

Annex 1: Percentage Legislation in Slovakia – Amendments to the Income Tax Act, 1999-2006

Year of amendment of Income Tax Act	Percentage measure	Effective as of /Notes
Income Tax Act No. 366/1999	<ul style="list-style-type: none"> ▪ Introduction of 1% mechanism into Slovak legislation 	January 1, 2002 (Note: operating arrangements amended in 2000 and 2001)
Income Tax Act No. 466/2000	<ul style="list-style-type: none"> ▪ Elimination of natural persons (individuals) as recipients of 1% tax designations 	January 1, 2002
Income Tax Act No. 561/2001	<ul style="list-style-type: none"> ▪ Adoption of definitive version of 1% mechanism arrangements allowing natural persons (individuals) to make 1% tax designations 	January 1, 2002 (Note: individual taxpayers able to make 1% designations for the first time in 2002 from previous year's paid tax, and again in 2003. The rate increases to 2% in 2004 – see changes adopted in 2003)
Income Tax Act No. 247/2002	<ul style="list-style-type: none"> ▪ Expansion of 1% mechanism to allow legal persons (businesses) to make 1% tax designations ▪ Introduction of requirement for recipients of 1% tax designations to publish details of the use of designated money in the Commercial Bulletin (above SKK 100,000) and of obligatory audit (above SKK 1,000,000) 	January 1, 2003 (Note: business taxpayers able to make designations for the first time in 2004 from previous year's paid tax, but at the increased level of 2% - see changes adopted in 2003)
New Income Tax Law No. 595/2003 (Tax reform started)	<ul style="list-style-type: none"> ▪ Increase in level of designation from 1% to 2% for natural persons (individuals) and legal persons (businesses) ▪ Abolition of requirement for recipients of tax designations to register annually in the Register of Recipients 	January 1, 2004
Income Tax Law No. 659/2004	<ul style="list-style-type: none"> ▪ Reintroduction of annual registration requirement for recipients ▪ Change in deadline for transfer of designated money by tax authorities to recipients' bank accounts 	January 1, 2005
Income Tax Law No. 688/2006	<ul style="list-style-type: none"> ▪ Introduction of limits on the purposes 2% designations can be used for (education, environmental protection and human rights excluded) ▪ Increase in minimum amount individuals can designate to SKK 100 ▪ Extension of deadline for publishing details of the use of designated money in the 	January 1, 2007

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

Event	Description	Consequences
1997		
New restrictive Act on Foundations (1996)	See Annex 3 on NGO legislation	Decline in numbers of foundations
John Hopkins Comparative Research (1996)	Slovakia as one of the studied countries	Data available on NGO sector in Slovakia
1998-99		
Corporate Philanthropy Survey – Foundation for a Civil Society	First questionnaire survey of companies about their giving	Data on corporate giving
Meeting of NGO sector leaders with Prime Minister Dzurinda	Cooperation, National Development Plan, legislation for long-term financial stability of sector discussed	Prime Minister promised legislation on 1% tax designation
Proposal to convert Russian debt into endowment fund	Conversion of debt of Russian Federation into endowment fund supporting civil society in Russia	Initiative failed in 2002
Income Tax Act No. 366/1999	1% mechanism incorporated into tax code	Due to NGO objections, initial 1% model later amended. See Annex 1
2000		
Nonprofit Sector in Slovakia – Economic Analysis - SPACE	Economic analysis of the sector stemming from John Hopkins findings	Data gained used to elaborate draft concept for NGO sector development
Contemporary State of NGO financing from public funds in Slovakia - SAIA	First analysis of public funding for NGOs in Slovakia	Data on public funding
Act No. 211/2000 on Free Access to Information	More open public administration now obliged to provide wide range of information	Freer access to information on various aspects of public administration functioning
Income Tax Act No. 466/2000 amending Income Tax Act No. 366/1999	Exclusion of individuals as beneficiaries of 1% tax designations. See Annex 1	NGOs become sole recipient group of tax designations
2001		
Income Tax Act No. 561/2001 amending the Income Tax Act No. 366/1999	Enactment of arrangements allowing natural persons (individuals) to start designating 1% of income tax from 2002 onwards. See Annex 1	
Proposal to use part of privatisation proceeds for capitalisation of Slovak foundations	Proposal to use SKK 1.5 billion to strengthen endowments of Slovak foundations based on the Czech example	Initiative failed in 2002, but negotiations consequently led to extension of percentage mechanism allowing legal entities (businesses) to designate 1% of previous year's corporation tax
2002		
Operation of 1% mechanism commences	Designations of 1% of previous year's income tax are made for first time by individual taxpayers	First data becomes available on use of designation option

New Act No. 34/2002 on Foundations	See Annex 3 on NGO legislation	Led to dramatic drop in number of foundations. Re-registration in 2003 showed almost 50% decline
Income Tax Act No. 247/2002	Expansion of 1% mechanism to includes designations from legal persons (businesses). See Annex 1	Designations by businesses made from 2004 onwards
Monitoring of NGO financing from state funds – part II. – SAIA	Upgrade of previous analysis from 2000 (see above)	Further data on government funding for NGOs
Approved increase of guaranteed contribution from state to NGOs providing social services up to 100%	Harmonised conditions for state and private non-profit organisations providing social services	More predictable government funding for NGOs providing social services
Act No. 35/2002 amending Act No. 213/1997 on Non-Profit Organisations Providing Generally Beneficial Services (NPOPGBS)	See Annex 3 on NGO legislation	Increase of number of NPOPGBS, also as consequence of “Transformation Law” (see below)
Act No. 13/2002 on Conditions of Transformation of Certain Budgetary Organisations and Subsidiary Organisations into Non-Profit Organisations Providing Generally Beneficial Services (Transformation Law) and on Amendment and Change of the Act No. 92/1991, on Conditions of the Transfer of State Property to Third Persons in later amendments	Former state institutions transform into NPOPGBS – this legal form qualifies as recipient of tax designations	Change of structure of non-profit sector and number of NGOs – increase of this type of legal form
Renewal of VIA BONA Award	Award for corporate giving and corporate social responsibility	Publicity helps stimulate and promote corporate giving
2003		
Non-Profit Code initiative	Attempt to harmonise legal regulation of the NGO sector by introducing New NP Code – aims were to update content and existing norms, simplify and strengthen various laws making them consistent with each other, revise or introduce rules for societies, public benefit services, sponsorship, volunteering, public collections and commercial activities	Led to a very controversial discussion within the sector with two polarised groups emerging Subsequently rejected, but the initiative continues throughout 2006-2007
Analysis of NGO financing from public sources	Only governmental material which deals with this topic	Breakthrough material, but which produces no real results
SAIA terminates its services for NGOs	Closure of service centre for NGOs	Support infrastructure for NGO sector weakened

Charity Set	An open investment fund for NGOs	NGOs able to capitalise their available free resources on financial market
Governmental Concept on EU funds for 2004-2006	Deals with NGO position in EU-funded projects	Positive impact on long-term sustainability of NGO service providers Own contribution of NGOs: 5% of overall project sum VAT to be refunded for VAT non-payers Pre-financing available to NGOs
Proposal of mid-term concept of official development aid (ODA) for 2003-2004	Deals with involvement of NGOs in official development aid (ODA) and official aid (OA)	New sources of funding for NGOs in OA and ODA programmes
Adoption of tax reform	<p>Flat tax of 19% introduced for businesses and individuals (incl. 19% VAT). Benefits and allowances abolished, including tax deductible donations to NGOs.</p> <p>Up to the end of 2003 businesses could deduct the value of gifts in excess of SKK 2,000 given to municipalities or other legal entities such as NGOs to finance science and education, culture, schools, fire prevention services, support to youth, protection and safety of the public, protection of animals, social and health care, ecological and humanitarian concerns, charity, church and religious purposes, physical training and sports purposes. The deduction could not exceed 2% of the tax base.</p> <p>Likewise, individuals could deduct contributions aggregating in excess of SKK 500 made to the same areas of activities listed above. The deduction could not exceed 10% of the tax liability. ¹</p> <p>The Law on the Inheritance Tax, Gift Tax, and Tax on Conveyance and Transfer of Real Property, No. 318/1992 was cancelled from 1 January 2004 and from 1 January 2005 only Law on Income Tax (or Value Added Tax) applied.</p> <p>See more information on tax and other reforms in Annex 5</p>	<p>Effective as of January 1, 2004 the tax reform significantly changed the environment for NGO financing by abolishing benefits and exemptions on donations</p> <p>By way of compensation, the percentage individuals and businesses could designate to NGOs was increased from 1% to 2%</p> <p>Though NGOs were not the only recipients, this system of government support for donations provided the only official data on giving in Slovakia (released by the Tax Office), so giving trends are hard to quantify after 2004</p>
2004		
Accession to European Union	New funds available for NGOs Pressure on government for NGOs to become service providers	Increase in size and change in structure of funds for NGOs

¹ Survey of tax, 2003

New EU funds	NGOs qualify for 100% of expenditure for European Social Fund (ESF) and EQUAL projects, and 95% of expenditure under European Regional Development Fund (ERDF), European Agricultural Guidance and Guarantee Fund (EAGGF) and state budget	
NATO membership		
New funds for NGOs	Civil Society and Governance Society Fund, Slovak-Czech Women's Fund From 2006: Norwegian financial mechanism, Financial mechanism of European Economic Area countries (later, Swiss financial mechanism)	
2005		
Discussions on public benefit	Questions relate to definition of public benefit and public interest	New initiatives in efforts to codify public benefit
Effects of new 2% tax designations	Due to new level of 2%, more NGOs set up by public administration and institutions (QUANGOs). In some cases, companies designate 2% to their own foundations to promote their image	
More funding from EU programmes	Opportunities for NGOs active in the fields of education, minorities, marginalised groups, social inclusion	More funds for NGO activities Growth of bureaucracy Pressure to provide co-financing from NGOs' own funds
Growth of the new legal form: Non-Profit Organisations Providing Generally Beneficial Services (NPOPGBS)	Between 2002 and 2005 number of NPOPGBS increased fivefold	
Foundation Act	Tightening of rules	Number of foundations decreases Recent growth in foundations in sphere of corporate foundations
New Act No. 171/2005 on Hazardous Games	Incomes generated channelled into the state budget NGO sector initiative to set up charitable lottery for NGOs	Abolition of predefined use (for sports) of the lottery proceeds in law – these proceeds become direct income of state budget Charitable lottery concept failed
2006		

Income Tax Act No. 688/2006

See Annex 1. Changes to percentage mechanism as of 2007 included:

- Limitation on purposes 2% designations can support (education, environment and human rights excluded)
- Increase of minimal sum that individual taxpayers can designate (to SKK 100)
- Prolongation of deadline for publishing details of use of 2% in the Commercial Bulletin

Abolition from 2007 of tax exemption on income up to SKK 300,000 from commercial activities of NGOs. Until the end of 2006 business activity was allowed for most organisations, except foundations or non-investment funds, which were prohibited from engaging in such activities. Income from related business activities was exempt from tax if: a) the business activity was not conducted at a price advantage in competition with for-profit entities and b) the income was proportionate to costs. The determination of proportionality was made by comparison to the income/cost ratios of „other persons“. Income from related activities up to SKK 300,000 is exempt. A related business activity was one that was not defined in the organisation's statutes as its primary purpose, but it was necessary to ensure that the organisation's statutory activities were carried out.²

Annex 3: NGO legislation in Slovakia

² Survey of tax, 2003

Types of NGO in Slovakia:

- 1) **Associations**
- 2) **Foundations**
- 3) **Non-Investment Funds**
- 4) **Not-for-Profit Organizations Providing Generally Beneficial Services (NPOPGBS)**
- 5) **Other types of NGO eligible as recipients of tax designations³:**
 - **Specific Church Institutions and Religious Associations** (such as Caritas or evangelical diakonia, etc.)⁴
 - **Organisations with International Component** (e.g. branch offices of international organisations)
 - **The Slovak Red Cross** (set up by a separate law)

Law	Type of NGO	Description ⁵	Date law took effect/ Other comments
Act No. 83/1990 concerning the Right of Association	Civic Associations	Governs in more detail constitutional right to free association of citizens, including trade union organisations. No permit of a state body is necessary to exercise this right. Citizens may establish unions, societies, movements, clubs and other civic associations. The provisions of the Act, however, do not include political parties and political movements, business organisations and churches. The Act makes no distinction between mutual-benefit and public-benefit organisations. Pursuant to this Act, legal personality of associations is established by registration at the Slovak Ministry of Interior (the motion has to be filed by at least three members, citizens of which at least one is over 18 years of age).	1990 Minor amendments in Acts No. 300/1990, 513/1991, 62/1993
Act No. 207/1996 on Foundations	Foundations	A foundation is an expedient compilation of objects, financial means, securities and other valuables, appraisable in terms of money and designated by the founder to meet generally beneficent purposes. The foundation may be established mainly for the following purposes: development of spiritual values, exercise and protection of human rights and other humanitarian goals, protection and creation of the environment, preservation of natural and cultural values and support of health and education. Proceeds from the property and other proceeds may be used solely for the purpose explicitly stated in the Articles of Association. The Act requires the founder to deposit property (endowment) in the value of at least SKK 10,000 on the establishment of the foundation and to increase it to at least SKK 100,000 within six months.	1996 Minor amendments in Act No. 147/1997. This act was abolished and replaced by Act No. 34/2002 on Foundations (see below)
Act No. 147/1997 on Non-	Non-Investment	A Fund is a not-for-profit legal entity which holds money intended for fulfilling generally beneficial purposes or individually directed humanitarian aid for an individual or a group of persons whose life is at risk or they are in	1997

³ There is another NGO form: Associations of Legal Bodies. However, this type of NGO is not eligible to receive tax designations.

⁴ These church institutions are defined within a special law on churches. Churches are not eligible recipients of tax designations.

⁵ According to (Orgonášová, 1998) and (*Country...*, 2005).

Investment Funds	Funds	<p>urgent need of assistance due to an occurrence of a disaster of nature. In particular, this law considers a generally beneficial purpose to be</p> <ol style="list-style-type: none"> the promotion and protection of spiritual values, the protection of human rights, the protection and development of the environment, the preservation of natural and cultural values, the protection and support of health and education, the development of social services. <p>Only a minimum deposit of SKK 2,000 necessary for the establishment of the fund which remains in the property of the fund.</p>	Minor amendments in Act No. 34/2002
Act No. 213/1997 on Non-Profit Organisations Providing Generally Beneficial Services	Not-for-Profit Organisations Providing Generally Beneficial Services	<p>A non-profit organisation is a legal person, whose primary activity is to provide generally beneficial services. The public beneficial services are limited to:</p> <ol style="list-style-type: none"> Health-care provision, Humanitarian care, Development and protection of spiritual and cultural values, Supplementary education of children and youth including physical and organisation of sport education for children and youth, Creation and protection of the environment, Social services provision. 	1997
Act No. 34/2002 on Foundations	Foundations	<p>A foundation is an interest association of property, which serves the public benefit. Public benefit purpose is mainly understood as development and protection of spiritual and cultural values, implementation and protection of human rights and other humanitarian aid, environmental protection and creation, protection of natural values, health protection, protection of children and youth's rights, development of science, education, physical education and fulfillment of individually directed humanitarian aid for an individual or a group of persons whose life is at risk or they are in urgent need of assistance due to an occurrence of a natural disaster.</p>	<p>2002</p> <p>Previous Act on Foundations was abolished and replaced by this Act providing:</p> <ul style="list-style-type: none"> ▪ a new definition of foundations and public benefit purpose, ▪ introduction of minimal endowment of SKK 200,000, ▪ creation of foundation funds (often used for 2% by external subjects), ▪ obligation to verify statement of finances (closing of accounts) by an auditor

<p>Act No. 35/2002 which amends Act No. 213/1997 on Non-Profit Organisations Providing Generally Beneficial Services</p>	<p>Not-for-Profit Organisations Providing Generally Beneficial Services</p>	<p>A non-profit organisation is a legal person established according to this law, whose primary activity is to provide generally beneficial services determined beforehand and to provide such services to all users with equal conditions and whose profit may not be used for the benefit of its founders, members of its bodies nor its employees, but must be fully used to secure the public benefit services.</p> <p>The public benefit services are, in particular:</p> <ul style="list-style-type: none"> g) Health care provision, h) Social care and humanitarian assistance provision, i) Development, protection, restoration and presentation of spiritual and cultural values, j) Protection of human rights and basic freedoms, k) Education, learning and physical fitness training, l) Science, technological development, scientific and technology services and information services, m) Creation and protection of the environment and protection of health of population, n) Support of regional development and employment policy, o) Provision of dwelling capacities and services related to management, maintenance and restoration of public dwellings. p) For the purposes of this law, the priority property is a part of the state property, which the state as a founder or co-founder endows to the non-profit organisation according to the special law⁶ and which is to be used exclusively for securing the public benefit services. 	<p>2002</p> <ul style="list-style-type: none"> ▪ New definition of non-profit organisation ▪ New definition of public benefit purpose ▪ Inclusion of “priority” property
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⁶ The Act No. 13/2002, on Condition of Transformation of Certain Budgetary Organisations and Subsidiary Organisations into Non-Profit Organisations Providing Generally Beneficial Services (the Transformation Act), by which the Act No. 92/1991, on Condition of the Transfer of the State Property to Other Persons, in the text of later amendments, is changed and amended.