



## Tax incentives for philanthropy

---

[sanskritias.com/current-affairs/tax-incentives-for-philanthropy](https://sanskritias.com/current-affairs/tax-incentives-for-philanthropy)



**(Mains GS 2 : Development Processes and the Development Industry — the Role of NGOs, SHGs, various groups and associations, donors, charities, institutional and other stakeholders.)**

### Context:

- People donate money to charity because they believe in the causes they support, or the quality of work that some NGOs are doing, or because they are committed citizens.
- Thus, a systematic study of the impact of tax incentives on charitable donations is the need of the hour.

### Long history:

- Raising taxes is a core attribute of statehood; but remarkably, tax incentives for charity also have a long history.
- They go all the way back to the 19th century in some of the countries studied, and are also provided in countries such as Brazil which have a restrictive tax incentives regime for civil society.
- Despite this, the role of tax incentives in supporting civil society is poorly studied in most countries.

### Econometric studies:

- These are primarily econometric studies which measure the increase or decrease in charitable donations due to changes in the tax incentives provisions.

- These studies depend on the availability of tax and donor data to researchers but the non-monetary impact of tax incentives is not deeply examined.
- For example, does the legal relationship that tax incentives create between the state and the civil society as a sector impact its financial health and stability.

### **Tax incentive:**

- In India, financial flows coming through tax incentives are not the mainstay of civil society; however, given the overall nature of the sector, they may still be very critical.
- Many NGOs in India are small and operate with budgets of less than ₹15 lakh a year and most of them distributed in a very narrow range with work in the areas of health and education.
- For small NGOs in remote areas or those working on areas that are less recognised, the tax incentives status may still be important for establishing legal recognition with the community, government entities and donors.
- The most important role of tax incentives as the regulatory and legal link between the state and the civil society is that of the 'signalling effect'.
- It denotes that the state supports philanthropic activity and through its revenue forgone, actively encourages private actors to engage with public problems.

### **Irreplaceable role:**

- When examined from the perspective of the government, civil society organisations have historically played an irreplaceable role in social development.
- Many government programmes have emerged due to a harmonious relationship with NGOs that have implemented an innovative idea.
- Governments have provided the scale and state support while the NGOs have provided the ideational energy and community experience, for example, the activity-based learning approach developed by Rishi Valley in Tamil Nadu during the early 2000s.

### **Made more responsive:**

- A systematic study of the impact of tax incentives is the need of the hour, particularly one on the various provisions in supporting philanthropic activity which highlight the many ways in which India's tax incentives regime can be made more responsive.
- For example, countries like France have a credit-based system, which is more equitable than the deduction-based system followed by India which privileges high-income donors.

- Studies in the U.S. and the U.K. suggest that high-income donors are more sensitive to tax incentives, and a carefully crafted regime can be used to target this category of donors.
- Stakeholders further need to take a re-look at reinstating other categories of taxes such as wealth and inheritance tax so that charity-focused tax incentives can benefit the non-profit sector.

**Conclusion:**

Saving the revenue forgone from tax incentives may not increase the government coffers significantly, but this will impact the perception of the NGO sector for an average donor.