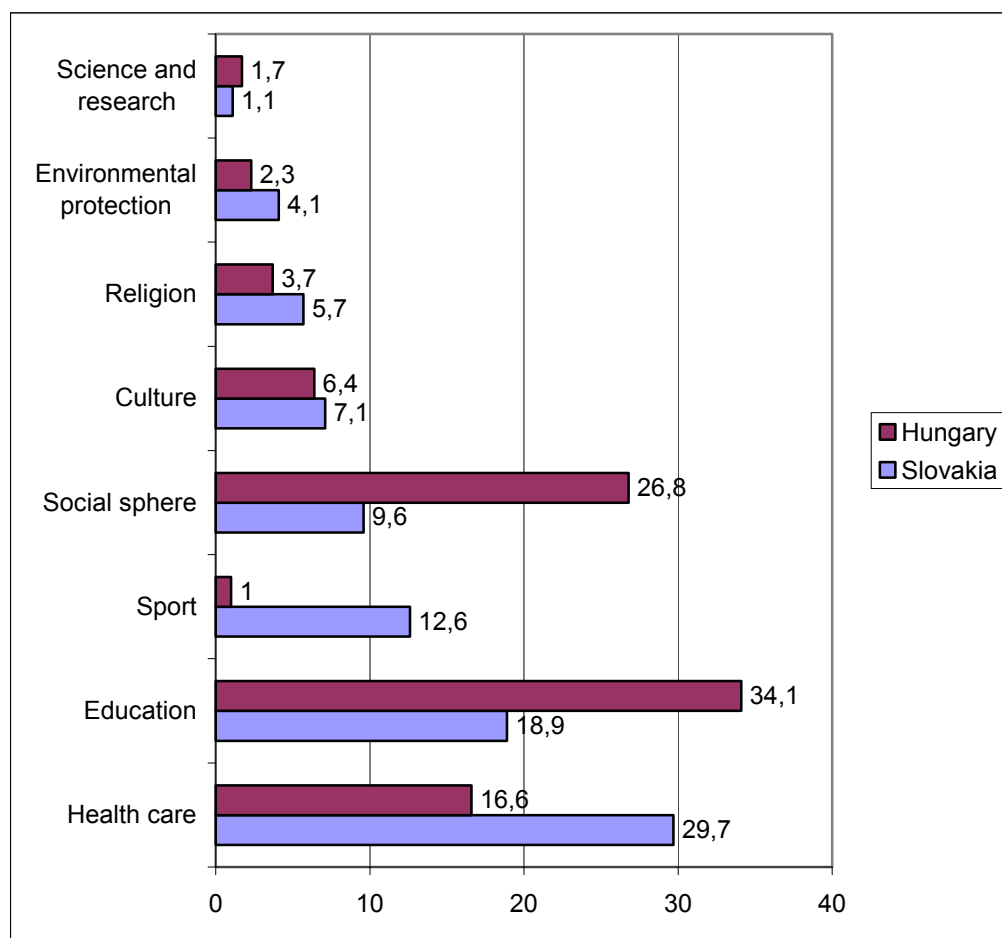
* knows or finds the organisation important – summarised answers

** the 1% designation was made to an organisation proposed by their employer.

Source: data from Hungary from 1999 (Bódi, 2002, p. 62); data from Slovakia from survey of Forum Minority Research Institute, 2002

²⁸ For original table, see: Vajda/Kuti, 2000, p. 220, slightly changed here.

Graph 5: Composition of those who designated by beneficiaries' fields of activities in Hungary and Slovakia



Source: Hungarian data from 1999 (Bódi, 2002, p. 62); Slovak data - survey of Forum Minority Research Institute, 2002

Graph 5 shows that in Hungary one third of those designating supported education, 26.8% the social sphere and 16.6% health care. In Slovakia health care (29.7%), education (18.9%) and sport (12.6%) topped the list. In both countries health care and education enjoyed the most support though, in reverse. Except for sport, which in Slovakia was the third most favoured field of support, the choice of priorities was nearly identical in both countries with only the intensity of support differing. The mutual relationship between those designating and beneficiary organisations becomes unambiguous when the fields beneficiaries are involved in are examined. Organisations in education, health care, sport and the social sphere are the ones people come into contact with without making a special effort or, if they do not have personal contacts, they consider them to be potential future service providers.

Why is health care the top choice in Slovakia and education in Hungary? Due to lack of data we cannot answer this question precisely. However, our opinion is that the “principle of usefulness” drives taxpayers’ decisions. Members of the public seem to primarily support those who, in their opinion, will use the funds for a good purpose. These are usually the causes that are visible to taxpayer, for example a health care foundation or a foundation supporting a school. Or they may support the former one year and the latter the next.

According to the latest Hungarian tax office data for 2003, health care organisations received the largest amount of 1% support in Hungary, which was also the group that did best in Slovakia in 2002.

Financial support received by NGOs in Hungary and Slovakia

In Slovakia in 2002, the first year of the 1% system's operation, 101,882,272 koruny (about 2.5 million euros) were designated by 331,466 taxpayers. This amount was distributed among 3,923 organisations. The smallest amount received by a beneficiary was 28 koruny (about 0.68 euros), the largest 3,631,760 koruny (about 88,000 euros). On average each organisation received 25,964 koruny (about 600 euros). The 50 most supported organisations received at least 200,000 koruny (about 4,800 euros). Out of this group of 50 organisations, health care foundations were dominant (League Against Cancer, children oncology foundations, etc.) followed by educational, sport, religious and other foundations. (At the time of writing this paper, no data was available for 2003).

Rather than refer back to earlier years, the latest tax office data in Hungary for designations made is used here to provide examples of the level of 1% support received by NGOs in 2003.²⁹ Nearly 22,000 organisations were allocated 6.1 billion forints (about 23 million euros) through 1,358,000 taxpayers' designations to NGOs. Out of this amount 4.7 billion forints (about 18 million euros) was for foundations – mainly health care and educational organisations. On average, each organisation received 279,650 forints (about 1,000 euros). The highest amount designated by one taxpayer was 151 million forints (about 500,000 euros) which was also for a health care foundation. The average value of one designation was 4,498 forints (around 20 euros).

Hungarian data show 1% designations to NGOs have grown steadily from a total of 3 billion forints in 1999 to 6.1 billion forints in 2003.

Year	Total amount designated to NGOs (Hungarian forints)
2003	6.1 billion
2002	5.1 billion
2001	4.3 billion
2000	3.7 billion
1999	3.0 billion

Source: APEH, the Hungarian tax authority, September 2003

²⁹ “10 billion from 1%”, F. Szabó, Emese, Népszabadság, 9 September 2003, p. 28, see <http://www.onepercent.hu/news.htm#10bill>

Geographical factors

The third aspect linked to designations is the geographical range of beneficiaries. In Hungary this aspect was not included, rather the composition of taxpayers by their residence was examined. The 1999 survey revealed that residents in county towns (the administrative centre of a county) were the ones who designated most (36%), while people in villages were the least active (26.7%). The conclusion of the research was that “the presence of eligible local non-profit organisations (their ‘closeness’) and the density of local informal networks are equally important influencing factors” (Vajda/Kuti, 2000, p. 185). Even though there are more organisations in the capital than in the county towns, for the latter personal relations are stronger as well as the connections between organisations and citizens with the result that there is a higher level of motivation for designating 1% funds. All in all, it may be deduced that in Hungary taxpayers prefer organisations active in their neighbourhood. The same is true of Slovakia where 63% supported such organisations, 20.6% supported nation-wide organisations and 10.6% supported other organisations for example, organisations operating in several regions (Lampl, 2002). These results reconfirm the importance of the previous two aspects, namely a personal relationship with the particular organisation and familiarity with its activities. This connection seems logical; it is more difficult to imagine a personal relationship between a taxpayer and an organisation that operates in another location.

Overview of key groups and experience

As this paper has shown, the impact of these innovative percentage instruments has been rather wide. The aim of this section is to summarise the experience gained by the different groups involved.

The state: The designation system introduces a new element into the traditional state system of redistribution i.e. not only has the state the right to decide about the use and distribution of state funds but citizens can do so by their indirect and personal decisions which must be carried out by the state administration. The tax office and any state institution participating in the process need to operate transparently. Such a requirement can be challenging but, on the other hand, it also helps build mutual co-operation between the sectors involved.

Taxpayers: The taxpayers, as the “donors”, play an active role. They decide whether to give 1% of their tax to the state or to an organisation. In addition, they also have to choose which organisation will receive the portion of their tax. It is even possible to say that the positive experience results in more action: the proportion of taxpayers who decide to exercise their 1% designation option shows an increasing tendency.³⁰ It is important to mention that either a new link is formed between the citizens and NGOs or the existing relationship becomes more intense. The designating process allows taxpayers to become closer to organisations and hopefully have a different opinion about them than before they made their designations: they may feel more connected to the beneficiaries and this may result in further positive returns.

³⁰ Data from Hungarian tax authority (APEH) shows the number of designations in Hungary (including both NGOs and churches) has increased from 1,670,165 in 1999 to 2,134,602 in 2003, with the number of designating taxpayers the same years growing from 1.3 to 1.5 million. See <http://www.onepercent.hu/Dokumentumok/1tables2003.doc>

For example, citizens may feel motivated to become involved in the work of the NGO which may lead to new forms of support.³¹

NGOs: NGOs are also activated. They have to find new ways to promote themselves in their immediate and wider neighbourhood. They have to prove their usefulness in a competitive environment which is not such a simple task, especially as such usefulness is not always measurable in state and business sector terms. For NGOs, it matters how the general public see their activities and whether they approve of their goals and results. From this point of view, the degree of 1% designations obtained can represent a form of feedback. Contact with members of the public also contributes to improving organisations' functioning. In future, such contact may lead to financially immeasurable benefits for organisations as well as the state. As for the latter, organisations' efficiency is measurable and they carry out work in fields that the state is not able to provide for.

The 1% process also has an important influence on organisational development. Obtaining 1% support must form part of an organisation's plans – not only in its budget but also the means to be used for attracting such support. The organisation has to publicise itself, prepare promotional materials and distribute them to the target group, form a bond with tax-paying members of the public etc. All these aspects serve to increase the organisation's efficiency. The organisation becomes more professional, rethinks its mission, the efficiency of its work, its working methods, staff etc. The organisation has to be transparent, visible and understandable to outsiders. The work carried out by the organisation must be demonstrable, a factor which is also likely to be important in the case of future applications for EU funding. However small the designated amount is, the beneficiary organisation can gain some know how that may be useful in the longer term (for example, marketing and PR, operating transparently, administration). Furthermore, the organisation can use the amount of 1% support received as an indicator for re-evaluating its campaign techniques when trying to attract more funds in future.

The smallest organisation also have a significant opportunity. As obtaining 1% support very much depends on the organisation itself – especially in Slovakia where organisations have to register to be eligible as recipients – no organisation that meets the legal requirements should feel excluded from the process. Given that the opportunity is open to any organisation that meets the requirements, those organisations that do not register or do not campaign have only themselves to blame.

The NGO sector: In Hungary as well as in Slovakia, the newly passed 1% provisions evoked a bustle of activity within the NGO sector. Activities concentrated on immediate goals directly linked to implementing the legislation included:

- informing the NGO sector
- informing the public
- persuading the public to contribute 1% of their personal income tax to the NGO sector
- lobby work to bring about improvements and secure more resources for the sector.

³¹ New opportunities present themselves, for example, for schools. Former students may support the schools they attended. In Slovakia such designations have been significant. In these cases the direct link with the target group is clear so no campaign is needed to form it.

The Slovak law was successful thanks to two NGOs, namely the Forum Information Centre and the 1st Slovak Non-profit Service Centre (SNSC) which took on the promotion of the 1% system, assisted the state administration, provided data on registered organisations, provided up-to-date information on special web pages regarding the latest problems, and even provided legal assistance to some organisations.³² All this helped NGOs to gain experience in overcoming administrative obstacles and helped the 1% mechanism to work more smoothly the following year. NIOK has played a similar role in Hungary.³³

The media and other communication channels: The media also plays a key role. National TV and radio, and the national, regional and local press are important participants who assist the process. In both Hungary and Slovakia the experience has been positive with the media helping the sector's 1% campaign efforts by providing discounts, free advertising, and free transmission while NGOs have kept the media informed about various events, results etc. Other communication channels are important to bridge the gap between NGOs and the public. In Hungary the tax authority is a key partner in NIOK's campaign and plays an important role in passing on information prepared by NIOK to taxpayers.

Questions posed by the introduction of the 1% mechanism

The introduction of percentage mechanisms must be considered in a wider context. For example, it might be argued that certain threats are caused because:

- private donations may fall as a result of the 1% mechanism, or may halt their growth
- state support may drop due to its introduction.

In other words, its introduction may have a negative impact on existing giving habits and the NGO's sector overall income. Of course, negative effects have to be considered as well.³⁴ In our opinion, these appear negligible.

The existence of an instrument like a percentage law does pose a serious dilemma. Compared to making a private donation with one's own money, the allocation of money involved in the 1% system is not typical philanthropic behaviour. The decision is whether a taxpayer supports an organisation with money that should otherwise be paid to the state as taxes owed. The designation system simplifies decision-making as taxpayers do not have to make an additional contribution from their own pockets. In fact, one of the greatly advertised advantages of such a law is the very reason that the taxpayer incurs no further expense. On the other hand, the taxpayer still has to make some extra effort, namely instructing the tax office to ensure the "donation" reaches the desired beneficiary. Both in terms of the nature of the money involved (income tax) and procedure (the involvement of the tax authority), it would be a mistake to say that the percentage system replaces the classical forms of private donation. It can be

³² Details of the information and assistance available can be found on www.rozhodni.sk, a website set up by the two organisations to help implement the 1% system.

³³ Information on NIOK's services can be found on the 1% pages of www.nonprofit.hu.

³⁴ Ágnes Vajda and Éva Kuti mention the so-called "crowding out" effect as an example of a potential negative impact. It means "...the state as well as private donors feel that by the 1% support they fulfilled their duties". (Vajda/Kuti, 2000, p. 156.) In Hungary the churches used the same argument: "Since historical churches feared that the 1% provision would terminate their former central support or at least change it to their disadvantage, the bill received strong criticism from them." (Vajda/Kuti, 2000, p. 142).

argued that this instrument provides for a new form of giving that helps revives giving behaviour. However, it does not substitute traditional giving. That said, private individuals have to recognise that their private contribution is still needed.

At the same time, the financial support the percentage system provides is not, and cannot become, an exclusive, sole form of state support. The various other forms of state support should also be maintained because 1% designations are only an additional source of income for the third sector. Data from Hungary show that 1% giving represented 0.7 % of the NGO sector's income in 2000.³⁵ This is still, however, a substantial amount and does not lessen the significance of funds received by the organisations concerned. It is an important new source because, as already mentioned, the NGOs receiving 1% funds can use them flexibly.

It is important to point out that neither the Slovak nor the Hungarian government sees the 1% system as an exclusive form of state support or as its alternative. The clear evidence is that in Hungary as well as in Slovakia other forms of state support have been sustained. It has never been suggested that the 1% system's existence has resulted in budgetary cuts required as part of any financial reforms undertaken in these countries. It is interesting that in 2003 when the financial reform package, proposed by Finance Minister Ivan Mikloš, was being discussed in Slovakia, a proposal was made suggesting the annulment the 1% provisions. The opposition of NGOs and the effective support of parliamentary parties not only saved the percentage mechanism but led to its successful increase to 2%. However, it was during the debate on cuts to deductibility options from the tax base regarding private and corporate donations that the portion of tax that can be designated was increased from 1% to 2%.³⁶

Earlier, the 1% provisions in Slovakia had been extended to allow corporate entities to allocate a portion of tax. When this opportunity starts in spring 2004, companies, when reporting on their income for 2003, will be able to allocate amounts of tax of up to 2%, the new percentage level. As the size of the designated funds involved may represent a larger amount than in the case of individual taxpayers, the 2% portion of corporate tax can be divided among several organisations.

The increase of the designated amount of tax to 2% both for individual taxpayers and companies shows a willingness on the part of the Slovak government to develop the percentage mechanism and increase the funds available to the NGO sector through it.

On-going and future challenges

Experience in Hungary and Slovakia shows it is necessary to ensure that the 1% issue is more than just an NGO sector issue. Ideally, the opportunity offered by such percentage laws should be actively promoted by state institutions – by their positive attitude, supportive statements – and the establishment of simple administrative mechanisms. For citizens to use their legal right to designate, the process should be as open and user-friendly as possible to allow – even encourage – citizens to exercise their right, rather than one which places obstacles in the way or discourages their participation. Similarly, NGO beneficiaries should not face unnecessarily difficult or bureaucratic procedures to qualify for or receive 1% funds. Last but not least, the administration generated for tax officials needs to be manageable within the legal deadlines specified.

³⁵ See *Nonprofit organisations in Hungary, 2000*, Central Statistical Office (2002).

³⁶ The Hungarian Coalition Party was behind the proposed increase from 1 to 2%.

In Slovakia new tax return forms are to be introduced which will hopefully simplify procedures. In future, citizens will not have to fill in a separate form for the 1% designation; the designating statement will be part of the tax declaration itself. Similar developments are expected in Hungary. This means that the 1% opportunity will be automatically presented along side the taxation obligation. Such changes may increase the number of designations although, as the individual taxpayer's identity and personal choice of beneficiary will be visible, it is not entirely clear how the anonymity principle will be maintained

The level of information made available about the 1% option is important. As the data presented in this paper show, despite high levels of public awareness, only a part (around one third) of taxpayers actually make such designations. Increasing participation is a key challenge, but to maximise results a multi-layered approach is required including:

1. **Campaign and information efforts.** Campaigns, both by organisations promoting the NGO sector's general interests and by specific organisations campaigning for themselves, need to be maintained.
2. **Specific information and advice.** Specially tailored tools, beyond the provision of general information, are needed to assist taxpayers wishing to make designations but who lack knowledge or contact with specific organisations. Likewise, potential beneficiaries need support in order to learn the procedures and requirements involved.
3. **Legal protection.** Those citizens wishing to make designations should feel secure in doing so. Possible abuses must be monitored and addressed.
4. **State-NGO relations.** Good working relations between the relevant government offices and particular organisations are needed given the inter-dependence and co-operation required for smooth, efficient implementation on all sides.
5. **Operational procedures.** Further simplification of procedures and requirements for *all the parties* must continue to be introduced.
6. **Information flow and mutual feedback.** In the interests of transparency, comprehensive data of the previous taxation period and emerging trends have to be processed and publicised by the tax authority in a timely fashion so both citizens and organisations are aware of the overall amounts designated and the beneficiaries involved. Such information is required to assess the effectiveness of the laws. Equally, the NGO sector has to provide regular feedback to state institutions on the results of services being provided and problems being experienced by taxpayers and organisations so, if needed, further improvements to procedures can be introduced.

The 1% process may contribute to increasing both the state's and the general public's awareness of the financial needs of NGOs – in both countries the idea of setting up state funds for NGOs has been raised. Such funds already exist in certain fields like the National Cultural Fund in Hungary. In 2003 the Hungarian Parliament approved a law that gives further support to NGOs in the form of a National Civil Fund, the size of which is determined by the amount of money designated by taxpayers to NGOs through the 1% mechanism the previous year. Even if governed by independent committees, such funds remain central state funds and their decisions cannot be compared to the decisions of individual taxpayers who designate a

percentage of their income tax to a beneficiary of their choice. The idea of such funds continues to be debated in political circles and among NGOs.

Concluding remarks

It is important to remember that the 1% model is not a panacea and it alone cannot cure all the NGO sector's ills. This fact should also be borne in mind when examining the impact of such an instrument. This type of law is just a modest contribution to the functioning and funding of the NGO sector. With or without it, the efficient performance of tasks, voluntary work, mobilising intellectual and financial resources, various fund-raising techniques etc. that have always characterised the NGO sector's work, continue to be vital elements. The scope of the possibilities offered by a percentage law should be clearly understood. Its role should neither be overestimated nor undervalued. Its financial contribution cannot replace state or private support; on the other hand, its positive "side-effects" extend beyond purely financial considerations. Among others, the most important are the enhanced transparency, visibility and outreach of NGOs.

This paper has aimed to make a contribution to the wider understanding of the Hungarian and Slovak experience with percentage laws. Perhaps the results are somewhat biased: the two examples studied have been in existence for several years and, though not without problems, are operating with some success. But it is worth concluding with the following observation: the idea behind the innovative percentage measure arose as a completely new concept and, due to the fortuitous political constellation at a specific time, it became a reality in both countries. We venture to say that such an initiative, adapted to fit local conditions, could be realised anywhere.

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³⁷ Based on a research project funded by the Aspen Institute designed by Vajda Ágnes including contributions from Vajda Ágnes, Kuti Éva, Mészáros Geyza, Sebestény István, Biro Lajos, Gerencsér Balázs, Bódi György (for ease of reference, we refer to Vajda/Kuti the main authors). The main findings of Vajda/Kuti can be found at: <http://www.onepercent.hu/Dokumentumok/1percentaspen.doc>

³⁸ See summary at:
http://www.onepercent.hu/Dokumentumok/Outcomes_of_research_short_version_revised.doc