1 %

„Forintszavazatok" civil szervezetekre

Tanulmányok

"Forint votes" for civil society organizations

Studies

NONPROFIT KUTATÁSOK / NONPROFIT SECTOR RESEARCH SERIES

Sorozatszerkesztő / Series editor:

Harsányi László

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„FORINTSZAVAZATOK” CIVIL SZERVEZETEKRE

TANULMÁNYOK

”FORINT VOTES” FOR CIVIL SOCIETY ORGANIZATIONS

STUDIES

Nonprofit Kutatócsoport / Research Project on Nonprofit Orgnizations

Budapest, 2000

A kötet annak a kutatásnak az eredményeit foglalja össze, amelyet Vajda Ágnes az Aspen Institute Nonprofit Sector Research Fund támogatásával végzett.

This volume presents the results of a research project which was designed by Ágnes Vajda and funded by the Aspen Institute Nonprofit Sector Research Fund.

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SERIES EDITOR'S FOREWORD

Dear Reader,

The ninth volume of Nonprofit Research Series to a certain extent steps beyond the narrow borders of the nonprofit sector and directs your attention to the citizen whose interest this sector is working in. This volume analyzes and describes the relatively new opportunity of taxpayers to designate 1% of their tax to a civil organization, foundation or association according to their free decision.

In our volume you will find empirical analysis, theoretical approach, macro level conclusions alike as well as a chapter evaluating the concrete opportunities of organizations. Thus this book is a sequence of study volumes like A HARMADIK SZEKTOR [THE THIRD SECTOR] or A NONPROFIT SZEKTOR MAGYARORSZÁGON [THE NONPROFIT SECTOR IN HUNGARY]. It continues our ÁTFOGÓ NONPROFIT MENEDZSMENT [THE COMPLETE GUIDE TO NONPROFIT MANAGEMENT] volume on the one hand and books containing rich data collections such as SZEKTOR SZÜLETIK [THE EMERGING SECTOR], HÍVJUK TALÁN NONPROFITNAK... [LET'S CALL IT NONPROFIT...] or HALAK ÉS HÁLÓK [FISH AND NETS], on the other hand.

Dear Reader, reading this book may reassure you that you have been correctly giving 1% of your tax to a nonprofit organization or now you may decide to do so, in both cases we gladly welcome you as our partner and supporter.

László Harsányi

January 2000

PREFACE

Life was the editor of this present volume. Or rather: death. When preparing the research plan for the 1 % of personal income tax designatable to civil society organizations, Ágnes Vajda intended to publish the findings in a volume containing "an analytical work with detailed charts and tables." The generous support of Aspen Institute enabled her to realize her fastidious program without having to give in to compromises. Everything was given for its success, all the materials had been collected and a repeatedly checked and updated database readily awaited the expert analyst. Ágnes Vajda, however, was denied the chance to complete the study, which was to become the first empirically based analysis of a phenomenon of particular interest. One of the best researchers of the Hungarian nonprofit sector has gone without receiving any well-deserved appraisal for her immense amount of work.

She lived in the shadows. Not only in the circles where she was surrounded by exceptionally talented people but also in several other relations of hers. How many of us know that it was she – together with Antal Gyulavári – to launch the annual statistical survey of the nonprofit sector? How many of us know that after the first free elections it was she – together with János Farkas – to embark on surveys on parliamentary candidates and representatives of local governments? And that she played a pioneer role – together with Ágnes Czakó and György Lengyel – in the research on small enterprises? We could go on and lengthily enlist the research fields from job provision to voluntary work, from housing statistics to the examination of the leaders' elite, from the entrepreneurial activities of nonprofit organizations to the practice of micro-crediting, which all bear her fingerprints in the sense of both content and methodology.

We who had the fortune of working together with her know how much it meant when with a quiet question or comment she helped us get over a point of deadlock, find the answer to a seemingly unsolvable professional problem or just tone down our definitive and overconfident statements. We shall not only painfully miss her professional expertise but also her remarkable sensitivity and empathy. She belonged to the few who represent patience and understanding in our restless world. She did not only grasp the social tendencies but exhibited sympathy towards its often rather frail participants. She was also able to feel glad about the good signs, the research results that indicated a healthy functioning of society. I shall never forget how delighted she was – only a few weeks before her parting – when she first saw the summary of the citizens' opinions on the 1% designations. Forgetting her personal problems, she was able to feel elated because the majority of those asked reacted as thoughtful and responsible citizens to the new possibilities the tax system offered.

The fact that the final report of the research could not be written by Ágnes Vajda is a loss to all of us, readers and colleagues alike. Her analysis would certainly have been more modulated, more understanding, softer, less angular and less critical. While struggling with the sentences and statements, I made an effort to adjust the structure to her original ideas, I tried to incorporate all the thoughts that came from her into the study. The end result, of course, cannot be anything but a strainful failure: the grievous document of a person's unique and irreplaceable existence.

In order to provide the reader with somewhat of a compensation – to the contrary of the original idea – the volume includes the debate articles written in the spring of 1997, the second one of which contains mainly Ágnes Vajda's sentences and thoughts. The volume that this way has transformed into a collection of studies ends with Balázs Gerencsér's summary of interviews with nonprofit leaders and György Bódi's work analyzing practical experiences.

Éva Kuti

January 2000

PROVISIONS OF THE "1% LAW"
(LAW CXXVI/1996 ON THE USE OF SOME PART OF THE PERSONAL INCOME TAX IN ACCORDANCE WITH THE DISPOSITION OF TAXPAYERS)

The 1% law sets two conditions for letting the taxpayers designate the recipient of 1 percent of their personal income tax. Namely,

- the personal income tax must be actually paid within the official deadline or, if the taxpayer gets a special permission from the Tax Office, not later than 30 days after that deadline;
- 1% of the tax must exceed HUF 100.

The taxpayers are allowed to designate only one beneficiary. However large it is, their 1% of the personal income tax cannot be distributed among several organizations.

Under the terms of the law, several different kinds of organizations are eligible for the 1% designation. There are two major types of the potential beneficiaries:

(1) Public institutions which are declared to be eligible at the political decision makers' discretion:

- nation-wide cultural institutions (their list is included in Article 4 of the Law), and
- local cultural institutions (theaters, museums, exhibition halls, community centers) which received subsidies from the municipalities in at least one of the former three years.

(2) Non-governmental organizations which are engaged in preventive medicine, health care, social services, culture, education, research, public safety, human rights, environmental protection, protection of cultural heritage, sports and leisure time activities for the youth and the disabled; care for the elderly, children, the poor, the handicapped, national and ethnic minorities, and Hungarian minorities in foreign countries[1] if they belong to the following groups of institutions and also meet some other requirements:

- institutions run by churches[2] which were officially registered not later than 3 years before the year of the tax declaration;
- public law foundations regardless of their year of establishment;

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[1] An addition was made to this list in 1998 when the *Law on public benefit organizations* defined public benefit activities. This more complete list also includes consumer protection, rehabilitating employment, training and employment related services for people who are in a disadvantageous position in the labour market, promotion of the Euro-Atlantic integration, services for public benefit organizations, promotion of flood prevention, and promotion of public transport.

[2] This group of institutions lost its eligibility when the 1% law was amended by the Law CXXIX/1997, which provided that, upon the taxpayers' decision, another 1% of the personal income tax could be transferred to the churches.

- private foundations and voluntary associations which
  - are registered in Hungary and have been in existence for at least 3 years;
  - are independent of political parties and do not support candidates for political office; and
  - are not in arrears with tax and duties, or they agree that the amount they would receive from the personal income tax is used to pay or decrease their debt.

The 1% designation is part of the tax declaration. After making their choice, taxpayers are supposed to obtain the tax identity number of the selected organization. In fact, this tax identity number is the only obligatory part of the designation declaration, indication of the name of recipient organization is optional. The designation declaration must be put into an envelope. Outside this envelope taxpayers have to indicate their own tax identity number together with their name and address. The sealed envelope must be sent to the Tax Office together with the tax declaration. (Taxpayers whose tax declaration is prepared by their employer have to give the sealed envelope to the employer who then forwards it to the Tax Office.)

The financial transfer itself is made by the tax authority. If the taxpayer does not name a recipient organization or makes some formal mistake when preparing the designation declaration, his/her whole tax remains part of the central budget. The transfer is not made either if the designated organization is not eligible, cannot get the necessary certificates within the deadline or thinks that the cost of meeting all the application and reporting requirements would be higher than the amount it could receive.

GEYZA MÉSZÁROS and ISTVÁN SEBESTÉNY
THOUGHTS AROUND 1%[3]

An act raising fiery debates and stirring up emotions has recently come to light enabling citizens to denote 1% of their personal income tax to public causes designated by themselves. The concept itself is not completely new, in several Western countries it is a well-established practice of financing churches and has been on the agenda for many years in Hungary. The 1996 Act on Personal Income Tax contains the above mentioned opportunity, however, when adopting the act, Members of Parliament made the provision that the issue should be regulated by a separate law, which the National Assembly eventually adopted during the session of 19 December 1996.

Stormy and even politically charged debates preceded the birth of the law and it mingled the state financing of churches with the public support of church-established charity and other public benefit organizations. Since historical churches feared that the 1% provision would terminate their former central support or at least change it to their disadvantage, the bill received strong criticism from them. During conciliations with the government, however, it became crystal clear that church financing, as a real state task requires legal regulation, which is already in the pipeline. Thus the large churches – with the exception of the Catholic Church – while emphasizing their concerns, accepted the opportunities provided by the law and called upon their followers to exploit them.

The appearance of the law should nevertheless be welcomed since it may be regarded as a milestone in the history of Hungarian legislation. It is the first opportunity for the taxpayer to directly have a say in the reallocation of centralized funds, in other words he himself can decide on the use of part of his paid tax, be it little. On the other hand, the organization has an opportunity to establish a personal relationship with the public or can feel encouraged to do so. The reason for this is, that even organizations that previously had been excluded from the allocation or application system due to their size or isolatedness, may receive some financial support.

Let us see the system's functioning mechanism and let us define who the participants are and what roles they have. Three main actors engage in connection with each other. The taxpayer designates, the Tax Office representing the state executes and the beneficiary organization receives. At the same time, the taxpayer appears falsely as a donor both in the eyes of himself and the beneficiary since the system may suggest that the taxpayer designates one part of his own income to an organization instead of paying tax. This conviction is further strengthened by the fact that prospective recipients attempt to influence the taxpayer in this direction through notices and

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[3] This article was published in Beszélő in March 1997. We wish to express our gratitude to the original publisher for the approval to this edition.

advertisements. In fact, the taxpayer can decide only on who the government should give support to that equals one percent of the taxpayer's paid income tax. This means that the organizations do not request donations from the taxpayer but they "lobby" for a favorable decision from the taxpayer's part when deciding on allocation of public funds. Now let us go through the actual and the supposed roles of the participants, their interests and motives.

The taxpayer as a "decision-maker"

The taxpayer has no direct financial interest in this system, he has to renounce his 1% in any case – just like the other 99% – he can in the best case indirectly receive a share of it if he designated it to an organization whose services he or his family uses. When undertaking his "impartial state decision-maker" role, the taxpayer should rise beyond his personal affiliations and knowing the circle of the prospective beneficiaries, he should under no influence and with a clear head designate the worthiest organization. What can happen instead in real life?

We know that the sum in question can very rarely exceed the amount of a few thousand forints whilst the number of applicant organizations may well be in tens of thousands. We cannot therefore expect the citizen to make a well thought-over decision, he will be rather guided by emotions. Most of the taxpayers will not go into the trouble of arduously filling in the form, let alone finding the tax identification number of the preferred organization. These citizens' 1% will remain in the state treasury. The rest – treating the amount as a humble donation – will decide to the advantage of an organization close to them being guided in their choice by momentary impressions. Thus individuals with health and social problems will favor organizations dealing with these particular issues, parents will favor their children's nursery, school foundation or sports association, professionals will support associations working in their own field, those who like leisure activities will opt for their own recreational clubs, etc.

In addition, the taxpayer trained by advertising and election campaigns will have to endure being bombarded by an increasing number of media and postal requests. Even the most determined ones will soon give up and eventually choose their beneficiary randomly. After the action looking like a fundraising campaign, the decision-making citizen can sit back with a pleasant feeling of actually having given to charity and that is where his role ends.

The Tax Office as an opponent "grant-maker"

In this cycle, the Tax Office represents the state and allocates the donations so it is interested in as few forints to go out to the organizations as possible. On the one hand, each 1% saved contributes to the state treasury; on the other, the more taxpayers exercise their designatory rights, the more red tape will accumulate and the greater the transferring costs will mount.

The confusion of roles is further aggravated by the Office's obligation to decide on accepting the designator's declaration. "Incorrect or illegible tax identification number found in the declaration shall result in a void designation. All – according to the stipulation – void designation sums shall form part of the state budget's revenue from personal income tax" [section (1), Article 7]. Since the tax authority does not inform the taxpayer of its decision, he can only learn about the acceptance or rejection of his designation after lengthy series of inquiries. Neither can the beneficiary send a notification, as they cannot identify where the sum came from. After all this, it is not very likely to suppose that the Office should not decide in favor of the state in the cases of disputable designations. Even the justly rejected decisions may give rise to inconvenient attacks; here we have to mention that we can already read invitations in the papers in which sports organizations or foundations registered only one year ago request support. The role the Tax Office was casted with will not contribute to its popularity whatsoever.

The beneficiary as a diligent "lobbyist"

The interest of the eligible beneficiary is clearly to win as many designating taxpayers as possible. For this purpose it has to meet the legal criteria in all respects. First of all it has to review its statutes older than 3 years. If they regard their work that of public benefit although these activities (e.g. area or economic development) are not present in their statutes according to the law, they have to perform amendments on the statute. This, however, can be carried out also by a non-eligible association specialized in competitive sports provided that they "take" other, accepted categories as supplements. They must also make a supplement according to the stipulation of absolute independence of political activities, which was not a requirement before. As a result, a significant rise in the number of clients may be expected at the competent courts. Certificates from the Tax Office, local and customs authorities will have to be obtained proving they are not in arrears. This hassle is undertaken in the hope of considerable support. It may be probable that the majority of organizations obtain the necessary documents only on receipt of the tax authority's notice; this will increase the workload of the authorities within the 30-day lapse of time.

This will, however, be preceded by the competition for winning the taxpayers, which has already started. Competition that is unworthy to the usually noble causes (e.g. philanthropy, education) is unavoidably inseparable from campaigns that often employ even market tools and advertising tricks. The practice of proving that "our poor are the poorest" or "our sick are the sickest" neither enhances the social acknowledgment of the sector nor the emerging cooperation of organizations. In compliance with the market laws, the organizations with an originally larger capital will be able to employ a more effective and probably more fruitful fundraising strategy. Some organizations that are concerned about falling behind in the race may try to win supporters through advertisements paid from their modest revenue while they distract the resources from the original causes and their investment might not bring results. The beneficiary, therefore, will transform itself according to its role; it will execute administrative business, advertise, compete, lobby and first and foremost hope.

This year can be regarded as a period of apprenticeship for all participants. The lack of settledness and practice and the negative phenomena deriving from the confusion of roles will come to the surface sooner than the opportunities the system may offer. The financial background of the whole sector will not be significantly affected by the optimally 3–4 billion HUF supplement as compared to the scale of HUF 100 billion revenue – approximately 20–20% of which has accounted for state and private donations anyway – seems to be negligible. Although small organizations may regard the sum of a couple of thousand forints as a lifebelt, larger ones will not even "take notice" of the same amount. If, however, the larger share is received by the originally better supported large organizations – and this seems to be more likely – the inequality of opportunities is bigger. Who can win then?

The *taxpayer* steps forward as a "donor" without any financial expense and with a clear conscience. The *Tax Office (the state)* as the actual supporter provided extra revenue to the sector with minimal investment since the citizen had done the allocation. The picture is not so clear within the *circle of beneficiaries*. The well-organized, financially sound organizations in a good market position and, hopefully, the small associations and foundations operating in their small local community or small settlements, knowing their own environment well, can cut a larger slice of the cake according to their influence, while others will be left with the crumbs only. Among these latter we might find important public benefit organizations which, due to the lack of personal interest, may expect more modest social solidarity (e.g. organizations dealing with the problems of alcoholics, drug addicts, the homeless and the unemployed).

Within the civil society, although the forming of this often unilateral dialogue is welcomed since it improves contacts between citizens, it is at the same time feared that the focus of this dialogue will narrow down to the issue of financial support. It can be very useful for the entire society if organizations learn how to play their "fundraising" and taxpayers their "donor" roles. However, it would be more favorable if this would not only concentrate on the reallocation of a meager part of public funds – even if that part can also be considered as a gesture – but it would take its final and complete shape in the voluntary financial form of solidarity deriving from the society members' actual and usable income.

The whole system, therefore, may be regarded as a Monopoly Game where the state is the banker, the taxpayers are free to use their received tokens and the organizations competing with each other try to win the tokens away from the taxpayers. The clever organizations at the end of the game change what they have won into coins.

On a serious note, our aim with this paper was not to make this important issue sound petty, we intended to contribute to the launching of a constructive debate, where the shaping of this new element that has appeared in the support system of the nonprofit sector would receive more and more proposals so it could eventually lead to the satisfaction of everyone.

We would also wish to propose a possible solution. We regard the often cited principle important i.e. the state should waiver its right to the 1% of personal income tax even if the taxpayer does not designate it. This way the existence of the counter-interest of the Tax Office could also be avoided. Later on, we will focus on the usage of the money accumulated this way.

As we have already mentioned, the taxpayer's designatory right cannot be questioned, he can decide whether he wants to exercise his right or not. It is another question, however, to what extent he can have a say in where the money goes. It is due to the fact that the taxpayer does not choose the beneficiary through a selected public benefit activity, after inquiring about the organizations in that field, but he has direct preference towards one particular organization that he is personally familiar with. He does not and cannot know whether that very foundation or association is really in the greatest need to receive the benefit. Therefore fair allocation cannot take place, familiarity dominates instead of the usefulness criterion and this leads to subjective decision-making. This is acceptable and commendable when the taxpayer really wants to give to charity but it cannot be confused with the reallocation of public funds. In our eyes, it is essential that the taxpayer has a say in the latter – even only to this extent – but then he should be put into the position where he can cast his vote after having weighed all the possibilities. As in politics, the circle of prospective candidates, parties, etc. is limited, so here also we feel it necessary to have decision-making done within rational boundaries. This seemingly curtails the individual's decision-making sovereignty but it is unavoidable for the purpose of the system's functioning. Surely, many disagree with the election party-lists but they can only vote for one of these. In our case, we would need the same kind of "orientation", in which groups of nonprofit sector participants should be able to be distinguished by citizens. In other words, they would not choose their beneficiary from among the organizations but on a higher level. This means that we would group the public benefit activities and the taxpayer would be able to mark only one of these causes on his designation form. These activities could be for instance: culture, religion, education, research, sports and recreation, health and social care, environmental protection, area development, protection of law, public security, etc. The question might arise here as to how the individual can rank these groups. Out of these groups it is still easier to identify the cause he then finds most worthwhile than to name one of the hundreds of organizations he comes across all at once.

From the 1 percents received for the various activities, designated funds should be established, which could exclusively be used to support organizations operating in the given field. The allocation of the funds would be executed by committees with representatives of all major and small organizations of the capital, rural areas and villages, etc. as well as the experts of the field. A greater share of the funds would be allocated through projects and applications in which a more balanced support can be ensured between organizations that perform different tasks and operate in different conditions. The remaining smaller share would serve as a reserve fund for needy organizations or those in crisis. Although the submission of the applications would put administrative workload on the applicants, that would not necessarily be more than the cost of winning the beneficiary title now. It is evident that the establishment of this system – especially that of the representative one – would require strong collaboration and cooperation from the organizations, but it would serve the whole of the sector more than the current competition. It would also have the advantage of being able to plan the projects for several years in advance, their systematic dependence may be ensured and when publicizing them, the attention of citizens would be directed more on the actual work of the organizations.

This system cannot ensure either – and it should not be its purpose – that everybody should have a share of the support, but we still believe that it would bring us closer to a more efficient financing mechanism. Although these funds would only be raised once a year, their successful functioning could be attractive to winning the support of other national and foreign, private and non-private people.

If a citizen cannot or will not name a beneficiary, it can be considered as a waiver or assigning of decision-making right to someone else. We can even imagine that in this case the competent local government could designate the 1% in the following way. It would establish assigned funds from the 1 percents, which it would use for public causes deemed best by them. These could serve the support of for instance social services, area development or local associations and foundations. Such form of "revenue" for the local government could also lessen the pressure to impose local taxes.

We are not under the false impression that our proposal's practical realizations would solve all problems and that no better solutions may exist. Practice can easily shake the theoretical criticism of the current untried system. We do hope that joint thinking can give way to the formulation of better solutions.

ÉVA KUTI and ÁGNES VAJDA
IN DEFENSE OF PARTIALITY[4]

An important article was published in the March edition of Beszélő on the act that confers the right of disposition on the taxpayer concerning the use of 1% of his personal income tax.[5] In the midst of the wrangle that emerged around the law, Geyza Mészáros and István Sebestény attempted to weigh the pros and cons in a non-emotional and objective manner. The concerns and arguments articulated by them are all, without exception, worthwhile thinking over but at the same time the conclusions drawn do provoke debate. The aspects of economic and political rationality dominate the study so utterly that it appears essential to counterbalance them with the aspect of social rationality.

The authors justly criticize the "confusion of roles" that emerged from the provisions of the act, the burden of red tape on the shoulders of associations and foundations and the mounting costs of implementation. They also have all the reason to pose the question: What should happen to the 1% if the taxpayer does not designate it and why does this amount of money remain in the pocket of the state budget? We ourselves also share the opinion that the law should have made the following provision: the 1% by all means shall contribute to the enrichment of civil society, raising a joint fund set up for this purpose and from which later on the eligible organizations may receive a certain amount through applications. However, we cannot accept Mészáros and Sebestény's arguments claiming that a more efficient distribution could be realized if taxpayers could designate a scope of activity as beneficiary rather than a particular organization. They suggest that impartial decision-makers should distribute the resources accumulated at this aggregate level among organizations with activities that citizens designated. The allocation process would be based on an application system, which evaluates the usefulness of the activity and the level of dependence of the organization.

Here we are debating on what the actual role of this 1% is. Are we talking about pure expansion and allocation of resources, which have to be realized in the most rational possible way or something else, if you wish, something more? Why do organizations fight and lobby for it, what considerations will guide taxpayers when designating? Today only vague data – or rather, estimates – are being published as to what ratio of taxpayers filled in the declarations and put the beneficiary institute's tax number and name in the envelopes. Our prediction in the envelope would be the following: if conditions do not change, this ratio will grow in the course of the forthcoming years

[4] This article was published in Beszélő in May 1997. We offer our thanks to the original publisher for the approval to this edition.
[5] Mészáros and Sebestény (1997). See also in this volume.

since we expect the law primarily to strengthen the relationship between voluntary organizations and citizens.

We believe that the majority of nonprofit organizations get in the ring not principally for the expansion of their resources when requesting 1% of taxpayers' tax they would rather like to make certain about their own social support. They expect feedback. Taxpayers do not exactly wish to behave as impartial state decision-makers, in fact they as partial citizens offer 1% of the tax to organizations they feel close to for emotional and/or rational reasons. The importance of this 1% in question, which really means tangible expansion of resources only for the smallest NPOs, lies foremost in its value gesture. It is a link that strengthens the relationship between citizen and association or foundation. We also doubt that the advertising campaign of organizations – which the authors fear may taint the sector's social acknowledgement and hinder the just forming cooperation – would result in securing the positions of the ones with more solid capital.

Who benefits from the citizens' decision?

We – as opposed to the authors – suppose it is not the "anyway better supported large organizations" but the "citizen friendly" associations and foundations that are in regular connection with their members, supporters and the people using their services. We think that it is personal connections and an informal network that plays a decisive role in convincing the individuals since these give an exceptional opportunity to organizations which are weaker, smaller and less prepared for fundraising.

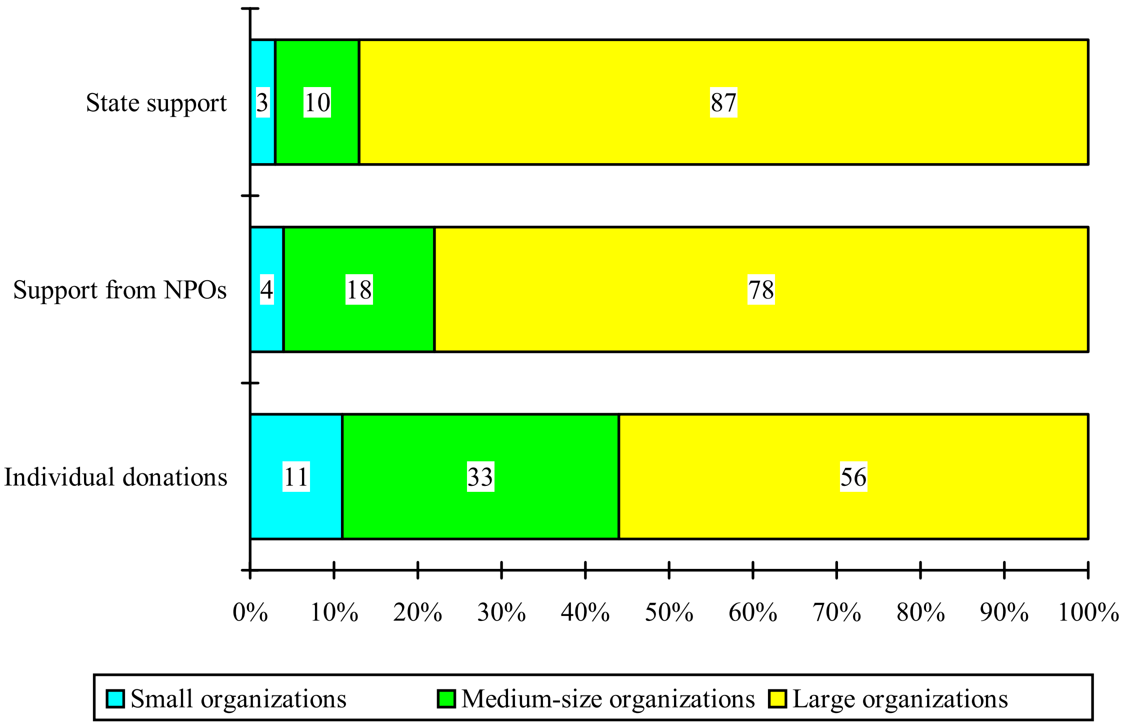
“Impartial state decision-makers” allocate 99% of our tax. Among others, NPOs also receive a share in the form of normative support or through winning application money.

For the gaining of state support and application money allocated mainly by boards, however, special expertise and readiness is needed. It is necessary to know who to approach, be aware of who makes state decisions and when and where calls for application appear. It also helps to know the composition, the taste, the scale of values and the professional and political affinity of the boards. Preparing applications requires considerable amount of work and time, it is not enough to be merely "literate", for the preparation of a budget, economic and financial knowledge may well be necessary. The program recommended for supporting must be attractive, well established and well documented at the same time. This of course favors the stronger, financially sounder organizations employing qualified specialists and ones which are geographically closer to money allocators and information centers i.e. to organizations operating in larger towns, especially the capital.

Compared to this concept of centralized allocation, the decisions of individual citizens at all probability distribute the supports more evenly and to the greater advantage of smaller NPOs outside the capital. The large number of school foundations, tradition cultivating, village promoting, handicapped supporting associations find their way more easily to private people than institutionalized donation allocators. The leaders and activists of smaller organizations cannot always prepare professional applications but they can gain the support of the local citizens who they may personally know and who are often directly involved in the organizations' activity. The diagrams below *(Figures 1 and 2)* prove that this is not only a hypothesis but a fact backed by data.

Figure 1

The share of support sums from various sources according to the size of the supported NPOs, 1994



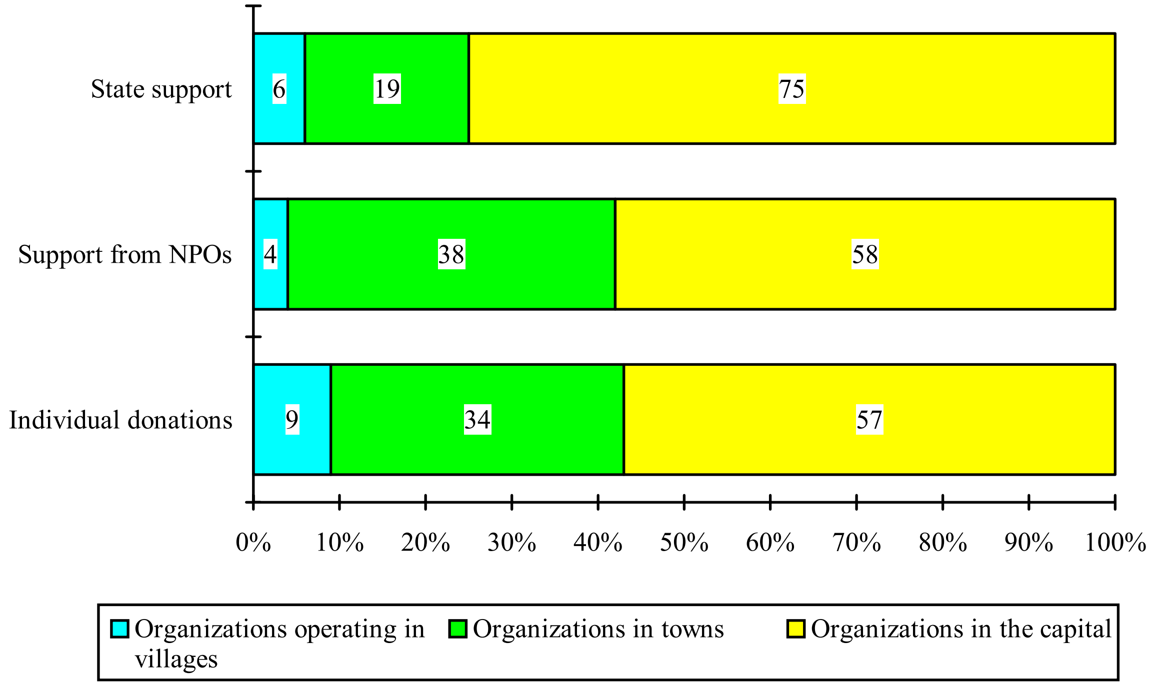
Source: Bocz et al,1996

Small and medium-size organizations with an annual revenue of under HUF 5 million receive nearly half of the individual donations granted to foundations and associations. The same organizations receive only one-fifth of the support distributed grant-making NPOs.

The differences according to the type of settlement are smaller but show similar tendencies. Individual donors apparently share more devotion toward the initiatives of villages and country towns than state donation distributors do. We find it important to emphasize that we are talking about money donations here, which citizens designate to civil society organizations from their own, free provision income, largely without exploiting tax allowances.

Figure 2

The share of support sums from various sources according to the location of the supported NPOs, 1994



Source: Bocz et al,1996

In the industrial countries the debates on the tax allowances of donations often raise the concern that tax deductibility is a source of social injustice. More well-off citizens can naturally afford much more on supporting foundations than their poorer fellows so therefore of course, the amount that they actually pay not out of their own pocket but from state tax revenues is also higher; this means that their influence on social policy is far greater than the financial sacrifice they make for this purpose. Through their donations they exert considerable impact on the allocation of public funds.

The 1% provision – as it is neatly referred to in every day speech – can be regarded as a milestone since it substantially broadens the spectrum of the right of say; in theory it enables each and every taxpayer to declare their wishes and preferences. And this goes even for those who cannot afford to support a civil initiative they deem important out of their meager income. This "democratization" of decision in the case of the HUF 3-4 million in question results in a completely different type of allocation than the one that would emerge in the course of centralized mechanisms. As opposed to Geyza Mészáros and István Sebestény, we feel that this "nature of being different" is a value in itself. At the same time, in the long run, the behavior-forming impact which the direct inclusion of citizens into supporting civil society organizations can exert on those concerned, is definitely positive.

Do taxpayers decide justly?

Finally, we do not believe that it is the very issue of citizen support to civil society organizations where we should insist on the concept of "just allocation". Are the activities of associations and foundations with broader and more diverse services considered more useful or those that devote themselves to taking on serious social problems? In the sense of social judgement, the citizen must probably evaluate the criteria of social usefulness in the case of mitigating social problems but he does not have to do so in the case of the 1%. If he does not judge the attempts to solve the problems of the homeless or the unemployed most essential but rather the improvement of his neighborhood or the issue that his children's school should not struggle with the most basic operational difficulties, then he should have the right to designate that particular 1% to such causes of "less importance and public benefit".

The weakest point of the authors' solution proposal lies in the fact that they talk about the 1% in question as if the solving of all social problems depended on its allocation. Obviously, defining the inner ratios prevailing in the financing of public services cannot be left for the subjective decisions of individuals.[6] In a civilized state, ensuring general and high-level education, health care and social services is a public duty and decisions in connection with this should obviously not be made in the form of a "referendum". It would be a shame to interpret the citizens' 1% designation declarations as such "votes" and at the same time – as the authors suggest – guide the real decisions back into a strongly centralized applications system.

This 1% serves another purpose, namely to promote the development of civil society.

In the issue of supporting – most often which support is merely a gesture – grassroots, self-operating and civic organizations, we would protect the taxpayer's, the citizen's and the individual's legal right to articulate that he feels close to the beneficiary organization emotionally also and that he takes "being influenced", involved or – as we would put it – partial. Partiality is not far from commitment, and when we discuss supporting voluntary organizations, we should well remember that the emergence and stabilization of the civil society are at stake. Additionally, the main operator of the civil society is the committed citizen wishing to articulate his interests and needs and not the "impartial state decision-maker".

[6] Historically, this recognition led to the creation of first charity organizaitons, then large state provider systems and later to the joint formations based on the cooperation of these.

ÁGNES VAJDA and ÉVA KUTI

CITIZENS' VOTES FOR NONPROFIT ACTIVITIES IN HUNGARY

INTRODUCTION

In December 1996, the Hungarian Parliament provided a new avenue to strengthen civil society by enabling taxpayers to support a nonprofit organization with 1 percent of their personal income tax. Though it is connected to the tax system, the 1% provision is not a classical form of tax advantages. In point of fact, it is rather a new type of indirect state support, a new source of income for NPOs. As such, it deserves an economic analysis. We have to estimate its overall economic effect and answer the questions whether (1) the 1% designation produced a net gain to charities as a group; (2) or it had a "crowding out" effect, that is other government funding or private donations fall as a result.

Besides the role it plays in financing the nonprofit sector, the 1% provision is also a new mechanism for the decentralization and democratization of decision making in the field of supporting civic organizations. Decisions made by taxpayers when they exercise the right to designate the recipient of 1 percent of their personal income tax are obviously very similar to private donors' decisions. The only difference is that donors of the 1% do not need to consider whether they can afford supporting voluntary organizations, thus their behavior is not directly influenced by their income level. Presumably, taxpayers' decisions on the allocation of the 1% is a type of "voting". In our hypothesis, the selection of supported organizations reflects the citizens' opinion on the importance of different types, functions and activities of nonprofits. This opinion might be connected with age, gender, education, place of residence, and social position. At least two types of motivation in selecting and designating recipients of the 1% can be supposed: (1) personal relations with and trust in grassroots nonprofit organizations, and/or intention to strengthen the local civil society; (2) belief in philanthropy that will ease the most serious problems of society and economy, a general moral obligation to help people in need. We have every reason to believe that our investigation into taxpayers' behavior and motives will bring us closer to a better understanding of the charitable behavior of Hungarians and their relationships with voluntary organizations.

What is exceptional about the 1% provision is the opportunity for donating public money, supporting voluntary organizations without making any personal sacrifice. In some sense, the 1%

law has created ideal conditions for a “laboratory experiment”: we can examine how citizens would behave if financial constraints on private donations were completely removed. In this context, our analysis can be interpreted as a new piece of a series of studies which tries to estimate the influence of tax incentives on personal donations.

In addition, our paper also focuses on the other “party”; the behavior of nonprofit organizations which are keen on gaining the 1% support. These NGOs are aware of the fact that the true value of the 1% designations is higher than their economic value. When taxpayers decide to support a voluntary organization, through this financial contribution they also express their commitment and appreciation. This moral support results in growing prestige and legitimacy which are not less important elements of the NPOs’ viability than their financial assets.

This paper examines the strategies nonprofit organizations employ to encourage taxpayer designations and the fundraising techniques which prove most successful. By exploring the attitudes and choices of donors and donees affected by the new policy, it tries to provide a clearer picture of the connections between citizens and Hungary’s emerging voluntary sector. It also analyzes how the 1% designation system contributes to the development of a more mature, more visible, more legitimate and more transparent nonprofit community.

The analysis presented in this report is based on a research project, which is empirical and methodologically[7] diverse. The bulk of the empirical data was taken from three different sources: (1) a representative sample survey which explored citizens’ attitudes toward the 1% provision and identified the types of taxpayers who are likely to exercise their designation option; (2) summary reports on the 1% designations prepared by the Hungarian Tax Office; and (3) an annual survey of NPOs carried out by the Central Statistical Office which gathers detailed information on the revenue sources of nonprofit organizations, including the 1% income. The empirical data are completed by other kinds of information, namely (1) in-depth interviews with representatives of typical voluntary organizations competing for the 1% designations; (2) short telephone interviews with the clients of an information service developed by the Nonprofit Information and Training Center in order to help taxpayers who need information on possible recipients of the 1%; (3) an expert report on the fundraising strategies employed by NPOs; (4) an overview of the relevant literature; (5) press reports on the 1% campaign; (6) nonprofit organizations reports on the use of their 1% income.

We opted for the use of this large set of different methods and information sources and for cooperation between researchers and practitioners in order to provide a comprehensive overview and

[7] For a more detailed overview of the methodology see Appendix I.

in-depth analysis of all consequences and results of a pioneer-type tax measure. We do hope that the outcome will be not only a theoretical contribution to the Hungarian nonprofit literature but, equally, some kind of practical guidance for policy makers and nonprofit leaders, donors and fundraisers, volunteers and managers, a basis for further steps toward promoting the development of civil society in Hungary.

THE 1% PROVISION

Regulatory environment and the birth of an unprecedented tax measure

Hungary has a long tradition of activities and institutions that we now call civil society and nonprofit organizations. Two features throughout this long history can be spelled out: (1) the voluntary sector's relative independence of churches and (2) its ongoing cooperation and conflict, an uneasy "symbiosis" with central power.[8]

Hungarian churches traditionally curried favor with the government. The rest of their credibility was lost when they were ready to cooperate with communist authorities. In contrast with their Polish counterparts, Hungarian citizens did not have an "oppositional" Church which would have preserved some basic values and would have represented and protected their interests. Consequently, there was more room and more need for lay voluntary movements.

Similarly, very few (if any) of the Hungarian governments were completely trusted by citizens. Although the variations in number and depth of conflicts between state and society were wide over history, there was always some need and mostly also some opportunity for independent citizen action. Both cooperation and mutual distrust were essential features of the history of state-nonprofit relations.

The state-nonprofit relationship changed a lot in the course of the development of the Hungarian voluntary sector, and did it in a fluctuating manner. We cannot identify a clear tendency of developing or shrinking cooperation, its size varied according to the nonprofit fields and to the ruling governments and ideologies.

The relatively mild Hungarian version of state socialism was characterized by a curious atmosphere of distrust. This was anything but favorable to the healthy development of either civil society organizations or their regulatory environment. Therefore, the 1% provision has appeared against the background of a relatively new, poorly established, and rapidly changing legal and economic regulation (Salamon, 1997).

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[8] For a detailed discussion see Kuti (1996, 1998).

During the decades of state socialism there was no room for independent civil society organizations. The "legal" reconstruction of the voluntary sector started in 1987 with the "rehabilitation" of foundations by a government decree, which amended the Civil Code and re-introduced the foundation as a legal entity. Two years later, the Law on Association guaranteed the freedom of association. It stated that every citizen and any groups or organizations of citizens had the right to create voluntary associations without any government permission or control. Government control over the establishment of foundations was abolished, and a very advantageous tax treatment of nonprofit organizations was introduced in 1990 (Weisbrod, 1991). Direct government support to the civic sector also increased. Overall policy toward voluntary organizations became quite supportive and cooperative in the early 1990s.[9]

The tax treatment of NPOs has gradually become stricter and less favorable as a reaction to some disclosures about abuses of the foundation structure to shield business ventures from taxation. Indirect government support to voluntary organizations, and especially to foundations, has decreased dramatically since 1992. In contrast with the full tax exemption and tax deductibility of the early 1990s, both kinds of tax advantages are now limited. A nonprofit organization's business income is tax exempt only if the organization is qualified as "public benefit" (or "eminently public benefit"), and the business income does not exceed 10 percent (or 15 percent) of its total revenue. The corporate donations to "public benefit" NPOs are tax deductible up to 20 per cent of the taxable income. 150 percent of the donations to "eminently public benefit" nonprofit organizations can be deducted from the taxable income up to its 20 percent. The tax deductibility of individual donations has been transformed into a tax credit: 30 percent of contributions to "public benefit" NPOs can be deducted from the amount of the payable tax itself up to its 15 percent. 35 percent of the individual donations to "eminently public benefit" organizations can be deducted from the tax liability up to its 30 percent (Csizmár and Bíró, 1998).

While a series of restrictions were imposed on nonprofit organizations between 1991 and 1994, the germ of the 1% idea also appeared. In 1991, as part of the parliamentary debate on how to finance the churches, the liberal party (Szabad Demokraták Szövetsége – Alliance of Free Democrats) suggested that taxpayers should be authorized to transfer 1 percent of their personal income tax either to churches or to voluntary organizations (Bossányi, 1997, p. 99). The intention behind the motion was to reform the system of financing churches and not to create an additional

[9] As a result, the Hungarian nonprofit sector experienced a significant growth in the early 1990s. Many different kinds of nonprofit organizations were established ranging from large grant-making and operating foundations to small member associations and local groups. By 1992, the number of nonprofit organizations already surpassed the pre-World War II figure. The size of the sector has more than tripled since then: about 47,000 nonprofit organizations existed among a total populations of approximately 10 million in 1998.

source of support for NPOs. It was generally agreed that actual citizen support should be the basis for the distribution of state subsidies. Most of the political parties (except the Christian Democratic Party) backed the Free Democrats' initiative, while the churches heavily lobbied against it. The government did not want any conflict with them, thus the 1% idea was not developed into a bill until the 1994 elections.

The concept of the 1% provision was an important part of the Free Democrats' election program and became a part of the government program[10], as well: "The government wishes to let taxpayers freely decide on the use of a given part of their personal income tax. The recipients of this share of the personal income tax can be religious, cultural, social and other civic organizations, but not the political, business and professional advocacy groups" (Kormányprogram, 1994, p. 1). Nevertheless, no concrete steps were taken until the summer of 1995, when the 1% designation reappeared as a crucial element of a campaign which was launched by the Ministry of Culture in order to ameliorate the financial conditions of cultural institutions. The efforts of the cultural lobby and some MPs of the Free Democrats proved to be successful. The 1996 tax law (Law CXVII/1995) passed by the Parliament on 12th December 1995 included the 1% provision though its actual formulation was rather vague. Article 45 of the law provided that

(1) "Private persons can make a declaration about their disposition concerning the use of 1% of their actually paid personal income tax. This 1% is transferred to the beneficiary designated in the taxpayer's declaration.
(2) The beneficiary mentioned in paragraph (1) can be an organization, institution, fund or foundation carrying out or supporting activities which serve public benefit.
(3) The manner of implementing the provision and the circle of the eligible beneficiaries will be regulated by a separate act."

Since the taxpayers' declarations on the designation of 1% of their 1996 tax were due only in the first quarter of 1997, the government had almost a whole year for the preparation of this "separate act". The first draft of the bill came to light in the summer of 1996 and raised a heated debate among the lobby groups of possible beneficiaries. Strangely enough, the efforts of the churches were diametrically opposed to those of the lay organizations. The representatives of voluntary organizations, foundations, cultural institutions, health and social service providers, and the leaders of the academic community tried to convince politicians and government officials that their organizations should be qualified as exclusive beneficiaries or at least eligible for the 1% designation. By contrast, the churches strongly objected to being involved in the 1% system, that is being treated like "ordinary" voluntary

[10] The Hungarian Socialist Party was the absolute winner of the elections in 1994. The Alliance of Free Democrats joined with the Socialists to form a coalition government.

organizations.[11] The government tended to comply with their wishes and abandon or, at least, delay the introduction of the new tax measure, but the overwhelming majority of the MPs of coalition parties insisted on keeping the original schedule. (The motion to suspend the implementation of article 45 of the tax law was defeated by 183 votes to 91.)

The debate which followed was fiery and stormy. Several different versions of the bill were prepared, the list of possible beneficiaries changed very frequently. The inclusion of the churches was not the only point of disagreement. The financial experts and the representatives of the fiscal and financial authorities wanted to limit the number of beneficiaries, they suggested developing a short list of eligible public institutions and public law foundations. Some politicians of the Socialists and most of the Free Democrats preferred to open the 1% opportunity for the majority of voluntary organizations. The exclusion of sport clubs, trade unions, employers' associations and politically engaged nonprofits was also a contentious issue.

Finally, the Parliament passed the "1% Law", officially the Law CXXVI/1996 on the Use of Some Part of the Personal Income Tax in Accordance with the Disposition of Taxpayers, on December 19, 1996. Potential beneficiaries included some public institutions, a relatively large group of nonprofit organizations, and church-run service providing institutions. The churches themselves were not listed among the eligible organizations. The law came into force in 1997.

Nevertheless, this was not the end of the story. In the following year the government managed to reach a compromise with the churches which became somewhat divided during the debate on the 1% provision. The large churches, especially the largest one, the Catholic Church continued to think that separate financial agreements with the government were more advantageous for them than a system of financing based on citizens' decisions. By contrast, the smaller churches became more and more convinced that the 1% provision offered them an opportunity to increase their revenues. After much hard bargaining each side agreed to some of the demands of the others.

The 1% law was amended by the Law CXXIX/1997, which provided that, upon the taxpayers' decision, another 1% of the personal income tax could be transferred to the churches. The two declarations are strictly separated thus churches do not need to compete with lay voluntary organizations in order to win the taxpayers' favor. The alternative of giving the second 1% to a church is not to designate an organization which is eligible for receiving the first one. Taxpayers who do not want to support any church can either direct their second 1% to a special government fund named in the tax law (it was a fund helping young people in need in 1998, and a national

[11] They argued that the 1% system would challenge the autonomy of churches and endanger their freedom from state scrutiny. They also mentioned the danger of an official registration of their members and supporters. What they did not mention was the result of an opinion poll, which had shown that only 4 percent of the taxpayers would have designated the churches as beneficiaries of the 1% of their personal income tax (Bossányi, 1997, p. 102).

project of celebrating the millennium in 1999) or simply not to declare any intention.

While the genesis of the 1% provision can hardly be understood without knowing the closely interrelated debate on financing churches, further experience about the second 1% is of negligible importance from our point of view. This is why in the following analysis we prefer focusing on issues of the lay 1% scheme and, apart from some sporadic allusions, will not deal with taxpayers' decisions on supporting churches.

A mixed but rather friendly reception

Though it was generally welcomed by a large part of the nonprofit community, the 1% provision also instigated a heated debate among both experts and nonprofit leaders. Several nonprofit organizations are, admittedly or not, closer to the political decision makers than to the citizens. Consequently, they have better chances to enjoy direct government or parliamentary support through their informal network than to convince taxpayers that their activities deserve support. Some leaders of these kinds of organizations became worried about the 1% provision, especially because its introduction was accompanied by the reduction of a parliamentary fund targeted to the voluntary sector. These nonprofit leaders tried to organize a campaign against the new tax measure but their initiative evoked very little response in the nonprofit community.

Some researchers (Mészáros and Sebestény, 1997) also criticized the new method of government support. They found it too costly and too complicated. They did not trust that taxpayers had enough information on the eligible nonprofit organizations and could make a reasonable choice. They pointed out that the Tax Office was interested in blocking the largest possible part of the tax and there were no means of controlling whether the actual transfers were in accord with the taxpayers' declarations.

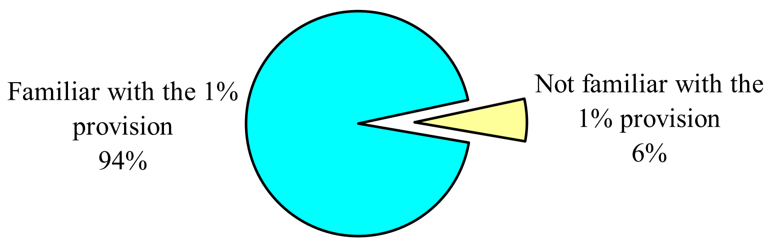
Other nonprofit activists and researchers (including ourselves – Kuti and Vajda, 1997) welcomed the new form of support. We argued that the 1% revenues of voluntary organizations were important because their distribution was likely to be dramatically different from that of the public support provided through other grant-making mechanisms. Be it the government authorities themselves or the boards of large state-financed funds and foundations who are the grant-makers, they necessarily tend to favor the large organizations working close to the decision making centers. By contrast, citizens who are much closer to the local grassroots organizations are generally more supportive towards these local NPOs. We forecasted that the behavior of taxpayers deciding on the use of "their 1%" would be very similar to that of the private donors, thus this part of public support would be relatively easily available for small local organizations. We also assumed that NPOs' efforts to convince citizens that they should support them would noticeably strengthen the communication between nonprofit sector and society.

Early reactions of the citizens themselves are much less documented than those of the nonprofit community. We have only the results of an opinion poll from 1996 when 56 percent of the adult population approved the 1% provision. 20 percent thought that too little money would be distributed through a too expensive mechanism, leaving 24 percent of the respondents who did not have a firm opinion on the new tax measure (Bossányi, 1997, p. 102).

The sample survey which was carried out as part of our research project in the spring of 1999 provides us with much more up-to-date and more detailed information. This information was obtained from 1839 in-home personal interviews. The interviewees were adults aged 18 and over. We used three subsamples: a general population sample and two samples of taxpayers.[12] The samples were randomly selected. In order to gross up findings for respondents to figures for Hungary as a whole, we used the basic statistical indicators representing the size and socio-demographic structure of the adult population. All of the following tables and charts present the grossed up data and the indices calculated on their basis.

Figure 1

The share of the adult population informed about the 1% provision



The results of our survey show that the 1% provision is generally known in Hungary. As reflected in *Figure 1 and in Tables II/1–3 of Appendix II*,[13] 94 percent of the adult population have already heard about the 1% opportunity. This share is even higher (98 percent) among the taxpayers who are actually able to make use of this opportunity. (We regard as taxpayers all the respondents

[12] The reason for the use of subsamples was partly technical (our survey was carried out as a module of the regular ”omnibus surveys” of an opinion poll company), partly methodological. Since the main purpose of the project was to explore taxpayers' behavior, it was in our best interest to increase the number of respondents who belong to this segment of the population. Nevertheless, we also wanted to gather information on the attitudes of people who do not pay personal income tax, thus we needed a general population subsample, too.

[13] Except otherwise indicated, the source of all tables and figures is our sample survey.

who paid personal income tax in at least one year between 1997 and 1999.)

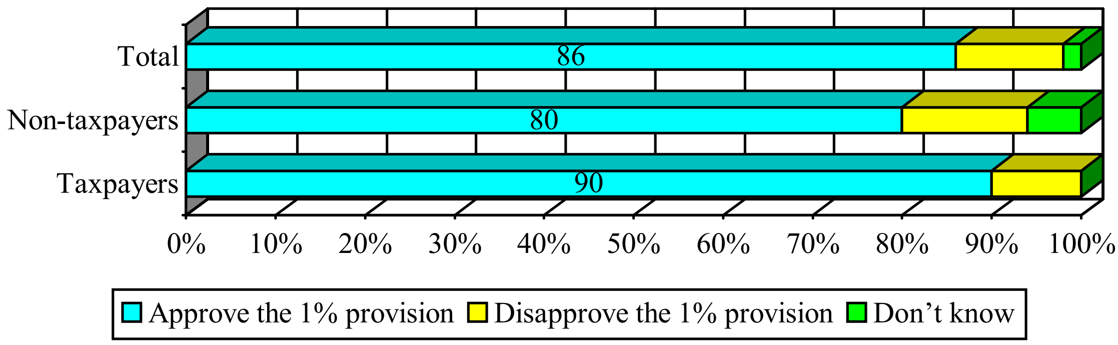
Fewer people are familiar with the fact that taxpayers can give another 1% of their personal income tax to churches. One fifth of the adult population (16 percent of taxpayers) have never heard about this opportunity. The lay alternative, i. e. that taxpayers who do not want to support any church can direct their second 1% to a special government fund is even less known: not much more than three quarters of the population are fully informed about the whole 1% scheme.

A similar difference can be detected between the attitudes toward the lay and the church 1% *(Tables II/ 4–8)*. While 86 percent of the respondents approve the new tax measure supporting voluntary organizations, the same percentage is only 62 in the case of the 1% which can be transferred to churches.[14] These findings suggest that the churches had every reason to be alarmed about the suggestion that their state funding should be based on citizens' preferences.

The 1% provision is more popular among taxpayers than among the people who do not pay personal income tax and, consequently, are deprived of the right to directly influence the redistribution process *(Figure 2)*.

Figure 2

The opinion of the adult population about the 1% provision



Nevertheless, the general level of approval is fairly high in both subpopulations. These figures seem to confirm the findings of some former population surveys (e.g., Czakó et al., 1995; Csontos et al., 1996) which have pointed out that Hungarian citizens opt for a mixed welfare regime rather than either government- or market-dominated systems. They accept their own responsibility, they are ready to pay taxes and help the needy with both donations and voluntary work. They do not

[14] Those respondents who disapproved the church 1% were also asked whether they would agree to transfer the second 1% to a special government fund. About one third of them agreed in general but the answers were dramatically different when we specified the possible donees. Supporting a fund helping young people in need would be approved by 82 percent of the respondents who are against the church 1%. By contrast, only 18 percent of them would agree to support the national project of celebrating the millennium.

want either to substitute for the government in solving problems or let the government decide on its own without public control. They do not see any contradiction between the need for charity, voluntary institutions, citizens participation, private service provision and the obligation of the state to tackle social problems and run some public welfare institutions. The intention of sharing responsibility and developing partnership is at the core of citizens' efforts, and the 1% scheme perfectly fits in with these aims, at least this is what our interviewees assumed when they tried to explain what the reasoning behind citizens' decisions on their 1% designation was.

As part of the general exploration of attitudes of the respondents approving the 1% provision, we decided not to present them with preformulated statements. Instead we asked them a rather general open question: "When designating a foundation or voluntary association as the beneficiary of 1% of their personal income tax, citizens may consider several different points. Please tell us what you think the most important considerations influencing their decision are, and why."

The types of reasoning mentioned vary greatly among respondents with no one consideration standing out above others *(Table 1 and Table II/9)*. The two most frequent assumptions are that taxpayers intend to help people in need, including mainly the poor, sick and disabled persons, and victims of disasters (22.8 percent), or to support concrete fields or activities, mainly health care, social services, and education (22.6 percent) when they designate the recipient of their 1%. Respondents also assume that the designation decisions are frequently motivated by values, solidarity, and (both healthy and sick) children's interests. As one of them said, people want to promote the notion that *"numerous highly cultivated citizens be able to better themselves and the lot of the nation"*.

Table 1
*Considerations behind the 1% designation decisions**

Consideration	Percentage of all considerations mentioned		
	Taxpayers	Non-taxpayers	Total
Helping people in need	20.5	26.1	22.8
Support for some specific field or activity	23.0	22.1	22.6
Promoting values, expressing solidarity	19.0	16.1	17.9
Support for children	10.4	9.7	10.1
Support for a special group of organizations	5.8	9.1	7.2
Personal interests or involvement	8.9	5.0	7.2
Solving social and economic problems	6.4	6.1	6.3
Organizational excellence of the beneficiaries	6.0	5.8	5.9
Total	*100.0*	*100.0*	*100.0*

* Answers from respondents who expressed their approval of the 1% scheme.

A large number of respondents presume that people attach great importance to the public benefit character of the activities they decide to support. Another motive they mention is, that taxpayers want to contribute to solving or alleviating social and economic problems, among others the difficulties caused by deficient government funding. Similarly, public institutions (schools, hospitals, theaters, libraries, etc.) are mentioned by almost half of those respondents who think that supporting certain special groups of organizations is the main purpose of the designation decisions. (Though most of these public institutions are not eligible for the 1% designation, the majority of them have established grant-seeking foundations, which can also receive the 1% contributions.)

A relatively small part (7.2 percent) of all suggestions reflect the belief that designation decisions are motivated by the taxpayers' personal relations, interests, commitments or involvement in eligible activities. Interestingly enough, transparency, accountability and efficiency criteria are also among the considerations which are mentioned quite rarely.

Taxpayers and respondents who did not pay personal income tax between 1997 and 1999 exhibit surprisingly similar patterns of thinking. Although their opinion is based on very different experience (the former could exercise their designation option, the latter have, in the best case, some indirect information on other persons' decisions), their views on the motivational background of the 1% designation are rather similar. Taxpayers attach a bit more importance to solidarity, values and personal interests, while others put more emphasis on people's willingness to help the needy.

Overall, our findings reveal a deeply positive opinion on the taxpayers' behavior and suggest that the majority of Hungarians believe in citizens' virtues. Ironically enough, the statements of the skeptic *(Table 2 and Table II/10)*, those who expressed their disapproval of the 1% scheme, seem to prove that most of them also set a high value on these desperately missed virtues.

Table 2
*Reasons for disapproving the 1% provision**

Reason	Percentage of all reasons given		
	Taxpayers	Non-taxpayers	Total
Moral and accountability problems on the side of the potential beneficiaries	45.0	47.2	45.9
Transparency problems, procedural difficulties and high costs of the 1% scheme	38.8	29.1	34.7
Disagreement with the aims, refusing to take over government responsibilities	16.2	23.7	19.4
Total	*100.0*	*100.0*	*100.0*

* Answers from respondents who expressed their disapproval of the whole 1% scheme.

When asked an open question on why they disapprove the 1% provision, almost half of the answers indicated moral and accountability problems on the side of the potential beneficiaries. Statements like *"Investment and use of the money are not transparent. Funds are frequently misused. The administrative staff is overstretched. There are many new cars."; "There are lots of bogus* *foundations"; "They embezzle money and carry out a number of frauds. If I only mention the cases we hear about..."* seem to suggest that highly publicized scandals have an important impact on the image of nonprofit organizations. Media influence is easily detectable in the attitude of most our respondents who believe that charities are not sufficiently accountable to the public for how their money is spent. On the other hand, very few of them reported that they had come to this conclusion on the basis of personal experience.

The second most important reason for disapproval of the 1% scheme is a series of deficiencies of the designation mechanism itself. About one third of the reasons given by our respondents refer to either transparency problems or the lack of citizens control over the transfer mechanism. It is worth quoting one of the interviewees who expressed his reservations very clearly: *"I don't designate any beneficiary because I cannot follow the transfer of the money. Then it would be better to remain part of the state budget. Although, in truth, I cannot follow what happens to it inside the state budget, either."*

Several respondents mentioned disappointing experiences which explain that they do not trust government authorities and do not have any illusion about influencing government decisions. For example: *"The National Theater has still not been built"*[15]*; "My children's school was closed, notwithstanding the parents' 1% designation."*[16] Bitter, as they are, these answers are the reactions of citizens, they reflect strong (though frustrated) aspirations to have "voice", to actively participate in public decisions.

Similarly, those respondents who mention procedural difficulties *("It is complicated to procure the tax identity number of the potential beneficiaries")* or the high costs of the 1% system seem to feel some responsibility for public affairs.

By contrast, a relatively small part (about one fifth) of the reasons for disapproval given by our respondents reflect that a minority of Hungarians are firmly against the 1% designation. Some of them think that this money should be put to some alternative use. Some others would prefer if the government provided for those in need and citizens were not pestered with demands.

Problems of beneficiaries' trustworthiness, disagreement with the aims of the 1% scheme and willingness to rely on the government in treating social problems are more frequently mentioned by

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[15] Several fundraising campaigns have been organized over the last couple of years in order to build a new National Theater. (The old one was demolished decades ago because of some construction work.) Zealous donors feel very disappointed about the delay caused mainly by struggles between different political and professional groups.

[16] As a reaction to financial constraints and the diminishing number of pupils, municipalities tend to close small schools, including even schools of high quality. Not surprisingly, parents and teachers try to protect their school.It happens quite frequently that they establish foundations in order to contribute to financing the endangered institution. These foundations are not only beneficiaries of the parents' 1% designations but also recipients of substantial private donations. Nevertheless, they can rarely save "their mother school", which is obviously a source of indignation among the parents and other supporters.

those who do not pay taxes, while taxpayers are more concerned about transparency problems and procedural difficulties.

To sum up, our findings seem to prove that the 1% provision has been generally welcomed by the overwhelming majority of the adult population. In the next chapter we will make an attempt to explore whether its implementation has a significant impact on the Hungarian nonprofit sector.

ECONOMIC IMPORTANCE AND REDISTRIBUTIONAL EFFECTS

1% income as part of the revenues of nonprofit organizations

In the year of its introduction the 1% designation proved to be an important additional source of income almost exclusively for nonprofit organizations. As Vámosi Nagy (1998) pointed out, the overwhelming majority of the taxpayers who made a designation declaration decided to support nonprofit organizations, thus about nine tenths of the whole 1% support went to the nonprofit sector in 1997. (This share dramatically declined in 1998 when the 1+1% system was introduced. Nevertheless, two thirds of a doubled 1% support still went to the nonprofit sector in 1998 and 1999.)

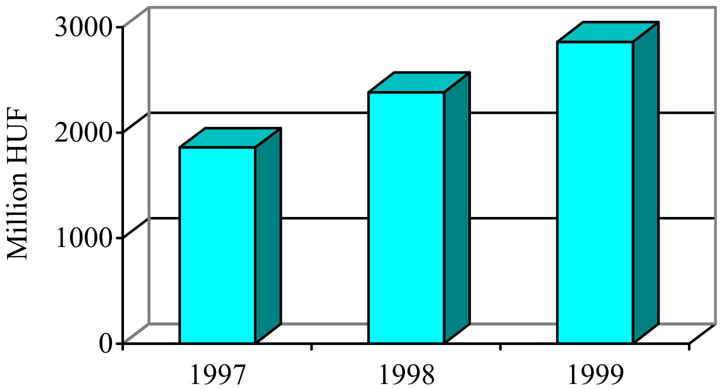
This does not necessarily mean that public welfare institutions do not benefit from the 1% scheme. Since most of them “have” foundations which take charge of their fundraising activities, it is highly possible that they solicit 1% designations through these satellite foundations. (They are all the more interested in doing so because the economic regulation of foundations is definitely less strict than that of the public institutions.) In fact, a significant part of the 1% designations are recorded as nonprofit sector revenue by both the Tax Authority and the Statistical Office but finally contribute to financing public hospitals, schools, universities, nursing homes, emergency services, shelters, and cultural institutions.

However, the 1% support is an important new source of nonprofit income even though its growth is much less dynamic *(Figure 3 and Tables II/11–12)* than was expected by experts and hoped by nonprofit activists.

The data displayed in *Figure 3* illustrate that nonprofit organizations made a major breakthrough in 1997 when they managed to acquire almost half of the 1% designation potentially available to them, but their performance in convincing taxpayers has not been significantly improved since then. The causes of this relatively slow development are manifold and will be discussed in detail in the next chapters. Here we confine our remarks to the economic aspects of the phenomenon.

Figure 3

Growth of the 1% support designated to nonprofit organizations



Source: Tax Office data

As far as tax matters are concerned, moral standards are quite low in Hungary. The rather strong tendency towards tax evasion is explained, at least in part, by the recent economic history of the country. The Hungarian version of state socialism left plenty of room for individual economic efforts. In this matter there was not just a tacit agreement but even close cooperation and some complicity between state and society. All the economic players learned to follow the changes in regulations and combine the possible institutional forms in a way which offered the most benefits for them. These skills were easily translated into tax avoidance techniques after the introduction of personal income tax. The "second economy" and "second society mentality" (Hankiss, 1986) not only survived the political transition of 1989, they were reinforced by the changes, which have brought about an experience of "gaining liberty – losing safety" (Ferge, 1994) for most Hungarians. As a reaction to the particularly high rates of personal income tax, economic parties have developed a series of "tax-saving" methods ranging from pure tax fraud to the most sophisticated and formally legal tax evasion techniques. (In fact, several government measures and parliamentary decisions have often been quite late answers to efforts of taxpayers who are eager to gain advantage from the complicated system of tax advantages and from all loopholes in the regulatory framework.) There are several fields (e.g. agricultural production, household services, health care, etc.) where a significant part of the employees' and entrepreneurs' revenues are invisible for the tax authorities (Keszthelyiné Rédei et al. 1999; Sik and Tóth, 1998).

The share of taxpayers who cannot exercise their designation right because their actual paid personal income tax does not exceed HUF 10,000 is strikingly high, it amounts to 40 percent. Since a large part of these people are quite affluent, it is highly probable that they are the target persons of a lot of, clearly wasted, appeals for the 1% designation. Moreover, not all taxpayers and potential beneficiaries are aware of the 10,000-HUF limit, thus about a hundred thousand null and void designation declarations[17] are sent to the Tax Office each year, despite the fact that many similar declarations are likely to be already filtered out by employers' payroll staff.[18] It is also worth noting that the professional staff may or may not be willing to inform taxpayers of the 1% provision and to provide them with the necessary forms which should be filled. Therefore the employer's or the payroll clerk's attitude toward the 1% designations can have a decisive impact on the behavior of a large part of employees, especially those who are not well-informed, autonomous, or committed enough to have clear intentions.

All in all, the Tax Office records reveal that the share of the valid designation declarations[19] did not exceed 40 percent of the number of taxpayers who could have exercised their designation option in any year between 1997 and 1999. Furthermore, even the amount designated to the nonprofit organizations in valid declarations has not been fully transferred to the targeted beneficiaries *(Table 3)*.

Table 3
Composition of the amount designated to nonprofit organizations in the valid declarations
Percent

	1997	1998
Amount transferred to the beneficiaries designated by the taxpayers	90.9	88.2
Amount retained in the state budget because the designated organizations are not NPOs or do not carry out any of the activities listed in the 1% law	0.1	6.3
Amount retained in the state budget because the designated organizations are not eligible	4,0	1.9
Amount retained in the state budget because the designated organizations have not answered	4.3	3.0
Amount formally rejected by the designated organizations	0.7	0.6
Total	*100.0*	*100.0*

Source: Tax Office data

Several of the nonprofit organizations designated by the taxpayers are not eligible for the 1% support either because they are not engaged in the activities listed in the law or because they do not meet some of the other conditions (e.g. they were established recently, they are not politically

[17] About as many as declarations which are null and void for all other (mainly formal) reasons.
[18] The tax declaration of employees who have income only from their employer is generally prepared by these payroll clerks.
[19] Not including the 1% designations for churches.

independent or they miss to satisfy some administrative requirement). Not being knowledgeable enough, some taxpayers even designate for-profit companies as recipients of their 1%. It also happens that beneficiaries do not reply when the Tax Office tries to contact them or they reject the 1% support, usually because of its negligible amount.

As a consequence of all these problems (and several other difficulties that will be explored later on), only less than half of the potential 1% support arrives in the nonprofit sector. This 1% income (contrary to its name) represents less than one percent of the nonprofit sector revenues *(Table II/13),* and 3.5 percent of the whole support the sector receives form the central government.

HUF 1.8 billion additional income is, of course, a significant contribution to the development of the nonprofit sector, but it is far from being the most important factor of this development. As reflected in *Table 4*, in the year of its introduction, the 1% designation accounted for only 4 percent of the increase in nonprofit revenues. However, this was a net gain to the charities as a group, the 1% provision did not produce a "crowding out" effect. Both government support and private donations continued to grow. The only decreasing item, foreign funding was certainly independent of changes in the Hungarian tax system.

Table 4
Change of the nonprofit sector income from 1996 to 1997

Million HUF

Revenue source	Increase or decrease
1% designation	+ 1,770.1
Other support from the central government	+ 3,548.5
Support from the local governments	+ 5,300.1
Corporate donations	+ 2,987.0
Individual donations	+ 545.1
Foreign donations	– 2,737.9
Donations from nonprofit organizations	+ 481.9
Membership dues and service fees related to the charitable actives	+ 27,287.6
Investment and unrelated business income	+ 4,563.2
Other	+ 1,578.7
Total	*+ 45,324.3*

Source: Bocz et al., 1999

What is really unique and unprecedented in the 1% scheme is not that nonprofit organizations can have access to a separated government fund. More importantly, they can get this state support through a decision making mechanism which is completely different from the traditional distribution procedures of public support, and completely independent of government authorities, which usually play a decisive role in the redistribution process. In all likelihood, this different decision making mechanism results in a different allocation of public funds.

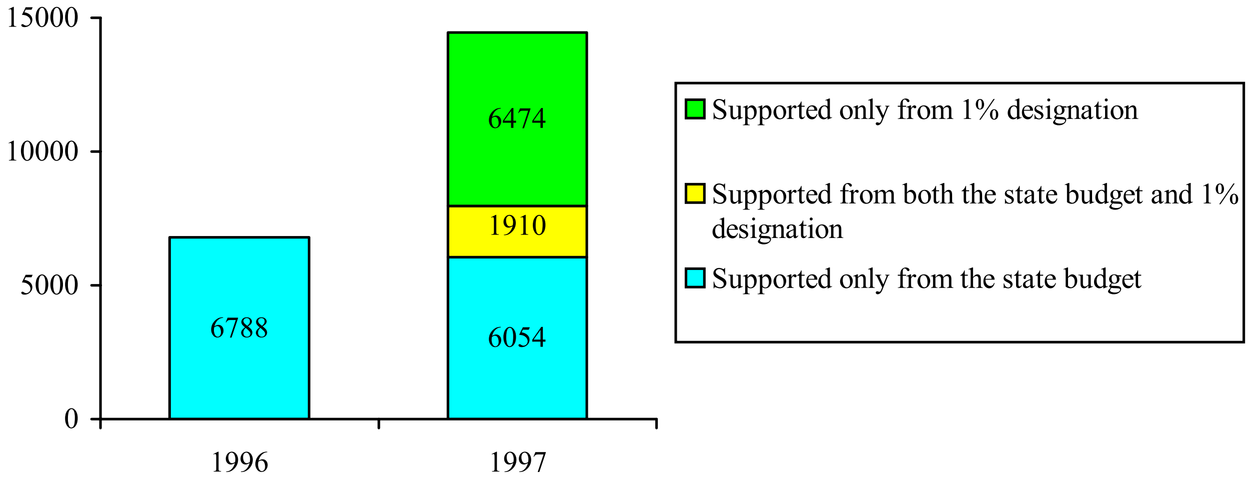
If the size and intensity of citizens' involvement in the 1% scheme did not live up to preliminary expectations, on the other hand, our hypothesis on the differences between the citizens' and the government's redistribution decisions seems to correspond with the facts.[20]

Differences between taxpayers' and government's decisions

In contrast with governmental redistribution, which concentrates on supporting a relatively small number of voluntary organizations, citizens' preferences are much more diverse. Consequently, taxpayers' involvement in the redistribution process makes public funds available for a much larger segment of the nonprofit community *(Figure 4)*.

Figure 4

Number of nonprofit organizations receiving support from the central government



Source: Bocz et al., 1999

The introduction of the 1% scheme more than doubled the number of voluntary organizations which receive support from the central budget. This means that central government support became available for a large number of organizations which being far from the decision making centers, had not had access to these funds before 1997. Not surprisingly, citizens' involvement in the decision making process modified the structure of beneficiaries, as well.

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[20] This statement is based on statistical data describing the distribution of the 1% designation in 1997. Unfortunately, the final results of the 1998 survey on nonprofit organizations are not available yet but the preliminary data seem to suggest that the changes from 1997 to 1998 were not significant.

As we have already seen, citizens are aware of both social problems and financial difficulties faced by the welfare institutions, which try to cope with these problems. Moreover, to a certain limit, they even feel responsible and assume that this sense of responsibility and solidarity are among the most important motives behind taxpayers' 1% designation decisions. The statistical figures *(Table 5)* give strong support to these assumptions. They reflect that the main beneficiaries of 1% designations are NPOs engaged in welfare services.

Table 5
Structure of the nonprofit sector revenues from 1% designations and direct central government support, 1997

Percent

Fields	1% designations	Other central state support
Education	40.6	16.7
Health care	20.9	3.7
Social services	15.2	23.0
Culture, spiritual activities, research	10.4	12.9
Other	12.9	43.7
Total	*100.0*	*100.0*

Source: Bocz et al., 1999

More than three quarters of the nonprofit sector's 1% income fall into 3 major fields.[21] By contrast, NPOs working in these fields (education, health care, and social services) receive much less than half of the direct central government support. This gap indicates that there are very different considerations behind the taxpayers' and the government's decisions. The citizens are obviously eager to take the opportunity offered by the 1% provision to support nonprofit organizations which provide or contribute to the provision of important welfare services. The government seems to be motivated by some (not too well defined) concept of the welfare mix. It apparently wishes to finance a significant part of social services and some segments of education through nonprofit organizations but clearly opts for a state-run health care system.

As we have already pointed out, at a level of the nonprofit sector as a whole, the financial impact of the 1% designation is rather limited. By contrast, financial effects can be significant at a level of the individual nonprofit organizations. Two or three billion HUF is not a large amount of money for a whole sector of the economy but two or three million HUF (not to mention the highest amount of HUF

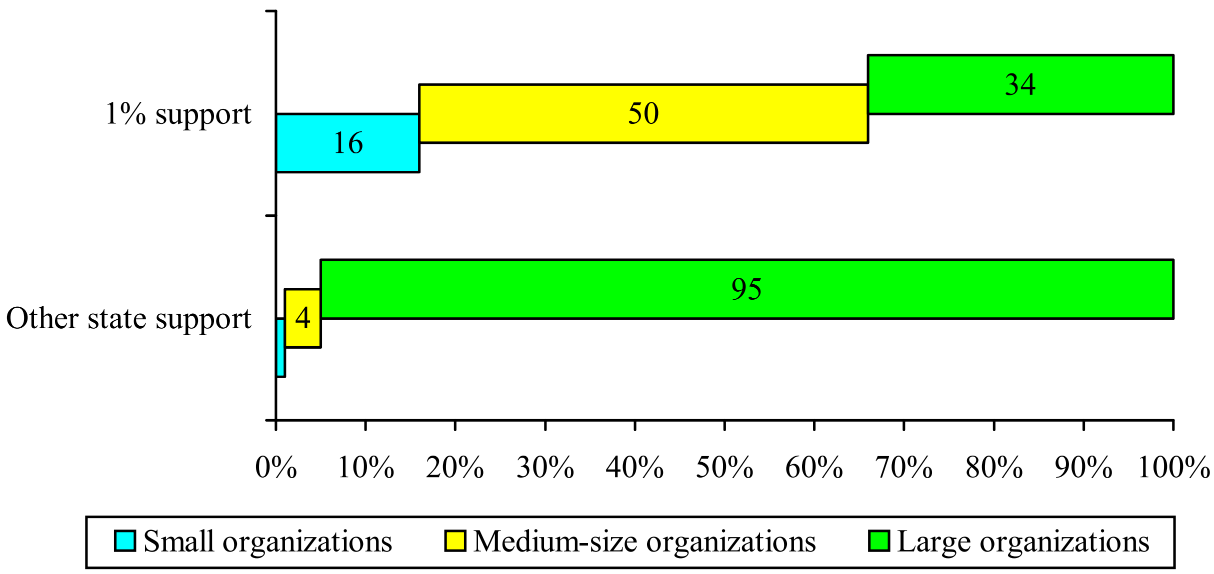
[21] These figures correspond very well with the results of our population survey *(Table II/16)*. The latter show that the shares of the 1997 designation declarations supporting education, health care, and social services are 37.6, 21,8, and 18.1 percent, respectively. This similarity between the structure of the designation declarations and that of the actual financial support they result in is extremely important for two different reasons. First, it reveals that there is not much difference between the preferences of the "rich" and the less affluent taxpayers. Second, it can also be interpreted as an outcome of some "crosscheck", and as such it confirms the reliability of both (organizationally and methodologically very different) surveys.

100 million received by one of the beneficiaries in 1999) can help individual NPOs to solve concrete problems (e.g. to repair the roof of the community center, to hire a psychologist who deals with the children of the unemployed, etc.) or to meet urgent needs (e. g. to shelter the homeless, to clear pollution off a river or lake, etc.) in their local communities.

The income from the 1% designations is not just an additional element of revenues, it also has two other virtues. Firstly, unlike the overwhelming majority of central government support, it is a discretionary grant of money, it is not related to concrete projects. Secondly, it can be acquired without being close to high government officials or other central decision makers, being familiar with the rules, procedures and actors of the state redistribution process. This means that grassroots organizations and small local foundations have more chance of receiving 1% support than any other kind of central government grants.

Figure 5

Distribution of the 1% designation and other central government support by size of the supported organizations



Source: Bocz et al.

The statistical data displayed in *Figure 5 and Table II/14* confirm that the small local nonprofit organizations are definitely more successful in persuading citizens to support them than in raising other central government grants. While 95 percent of the direct central government support goes to the largest NPOs, the latter receive only one third of the 1% income. Even the smallest grassroots organizations (mainly voluntary associations which are practically excluded from direct state support) manage to get 16 percent of the 1% designations.

Similarly, the regional distribution of the 1% revenues is somewhat more even than that of the other government funding *(Table II/15)*. Budapest, the capital city attracts almost three quarters of the direct state support and "only" 41 percent of the 1% income. More than half of the 1% support is realized by nonprofit organizations located in towns. Low as it is, the country's villages' share of it is still almost three times higher than their share in the direct state support.

Perhaps the central conclusion that flows from the above-presented statistical evidence is that the system of government funding has become slightly more equitable and significantly more democratic by the introduction of the 1% scheme. It remains to be seen how large the differences are between different groups of society in terms of their participation in the "1% game".

ATTITUDES AND CHOICES OF TAXPAYERS

Socio-demographic factors influencing the designation decisions

To be sure, when we look on the 1% scheme as a vehicle for democratizing redistribution decisions, we do not intend to deny that these democratization effects are limited by the character itself of the 1% provision. Citizens who do not pay personal income tax (or not enough to reach the 10,000-HUF limit) are not allowed to have any influence on its distribution, thus there are some grounds for having similar reservations to those expressed by Simon (1987, p. 86): "income tax deductibility permits wealthy citizens to outweigh less-wealthy persons in controlling the disposition of taxable income ... and, as a corollary, ... makes it easier for wealthy citizens to use taxable income ... to influence the behavior of others."

Undeniably, the rich (provided that they honestly pay their personal income tax) are far and away the most influential players of the 1% system. On the other hand, the majority of the elderly, the poor, the unemployed, the disabled and all others who do not pay tax (their number, as reflected in *Figure 6 and Table II/16*, amounts to 43 percent of the adult population) are automatically excluded. This can be considered (and in some sense this is) unjust even compared to the influence exercised through tax deductibility, especially because the 1 percent of the personal income is pure public money. In the case of tax deductible donations the donated income is partly owned by the taxpayers; they undoubtedly make some sacrifice when they decide to support voluntary organizations. The 1% designation is completely "free of charge" for taxpayers, they have the privilege to affect the allocation of public funds without facing any additional financial burden.

(However, the weight of the inequity problem is somewhat decreased by two facts. First, as we have already pointed out, the preferences of taxpayers and those who do not pay personal income tax are only slightly different. Second, the distribution of the 1% designations is definitely much less uneven than that of central government support.)

Figure 6

Composition of the adult population by taxpayer status and 1% designations between 1997 and 1999

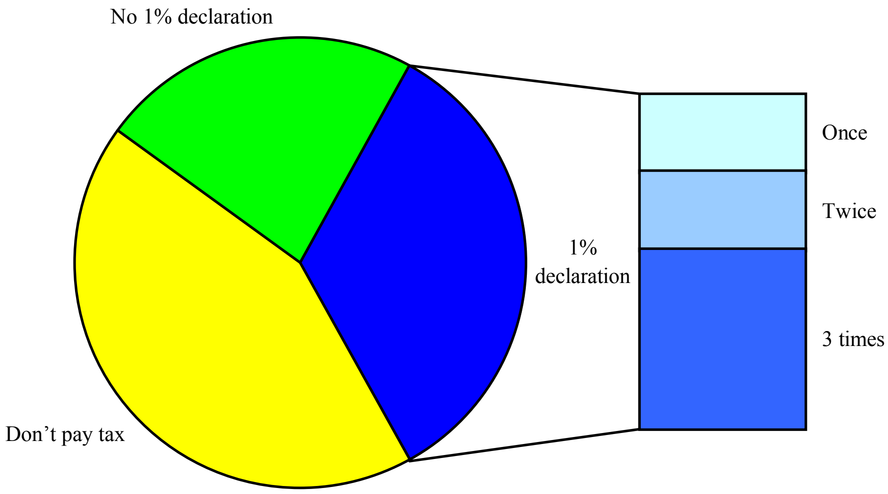


Figure 6 reveals that, until now, only one third of the adult population have taken this exceptional opportunity of directly influencing public policy. Moreover, even those who have exercised their designation option did it rather irregularly. Much less than one fifth of the adult citizens (30 percent of all taxpayers) submitted their 1% declarations each year.

No doubt, it is a minority of citizens who have gained some control over the use of public money through the 1% system. It is also clear that, as far as the 1% designation is concerned, the income level is a crucial factor of taxpayers' behavior *(Table 6)*.

It is obviously true that high income persons are likely to pay more tax than the poor, thus a much larger part of them are authorized to decide on the use of their 1%. Nevertheless, the relationship between higher income and more willingness to make a designation declaration probably has a more complex explanation. First, relatively affluent people usually live in a crossfire of requests from charitable organizations, thus they can hardly avoid being informed about the different needs and social problems of their local community. (We have every reason to believe that they are also the single most important target group of several NPOs' 1% campaign.) Sympathetic or not, they may feel obliged to help[22], owing to their social position. The very same social position and status-seeking behavior (Collins and Hickman, 1991) are also responsible for their more frequent membership in nonprofit boards. These close relationships are also likely to have some impact on the designation decisions. Secondly, a significant share of high income people are attracted by some special services offered by nonprofit organizations (e.g. foundation schools, alternative health institutions, etc.) which are among the possible beneficiaries of the 1% designation. It goes without saying that the client/service provider relations create an especially favorable climate for the 1% requests. Thirdly, and probably most importantly, the relatively high income is usually correlated with several other socio-economic characteristics which also affect the taxpayers' designation decisions.

Table 6

Taxpayers' designation decisions by income level, 1997–1999

Percent

Net monthly income HUF	Share of taxpayers having exercised their 1% designation option		
	once or twice	in all three years	not at all
– 19,000	26.6	10.2	63.2
20,000 – 29,000	29.9	22.4	47.7
30,000 – 39,000	30.2	29.7	40.1
40,000 –	28.4	43.6	28.0

The survey results explicitly show that the level of education is crucial to being involved in the 1% system *(Table 7)*.

Table 7

Taxpayers' designation decisions by level of education, 1997–1999

Percent

Level of educational attainment	Share of taxpayers having exercised their 1% designation option		
	once or twice	in all three years	not at all
Not complete primary school education	36.8	4.0	59.2
Completed primary school education	29.1	19.8	51.1
Professional training	25.9	25.0	49.1
Secondary school	31.3	31.8	36.9
Higher education	26.2	52.9	20.9

[22] It is worth referring here to a former survey of charitable behavior (Czakó et al., 1995). It revealed that the share of donors is significantly higher among the members of households with higher per capita income.

Taxpayers with a higher level of education are more likely to exercise their 1% designation option than those who are poorly educated. Nearly four fifths of those who graduated from universities or other higher education institutions have submitted at least one designation declaration for the last three years, more than half of them prepared their declaration every year. At the other extreme, only 4 percent of those who did not complete primary school submitted a declaration each year and another 37 percent of them once or twice during the three-year period.

This outstanding importance of the level of educational attainment is, at least partly, explained by the fact that education develops both intellectual skills and the capability for orientation and information processing. Taxpayers with more of such skills are likely to have more knowledge of their rights and options, and to exhibit a greater understanding of their surroundings. On the other hand, a significant relationship is evident between the level of education and the position taxpayers occupy in the social hierarchy.

Table 8

Taxpayers' designation decisions by occupational level of education, 1997–1999

Percent

Occupational level	Share of taxpayers having exercised their 1% designation option		
	once or twice	in all three years	not at all
Manager	26.7	56.6	16.7
White collar with university degree	29.1	51.4	19.5
Other white collar	32.8	37.4	29.8
Skilled worker	27.8	26.8	45.4
Semi-skilled and unskilled worker	31.2	18.8	50.0
Individual entrepreneur	24.8	23.6	51.6
Farmer	9.1	9.1	81.8

There are significant differences in the intensity of participation in 1% decisions according to taxpayers' occupational level. Occupations of higher prestige go together with more intensive participation *(Table 8)*. In terms of 1% designations the most active taxpayers are the managers and white collar employees with a university degree. The involvement of white collar employees without a university degree is much less intensive (but still above the average). There is a large gap between these upper occupational groups and the others.

Similarly, the institutional background of the different occupations seems to be extremely important. The majority of white collar employees and managers are employed by public institutions and business firms, i. e. by organizations which mainly work in the first economy where wages and salaries are "visible" and, consequently, taxable. We can hardly claim that the same is true for the occupational group of manual workers, and especially not in the case of individual entrepreneurs and farmers.

A very similar conclusion can be drawn if we take a closer look at the patterns of 1% designation by sectors *(Table 9)* or industries *(Table 10)*.

Table 9

Taxpayers' designation decisions by the sector of the employer, 1997–1999

Percent

Sector	Share of taxpayers having exercised their 1% designation option		
	once or twice	in all three years	not at all
Public sector	31.2	39.3	29.5
Private sector	28.4	26.4	45.2
Self-employed	9.5	19.0	71.5

In the public sector where the overwhelming majority of the employees' income is unavoidably "visible", more than two thirds of the taxpayers exercise their 1% designation option. At the other extreme, the same share is only 29 percent in the more or less informal sector of self-employed who represent the less strictly scrutinized group of taxpayers.

Table 10

Taxpayers' designation decisions by the industry of the employer, 1997–1999

Percent

Industry	Share of taxpayers having exercised their 1% designation option		
	once or twice	in all three years	not at all
Agriculture	28.4	23.0	48.6
Manufacturing	28.6	32.7	38.7
Construction	21.4	17.2	61.4
Trade, household services	26.7	24.6	48.7
Health care	34.6	39.9	25.5
Culture, education	35.4	48.6	16.0
Public administration	32.4	43.8	23.8

When exploring the differences between industries, we can detect just another form of the very same phenomenon. Taxpayers' willingness to express their preferences through the 1% system is definitely much weaker in the industries (construction, agriculture, household services) with a significant presence of the second economy. The 1% declarations are outstandingly frequent in culture and education and also in the field of public administration.

It is highly possible that "invisible" income works against the 1% designation not only for economic but also for psychological reasons. The economic reason is very simple: the smaller the declared taxable income, the less probable that the amount of personal income tax will reach the

10,000-HUF limit. The psychological reason is more complicated. People for whom tax evasion is a major concern when they prepare their tax declaration are probably reluctant to do anything that may attract the tax officers' attention. These fears are grounded on some highly publicized conflicts between the Tax Office and some taxpayers who tried to abuse the tax deductibility of donations in the early 1990s. Though this analogy between the 1% designation and other, quite thoroughly scrutinized tax advantages obviously does not stand up, the fears of this kind are very difficult to be dispelled.

Another important problem is that a significant part of taxpayers remain outside the range of 1% appeals. People living in small villages without eligible nonprofit organizations[23] are less likely to be reached by the potential beneficiaries of the 1% designation. As a result, they exercise their designation option less frequently than the urban population *(Table 11)*. Participation in the 1% decisions is significantly more intensive in towns which are the official centers of their county than in any other type of municipalities.

Table 11

Taxpayers' designation decisions by domicile, 1997–1999

Percent

Domicile	Share of taxpayers having exercised their 1% designation option		
	once or twice	in all three years	not at all
Capital city	28.2	31.8	40.0
County town	33.8	36.0	30.2
Other town	27.5	30.7	41.8
Village	26.6	26.7	46.7

These findings suggest that the presence of eligible local nonprofit organizations and the density of the local informal network are equally important influencing factors. In a large city like Budapest the possible choices are much wider, the requests are more numerous than in the county towns. If the share of taxpayers who are willing to designate the beneficiary of their 1% is still lower, this is probably explained by the weaker local identity and the lack of personal relations with the leaders and activists of voluntary organizations. On the other hand, in small towns and villages the personal relations are strong enough, but the number of the eligible voluntary groups is rather limited, thus a large part of taxpayers are not contacted by organizations which would be attractive for them.

Not surprisingly, personal contacts are very important: membership in voluntary associations and

[23] There are no registered nonprofit organizations in one sixth of the villages (Bocz et al., 1999, pp 16–17) Moreover, the most common voluntary associations (sports clubs, voluntary fire brigades) one can find in small villages are not eligible for the 1% support.

foundation boards, donations to nonprofit organizations have a direct relationship with the proportion of taxpayers who exercise their 1% designation option. Those who are members of voluntary groups are unquestionably more likely to support them through the 1% system than non-members *(Table 12)*. The same holds true for cash contributors who help nonprofit organizations with charitable donations.

Table 12

Taxpayers' designation decisions by membership in voluntary organizations, 1997–1999

Percent

Membership	Share of taxpayers having exercised their 1% designation option		
	once or twice	in all three years	not at all
Member of foundation board	23.2	49.6	27.2
Member in voluntary association	32.0	38.2	29.8
Not member	26.7	27.3	46.0

The figures displayed in *Table 13* can be interpreted, if not as a proof, at least as an indication that there is not a "crowding out" relationship between 1% designations and individual donations. To the contrary, traditional forms of the charitable behavior seem to boost public spirit. Donors are more likely to behave as conscientious citizens when they have an opportunity to influence public policy than those who do not help charities.

Table 13

Taxpayers' designation decisions by charitable behavior, 1997–1999

Percent

Charitable behavior	Share of taxpayers having exercised their 1% designation option		
	once or twice	in all three years	not at all
Donors	34.3	37.9	27.8
Non-donors	25.9	27.2	46.9

Therefore it is not surprising that women who are more enthusiastic donors than men (Czakó et al, 1995 p. 18) are also more willing to transfer the 1% of their personal income tax to a deserving nonprofit organization *(Table 14)*. When questioned whether they exercise their designation option, almost two thirds of the female respondents and not much more than half of the men indicated that they had made a designation declaration.

Table 14
Taxpayers' designation decisions by gender, 1997–1999

Percent

Gender	Share of taxpayers having exercised their 1% designation option		
	once or twice	in all three years	not at all
Male	24.8	29.1	46.1
Female	32.9	32.4	34.7

Similarly, the difference in the 1% designation patterns exhibited by different age groups *(Table 15)* is exactly the same that as discovered years ago when we studied the traditional forms of charitable behavior. The youngest age group contains the smallest proportion of taxpayers reporting on their participation in the 1% decisions. The most active are people aged between 30 and 60 while the elderly are somewhere in between.

Table 15
Taxpayers' designation decisions by age, 1997–1999

Percent

Age	Share of taxpayers having exercised their 1% designation option		
	once or twice	in all three years	not at all
– 30	29.6	17.6	52.8
31 – 45	27.3	35.8	36.9
46 – 60	29.8	35.6	34.6
61 –	25.0	30.0	45.0

This is probably explained by the fact that the 30–60 period is the age when solidity of the social embeddedness is the greatest. People have already consolidated their living conditions, most of them work, live in families, have children, they have developed a wide range of formal and informal relationships with different social institutions, including nonprofit organizations. With regard to the 1% designations, these extensive relations are likely to translate into a series of solicitations, thus the adult population is obviously more informed about the potential beneficiaries and more motivated to make a designation declaration than either the younger generation or the elderly.

Interests, values and motivations behind taxpayers' decisions

Motivations behind taxpayers' decisions are obviously manifold and complex. We wished to explore the great complexity of motivations of people who had designated a beneficiary of their personal income tax payment, therefore, we combined the methods of open-ended questions and attitude statements. This block of the interview started with a simple question "Why have you designated this particular organization?" then interviewees were asked for their reaction to a set of preformulated statements.

When answering the open question, respondents were allowed to mention as many motives as they wanted. About 40 percent of the reasons given by them referred to some kind of relatively stable relationships with the designated organizations *(Table 16 and Table II/18)*.

Table 16
Reasons for the 1% designation decisions

Reason	Percentage of all reasons mentioned by taxpayers who have exercised their 1% designation option		
	once or twice	in all 3 years	total
Rational reasons, agreement with the aims	32.1	22.9	25.5
Client/service provider relationship	16.3	26.3	23.4
Emotional reasons, values, solidarity	22.4	21.0	21.4
Personal relations with the beneficiaries	17.0	17.7	17.5
Needs and excellence of the beneficiaries	7.8	9.5	9.0
Haphazard and surrendered decisions	4.4	2.6	3.2
Total	*100.0*	*100.0*	*100.0*

The outstandingly most important type of these relationships is that taxpayers' children are provided with some services by the beneficiaries of their parent's 1% designations. It is not too surprising that foundation schools, nonprofit health institutions and foundations which support children-serving public institutions manage to recruit a lot of supporters among the parents of their clients. It is much less obvious why nonprofit organizations serving mainly adults are less successful in convincing their clients (and the friends, relatives of their clients) that they should designate them as beneficiaries. We have some grounds for thinking that this difference has to do with the intensity of relations between nonprofits and their clients. *Table II/18* clearly shows that the services provided by children-serving beneficiaries are much more frequently mentioned by taxpayers who made their 1% designation decision every year than by those who did it less regularly. Seemingly, the relations with these NPOs are firm and solid, which is probably explained by the character of their services. Once a child becomes the client of a nonprofit school, day-care center, health institution, sports club, etc., he/she is likely to have a regular (quite often daily) relationship with it. This is not necessarily true in the case of nonprofit services (e.g. special trainings, newsletters, conferences, occasional entertainment, etc.) for adults. As a consequence of these less established relationships NPOs have less chance to have a significant influence on their adult clients' 1% designation decisions.

The above reasoning is supported by the fact that job and profession (i. e. permanent affiliations) prove to be the most frequently mentioned personal links with 1% beneficiaries. The majority of taxpayers who support nonprofit organizations which they know without being their clients report that these organizations are somehow[24] connected to their job (e.g. foundations supporting the school, hospital, nursing home, etc. they work for) or to their profession (e.g. professional associations, scientific societies, etc.). Commitment to the development of the local community (e.g. *"This is my village"; "My 1% contributes to the prosperity of the town"*) is a somewhat weaker but still significant motivation. The less close relationships based on hobby or belief are much less likely to motivate taxpayers designation decisions.

Rational and emotional motives seem to play almost equally important roles when taxpayers' decisions are not determined by their direct relationships with the beneficiaries. The share of the rational considerations exceeds one quarter of all responses and amounts to one third of the motives mentioned by those who exercised their 1% designation option only once or twice between 1997 and 1999. The most important element of these rational considerations is an agreement with the aims of the beneficiaries but the willingness to counterbalance deficiencies of the state support and to promote concrete projects, help tangible activities are also frequently mentioned.

Compassion for and solidarity with people in need are the most common emotional motives. In many cases, compassion is rooted in some personal experience (e.g. involvement in a former disaster, the same kind of problem in the family, etc.) but this kind of background is not necessary at all. In fact, direct personal experience was mentioned by only one of three respondents who spoke about compassion or solidarity. It is somewhat surprising that respondents much more frequently referred to charitable zeal and general commitment to principles and values than to actual gratitude (e. g. *"As a student I was supported by the foundation"*) or nostalgia (e.g. "*I was asked by my alma mater"*).

Actual characteristics, and especially organizational excellence of the beneficiaries are rarely mentioned by the taxpayers. If anything, the economic difficulties faced by voluntary organizations emerge as motives for the 1% designations.

The smallest percentages displayed in *Table 16* are also noteworthy, especially because they are confirmed by the information presented in *Figure 7 and Table II/19*. A trifling part of the respondents reported that they decided on their 1% designation in a haphazard way or let another person (mainly their wife, their bookkeeper or the payroll clerk of their employer) make the decision. The low share of the improvised and surrendered decisions suggests that this new tax measure has become a vehicle for conscious citizens participation for the majority of taxpayers who exercise their 1% designation option.

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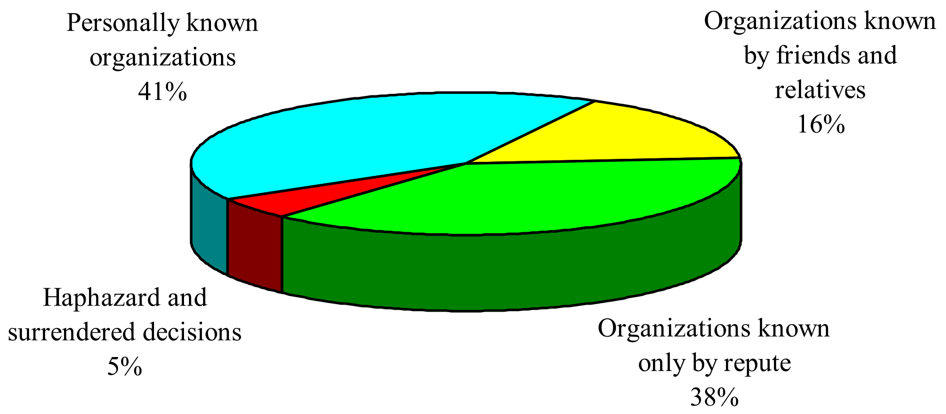
[24] Sometimes in a strange way, as it is reflected in the explanation given by one of our respondents: *"I support the local sports club because my boss is the president of its board."*

Figure 7
Composition of taxpayers by the types of beneficiaries of their 1% designation



The answers to the open question give us a general picture of the motivation and attitudes behind the designation decisions. In addition, taxpayers who had made a designation declaration in 1999 were also asked to choose one (and only one) from statements describing possible patterns of the 1% designation. This second approach urged respondents to reveal which elements of their motivational background determined their actual behavior. As reflected in *Figure 7 and Table II/19*, the results correspond with the conclusions we could draw from the answers to the open question.

Slightly more than half of the respondents designated beneficiaries which were directly or indirectly (through friends, relatives) known by them. Personal interests (services received from or membership in the designated nonprofit organizations, close relationships between the employer and beneficiaries) influenced about one third of the decisions. Another one third of the decisions, those which favored unknown organizations carrying out charitable activities, were probably motivated by pure willingness to promote public benefit and alleviate social problems. About one fifth of the taxpayers decided to support organizations which are close to their friends or relatives and NPOs which may provide them with services in the future. In these cases the motivational background is not completely clear, interests and charitable considerations may equally influence taxpayers' decisions.

Reasoning of taxpayers who refuse to support nonprofit organizations

In an analytical perspective, the reasons for refusal to exercise the 1% designation option is at least as important and interesting as motives for the positive designation decisions. From a practical point of view, they are even more important because a deeper understanding of refusal may help the potential beneficiaries to develop more convincing campaigns and more efficient fundraising strategies.

The results of our survey reveal that there are significant differences between the group of taxpayers whose tax declaration is prepared by their employer and those who make their own tax declaration *(Table 17)*. The latter are obviously much more aware of the size of their personal income tax payment. When questioned on the reasons for not making a designation declaration, their most frequent answer is that they are not authorized to because their personal income tax does not exceed the 10,000-HUF limit. By contrast, this reason is mentioned much less frequently by the other group of taxpayers. The most common explanation they offer is that payroll clerks of the employer did not inform them about the 1% designation option and/or did not provide them with the necessary forms to be filled.

Table 17
Reasons for refusal to exercise the 1% designation option

Percent

Reasons	Taxpayers whose tax declaration was prepared by		Total
	their employers	themselves	
Personal income tax was less than HUF 10,000	16.9	34.7	22.3
Negligence, carelessness	17.9	20.9	18.8
No information from the employer who took charge of the tax declaration	24.8	–	17.3
Not informed about potential beneficiaries	11.9	13.5	12.4
Do not agree with the 1% provision	13.3	9.9	12.2
Did not find deserving beneficiaries	8.9	10.4	9.4
Technical and administrative problems	4.5	6.4	5.1
Had some frustrating former experience	1.8	4.2	2.5
Total	*100.0*	*100.0*	*100.0*

The share of answers indicating that taxpayers do not have enough information about the potential beneficiaries of the 1% scheme or have difficulties to find deserving beneficiaries is by and large similar (about one fifth) in both groups. Almost another one fifth of the answers admit that the respondents omitted to make a designation declaration by pure negligence or carelessness. Technical and administrative problems are mentioned quite rarely.

All in all, our findings suggest that very few (less than 15 percent) of the omitted designation declarations are explained by a firm disapproval of the 1% provision[25] or by some frustrating

[25] In fact, even some of those respondents who declared their disapproval reported that they had made a designation declaration. About a half of them were taxpayers who could even consider this option. Within this half, the share of taxpayers who made a designation decision despite their reservations was 27 percent.

former experience of the taxpayers. Understandably enough, these latter are somewhat more frequent among those who prepare their tax declaration themselves and, therefore, are more active, more conscious participants of the 1% scheme.

In some sense, this is very promising. Voluntary organizations have to tackle several information and negligence problems but not hostility if they want to increase the number of their supporters and the amount of their 1% revenues.

STRATEGIES TO ENCOURAGE DESIGNATION DECISIONS[26]

Types of potential beneficiaries and options available for them

The population of potential beneficiaries includes a wide range of very different nonprofit organizations. The missions, aims, actual activities, organizational characteristics, leadership and public relations of these NPOs obviously have a crucial impact on the options which are available for them when they are looking for appropriate fundraising techniques. It goes without saying that different types of voluntary organizations need to use very different methods if they want to contact taxpayers and gain their 1% support. Roughly speaking, we can differentiate four kinds of organizations, namely those which can build their 1% campaign on

- clients, members;
- an existing or virtual community;
- compassion, solidarity, commitment to human values;
- rational considerations.

The first group of organizations consists of service providing NPOs and voluntary associations which keep up close and direct relationships with their clients and members. Typical examples are the foundation schools and professional associations, but we can also mention health services, nursing homes, amateur theaters, dance groups, orchestras or hobby associations. These organizations can contact their possible supporters without any difficulty. One can hardly imagine a more efficient (and cheaper) method of solicitation than short letters reminding the parents that their 1% designation can contribute to the well-being of their children’s school. These letters may have even more effect if they are not just delivered by the pupils. Children and students who are

[26] The analysis presented in this chapter is based mainly on a review of newspaper articles, on interviews conducted by Balázs Gerencsér (as part of this research) and by Alice Mátyus (as part of another project) and on studies written by György Bódi (1999) and Balázs Gerencsér (1999a, 1999b).

informed about (or even somehow involved in) the use of the 1% designations are likely to have a decisive impact on their parents' decisions.

Similarly, voluntary associations which have regular contacts (e.g. meetings, social and cultural events, conferences, workshops, newsletters, etc.) with their members do not need to make special efforts to deliver their 1% appeals. Sending or distributing the information material can be a part of their everyday communication with the members. In addition, if these latter are aware of the importance of the 1% support, they can easily become active agents of their organization's 1% campaign. A lot depends on internal democracy and flow of information. If opportunities offered by the 1% scheme are an issue among the members, if they consider possible aims and discuss possible actions, they will probably reach a large part of the supporters who are potentially available for them.

The second group of nonprofit organizations has to cope with a bit more difficult job because the communities they can rely on are less formal and less organized. This group includes mainly foundations and voluntary associations whose activities are targeted on larger communities like a town, a village or a neighborhood, an ethnic or religious minority, a group of people linked together by some common feature or interest. Typical examples are community foundations promoting the development of a town or voluntary associations established by the alumni of prestigious secondary schools and universities. The members of these existing or virtual communities are not in close contact with each other. Some of them can be easily found (e.g. present inhabitants of a given village or town, representative personalities of a given minority, leading figures of historically important movements, etc.), many others are dispersed all over the country and sometimes all over the world. The potential beneficiaries of the 1% designations cannot even be sure that people whom they regard as possible supporters are really taxpayers, not to mention whether they identify themselves as members of the given community.

Nevertheless, to contact citizens who belong to these loosely defined communities can prove to be a very good investment, especially because these communities are definitely much larger than the group of actual clients or members of voluntary organizations. The techniques of making contact and developing relationships with these potential supporters are varied. Their only common feature is that they involve more work and more financial burden than the member- and client-based methods. This also means that this strategy can be applied only by organizations which have adequate infrastructure and a sufficient number of volunteers and/or employees. Occasional efforts not followed by repeated appeals and regular communication are not likely to produce the expected results.

A third group of nonprofit organizations can firmly rely on compassion, solidarity and, in some cases, on commitment to human values. Both previous research on charitable behavior (Czakó et al., 1995; Utasi, 1999) and results of the present project (including not only the sample survey but also Gerencsér's interviews with nonprofit leaders) have pointed out that solidarity is a basic value of the Hungarian society. There are very few people who would disapprove the moral obligation to help the children (especially the sick children), the disabled, the elderly, the poor, the victims of disasters and the needy in general (especially if they cannot be blamed for their misfortune). Compassion for sick or stray animals (mainly cats and dogs) is also quite widespread. The very existence of voluntary organizations and foundations established in order to build or save community centers, local museums, libraries seems to indicate that a series of cultural and other human values are also important for some part of the citizens.

These charitable tendencies undoubtedly offer excellent prospects to a number of nonprofit organizations engaged in health care (especially in child health), social services (especially those helping the "deserving" poor), and animal protection. However, there remains a problem: how these NPOs can mobilize compassion and solidarity of taxpayers whom they do not know. Personal appeals are practically out of the question. Impersonal approaches through newspapers, radio, television and written materials are very expensive and there is not any guarantee that they are successful. Spectacular success and failure are equally possible. Even the largest charities which could afford to take the risk of a really extensive 1% campaign may hesitate because they can easily be blamed for spending too much or being too aggressive and this may do their reputation a lot of harm in the long run. The majority of smaller NPOs do not have appropriate funds, thus they have to solve difficult problems if they want to transform taxpayers' solidarity into 1% designations targeted to them.

The nonprofit organizations which intend to build their 1% campaign on rational arguments face similar difficulties. NPOs belonging to this fourth group deal with issues which are not within the realms of compassion or solidarity. Typical examples are voluntary groups and foundations trying to create employment, carrying out research projects, fighting against environmental pollution, organizing large cultural events, etc. If these organizations want to gain citizens' support, their only chance is to base their 1% campaign on reason, rather than on feelings.

As we have already seen, a significant part of the taxpayers mentioned that rational considerations (agreement with concrete aims, support for concrete development projects, willingness to counterbalance the deficiencies of state subsidies) were among the motives of their 1% designation decisions. To find and convince potential supporters reasoning in this way is all the more difficult because, in this case, the appeal must transmit an intellectual and not an emotional message. Traditional forms of publicity are not only too expensive for the majority of NPOs, they are also too short and too sketchy. Detailed articles in the newspapers, long interviews on radio and television, written materials distributed among the target population would be the appropriate means to persuade taxpayers, but these means are available only for a very small part of the nonprofit organizations.

To be sure, we have tried to identify the above types of voluntary organizations and the 1% campaign techniques which seem to be appropriate for them mainly for analytical reasons. In practice, the borderlines between different types of potential beneficiaries are blurred, the same organizations can engage in several different activities which may result in varying relationships with the taxpayers. In some cases even the very same activity (for instance, special education for mentally disabled children) can create client/service provider relationships with the parents, while it still enables the nonprofit organization to appeal for the 1% designations of taxpayers who feel compassion for sick children. Similarly, there are many nonprofit activities which can be equally interpreted as charitable actions and rational efforts to solve social problems. In these cases it can be reasonable to develop a 1% campaign based on both rational arguments and emotional effects.

Nevertheless, it is useful to make a clear distinction between different types of aims and target groups because this can help organizations to find the appropriate campaign techniques and to avoid disappointment and wasting money.

Three years' experience of 1% campaigns

Both the statements of the interviewed nonprofit leaders and the results of our population survey seem to suggest that 1% solicitation has developed quite slowly for the first three years. The number of taxpayers reached by the campaign is rather limited. A significant part of those who had been convinced to support a nonprofit organization in 1997 or 1998 were "lost" in the following year. The campaign techniques employed by the potential beneficiaries are still not too sophisticated.

As we have already pointed out *(Figure 7)*, the majority of taxpayers who exercised their 1% designation option in 1999 decided to support voluntary organizations with which either they themselves or their friends, relatives had some personal relationships. Less than 40 percent of them designated "unknown" beneficiaries, i.e. organizations which they only heard about.

When questioned on the sources from which they received information on the selected, personally not known organizations, almost half of these taxpayers[27] mentioned friends and

[27] The same respondent was allowed to mention several information sources but it happened quite rarely.

relatives *(Table 18)* and 8 percent referred to former personal relationships with the beneficiary (e.g. foundation related to the former employer, hospital where the respondents' children were born, etc.).

About one third of the taxpayers supporting "unknown" nonprofit organizations indicated that they had read about the beneficiaries in newspapers or magazines. One fourth of them mentioned radio or television programs, another 13 percent written materials as a source of the information. The share of taxpayers reached by job-related 1% campaigns was about one tenth. Door-to-door campaigns and mail-to-home were rather exceptional. The free telephone information service of the Nonprofit Information and Training Center was also called by a small minority of taxpayers who wanted to support personally unknown nonprofit organizations.

Table 18

Sources of information tapped by taxpayers supporting NPOs not known from personal relations

Share of respondents receiving information from the given sources

Percent

Source of information	Taxpayers who have exercised their 1% designation option		
	once or twice	in all 3 years	total
Friends and relatives	44.7	43.7	44.0
Newspapers, magazines	26.5	35.0	32.2
Radio, television	22.2	26.6	25.2
Written materials of the beneficiaries	8.0	15.4	13.0
Job-related campaign	15.9	8.5	10.9
Previous relations with the beneficiaries	7.0	8.7	8.1
Mail-to-home	1.0	2.4	1.9
Nonprofit Information and Training Centre	1.0	1.4	1.3
Door-to-door campaign	1.0	0.5	0.6

Taxpayers who made a designation decision each year were somewhat better informed, a larger share of them received information from newspapers, radio, television and written materials. Those who only occasionally designated the recipient of their 1% personal income tax payment were more frequently contacted through their employer or the payroll clerks of the employer. This detail corresponds very well with the figures displayed in *Table 17*, and, in some sense, also with the answers we received when taxpayers were asked about difficulties of the 1% designation decision *(Table 19)*.

As we have seen, the lack of information was a major reason for not exercising the 1% designation option, especially among taxpayers whose tax declaration was prepared by their employer. Those who made a designation decision were significantly better informed, only 16 percent of them mentioned that they had met some difficulty in making their choice. On the other hand, when difficulties emerged at all, about 40 percent of them proved to be information problems. Answers indicating that taxpayers did not know NPOs engaged in the concrete activities or located in the specific neighborhood they wanted to support were less frequent (35 percent) among respondents who themselves prepared their tax declaration than those who left this task to their employer (43 percent).

Table 19
Difficulties met by taxpayers when making their 1% designation decisions

Percent

Difficulties	Taxpayers whose tax declaration was prepared by		Total
	their employers	themselves	
Taxpayers knew several deserving NPOs, it was difficult to choose from them	47.2	52.0	48.8
Taxpayers did not know NPOs engaged in the specific activities they wanted to support	24.7	22.7	24.1
Taxpayers did not know NPOs located in the neighborhood they intended to promote	18.6	12.6	16.6
Taxpayers met technical difficulties	9.5	12.7	10.5
Total	*100.0*	*100.0*	*100.0*

These findings suggest that employers and their payroll staff play an important role in disseminating (or blocking) information on the 1% designation option. There are many taxpayers with a low level of education whose social embeddedness is relatively weak, who are neither members nor clients of voluntary organizations, whose access to written information is rather limited. These people can be more easily contacted through their employer than in any other way.

Several nonprofit organizations have already discovered this opportunity. Some of our interviewees reported that they tried to involve their bookkeeper in the 1% campaign, and, on the other hand, numerous respondents of the population survey indicated that they acted on their bookkeeper's advice. It also happens that the beneficiary organization has some "natural" relationship with one or several employers. There are many foundations which were established by companies[28], several scientific societies (especially in the fields of applied research) which have close connections with industrial firms, not to mention the public institutions supported by satellite

[28] For state-run Hungarian companies it was almost obligatory to develop some corporate welfare policy in communist times. They had to put some part of their profit into a "welfare fund", which was a source of financing corporate welfare services. Several companies had their own nurseries, kindergartens, recreation homes, clubs, libraries and houses of culture, most of them regularly supported their old age pensioners and employees in need. This tradition of the corporate welfare policy was not fully broken by the privatization. Many firms converted their "welfare funds" into foundations and donated their social and cultural institutions' buildings and other facilities to these foundations before or during the privatization process.

foundations. In these cases , nonprofit organizations will probably meet little resistance if they ask partner institutions to inform their employees about the 1% scheme. However, the reluctance of payroll clerks unwilling to accept the additional work caused by the designation declarations may create some difficulties.

To approach "unknown" employers and acquire their support is obviously even more difficult and, consequently, anything but widespread. Some further steps in this direction could probably increase both the number and the amount of the 1% designations. It is also true that these efforts should include the development of an "code of conduct" for the employers. Direct pressure on the employees should certainly be avoided not only because it would be in sharp contrast with the spirit of the 1% law, but also because it would make more harm than good even at the level of individual beneficiaries in the long run.

Nonprofit organizations' fears that they might be found too pushy by the taxpayers emerge in several of our in-depth interviews. In some cases we meet a complicated mixture of moral reservations, dignified and haughty manner, laziness, and the lack of both managerial skills and fundraising strategy. The ambivalence which is detectable in the attitude of nonprofit leaders has to do with the genesis of the Hungarian nonprofit sector.

As a few observers (Gádoros, 1992; Kuti, 1996 and 1998; Siegel and Yancey, 1992; Szalai, 1997; Széman, 1997 and 1999; Széman and Harsányi, 1999; Vajda, 1995a, 1995b, and 1997a) of the sector's recent history pointed out, the establishment of voluntary organizations was most frequently motivated by economic constraints and/or professional commitment and ambitions. As a consequence, a large number of the nonprofit leaders are people who are firmly committed to the mission of their NPOs but do not have much training and experience in managing nonprofit organizations. These leaders may be fairly good teachers, doctors, social workers, researchers, etc., but they are much less likely to be excellent fundraisers. This lack of fundraising skills is only partly explained by the fact that the whole Hungarian nonprofit sector and most of its institutions are extremely young (less than ten years old), thus the majority of nonprofit managers and activists have not participated in any special training yet. The other part of the explanation is probably even more important.

A large number of the present nonprofit leaders try to raise funds for activities which they consider unquestionably public benefit and, therefore, deserving public support.[29] It is not too surprising, then, if they feel unjust and a bit humiliated that they are obliged *"to live by begging"*.

[29] We can hardly disagree with them when their foundations contribute to financing public hospitals, schools, theaters, nursing homes, shelters, etc.

This feeling creates an important psychological barrier to any improvement in and increased professionalism of the fundraising activities. This is the only way we can explain that several nonprofit organizations managed by persons of high professional character display so little professionalism or even common sense when they plan their 1% campaigns.

Without wishing to make a full inventory of the most frequent mistakes, we try to grasp at least the major problems revealed by our sample survey and in-depth interviews.

First of all, appeals to taxpayers for their 1% designation are much too rarely a constituent part of a carefully thought-out, sophisticated fundraising strategy. Very few of the nonprofit leaders are like one of our interviewees (the head of a nonprofit theater) who made an effort to understand the motives behind taxpayers' decisions, considered his organization's chances and tried to develop a strategy which fits in with its aims and organizational character. It happens much too frequently that nonprofit managers do not have a clear view of their organizations position, the opportunities open to them and the potential supporters they are able to approach. As a result, their solicitation efforts are either completely improvised, or else, based on assumptions which may easily prove to be mistaken. We have seen several examples when NPOs tried to approach taxpayers who were very unlikely to support them (e.g. local organizations' appeals in national newspapers); missed taking opportunities offered by their basic activities (e.g. adult education, cultural events) to reach potential supporters; or used emotional and not rational arguments, though the compassion toward their clients (e.g. criminals, drug addicts) were rather limited, while the social problems they dealt with were serious enough to attract some support from problem-conscious citizens.

Second, there is much room for improvement in solicitation methods, too. A large number of the techniques used and the written materials prepared by nonprofit organizations are non-professional. Several of our interviewees reported that their organization's solicitation efforts were confined to placing some information material (sometimes only their tax identity number) on a message board in the lobby of the institution, despite the fact that they could have directly distributed information among (and with the help of) their clients. On the other extreme, it also happened that activists of a charity which holds little attraction for the general public, delivered hundreds of letters to unknown citizens, and they even felt surprised and frustrated by the meager response.

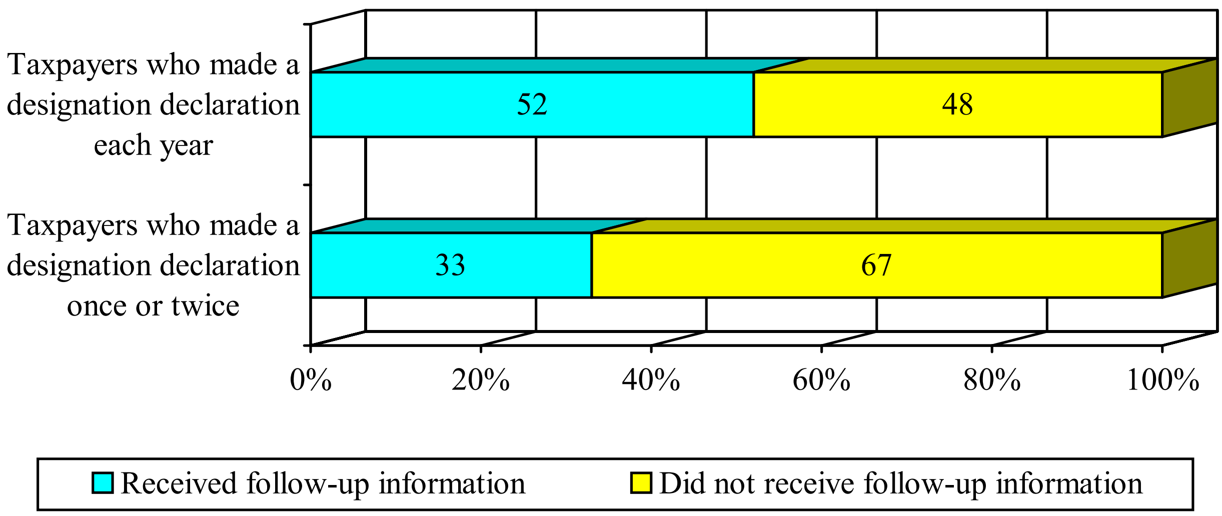
Another problem is timing. It is not easy to choose the right moment of sending requests and tax identity numbers to the taxpayers. If it happens too early a lot of them will mislay the information sheets. (Some of our interviewees reported on a series of phone calls from supporters who did not find the tax identity number when they wanted to make their tax declaration.) On the other hand, a later appeal is also risky as it can arrive too late when the taxpayers already made their choice.

The content of the media messages and written materials is also problematic. A few organizations noticeably hesitate whether they should emphasize their organizational excellence and reliability or their financial difficulties and the fact that they desperately need taxpayers' support. Both arguments can have an effect. As we have seen some taxpayers are ready to help NPOs which suffer from the deficiencies of government support, while others prefer supportees which are undoubtedly efficient and trustworthy. Nevertheless, when both arguments appear in the very same brochure, it is to be feared that they will neutralize each other.

Very few of the nonprofit organizations seem to know that concrete aims and projects (especially if they serve a well defined community or some group of the needy) are usually more convincing than general appeals. A lot of the information leaflets are extremely dull, flat and practically bare. Several organizations think that it is enough to say who they are and ask for support. By way of illustration we can quote the brochure of a school foundation, which clearly reflects this attitude. It argues that taxpayers should support the foundation instead of "pouring their money in the bottomless pit of the state budget". However, the budget of the foundation remains another bottomless pit from the potential supporters' point of view. The only information they receive from the leaflet is that the 1% income will be used according to the decision of the board.

This leads us to the third kind of problem we could identify, that of feedback on actual use of the 1% support. As reflected in *Figure 8 and Tables II/20, II/21*, half of the taxpayers who made a designation declaration in all three years, and only one third of those who did it less frequently received any information on the use of their 1% support. The share of taxpayers getting information through the media was 7.5 percent in 1997 and 8.3 percent in 1998.

Figure 8
Proportion of taxpayers according to whether they received or not follow-up information on the use of their 1% support in 1998



These humble figures are all the more shocking because recipients of the 1% support are officially obliged to publish some report on the use of their 1% income. These publication costs seem to be almost completely wasted. Not too surprisingly, other ways of informing taxpayers are much more efficient, especially in the case of nonprofit organizations which have direct contacts with their potential supporters. Though they are not allowed to know who their actual supporters are, they can still inform all of the taxpayers whom they originally approached. Once again, service providing organizations can easily distribute either letters of thanks or more formal reports among their clients. Nonprofits relying on special but relatively well-defined communities can do the same at much higher costs. By contrast, nonprofit organizations which try to reach a larger and much less defined group of supporters face enormous difficulties when expressing their gratitude and reporting on the use of the 1% income.

Difficult or not, the task of informing taxpayers and thus stabilizing their willingness to help nonprofits has not yet been solved by any group of the potential beneficiaries. The figures presented above seem to prove that the share of taxpayers who receive any kind of information about the use of the 1% support is significantly lower than the proportion of those who designated personally known NPOs as recipients of 1% of their personal income tax payment.

We have good grounds for thinking that this lack of regular feedback explains, at least in part, the very slow growth of the number of taxpayers who are ready to support voluntary organizations through the 1% scheme.

CONCLUSIONS

Theoretical implications

The 1% provision is obviously a borderline case of public and private finance. In some sense, it is nothing else but an extreme version of tax deductibility. In another interpretation, the 1% designations are similar to charitable donations, thus taxpayers' decisions may be rooted in considerations and motivations which are very similar to those behind the "real" charitable donations. As a consequence, a closer analysis of the 1% scheme may add some new elements to the endless debate between economists and sociologists who are seemingly unable to agree on how to answer specific and fundamental questions on the theme of altruism (Zamagni, 1995).

To start with the first approach, we must emphasize that 1% designations are not regarded as an element of tax advantages in Hungary despite the fact that the designation option is connected to the tax system. Both nonprofit leaders and government officials tend to interpret the 1% transfer as a new type of indirect state support. Consequently, the question of "treasury efficiency"[30] has not even emerged. Most actors take for granted that beneficiary organizations provide charitable activities or instill values of solidarity, helpfulness and citizens participation, thus emit beneficial externalities. "A straightforward implication from welfare economics is that such activities ought to be subsidized in the name of efficiency, which makes tax deductions for charitable contributions a kind of Pigouvian subsidy" (Clotfelter, 1993, p. 591).

There have been more concerns about a possible "crowding out" effect, that is, about a danger that private donations or government funding may fall as a result of the 1% provision. The statistical figures presented in the previous chapters seem to prove this did not happen, at least not at the level of the nonprofit sector as a whole. In an optimistic perspective, these findings support the conclusions drawn by Mohr and Guerra-Pearson (1996, p. 538) from a very different analysis: "Private charity is not 'crowded out' by public contributions and public/private sector relations are not governed by the logic of a zero-sum game." However, several interviewees complained about some decrease in cash donations, which indicates that individual organizations may suffer from a "crowding out" effect, especially if they do not have enough energy to develop a consistent fundraising strategy and to conduct well-targeted, professional campaigns.

The 1% experience can also be interpreted as a minor contribution to the debate on the overall impact of tax deductibility on charitable giving. Policy analysts have long been concerned with these questions. "This concern is not motivated by the belief that taxes are a *primary* determinant of giving, but by the belief that taxes matter somewhat, that taxes are one of the few policy instruments available to influence levels of giving" (Steinberg, 1990, p. 61). The first empirical results (summarized by Clotfelter, 1985) seemed to prove that charitable giving was price elastic. Since tax deductibility obviously decreases the "price" of donating, these results provided strong support for the extension of tax subsidies to encourage charitable donations. Later on, a series of analyses based on new data and more advanced statistical techniques (summarized by Steinberg, 1990) strongly questioned the former empirical findings and indicated that giving was price inelastic. Without wishing to overemphasize the importance of the 1% experience, we think that it is at least meaningful in this context. From the taxpayers' point of view, the price of supporting charities through the 1% scheme is, in financial terms, practically nil. If a large part of them still have

[30] The question whether the tax measure is efficient in the sense that the value of private donations it induces exceeds the induced loss of tax revenue.

omitted to make a designation declaration, this clearly indicates that price is a perhaps important but not decisive factor of the charitable behavior. In other terms, our findings seem to support the price inelasticity hypothesis.

Similarly, the 1% experience also refutes another quite widespread proposition. Many people may have utility functions that depend on the happiness or consumption patterns of other individuals or on the achievement of some general goal such as a cleaner environment, a high level of artistic creation, or breakthroughs in basic research, and still “little may be given to charity because of free-rider problems. ... Low levels of private giving may indicate not mean-spiritedness but free riding” (Rose-Ackerman, 1997, p. 121). The relatively low share of Hungarian taxpayers who exercised their 1% designation option can highlight anything but free riding. The responses given to our motivation questions seem to prove that the explanation is not “mean-spiritedness”, either. This leads us to the conclusion that Halfpenny (1999, p. 213) is probably right when he presents not just an excellent overview but also a criticism of both economic and sociological theories of individual charitable giving and points out the need for parallel alternative, qualitative approaches embodying “fundamentally different conceptions of the very nature of social action, social interaction, and the explanation of social life”.

The first three years experience of the 1% scheme can be interpreted as a broad hint that factors like “relational obligations”, “event obligations” (Sen, 1999) or “the need for belonging” (Scitovsky, 1990) are at least as important in explaining charitable acts as utility functions or altruistic considerations. In other terms, a 1% designation decision, just like “real” philanthropy “is a matter not just of moral capital in the form of generosity. It is perhaps more a matter of *associational capital* in the form of social networks of invitation and obligation” (Schervish and Havens, 1997, p. 257).

It is important to emphasize that this debate is not merely academic. The contrasting arguments put forward by different authors and the contrasting results of different surveys have very tangible implications for both public policy and nonprofit sector strategies.

Practical implications

As we have seen, 1% designations have become an important revenue source for numerous voluntary organizations and an important indicator of legitimacy for even more NPOs. “The increasing number of supporters is an outcome of intellectual investment, fundraising and management skills, and several other elements of organizational excellence, thus it is probably a better indicator of success than the growth of service fees or unrelated business income” (Vajda, 1999 p. 631). To acquire the taxpayers' support, to become a beneficiary of their 1% designation has become an important aim for a lot of Hungarian NPOs. Many of them made serious efforts, even more of them only awkward attempts. Very few of them tried to discover what the taxpayers' actual motives and considerations are.

Only some really exceptional nonprofit leaders seem to understand that "philanthropic behavior can be illustrated as an expanding spiral that originates in social ties, and leads to participation in philanthropic activities which change the participant's attitudes which, in turn, motivates him or her for further participation. A practical significance of this model for nonprofit organizers is that philanthropy ... needs careful cultivation by interpersonal contacts to thrive" (Sokolowski, 1996, p. 275).

At this point, we must admit that researchers could have done more in order to help and orientate practitioners. Though we carried out a survey on individual giving and volunteering[31] in the early 1990s, there have not been follow-up projects, and results of the foreign research on charitable behavior have not become generally known in Hungary either. The Nonprofit Information and Training Center and some other support centers have made efforts to provide voluntary organizations with fundraising manuals but research papers summarizing the results of scientific projects have not been either translated or even properly reviewed. It is not surprising, then, that even basic facts (e.g. the prominence of fundraising as an activity of volunteers in the United States – Hodgkinson et al., 1992; the main motives for giving in France or Ireland – Archambault, 1991; Ruddle and Mulvihill, 1995, etc) are largely unknown for the Hungarian nonprofit community. It is obviously researchers' responsibility to significantly facilitate practitioners' access to the most important and most useful scientific findings that can help their work.

In much the same way, the government can be helpful, too, since "the structure and performance of the nonprofit sector are influenced by the whole panoply of relevant laws and regulations, and this structure and performance in turn may affect the level of private charitable contributions" (Clotfelter, 1985, p. 13). All government measures that promote and encourage organizational improvement in the nonprofit sector will automatically contribute to the improvement of the 1% campaigns as well.

Nevertheless, the key of the success is held by the nonprofit organizations themselves. In terms of actual 1% designations, the year 1997 represented a major breakthrough but nonprofit

[31] The survey was carried out by the voluntary association called Research Project on Nonprofit Organizations with the generous support of the Aspen Institute Nonprofit Sector Research Fund, the Charities Aid Foundation, the Fondation de France, the OTKA (National Fund for Scientific Research in Hungary – T014564), and the Rockefeller Brothers Fund.

organizations can hardly be praised for it. The success is largely due to citizens' willingness to have an influence on the allocation of public funds. The very fact that the number of taxpayers who exercise their 1% designation option has not increased significantly since 1997 seems to prove that only the easiest and most obvious steps have been made in order to gain the taxpayers' support. This also means that there is a vast, unexplored "market" for nonprofit organizations which are ready and able to identify their potential supporters and to use more innovative and more sophisticated solicitation methods. Much more conscious, well thought out efforts and increased professionalism are absolutely necessary for the success. This professional improvement should mean not only the use of more efficient solicitation techniques but also the task of building solid relationships between citizens and voluntary organizations. In the long run, this may result in more visibility of the sector and more citizens participation, which will hopefully strengthen civil society.

APPENDIX I

METHODOLOGY

The empirical findings reported in this study are based on a representative survey of the adult population. Respondents were asked a series of questions about their attitude toward the 1% provision and their actual designation decisions. The survey was a module of an "omnibus survey" regularly carried out by the Szonda-Ipsos Opinion Poll Company. We joined three of these surveys, the ones conducted in April, May and June 1999.

In total, every omnibus survey consists of 1,000 in-home personal interviews conducted by the staff of the opinion poll company. The representative sample of the adult population (aged 18 and over) is selected randomly. In the case of nonresponse a reserve sample is also available for the interviewers. Our questions were asked from all respondents of the representative sample in April, but only from the subsamples of taxpayers in May and June. Respondents were reassured about the confidentiality of the information given and the fact that the interviewees remained anonymous.

The major blocks of our questionnaire were as follows:

- Information and opinion on the 1% provision. Suppositions about the patterns of 1% designations. Reasons for disapproval of the 1% scheme.
- Actual designation decisions of the taxpayers in 1997 and 1998. Information on the use of the 1% support.
- Actual designation decisions and their motivational background in 1999. Difficulties met by the taxpayers in finding beneficiaries. Sources of information on eligible nonprofit organizations.
- Other relationships with voluntary organizations: Membership, cash and in-kind donations, voluntary work, support received from charities.
- Social, economic and demographic profile of the respondents: Level of education, social status, profession, job, income, age, gender, etc. (This block is a standard part of the omnibus survey.)

Completed questionnaires were checked for accuracy by researchers having a lot of experience in empirical work. Content analyses were carried out on all open-ended questions. Coding and data input on computer were double-checked and further checking of the data was carried out before analysis. In order to gross up findings for respondents to figures for Hungary as a whole, we used the basic statistical indicators representing the size and socio-demographic structure of the adult population.

APPENDIX II

TABLES

Table II/1

Number and share of individuals in the sample and within the adult population

by their familiarity with the 1% provision

Familiarity with the 1% provision	Number of respondents	Grossed up value	
		Number	Percent
Have heard about the 1% scheme	1,753	7,453,674	93.7
Have not heard about the 1% scheme	86	498,926	6.3
Total	*1,839*	*7,952,600*	*100.0*

Table II/2

Familiarity with the 1% provision by taxpayer status

Percent

Familiarity with the 1% provision	Taxpayers	Non-taxpayers	Total
Have heard about the 1% scheme	97.9	88.2	93.7
Have not heard about the 1% scheme	2.1	11.8	6.3
Total	*100.0*	*100.0*	*100.0*

Table II/3

Information about the church 1% by taxpayer status

Percent

Level of information	Taxpayers	Non-taxpayers	Total
Know only that a church can be designated	2.5	3.4	2.9
Know only that a lay fund can be designated	0.6	0.8	0.7
Know about both opportunities	81.5	69.2	76.2
Have not heard about the church 1%	15.4	26.6	20.2
Total	*100.0*	*100.0*	*100.0*

Table II/4

Opinion on the 1% provision by taxpayer status

Percent

Opinion	Taxpayers	Non-taxpayers	Total
Approve the 1% provision	90.2	80.2	85.9
Disapprove the 1% provision	9.6	14.2	11.6
Don't know	0.2	5.6	2.5
Total	*100.0*	*100.0*	*100.0*

Table II/5

Opinion on the church 1% by taxpayer status

Percent

Opinion	Taxpayers	Non-taxpayers	Total
Approve the church 1%	60.4	63.7	61.8
Disapprove the church 1%	38.9	30.7	35.4
Don't know	0.7	5.6	2.8
Total	*100.0*	*100.0*	*100.0*

Table II/6

*Opinion on the option to designate a special government fund as beneficiary of the second 1% by taxpayer status**

Percent

Opinion	Taxpayers	Non-taxpayers	Total
Approve this option	37.3	30.2	34.6
Disapprove this option	62.7	69.8	65.4
Total	*100.0*	*100.0*	*100.0*

***** Answers from respondents who expressed their disapproval of the church 1%

Table II/7

*Opinion on the option to designate a special fund helping young people as beneficiary of the second 1% by taxpayer status**

Percent

Opinion	Taxpayers	Non-taxpayers	Total
Approve this option	82.4	81.8	82.2
Disapprove this option	17.6	18.2	17.8
Total	*100.0*	*100.0*	*100.0*

***** Answers from respondents who expressed their disapproval of the church 1%

Table II/8

*Opinion on the option to designate a special fund financing the celebration of the millennium as beneficiary of the second 1% by taxpayer status**

Percent

Opinion	Taxpayers	Non-taxpayers	Total
Approve this option	19.8	14.6	17.9
Disapprove this option	80.2	85.4	82.1
Total	*100.0*	*100.0*	*100.0*

***** Answers from respondents who expressed their disapproval of the church 1%

Table II/9

*Considerations behind the 1% designation decisions**

Consideration	Percentage of all considerations mentioned		
	Taxpayers	Non-taxpayers	Total
Helping people in need			
Sick people	6.9	5.7	6.4
People in need in general	9.9	11.8	10.7
Specific groups of the needy	1.4	1.9	1.5
Victims of disasters	1.4	4.9	2.9
Elderly	0.9	1.8	1.3
Support for some specific field or activity			
Health care	7.5	7.3	7.4
Social services	5.8	8.8	6.9
Education	5.3	3.5	4.6
Other fields	4.4	2.5	3.7
Support for a special group of organizations			
Public institutions	3.1	4.1	3.5
Foundations	1.5	3.0	2.1
Voluntary associations	0.4	1.2	0.8
Individual organizations	0.8	0.8	0.8
Solving social and economic problems			
Alleviating social problems	2.1	2.3	2.2
Deficiencies of the state support	2.3	2.0	2.2
Improving welfare services	0.8	0.6	0.7
Financial needs of an individual organization	1.2	1.2	1.2
Promoting values, expressing solidarity			
Solidarity	5.5	8.9	7.0
Public benefit	8.1	4.6	6.6
Human, cultural, environmental, etc. values	3.6	2.0	3.0
Political values, citizens participation	1.8	0.6	1.3
Personal interests or involvement			
Personal or family interest	3.1	2.0	2.6
Personal relations	2.6	1.5	2.2
Other kind of personal involvement	3.2	1.5	2.4
Transparency, accountability			
Transparency of the financial transfers	2.0	1.2	1.7
Accountability	3.2	3.1	3.1
Organizational excellence of beneficiaries	0.8	1.5	1.1
Total	*100.0*	*100.0*	*100.0*

* Answers from respondents who expressed their approval of the whole 1% scheme.

Table II/10

*Reasons for disapproving the 1% provision**

Reason	Percentage of all reasons given		
	Taxpayers	Non-taxpayers	Total
Moral and accountability problems on the side of the potential beneficiaries			
Frequent abuse, misuse and mismanagement	12.0	19.7	15.2
Foundation scandals	12.2	8.2	10.5
Personal experience of NPOs' misbehavior	1.0	1.6	1.3
Accountability and information problems	19.8	17.7	18.9
Transparency problems, procedural difficulties and high costs of the 1% scheme			
Transparency problems	12.8	9.8	11.6
Taxpayers have no control of the 1% transfer	23.7	17.6	21.1
Procedural difficulties and high cost	2.3	1.7	2.0
Disagreement with the aims, refusing to take over government responsibilites			
Some other fields should be supported	1.1	11.5	5.5
The government has full responsibility	5.9	4.0	5.1
Citizens should not be pestered with demands	9.2	8.2	8.8
Total	*100.0*	*100.0*	*100.0*

***** Answers from respondents who expressed their disapproval of the whole 1% scheme.

Table II/11

Number of the valid designation declarations by beneficiaries

Thousand

Beneficiaries	1997	1998	1999
Nonprofit organizations	956	1,122	1,097
Public funds and institutions listed in the 1% law	21	22	20
Churches, church institutions (including the lay alternative)	15	548	505

Source: Tax Office

Table II/12

Amount of the 1% designation by beneficiaries

Million HUF

Beneficiaries	1997	1998	1999
Nonprofit organizations	1,856	2,381	2,860
Public funds and institutions listed in the 1% law	43	50	55
Churches, church institutions (including the lay alternative)	22	1,214	1,411

Source: Tax Office

Table II/13

Third sector revenues by revenue sources, 1997

Revenue source	Revenue million HUF	As % of the total
Support from the central government	50,027.1	17.6
of which: 1% income	**1,770.1**	**0.6**
Support from the local governments	13,302.2	4.7
Government support	*63,329.3*	*22.3*
Corporate donations	19,680.2	6.9
Individual donations	6,568.8	2.3
Foreign donations	16,299.5	5.7
Donations from nonprofit organizations	9,393.8	3.3
Private donations	*51,942.3*	*18.2*
Membership fees from private individuals	8,238.6	2.9
Membership fees from organizations	13,808.3	4.9
Sales and dues related to the charitable activities	73,443.2	25.8
Revenues from the basic activities	*95,490.1*	*33.6*
Investment income	23,043.9	8.1
Unrelated business income	46,878.2	16.5
Revenues from for-profit activities	*69,922.1*	*24.6*
Other	3,678.4	1.3
Total	***284,362.2***	***100.0***

Source: Bocz et al.(1999)

Table II/14

Structure of the nonprofit sector revenues from 1% designations

and direct central government support by the size of the beneficiaries, 1997

Percent

Size of the beneficiaries	*1% designations*	*Other central state support*
Small organizations	*15.9*	*0.5*
Medium-size organizations	*50.1*	*4.2*
Large organizations	*34.0*	*95.3*
Total	100.0	100.0

Source: Bocz et al., 1999

Table II/15

Structure of the nonprofit sector revenues from 1% designations

and direct central government support by the location of the beneficiaries, 1997

Percent

Location of the beneficiaries	*1% designations*	*Other central state support*
Capital city	*40.8*	*73.3*
Towns	*51.1*	*23.6*
Villages	*8.1*	*3.1*
Total	100.0	100.0

Source: Bocz et al., 1999

Table II/16

Structure of the 1% designations by fields of activity of the beneficiaries

Percent

Fields	1997	1998	1999
Education	37.6	36.8	36.1
Health care	21.8	22.8	24.5
Social services	18.1	15.8	19.2
Culture, spiritual activities, research	12.4	12.9	7.3
Other	10.1	11.7	12.9
Total	*100.0*	*100.0*	*100.0*

Table II/17

Composition of the adult population by taxpayer status and 1% designations between 1997 and 1999

Taxpayer status and 1% designations	As percentage of	
	the adult population	all taxpayers
Did not pay personal income tax in any of the years	42.9	–
Paid tax but did not exercise their designation option	23.3	40.8
Exercised their designation option in one of the years	8.3	14.5
Exercised their designation option twice	8.0	14.1
Exercised their designation option in all three years	17.5	30.6
Total	*100.0*	*100.0*

Table II/18

Reasons for the 1% designation decisions

Reason	Percentage of all reasons mentioned by taxpayers who have exercised their 1% designation option		
	once or twice	in all 3 years	total
Client/service provider relationship			
The taxpayers' children are the clients	14.6	21.5	19.5
The taxpayers themselves are the clients	1.3	2.7	2.3
Friends or relatives are the clients	0.4	2.1	1.6
Personal relations with the beneficiaries			
Through job or profession	9.1	11.1	10.6
Through domicile	5.6	4.0	4.4
Through hobby or belief	2.3	2.6	2.5
Emotional reasons, values, solidarity			
Gratitude or nostalgia	1.3	2.7	2.3
Compassion rooted in personal experience	6.0	2.9	3.7
Solidarity with a specific group in need	6.7	7.7	7.4
Charitable zeal	3.9	4.0	4.0
Commitment to principles and values	4.5	3.7	4.0
Rational reasons, agreement with the aims			
Support for some specific activites	5.2	4.5	4.7
Agreement with the aims of beneficiaries	17.8	12.9	14.3
Deficiencies of the state support	9.1	5.5	6.5
Needs and excellence of the beneficiaries			
Economic difficulties faced by beneficiaries	6.9	6.0	6.2
Organizational excellence of beneficiaries	0.9	3.5	2.8
Haphazard and surrendered decisions	4.4	2.6	3.2
Total	*100.0*	*100.0*	*100.0*

Table II/19

Composition of taxpayers by the types of beneficiaries of their 1% designation

Type of beneficiaries	Percentage of the taxpayers who have exercised their 1% designation option		
	once or twice	in all 3 years	total
Personally known organizations			
providing the taxpayer's family with services	22.2	24.7	23.9
related to the taxpayer's job	11.1	10.0	10.4
supported by the taxpayer in other ways, too	4.8	7.6	6.8
Organizations known by friends and relatives	13.9	17.1	16.2
Organizations known only by repute			
involved in activities preferred by the taxpayer	36.7	32.1	33.4
potential future service providers	5.8	4.0	4.5
Haphazard and surrendered decisions	5.5	4.5	4.8
Total	*100.0*	*100.0*	*100.0*

Table II/20

Sources of information on the use of 1% revenues in 1997

Share of respondents receiving information from the given sources

Percent

Information for the taxpayers about how the beneficiaries used their 1% revenues	Taxpayers who have exercised their 1% designation option		
	once or twice	in all 3 years	total
No information at all	66.3	50.9	55.8
Some information directly from beneficiaries	22.1	36.0	31.6
Some information from the media	5.0	8.7	7.5
Some information from other sources	8.0	8.8	8.5

Table II/21

Sources of information on the use of 1% revenues in 1998

Share of respondents receiving information from the given sources

Percent

Information for the taxpayers about how the beneficiaries used their 1% revenues	Taxpayers who have exercised their 1% designation option		
	once or twice	in all 3 years	total
No information at all	67.4	48.5	55.0
Some information directly from beneficiaries	20.4	37.5	31.6
Some information from the media	6.8	9.1	8.3
Some information from other sources	7.5	9.4	8.8

LAJOS BIRO and BALÁZS GERENCSÉR

OPINIONS OF CIVIL SOCIETY ORGANIZATIONS ON THE 1% PROVISION AND ITS IMPLEMENTATION

INTRODUCTION

The Nonprofit Information and Training Center (NIOK) Foundation, which aims at helping the nonprofit organizations[32], has developed a program that promotes the implementation of the 1% provision. The key part of the program runs during the tax declaration period (between 4 January and 25 March), with the title of "Let us give one share to the civil organizations". This campaign's mission is to contribute to more and more correct designation declarations. Both taxpayers and NPOs like this service, which is proven by the fact that the databases contains 4000 organizations, and 200-400 telephone calls per day are received.

The NIOK Foundation approached the organizations from the database with a short survey sheet between 14-22 June 1999, in order to collect information on the results of the 1% provision, the circumstances of its implementation and also its evaluation.

The research concentrated on some of the organizations in more details. Between August and October 1999, personal interviews were conducted with 22 organizations. The aim of these was to complement the surveys carried out at the base of the organizations among a larger scale of respondents with a more detailed picture through in-depth interviews.

The interviews inquired mainly about the organizations' first experiences on the 1% law but also about the general solutions to fundraising and the organizations' daily operation.

For comparative purposes, in this study –wherever it is possible – we present the Tax Office data and the results of a survey carried out by the Central Statistical Office, which provide us with information on nonprofit organizations.

[32] The NIOK Foundation conducts an encouraging campaign every year, through 50 different forms of media in order to promote as many 1% designations to be made as possible. Beside this, they provide information on the Internet and a free telephone line on the law and the organizations in their database.

OUR SURVEY AND ITS FINDINGS

The sample

In order to promote 1% designations, NIOK Foundation offered to help NPOs collect 1% designations through various programs. Over 2700 civil organizations responded. These organizations accounted for a larger part of the survey sample. NIOK also launched a press publications watch program, as a result of which another 1300 nonprofit organizations turned out to be taking an active part in the collections of 1% designations. These organizations formed a smaller part of the survey sample. NIOK sent the questionnaires to 4000 organizations altogether[33], from these two sources.

The number of the received and processed questionnaires is 622. The sampling method does not allow us to claim that the answers in the questionnaires entirely represent the general opinion of nonprofit organizations in connection with the 1% designations. This was not the aim of the study, but rather to provide civil organizations and other institutions affected by the 1% provision with a "flash report".

Some characteristic features of the respondent organizations

The decisive majority of the respondent organizations have their seat in one of the cities and towns of Hungary, only 13 percent of the responses came from villages. 34 percent of the organizations were located in Budapest. It can be concluded from a national comparison, that the rural NPOs were underrepresented among the respondents.

The majority of the respondents did not report on the number of their employees. However, the data on their annual budget *(Figure 1)* reflect that most of them are relatively small organizations though still somewhat bigger than the sector average.

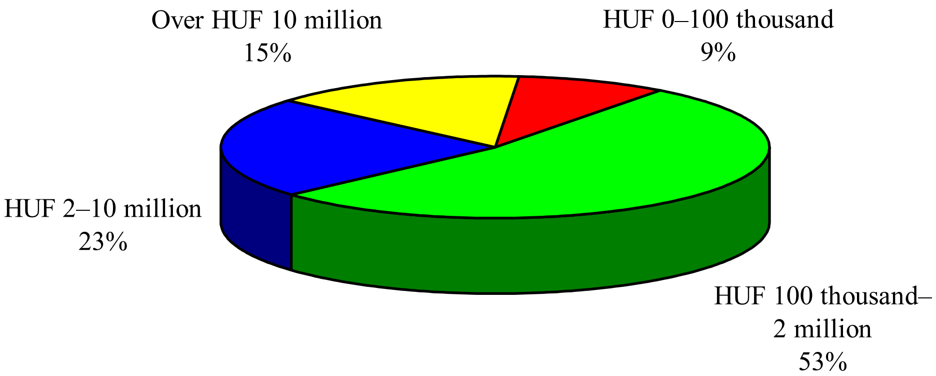
Three-quarters of the respondents performed public benefit or eminently public benefit activities. This exceeds the national average, but we should bear in mind that the surveyed organizations also exhibited greater motivation towards the 1% provision than the average. (According to the 1998 Central Statistical Office's data, the ratio of eminently public benefit organizations or organizations applying for this status is 5 percent of all NPOs, while 30 percent of them are public benefit

[33] This was a mail survey.

organizations or organizations applying for this status and 65 percent accounts for non-public benefit organizations.)

Figure 1

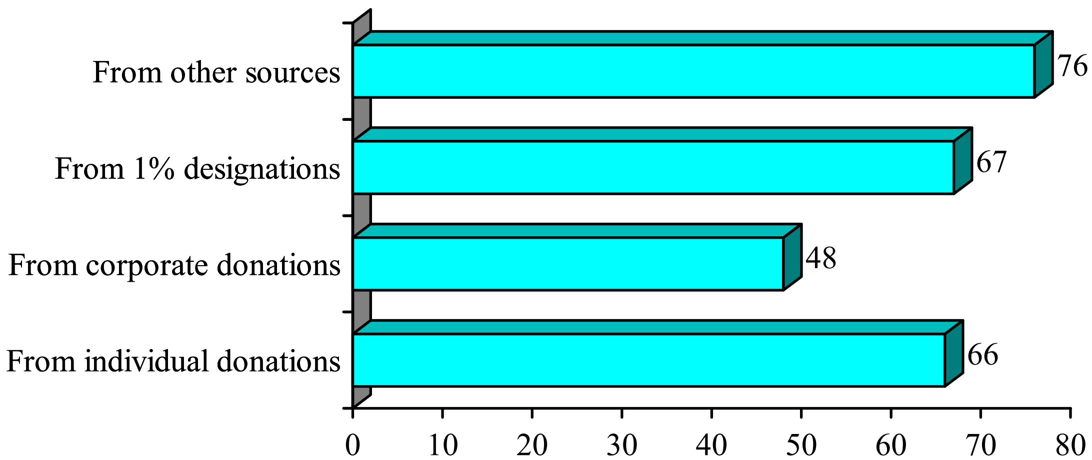
Annual budget in 1998



Two-thirds of respondent organizations gain revenues from individual donations and 1% designations *(Figure 2)*. Corporate support is available for about half of them while their overwhelming majority receive some income from other sources (including some kind of state support and earned income).

Figure 2

Revenue derives from...

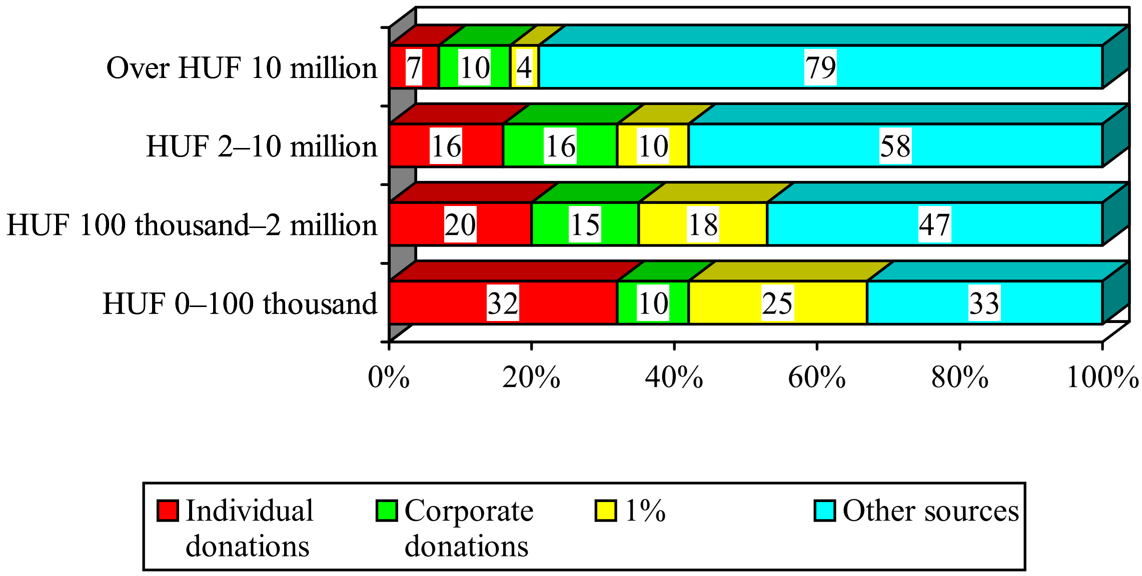


The diversity of resources does not, however, mean that in total, the various resources are represented with the same weight. If we examine the quantitative ratio of revenues, we will find that individual donations (18 percent) and 1% revenues (15 percent) account for only one-third of the revenues, whilst the decisive part derives from other sources.

According to the Central Statistical Office's 1998 data that represent the year 1997, 2.3 percent of nonprofit organizations' revenue derived from individual donations, while 0.6 percent from the 1%. This equaled HUF 1.77 billion. Therefore, it is obvious that those receiving a share from the 1% are represented on a much larger scale in our sample.

Figure 3

Various -"sized" organizations' revenue structure



The data in *Figure 3* clearly reflect how important a role the different resource types play in the lives of different "sized" organizations. While the 1% sums account for only 4 percent of the "large" organizations' revenue, it makes up nearly one-fourth of "smaller" ones' budget, so they are in the greatest need of citizens' designations.

1%

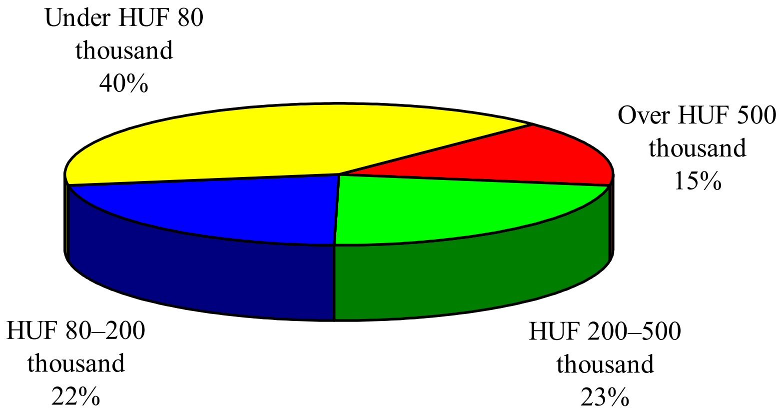
In 1998, through the 1% designation of personal income tax, approximately HUF 295,000 was received by respondent organizations on average. (We can calculate from the 1998 data of the Tax Office what similarity the official and the survey figures show. The Tax Office's data illustrates a

HUF 2.3 billion revenue for 10,203 organizations, this means HUF 231,000 per organization on average.)

The amount of revenues shows a very varied picture; they can range from a few thousand forints to millions. Revenues generally (in the case of 46 percent) were under HUF 100 thousand and in the case of only 4 percent did they exceed HUF 1 million. (Below, we will consider those 60 percent of the organizations' responses that signaled a sum of 1% revenue in 1998. N=433).

Figure 4

The distribution of 1% revenues



The types of organizations are in close connection with the personal income tax share designated to them *(Table 1)*.

Nonprofit organizations with a low budget or in smaller settlements or ones that do not perform public benefit activity usually received lower amounts of 1% support, while large civil organizations, based in the capital and ones that won the eminently public benefit status received greater 1% support than the average. Organizations registered in Budapest are in an especially advantageous situation as far as designations are concerned (48 percent of the supports arrived in Budapest, where one-third of the organizations operate). The city atmosphere in addition, "frees" civil organizations since a further 44 percent of supports is received here, while they represent more than 54 percent of the respondents. Organizations operating in villages account for 13 percent and they receive 8 percent of the 1% designations.

Table 1

The average of 1% revenues among the organizations

Thousand HUF

Annual budget	
HUF 0–100 thousand	87
HUF 100 thousand–2 million	192
HUF 2–10 million	457
Over 10 million	496
Seat of organization	
Budapest	429
Towns	241
Villages	183
Degree of public benefit character	
Public benefit	286
Eminently public benefit	443
Not public benefit	188
Main average	297

The 1% results of nonprofit organizations

Although one-third of the organizations received a share of the 1%, it was not evenly distributed. A part of organizations are denied this opportunity from the onset, if they do not perform their activities directly for the taxpayers' benefit but cooperate with civil organizations and local governments.

"Unfortunately, umbrella organizations are not in direct relationship with individuals, therefore this solution is not suitable for us." (A Budapest umbrella organization of voluntary associations helping the health incapacitated)

These organizations did not really advertise since they gathered that this is not a market for them and even if it was, they gave up, seeing the first year's hopeless results.

"We were enthusiastic in the first year and ran around everywhere with our leaflets. Today we only put out a notice in the Family Advice Center and deliver some to our acquaintances. The result is the same HUF 25–40,000." (A social organization from a city)

"We spent HUF 50,000 on advertising, then collected HUF 60,000 from the 1%. I think the figures explain everything". (A Budapest training organization for small enterprises and nonprofit organizations)

A number of "existing" sleeping[34] organizations were not willing to wake up from their fairy tale dream just for the sake of the 1%. Small associations for the unemployed or pensioners could not collect too much either. A lot of organizations operate without a community background and often only one or two people[35] work toward their causes. A little more serious foundations and associations, on the other hand, experienced a deep crisis, if they had advertised their tax number and themselves just to see a meager few thousand forints of support in the end.

"Our associations prepared the applicants' tax declaration sheet free of charge, so we expected we would have a revenue from the 1%. Unfortunately, it did not happen." (A small town organization for the unemployed)

"Our library does not charge for enrollment or registration, so I find this 1% amount very little". (A small town cultural foundation)

These organizations that are not important for their own members either, had to leave empty-handed, of course.

"The president has an organization in the health center, too so he designates that, other people have their organizations and if they don't, they support their children's school. It is only natural." (A town social organization)

The other relatively unsuccessful group organizes successful actions, they keep contact with a lot of people and can involve volunteers but still they do not perform well in winning the 1%.

One-third of the 1% designations were won by organizations working in health-care, education or the social sphere, the rest had to do with the leftovers. There is little interest as to the 1% toward those who do not work in these aforementioned fields. Well-known organizations with good media relations but also those dealing with alcoholics, drug addicts, environmental protection or culture report about the same situation.

"We started off with immense enthusiasm, we wrote more than 300 warm-hearted letters, that took us two nights to deliver. In the following years we increased the number of our leaflets but we have never received more than HUF 25,000. We lost our interest so much that last time we even refused accepting it." (A city drug prevention organization with an outstandingly large budget)

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[34] Organizations that were founded and are not operating at present but their termination has not yet been announced.
[35] The narrow circle of supporters in the case of many organizations is reflected in the fact that 2743 organizations had only 1 supporter in 1999. (Source: Tax Office)

"Most people do not feel strongly involved in cultural issues, it is one of the last ones on the priority list. If they don't separate, for example health-care from other activities, organizations like us will not even be left with the crumbs." (A nationally known cultural organization from a city)

"When they introduced the 1% provision, we expected a considerable amount coming into our budget. The present amount is only of moral significance." – said the economic executive of a cultural institution in Budapest about a sum of almost 1 million forints.

In Hungary, organizations with annual revenue under HUF 500,000 are in the majority (55 percent). Despite this, they can expect under 0.5% state support. This shocking disproportion cannot be significantly changed by the 1%, but its introduction resulted in an important change, 16 percent of the 1% revenues were channeled here, according to the Central Statistical Office. Probably this is one of the greatest achievements of the 1%. Without this system, state money could hardly be allocated to so many recipients and in such an effective way. The reason for this is, that here a small community decides on a small amount and checks its use without application or monitoring costs.

Even a minor sum of 1% is especially important for small nonprofit organizations. Although the support is not large, they can have a new and unsubstitutable source of revenue.

"Our association comprises 43 families as members. The 1% means a lot since our total asset is HUF 120,000 and other kinds of support are not really available for us." (A town organization for the sick)

"While we were the only ones eligible in the school, we were managing quite well. Since the school's foundation also fulfills the three-year criterion, we have received only one-third of the amount. We are still very happy about it." (A town sports club of secondary school pupils)

"These few thousand forints account for 30 percent of our total revenue. The members do not receive high salaries or they are pensioners." (A tradition cultivating association in a village)

"I am very satisfied with the amount coming in from the 1%. I did not expect so much." (A village image improvement association, HUF 45,000)

A small amount of 1% was not rare anyway. 46 percent of our survey's organizations received amounts under HUF 100 thousand. This amount of money does not reach half of the average revenue but it is still the typical amount. Two-thirds of the organizations receiving 1% support have fallen into this category[36]. Not only the really small ones collected so little from the 1%, since 30 percent of the organizations with a budget exceeding HUF 10 million also received such an amount of gesture.

[36] 12,076 organizations receive the beneficiary amount of HUF 100,000. (Source: Tax Office 1999)

According to the Central Statistical Office's data, every other 1% was received by organizations with a budget over HUF 500,000 but under HUF 5 million. If they have a well-defined interest circle or if a lot of people use their services, these large organizations are in a very favorable position.

"We are deeply moved seeing that so many donated our Reform-church secondary school."

Voluntary associations (we do not mean the small local associations but the large nationwide ones) did not perform really well; they barely pocketed 15 percent of the 1% support. The member-register and the one or two general assemblies do not seem to be enough without a close, lively relationship; the membership fees will not be coupled with the 1% automatically. A lot of associations with a large number of members and a lively or less lively community life belong to this category, and many of them sadly miscalculated the results.

"By looking at the size of the associations (300 people), we could well receive more designators' 1 percents." (A town folk-dance association)

"We have 4350 members in Budapest, compared to this number, very few designated us with their 1%." (A national professional association's Budapest organization)

"In K. we have more than 10,000 diabetic patients so we expected more support." (A town's association for diabetic patients)

In many cases, the organization indeed has a lot of pensioner members or deals with disadvantaged people. Many in this circle complained a lot about the ungrateful clients and the high prices of the media. Their desperate feeling is understandable as many times an organization that has a budget of several million and is in contact with hundreds of people finds it difficult to cope with such negative feedback.

"The people the foundation was set up for feel rather indifferent about it – who knows why." (A national professional aid organization that spent 3-4 hours on the campaign altogether)

More of those who use our services free of charge could designate their 1%; it could be a kind of return service or a gesture of gratitude on their part". (A small town organization that received HUF 10,000)

People are still not ready to give! Our society is soulless and rude" (A foundation working with a church)

Their situation cannot be solved by the 1% provision alone, since they cannot even learn how many people are satisfied with their work; they can only know how big revenue it means to them.

"We cannot find out who to ask for the 1% and who we should say thanks to, we cannot continue fundraising this way." (A Budapest organization working in the field of culture)

"We organize programs in many places, but who will tell me, where they like us; at least the Tax Office could disclose information on the donors' domicile." (A county organization for the sick)

The break-free possibility is well demonstrated by the example of a Veszprém county organization:

"Last year one of our associations decided on a strong membership enforcement. Regular assemblies, attention given to the volunteers, common work programs and parties – and their 1% increased from an annual 50,000 to 350,000." (A small town environmental protection association)

The biggest benefiters of the 1% system are organizations involved in teaching, education, health and social-care. A large part of these NPOs have a budget of HUF 500,000 to 5 million. Examining the types of locations, we can conclude that education takes the gold medal everywhere (in towns outside the capital, half of the support was received by this field) while in the capital, organizations working in the social sphere also did well. A lot of people favored as beneficiaries the village development and improvement organizations, which represent cooperation in small settlements. In community settlements they took the silver medal after educational organizations, according to the Central Statistical Office's data.

Organizations working in these fields have a close, often daily connection with the designators or their family members. With the donation, the donor finances almost exclusively his own or his smaller environment's developments. Although this kind of a donation is in contrast with the law's principles, we have not heard of any case when this was the reason for rejecting a designation declaration.

"The town residents know the foundation's activities well and gladly support it." (A foundation established for the development of a small town)

"We could have collected the same amount of money necessary to realize our goals, only with a lot more time spent." (Public law foundation in a town)

School directors may calculate the amount of the expected donation almost to the digit.

"On each parent-teacher meeting we mention that the foundation welcomes donations, we repeat the tax number and hand out the cheques several times a year." "We have around 300 students, many of their parents are unemployed or earn very little, therefore I evaluate our result as being good." "The 1% donations have significantly improved our general financial prospects and I hope that we can count on this form of support in the long run." (Foundations supporting schools)

A part of the organizations had also done fundraising previously, so they have an extensive experience in this field. However, the less "pushy" ones that did not feel it right that children ask their parents or ill patients turn to their relatives for donations, experienced this great opportunity with a sigh of relief.

" When the parents arrive in the foyer, they are faced with our tax number on a large-sized board. You cannot miss it.... At last there is a way of fundraising which does not make us feel as if we were begging." (A foundation supporting the home of handicapped children)

"Except for the establishment of the foundation, we did not collect donations because we did not feel it appropriate for a school foundation. For the same reason, we do not dare to be too assertive in the case of the 1%." " At last, the donor does not feel somebody is digging into his wallet and he can still donate to a worthy cause." (School foundations)

Collecting the 1% designations is not only assisted by the presence of interest but also the opportunity for easy advertising and feedback. Children and sick patients deliver and return the notices. The taxpayer, as a result, can see new cabinets, an improvement in the quality of the summer camp or a new pavement. (In many places, photographs are displayed of the newly purchased equipment and furnishing.)

"Our tax number is displayed in the surgery all throughout the year and in addition, during the period of the tax declaration, we hand out pre-prepared notices." (A foundation of a medical surgery)

"Unemployed people delivered the tax number to each home and we still did not manage to receive enough... I think a lot of employers put the 1% designations away in their pocket in Sz." (A foundation for village development)

1% revenues make up a significant part of the organizations' budget even if they do not depend on them.[37] In our sample 16 percent of the respondents received at least half of their revenue this way. Organizations with revenue over HUF 5 million collected 34 percent of 1% designations while 95 percent of other central support was channeled there. This suggests that they are not as much respected by taxpayers than by state authorities. It is also possible that they do not particularly want to break into this market either, since only 0.2 percent of their revenue derives from the 1% donations, according to the Central Statistical Office's data.

It is evident from our survey that even over one-fourth of the larger organizations with a budget exceeding HUF 10 million received less than HUF 80,000 from the 1% revenue. Only one in five raised more than HUF 0.5 million. On average, they spent HUF 71,000 and 35 hours in the hope of a successful campaign. In other words, compared to their capacity, they did not put in too much effort. Only a very narrow circle finds it worth dealing with a sum that is hardly noticeable in their total revenue. It has only a feedback role.

[37] In the case of 2 percent of the national NPOs, the 1% plays a dominant (two-thirds) part of the revenues. 8 percent of the organizations involved in health-care and 6 percent in education depend clearly on the 1%. (Source: Central Statistical Office)

" We did not really organize anything special, we sent the tax numbers to the local leaders and from then on the success depended on them." (An organization with HUF 200 million annual income)
"Last year the sum was half a million higher, this time we did not do something properly." (A city foundation for people with trauma)
"The provision is good but it does not help us too much. So we did not pay a lot of attention to the campaign". (A Budapest foundation)
"We would wish to be more effective and better inform people of our activities enabling them to get involved, to cooperate, they would also require more feedback from us." (A Budapest aid foundation)

Only those organizations could achieve outstanding revenue that are involved in fields which generate strong emotions. The largest amount so far (HUF 100 million) was received by a recently established organization intending to cure seriously ill children. Organizations dealing with treating serious illnesses (especially children's diseases) or well-known, large charity organizations can only achieve the same or similar success. Animal rights protection organizations can also mobilize a lot of donors and a few schools with national reputation and long traditions were also able to raise their old students' interest. These organizations seriously work on their campaigns and specialists often assist their work. They receive valuable media support more easily; they are not restrained into uniform boxes[38] but also spend a lot on advertising since they have to address almost all the taxpayers.
"During the year, we do not accept any donation, but we request the sick children's parents at this time of the year (the period of tax declarations) to popularize the foundation."
"I was given the job for the 1% campaign and offered the same salary as I would get anywhere else in the marketing profession". (Budapest health-care foundations)
"We have posted 4,000 letters and encouraged our journalist acquaintances to write articles". (A Budapest animal rights protection foundation)
"The N. newspaper was one of our main sponsors but in the middle of it, they withdrew because we also won the B. paper as our partner". (A Budapest health-care foundation)

1% campaigns

In-depth interviews provide an excellent opportunity to form a good picture of the reasons for an organization's 1% campaign success or failure. Organizations that previously dealt with fundraising

[38] i.e. Daily papers' relatively inexpensive uniform advertisements in the 1% supplement section.

(maybe were reputable already) were seemingly able to start off the process in a different way than those who were new to this field.

"We have been conducting a broad-scale campaign among the employees.... Our activists organize events at their own shopfloor... you could buy plaquettes for HUF 100-500 before... Now we commissioned the same activists to spread our tax number necessary for the 1% around." This organization also hands out free calendar cards with the tax number written on them, its advertisement appears in the 400,000 circulation number trade union paper. Its leaders know every wage-accounting manager personally at the sister companies... etc. They still consider the positive word of mouth to be the best advertisement *(A national professional aid organization)*

"We correspond with a huge number of people (a correspondence list of 1200 people), ... and we are in regular contact with the founders (over a hundred), we mail accounts, reports, publications and festival cards to them... All present and former students at P. received our annual report containing a notice on 1%...; several people telephoned continuously during the 1% period, so eventually we stuck the tax number on each telephone equipment..." (A small town school foundation)

For nonprofit organizations which have not just started to establish their connections network, the 1% became part of the long-term fundraising process being one of the many opportunities. Organizations working with educational, health-care and other institutions can easily get into an advantageous position. They can count on the present and former clients as secure donors if they were generally satisfied. If they reached a higher stage of development, then former students' parents or former volunteer patients can organize the 1% campaign themselves for the organization.

Another important aspect of the issue was the number of existing taxpayers with similar needs and interests and the number of those who can be approached.

"In the course of the years we have collected a list of clients to whom we sent donation- requesting forms and the golden paw certificates in return on receipt of donations. Now they have received our materials on the 1%, too ... I used to do almost everything myself, today 15–20 "zombies"[39] *help me as volunteers in my work. If we achieve something, that can only be done through this "zombie network". (A Budapest animal rights protection organization)*

Many organizations explained the lack of success was due to low salaries.

"In this part of the city, salaries and wages are below the average, bearing this in mind, we have still achieved good results." (A city's education foundation)

"Our association's members do not have high taxable income"

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[39] dog fans.

With the help of the media those could find supporters effectively who worked for causes that generated emotions or who had a long-established reputation. An organization's prospects improved when they found a popular form of media that reached the target audience (e.g. the population of a small town).

"If I could introduce our activities to people (nursery school for seriously and numerously disadvantaged children, home center, rural community), the number of our donors would increase". (A Budapest organization for the disadvantaged youth)

"There are few advertising possibilities in the media, this connection can only be established through acquaintances or friends". (Animal rights protection organization)

This is one of the problems of the 1% system that cannot be easily solved: On the one hand, it is the media that shows minimal interest in the civil sphere, on the other, if nonprofit organization can give information about themselves somehow by chance, and the taxpayer designated 1% of their tax, they can have difficulty in "keeping the donors" as they cannot learn about their identity. In this way, the communication channel of recipient organizations is closed off in two directions.

Last but not least, a lot depends on how much a narrow and broad environment acknowledges the organization's work.

"We only began to open our eyes slowly in the first year, we would have received a negligible sum but we did not accept it. Later many people asked us for our tax number, even though they did not have ill relatives." (A village organization for the sick)

The "profit rate" and the feeling of satisfaction

The direct costs of advertisements and obtaining the certificates spent in order to "collect" the 1% exceeded the incoming revenues only in 4 cases. This means that as far as finance is concerned, for the decisive majority of the organizations, gaining the 1% proved to be an absolutely profitable activity. (The scope of respondents cover only half of the organizations in this respect, N=319). All the nonprofit organizations realized a thirty-five fold increase in financial revenue compared to the amount of the costs. The average cost spent on the 1% is HUF 27,100.

The "profit rate", however, varies largely between the organization types: the civil organizations operating in the villages were able to write a revenue sixty times higher into their account book than the amount of the costs. This outstanding result, however, is not due to the effective acquisition work but it means that the investment was relatively low.

Foundations and associations with a Budapest seat received thirty-seven times higher support compared to their investment. Altogether of course, all nonprofit organizations benefited as they gained revenue from the 1% designation, but still the Budapest based foundations and associations realized the largest gross profit.

"We have received a lot compared to how little we dealt with it." (A Budapest association)

Many civil organizations have not attributed special importance to the 1% resource. Examining the time spent on the acquisition, we see that half of the organizations devoted the maximum of twelve hours to the 1% marketing work.

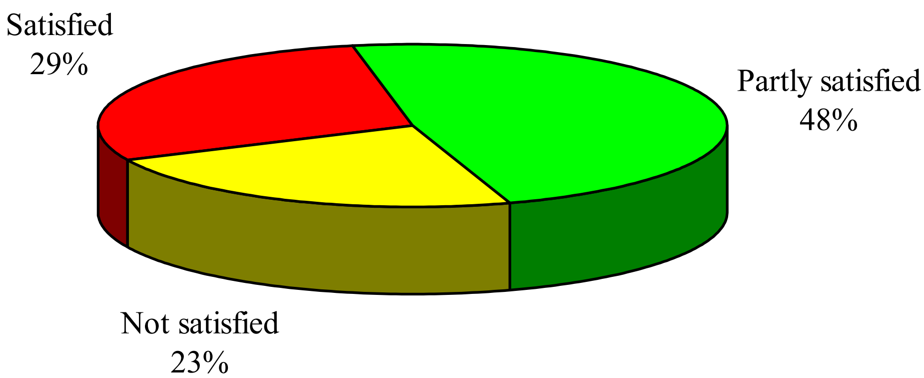
"This opportunity should receive a better campaign, we cannot even exploit the sources of our own employees". (A Budapest public law foundation)

"We did not pay enough attention to collecting the 1% designations, unfortunately...Our environment did not react to the advertised and requested support". (A Budapest association)

Taking the above into consideration, it is not surprising that the feeling of satisfaction with the 1% revenues divides nonprofit organizations *(Figure 6)*. The percentage of those satisfied is somewhat higher (29 percent) than that of the dissatisfied ones (23 percent), while the relative majority (48 percent) gave voice to their "partial satisfaction".

Figure 6

Satisfaction with the 1% results



The scale of the subjective feeling of "satisfaction " is in connection with the organization's location, public benefit nature and the size of its budget. The Budapest based, eminently public benefit organizations and the large NPOs with a budget of over HUF 10 million reported more commonly about their "dissatisfaction" than small NPOs and grassroots organizations registered in villages. These latter rather reported that they were "satisfied".

The explanation for "satisfaction/dissatisfaction" has a wide range of response elements:

There are "self-critical" answers (in the case of 11 percent) which reflect that the organization did not do its best in order to collect the 1%, did not use the advertising opportunities.

Some other organizations find the source of dissatisfaction in "external reasons" (in the case of 32 percent): donors and members were not "disciplined" enough, the work was made more difficult by having to obtain the necessary certificates, the taxpayers are indifferent, "ungrateful", they do not acknowledge properly the activities of foundations and associations.

Other negative reasons were given in the case of 17 percent of the respondents: *"It is not worth the investment".* Some of them blamed the lack of skills and know-how for not receiving designations.

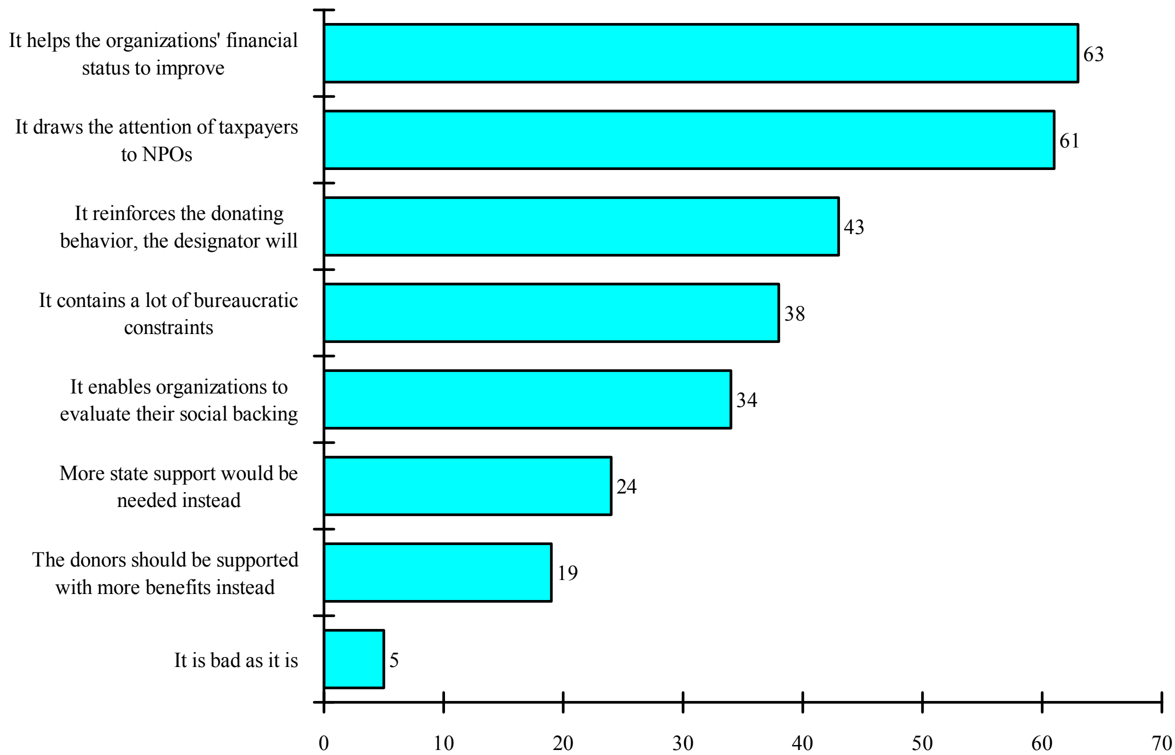
One word responses characterize 13 percent of the respondents. This means that they did not provide a "substantive justification" for being satisfied or dissatisfied

In the case of 8 percent, we found positive responses that contained elements of mentioning the 1% opportunity, the realization of programs and thanks for the 1% designations

The Evaluation of the 1% Provision

The 1% provision at the moment of its genesis was in the crossfire of disputes. What do those think of it who are the most affected?

Figure 6
Respondents' opinion on the 1% provision
The ratio each statement was mentioned among the first three that were accepted mostly (percent)



The respondent organizations could choose three out of eight statements *(Figure 6)* with which they agree most. Their reactions reveal a strongly positive opinion on the 1% provision – even if its implementation is considered quite bureaucratic and difficult.

"After the provision came out we were relieved and still are." (A city organization for the sick)

Beyond the direct material benefit of the 1% designations, respondents consider it an advantage that their organization's existence and activities can be made tangible for a wide scope of the society as a result of the 1% campaign. *"These should not be changed now." (A city cultural organization)* At the same time, they in fact reject statements that question the concept of the provision: opinions that say "the 1% provision is bad as it is" are scarce. The idea of the state's increased – open or disguised – roletaking is not popular either.

Of course, we cannot say that all the organizations' representatives would acquire the "civil concept" and would agree with the circumstances it provides for operation. There is a stream of opinions – even if it characterizes the minority – that articulate they would see a guarantee for their own work's success in the state's fostering and strengthened central role.

Nonprofit organizations can be divided into three main groups according to their attitude. The largest group (55 percent) comprises the "positive thinkers", whose opinions are dominated by a positive approach. ("The 1% provision directs the taxpayers' attention to nonprofit organizations, it promotes organizations' financial state and reinforces the donating behavior").

A "rationalistic" approach characterizes 30 percent of the organizations. The "rationalistic" approach means emphasizing the aspects of the "improvement in the financial state" but "a lot of bureaucratic constraints".

The third group, 15 percent of the organizations is characterized by an "ethatistic" approach. They emphasize that "state and central support of donors" should be increased and find it one of the most important aspects. This group typically underlines that the entire provision is "bad".

This attitude is closely related to the size of revenue from the 1%. The "positive thinkers" naturally receive much higher revenue, the "rationalists" are in the middle of the scale, and the "ethatist organizations" receive very little or no 1% support.

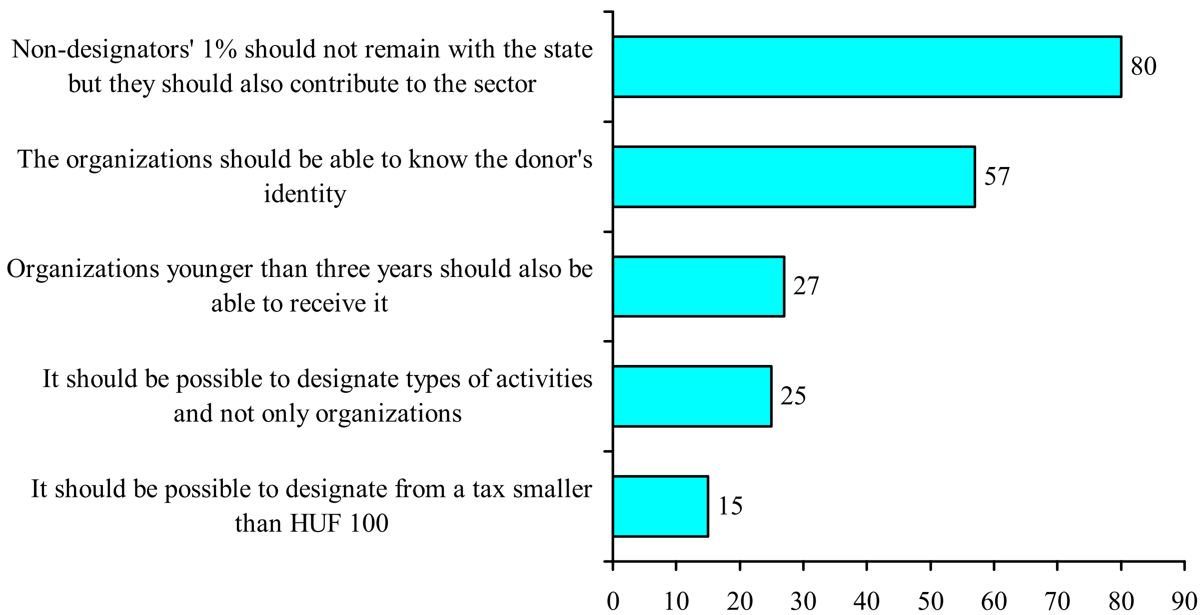
Table 2
The evaluation of the 1% provision in the groups of organizations
(the percentage of those who agree most with the statements)

	"Positive thinker"	"Ethatist"	"Rationalist"
Total	55	15	30
It draws the attention of taxpayers to NPOs	82	29	39
It enables organizations to evaluate their social backing	49	14	19
It reinforces the donating behavior, the designator will donate again	66	6	20
It helps the organization's financial status to improve	67	3	86
More state support would be needed instead	13	86	14
The donors should be supported with more benefits instead	5	40	34
It contains a lot of bureaucratic constraints	8	66	78
It is bad as it is	0	33	0

The respondents were full of ideas when they had the chance to outline a "new" 1% provision *(Figure 7)*. On the one hand, they articulated a lot of their own plans for changes, on the other, there were hardly any respondents who did not want – at least in one aspect – something different form the present law.

Figure 7

"This is how the 1% provision should be amended... "



The decisive majority of the civil organizations representatives would welcome the idea that those taxpayers' 1% should also contribute to the nonprofit sector who did not designate in their tax declarations. Furthermore, an absolute majority (57 percent) of the respondents would support the opportunity of strengthening a closer connection between civil organizations and donors, i.e. learning the identity of the donor.

The intentions for change are not connected to the locations of the organizations, their budget size or their degree of satisfaction. This means that no matter which type of organization we are looking at they agree to the same ratio with the major opportunities for changing the 1% provision.

In addition, the organizations would like to simplify the procedure. They feel that designation making is difficult and even if that has been done, the organizations receive the money only very slowly.

"There is no need for a separate envelope, there should be one line specially designed for this on the tax declaration sheet." "Receiving should be easier in an administrative sense". "Shorter intermediary time is needed between the time of designation and transfer of the money". "It should be possible to declare the designations on the tax return sheets." "Why do we have to wait so long for the money?" "It should be possible to designate for a longer period of time, this way, part of the yearly procedure could be avoided." "Why should the organizations give declarations on data that are registered at the Tax Office anyway?" "Why should the Tax Office cash in the interest of 6-9 months?"

A lot of people think that 1% is minimal and it should be possible to combine it with the other 1% designatable to the churches.

"The other 1% should not only be allowed to support the churches but also civil organizations." "The two 1 percents should be joined." "They should increase it to 5%."

Respondents raised the issue of the media's, the state's and the Tax Office's responsibility.

"Information given to the taxpayer should be made better." "The state should also give support and conduct a campaign." "A list collecting the concrete activity groups should be published in a state communication and should be made available." "The Tax Office should attach a list of names just like it does in the case of churches." "A publication on the organizations with an introduction and a category of activities is necessary." "They should abolish the obligation for accountancy in the press since it only serves the purpose of the press." "Larger publicity is needed". "The national media should regularly give help with a minimum of 1 minute advertising opportunity free of charge."

And of course, there were stranger ideas:

"The 1% designation should be made compulsory." "Non-designators should give their opinions in writing." and our favorite remark: *"Let us not only deal with the 1%, we should know what is happening with the other 99 percent."*

SUMMARY

In Hungary, a provision was made which supports nonprofit organizations and is unique in the world. The majority of civil society organizations gave a positive reception to this provision and its allocation system. They feel like this despite the fact that this new form of giving provides only a fraction of them with considerable revenue. Beside the material benefit, they find it most important that it draws the attention of taxpayers to nonprofit organizations. All organizations of the nonprofit sector faced the following facts: the size of their support, their reputations, how strong the affiliation of the people who are members, volunteers and promoters of the organizations.

The majority of organizations, however, would refine the provisions of the law. The representatives of the sector would foremost like to count on the 1% designations of all the taxpayers. The majority of organizations agree that they should be able to know the identity of the designator. Processing the interviews proved also that the present feedback system is faulty, it has to be changed. Ensuring feedback is a necessary part of all kinds of giving. In the present system, organizations working with surgeries, hospitals and schools that are in direct connection with taxpayers enjoy a major advantage. The key to success, however, does not lie here. A lot depends on what field the organizations work in, how big their experience is and what opportunities they have in keeping contact with taxpayers and what financial situation the potential donors have. The few thousand-forint donations also count a lot. These small amounts are channeled to places where other state support systems do not reach. The majority of organizations have a positive opinion about their opportunities, however, many of them have experienced their first disappointment: they interpret the law as a new but non-decisive part of the nonprofit organizations' support system: *"This provision is only one element of the planned support system, a lot of other things have to be given, so that it can provide what we expect from it."*

GYÖRGY BÓDI

1% IN PRACTICE

The Hungarian taxpaying citizens between the January and March period of 1999 had the opportunity for the third time to designate a "defined part" of their personal income tax for public purposes (this defined part was 1% in 1996 and 1+1% in 1997 and 1998.) Also, between September and October, thousands of nonprofit organizations for the third time were excitedly looking forward to the Tax Office's notices informing about: "... a group of taxpaying citizens designated 1% of their personal income tax to your organization's usage". Since then the decisive part of these designations has been transferred to the beneficiary organizations' bank accounts and probably they are already serving the public causes. I was multiply affected during the course of the three years (being the secretary of Szegedért Foundation, the executive in charge of programs of the Nonprofit Information and Training Center's RECIPROK Office, the volunteer for Szeged Cancer Research Foundation and the trustee of my daughter's school foundation board), therefore I possibly have gained enough experience to prepare
a – hopefully characteristic – summary about the effects of the 1% provision, the practice of its implementation and the relevant opinions.

The emergence of a provision

The Parliament decided on the opportunity to designate 1% of the personal income tax to public purposes on 12 December 1995 in Article 45 of Act CXVII/1995 saying that "the manner of implementing the provision and the circle of the eligible beneficiaries will be regulated by a separate act".

Mainly the nonprofit organizations paid attention to this article of the act, waiting and hoping for a continuation i.e. a separate provision regulating this issue. They had to wait for one year... On 19 December 1996 the Parliament passed the "1% Law". In theory, two weeks after the adoption of the law, the first tax declaration makers were already able to designate 1% of their tax if they were aware of this provision, if they knew what organizations they could support or how they could designate provided that there was anybody to draw their attention to it.

The provision was not only born in the very last moment but – according to the sector's general opinion – its wording is too complicated, the eligibility criteria are far too strict and it forced nonprofit organizations to obtain so many certificates (such as social security, customs duty, local tax) in the first year although neither the NPOs nor – as it later proved – the state and local authorities concerned were prepared for it. (Act CXXIX/1997 amended the previous law and in accordance with that, it is satisfactory if the beneficiary organization provides a declaration to be in no arrears with customs duty and state taxes.) It added to the flavor of the already confusing situation that in many counties, customs authorities issued the certificates with compulsory duty (although in the previous fiscal year, nonprofit organizations not paying corporate profit tax enjoyed freedom of duty during state administrative procedures) and then they reimbursed the sum of the duty.

Despite the quite late creation of the law, its strict and regulatory nature and the short deadline, I still value the first year successful. Over one million taxpayers handed in valid declarations and nearly HUF 2 billion of support reached the organizations.

While sharing the common complaint of nonprofit organizations saying that the method of designating is at places overregulated and too bureaucratic, I have to admit that it had and still has positive effects on nonprofit organizations as well as the entire sector:

- Organizations applying for support find it natural by now that they have to satisfy certain legal obligations such as registering for local taxes, applying for social security identification number or settling arrears on time. In the fall of 1997 – at the time of the first 1% support notifying letters – several nonprofit organizations had to realize one setback, namely that after having received the court registration order and after sorting out the situation with the tax and bank numbers, there are a number of formal requirements that were still to be met, and at the same time, supplementarily they applied for e.g. the social security identification number and the certificate of being in no such arrears. Complying with the stipulations of the status rules did not only become a norm for operating organizations but also for newly established ones and those later hoping for support.
- As a result of the 1% provision, thousands of deeds of foundation and statutes were amended or corrected. The stipulation of no direct political activity and independence of political parties encouraged organizations to make amendments on the founding document and if that work had already been in progress, they harmonized the document with the prevailing legal requirements, especially after the Act on Public Benefit Organizations had come into force.
- One eligibility criterion, that of continual operation encouraged regular activity. Certainly, it is more important that without regular activity the organization's reputation and acknowledgment is difficult to be ensured in front of the local and general public and this has affected supports already. Nonprofit organizations were forced to realize that in

the severe fight for winning the 1% donations only those can stay in the ring who really operate and meet the legal conditions.

- The stipulation of having to publicize the amount and the usage of the 1% donation in the press by the following year's 31 October had strong psychological and ethical impact on the nonprofit sector. This was the first time when the requisite of publicity was articulated at a legal level and as a result, dealing with the 1% designations became more serious. This realization's importance is greater than the minor insecurities as to whether the press notice should appear in a national or a local newspaper or other publications. We can observe the organizations fulfilling their obligation; they have even discovered its advertisement value (the date of October is approaching very close to next year's fundraising campaign). We can also feel that the press has also reacted to the issue: most national and local papers offer discounts on advertisements published on the special pages.

As I have already mentioned in connection with another issue, the Parliament amended the 1% law on 2 December 1997. It excluded some certificate obligations and it also provided that donations could be used to pay off arrears. The main change is that while taxpayers can still designate 1% of their personal income tax to eligible nonprofit organizations and public institutions, they can designate another 1% to churches. Therefore the 1% provision has become 1+1%. This paper does not intend to deal with the second 1%, so the previous observations and the following conclusions all refer to "secular" organizations' experiences.

Civil reaction

Nonprofit organizations quickly discovered that although citizens designate the 1%, this money is not owned by them. While all other donations depend on – besides many things – the prospective private donor's momentary financial situation, the 1% of tax is already in the big money box of the state budget, the taxpayer has paid it, it is not an extra expense, all he has to do is to consciously designate it. The number of 1% designators somewhat reflect the national civil courage. Knowing that virtually one-third of taxpayers paying in all three years handed in designation declarations (and although the amount of the donation has risen, the number of designators has slightly decreased) we can see that this figure does not reflect great citizen conscience. It is difficult to decide why the other two-thirds do not designate. Has no organization approached them yet with their requests? Or maybe they think that the state can make better use of the tax than they do? Do they have an aversion towards nonprofit organizations? Since the designation is voluntary and anonymous, I am only aware of the answer that civil organizations gave: they clearly blamed the provision's bureaucratic nature. I believe the explanation is more complex.

How did organizations try to win 1% designations in the last three years?

A common experience is that the majority of nonprofit organizations employed the method of personal contacts. They discovered relatively soon that this method is more effective and it mainly requires work and not money. This method is absolutely natural for membership organizations and in places where the improvement in the quality of public benefit activity affects the supporters or their relatives. Classical examples for this are nursery and school foundations but also foundations of health care and cultural institutions. Leaders of associations and nursery or school foundations serve their prospective supporters to the utmost (and rightly so!). The members, the nursery, primary and secondary school children's parents receive a filled in designation declaration, which already contains the beneficiary's tax number and exact name. Nursery and school children normally take two designation declarations home since the nonprofit organization counts on both parents' donations. Although these forms contain information on enveloping and adding a clause, several organizations attach a separate letter, too. This letter contains the request for designation, a detailed description of correct designation making, and in many cases the organizations inform the donor about the use of his previous donation in this letter. In the case of nursery and school foundations, there are no postal costs either, since the main motivation is that the children themselves deliver it. Parents' meetings are natural forums for both the preparation and the feedback phase, which also ensure personal contact.

Notices in health care and cultural institutions can fall under the category of personal addressing, these draw the attention to the supporting of – mainly – foundations and voluntary associations operating at these places. Naturally, it is not such a direct method as the letter delivered by the children and contact making is not so automatic but these organizations enjoy the advantage of the prospective donors coming to their "doorstep". These institutions have a "set clientele", even if due to other reasons. On the corridors of clinics, hospitals and surgeries, patients have the time to look around and – unfortunately – experience that their donation is needed. Members of art and other groups in cultural institutions are also returning visitors, the text of the support requesting posters can stick in their head. Direct marketing tools are also used: in cultural institutions, the back page of flyers and entrance tickets draw the attention to the taxnumbers while hospitals attach an information letter to their discharge report carefully avoiding the impression that the patience should feel his treatment depends on the support. It is also a practice that some health care institutions with their 1% designation requests address companies where they carry out screening tests among workers, also place their notices in drugstores.

A surprising number of notices appear in national papers, in which public institutions identified in the law and local associations, foundations connected to certain local institutions request support. In the cases of the former, it is understandable but not in the cases of the latter. What does a school or nursery foundation expect to happen after publishing costly advertisements in a national paper? Do they expect old wealthy students living now far away from their school to designate? It might happen, but it is more meaningful to place a notice in the local papers' or TV channels' advertising block, which is common practice among many organizations. In my experience, the 1% campaign has not yet discovered the possibilities of the Internet.

In the months of January and February, the number of 1% notices in the free mail advertising papers and leaflets multiply. The success of these advertisements and organizations distributing these leaflets is – at least for me – quite doubtful, as this method of addressing is rather impersonal. It can, however, have an unquestionably beneficial effect on making more and more taxpayers aware of their right to designate.

Since according to the law, only organizations that were "registered at least three years prior to the first day of the year of private individual's designation declaration" (i.e. operating for at least three tax years) can be supported, there are initiatives where an organization fulfilling this criterion offered to "collect" other, younger organizations' donations and then to distribute them. Some organizations joined to this end being aware of the fact that the designator is unknown so distribution cannot be entirely just and fair. In spite of this, they judged that the amount received this way is still more than nothing.

The 1% provision greatly respects volunteerism and anonymity. However, the willingness to donate can be influenced by nonprofit organizations in the above listed and many other ways. This willingness can also be raised by larger payout points where the staff's attention can be drawn to public benefit organizations that are related to them and are worthy of support. Many accounting enterprises – where naturally they deal with the preparation of tax returns – inform the self-paying taxpayer about the 1% designation possibility (in case he should forget) and he can also learn about the organizations worthy of support. I feel that these incentives can be accepted as ethical. However, there are examples – fortunately only far and between – for forcing the organization to be supported upon the employee. This practice is very remote from the main character of the civil sphere, volunteerism.

Mainly which organizations received 1% designations?

From looking at the press notices – and from my own experience – we can say that primary and secondary school foundations received the largest sum of designations and were donated most often. This is particularly true for villages with only one school but also for towns with several schools. In the case of the latter, the sum is determined by the parents' earning situation, the school's location and popularity. Those 1% campaigns were outstandingly successful where besides general support requests; concrete targets (e.g. equipping a computer classroom) were identified. School foundations can not only count on parents' designations but staff members and relatives usually designate their 1% here, too. The designations can reach the total sum of HUF 0.5 or 1 million, that is often larger than the school's annual support on tangible expenditure from the local government. I have heard opinions that – because of this particular reason – disapproved school supports of this extent saying that local governments from the start count on these supports when planning the maintenance of the schools' operation. From the nonprofit side of the coin, a general tendency can be drawn up: the voluntary parents' foundation supports have largely reduced, with the 1% designation, nearly everybody "fulfills" their annual donating duties.

Health care institutions' foundations have also received a share of 1% designations (in Csongrád county in all three years Szeged Children's Hospital and Health Care Institute Foundation received the most: in 1997 HUF 1.7 million, in 1998 HUF 3.0 million and in 1999 HUF 2.0 million was designated by taxpayers from their previous year's tax). Besides the general poverty of the health care system, this is due to concrete targets (e.g. purchasing medical equipment and machinery) and personal addressing. It is surprising that in addition to medical activities, research on the most common fatal diseases (e.g. cancer research) is largely supported by taxpayers.

Membership organizations can definitely count on their members' 1% designations, and the picture is very colorful here: sports, hobby, art and nature protection associations, old school mates' circles and ethnic minority organizations all published declarations on the received supports. From looking at the amount of the sums (the majority of them are under HUF 100,000) we can conclude that it is mainly the members who are the "disciplined" designators, the member of sympathizing donors is rather modest. Pensioners' organizations suffer from a peculiar problem, the majority of their members have their pension as the sole source of income and it is tax exempt so they cannot designate the 1% from anything.

Some misconceptions

The law details and enlists the eligibility criteria in Article 4, which is not easy but understandable. There are some parts of the text which give rise to misunderstanding in practical interpretation:

- A number of references are made to the Act on Public Benefit Organizations (to item c), Article 26, to item d) section (1), Article 4 in connection with item d), Article 26) and the declaration that the beneficiary organization is obliged to forward to the tax authorities also contains this reference. On many occasions, this gave the false impression that only nonprofit organizations that fall under the force of the Act on Public Benefit Organizations can be supported with the 1% designation. However, this is not true, the criteria of "only" the performed activity and the independence of politics have to be fulfilled just like in the case of a public benefit organization.
- The prohibition of direct political activity and standing a Parliamentary and county or capital's local government candidate is straightforward. In spite of this, during the 1998 general elections and then later, at various forums, the question cropped up as to how it is viewed when an NPO executive (a trustee or board member, etc.) runs as either a party or an independent candidate on the election. Does this mean exclusion from the scope of public benefit activity or the 1% eligibility? In my opinion, if the candidate is not run by the organization does not refer to the office he holds there in his list of "merits" and if the organization does not launch a campaign for supporting him, it cannot be disadvantageous for the public benefit status. This is the topic where it has to be stressed also that the law does not prohibit involvement in local government elections.
- The requirement of the three years of operation is not clear. The law stipulates that an organization may be eligible for beneficiary status if "... the court registered it at least three years prior to the first day of the year of the private individual's designation declaration". Which year counts if the taxpayer makes a designation declaration about 1% of his 1999 tax between January and March 2000? The year when the designation declaration is made or the year it refers to? If it is the former, then organizations registered before 31 December 1996, if it is the latter, then organizations registered before 31 December 1995 can be supported. The law also mentions among the criteria that the activity "must actually be performed continually without interruption for one year prior to the year of the designation declaration" – I believe, just to serve the purpose of totally confusing poor nonprofit organization...

Is there an alternative?

In 1999 with the title of "Dialogue for a Civil Hungary", the Department of the Civil Relations of the Prime Minister's Office organized a series of conferences in seven cities nationwide with representation of approximately seven hundred nonprofit organizations, who could express their opinions on issues affecting the sector. No matter in which place, one of the most mentioned issues everywhere was the 1% provision and a lot of colorful ideas and questions were brought up. Without evaluating these observations, I would like to present the most characteristic ones:

- Quite a lot of opinions articulated that the beginner, newly starting organizations are at a disadvantage because of the aforementioned beneficiary eligibility criterion of – putting it simply – being registered for at least three years. Critics argue that they are denied the 1% support in the very period when they fight the initial difficulties of shortage of money, when they have not learnt the techniques of fundraising and applying yet, when – due to their lack of reputation – they cannot count on receiving contractual outsourcing task assignments from local governments. They do not question that they have to prove their viability with a certain length of operation, but they would find the one-year of continual public benefit activity satisfactory, since it is already a legal requirement. They deem it discriminatory that no such requirement exists for public law foundations. While many object the issue of the three years, there are several organizations having already met this criterion and received 1% designations who find it important that only long-term initiatives should receive this benefit. It is absolutely obvious that in the competition for winning the 1% donations, nonprofit organizations are rivals and it is favorable for the well-known ones that this legal requirement should contribute to keeping their positions.
- There was a unanimous agreement on evaluating the present 1% designation procedure ever so bureaucratic. The separate designation declaration, the matching size envelope, the clause making rules do indeed give the impression that these legal regulations do not encourage but rather scare people away form donating. Although self-paying taxpayers receive the form in their "tax-package", they concentrate primarily on learning how to fill in the tax returns correctly. Those whose taxation forms are prepared by their employer payout points do not even receive the designation declaration forms automatically. Quite a large number of proposals suggested that the 1% designations should also be done on the tax return form. We believe that designations can be largely simplified by placing a rubric for: "Do you wish to designate 1% of your tax to a public benefit organization? If so, write the name and the tax identity number here..." This would also serve the purpose

of increasing the number of donors greatly. This seems to be rather simple, obvious and most probably it would be effective. However, it does not consider the fact that the provision takes protection of civil rights very seriously and states that " The details on the envelope and in the designation declaration are regarded tax secrets and are therefore protected..." The question here is whether this confidentiality is really justified. The self-paying taxpayer "closes off" the information from himself, the employer preparing the accounting has to attach a supplementary list so they are already aware of who donated and how much, only the beneficiary is not known.

- This problem is related to the often raised question – but not with the previous emphasis – as to why the organization cannot learn the identity of their donors. The need for revealing the identities is mainly motivated by the wish to express gratitude. Of course, it can happen that an organization is simply interested in the identity of donors because it wants to see who kept their promises and who did not. I again wish to stress that the need for learning about the identity was not articulated with the same dynamic force as it was done for the need to simplify the designation mechanism.
- Many proposed that the 1+1% could be joined and the taxpayer could designate 2% to either a "secular" organization or a church. Only a few people suggested, however, that the 1% could be shared by more organizations.
- It is a general opinion that the procedure between declaring the designations and receiving them by the organization takes far too long. The designations – together with the tax returns – arrive at the tax authorities in March and in accordance with the law, the beneficiaries have to be informed by the first day of each September (this happens although with a bit of delay). Following this, the nonprofit organization has thirty days to make a declaration, obtain the necessary certificates and after having sent these off, the donation reaches the addressee usually in October, that is half a year after the designations were made. Everybody acknowledges that processing, summing up and informing the beneficiaries and having their declarations does take time but it is a common criticism that " the state uses our money for half a year".
- The sum of designations mounted between HUF 200–300 million in 1998 and 1999, which was designated by taxpayers but for various reasons, they did not reach the addressee (the tax number or the clause making was not correct, the beneficiary organization had not been in operation for three years, the founding document was not amended according to the provision, they did not prepare their declaration by the deadline or the designated sum was so negligible that it was not worth receiving it, etc.) Many

people posed the question: What happened to these designations? Of course, they "held up" in the budget. Nonprofit organizations share the opinion that since these 1 percents were devoted for the nonprofit sector's support, they have to be spent on that purpose in some form. Either the supports being distributed by the National Assembly's Committee for Social Organizations should be increased with the amount of the "held up" 1 percents or an independent "Civil Fund" could be established, from which, via applications, nonprofit organizations could request support to help cover their operational costs (the various applications are primarily connected to financing of programs and issues and several organizations have a problem of finding the resources necessary for their operation). The same proposal was given in the Parliament's 2000 Budget debate but it was rejected. The counter-argument is that the purpose of the law is to allow the taxpayer to choose the organization he deems worthy of support therefore nobody else can decide what organization the 1% should go to instead, if for any reason an organization does not or cannot accept the designation.

- The same logic raised the issue of transferring the non-designated 1 percents of the personal income tax to the civil organizations in some form. The idea of the aforementioned National Civil Fund cropped up, but solutions were proposed according to which non-designated 1 percents should be returned to the taxpayer's local government for reallocation where it has to be spent on the support of nonprofit organizations. This would practically make it automatic that the annually paid 1% of the personal income tax should reach the civil sphere and the personal character of the designation would be pushed behind.

Summary

Despite the criticisms formed by the sector, the proposals aiming at the amendment of the law and the new ideas for further improvements, the opportunity of designating 1+1% of the personal income tax are of invaluable significance for the nonprofit sector. This is the general opinion of the organizations and the dissatisfied voices address the fact that a lot more could be gained from this resource. This right of the citizen is a small but major step among the forms of democratic self-provision and the formation of a conscious civic behavior. At the same time, the 1% designations can be valued as annual signals on how the civil sphere is viewed in the eyes of the population that takes a decisive share of producing material and intellectual assets. Taxpayers – with little exaggeration – annually vote on nonprofit organizations. It deserves attention how many of them go to vote and who receives the 1%. We can work on how the designation procedure may be simplified, but still within the prevailing legal frameworks the key to success is in the hands of the nonprofit organizations. Publicity, presentation of the performance of the entire sector and its organizations, making the addressing and reaching of possible donors more confident and feedback about the meaning of the support can only be carried out by the civil organizations themselves. The quantitative growth of the sector and the qualitative improvement will not attract 1% designations automatically, to this end, a targeted and colorful campaign has to be conducted, which is rightly timed for the period of the preparation of tax returns.

Undeniably, mainly the content- and formwise well-maintained organizations are capable of this, which prospective supporters may continuously receive signals about not only in the months between January and March but also at other times of the year. The 1% provision therefore also has a driving force.

This statement may be added with the adjective "long term". Based on three years' experience, we can say that the well-functioning organizations with good communication skills can regard the 1% as a plannable, secure income and the same can be said about very few other resources. The nursery, school and health care foundations and large membership organizations having been operating for three years and in accordance with the prevailing law will definitely have the 1% donation among the October revenues of their cash flow.

The sector places great optimism in long-term plannability. No player of the civil sphere thinks that this opportunity, this right of the taxpayer will be taken away. The situation of the state budget cannot be so appalling, the practice of social democracy cannot be so damaged that HUF 2, or 5, or even 10 billion should not be determined appropriately by those who have the most valid judgment of the nonprofit organizations of their immediate environment.

January-March 2000, the time for the fourth campaign, and the preparation of tax returns and designation declarations is on our doorstep. In light of three years' experience, the tasks are the following:

- Elements of form and content have to be brought in harmony with the legal requirements so that an organization could be supported (founding documents, registrations, no arrears, etc.).
- Short and concise introductory material has to be compiled about the organization which convinces the reader that the performed activity is worthy of support and it contains the necessary details for the designation declarations.
- Concrete targets have to be identified which beyond the organization’s general activity can be attractive and motivating.

- A conscious list of prospective donors has to be drawn up together with working out the strategies that can reach them. The optimal form of addressing has to be chosen (personal, written, advertisement, leaflets, etc.).
- New donors have to be found in addition to the circle of supporters won in the previous years.
- All the tasks have to be executed accurately and promptly. The saying is unquestionably valid here: Time is money! If an organization launches its campaign only in February, it will lag behind.

The sector should be aware of the following: the government is thinking of amending the provisions that affect nonprofit organizations, this can be true for the 1% provision also. Presenting the results can be the most convincing argument at our disposal.

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