

The impact of the coronavirus crisis on the recipients of the share of the tax paid

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Abstract: For non-profit entities, securing sufficient sources of funding is a fundamental condition for their operation. One of the primary sources of financing is also the received share of the personal income tax paid. The paper focuses on examining the recipients of the share of the tax paid in general and particularly in the context of the COVID-19 crisis. The paper aims to point out the importance and peculiarities of the recipients of the share of the tax paid as specific entities concerning the impact of the COVID-19 crisis on the financial health of these non-profit entities.

Keywords: non - profit accounting units, allocation, the share of the tax paid, income tax

JEL codes: L30, L31, M40

1 Introduction

Non-profit entities have an important place in a healthy democratic society. Ensuring sufficient sources of funding is a fundamental condition for their operation. One of the basic sources of financing is also the received share of the personal income tax paid.

Non-profit entities that may become recipients of the tax share are foundations, non-investment funds, non-profit organisations providing services of general interest, civic associations, organisations with an international element, the Slovak Red Cross, research and development entities, special-purpose facilities of churches and religious societies. The subject of activity of these non-profit accounting units must be protection and support of health, prevention, treatment, social rehabilitation of drug addicts in the field of health and social services, support and development of sport, provision of social assistance, preservation of cultural values, support of education, protection of human rights, development and environmental protection, science and research, and promoting and brokering volunteer opportunities (Income Tax Act, 2003).

This paper focuses on examining the recipients of the share of the tax paid in general and in the context of the COVID-19 crisis. The purpose of examining the recipients of the share of the tax paid is to point out their importance and particularities as specific entities concerning the impact of the COVID-19 crisis on the financial health of these non-profit entities.

2 Methodology and Data

Non-profit accounting units as recipients of the share of the paid personal income tax are the objective of our research.

The basis for the elaboration of this paper were various literary sources. We also include papers published in proceedings of scientific conferences (Antalová, 2016), (Blahušiaková, 2017), (Pakšiová, Kubaščíková, Kršeková, 2015) and (Vašeková, 2016). Other significant

sources used are articles published in scientific journals (Gregorová, Valášková, Adamko, Tumpach, Jaroš, 2020), (Kováčová, Klieštič, Valášková, Ďurana, Juhászová, 2019), (Pakšiová, Lovciová, 2019), (Subačiene, Alver, Bruna, Hladika, Mokošová, Molín, 2018) and (Tumpach, Surovičová, Juhászová, Marci, Kubaščíková, 2020). The basic legal regulation of the receipt and use of a share of the tax paid for special purposes is currently provided by Act no. 595/2003 Coll. on income tax, as amended.

Based on the analysis of the development and current legal status of the receipt and use of the share of the tax paid for special purposes and the scientific and professional literature, we first define non-profit entities as recipients of the share of the tax paid and activities to which funds from the received share of the tax paid from the personal and corporate income tax under the conditions of the Slovak Republic. As part of the further examination of this source of financing for defined non-profit entities, which we analyse in more depth, we focus on the following characteristics:

- conditions for registration of recipients of the share of the tax paid,
- the development of the number of recipients of the share of the tax paid over the last twenty years,
- the development of the amount remitted to the beneficiary of the share of the tax paid over the last twenty years,
- the impact of the COVID-19 crisis on the financial health of defined non-profit entities.

The paper uses several scientific methods, especially the analysis of the development and current legal status of the adoption and use of the share of the tax paid for special purposes in defined non-profit entities to identify the peculiarities of the share of tax paid and its recipients in individual research areas. When processing the paper, we proceed from the general to the specific; to a large extent, we use an inductive-deductive approach and comparison (Blahušiaková, 2016).

3 Results and Discussion

Non-profit entities must meet the following conditions in order to transfer a proportion of the tax paid to the tax authorities:

- they are listed as of 31 December of the previous calendar year in the central register of beneficiaries kept by the Notary Chamber of the Slovak Republic according to a special regulation,
- are defined by law as beneficiaries (type of accounting unit and subject of activity),
- were incurred no later than during the calendar year preceding the year in which compliance is demonstrated,
- have no tax arrears within 15 days after the deadline for filing the tax return,
- they have no registered arrears on social insurance premiums, and the health insurance company does not record overdue receivables from them according to special regulations,
- prove that they have an account with a bank or a branch of a foreign bank, by confirmation not older than 30 days and state the number of this account,
- the notary certified the non-profit accounting units and without undue delay notified the Notary Chamber of the Slovak Republic of the identification data of the beneficiaries, the name of the bank or branch of the foreign bank in which they have an account and the number of this account,
- are registered in the register of non-governmental, non-profit organisations (Income Tax Act, 2003).

Table 1 shows the number of beneficiaries of the share of the tax paid, and the amount remitted in the analysed years 2002 - 2021. For 2021, the amount of remittance is not given, as the amount of these funds is not yet known, because the share of the tax paid has not yet been remitted to all beneficiaries.

Table 1 Number of recipients of the share of the tax paid and the amount paid.

Year	Number of recipients	Amount paid in Million Euros (€)
2002	3 925	3,4
2003	3 369	3,2
2004	3 826	27,9
2005	5 688	30,9
2006	7 062	37,3
2007	7 620	42,1
2008	7 720	49,2
2009	9 098	55,2
2010	9 557	44,1
2011	10 017	42,0
2012	10 565	44,7
2013	11 197	46,7
2014	11 908	52,2
2015	12 576	56,9
2016	13 293	61,6
2017	13 980	63,4
2018	14 915	68,3
2019	15 483	73,0
2020	15 832	53,4
2021	15 683	-

Source: own processing according to Molokáč, Hagara (2015), Statistics 2% of the tax paid (2021) and Results for previous years (2021)

If we examine the number of recipients of the share of the tax paid over the last twenty years, we can, in principle, find a steady increase in the number of non-profit entities registered as recipients of the share of the tax paid. The only exceptions were 2003 and 2004, where there was a decrease compared to 2002. We see a further reduction in the number of recipients of the share of the tax paid in 2021, which we attribute to the impact of the COVID-19 crisis. There was a decrease of 149 non-profit entities compared to 2020, and the impact of this crisis can be seen in the lower increase in the number of recipients of the share of the tax paid between 2019 and 2020, representing an increase of only 349 non-profit entities. At present, in 2021, compared to 2002, the number of non-profit entities as recipients of the share of the tax paid increased by 11,758 non-profit entities.

The amount remitted to non-profit entities over the last twenty years shows a fluctuating trend. The highest amount remitted by the relevant tax authorities to the accounts of non-profit entities was in 2019, namely € 73,071,422.53, and the lowest amount remitted in 2003 was approximately € 3.2 million. This situation is affected not only by the gradual increase in the number of non-profit entities registered as recipients of the share of the tax paid and the change in the percentage that natural and legal persons could refer to non-profit entities but also by the impact of the COVID-19 crisis in other years analysed.

Since 2002, individuals have been able to assign 1% of the income tax paid. Since 2004, this share of the tax has increased to 2%, and at the same time, legal entities have been allowed to be allocated. During this period, natural and legal persons who are taxpayers could remit 2% of the income tax paid. Since 2011, the assignment in the previous amount of 2% of the paid income tax has been conditioned by the provided gift. This change was introduced to increase the involvement of assignment providers. Without the gift, the legal entity could assign 1.5% of the paid income tax. (Institute of Financial Policy, 2015). The change in the conditions of the allocation providers had a significant impact in 2004 on the amount remitted, which amounted to € 27.9 million, which represented an increase of almost € 25.0 million compared to the previous year. In 2011, the negative trend of a

decrease in the amount of the remitted share of the tax paid continued as in 2010, but this time due to a reduction in the percentage of the assigned tax in the absence of a gift.

Since 2013, it has been possible to remit a higher percentage of the share of the tax paid for natural persons. Since 2013, natural persons have been allowed to assign 3% of their tax, and the condition was to prove voluntary activity for at least 40 hours per year. Also, at present, natural persons as taxpayers are entitled to remit to defined non-profit accounting entities 2% of the tax paid, or 3% if they performed voluntary activity in the relevant tax period under Act no. 406/2011 Coll. on volunteering and the amendment of specific laws, as amended, for at least 40 hours in the tax period and submit a written confirmation.

The taxpayer – a legal entity is entitled to remit the share of the tax paid up to 2%, provided that in the tax period to which the declaration relates or at the latest within the deadline for filing this tax return donated funds in the amount of at least 0.5% of tax paid by the designated taxpayer not established for business purposes defined in § 50 par.5 of the Income Tax Act. If the taxpayer does not provide a financial gift to a taxpayer not established for business purposes in at least 0.5% of the paid tax, he is entitled to remit in the tax return the share of the tax paid only up to 1%. The above method of providing the share tax was used for the first time in the application for 2016 tax period and will also be used in the years 2017 - 2021. Gradual reductions in the percentage of the share of the tax paid do not apply from 1 January 2016 (Amount of the remitted share of the tax paid, 2021).

These changes since 2013 and 2016 have not significantly affected the positive trend in the ever-increasing amount of the remunerated share of the tax paid in individual years. The impact of the COVID-19 crisis on the financial health of defined non-profit entities in terms of the amount of tax received is noticeable in 2020, where there was a significant decrease in this income of non-profit entities by almost € 20.0 million compared to the previous year. We expect the same negative trend in 2021 too.

Conclusion

The results of the analysis of the share of the tax paid by non-profit entities in the period under review show that they represent an important part of the funding sources for non-profit entities. The number of non-profit entities that are recipients of the share of the tax paid is growing in most of the years analysed, except for 2003 and 2004, and due to the corona crisis, this positive trend has stopped in recent years. The amount remitted to non-profit entities over the last twenty years shows a fluctuating trend. The gradual increase influences this fluctuating trend in the number of non-profit entities registered as recipients of the share of the tax paid and the change in the percentage that individuals and legal entities could refer to non-profit entities and the COVID-19 crisis in other years analysed. This caused a significant negative impact on the amount of received tax share in 2020, and we expect this negative impact on the financial health of defined non-profit entities in 2021.

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