

PERCENTAGE PHILANTHROPY PROJECT

supported by the Sasawaka Foundation

**Slovakia's percentage mechanism**

**Eduard Marček**

for

the Nonprofit Information and Training Centre, Budapest

Spring, 2007

# Table of contents

<b>INTRODUCTION.....</b>	<b>3</b>
<b>THE POLITICAL CLIMATE IN THE 1990S.....</b>	<b>4</b>
THE PRE-1998 POLITICAL SITUATION AND THE ROLE OF THE NGO SECTOR.....	4
<b>PUTTING 1% ON THE NGO AGENDA AND INTO TAX LEGISLATION.....</b>	<b>5</b>
DEVELOPMENT OF THE 1% IDEA.....	5
NGO PROPOSALS IN THE 1998 ELECTIONS.....	5
GOVERNMENT SUPPORT FOR A 1% OPTION.....	5
SHORTCOMINGS IN THE 1% MECHANISM.....	6
NGO PROPOSALS TO AMEND THE 1% MECHANISM.....	6
<b>A NEW 1% PROVISION.....</b>	<b>8</b>
PRIVATISATION FUNDS FOR NGOs INITIATIVE.....	8
1% FROM BUSINESSES.....	8
2003: THE TAX REFORM DEBATE.....	9
<b>2005 – 2006: CHANGES TO THE 2% MECHANISM.....</b>	<b>10</b>
SIMPLIFIED DESIGNATION PROCEDURE.....	10
NGO PROPOSALS TO IMPROVE THE MECHANISM’S OPERATION.....	10
PROPOSED CHANGES TO THE MECHANISM.....	11
GOVERNMENT ATTEMPTS TO CUT BUSINESS DESIGNATIONS.....	12
THE PEOPLE TO PEOPLE CAMPAIGN.....	12
THE PARLIAMENTARY DEBATE.....	13
CHANGES TO THE MECHANISM.....	14
<b>REFLECTIONS AND ANALYSIS.....</b>	<b>15</b>
CONSTRAINTS ON NGO SECTOR DEVELOPMENT.....	15
NGO OBJECTIVES AND LOBBYING STRATEGIES ON THE PERCENTAGE MECHANISM.....	16
GOVERNMENT APPROACH TO THE MECHANISM.....	18
OUTLOOK.....	21
<b>BIBLIOGRAPHY.....</b>	<b>23</b>
<b>ANNEXES.....</b>	<b>25</b>
ANNEX 1: PERCENTAGE LEGISLATION: AMENDMENTS TO THE INCOME TAX ACT, 1999-2006.....	25
ANNEX 2: MAIN INITIATIVES, DEVELOPMENTS AND LEGISLATIVE CHANGES AFFECTING THE OPERATION AND FINANCING OF SLOVAK NGOS, 1997-2006.....	25
ANNEX 3: NGO LEGISLATION IN SLOVAKIA.....	25
ANNEX 4: A SUMMARY OF NGO/GOVERNMENT ARGUMENTS, NEGOTIATING POSITIONS AND TACTICS ON ISSUES AFFECTING SLOVAK NGOS, 1998-2006.....	25
ANNEX 5 REFORMS IN SLOVAKIA (2002-2006) AND THEIR POTENTIAL IMPACT ON THE NGO SECTOR.....	25

## Introduction

The arrangements in Slovakia's tax legislation which allow taxpayers to designate a percentage of paid tax to eligible recipients were inspired by Hungary's "1% Law". However, both the introduction of the mechanism of percentage designation in Slovakia and its subsequent operation have differed from Hungary's experience in several important respects. Whereas it was the Hungarian government that in 1996 proposed allowing individual taxpayers to designate 1% of their previous year's tax to a non-governmental organisation (NGO) of their choice, it was NGO lobbyists who initiated the process that persuaded the government to adopt a similar 1% mechanism to support the NGO sector in Slovakia. Over its first decade of operation the Hungarian 1% system has enjoyed the support of successive governments; in Slovakia NGOs have had to campaign on several occasions to defend the percentage mechanism from its proposed abolition and other cuts. The Slovak mechanism has not only survived but, somewhat paradoxically, has been expanded in two important ways – the level of designations was increased from 1% to 2% and designations by businesses were added. However, these gains, important though they were, came about as compensation for the rejection or loss of other forms of government support to NGOs. Changes to the Slovak mechanism made at the end of 2006 – most notably, to exclude certain NGOs as recipients – had a political dimension that stemmed in part from the current government's disapproval of NGO involvement in the 1998 pre-election campaign. Recent events suggest that further efforts may be required to ensure that the percentage mechanism remains part of Slovak tax legislation and a reliable source of funding for NGO activities.

This first part of this paper, largely based on accounts given in earlier papers by a number of authors, describes the lobbying efforts on the percentage designation issue undertaken by different groups in the Slovak NGO sector from 1998 to 2006. The second part of this paper examines the various constraints on NGO sector development in Slovakia, and also considers NGO lobbying strategies as well as the government approach to the percentage mechanism.

Parts of this paper are based on the findings of six interviews which the author held with some of the key actors involved.<sup>1</sup> A series of tables, annexed to this paper, provide details of related legislation and additional information on key developments and issues relevant to the NGO sector.

---

<sup>1</sup> Interviews were held with Helena Woleková (Gremium of the 3rd Sector, Socia Foundation), Arpád Lőrincz (1. Slovak Non-Profit Service Center-1.SNSC), Peter Haňdiak (1.SNSC), Boris Strečanský (Ekopolis Foundation, Centre for Philanthropy), Milan Adrejko (1.SNSC), Richard Sulík (Ministry of Finance of the Slovak Republic – adviser to the minister). Unfortunately, interviews planned with Vladimír Podstránsky (Deputy State Secretary, Ministry of Finance, 1998-2006), and Ivan Mikloš (Deputy Prime Minister for the Economy, 1998-2002 and Finance Minister, 2002-2006) did not take place.

## **The political climate in the 1990s<sup>2</sup>**

### ***The pre-1998 political situation and the role of the NGO sector***

The establishment of the percentage designation mechanism in Slovakia was closely linked to the particular political situation the country faced before 1998. The Prime Minister, Vladimír Mečiar and his political party, the Movement for Democratic Slovakia (HZDS), had governed Slovakia since 1992. His authoritarian style of government not only threatened the country's democratic institutions that had been set up in 1989, but also risked excluding the country from the Euro-Atlantic integration process.

As political opposition was relatively weak, the NGO sector became one of the main focal points of criticism against the Mečiar government – a development which, for example, led to the tightening of controls on foundations. This triggered the “Third Sector SOS” campaign, that was organised by the NGO sector in 1996. Although only partially successful, it highlighted the considerable potential for co-operation and co-ordination among NGOs.

A similar strategy was used by NGOs in the civic campaign “OK’98” for free and fair parliamentary elections, that encouraged as many people as possible to cast their votes.<sup>3</sup> Commentators credit this campaign as one of the factors that led to the defeat of the Mečiar government and its replacement by a coalition of four democratic political parties.

---

<sup>2</sup> The following three sections are largely based on Lőrincz-Woleková (2004)

<sup>3</sup> The civic campaign OK’98 was announced on 3 March 1998 by a group of 35 NGOs and later on was supported by additional ones (NonProfit 3-4/98, p. 6).

# Putting 1% on the NGO agenda and into tax legislation

## ***Development of the 1% idea***

In October 1997 at the 5th Stupava conference of NGOs, it was agreed that, ahead of the forthcoming elections, Gremium's legal group should concentrate its effort on the revision of all NGO laws and tax legislation. This included the idea of allowing individual taxpayers to designate 1% of their tax to NGOs.<sup>4</sup> As part of this initiative, a seminar on tax legislation in Hungary was organised by Gremium's legal group on 2 April, 1998 in Bratislava for local NGOs. Speakers included representatives from Hungary's Ministries of Finance and Justice, and the Nonprofit Information and Training Centre (NIOK), the NGO that organises public awareness campaigns on the 1% option in Hungary.

## ***NGO proposals in the 1998 elections***

Before the parliamentary elections took place in September 1998, Gremium presented political parties with a document called "NGO Requirements." Among other proposals made, one was: *"NGOs request an amendment to the tax acts to provide citizens and the business sector with improved conditions for making donations in favour of public benefit purposes. We request:*

- *the right for citizens to receive a tax allowance for donations made*
- *for legal entities to expand or increase their tax allowances (the deduction of the value of donations from the tax base) in favour of long-term support for NGOs*
- *the NGO tax regime to be changed in a way that would ensure NGOs' income could be used as much as possible for the development of their activities.*"<sup>5</sup>

Only one political party<sup>6</sup> declared in its election manifesto that it was in favour of specific measures to support NGOs: *"We will guarantee by law that each tax-paying citizen can decide about his/her 1% of paid tax in favour of a foundation, civic association or other NGO."*<sup>7</sup>

## ***Government support for a 1% option***

After the elections, two approaches by Gremium – one an offer of help to draw up laws affecting NGOs, the other proposing amendments to the lottery and tax laws – received no positive response from the Ministry of Finance. However, there was a crucial reversal in negotiations with the government in August 1999 when members of Gremium met with Prime

---

<sup>4</sup> Stupava is the city in western Slovakia where a series of conferences was initiated in the 1990s to bring NGOs together. At one of the conferences, several key individuals were elected as NGO sector representatives, a group which came to be called the Gremium of the Third Sector.

<sup>5</sup> Gremium of the Third Sector, Requirements of NGOs, NonProfit – elections '98, p. 26, SAIA-SCTS, Bratislava.

<sup>6</sup> This was the Slovak Democratic Coalition that went on to become part of the government after the elections.

<sup>7</sup> In the article: From election programmes of some political parties, NonProfit – elections '98, p. 27, SAIA-SCTS, Bratislava.

Minister Mikuláš Dzurinda.<sup>8</sup> During this meeting, the Prime Minister expressed his support for Gremium's proposed changes to the Income Taxes Act, which included the 1% option and asked the Ministry of Finance's Deputy of the State Secretary to take care of this matter.

By this stage, the Ministry of Finance had already finished its preparation of amendments to the Income Tax Act, so there was no time for serious negotiations on the legislative proposal. On the basis of the experience in Hungary, Gremium calculated that operating the 1% designation system in Slovakia would influence the state budget by SKK 100 million (EUR 2.8 million) – around one third of SKK 300 million (EUR 8.5 million), the maximum amount the 1% of income tax represented.<sup>9</sup> Although the government lawyers had appeared to understand the main purpose of the proposed 1% option, what actually appeared in the legislative proposal was radically different to the original concept. Gremium tried to influence the final form of the 1% mechanism by meeting with the chairmen of parliamentary political groups, but the mechanism was adopted at the end of 1999 as tabled by the government.

### ***Shortcomings in the 1% mechanism***

There were several shortcomings in the way the 1% system was initially defined. The recipient of a taxpayer's 1% designation could be a NGO but also an individual if the money was used for covering the costs connected with education, health care, sports, environmental protection, culture and the renovation of cultural monuments. This definition was based on the one for tax allowances also specified in the Income Tax Act. A delay was also foreseen in the start-up of the 1% measure until 2002 onwards due to an expected reduction in state budget revenue caused by the lowering of corporation tax from 34% to 29%.

In sum, the 1% mechanism, as defined in the law, was not acceptable for NGOs because:

- the range of specified recipients extended beyond NGOs
- the range of public benefit activities included sport in general and there was no clear distinction between professional and amateur sport
- it only became valid two years later, from 2002 onwards.

### ***NGO proposals to amend the 1% mechanism***

The small group responsible for negotiations on NGO issues continued its efforts to persuade Finance Ministry officials that the new 1% instrument had to be radically changed. The Minister of Finance's reaction was to ask NGOs to draft new legislation for the 1% mechanism. At this point, the First Slovak Non-profit Service Centre (1.SNSC) took over responsibility for this issue and also for discussions within the NGO sector.<sup>10</sup> Its members were also involved in Gremium's legal group. Thanks to the support of the Open Society Foundation, a team of experts was formed for this specific topic and a new draft proposal on the 1% mechanism was prepared. There were several meetings with NGOs to define key elements of the 1% mechanism including the narrowing the group of recipients and the scope of NGO activities, and setting a minimum designation of SKK 20 (EUR 0.6). The reason was to reduce the administrative costs and was calculated on the basis of the then minimum wage.

<sup>8</sup> He was also the Chairman of the Slovak Democratic Coalition.

<sup>9</sup> Rounded-up euro figures, based on an average exchange rate of SKK 35 to the euro, are used throughout.

<sup>10</sup> An association of legal experts, economists, etc.

The main principles of the 1% mechanism included:

- anonymity of the taxpayer
- trust in the 1% philosophy whereby taxpayers decide on the use of public money in favour of NGOs
- transparency in the use of the transferred 1% designations

It meant that the 1% mechanism would operate under different rules than those for tax allowances for gifts/donations also regulated in the Income Tax Act.

The draft amendment to the 1% designation section proposed by NGOs was accepted by the Ministry of Finance and became a part of the amendment to the Income Tax Act that went before Parliament in the autumn of 2001. MPs accepted the suggested amendments, and, in addition, decided to include the Slovak Red Cross in the category of 1% beneficiaries.

## **A new 1% provision**

### ***Privatisation funds for NGOs initiative***

It had become clear that although NGOs were seen as an important social force, the ruling coalition had no programme for supporting the NGO sector. Buoyed by their success of securing the passage of amendments to the 1% mechanism, NGOs began to consider new proposals.

A working group created by the Slovak Donors' Forum (SDF) together with Gremium's legal group initiated discussions within the NGO sector on the "participation of NGOs in privatisation income". It was based on an idea from the Czech Republic where income from privatisation was helping create some long-term domestic sources of support for the NGO sector. SDF prepared a proposal along these lines, but it did not prove politically acceptable because there were other demands that the government wanted to fulfil from privatisation income.<sup>11</sup>

### ***1% from businesses***

It was, in fact, the politicians who suggested an alternative source of funding for NGOs: the idea of expanding the 1% designation option to business taxpayers.<sup>12</sup> This offer was unofficial and NGO representatives, who had very little time to consider the details,<sup>13</sup> decided to accept it. The process of preparing and adopting the 1% from businesses proposal was the quickest legislative action within NGO advocacy history. It took just two weeks.

Negotiations on the draft proposal for the 1% from businesses were led by I.SNSC. However, the new Minister of Finance, František Hajnovič, who had just taken office after the departure of his predecessor Brigita Schmögnerová, did not know anything about the earlier agreement. Due to a lack of time, getting a government proposal adopted would not have been possible, so the lobbyists decided to involve members of parliament as there was still an opportunity to make changes to the draft act proceeding through the legislative process. Roman Šípoš, the former State Deputy of the Ministry for Construction and Regional Development, who had recently returned to the parliament, had previously co-operated with NGOs in the fields of regional development and use of EU pre-accession funds, came up with a proposal. The chairman of the Party of the Democratic Left MPs, Ľubomír Andrassy,<sup>14</sup> suggested that the parliament voted for it.

In April 2002 the Parliament passed the "1% from businesses" measure in a special section of the Income Tax Act. It was based on the same principles as 1% tax designations from individual taxpayers. The main difference was in regard to the number of beneficiaries: whereas individual taxpayers could allocate 1% of tax to just one NGO, businesses were to be allowed to select one or more NGOs as recipients. The measure took effect from January

<sup>11</sup> For example, covering the state deficit.

<sup>12</sup> The idea was not new: some MPs had already thought about a "1% from businesses" measure in the autumn of 2001 when the amended "1% from individuals" mechanism was adopted.

<sup>13</sup> Parliament was at that time discussing amendments to the Income Tax Act.

<sup>14</sup> The same party as the new Minister of Finance.

2003 with first 1% designations by businesses were due to start in 2004 (from the previous year's tax).

### **2003: The tax reform debate**

#### **Proposed cuts to NGO benefits and funding**

A package of radical economic and social reforms was introduced by the Dzurinda government (2002-2006). In the spring of 2003, details were announced of plans to overhaul tax legislation in Slovakia. The central pillar of the tax reform was to cut income tax for individuals, corporation tax and VAT to a flat rate of 19%. The Ministry of Finance proposals, which involved a major simplification of the tax system, also included ending three types of government support to NGOs:

- the system of tax allowances for charitable donations made by individuals and companies (tax-deductible donations)
- the percentage mechanism allowing 1% tax designations to be made by individuals (operating since 2002) and by businesses (which had not yet started operating)
- the tax exemption of up to SKK 300,000 (EUR 8,500) on the commercial income of NGOs.

However, it proved politically impossible for all three types of support to be abolished at once. As a result of a campaign organised by a group called *Citizens for Themselves*, intense lobbying by NGOs and media pressure, the Ministry of Finance backed down from scrapping the percentage mechanism. Although the Ministry still wished to end the tax exemption on NGOs' commercial income, it was only tax-deductible donations that were cancelled from 2004 onwards.

As compensation for the loss of tax-deductible donations, the government made an important concession to the NGO sector. It agreed to increase the amount of tax that could be designated 1% to 2% for both individuals and businesses from 2004 onwards. The new Income Tax Act that was adopted in December 2003 also simplified the operation of the percentage mechanism.

## **2005 – 2006: Changes to the 2% mechanism<sup>15</sup>**

### ***Simplified designation procedure***

In 2005, a new procedure for making designations was introduced:

- individuals – who filed their own tax returns – could now indicate their 2% designation request in the tax return itself instead of having to submit a separate request (this change applied to businesses as well)
- as a result of the above change, the deadline for making designations was now the same as for submitting tax returns (instead of one month later).

This change was one of the improvements NGOs had been pushing for. It was felt that as an integral part of the tax return form, potential designators would be more likely to remember to use the designation option. The new procedure would also reduce the paperwork involved. (However, one category of individual taxpayers – employees whose tax returns are filed by their employers – would still need to submit a separate request together with confirmation from their employers of taxes paid to the relevant tax office.)

One disadvantage of the new procedure was that designators now had to know and fill in for themselves the details of their preferred recipient in the main tax return form. Previously, NGOs were to be able to help potential designators by providing them with printed designation request forms that already contained details of the recipient, so only personal data and the amount to be designated needed to be added by the taxpayer.

### ***NGO proposals to improve the mechanism's operation***

Early changes made to the mechanism's operation concerned the introduction of audit and reporting requirements to increase accountability. From 2003, certain types of beneficiary were required to publish details in Commercial Bulletin on the use of allocated amounts. In the summer of 2005 an initiative of 1. SNSC brought representatives of 35 NGOs together to discuss further improvements to the 2% mechanism. The proposals agreed upon were then submitted by 1.SNCS to the government. These were aimed at improving transparency and accountability and suggested that the relevant authorities publish regularly:

- a list of businesses that make designations to one or several recipients (in other words, ending their anonymity)
- details of those recipients that did not, by the deadline specified in the Law, submit to the Commercial Bulletin information on how the designated amounts were used and the names of those organisations barred from appearing in the register of recipients for the following three years
- details of the extent of financial resources obtained from 2% designations

It was also suggested that recipients which were foundations should be allowed to use designations received to build up their endowments. However, no sooner had this set of NGO

---

<sup>15</sup> Based on Andrejkovič (2006)

proposals been presented than the Ministry of Finance issued its own proposal. Rather than improve the percentage mechanism, the aim of Ministry's proposal was to reduce the amount the funds transferred to NGOs.

### ***Proposed changes to the mechanism***

In 2005 the Ministry of Finance had estimated that around SKK 300 million (EUR 8.5 million) was the amount likely to be transferred through the percentage mechanism due to the increased rate of 2% and the inclusion of business designations. The estimate made by 1. SNSC was almost SKK 600 million (EUR 17 million). To everyone's surprise, the amount finally transferred was SKK 845,222,347 (EUR 24 million). The government could probably have lived with the significant increase in the total amount designated. It appeared that the main problem for the Finance Ministry was the large amount received by the foundation of Slovak Gas Company SPP: it totalled SKK 109,700,784 (EUR 3 million).

As a result of this unexpectedly large jump in the total amount designated by taxpayers, the Ministry of Finance suggested two changes to the mechanism:

- an increase in the minimum amount that individuals could designate from SKK 20 (EUR 0.6) to SKK 250 (EUR 7)
- a limit on the amount that businesses could designate to a maximum of SKK 5 million (EUR 143,000)

In the case of individual taxpayers, the Ministry justified its proposal on the grounds of the financial costs incurred by the state when small amounts were transferred (for example, bank fees etc). No justification was provided for the maximum amount proposed for businesses.

Rather than promoting their proposals on improving the mechanism, the NGO camp found itself in the position of having to resist the Finance Ministry proposals. Following consultations within the NGO sector, 1. SNSC, together with *Citizens for Themselves*, presented the case against the proposed changes. The key argument that won the day was that the proposed minimum limit of SKK 250 (EUR 7) would affect 335,690 individual taxpayers (potential voters) who fell below this threshold. Just ahead of the upcoming 2006 elections, this issue proved too politically sensitive, and, as a result, the 2% mechanism remained unchanged.

At the beginning of 2006, one further attempt was made by NGO representatives to persuade senior government officials why it was necessary to amend the Law on Income Taxes and improve parts of the 2% mechanism.<sup>16</sup> Although agreement was reached on some possible steps,<sup>17</sup> this particular initiative was overtaken by the 2006 elections and fizzled out.

---

<sup>16</sup> Those involved at this meeting were the State Secretary of the Ministry of Finance, the State Secretary of the Ministry of Justice, the General Director of the Tax Headquarters, and representatives of the Chamber of Notaries and the Commercial Bulletin.

<sup>17</sup> For example, 1.SNSC was to prepare detailed proposals on the official publication of the use of designations from businesses.

## **Government attempts to cut business designations<sup>18</sup>**

In 2006, the total amount designated by taxpayers had risen to almost SKK 1 billion (EUR 28.5 million). The newly elected nationalist left-of centre government of Robert Fico began to question the transfer of this level of support to the NGO sector, the distribution of which was outside the direct control of government. The government also wanted to make cuts to support for NGOs in order to help deliver its generous spending promises to various groups of voters. Proposals tabled by the Ministry of Finance included the discontinuation of business designations as well as the SKK 300,000 (EUR 8,500) exemption on NGOs' commercial income.

These proposals provoked a great deal of criticism about their damaging effects on NGOs. A public protest was organised: in less than one week a so-called "mass stipulation" opposing the cuts was signed by more than 7,500 people.<sup>19</sup> However, the "stipulation" that was submitted on 17 September 2006 and follow-up negotiations failed to convince the Finance Ministry to change its position. The Ministry's view was that the two-year period of business designations had undermined the original intention of the percentage mechanism (to forge meaningful relationships between NGOs and taxpayers and serve the public interest), and that certain NGOs (i.e. foundations of large companies) were receiving excessive amounts of government funds.

The situation was very fluid and within ten days of receiving the Finance Ministry's proposal, the government softened its position: the proposal submitted to Parliament proposed lowering the level of business designations from 2% to 0.5%. This shift in policy probably took some account of public opposition, but was also based on higher than expected growth in GDP, which improved budget revenue and increased the Finance Ministry's room for manoeuvre. The revised proposal was still unacceptable to NGOs. Their view was that the government should work with NGOs to improve the transparency and supervision of the use of designated amounts.

## ***The People to people campaign***

A poll conducted in late September-early October 2006 by ACRC showed almost half of the population (46%) were against the scrapping of business designations. However, the poll also showed that significant numbers of people did not know or care about the proposed government cuts. A group of NGOs decided to begin a series of public awareness events and activities to win greater public support. This campaign was called "*People to people - for 2% of tax for public benefit purposes*". One of its main aims was to put Parliament under public pressure to reject the proposed changes to the percentage system. Another key aim of the campaign was to start nationwide debate about support for charitable activities.

The two-pronged campaign, which involved large numbers of NGOs, NGO platforms and umbrella organisations, was designed to reach as many people as possible. The first prong concerned the lead-up to parliamentary voting on the proposed amendments to the percentage mechanism in December 2006. The second is on-going: a nationwide debate on support to good causes and tax incentives to promote charitable giving.

---

<sup>18</sup> Based on Strečanský et. al.(2007)

<sup>19</sup> A procedure that was organised through the civic web portal [www.changenet.sk](http://www.changenet.sk)

The main elements of the *People to people* campaign included:

- a national NGO conference on 24 October 2006 with approximately 200 participants, including well-known public personalities, who appealed to Parliament to preserve the 2% mechanism.<sup>20</sup>
- personal letters to every parliamentary deputy with the conference's appeal and other proposals, and a meeting with the Parliament's president to discuss the consequences of the proposed amendments.
- a 2% Book with details of 100 NGOs and their activities and the difference the tax designations received have made to their work and society in general.<sup>21</sup>
- a Week for NGOs from 27 November to 1 December 2006 during which the activities of hundreds of 2% recipients were presented at concerts, exhibitions, roundtable discussions, screenings etc in various parts of the country.
- meetings with MPs and local and regional government representatives to explain the importance of the percentage mechanism to the NGO sector.

The *People to people* campaign attracted (and continues to attract) strong public support and the sympathy of the media, which also played an important role in promoting its aims and NGO activities. Equally important at this time was the unprecedented unity, mutual support and solidarity among NGOs. For many of those involved, the campaign re-awakened the real meaning of what the NGO sector is and what it brings to society.

### ***The parliamentary debate***

Detailed discussion at committee stage did not, from the NGO point of view, go well. None of the committees that discussed the government's proposal approved amendments that would have preserved the 2% mechanism unchanged. On the contrary, the various committees not only backed proposals tabled by the government that reduced the size of business designations and raised the minimum amount that individual taxpayers could designate, but also added new proposals that limited the purposes for which designations could be used to the fields of social and health care, culture, and sport. This new proposed restriction excluded education, human rights and the environment.

Just before the decisive parliamentary session, People to people campaign leaders organised a press conference. With the help of the media this was to highlight that, although the mechanism would continue to operate unchanged for one more year, an analysis of the proposed limitations would cause serious financial problems for a large number of organisations, causing some of them to cease operations entirely. Campaign leaders continued to outline their case against the proposed changes to coalition MPs up to the very last minute.

---

<sup>20</sup> At a conference roundtable discussions with representatives of ruling and opposition parliamentary groups, one of the ruling parties (LS-HZDS) somewhat surprisingly declared its support for the mechanism. Other ruling parties (Smer-SD and SNS) were more reserved.

<sup>21</sup> Copies of this book were personally distributed to all 150 parliamentary deputies before the December session of the parliament.

## **Changes to the mechanism**

The final lobbying efforts of NGO representatives proved fruitful because on 6 December 2006, MPs voted to keep individual and business designations at the rate of 2% until the end of 2007. However, two less positive changes to the mechanism were approved:

- the minimum amount individual taxpayers could designate was increased from SKK 20 (EUR 0.6) to SKK 100 (EUR 3) from the start of 2007.
- the purposes that received tax designations could be used for were limited. From the start of 2007 organisations operating in the fields of environmental protection, human rights and education were excluded.

An additional blow to NGOs was a separate decision taken by Parliament to abolish the tax exemption on NGO income from commercial activities up to SKK 300,000 (EUR 8,500) as of 2007.

The “official” arguments of ĽS-HZDS, the ruling party for keeping the mechanism in a mostly unchanged form were its benefits to society and the importance of supporting charitable activities. However, the real intention behind limiting the purposes that designations could be used to support was revealed during the parliamentary debate when Jozef Halecký, one of its members, stated: *“It is about limiting those non-profit NGOs which, before the 1998 elections, campaigned under the cover of education, science and other issues and which, to substantial degree, influenced the election results.”*<sup>22</sup>

Despite the partial success in maintaining business designations at the rate of 2%, Parliament’s decision created an unwelcome division between NGOs whose activities were deemed politically acceptable and were therefore eligible to receive tax designations, and those organisations which were not. As the changes took legal effect as of 1 January 2007, a technical amendment was necessary to make a retroactive change to the conditions for NGOs already registered as recipients for the next designation round. This was made on 31 January 2007 and at the same time education was restored as an eligible area of support from 2008. The continued exclusion of environmental and human rights advocacy organisations from the percentage system remains a very contentious issue and unacceptable to campaign leaders. It was also felt that the increase in the minimum amount denies many low-income taxpayers the opportunity to exercise the designation option.

The situation facing the NGO sector in early 2007 pointed to the need to continue negotiations with the government to try and restore environmental and human rights purposes to 2% mechanism’s areas of support, and to try and initiate wider discussions about the most suitable tools for NGO support might also be expected. There were some signs of renewed interest by the Ministry of Finance in exploring possible systemic changes in indirect public support to NGOs.

---

<sup>22</sup> Parliamentary debate on December 5, 2006, National Council of the Slovak Republic. Available online: [http://www.nrsr.sk/appbin/net/nrozprava/Download.aspx?Type=NRozprava.RozpravaRaw&Ref=XXX061205191500000\\_061205193000000.txt](http://www.nrsr.sk/appbin/net/nrozprava/Download.aspx?Type=NRozprava.RozpravaRaw&Ref=XXX061205191500000_061205193000000.txt). Although via a statement of Vladimír Mečiar, ĽS-HZDS stated it did not agree with the changes to the 2% mechanism, ĽS-HZDS appeared to be using the debate over the mechanism for its own political aims and negotiations within the governing coalition, and as a means of exacting revenge for NGO involvement in activating voters ahead of the 1998 elections.

## Reflections and analysis

### ***Constraints on NGO sector development***

Some commentators argue that the negative political experience of Slovakia's percentage mechanism in Slovakia related more to shortcomings in the general framework of NGO legislation and support for the NGO sector in Slovakia. The price for having failed to secure more comprehensive NGO legislation and work out an agreed concept for support and development of the sector has been government attempts to limit the mechanism.

What exists in practice as a civil society development framework is basic legal regulation originating from the early 1990s (on constitutional rights, the Civil Code and other laws) when Slovakia was still part of Czechoslovakia. Reflecting the euphoric atmosphere that accompanied the immense political changes at that time, this regulation is somewhat liberal in nature.

There are several reasons why Slovakia lacks an agreed concept for the development the NGO sector. In the period 1998-2006, civil society development was not a priority for any government. Perhaps because funding for the sector was originally viewed as an insignificant part of the budget, the government did not see the need to have a concept on this issue or to deal systematically with issues affecting the NGO sector. Although the Ministry of Finance had a partial overview of how much the sector cost the state (funds transferred via the percentage mechanism, tax-deductible donations until scrapped,<sup>23</sup> tax exempt commercial income of NGOs, direct subsidies, lottery proceeds, tax exemptions on some taxes and duties and co-financing for EU funds), there was no comprehensive government data on the level of direct and indirect government support for NGOs.<sup>24</sup> While it would be fair to assume that the NGO sector's value to society exceeds the funding provided for its activities, no cost-benefit data was available to demonstrate to the government the added value of NGO activities in social and economic terms.

The NGO sector itself has lacked the internal capacity and cohesion required to present a common position on sector development to the government. The diversity and, at times, conflicting attitudes, of different groups of NGOs, which at times caused difficulties for NGO lobbyists on percentage mechanism issues and were also evident during efforts to promote a new Code of Non-Profit Law, would also likely have posed problems in reaching agreement on sector development issues. However, in 2006, when faced with the government's threat to abolish the 2% mechanism, the two camps managed to overcome some of their difficulties, increased their level of communication and even developed common initiatives.

Even if the sector could have reached an agreement a concept for its development there would have been no guarantee of it attracting sufficient attention at government level: a draft plan on this theme that resulted from a John Hopkins comparative research project undertaken in the

---

<sup>23</sup> The abolition of tax-deductible donations also means that the only official data on individual and corporate giving is no longer available (though this data not only concerned donations to NGOs, but also schools, hospitals, local governments etc.)

<sup>24</sup> The only analysis by the Office of Government where the Council for NGOs is located provides only a qualitative summary of different direct and indirect tools of government support to NGOs. No comprehensive quantitative analysis of government funding to the NGO sector exists.

1990s failed to win government support mainly because no sufficiently powerful government office existed to promote NGO-related issues.<sup>25</sup> It remains the case that no ministry has been given responsibility for overseeing issues related to the NGO sector. The government body responsible for NGO issues, the Council for Non-Governmental Non-Profit Organisations, though part of the Deputy Prime Minister's portfolio, has limited influence and insufficient capacity to promote such a concept.

There are, however, more fundamental reasons that explain the weak position of the NGO sector in Slovakia and its sometimes tense relationship with government. The difficult transformation of Slovakia into a modern state, where a functioning civil society is accepted as a basic norm, is still in process. There are two countervailing forces at work in Slovak society. The more dominant force is the "*We rule*" approach to governing, while the other is based on *laissez-faire* principles. Successive governments have tended to be rather ambivalent about civil society and its role, and, in general, have not sought active engagement with NGOs.

State-civil society relations in Slovakia are still relatively new, tricky and at times, confrontational, as witnessed by civil society's opposition to the Mečiar administration and its style of governance, especially in the run-up to the 1998 elections. Tensions re-surfaced at the end of 2006 when, in an act of political revenge, those NGOs regarded as the "ringleaders" in orchestrating the 1998 election defeat were excluded from the percentage mechanism.

Nevertheless, despite the various setbacks, there is growing understanding among politicians and government officials of the role of NGOs and the need for independent criticism and advocacy. One reason the government has started to take the NGO sector more seriously is due to the negotiations and lobbying undertaken by NGO representatives on issues linked to the percentage mechanism.

### ***NGO objectives and lobbying strategies on the percentage mechanism***

The key and constant objective of NGO lobbyists in respect of the percentage system was to secure it as a new source of funding for the NGO sector. However, what was also clear to those involved was that the adoption of such a system and its continued operation would enhance the sector's role and bring issues of importance to NGOs into the public domain, and that these additional benefits would far exceed the value of the funding received. These included, for example, a higher public profile for NGOs due to the development of professional marketing, communication and promotion strategies to win designations; greater interest in NGOs' activities and volunteering; a higher level of corporate social responsibility; more focus on certain public benefit activities, social problems and challenges society needs to address, and public participation in distribution of public funds. While percentage designation could not be considered a philanthropic act in the traditional sense, it nevertheless offered a new type of giving, and the new links created between the general public, business and the NGO sectors might help stimulate increased levels of private giving and philanthropy. Finally, NGO lobbyists believed that the introduction of reporting, auditing, more transparent accounting and state control over the use of designated funds would not only improve NGO

---

<sup>25</sup> Drafted on the basis of material and data gathered, it promoted the idea of a 1% mechanism (based on the Hungarian model) and capitalisation of privatisation proceeds for foundation endowments (based on the Czech model).

sector standards and accountability, but would also help identify active and well-working and financially sound organisations. In a nutshell, the percentage system would help get the NGO sector moving.

That said, it is also true lobbying efforts by NGOs to win political support for the introduction of the percentage mechanism, argue for amendments to improve and expand its operation and finally the campaign to save it, have tended to dominate due to the absence of any wider strategy or programme for the NGO sector's development. The NGO perception of the percentage mechanism as an important source of new income grew as the percentage rate was increased and business designations were included.

The NGO lobbying approach to politicians aimed to be positive: personal attacks were avoided and a non-confrontational style was preferred. Lobbyists were careful to present the mechanism as a means of addressing social questions, not as a challenge to politicians. At times, NGO lobbyists were able to warn of the likely political fall-out of certain government proposals. For example, they pointed to the possible electoral consequences of excluding certain taxpayers (potential voters) from using the mechanism should the level of the minimum amount of tax that could be designated be increased. If business designations were abolished, NGO lobbyists pointed to the likely impact the loss of approximately SKK 700 million (EUR 20 million) in NGO income would have on different vulnerable groups (children, youth, the ill and elderly) in villages and towns across Slovakia.

As regards the Ministry of Finance, two approaches were adopted by NGO lobbyists. The first was to take a hard line against Ministry negotiating proposals and refuse to bargain or compromise from agreed NGO positions. This "no compromise" tactic probably worked and unsettled Ministry of Finance officials. The second approach was expert discussions with the Ministry of Finance.<sup>26</sup> Convincing arguments and workable proposals on setting up then later improving the mechanism were developed within an expert working group consisting of lawyers, economists and other partners. Due to the limited statistics and data available, this group drew on help provided from the Hungarian Nonprofit Information and Training Centre (NIOK).

The existence of a model that was working well in Hungary, and which could be easily adapted to local circumstances, helped NGOs persuade political opinion of the merits of introducing percentage designation. The positive Hungarian experience was one of the strongest arguments in favour of adopting a percentage system and was cited in the explanatory report on the percentage measure submitted to parliament.<sup>27</sup>

Media involvement was a very important part in the lobbying process. The media coverage, positive from the very start, continued to play an important part in educating politicians that the NGO sector and the percentage mechanism were not "against politicians" but rather contributed to the greater good of society and promoted volunteering.

Lobbying tactics were also about creating pressure from as many sources as possible. NGO lobbyists could always count on the support of opposition parties. In 2006, a combination of NGO lobbying, pressure from the media and even foreign embassies led the government to climb down from plans to scrap or drastically cut back the mechanism.

---

<sup>26</sup> Vladimil Podstránsky, Deputy of the State Department at the Ministry of Finance welcomed such inputs.

<sup>27</sup> There has also been a useful connection between Hungarian experiences and the Hungarian minority party which formed part of ruling coalition governments.

## **Government approach to the mechanism**

Whereas NGO objectives and negotiation positions have remained unchanged, the government approach to the percentage mechanism has altered over time.

Initially, political conditions were favourable. Due to the new government's gratitude to the NGO sector and its desire "to do something" for NGOs for their key role in mobilising the public to take part in the 1998 elections. The new government was keen to underline the break from the past by showing its support for human rights and its openness to NGO proposals. Yet it was neither a smooth nor quick process to get the 1% mechanism on the statute book in a form acceptable to NGOs. The Ministry of Finance's efforts to draw up the legislation were rather piecemeal, and the underlying concept was not well thought through and weakly formulated. Nevertheless, the political mood remained supportive allowing NGO amendments on the mechanism to be accepted. Furthermore, it was politicians that came up with the idea of expanding the designation option to businesses.

This did not mean that there was universal support within the government for the percentage mechanism. For example, Ivan Mikloš (Deputy Prime Minister for the Economy, 1998-2002 and Minister of Finance, 2002-2006) was not in favour of supporting the NGO sector and wanted to end all benefits through the tax system, including tax designations. In his view, such measures were not quantified in terms of their benefit to the economy or society in general. It was this line of thinking that became government policy in the tax reform process initiated in 2003. The best way of supporting philanthropy was, as Richard Sulík, the Minister's adviser would later argue, to lower taxes so that people and companies would have more money at their disposal and could then decide for themselves whether to give to NGOs. Although, paradoxically, the percentage system survived the tax reform of 2003, the decision to increase of the percentage mechanism to 2% to compensate for the financial loss of tax allowances on donations represents one of the "tragedies" of the percentage system: it showed that the government regarded the percentage system as a solution for NGO funding rather than one element of a wider package of measures. As in the case of the political bargaining that occurred over the rejection of the capitalisation of privatisation proceeds proposal (when business designations were offered instead), a short-term trade-off was preferred to more serious and considered debate on longer-term funding solutions for the NGO sector.

When the percentage mechanism only involved the designations of individual taxpayers, the government's position was fairly relaxed. The government's view was that the designation option provided taxpayers with some limited choice on the use of a part of their taxes, the money transferred to NGOs did not represent a huge amount and the possibility for serious misuse of government funds was limited. Only later when, due to the higher percentage rate and the inclusion of business designations, the amount of designations grew steeply, and the percentage mechanism became one of the largest sources of government funding to the NGO sector (together with lottery proceeds and direct subsidies), did the Ministry of Finance begin to view the mechanism's operation as a financial burden on the state budget. In the eyes of the government, designations had become a political problem. This led to several government attempts (described earlier in this paper) to try to limit designations not only from businesses but also from individuals. Clearly, the government had been taken by surprise by the surge in the total designated amount and began to object to the way large companies were exploiting

this “cheap” way to use government funds to increase their influence and promote their own causes.

The following extract from (perhaps the only) publicly available official document outlining the Ministry of Finance’s analysis of the percentage mechanism in 2005 casts more light on official thinking.<sup>28</sup>

*The option to earmark 2% of personal and corporate income tax for public interest purposes is a tool designed to develop activities in the public interest. Originally, this tool was implemented in 2002 for natural persons only. Tax reform has abolished the non-systemic option to deduct the value of donations from the tax base. In order to ensure that support to activities in the public interest is not reduced as a result of the reform, legal entities were also given the opportunity to allocate 2% of their own tax liability for activities in the public interest.*

***This tool undoubtedly has several advantages.*** *In a society where, on one hand, there is substantial social demand for support of activities in the public interest but, on the other hand, a relatively under-developed culture of voluntary contributions for these purposes, it is reasonable for part of such activities to be funded from public sources. As compared to the alternative form of money flow via public spending, the form of the direct allocation of part of a taxpayer’s own tax liability has a big advantage, namely in the fact that it is better earmarked, which is a key aspect of such a sensitive issue. In other words, the funding of these activities is targeted and based on the will and decision of the taxpayer himself/herself rather than on the decision of a state official, which, in principle, creates moral hazard.*

***This tool also has disadvantages.*** *First is the fact that the taxpayer can decide how to use a part of his/her own tax liability, which represents a non-systemic element contradicting the substance of taxation itself. The optimum form of supporting activities in the public interest exists in societies which tend voluntarily to participate in charitable activities, so-called "donorship" (for example in the U.S.A.). In addition, the tool is very administratively demanding – financial authority officials can confirm this. Finally, in terms of transaction costs, costs incurred by the providers of activities in the public interest are also very important. Since sources are limited and demand is large, providers compete with one other (and generate costs in presenting and promoting their activities). Competition undoubtedly has its place in this arena, but marketing costs take too large a chunk of sources, especially when these are very limited in absolute amounts, which is the case in Slovakia.*

***In our opinion, however, the above-mentioned advantages of this tool outweigh its disadvantages. Therefore, an alternative to abandoning it completely would be to leave the option to earmark part of the tax liability for natural persons only.*** *For legal persons, this option is not only non-systemic, but generally damaging. It loses the personal engagement component that exists when an individual decides on the use of part of the tax payable on his/her own income. Therefore, it is not surprising that in practice we find this tool is used (or rather abused) for purposes other than those intended by the legislators. Companies can establish their own not-for-profit*

---

<sup>28</sup> First Year of the Tax Reform, or 19 Percent at Work. Economic Analysis 8. Bratislava: Financial Policy Institute, The Ministry of Finance of the SR, 2005, pp. 70-71.

*organizations using their own taxes<sup>29</sup> and these organizations then provide the same services to company employees that used to be provided within the company.*

The paper highlights the Ministry's acceptance of the continuation of tax designations by individuals (natural persons) as its advantages outweigh its disadvantages, but its strong reservations about maintaining tax designations by businesses (legal persons) because:

- tax designations by businesses did not involve the same level of personal engagement/relationship with supported NGO compared to those of individual taxpayers
- the percentage mechanism was often misused and not transparent as companies set up their own NGOs and used the designated amounts for company purposes.

Although NGO lobbyists always presented the percentage mechanism's close connection to promoting wider philanthropic behaviour in the longer term, it is clear that the Ministry of Finance was less convinced about this argument. Instead of welcoming the establishment of foundations by large companies as a sign of greater philanthropic activity by the business sector (some of the new foundations not only distributed the funds they receive via the percentage mechanism, but also a share of company profits to selected causes), there was official concern that large companies were distributing significant amounts of public funds at little cost to what were regarded, in some cases, as questionable activities, and about the loss of government control over a significant part of funds from the public purse: some companies were setting up foundations, then using the designated funds to further their own interests, for example, building up their corporate image or PR activities, using it for programmes benefiting their employees or, in some cases, even substituting other sources for employee programmes.

While the Ministry accepted that because of *“a relatively under-developed culture of voluntary contributions for these purposes, it is reasonable for part of such activities to be funded from public sources”*, it did not apply this reasoning to NGO funding from businesses designations. For example, in 2006 the government view was that the financial reduction its proposals foresaw (it was estimated that combined designations made up 25% of the overall resources of the NGO sector in Slovakia and that abolition of business designations would cause a decline in overall NGO resources by approximately 15%), would not spell the end of the NGO sector, but merely encourage selection between “good” and “bad” projects. The government also believed that business designations had led to an imbalance in the redistribution of public funds: a small number of NGOs benefited from extremely high amounts. For example, in 2005 only 435 NGOs received funding via this type of designation so the government argued 5,253 out of 5,688 NGOs would not be affected if it were scrapped. Furthermore, the government argued that due to the large size of business designations (SKK 618 million or EUR 17.6 million out of a potential total of SKK 853 million or EUR 24.3 million), NGOs were being distracted from exploiting potential revenue from individual designations: collected individual income tax in 2005 totalled SKK 40 billion (EUR 1.1 billion) of which 2% represented SKK 800 million (EUR 22.8 million), but the total allocated by individuals amounted to just SKK 312 million (EUR 8.9 million). If business designations were abolished, the government's view was that the NGO sector would be partially compensated by increased NGO interest in securing designations from individual taxpayers.

---

<sup>29</sup> Instead of paying 19% tax into the budget they only pay 18.6%.

A recurrent government complaint, also referred to in the above document, was the cost of administering the percentage system. Initially, costs were high. According to the Slovak tax authority, first year's operation cost approximately SKK 30 million (EUR 850,000) to administer compared to the total amount designated by individuals of almost SKK 100 million (EUR 2.8 million). However, as the system became more automatised, costs had already fallen by the following year.

## **Outlook**

Recent events in Slovakia have shown that the percentage mechanism has become a contentious issue between the government and NGOs. Faced with what it regarded as hostile proposals to reduce government funding, NGOs rallied the public in defence of the percentage mechanism in order to put as much pressure on politicians and the decision-making process as possible. While as a result of such pressure, the current government chose to back down from or modify its proposals, the restrictions placed on the types of purposes designations can support were clearly politically motivated, aimed at "punishing" NGO involvement in the 1998 elections. Governments in Slovakia, whatever their political philosophy – the previous government promoted the role of the individual and the elimination of the state, whereas the current government takes a more paternalistic line – tend to react badly to public pressure. The fact that the debate around the percentage mechanism has become politicised may have some bearing on future decisions about its continued operation. The current government seems less disposed towards independent NGO activity. Unfortunately, the situation has not contributed to the development of coherent and consistent government policy to the percentage mechanism in particular or the NGO sector in general.

The NGO sector appears to be lacking effective strategies for providing politicians with policy solutions that fit in with their political priorities. More work needs to be done to develop the sector's strategic thinking and support the NGO sector's future lobbying activities with data, research and well-founded proposals. A more convincing case needs to be made to politicians about the role of the NGO sector in society and its contribution.

The national debate initiated in 2006 on government funding for public benefit activities is still on-going and its outcome may only become clear in the medium to longer term. What is clear is that at some stage the government and NGOs need to engage in a process in which roles and responsibilities are defined and mutually accepted. Ideally, this process should also include elaborating consistent government policy, a strategy for NGO sector development and a meaningful role for the government Council for NGOs.

In the discussions that took place in 2006, NGO arguments were dominated by the sector's need for government funding. This is why some continue to believe that the Czech model of capitalising part of privatisation proceeds to create endowments of foundations would have proved a more important solution for strengthening the financial capacity of the sector in Slovakia. This would also have reduced the state's role and made NGOs less dependent on government funding in the longer term. There are increasing calls within the sector to put more focus on private sources and the ways in which private giving could be stimulated. The Ministry of Finance has shown some interest in discussing the re-introduction of tax-deductible donations by businesses in aid of public benefit activities, which might operate alongside tax designations by individuals. Sponsorship, which is still not officially recognised

under Slovak law, is another area where some feel there may be scope to open negotiations on increased NGO funding.

The pros and cons of these various ideas are still being mulled over within the sector: some say a return to tax-deductible donations would be a retrograde step since it would reduce government funding for the NGO sector, whereas others believe their re-introduction might provide a real stimulus for private giving. Others question whether a return to the operation of both systems (percentage designations and tax breaks for donations) is really viable. There is little likelihood of an initiative to secure the use of the remaining amount of “undesigned” tax for the sector. It was agreed some time ago that the sector would not to go down this road: even a decision not to designate is a decision.

As regards the future of the Slovakia’s percentage mechanism, government statements in early 2007 provided no indication of the government’s intentions. There are different opinions within the NGO sector. Some believe that attempts to limit tax designations by businesses will continue, that the future operation of the whole mechanism is in doubt and that it may be scrapped as early as 2008. Others are convinced that the degree of pressure exerted on the government at the end of 2006 saved the mechanism for the next four years. There are even suggestions that the rate at which individuals can designate a portion of their tax could increase beyond the current 2% level. In any event, in 2006 NGOs did about everything that could be done to resist changes to the mechanism, but this may also have marked the last time that such a lobbying exercise could save the mechanism.

To conclude with a remark made by one observer: it would be unfortunate if the percentage mechanism were to be abolished because the bulk of financial support it channels to NGOs is not about the money involved; rather its value is in the way it multiplies the outreach and impact of NGO activities. Certainly, the increased visibility of the sector’s work and the new links formed between individual taxpayers, the business community and NGOs are some of the key benefits of percentage designation.

## Bibliography

Andrejkovič, M.: *The Development of the 2% Tax Designation Mechanism after the Year 2004.*, 1. SNSC, Bratislava 2006. Online:

[http://www.onepercent.hu/Dokumentumok/Slovakia\\_changes\\_in\\_mechanism.pdf](http://www.onepercent.hu/Dokumentumok/Slovakia_changes_in_mechanism.pdf) (February 25, 2007).

*Country Information: Slovakia.* United States International Grantmaking. Online: <http://www.usig.org/countryinfo/slovakia.asp> (February 14, 2007)

Demeš, P. – Bútorá, M.: *Tretí sektor a dobrovoľníctvo*. In: Bútorá, M. – Ivantyšyn, M. (ed.): *Slovensko 1997. Súhrnná správa o stave spoločnosti a trendoch na rok 1998*. Bratislava, IVO 1998.

Demeš, P.: *Mimovládne organizácie a dobrovoľníctvo*. In: Kollár, M. – Mesežnikov, G. (ed.): *Slovensko 2002, Súhrnná správa o stave spoločnosti*. Bratislava, IVO 2002.

Demeš, P.: *Tretí sektor a dobrovoľníctvo*. In: Kollár, M. – Mesežnikov, G. (ed.): *Slovensko 2000, Súhrnná správa o stave spoločnosti*. Bratislava, IVO 2000.

Demeš, P.: *Tretí sektor a dobrovoľníctvo*. In: Kollár, M. – Mesežnikov, G. (ed.): *Slovensko 2001, Súhrnná správa o stave spoločnosti*. Bratislava, IVO 2001.

Demeš, P.: *Tretí sektor a dobrovoľníctvo*. In: Mesežnikov, G. – Ivantyšyn, M. (ed.): *Slovensko 1998-1999. Súhrnná správa o stave spoločnosti*. Bratislava, IVO 1999.

*First Year of the Tax Reform, or 19 Percent at Work.* Economic Analysis 8. Bratislava: Financial Policy Institute, The Ministry of Finance of the SR 2005, pp. 70-71.

Kadlecová, J.: *Impact of the April Amendment of the Act on Income Tax on NGOs.* The International Journal of Not-for-Profit Law. Volume 4, Issue 4. The International Center for Not-for-Profit Law, July 2002. Online: [http://www.icnl.org/journal/vol4iss4/cr\\_cee.htm#Slovakia](http://www.icnl.org/journal/vol4iss4/cr_cee.htm#Slovakia) (January 11, 2007).

Kadlecová, J. – Vajdová, K.: *Mimovládne organizácie a dobrovoľníctvo*. In: Kollár, M. (ed.) – Mesežnikov, G. (ed.): *Slovensko 2003. Súhrnná správa o stave spoločnosti*. Bratislava, IVO 2003.

Lőrincz, A. – Woleková, H.: *Advocacy in favour of 1% tax allocation in Slovakia* In: Török, M. – Moss, D. (eds.): *Percentage Philanthropy*. Budapest, NIOK 2004. Online: [http://www.onepercent.hu/Dokumentumok/Chapter\\_3\\_Lorincz\\_Sk.pdf](http://www.onepercent.hu/Dokumentumok/Chapter_3_Lorincz_Sk.pdf) (January 23, 2007).

Lőrincz, A. – Woleková, H.: *Advocacy in favour of 1% tax allocation in Slovakia* In: SEAL Social Economy and Law Journal, Special Issue on Percentage Philanthropy, Volume 7, Number 1, Summer-Autumn 2004

Mikloš, I.: *Kniha reforiem. Ako si Slovensko získalo medzinárodné uznanie v ekonomickej oblasti*. Bratislava: Ministry of Finance of the SR, 2005.

Moore, D.: *Laws and Other Mechanisms for Promoting NGO Financial Sustainability*. The International Center for Not-for-Profit Law, 2005.

Orgonášová, M.: *A survey on the allocation of state budget subsidies for the activities of nongovernmental organizations in the Slovak Republic in 1998*. The International Center for Not-for-Profit Law, 1999.

Pajas, P.: *Reform of the Legal Environment for Foundations and Public Benefit Service Organizations*. The International Journal of Not-for-Profit Law. Volume 4, Issue 4. The International Center for Not-for-Profit Law, July 2002a. Online: [http://www.icnl.org/journal/vol4iss4/cr\\_cee.htm#Slovakia](http://www.icnl.org/journal/vol4iss4/cr_cee.htm#Slovakia) (January 11, 2007).

Pajas, P.: *Slovak Republic – Country Report*. The International Center for Not-for-Profit Law, 2002b.

Strečanský, B. – Bútorá, M. – Repčíková, S. – Novotný, P. – Vajdová, K. – Iľanovská, L. – Woleková, H. – Bútorová, Z. – Pastorová, L.: *Mimovládne neziskové organizácie a dobrovoľníctvo*. In: Kollár, M. (ed.) – Mesežnikov, G. (ed.) – Bútorá, M. (ed.): *Slovensko 2006. Súhrnná správa o stave spoločnosti*. Bratislava, IVO 2007.

Strečanský, B. – Bútorá, M. – Vajdová, K. – Szatmáry, Z. – Bútorová, Z. – Kubánová, M. – Woleková, H.: *Mimovládne neziskové organizácie a dobrovoľníctvo*. In: Kollár, M. (ed.) – Mesežnikov, G. (ed.) – Bútorá, M. (ed.): *Slovensko 2005. Súhrnná správa o stave spoločnosti*. Bratislava, IVO 2005.

*Survey of tax laws affecting non-governmental organizations in Central and Eastern Europe*. Second Edition. The International Center for Not-for-Profit Law, 2003. Online: <http://www.icnl.org/knowledge/pubs/TaxSurveyCEE.pdf> (January 13, 2007).

Vajdová, K.: *Mimovládne neziskové organizácie a dobrovoľníctvo*. In: Kollár, M. (ed.) – Mesežnikov, G. (ed.): *Slovensko 2004. Súhrnná správa o stave spoločnosti*. Bratislava, IVO 2004.

## **Annexes**

***Annex 1: Percentage legislation: amendments to the Income Tax Act, 1999-2006***

***Annex 2: Main initiatives, developments and legislative changes affecting the operation and financing of Slovak NGOs, 1997-2006***

***Annex 3: NGO legislation in Slovakia***

***Annex 4: A summary of NGO/government arguments, negotiating positions and tactics on issues affecting Slovak NGOs, 1998-2006***

***Annex 5 Reforms in Slovakia (2002-2006) and their potential impact on the NGO sector***