

Donations in Brazil : Should Income Tax Incentives Be Promoted?

By

Paulo Rodolfo Ogliari

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

for the degree of

MASTER OF PUBLIC POLICY

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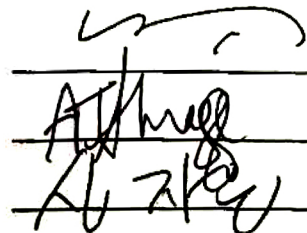
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ABSTRACT

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This study is aimed at considering whether the Brazilian individual income tax incentive related to donations should or should not be promoted. It was possible to see that tax incentives that promote donations bring some problems to governments, such as complexity, vulnerability to evasion, and reduction of revenues. But these incentives also make the tax system adjusted to the social interests, promote solidarity, increase the resource to public social funds, and reduce transaction costs. Summarizing, this research found out that tax incentives could change the donors' behavior, stimulating new donations. Until now, there is no budget problem to the Brazilian government, and the donations could be increased. Based on the qualitative and quantitative data, the hypothesis that drove this work was accepted, which means that it is reasonable to create new tax incentives to encourage charity giving in Brazil. Therefore, the conclusion suggests that Brazilian income tax incentives related to donations can be improved. It is also important to report that the charity giving in Brazil is lower in comparison with the US and other countries, such as Australia, and UK. Brazil and

China have also some similarities in this field. Furthermore, the research makes clear the role of the government as an `intermediator` between social needs and social possibilities, however sometimes this intermediation is not necessary or desirable, according the agency theory.

Keywords: Individual Income tax incentives, tax credit, deductions, donations, charity giving.

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INTRODUCTION

According to Brazilian Federal Law n.9.250/1995 (Income tax law), altered by the Law 12.213/2010, taxpayers are allowed to deduct from their income tax due the donations they make to public funds that take care of elderly people.¹ This is a new tax incentive which has been available since 2011. But it is one among other deductions allowed by the law to Brazilian taxpayers.

Generally, the public policies have always good and bad aspects. In this case, the bad effects make the tax system² more complex and difficult for millions of people to fill their annual declarations. Additionally, the incentives make the tax system more vulnerable to evasion, considering that the Tax Administration needs to check more things to evaluate the taxpayers' regularity. There are also arguments against the reduction of tax revenue because it compels the government to search for new source of money.

On the other hand, the good effects originated by this policy are that these incentives promote social solidarity, when one helps others consciously. The donations promoted by incentives stimulate people to change their behavior and spread it to other

¹ Donations based on the Elderly Statute ("Doações Estatuto do Idoso: A pessoa física pode optar pela dedução na Declaração de Ajuste Anual das doações, em espécie, aos fundos controlados pelos Conselhos Nacional, Distrital, estaduais e municipais do Idoso devidamente comprovadas, efetuadas o curso do ano-calendário de 2011, observado o limite global de 6% (seis por cento) do imposto devido para as de incentivo" – Found in <http://www.receita.fazenda.gov.br/PessoaFisica/IRPF/2012/declaracao/novidades.htm>). See information about legislation in http://www.planalto.gov.br/ccivil_03/_Ato2007-2010/2010/Lei/L12213.htm.

² Tax system is a set of laws that aim to collect taxes.

situations and moments in their lives. It is really different from the several kinds of incentives which only benefit the taxpayer.

Another aspect is that the value of deductions from donations in Brazil is not significant. Although it could increase in the future, preliminary data shows that the donations are fewer at the present. Consequently, one can say that such incentives will not change the volume of Brazilian tax revenue.

Additionally, these incentives make the tax burden transparent, notably when society knows that the levels of taxation are increasing, but they do not realize how the money is used. This fact brings unpopularity to the government, and as the number of public services increases, it becomes more difficult to show where the public resources are used, bringing less transparency to the whole process. Consequently, the donation to public funds could demonstrate a direct connection between taxation and public activities.

Furthermore, if these incentives work as a "Taxpayer's direct allocation," they could reduce the government intermediation between social needs and public budget. The government could become more efficient because the collection of funds and their application in the public service is immediate, leading to a reduction of the expenditures to collect taxes and to allocate public resources. In sum, the taxation becomes better and cheaper.

Above all these aspects, considering tax incentives that promote donations as a new and different topic that needs elaboration, this kind of public policy will be analyzed here. Although the society will never be completely satisfied because the problem related to unlimited human needs versus limited resources never ends, it is possible to

increase the satisfaction levels, especially if the quantity of public goods and products could be increased. In the future, for example, new rules could allow taxpayers to recover green areas, maintain public parks, take care of children or old people, and so on, as a counterpart to reducing tax burden. Consequently, the society's quality of life would improve without the need of further taxing.

This study intends to evaluate whether these Individual Income tax incentives related to donations should or not be promoted by the Brazilian tax system. To answer this research question, the hypothesis developed in thesis is that these incentives should be promoted.

The methodology used is based in quantitative and qualitative data. Unfortunately, there is not sufficient historical series to make a robust quantitative research, but of course there are numbers enough to bring insights and evidences about this field of study. The qualitative data also reinforces the knowledge about tax incentives and donations. The qualitative data will be useful to understand the connections between different tax administrations, especially because it is better to analyze all the effects of taxation, and also to search the similar information in other tax administrations. Consequently, this study uses both qualitative and quantitative data to reach its conclusion.

To develop this study, this research will check the taxation system where the Brazilian tax incentives are inserted and to make a benchmark with other tax administrations³. Although the tax system and this kind of institutions are peculiar, it is possible to make some analysis. The Federal Revenue of Brazil (RFB) has a

³ The expression "tax administration" is a generic way to denominate public organizations that collect tax, and sometimes could substitute the official name as a synonymous. For example, Federal Revenue of Brazil – RFB could be called Brazilian Tax Administration.

homepage with information, and there are other sources in other media, including legislation. Thus, this work compares RFB incentives to, among others, the US Internal Revenue Service (IRS), which has also abundant digital data available in the Internet. So, the outcome is expected to demonstrate clearly the differences and similarities between both institutions, and, moreover, to allow impartial criticism, especially about the Brazilian system.

This study plans, if possible, to see if the tax incentives provide transparency, effectiveness, and equitability to the Brazilian Tax System. These three characteristics are contemporaneously desirable because the social needs are increasingly dependent upon public products and services, and people want to see the governmental institutions become more and more useful to society.

Finally, the agency theory will be analyzed to support the arguments developed in this study. This theory certainly can help to understand the relation between government, society, tax incentives and donations. Therefore, it is expected that the agency theory might help to explain whether individual Income tax incentives which stimulate donations should or should not be promoted in Brazil.

LITERATURE REVIEW

This study intends to evaluate whether Brazilian individual income tax incentives to increase donations should or should not be promoted. This question is important, especially after the new law which allows taxpayers to deduct from their due income tax the donations they make to public funds designated to the care of elderly people. Then, first of all, it is necessary to define the meaning of incentive.⁴

Thomas Enters *et al.*, in a Food and Agriculture Organization of the United Nations (FAO)'s report, summarizes several studies about this word and concludes, "to be of interest and to have an impact, incentives need to affect the cost-benefit structure of economic activities [...]"⁵ Hence, this paper defines incentives⁶ as something that encourages one to take a particular action.

The FAO's report illustrates how incentive could be classified according to this example: "tax concessions for plantation investors are a direct incentive, whereas general tax reductions for fuel are considered indirect incentives [...]"⁷ Incentives

⁴ Oxford Advanced Learner's Dictionary, in its page 786, defines incentive as "something that encourages you to do [something]: tax incentives to encourage savings."

⁵ Food and Agriculture Organization of the United Nations (FAO)'s Report, produced by Thomas Enters et al. Section 2: Incentives: key concepts, typology and rationale. 2004, 13. ("While there is no dearth of definitions for incentives, a single agreed definition does not exist (Meijerink 1997). Defined in very broad terms, an incentive is anything that motivates or stimulates people to act (Giger 1996; cited in FAO 1999). Sargent (1994; cited in Tomforde 1995) defines incentives as signals that motivate action. Other definitions refer to the "incitement and inducement of action" (Enters 2001). Within the context of development projects, incentives have also been described as "bribes" and "sweeteners" (Smith 1998).") See more in <http://www.fao.org/docrep/007/ad524e/ad524e05.htm>.

⁶ More specifically, an on-line Business Dictionary defines tax incentive as a "deduction, exclusion, or exemption from a tax liability, offered as an enticement to engage in a specified activity (such as investment in capital goods) for a certain period." Found out in: <http://www.businessdictionary.com/definition/tax-incentive.html#ixzz2UNYWwp7v>.

⁷ FAO's Report. Ibid.

commonly include subsidies, price supports, tax credits, exemptions, deductions, and others. This work will also utilize incentives in this way.

To clarify the use of some terms, this work will also consider that “tax credits directly offset the tax payable by a taxpayer. In contrast, tax deductions generally only reduce the taxpayer’s taxable income to which their applicable tax rate applies.”⁸ So, the donations that motivated this study, based on Brazilian Elderly Statute and others, work as a tax credit by which Brazilian taxpayers could reduce their payable tax. This study is expected to answer questions whether this kind of incentive which stimulates donations should or should not be promoted.

To reach this goal, it is proper to start with an evaluation of the Brazilian tax system. Previous studies, especially Wasilewski’s thesis, conclude “that the Brazilian tax system is unfair and inefficient, it hinders economic growth and promotes income inequality.”⁹ Considering there was no significant change or tax reform in the last ten years, this conclusion is probably still valid at the present moment.

Gualda e Oliveira brings another study which states that the Brazilian tax system is structured by the Federal Constitution, with tax competences and limitations clearly defined. She argues that indirect taxation on consumption is in fact regressive, encumbering poor people who cannot avoid taxation or pay the same amount of taxes as rich people do. Her evaluation considers this system as “totally unfair.”¹⁰

⁸ Brett Freudenberg. “Tax: Contributing to a Sustainable Arts Industry (Report #2: An international comparative study of tax concessions for the arts)”. 2008, 14.

⁹ Luis Fernando Wasilewski. “The economic development and taxation system: a comparative study of Brazil and Japan” (Master’s Thesis. Yokohama National University), II.

¹⁰ Luciana Gualda e Oliveira. “Estudo Comparado de sistemas tributários” (Comparative Study of Tax Systems, translated by author). Revista do Mestrado em Direito da Universidade Católica de Brasília, , volume 1, number 2, 122- 26.

This opinion reproduces the common thought about consumption tax in Brazil, which tends to be replaced by the increase in direct tax. Considering the fact that food and basic products have low level of consumption tax in Brazil, perhaps regressivity does not have such an impact on poor people's budget. Furthermore, consumption tax could be managed to be selective and reach different goals other than collection. Therefore, Gualda e Oliveira's evaluation seems to be radical and apparently exaggerated.

Considering that taxation generally brings inefficiencies¹¹ to the market, it is constantly necessary to check whether the tax system needs to be adjusted, especially in Brazil, where tax rules change frequently. This situation may explain why the Organisation for Economic Co-operation and Development (OECD) confirmed that the Brazilian "government plans to try once again to rationalise the tax system [...]."¹² Consequently, it is possible to conclude that the Brazilian tax system needs to be changed in the future.

The main point in this negative assessment is related to the consumption tax. The taxation is collected by federal, state and municipal tax administrations over industrial, commercial and service products, respectively. Then, when tax administrations change this kind of taxation, it causes an impact on the companies because there are 26 states and around 6.000 municipalities in Brazil, each one with its own rules. Additionally, there are thousands of bureaucratic obligations such as filling

¹¹ Joseph E. Stiglitz shows the opposite case in his paper *New perspectives on public finance: recent achievements and future challenges*, where he claims that "Agency theory had one further extremely important implication for tax policy: traditionally, it had been argued in theory that issues of distribution and efficiency can be separated, and that in practice, in the absence of lump sum taxes, there was a trade-off. Agency theory emphasized that there were some redistributions which both increased equity and efficiency." (See more in "Journal of Public Economics 86." 2002, 341–360)

¹² Organisation for Economic Co-operation and Development. OECD Economic Surveys: Brazil. Paris: 2011, 17.

out declarations, sending information, and others. The solutions could be to unify this kind of tax, or at least standardize the legislation, and reduce accessory obligations.

The OECD report shows some information about Brazil and its high levels of taxation. For example, the revenues passed from 32.5% in 2000 to 38.4% in 2010, when compared with Gross Domestic Product (GDP). Probably it is the reason why the Brazilian tax system is sometimes criticized. More information about the Brazilian finance and economic subjects is evidenced in Table 1,¹³ prepared by OECD:

¹³ Ibid., 4.

Table 1. Brazil's general Information (Table prepared by OECD from Brazilian sources)

Table 1. Basic economic indicators

Percentage change unless otherwise stated

	2000	2007	2008	2009	2010	Latest data in 2011 ¹
Supply and demand						
GDP (current BRL billion)	1 179.5	2 661.3	3 031.9	3 185.1	3 675.0	4 087.0
GDP (current USD billion)	644.6	1 366.6	1 653.0	1 594.8	2 088.4	2 451.8
GDP per capita (current USD, PPP)	7 010.5	9 774.8	10 407.8	10 344.2	11 127.1	-
Real GDP	4.3	6.1	5.2	-0.6	7.5	3.1
<i>Supply</i>						
Agriculture	2.7	4.8	6.1	-4.6	6.5	-0.2
Industry	4.8	5.3	4.1	-6.4	10.1	0.9
Services	3.6	6.1	4.9	2.2	5.4	3.2
<i>Demand</i>						
Private consumption	4.0	6.1	5.7	4.2	7.0	3.9
Public consumption	-0.2	5.1	3.2	3.9	3.3	5.1
Gross fixed investment	5.0	13.9	13.6	-10.3	21.9	7.1
Exports	12.9	6.2	0.5	-10.2	11.5	9.6
Imports	10.8	19.9	15.4	-11.5	36.2	26.6
Public finances (public sector, in per cent of GDP) ²						
Revenue	32.5	37.3	38.2	38.5	38.4	-
Primary balance	3.2	3.3	3.4	2.0	2.8	3.8
Headline balance	-3.4	-2.8	-2.0	-3.3	-2.6	-2.1
Net debt	45.5	45.5	38.5	42.8	40.2	39.2
Balance of payments (USD billions)						
Current account balance	-24.2	1.6	-28.2	-24.3	-47.4	-49.8
In per cent of GDP	-3.8	0.1	-1.7	-1.5	-2.3	-2.1
Trade balance	-0.7	40.0	24.8	25.3	20.2	28.6
International reserves (gross)	33.0	180.3	193.8	238.5	288.6	353.4
FDI (net inflows)	32.8	34.6	45.1	25.9	48.4	75.3
Outstanding external debt (in per cent of GDP)	33.7	14.1	12.0	12.4	12.2	-
Exchange rate and prices						
Exchange rate (BRL per USD, period average)	1.8	1.9	1.8	2.0	1.8	1.7
CPI inflation (IPCA, end-of-period)	6.0	4.5	5.9	4.3	5.9	7.3
GDP deflator	6.2	5.9	8.3	5.7	7.3	9.6
Labour market						
Unemployment rate (per cent) ³	-	9.3	7.9	8.1	6.7	6.0

1. Data are for the latest available quarter or month. Data for the supply and demand blocks are for the first quarter of the year and annualised. Monthly CPI inflation is a year-on-year rate.
2. In 2000, includes *Petrobras* and *Eletrobrás*.
3. Refers to the Monthly Employment Survey (PME/IBGE).

Source: IBGE, Central Bank of Brazil, National Treasury.

The OECD's data from the United States (US), in the same period, demonstrated that the relation between revenue and GDP is decreasing since 2000. For instance, the top rate in the last thirty years reached 29.5 % (2000); the ratio declined to 24.8% in

2010.¹⁴ It suggests that the US and Brazil have adopted different policies in the last ten years.

Another difference between these countries is related to payroll and employment tax. An international auditing company (Grant Thornton's Report) presents some data about this ratio between "social security and employment taxes" among several countries, where on one side is "Brazil at 27.8%. At the other end is China at 1.8%, followed by Vietnam at 4% and then the U.S. at 7.7%. Korea (8%)."¹⁵ Then, it is possible to infer again that the tax burden in Brazil is sometimes bigger than in the US and several countries.

With regard to public policies, it is significant to know what the tax system could do or is designed to do. Particularly, "in the US, the tax structure of deductions and credits clearly shows that home ownership is a major societal goal."¹⁶ Therefore, it is possible to realize that the tax system has a correlation with social goals.

In this way, previous studies evidence that "the United States' tax system has a number of mechanisms to facilitate donations; these relate to income tax and capital gains tax (CGT), as well as [...] estate taxes on assets held in a deceased estate."¹⁷ Charities Aid Foundation (CAF), also confirms "the UK and US [...] have the most generous tax regimes [related to donations] but there is as yet no international research

¹⁴ Organisation for Economic Co-operation and Development (OECD). Statextracts (It is an on-line database). 2013. See more in <http://stats.oecd.org/Index.aspx?QueryId=21699> .

¹⁵ Grant Thornton International Ltd. 2010. "International taxation for manufacturing: A comparative review". Chicago, IL, 2013 on-line report, 6-7. See more in: <http://www.grantthornton.com/staticfiles/GTCom/CIP/Manufacturing/International%20taxation%20for%20manuf acturing/International-taxation-white%20paper.pdf>.

¹⁶ Patricia Thornton et al. What Works and Looking Ahead: A comparative Study of UK and US Policies and Practices Facilitating Return to Work for People with Disabilities . Prepared for US/UK Pathways to Work in the 21st Century: Seminar and Workshop. Washington, DC, 2003, 10—11. See more in: <http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1228&context=edicollect> .

¹⁷ Brett Freudenberg. Ibid. 2008, 10.

comparing the precise effects of different tax reliefs on levels of giving.”¹⁸ This information reinforces the necessity of seeking deeper understanding of the relation between donations and the tax system.

Despite the high levels of donations in the US in the past, some changes in the American tax system are worrying philanthropic organizations. It happens because the Obama administration is trying to limit deductions, alleging that it “would reduce the deficit, make the income tax system more progressive, and distribute the cost of government more fairly among taxpayers of various income levels.”¹⁹ These changes are expected to be applied to high-income people.

Although there is controversy about the assertion of this political choice, the recent 2008 economic crisis is at the same time the reason why this initiative was proposed by the US government, and the reason why it should not be applied now. To show the relation between tax system and donations, Patrick E. Tolan, Jr. produced a long and detailed explanation about these two things and concluded: “[b]ecause America’s largest donors are those in the highest marginal tax brackets, efforts to limit deductibility of charitable donations could have a chilling effect on charitable giving.”²⁰ If the donations are going down, the social needs will not be satisfied by charity organizations and, then, social problems will appear, such as child care.

¹⁸ Charities Aid Foundation. “International comparisons of charitable giving”. (CAF briefing paper, Kent, UK). 2006, 10. See more in <http://www.cafonline.org/pdf/International%20Comparisons%20of%20Charitable%20Giving.pdf>.

¹⁹ U.S. Department of the Treasury. General Explanations of the Administration’s Fiscal Year 2013: Revenue Proposals. (Washington, DC). 2012, 67. The same position was reinforced in the report for 2014.

²⁰ Patrick E. Tolan, Jr. “Compromising the Safety Net: How Limiting Tax deductions for High-Income Donors Could Undermine Charitable Organizations”. 2012, 1. See more in http://works.bepress.com/cgi/viewcontent.cgi?article=1007&context=patrick_tolan, accessed in June 3, 2013.

On the other side, Brazil's most important public policy is poverty alleviation. Although it is a good initiative and it is necessary to help poor people, this is only indirectly associated with the tax system, i.e., the revenue aspect. Such redistribution policy means that the Brazilian tax system takes money from one person and gives to another. This trend will eventually increase in the next years, as recommended by OECD, which notes that "[f]urther progress in poverty reduction could be made by directing more resources to the successful *Bolsa Família* cash transfer programme."²¹

Although the Brazilian tax system supports the government distribution policies, as an example of "public charity," the law does not give the same freedom to the people. When someone asks the government if he or she could deduct the donations to philanthropic, educational, scientific research or cultural organizations, the answer will be *no* because such "donations are not tax deductible, for lack of legal provision."²² Despite this limitation to make donations, the new tax incentive based on the Elderly Statute could anyway be seen as a change on the Brazilian tax system. It is important because it reinforces incentives which promote donations or, in other words, direct social allocations. Furthermore, it makes the tax burden more transparent, because one knows where his money is going.

It is noteworthy that one relevant source of information to develop this study is the book and articles produced by Charles T Clotfelter and his partners. It is important not only because he discusses the US tax system, but mainly because he produced a rich knowledge connecting federal income tax policy with charitable giving. His work

²¹ Organisation for Economic Co-operation and Development. OECD Economic Surveys: Brazil. Paris: 2011, 1.

²² Federal Revenue of Brazil. 2013^b. On-line Income tax Q & A: "These donations are not tax deductible, for lack of legal provision", translated by author. ("São dedutíveis as doações efetuadas a entidades filantrópicas, de educação, de pesquisa científica ou de cultura? Estas doações não são dedutíveis, por falta de previsão legal"). See more in: <http://www.receita.fazenda.gov.br/PessoaFisica/IRPF/2012/perguntao/assuntos/deducoes-outras.htm>.

covers not only the effect on the taxpayer's side, on the different income levels, and on the different types of donors (individuals, corporations, bequests, volunteering), but also how the allocation of resources generally happened²³. Therefore, this source of information brought relevant insights to this thesis.

²³ Clotfelter, 1985, and his articles.

METHODOLOGY

This thesis is a social study that uses quantitative and qualitative methods.²⁴ In most cases, only the quantitative method is enough to find out the results and support conclusions. But in several cases, such as related to taxation, it is necessary to aggregate qualitative methods to produce consistent results, especially when the conclusion tends to affect future public activities. Consequently, this work will consider both methods to reach its conclusions and to base its recommendations.

Despite the lack of historical long-term data on tax incentives in Brazil, and the fact that the new incentive created in 2010 has not yet produced all its possible effects until now, there is enough data to support some evidences and insights. Therefore, quantitative method will be applied to find out some information:

1. Effect of the new incentive, based on the Elderly Statute, in the Brazilian tax system. If this new public policy is good, this study should evidence that:
 - 1.1 The taxpayers applied the new incentive (donations to elderly funds), suggesting that the public policy changed the donors' behavior;
 - 1.2 Each year new taxpayers continuously apply the new incentive, suggesting that this public policy stimulates new donations;

²⁴ See more in Bhattacharjee, Anol, "Social Science Research: Principles, Methods, and Practices". USF Tampa Bay Open Access Textbooks Collection. Book 3. 2012, 113-35.
http://scholarcommons.usf.edu/cgi/viewcontent.cgi?article=1002&context=oa_textbooks, accessed in June 07, 2013.

1.3 The new incentive does not decrease other kind of donations, suggesting that this public policy does not compete with other policies;

1.4 This kind of incentive does not affect significantly the Brazilian individual income tax revenue, suggesting that this public policy does not bring budget problems to the government.

2. Comparison between the Brazilian and, among others, the US deductions and donations, as a paradigm to know if the Brazilian incentives are lower than others, what would suggest that its levels could be increased.

Qualitative method also will be applied to find out arguments that support the claims related to the main goal of this study, which is defining whether Brazilian tax incentive related to donations should or should not be promoted. More than to using facts that lead to conclusions about the past, this method will hopefully be useful to drive future public policies. So, the qualitative method will be used as a way to check the consistency of the result and, subsequently, to reinforce the conclusion as a public policy option.

This research will assume that taxpayers prefer to use tax incentives than to simply give money to the government. Although deductions in fact do not bring any financial advantage, because it is possible to choose between donations or tax payment, but the money will not be refunded, a large number of taxpayers use the incentives. This happens because it is better for them, considering that taxpayers have freedom to choose between giving money directly to charities or to the government, who will spend on social activities and, indirectly, distribute the money to charities.

The option for these deductions could also be explained by the Agency Theory²⁵, whose assumptions affirm that the human beings are rational, self-interested and risk-adverse. In this case, we can consider that the government is the agent and that the society is the principal. If it is possible to do something without the agent (government), this option is better, because it reduces the transaction costs and minimizes the risks of not reaching the principal's goals.

The US will be an objective paradigm to realize whether Brazilian's donations and its incentives should be increased or not. Comparison to other countries will also be done to give more consistency to this study.

Summarizing, the quantitative and qualitative methods will be used to answer the research question and to verify the hypothesis that individual income tax incentives related to donations should be promoted by the Brazilian tax system.

²⁵ Stephen A. Ross. "The Economic Theory of Agency: The Principal's Problem". In *American Economic Review* [63:2]. 1973, 134-9.

DATA, ANALYSES AND SUPPORTS

This chapter intends to search data, make analysis and bring support to develop this study.

Tax System and tax incentive

Governments and society prefer a simplified tax system, but it is not what happens in most countries. Certainly, flat taxes, low level of taxation, small evasion, easy identification of the taxpayers and supportable tax burden are desirable. Most tax administrations, of course, do not appreciate tax incentives because they make the tax system more complex. In fact, the world is full of these characteristics, such as progressive tax, different rates, difficulty to understand all the tax effects, and large number of tax incentives.

Why do these things happen? One reason is the equity cared by the society that wants to build a fair tax system, where the taxation is higher for the wealthiest people. Other reason is based on the different interests that exist in organized society, such as labor parties, consumer groups, producers associations, and so on. These diversified interests are reflected on the tax system, which becomes more and more complex.

Brazil, for example, produced 29,694 federal laws and regulations related to taxation in the last 25 years, according to the Instituto Brasileiro de Planejamento e Tributação - IBPT²⁶. When, to this number, one includes the legislation edited by states

²⁶ Brazilian Institute of Planning and Taxation, translated by author.

and municipalities, the total reaches 309,147 different laws or regulations edited²⁷, but most of them are not related to tax incentive. So, all these changes on tax legislation are supposed to make the tax system better, despite the fact that so many people do not agree with this point of view.

Economics explains better this fact, especially when the government wants to solve or minimize some market failures. “There are two classes of tools in the government’s arsenal for dealing with externalities: price-based measures (taxes and subsidies) and quantity-based measures (regulation)”, says Gruber.²⁸ In essence, taxation has different targets other than to collect money.

In this sense, donations receive tax incentives because the society wants to reach other goals, such as charity giving, solidarity and cooperation. Consequently, it is better for a society to have a tax system which is more complex in order to address these different aspects than to have a simpler one.

Reasons to make donations

Moral values encourage people to make donations. It is also easy to find reasons to do charity in several religions. Indeed, there are a lot of people who believe that charity is a good thing to do, such as Peter Singer, an Australian philosopher, who argues that “giving to charity is our duty.”²⁹

²⁷ See more in <https://www.ibpt.org.br/img/uploads/novelty/estudo/1266/NormasEditadas25AnosDaCFIBPT.pdf>

²⁸ Gruber, Jonathan. “Public Finance and Public Police”. 2010, 146.

²⁹ See more in http://www.bbc.co.uk/ethics/charity/duty_1.shtml .

On the other hand, there are people who believe charity is “motivated largely by social approval, sociality, lifecycle celebrations, reciprocity, convenience and tax efficiency.”³⁰ Despite different opinions, there is no doubt that some people are influenced by moral or religious values to make donations.

Economic reasons to make donations

But it is not only moral or religious values that support charity donations. Economics also gives support to charity giving. According to Jonathan Gruber, “one classic rationale for deviation from comprehensive income definition³¹ is the possibility that reducing taxes on certain activities will yield external benefits to society.”³²

This deviation “are typically justified by the fact that the private market is likely to underprovide some good or activity: charitable giving and housing expenditures.”³³ About both possibilities, Gruber concludes that “the existing evidence suggests that tax breaks for charitable giving may be justified on these ground, but that tax breaks for home ownership are not.”³⁴

Gruber affirms there are two reasons why the government allowed tax incentives for donations instead of making expenditures directly to the charity. The first reason is related to equity and efficiency. This kind of incentive promotes horizontal equity as it

³⁰ See the opinion of Dr Balihar Sanghera, in “Charitable Giving, Moral Judgements and the Problem of Social Embeddedness: An Investigation into Everyday Morality, Akrasia and Self-Deception in the UK”. University of Kent. 2011, 16.

³¹ “The Haig-Simons Comprehensive Income Definition is [...] the individual’s total consumption during the year, plus any increases in his or her stock of wealth”, in Gruber, Jonathan. “Public Finance and Public Policy”. 2010, 536

³² Gruber. Op cit. 2010, 539.

³³ Gruber. Op cit. 2010, 540.

³⁴ Gruber. Op cit. 2010, 554.

equalizes both people that are used to make donations and others that started to donate after the tax incentive was created. Additionally, the “tax subsidizes charitable giving, however, it may ‘crowd in,’ or increase, private contribution [...] through both substitution effects (the ‘price’ of charitable giving has fallen) and income effects (because Ellie is paying fewer taxes [...]).”³⁵ Regarding this economic consideration, the efficiency of a tax incentive “is the share of the tax break that goes to those who are changing their behavior [marginal impacts] versus the share going to those whose behavior is unaffected [inframarginal impacts].”³⁶ He concludes that “subsidizing private giving is more efficient way of providing resources to the homeless than direct spending.”³⁷

The second reason is related to the consumer or citizenship sovereignty. If the government spends directly, maybe “the preference of legislators may not be the same as those of citizen”. So, when the government is “offering tax subsidies to private individuals to donate as they wish, the government directly respects the preference of its citizens.”³⁸ Although there is no perfect answer about what is more efficient among those two options (direct or indirect spending), certainly donations are more transparent to the taxpayers.

Agency theory and donations

Apart moral and economic aspects, the sovereignty and freedom brings another relevant aspect to consider whether charitable donations should be improved. In this

³⁵ Gruber. Op cit. 2010, 540-541.

³⁶ Gruber. Op cit. 2010, 541

³⁷ Gruber. Op cit. 2010, 542

³⁸ Gruber. Op cit. 2010, 542-3.

case, the agency theory is useful. According to Lupia, the “Modern scholarship has produced more precise insights about when delegation benefits those who delegate. Many scholars now adopt the language of principal-agent models (i.e., agency theory) to describe the logic of delegation”³⁹. He considers that the “principal in principal-agent theories represents someone who delegates. The agent represents someone to whom authority is delegated.”⁴⁰

Xavier Castañer, Assistant Professor at the University of Lausanne, explains clearly how this theory is related to public subjects and notably to the government:

“How would agency theory apply to public administration? In democratic systems, the (voting) population is sovereign and thus the principal (the people), which elects individuals to represent it as well as directly or indirectly lead each public administration. Thus, elected politicians who govern public administrations (prime ministers, presidents, and mayors) cannot be considered principals as shareholders are in private, for profit corporations but agents of the (voting) population.”⁴¹

Adding information about where this theory is found on the law, Pierce affirms that generally the “Constitution is premised on the belief that government should act as the agent of the people.”⁴² Then, the agency theory is applicable to governments and has traditional legal support in different countries. There is an example when citizens make choices in a participative budget.

Some public goods or services are better developed by government, of course, especially when it is impossible to control free riders or is difficult to collect money from large number of people to do something. Some examples occur when it is necessary to

³⁹ Arthur Lupia. "Delegation of Power: Agency Theory". 2001, 3.

⁴⁰ Arthur Lupia. Op. cit. 2001, 3.

⁴¹ Xavier Castañer. 2011. Applying agency theory to public administration (government). See more in <http://people.hec.unil.ch/xcastaner/2011/06/08/applying-agency-theory-to-public-administration-government/> searched in September 13, 2013.

⁴² Pierce, Richard. "The Role of the Judiciary in Implementing an Agency Theory of Government". 1989.

build bridges, dams, roads, etc. In these cases, the money collection and the production can be well performed by government.

Sometimes the scale makes difference. It happens when it is possible to reduce marginal cost increasing the quantity of production or service. For example, some types of national vaccination could be inefficient if performed for small segregated institutions, because they demand large amount of efforts, money, and partner institutions, such as health employee, police, transportation companies, communication, and so on. Again, the government, or the agent, can perform better than the society.

On the other hand, sometimes governments do not know what the people needs are. When it happens, they should customize the service or products for each person or community, and the scale becomes less important. Then, the marginal cost increase, and governments lose efficiency.

Although it is possible for government to do several services, sometimes the citizens do not want the government to solve their problems. Nowadays, government produces extensive number of goods and services, besides a large number of regulations. Consequently, it becomes more bureaucratic, more onerous, less agile, and less efficient.

For these reasons, the society also wants freedom. It is desirable that people solve their problems as much as possible, because in several cases they make things in a cheap, quick, and better way. Government intermediates between social needs and social possibilities, but certainly people can make things freely and more efficiently by their selves. Furthermore, society can do several things without the government intermeditation.

When society solves their own problems they know what is happening. Large countries, like Brazil, need also large administrative structures that bring obscurity to the public action. It is especially true when someone intends to know “how” government is working. So, it is always important to encourage people’s participation to solve some problems, because it brings transparency on the collective issues.

Agency theory also helps to explain why tax incentives which promote donations could be preferred if compared to the indirect allocation by the government. It is better because it gives transparency to the principal (society), who knows where the money is going, and because it could reduce the transaction costs, and increasing efficiency, considering sometimes people can do things without the government intermediation.

Donations in China

Considering that China and Brazil have some economical similarities, notably because they are important constituents of the BRICs⁴³, this study intends to find out some information about charity giving in China, and to make parallels with Brazil. Some limitations have to be pointed out to bring a better understanding about the difficulties of this task. One is related to the language of some references, for it makes the research harder when the articles are written in Mandarin. Another is the difficulty to search the necessary information, generally fragmented in several places, and so on. In spite of all these difficulties, it is expected that the necessary information will be acquired with a certain level of truthfulness, which will help to develop the present thesis.

⁴³ BRICs is an acronym for the developing countries who are driving the recent economic world trends, and it is compounded by Brazil, Russia, India, and China. Afterwards, South Africa also joined this group.

To understand what is happening in China, it is necessary to know the legal framework related to charity, and its connections with other fields. In 2009, Rebecca Lee produced some insights about it:

“However, despite the growth of charitable organizations and a rich tradition of philanthropy, China’s existing legal framework fails to support an effective charitable sector. This failure has three primary causes. First, there is no comprehensive law governing charitable organizations in China; the existing laws remain disparate and obsolete, notwithstanding a few recent attempts at reform. Second, the existing legal rules often fail to facilitate the operation of the charitable sector or incentivize charitable giving. Third, the charitable sector is plagued by inefficient bureaucratic modes of operation and governance.”⁴⁴

Talking specifically about tax incentives, the income tax deduction for companies increased from 3 to 12 per cent in the last years, and that certainly encouraged more donations. But, according to Long Zhaohui and Hu Xiaoling, there remained some pitfalls onto non-monetary donations:

“According to current tax law, various taxes including enterprise income tax, deed tax, land appreciation tax, stamp duty tax and many other indirect taxes (value added tax, consumer tax and business tax) will be incurred upon donation. Donation expenditure, which is less than 12 per cent of accounting profits, can be deducted when calculating enterprise income tax, which will reduce donation cost and encourage donations [...] To summarise the preceding analysis, there are several pitfalls with respect to current tax policy of non-monetary charitable donations.

1. Non-monetary charitable donations bear heavier tax burdens in that corporations need to pay indirect taxes and property taxes, while the amount deductible from income tax is lower.
2. Categories of deductibles are ambiguous.
3. While many different forms of non-monetary charitable donations are in place, relevant legislations and regulations are still lacking, which impacts negatively on corporate donation and governmental control.”⁴⁵

⁴⁴ Rebecca Lee, in *Modernizing charity law in china*. Pacific Rim Law & Policy Journal Association, Vol. 18, N° 2. 2009, p.348.

⁴⁵ Long Zhaohui and Hu Xiaoling. *Research on tax incentives for charitable donations of non-monetary assets by chinese corporations*. Journal of Chinese Tax & Policy. Volume 3 Issue 1. 2013, p.27-8

These feedbacks explain some problems occurring in China. One of them is the current value donated, which reflects this situation and shows the charity giving has been going up and down over these last years in China. According to information divulged by China Charity and Donation Information Center, in its annual report 2010-2011, that is the situation about charity giving:

“In 2010, total charitable giving was 103.2 billion RMB, (USD 15.8 billion) and accounted for 0.26% of GDP, while in 2011 it totaled 84.5 billion RMB (USD 13.25 billion) which accounted for a reduced 0.18%. Figures for both 2010 and 2011 include monetary donations (RMB 87.1 billion and 68.6 billion respectively) and in-kind donations (RMB 16.1 billion and 15.9 billion respectively) -- that is, donations of goods such as clothing and food. [...] Much like in 2008, (with the 2008 Sichuan/Wenchuan earthquake) in 2010 notable natural disasters (the Southern China drought , Gansu mudslide , and Yushu earthquake) likely contributed to the 63.81% increase in total giving from 2009. Meanwhile the absence of any major disasters in 2011 probably contributed to the 18.12% decrease in giving from 2010.[...] In 2010-11, we continued to see a decrease in the percentage of overseas donations relative to domestic donations, from 12.5% in 2010 to 10.9% in 2011. Both of these are lower than 2009's 14.1% figure. As in previous years, Hong Kong was the biggest source of overseas donations. Corporate donations continue to surpass individual giving, although 2011 saw a moderate increase in individual giving from 28% to 31.62%.[...] As noted above, 2011 witnessed fewer major natural disasters than 2010, and as expected giving to this area decreased in 2011 as a result. While in 2010 the two areas which received the most donations were disaster relief and education, each receiving about a quarter of total donations. In 2011 education remained popular receiving 33.7% of donations while poverty alleviation was the second largest recipient area with 29.0% of donations[...].”⁴⁶

In 2012, considering that there was no major natural disaster, the donations dropped again: “81.7 billion yuan (\$13.35 billion) in donations from home and abroad were made in China last year, down 3.31 percent year on year, according to a charity report [...]”⁴⁷ This fluctuation shows that donations in China are dependent on emotional aspects. Then, it suggests that charity giving is already not strong enough, and reinforces the arguments for tax incentive to promote donations to charity.

⁴⁶ See more in <http://blog.socialventuregroup.com/svg/2012/09/review-on-charitable-giving-in-china-2010-2011.html> .

⁴⁷ See more in http://usa.chinadaily.com.cn/china/2013-09/21/content_16983041.htm.

In this way, Karla W. Simon, an American Professor of Law at Columbus School of Law, gave clear analysis about the trends of charity giving in China:

“The Ministry of Civil Affairs (MCA), which promulgated its 12th Five Year Plan for Charity in July [2013], hopes to enhance the role of charity and civil society in social development in China. The overall 12th “Five-Year National Economic and Social Development Plan” clearly articulated its commitment to the development of philanthropy, the enhancement of social awareness towards charity, and the improvement of tax incentives for charitable donations.”⁴⁸

This plan is designed to work during 2011-2015 and represents the macroeconomic orientation for that country. Professor Karla W. Simon points out some aspects that ought to develop charity giving in China, as showed below:

1. Write better legislation for the charitable sector. [...]
 2. Create a tax environment in which donations to charities are truly encouraged [...]
 3. Develop a more effective volunteer policy. [...]
 4. Promote a more developed charitable sector. [...]
 5. Make the sector more open, transparent, and better governed. [...]
 6. Create self-regulatory rules for the sector [...]
- ⁴⁹

Items 1 and 2, above, are connected with legislation, notably tax incentives to promote donations. Both aspects recommend new and/or better laws as tools to develop changes on the current charity giving. Although altruism could feed charity behavior, some incentives from government tend to increase donations, especially in a country where inequalities are growing faster than the GDP.

Items 3 and 4 are related to the essence of the charity giving. Both are focused on charity activity and the institutions that make it works. Here, more than taxation,

⁴⁸ See more in <http://www.fyse.org/2012/10/chinas-12th-five-year-plan-for-charity-2011-2015-a-brief-overview-of-its-scope-and-intentions/>.

⁴⁹ See more in <http://www.fyse.org/2012/10/chinas-12th-five-year-plan-for-charity-2011-2015-a-brief-overview-of-its-scope-and-intentions/>.

these items are based on regulations and public policies which increment voluntary activities and donations.

Items 5 and 6, above, according to Professor Karla W. Simon, are recommended to increase the transparency and the openness. Considering that China has a long tradition of using strong government control and bureaucracy, but lack disclosure, it is understandable that there could be some problems to develop and manage Non-Governmental Organizations (NGO). Although these aspects are more formal than substantial questions, they are significant to reinforce confidence in these organizations and stimulate donations.

Particularly about openness, “[l]ess than a third of registered charities in China meet basic international standards for transparency and disclosure”⁵⁰, according to the news published in World Time, based on the *China Charity Transparency Report*. This problem has negative effects not only for international donations, but especially affects the donations done by people in China.

In this regard, the Chinese Red Cross (RCSC) has serious credibility problems. Despite being one of the largest charity organizations in China, this institution is in trouble since “[t]hings came to a head in 2011, when a young woman who claimed to be a business manager at the RCSC began posting pictures to her Weibo account that

⁵⁰ See more in <http://world.time.com/2013/09/25/chinese-deterred-from-donating-to-their-countrys-dubious-charity-sector/>.

documented her lavish lifestyle and luxury purchases.”⁵¹ So, trust certainly moves more charity giving than speech.

Fortunately, the "2013 Annual China Charity transparent report" brings good news about transparency and disclosure.⁵² In this document, the Chinese government demonstrates that transparency is increasing among charity organizations, which is one important step to promote donations.

This awareness makes it clear that Chinese government intends to promote donations. Despite these efforts, the amount of donations, “according to the government, has risen from \$1.5 billion (10 billion rmb) in 2006 to over \$7.5 billion (50 billion rmb) last year [2009...], is a negligible fraction of the \$300 billion annually donated in the U.S.”⁵³ Of course, both countries have different cultures and history, but there is no doubt that the U.S. is the paradigm to China. Another difference among these countries is that “[t]ypically, only around 20% of China's annual donations come from individuals; the rest are made by private enterprises. In the U.S., that number is closer to 70%”⁵⁴

The individuals’ concern may be explained because “[t]oday, even for China's nouveau riche who are willing to give, government policies often fail to encourage charitable actions.”⁵⁵ The recent scandals, the lack of transparency, and other factors make the donations lower than U.S. in spite of the larger Chinese population. Hence, more efficient public policies could increase donations.

⁵¹ See more in <http://world.time.com/2013/04/30/post-quake-fund-raising-flop-exposures-credibility-failure-at-chinas-red-cross/>.

⁵² See more in <http://www.charity.gov.cn/fsm/sites/newmain/preview1.jsp?ColumnID=290&TID=20131008130627209393340>.

⁵³ See more in <http://content.time.com/time/world/article/0,8599,2027055,00.html>.

⁵⁴ See more in <http://content.time.com/time/world/article/0,8599,2027055,00.html>.

⁵⁵ See more in <http://content.time.com/time/world/article/0,8599,2027055,00.html>.

In an economically perfect world, there should be no taxes⁵⁶. In an almost perfect world, there could be small and fixed *per capita* taxes. Perhaps, in a good enough world, a single and flat tax would suffice⁵⁷. But in the real world, especially in medium and large countries, there are several taxes, different brackets, complex tax incidence, and, obviously, a lot of tax incentives and exemptions⁵⁸. It happens because the tax system has to accommodate an uncountable number of interests, such as fairness, equality, cultural aspects, social values, financial subjects, and so on.

On the other hand, the number of public services has not stopped to increase. From the recent past, when governments took care exclusively of national defense, to the present days, with hundreds of public activities and regulations, the public services are becoming larger and larger. Additionally, the society's request for government help never stops, such as after earthquakes in China, typhoon in the Philippines or international financial crises. So, the needs are infinite, and the money is not.

Putting together these two points, public service and money to support it, probably tax collection will never stop, and eventually will keep increasing. But the charity giving sometimes could replace the government regarding public tasks, such as to take care of young, elderly and sick people, among other activities where public interest is present. Therefore, tax incentives can promote these kinds of behaviors.

⁵⁶ "The Perfect World!" A sermon by Pastor Vince Gerhardy. http://www.lectionary.org/Sermons/OT/OT23-Isaiah/Isaiah_11.03-PerfectWorld-Gerhardy.htm, accessed in October 1st, 2014

⁵⁷ Although there are theoretical concepts that support these ideas, they mainly came from the Author's experience as tax law professor, accountant, and tax auditor at the Federal Revenue of Brazil. See also some insights in this article: "Is There an Ideal Tax System?". <http://www.visegradgroup.eu/visegrad-parlour/ideal-tax-system>, accessed in October 1st, 2014

⁵⁸ A Tax Reform Caveat: In the Real World, There Is No Perfect Tax System, by Ronald A. Pearlman, http://www.aei.org/files/2013/12/31/-toward-fundamental-tax-reform-chapter-7_131026229823.pdf, accessed in October 1st, 2014.

It is reasonable that some activities could be better performed by other social actors than the government. This case is exemplified by The Economist, when this media discussed “charity and taxation”, and noticed the trip of Bill Gates and Warren Buffet to China in 2012, as it is possible to see below:

“Governments might spend money through charities not just, or even mainly, because they are better value for money, but because they work in ways that governments themselves cannot. In the most famous case, America's tax breaks allow it in effect to hire the world's most successful businessman, Bill Gates, as its agent for good works, buying the public the benefit of his acumen.”⁵⁹

When someone intends to understand China, it is better to know what this country wants to be. According to Eileen Heisman, CEO of National Philanthropic Trust in the U.S., the Chinese donations will continue to grow. His concerns about that, published in 2013, are clear:

“This is my prediction: Chinese philanthropy will leapfrog over American philanthropy. They will seize social media and new technologies because U.S.-based techniques, like direct mail and checks, won't be part of their “old guard” or existing infrastructure. Nonprofits in China don't have to reinvent anything; they are starting to grow at a time when communication can happen almost instantaneously. [...] Philanthropy has been a hallmark of American culture since its inception, one that Alexis de Tocqueville noted in the 1800s. It is an honor that China looks to the U.S. as a model for ‘good giving’.”⁶⁰

Despite the lack of transparency, it is possible to conclude that Chinese charity giving is becoming mature as the government intends to promote the charity system, and the average donations are increasing. In addition, it is clear that the U.S. is a model to China, who is adopting new tools and procedures to increase donations. Therefore, more than a problem, surely charity giving could help to transcend some public and social security problems, which are starting to emerge in China. The US experience could also be a good lesson to Brazil.

⁵⁹ See more in <http://www.economist.com/node/21556570>.

⁶⁰ See more in <http://www.nonprofitquarterly.org/philanthropy/22864-philanthropic-leapfrog-giving-in-china.html>.

Lessons from US

Charity donations are desirable and supported by several factors as revealed by the moral, economic and theoretical arguments. Now, and after little benchmarking with China, it is necessary to know how donations are dealt with in other countries. In the US, for example, the tax administration (IRS) is used to giving tips to taxpayers about return application. The next table shows what kind of charitable contributions are deductible from Income Tax, and, at the same time, evidence the huge amount of organizations that can receive donations.

Table 2. US Charitable Contributions in 2012

Deductible As Charitable Contributions	Not Deductible As Charitable Contributions
<p>Money or property you give to:</p> <ul style="list-style-type: none"> • Churches, synagogues, temples, mosques, and other religious organizations • Federal, state, and local governments, if your contribution is solely for public purposes (for example, a gift to reduce the public debt or maintain a public park) • Nonprofit schools and hospitals • The Salvation Army, American Red Cross, CARE, Goodwill Industries, United Way, Boy Scouts of America, Girl Scouts of America, Boys and Girls Clubs of America, etc. • War veterans' groups <p>Expenses paid for a student living with you, sponsored by a qualified organization</p> <p>Out-of-pocket expenses when you serve a qualified organization as a volunteer</p>	<p>Money or property you give to:</p> <ul style="list-style-type: none"> • Civic leagues, social and sports clubs, labor unions, and chambers of commerce • Foreign organizations (except certain Canadian, Israeli, and Mexican charities) • Groups that are run for personal profit • Groups whose purpose is to lobby for law changes • Homeowners' associations • Individuals • Political groups or candidates for public office <p>Cost of raffle, bingo, or lottery tickets</p> <p>Dues, fees, or bills paid to country clubs, lodges, fraternal orders, or similar groups</p> <p>Tuition</p> <p>Value of your time or services</p> <p>Value of blood given to a blood bank</p>

Source: IRS. Publication 526 Cat. No. 15050A

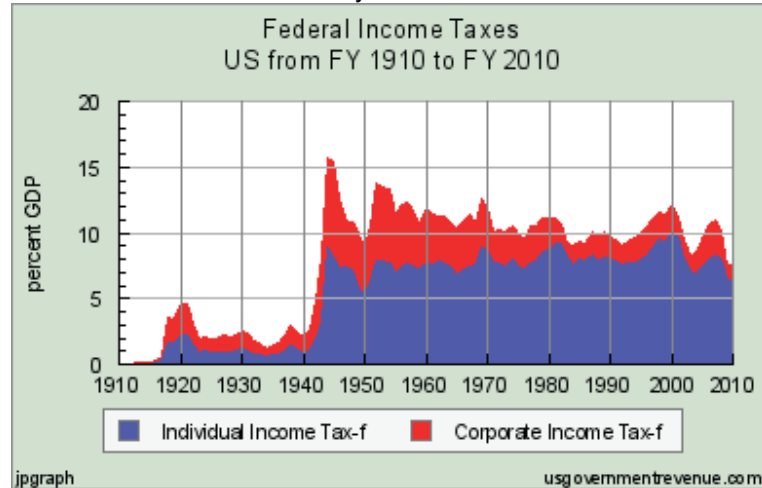
The IRS - Publication 78 clearly shows the number and the names of the organizations allowed to receive donation in the US. In October of 2013, there were 817,318 organizations eligible to receive tax-deductible contributions.⁶¹ This number evidences why US is known as a country that promotes charity and donations.

The US tradition on the charity could connect with the trajectory of their federal income tax. As it is possible to see on the next table, the individual income tax represents the biggest collection amount on this type of tax. Then, it is expected that individuals tend to do more charity than companies, and that could explain why there is

⁶¹ See more in <http://apps.irs.gov/app/eos/forwardToPub78Download.do>.

a vast number of institutions that receive donations, such as churches, small organizations and others.

Table 3. US Income tax History



Source: http://www.usgovernmentrevenue.com/income_tax_history

For example, in 2012, individuals donated 72% of all US donations, while companies donated only 6%. Foundations and bequests donated 15% and 7%, respectively. The donations went to religion (32%), education (13%), human service (13%), health (9%) and others institutions (33%), according to USA Giving report.⁶² These numbers confirm that donations are prevalent among individuals, and that recipients are spread onto large quantity of organizations.

Another aspect to be considered is that donations in the US can be generally deducted 20% to 50% of the adjusted gross income. In special cases, this limit could be up to 100% of the adjusted gross income or be deducted in installments over the years.⁶³ Indeed, the American legislation seems to be friendly to donors.

⁶² See more in <http://givinginstitute.org/giving-usa>

⁶³ See more in http://www.irs.gov/publications/p526/ar02.html#en_US_2012_publink1000229802

Even more impressive is the volume of donations. According to USA Giving report, the US donations reached U\$ 316.23 billion in 2012.⁶⁴ This amount surpasses by far the donations to charity in other countries. This report shows that charity giving has decreased a little bit over the last ten years, but it has still been around 2% of GDP.

Despite the absolute value donated, it is important to know if it would be possible to compare US generosity with other countries. The answer is given by Charity Aid Foundation, an United Kingdom organization, in his World Giving Index 2012, which confirms that US is classified in fifth place in giving behavior when compared to other countries. The methodology considers other factors (volunteering and helping a stranger), as it is possible to see on this table⁶⁵.

⁶⁴ See more in <http://givinginstitute.org/giving-usa>

⁶⁵ Charity Aid Foundation. "World Giving Index 2012: A Global View of Giving Trends". 2012, 13.

Table 4. Top 20 countries in the World Giving Index (giving behaviors in 2011)

Country	Word Giving Index Ranking	Word Giving Index Score (%)	Donating money (%)	Volunteering time (%)	Helping a stranger (%)
Australia	1	60	76	37	67
Ireland	2	60	79	34	66
Canada	3	58	64	42	67
New Zealand	4	57	66	38	68
United States of America	5	57	57	42	71
Netherlands	6	53	73	34	51
Indonesia	7	52	71	41	43
United Kingdom	8	51	72	26	56
Paraguay	9	50	48	42	61
Denmark	10	49	70	23	54
Liberia	11	49	12	53	81
Iran	12	48	51	24	70
Turkmenistan	13	48	30	58	56
Qatar	14	47	53	17	71
Sri Lanka	15	47	42	43	55
Trinidad and Tobago	16	45	44	30	62
Finland	17	45	50	27	57
Philippines	17	45	32	44	58
Hong Kong	19	44	64	13	56
Oman	19	44	39	22	72

Source: Charity Aid Foundation, in his World Giving Index 2012

In this ranking, the top place is occupied by Australia, followed by Ireland, Canada, New Zealand, and US. In other positions are: Korea (45th), Brazil (83th), Japan (85th), and China (141th). Particularly in Brazil, the scores of giving behavior are 24% (donating money), 12% (volunteering time), and 44% (helping a stranger). Then, the results evidence the Brazilian giving behavior has lower percentage than in US, especially on donating money and volunteering time.

Apropos, Clotfelter concluded that the “tax system has a much more pervasive effect on behavior than what can be observed in contributions alone.”⁶⁶ It explains why

⁶⁶ Clotfelter, 1985, p. 170.

donations and volunteering are much stronger in US than in other countries. He also connects both topics and emphasizes:

“Volunteering in Dye's equation is negatively associated with price of giving money, suggesting that volunteering and monetary contributions are gross complements. Taken together, his equations imply cross-price elasticity of -0.83. If correct, this finding would imply that policies lowering the price of contributions will encourage volunteering.”⁶⁷

Brazilian donations

According to the IDIS - Instituto para o Desenvolvimento do Investimento Social, the behavior of the Brazilians for the donation could be summarized in these topics: “a) Brazilians do not feel encouraged to giving and volunteering; b) Brazilians donate more to street beggars and churches than to civil society organizations; c) the most part of population (84%) does not know that is possible to make donations using part of the income tax; d) Children and elderly encourage people to donate money.”⁶⁸

In comparison with US, these points show some differences, notably in volunteering. Survey produced by IDIS in 2013, among Brazilians who did not donated money in last 12 months, demonstrated the reasons why it happens: a) I prefer volunteer work (1%); b) It is responsibility of government / crowd out effect (6%); c) distrust in non-governmental organization - NGO (12%); d) no one asked me (18%);

⁶⁷ Clotfleter, 1985, p. 165.

⁶⁸ Translated by author. See more in <http://www.idis.org.br/acontece/noticias/pesquisa-idis-ipsos-public-affairs-retrato-da-doacao-no-brasil/>

e) I have no money (58%).⁶⁹ Then, the long American tradition in giving and volunteering certainly is the more evident difference⁷⁰.

On the other hand, donations for religions are relatively almost the same. Recent numbers show that American donations to religion are 32% against 30% in Brazil⁷¹. This type of giving is prevalent in both countries eventually because the recipients have strong and efficient tools to persuade donors.

Related to religious giving, Clotfelter point out that it is not completely charitable contribution. He considers that “religious groups pay for salaries, buildings, and operating expenses for local congregations, leaving a relatively small portion for transfer outside the congregation.”⁷² Perhaps that is why there is no incentive of personal income for this type of gift tax in Brazil, although these institutions are generally exempt from tax.

Comparing all the US donations that reached U\$ 316.23 billion (2% of GDP) in 2012⁷³ with Brazilian ones around US\$ 4.7 billion (0.3% of GDP)⁷⁴ evidences that Brazilian donations are lower than the Americans. The difference in absolute and relative numbers suggests that charitable contributions could be increased in Brazil. To develop this potential it is useful to use tax incentive among other ways to achieve this goal.

⁶⁹ Idem. See more in <http://www.idis.org.br/acontece/noticias/pesquisa-idis-ipsos-public-affairs-retrato-da-doacao-no-brasil/>

⁷⁰ “In 1980 as many 80 million Americans did some volunteer work”, according Clotfelter, 1985, p. 3.

⁷¹ See data from USA Giving report in this study, and link to IDIS in previous endnotes.

⁷² Clotfelter, 1985, p.23.

⁷³ See more in <http://givinginstitute.org/giving-usa>

⁷⁴ This number was estimated and published in the Brazilian media by private organizations. See more in <http://www1.folha.uol.com.br/foha/empreendedorsocial/ult10130u864104.shtml>

While trying to check whether Brazilian's donations is really 0,3% of the GDP, some fiscal databases were used to confirm this standard. Using information provided by legal entities who have received donations and grants, has come up to the existing data in the following table. The numbers are higher, maybe because included other kinds of entities such as churches and trade unions, but still get a little under 1% of GDP and thus lower than American donations.

Table 5. Brazilian's donations and grants received by legal entities

Year	2005	2006	2007	2008	2009	2010	2011	2012	R\$Million
social assistance	3,485	3,936	4,024	4,788	4,720	5,250	6,265	6,906	
educational	2,141	2,281	1,709	1,410	1,543	2,194	3,083	3,260	
Trade union	185	216	290	304	308	358	362	409	
civil association	2,261	2,789	2,905	2,748	2,932	3,569	3,716	7,764	
cultural	340	439	460	478	565	600	689	666	
philanthropic (other)	2,842	3,202	3,024	3,372	3,302	3,420	3,820	3,606	
Recreational	127	148	162	193	177	328	196	313	
Science	607	687	134	171	105	138	229	230	
other (churches etc)	8,091	9,403	10,670	13,503	14,662	17,056	17,600	21,361	
TOTAL	20,078	23,103	23,378	26,966	28,316	32,913	35,960	44,516	
GDP	2,148,000	2,370,000	2,558,000	3,032,000	3,143,000	3,675,000	4,143,000	4,403,000	
Ratio Donation / GDP	0.93%	0.97%	0.91%	0.89%	0.90%	0.90%	0.87%	1.01%	

Observation: Most of these recipients are tax exempted
Source: Brazilian tax administration, DIPJ Database

OBS: This table was produced by the author

In that direction, the next table shows the Brazilian individual income tax incentives' evolution since 2006. Like other countries, the 2008's crises reduced the donations in Brazil, but they have been recovering, especially after several laws and regulations edited since 2010 (Elderly funds, oncology care, disabled people) which stimulate donations. Donations to elderly funds reached more than two million dollars⁷⁵ in 2011 (R\$ 5,323,559.46). Considering that other tax incentives apparently were not affected by the new one, it suggests that this public policy is effective.

⁷⁵ Each US dollar is equivalent to R\$ 2,2016 (selling dollar) in October 8th, 2013. See more in <http://www4.bcb.gov.br/pec/taxas/batch/taxas.asp?id=txdolar>

Table 6. Type of donation in Brazil, per year

R\$ 1.00

	2006	2007	2008	2009	2010	2011	2012
Donations - Children and Adolescents Statute	93,532,853	80,664,873	68,152,643	71,491,065	77,324,767	98,158,118	91,258,079
Cultural incentive	15,250,362	16,718,857	18,005,257	17,578,185	19,424,818	21,569,343	25,130,947
Audiovisual activity Incentive	3,621,440	2,288,705	2,609,503	1,117,472	1,366,164	7,128,113	1,177,056
Sports incentive		1,907,698	1,481,818	1,340,116	3,075,619	4,405,642	4,883,881
Donations - Elderly Statute						5,323,559	4,875,746
Donations - Disabled people							3,442,714
Donations - Oncology care							4,749,469
TOTAL	112,404,655	101,580,133	90,249,222	91,526,838	101,191,368	136,584,776	135,517,891

Source: Brazilian Tax Administration

OBS: value is measured in Brazilian Currency, called "Real" (R\$).

The absolute numbers of 2011 and 2012 demonstrate there is a gap in comparison with previous years. Beyond the 2007's crises, which reduced donations temporarily, It happened in both years because three new tax incentives were implemented (Elderly, Disabled people, and oncology donations). Together, they increased the donations in R\$ 5,3 and R\$ 13,1 million in 2011 and 2012, respectively.

Additionally, a new incentive created by the Law 12.594/2012⁷⁶, have allowed making donations when taxpayers is filling their forms, and after the fiscal year was ended.⁷⁷ This new procedure increased donations in R\$ 18.3 million and R\$ 21.1 million in 2011 and 2012, respectively. This new way to make donations is useful when taxpayer forgot itor when he wants to increase his donations, according his tax incentives limits.

⁷⁶ Declarations of 2011 were filled in 2012 and the Law 12.594/2012 allowed taxpayers to make donations in that moment, using tax incentives limit of 2011, and so on.

⁷⁷ Fiscal year ends in December in Brazil, but the taxpayers filling their forms in the next year, generally between February until April.

These three tax incentives, and the one created by the Law 12.594/2012, effectively generated new donations. Together, they increased the donations by R\$23.6 million and R\$ 34.2 million in 2011 (+23.4%) and 2012 (+33.7%), respectively, in comparison with 2010. So, this trend confirms that Brazilian tax policies are stimulating donations.

Although the new incentives created in 2012, which allowed taxpayers to deduct donations to oncology care and to disabled people funds,⁷⁸ have separated tax incentive limits, apparently they might divert donations from other deductible or non-deductible donations. This possibility should be analyzed in the future, with longer series data.

Despite the increasing in the value, the number of donations did not recover the pattern of 2006 and 2007. Furthermore, all the tax incentives declared are really small when compared to the total number of declarations, as it is possible to perceive in 2011, when only 0,53% of all taxpayers made donations. It confirms the information of Charity Aid Foundation, cited above, that Brazilians prefer to help others directly other than to give money to charity. On the other years the trend is similar, as can be seen on the table below:

More than increasing the absolute value, there is increasing in quantity of donations, in the last years, who reached 144,019 in 2012. This number is lower than 2006 and 2007 quantities because new procedures to enforce the compliance was created in 2003, such as the creation of Statement of Tax Benefits (DBF)⁷⁹. This declaration should be provided by the recipients Institutions with donors' information. It

⁷⁸ See more in <http://www.receita.fazenda.gov.br/PessoaFisica/IRPF/2013/declaracao/novidades.htm>

⁷⁹ Declaração de Benefícios Fiscais (DBF), in Portuguese. See more in <http://www.receita.fazenda.gov.br/Legislacao/LegisAssunto/DecBenFisDBF.htm>

has allowed double-check on the reported donations by individuals. As a result, many taxpayers' donations may not have been accepted by the tax authorities. After several years, the quantities state were more consistent because the compliance of reported quantities was more easily checked. The ratio between number of donations and total individual declarations increased, especially in 2011 and 2012, and may reflect the tax incentive effects. Anyway, the volume donated in is small⁸⁰. It confirms the information of Charity Aid Foundation, cited above, that Brazilians prefer to help others directly other than to give money to charity. On the other years the trend is similar, as can be seen on the table below:

Table 7. Quantity of donations in Brazil

Item \ year	2006	2007	2008	2009	2010	2011	2012
Number of income tax declarations (individuals)	24,156,670	25,225,363	25,773,256	24,384,198	23,963,531	24,898,859	25,570,286
Number of donations	151,369	157,798	112,193	105,159	111,123	132,414	144,019
Ratio of number of donations (%)	0.63%	0.63%	0.44%	0.43%	0.46%	0.53%	0.56%

Source: Brazilian Tax Administration

OBS: value is measured in Brazilian Currency, called "Real" (R\$).

When we delve into 10,435⁸¹ donations to the elderly funds in 2011, we find out that 2.769 taxpayers made donations for the same fund in 2012. This group is supposedly comprised by the same people who used to donate to elderly institutions. But this number represent only 26,5% of all donations in 2011, against 7.666 (73,5%) people who are used to donate to several funds or donate sporadically. Both data confirm that the marginal effect (taxpayers who have changed behavior and started to make donations) of this policy is greater than the inframarginal effect (taxpayers who

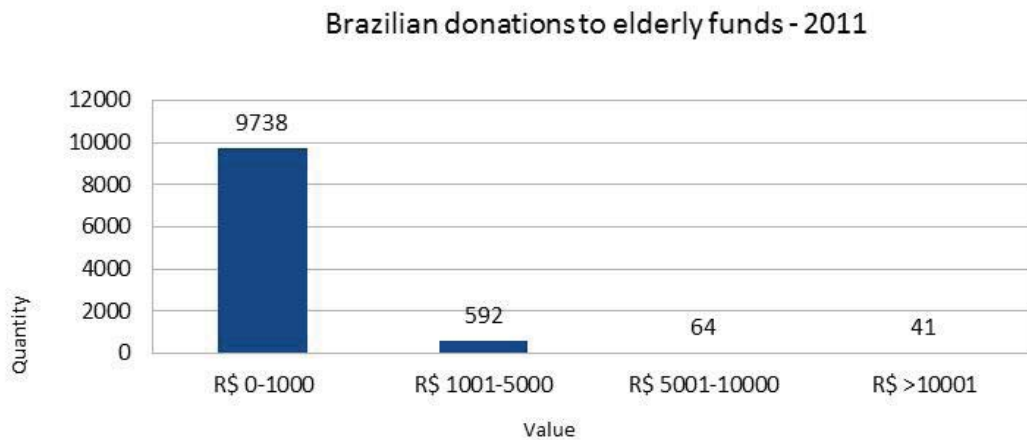
⁸⁰ These donations are only in money. There are some difficulties to donate in goods and properties using tax incentives.

⁸¹ The data came from Brazilian Tax Administration and it was worked by the author.

used to make donations and have not changed their behavior). Therefore, this public policy may demonstrate effectiveness.

To understand a policy it is also important to know who is affected by this specific policy. In the case of donations for elderly funds, the policy affects thousands of people, especially small donors. This is verified on the value of singular donations to the elderly funds in 2011. Out of 10,435 donations, 93.3% of them is lower than R\$ 1,000.00⁸², and only 1% is higher than R\$ 5,000.00. The more frequently donated value was R\$ 120.00. Although the value is small, it is spread through large numbers of people and promotes charity giving among Brazilians.

Figure 1. Brazilian donations to elderly funds in 2011



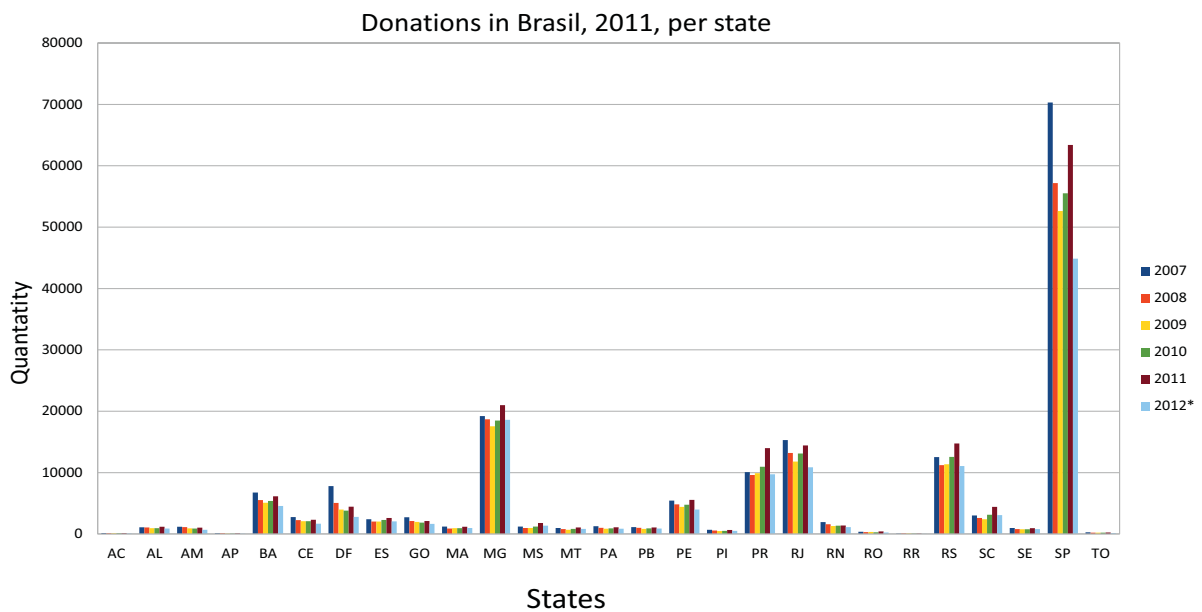
Source: Brazilian tax administration. OBS: This figure was produced by the author

There is another way to know whether the tax incentive works. It is possible to verify how the donations are spread among taxpayers. In the last five years, the total

⁸² Around U\$ 450.00

number of all kinds of donations has been increasing in Brazil, except during the crisis of 2008. This trend is spread among Brazilian states, as it is possible to see on the graph bellow. The most populous states generally have the bigger number of donations. In 2011, we have, in this order: São Paulo (SP), Minas Gerais (MG), Rio Grande do Sul (RS), Rio de Janeiro (RJ), and Paraná (PR).⁸³

Figure 2. Donations in Brazil, 2011, per state.



OBS: This figure was produced by the author

Donations to elderly funds, particularly, tend to increase in the future, because some states and most part of the six thousand municipalities have not yet constituted their elderly funds. Although it is possible, at any moment, to donate to the national funds, when the funds are closer to the taxpayer, they will certainly be more interested

⁸³ This information was inserted in this thesis because it is completely new and it is not found in any other source nowadays, for it has not been published. This research regarding donations could be useful for future studies of the Brazilian tax administration, the public funds and academic researches.

in making donations. Then, when the majority of funds will be created, the number of donations will certainly increase.

The limits of tax incentives are important information that should be considered when these numbers are analyzed. The tax incentives created in Brazil until 2010, still used nowadays, need to share the same tax limit, meaning that they together cannot amount to more than 6% of the Individual Income tax due each year. So, the same law that promotes donations in Brazil also refrain the volume donated, but this is also changing. Fortunately, since 2011, two new incentives have been created (disabled people and oncological care) and they have a separated tax limit of 1% each.

Nowadays the limitation is potentially 8% and comprises old tax incentives (Children, culture, and audiovisual donations), as well new ones, such as donation related with sports, available since 2007; donations to the Elderly funds, available since 2011; and the two new ones available since 2012. This trend seems to be coherent with the government intention to develop donations in Brazil.

These two new tax incentives (disabled people and oncological care) have strong appeal in Brazil, maybe stronger than the elderly funds. In fact, 216 taxpayers who donated to elderly funds in 2011 changed their option in 2012 and donated to Pronas/PCD fund (disabled people fund), as well 314 taxpayers who changed to Pronon fund (oncological care fund). Both funds were created in 2012 and they have special tax limit each (1%), which apparently should not compete with other funds, but they eventually compete with each other, independently of tax limits.

Other relevant aspect related to the tax incentive is the additional multiplying effect of charity funding. When the incentive to donations is applied as tax credit (100%

refundable), the elasticity around 1. But when the tax incentive works as tax deductions⁸⁴, the donation would reduce the adjusted gross income tax base, and the elasticity is less than 1, because each \$1 donated reduced less than \$1 in revenue. When the taxpayer gives U\$ 10 to the recipient organization, for example, the amount saved in tax would be U\$ 5, which means that the government would be spending U\$ 5, decreasing the revenue in one part, but could save the double on the expenditures:

Table 8. Demonstrative of Individual Income *versus* Charity allocation

Item	Government DIRECT payment	Government INDIRECT payment ¹
Individual Gross Income	100	100
Donation	0	-10
Taxable Income	100	90
Income tax (50%)	-50	-45
Individual Net Income (to other consumption)	50	45
Tax Income collected	50	45
Donation (Indirect government payment)	0	10
Total public resources	50	55
Individual donations to charity	0	10
Direct gov. expending to charity	5	0
Total charity funding²	5	10

Observations:

- 1) Government indirect payment means the individual allocations in public interest or charity.
- 2) It means all the funds or resources allocated to the charity or public purpose.
- 3) This table was produced by the author of this study.

The advantages for the government could be bigger, if the tax burden were lower than the hypothetical 50% used on this table. Indeed, in Brazil the maximum level is 27.5%, which means that for each \$ 1 reduced from the revenue, it is possible to save, at least, \$ 3,63⁸⁵ on the public expenditures. It happens because charitable

⁸⁴ Actually it is not the case of Brazilian rules, but it could be a new tool to promote donations in the future.

⁸⁵ See the calculation: (R\$ 100.00 x 27.5% = R\$ 27.50), then (R\$ 27.50 / R\$ 100.00 = 3.63 times).

contributions are bigger than the revenue loss. In this sense, the lower the tax burden in a country, the better will be the effect of a tax incentive to the public funding. Of course, in order to use this tool in Brazil, it would be first necessary to change the tax law.⁸⁶

Considering that in most countries there are progressive income tax system, the deduction gives a crescent incentive to the wealthiest people to donate according they are reaching the top of marginal tax rates. It happens because the relative price of contribution decreases when they are climbing to the high tax bracket. Consequently one can think that kind of tax incentive is not equitable.

Indeed, it happens. But progressive system of taxation is also inequitable because the tax burden is distributed irregularly among citizens, with large number of tax exempted people. Probably the best system ought to have reasonable distribution of tax burden. Bigger rates for high income people, but not too much.

Otherwise, excessive tax burden will not stimulate hard work or to try risk activities. For example, if someone work 1 hour more, but need to pay 50% of tax and 30% in additional expenses, such as transportation, food, clothes, and so on, perhaps he does not want to save only 20% as net income to cover other potential problems, like to hurt himself, to miss his family, to become excessively tired, among other possible complications. Thus, he will conclude that is irrational to work additional hour.

High marginal tax rates could also discourage risky investments. If someone were to try one, and his return is high, he will pay tax. But if he did a bad investment, he cannot pass the loss to the government or society. Considering these both possibilities,

⁸⁶ One option is reduce the Brazilian tax credit percentage from 100% to 25%, for example, or change from tax credit to deduction to adjusted gross income.

he could prefer to maintain his money in low risk activities, with low income, than to invest in risky businesses.

Together with these problems, there is the evasion. High marginal tax rates indirectly stimulate people to look for a way to reduce the tax burden, including illegal activities such as hidden income, transferring price, providing wrong information, and simulate or dissimulate transactions. Again, the tax progressiveness should be reasonable, and tax incentives could help to reach this goal.

On the finance literature there are discussions on having or not having tax incentives. The first option certainly has the intention to encourage some behaviors and also produce some public goods and services by NGO. The second one, without any incentive, makes the tax system simple and easy to use and manage for government and society. The both ways are possible, but in a contemporary and manage/ complex society, sometimes it is not easy to live with simple solutions.

In the US there are discussions about possible changes on the tax incentives from the deduction's system to the tax credit system, which "would subsidize all taxpayers at the same rate"⁸⁷, with supposed increasing in equitability. All proposes and estimations consider tax credit around of 20% on the donations' value, and eventually non-refundable. In Brazil, there is a credit system with 100% and refundable.

Although the Brazilian system is more generous, it causes some problems. One is the revenue loss, because each \$1 contributed reduces the same quantity of revenue. Second, there is a narrowness of the kind of giving, which causes diverting from the

⁸⁷ Clotfelter. 1985, p 103.

non-deductible to the deductible giving. Unfortunately, there is no specific Brazilian database to know exactly how the effect on the non-deductible giving is.

In addition, the value donated in Brazil based on the tax incentives is small. As it is possible to see on next Table, the seven kinds of incentives, altogether, represented only 0,13% of the total income tax declared by individuals in 2012. This percentage demonstrate the effect of the tax incentive to the elderly funds, available since 2011, as well as of the new ones created in 2012, and the children funds created after 2012⁸⁸. Donations were also influenced by the crises in 2008 and the new standards of compliance after Statement of Tax Benefits (DBF) was established in 2003. Actually, Donations are not significant when compared to the individual income tax revenue, which is one part of the total federal revenues.⁸⁹

Table 9. Demonstrative of individual income tax *versus* donations declared

Item \ year	2006	2007	2008	2009	2010	2011	2012
Total income tax due (individuals)	81,267,762,744	67,674,613,814	112,346,879,868	82,184,637,189	93,536,781,225	94,768,998,101	106,396,345,800
Value of donations declared	112,404,655	101,580,133	90,249,222	91,526,838	101,191,368	136,584,776	135,517,891
Ratio of value donated (%)	0.14%	0.15%	0.08%	0.11%	0.11%	0.14%	0.13%

Source: Brazilian Tax Administration

OBS: value is measured in Brazilian Currency, called "Real" (R\$).

There is an increasing in the absolute value and its relative proportion with total individual income tax due, which passed from 0,08% to around 0,14%, between 2008 and 2011. Anyway, the volume donated in money is small⁹⁰. It confirms the information

⁸⁸ The donations to the children funds were modified after 2012 and it is possible to make donations when the taxpayer is filling the form.

⁸⁹ There are other federal revenues related to VAT on the production and importation, social security, other social contributions, custom tax, corporation tax income, and others.

⁹⁰ These donations are only in money. There are some difficulties to donate in goods and properties using tax incentives.

of Charity Aid Foundation, cited above, that Brazilians prefer to help others directly than to give money to charity.

The loss in revenue is small because the contributions are also small. Although the absolute number of donations seems to be large, the relative number is not significant. After new tax incentives create in recent years, the value donated is also non relevant. Therefore, the tax incentives related to donations should increase more, in quantity and value, to become a relevant public policy.

Related to this concern, it is important to observe that \$1 giving corresponds to \$1 in revenue loss. But the problem is not only to lose revenue but who can do better with the money from society. Milton Friedman, awarded with Nobel Prize in Economics, has an expression to describe the government efficiency: "if you put the federal government in charge of the Sahara Desert, in 5 years there'd be a shortage of sand". This famous economist used to criticize government actions, and also used to affirm that he was "in favor of cutting taxes under any circumstances and for any excuse, for any reason, whenever it's possible"⁹¹.

Government is not bad or good. It is a social organization which has limitations like other institutions. Then, maybe it is not good idea to ask government to solve all social needs.

Sometimes it is better to share the task with other partners. Nowadays, the Brazilian federal government has 39 ministries or secretariats with ministerial status and 984,330

⁹¹ See these and other ideas from Milton Friedman in http://en.wikiquote.org/wiki/Milton_Friedman and http://www.brainyquote.com/quotes/authors/m/milton_friedman.html.

employees (2011), including retirees.⁹² These numbers not include states and municipalities data. Additionally, the country is large and with around two hundred million people. These numbers could suggest how difficult is to manage and produce public goods and services there, and why it is sometimes better when there is no government intermediation. So, using tax incentive to promote donations could be a good idea to allow the government to concentrate in strategic issues. It is proper to remember that not all donations are accepted by the Brazilian tax administration. Considering that the tax incentive is limited to 8% of all income tax due, the spontaneous donations have been decreasing since 2006 and have become more dependent of tax incentive. The ratio of donations dependent on the tax incentive increased continuously from 2006 to 2012, from 48.6% to 72.5%. This increase proves, beyond the better compliance, the power of tax incentives to change the behavior of individuals. See more in this table:

Table 10. Tax incentive *versus* behavior of individuals

Item \ year	2006	2007	2008	2009	2010	2011	2012
Value of donations declared	112,404,655	101,580,133	90,249,222	91,526,838	101,191,368	136,584,776	135,517,891
Tax incentive limit (6%+1%+1%=8%)	54,684,569	63,138,352	55,838,492	59,226,653	68,746,938	94,795,504	98,352,300
Ratio of donations accepted (%)	48.65%	62.16%	61.87%	64.71%	67.94%	69.40%	72.58%

Source: Brazilian Tax Administration

OBS: value is measured in Brazilian Currency, called "Real" (R\$).

When a country wants to create or improve its tax incentive, it is necessary to have confidence on the tax system. As the tax deductions could create opportunities to increase evasion, first of all, this kind of incentive could be a signal that the tax system is mature enough to deal with subjects related to evasion. Although there is no such a perfect system, the Brazilian federal tax administration has more than twenty-five

⁹² See more in <http://oglobo.globo.com/pais/a-conta-do-inchaco-de-ministerios-no-governo-dilma-8432076>.

thousand employees and a long tradition of processing income tax declarations. For example, its experience allowed the country to use only digital declarations of income tax after 2010.

In this way, the federal tax administration is used double check in documents filed by taxpayers. The procedures have used several databases received from companies, public departments, notaries, property registrations, renter agencies, banks, credit cards, nonprofit organizations who receive donations,⁹³ and other institutions. If necessary, anytime it is possible to create new obligations for people or institutions, such as to fill forms or provide information.

Particularly about donations to children and adolescent funds, it is possible to contribute after the fiscal year, according to the Lei nº 12.594/2012. The compliance between donations and tax incentive will be check with the tax payments. In this case, There is almost hundred percent sure that there is no evasion. Despite the country being large, the recent development in communications and information technology, associated with new tax proceedings, has reduced the avoidance opportunities.

Additionally, the Brazilian tax revenues are increasing constantly for long time. There are complaints from taxpayers that tax burden is becoming hard, especially because it usually increases more than inflation. From less than 15% in 1946, the revenues reached 35.86% of GDP in 2012⁹⁴. So, the tax collections are higher in

⁹³ For institutions who receive donations, there is a especial declarations to be filed, called “DBF – Declaração de benefícios Fiscais”

⁹⁴ See more in <http://economia.estadao.com.br/noticias/economia,carga-tributaria-cresce-pelo-3-ano-seguido-e-chega-a-35-85-do-pib,173688,0.htm> , http://repositorio.ipea.gov.br/bitstream/11058/2439/1/td_0583.pdf , and http://portal2.tcu.gov.br/portal/page/portal/TCU/comunidades/contas/contas_governo/contas_10/fichas/Ficha%203.1_cor.pdf

absolute and relative terms, and it suggests the compliance's effectiveness promoted by this institution, year after year. Then, it is possible to consider that the Brazilian federal tax system is presumed mature enough, and, in consequence, one can be confident that such incentives could be effectively worked under government control.

Final considerations

It is extremely important to know whether the tax incentives are really bringing new contributions. Considering that is difficult to find available data about donations in Brazil, empirical studies about this issue have limitations. To mitigate this problem, this study adopted two alternatives. One is using US as reference to apply American estimations and researches in Brazil. Other, looking for Brazilian databases that shows evidences of effects from personal income tax incentives.

On the US estimations and researches, Charles Clotfelter in his paper "Charitable Giving and Tax Policy in the U.S."⁹⁵, produced some relevant insights about American donations. He suggests some changes in current tax incentives in the country, which include changes from tax deductions to tax credit, and possible creation of a floor. His brings some estimations as showed on the next table:

⁹⁵ This paper was "prepared for the Centre for Economic Policy Research Public Policy Conference on Altruism and Charitable Giving, May 11-12, 2012, at the Paris School of Economics in Paris (co-sponsored by le Centre Pour la Recherche Economique et Ses Applications)." See more in <http://www.parisschoolofeconomics.eu/IMG/pdf/may2012-paris-clotfelter.pdf>

Table 11. US predictions in tax incentive reforms.

CBO's Predicted Effects for Eight Illustrative Tax Reforms, 2006 Levels			
	Floor for donations?	Total contributions (\$ billion)	Tax subsidy (\$ billion)
		<u>Current law</u>	
Deduction for itemizers only	No	203.0	40.9
		<u>Changes from current law</u>	
Deduction for itemizers only	\$500/\$1,000	-0.5	-5.5
Deduction for itemizers only	2% of AGI	-3.0	-15.7
Extend deduction to nonitemizers	No	2.0	5.2
Extend deduction to nonitemizers	2% of AGI	1.9	-13.1
Replace deduction with 25% credit	No	2.7	7.1
Replace deduction with 25% credit	2% of AGI	-1.0	-11.9
Replace deduction with 15% credit	No	-7.8	-13.3
Replace deduction with 15% credit	2% of AGI	-10.0	-24.6
Note: \$500/\$1,000 floor would be \$500 for individual filers and \$1,000 for joint filers. Credits would be nonrefundable. Changes in contributions assume a price elasticity of -0.5.			
Source: Congressional Budget Office (2011, Summary Table 1, p. ix).			

OBS: This is the Table 5, in Clotfelder's paper "Charitable Giving and Tax Policy in the U.S", whose source is Congressional Budget Office - CBO⁹⁶

Analyzing this table it is possible to see that there are several effects in each proposed change in tax incentive system. Each alternative affects different individuals and has various levels of complexity to implement. It is presumed that one which brings more contributions and fewer subsidies is better, such as the option "to extend

⁹⁶ Clotfelder, op cit, page 25. See more in <http://www.parisschoolofeconomics.eu/IMG/pdf/may2012-paris-clotfelder.pdf>

deduction to nonitemizers, with a floor of 2% of the Adjusted Gross Income – AGI”, but it obviously is a political decision.

One other insight is the relation between total contribution (\$203,0 billion), based in 2006 levels, to the tax subsidy, whose number is \$40,9 billion. It demonstrates that each \$1 lost in revenue, taxpayers donated around \$5. So, it is a good deal for government, except when related to large religious donations that obviously do not attend to public interest, but are most used to support worship and other activities. This trend and suggestions could be applied in Brazil, but it necessary to consider that the tax credit is 100% refundable in that country, which means that each \$1 in tax subsidy will create only \$1 in donation.

Brazilian database, on the other side, has two possible evidences that show the effects of this public policy. The first evidence shows that elderly donation increased in the first year, and partially decreased after a new tax incentive to protect disabled people was created. Unfortunately, there is not a long historical series to check statistically the marginal and inframarginal aspects of this policy. But the second evidence are more consistent. It happened after edition of law 12.594/2012, article 87, which allowed taxpayers to make donations after fiscal years were ended. In this case, donors only did donations because the new tax incentive gave this opportunity to taxpayer's when they were filling their forms.

The second case, related to 2011 fiscal year, there are not estimations , there are facts. The new tax incentives did promote new donations. In the first year that the new policy was implemented 25,828 taxpayers donated R\$ 18,323,412.47, which

represent around eight million dollars. Then, the marginal effect was proved, because the taxpayers changed their behavior exclusively according the new tax incentive.

Both cases are based in more than 25 million taxpayer's declarations who should provide information to the government when their income is bigger than ten thousand dollars per year. Most of them use standard deduction. People not obliged to declare supposedly have small income and, presumed, do only a small part of all Brazilian donations.

Summarizing, the evidences presented in this study show that the donations in US are larger and most diversified than in Brazil. Analysis of the Brazilian data suggest that donations represent small participation on the federal revenues and effectively do not affect the finance budget until now, but it tends to impact more because there are a 100% tax credit on each contribution. On the other hand, charity giving could be good tools to reduce inequalities and reinforce the social cohesion, and can be promoted by tax incentives because there are positive externalities.

In this direction, there are some tips related to the charity giving that could be useful to the development of public policies, according to the Charity Aid Foundation - CAF⁹⁷:

⁹⁷ The CAF is an UK organization that defines itself like this: “[w]e are a charity dedicated to getting the best for other charities and their donors. For over 80 years, we have found the most effective and efficient ways to connect donors to the causes that matter to them and for money to get where it’s needed. For charities, we provide not only financial services and advice but also donation processing, freeing them up to concentrate on the real work of making a difference. Making an impact in the charitable sector is what drives us. That's why we have spearheaded many of the changes that make the UK one of the best giving environments in the world.” See more in <https://www.cafonline.org/about-us.aspx>. Additionally, the UK tax administration recognizes the relevance of this Institution and used it as an example to teach to the companies and taxpayers: “[t]he Charities Aid Foundation is an organisation which, as well as managing other charities, is also a charity in its own right”. See more in <http://www.hmrc.gov.uk/manuals/ihtmanual/ihtm11132.htm>.

“Governments around the world should:

- Ensure there is a named government representative responsible for supporting civil society, who is mandated to promote greater and more effective giving and social action.
- Maximise the effectiveness of civil society organisations by ensuring that minimum standards of governance and oversight are in place, through such measures as appointing independent regulators.
- Engender a widespread social norm for giving by celebrating the work of civil society organisations and individuals who generously commit their own time and money for charitable reasons, and encouraging others to follow their example.
- Collect and publish, in a transparent manner, robust data that allow the measurement, understanding and promotion of trends in charitable giving, volunteering and wellbeing.
- Champion the independent and diverse role of civil society organisations.
- Ensure that donors can give easily and tax-effectively, without an undue level of administration - including giving across international borders.
- Work with civil society organisations and private companies to ensure that giving and volunteering are promoted in the workplace.
- Work with private companies to ensure that financial products and services, which promote and support charitable giving, are widely available.
- Promote alternative sources of finance for civil society organisations, such as social investment, venture philanthropy and microfinance.
- Support civil society organisations to develop social impact measurement tools to enable them to communicate their effectiveness to donors and funders more efficiently.
- Facilitate and promote investment in new technologies that make giving easier.
- Support the sustainability of civil society organisations, by ensuring that policy facilitates long-term financial planning and promoting regular giving as a vital source of funding.”⁹⁸

Considering these tips, and all the information in this study, it is possible to realize that the Brazilian tax incentives have room for improvement. It might happen not only because there are several manners to do this, such as to accept other types of donations, increase the number of organizations that can receive money, change the tax incentive limit or create new kinds of tax incentives. It ought to happen because it makes the people help themselves (giving or receiving donations), without the government intermediation.

⁹⁸ Charity Aid Foundation. “World Giving Index 2012: A Global View of Giving Trends”. 2012, 8.

CONCLUSION

In this study it was possible to see that individual income tax incentives which promote donations bring some problems to the government, such as complexity, vulnerability to evasion, and reduction of revenues. But the incentives also make the tax system adjusted to the social interests, stimulate volunteering, promote solidarity, increase donations, reduce the transaction costs, and give some transparency to the tax burden. Then, this study aimed to know whether the Brazilian individual income tax incentive related to donations should or not be promoted.

To support the arguments, there are some empirical studies, as well the primary and secondary sources used here, which have demonstrated that the value of donations is larger in the US than in Brazil. Indeed, the donations in US are around 2.0% of GDP, and 0.3% to 1.0% in Brazil. The types of donations supported by tax incentives are also larger in the US. Using the US as paradigm was useful because both countries have similarities (size of country, large population, some taxation policies, etc.), and could be reasonably compared. The results suggest that Brazilian tax system has opportunities to create or improve incentives, now limited in 8% of the individual income tax due, to promote donations.

Particularly about the donations to the elderly funds, available since 2011, the numbers demonstrated that this policy was welcomed by taxpayers. On the first year, it reached the fourth position among five individual income tax incentives allowed by the Brazilian legislation to individuals. In 2012, it remained the fourth among seven tax

incentives. Then, the donations to elderly funds could be considered a successful policy, and eventually could inspire other tax incentives.

The evidences found in this study suggest that the tax incentive for elderly funds changed the behavior of taxpayers because new donors applied continuously in 2011 and 2012, despite the fact that some of them had never made donations or used tax incentives in the past. Of course there is some competition among different types of donations, but it also happens because the tax limit should be shared with them. Anyway, this incentive does not change significantly other kinds of donations, considering that the volume donated to other funds increased at the same time.

Additionally, this kind of individual income tax incentive did not affect the Brazilian budget until now. The donation's volume is really small, as all kinds of donations together amount to a relatively low rate, around 0.1% of the revenue from individual income tax. This percentage suggests that the public policy does not bring budget problem to the government.

Summarizing the evidences about donation to the elderly funds: 1) the taxpayers applied to the new tax incentive, suggesting that the public policy changed the donors' behavior; 2) each year new taxpayers continuously apply to the new tax incentive, suggesting that the public policy stimulates new donations; 3) the new tax incentive does not significantly affect other kinds of donations, suggesting that this public policy does not make strong competition with other policies; and 4) this kind of incentive does not affect significantly the Brazilian individual income tax revenue, suggesting that this public policy does not bring budget problems to the government in the current level.

Additionally, the new proceedings created by the Brazilian Law 12.594/2012, article 87, which allowed making donations using tax incentives after the fiscal year ended, generated new donations. It happened because the donations were made when the taxpayers are filling the tax forms. It proves the marginal effect of tax incentives and was verified in this study.

The agency theory was also checked and demonstrated that it would be applied onto the public subjects. More specifically, this theory could explain some benefits and problems related to taxation, as well as the role of the government / tax administration as an 'intermediator' between social resources and social needs. The agency theory is confirmed when the taxpayers increase the donations, even though such donations are not favorable, considering that they anticipate the expenditures by the individuals, and bring some troubles regarding tax incentives application. Even if it seems irrational to make donations, taxpayers do.

Considering that the government cannot provide everything required by society, charity giving makes people help themselves. It is desirable because it attends to the social needs and, at the same time, avoids the increase on government size and bureaucracy. Thus, tax incentives could be a good example of effectiveness of the public policies, and bring positive externalities.

Equity is also improved by tax incentives, at least for two reasons. First, it brings horizontal equity among traditional and new donors because both can use tax incentives. Second, changing from the deduction system to the tax credit system or adjusting the levels of tax credit, can also improve vertical equity because neutralizes the surplus benefits obtained by people with high marginal tax rates. Additionally, the

standard deduction affect negatively the lower income taxpayers, but it is other and better tax benefit than that provided by tax incentives which promote donation. Therefore, tax incentives when well managed is supposedly good for equitability.

In conclusion, the evidences emerged on this study suggest that the Brazilian tax incentives related to donations could be improved. It is important to report that the charity giving in Brazil may be increased in comparison with the US and also with other countries, such as Australia, UK, and China. Therefore, based on the qualitative and quantitative data, the hypothesis that drove this work could be accepted, which means that the new tax incentives related to donations could be promoted in Brazil. Then, this public policy, when well-managed, can work with the assumption that this tax incentive is good and, the higher its values, the better for the taxpayers and society.

Some recommendations can be made for the Brazilian public policy of individual tax incentives related to donations: 1) reduce the levels of tax credit to reduce revenue loss; 2) enlarge the possibilities to make donations, such as educations, health care, etc.; 3) extend the tax limit to encourage new donations; 4) unify the tax incentive limits; and 5) create tax incentive to promote volunteering.

This work also suggests possible researches, notably about the tax incentives adopted in the US, their legislation and tools to promote donations, and how tax incentives could be spread into the society. Particularly in Brazil, several types of researches would include: ways to promote consolidation of rules and laws related to tax incentives; how to increase tax incentive levels; how to increase the number of donors that can make donations to relevant public fields, such as volunteering time, and caring of public areas; how to reinforce tax incentives into federal, state and municipal

levels; and how they could create specific government departments to manage incentives. Finally, it is important to study how to stimulate direct allocations to develop and produce public goods and services without the intermediation of the government, because it could be a manner to call the society to solve public problems or demands where governments have difficulties to manage alone.

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