

Amendments to Corporate Income Tax Act: donations (3/35/19)

From 1 January 2018, the CIT Act gives a number of reliefs to businesses that have donated to public benefit organisations, state-funded institutions, or state-owned companies performing national culture functions delegated by the Ministry of Culture. We have written earlier about the new rules for donations and their application. Amendments to the CIT Act effective from 1 July 2019 lay down favourable rules for donors, which we hope will favourably affect donees.

Tax relief on donations

A taxpayer that has donated in the financial year has three ways of taking relief:

1. Excluding from the tax base any donations up to 5% of the taxpayer's after-tax profit for the past year;
2. Excluding from the tax base any donations up to 2% of the taxpayer's total gross wage for the past year on which national insurance contributions have been paid;
3. Reducing the CIT charge on dividends by 75% of the donation, capped at 20% of the CIT charge on dividends.

The lawmaker has met donors halfway and motivated them to choose the third type of relief by providing that businesses can reduce their CIT on declared dividends by 85% of their donations, capped at 30% of the CIT charge on dividends, in the financial years 2020, 2021, and 2022.¹ This double increase of ten percentage points might be significant for the future existence of some donees because financing for those institutions partly relies on business generosity.

An example:

	<i>Before the amendments</i>	<i>After the amendments</i>
Declared dividends	EUR 10,000	
CIT on dividends	EUR 2,500 (10,000 / 0.8 x 20%)	
Donation	EUR 666.66	EUR 833.31
Relief	EUR 500 (666.66 x 75% < 2,500 x 20%)	EUR 708.31 (833.31 x 85% < 2,500 x 30%)
CIT on donation	EUR 166.67 (666.66 / 0.8 x 20%)	EUR 208.33 (833.31 / 0.8 x 20%)
CIT after taking relief	EUR 2,166.67 (2,500 + 166.67 - 500)	EUR 2,000.02 (2,500 + 208.33 - 708.31)
Total cost	EUR 2,833.33 (666.66 + 2,166.67)	EUR 2,833.33 (833.31 + 2,000.02)

As from 2020 the new rules allow businesses to make a larger donation, with their total cost remaining unchanged. The taxpayer in the table above will be able to give an extra EUR 166.65 compared to 2019. Although these changes send a positive signal to the non-public sector, donations are unlikely to reach the past levels. Some companies decide against distributing profits and keep the money for business growth, so they make no tax payments eligible for this relief.

In early 2018 the Cabinet of Ministers intended to assess donation levels to public benefit organisations by 30 November 2019, but given the amendments of 1 July, this time limit has been extended to 30 November 2021. If donation levels still show a downward trend, the Cabinet of Ministers and social partners will have to think about new funding procedures to improve the situation and promote the overall development of the non-public sector.

¹ Transition rules, paragraph 40