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1% OF INCOME TAX FOR NON-PROFIT ORGANIZATIONS IN POLAND

ABSTRACT

The following article describes the mechanism that enables citizens to support non-governmental organizations (NGOs) by allocating 1% of their tax. The purpose of the article is to explain the legal basis of this regulation, to determine the size of the funds’ transferred for the benefit of public benefit organizations (PBOs) after the introduction of the mechanism in 2003, and to present the social aspects of this action. Two analyses were performed in the article. The first concerns the legal acts regulating the PBOs subsidies and the second analysis concerns data obtained from studies conducted by national research centers. The article focuses on the impact of legislative changes that facilitate the allocation of 1% tax to the PBOs and the funds obtained in this way by these entities. It also presents the relationship between the introduction of this mechanism and the development of the civil society.

The analysis led to the following conclusions: firstly, the legal changes concerning the 1% tax allocation caused a significant increase in the number of taxpayers using this option. Secondly, this mechanism provides a stable source of income for the PBOs and thereby strengthens the entities that constitute the pillars of civil society. Thirdly, it contributes to the maintenance and further development of social trust. Last, but not least, it not only creates another opportunity for people previously active in this area to deepen their involvement in social affairs, but it also provides the possibility of engaging those citizens who were not interested in the functioning and the role of NGOs.
1. Introduction

The purpose of the article is to point out the legal basis of 1% income tax for non-profit organizations in Poland, to determine the size of the funds’ transferred for this organizations since 2003, and to present the social aspects of this action. This subject is essential as fundraising is one of the most important issue for the success and survival of a non-profit organization. In recent years this issue has been characterized by intense changes. Currently, organizations must develop a long-term strategy to have a chance to raise private funds. This article indicates how the mechanism of 1% income tax affects those entities’ financial situations. Its essence is also to determine the influence of this action for the development of the civil society. The article uses a secondary analysis of data obtained through surveys carried out by national research centers and analysis of legislation on tax regulations. The amount of funds transferred from tax-payers to non-profit organizations were determined on the information provided by the Ministry of Finance.

2. Third sector in Poland

Non-profit organizations in Poland developed extensively during the era of the Second Polish Republic, however World War II and the era of communist rule caused a massive decrease in the social activity. At first, these organizations concerned themselves with charity work, but later on they also undertook corporate, cultural, educational, and scientific activities. Nowadays, they also promote social development and the social solidarity. The democratic transformation in Central and Eastern Europe restored the freedoms to form unions and establish associations. Since 1989, there has been a significant increase in the number of non-governmental organizations, foundations, and associations, which have had to overcome the problems and needs of the modern society. The dynamic growth

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of these entities means that they are becoming an essential element of economic reality\(^2\).

Those entities described as non-governmental organizations are concentrated in the so-called third sector. According to the definition on the site of Polish voluntary services, the third sector is “the public sphere (area) which is not a commercial business activity nor activity of the State, but a highly formalized social action”\(^3\).

A definite clarification of the public benefit organizations is not that easy because, in the literature, a few types of expressions are applied to this type of socio-economic activity. This diversity is primarily due to the fact that each definition, as well as any of the terms, highlights a typical feature of such organization. The first of them are “charities”, which are operating thanks to subsidies. The second expression is “independent organizations” because they are external from the companies operating in the public and private sectors. They are also “voluntary organizations”, which are called so because they are based to a large extent on the work of volunteers. The next expression is “tax-exempt organizations”, which concerns entities operating in the Western countries that do not have to pay tax or are specially treated in defined cases. One of most popular terms is “non-governmental organization”, which emphasizes the organization’s independence from the administration (or government). Another expression is “non-profit organization”, which means that its activity differs from other entities as not oriented towards gaining profit, but rather supporting private or public social aims. In this case, human motivation is the most important. However, this fact does not mean that a non-profit organization cannot conduct commercial activity. It can, but profits from such activity are being allocated for financing targets stipulated in the Articles of Association and cannot be divided among workers or volunteers\(^4\).

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\(^2\) In the United States there are almost 1.5 million non-profit organizations. Meanwhile, in Poland, there are over 67.5 thousand foundations and associations (according to GUS as for December 2005) registered, the majority of which act locally rather than nationally.

\(^3\) *ABC wolontariatu – podstawowe pojęcia* [The ABC of Volunteering], Centrum wolontariatu [The Centre of Volunteering], http://www.wolontariat.org.pl/strona.php?p=92 [access: 24.03.11].

\(^4\) An international term determining non-governmental organization, which is becoming more and more popular is NGO, being an abbreviation of non-governmental organization (plural: NGOs); *Co to jest trzeci sector* [What is the Third Sector?], Portal organizacji pozarządowych [The Portal of Non-governmental Organizations], www.osektorze.ngo.pl [access: 24.03.11].
The most frequent forms appearing among the public benefit organizations are association or foundation. They are based on voluntary work of their members or volunteers. They can have religious or purely secular character.

3. Legal grounds for NGO activity in Poland

The entities acting in the non-profit sphere are governed by regulations in legal systems of individual states. In Poland, the Act from April 24 2003 on activities for the public benefit and on voluntary services regulates the formal issues connected to conducting activity of the public benefit organizations. This act specifies the process for obtaining public benefit status, supervising their activities, as well as the mode, rules, forms, and outsourcing of public tasks by public administration to NGOs or the exercise of the services provided by volunteers.

According to the law, “non-governmental organizations are not public finance sector units within the meaning of provisions on public finances, and they are not operating for profit, legal persons or entities without legal personality, which separate law recognizes the legal capacity, including foundations and associations.”

The scope of this definition is very broad and, apart from associations and foundations to which it refers, can include religious organizations (churches as legal persons), self-governing units or associations, social cooperatives, joint-stock companies, limited liability companies and sports clubs, all of which do not conduct commercial activity concentrated on making a profit and allocate the entire amount of their revenue to achieve the goals stipulated in the articles of association. In accordance with the act, the definition of what a “non-governmental organization”

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5 Ustawa z dnia 7 kwietnia 1989 r Prawo o stowarzyszeniach, (Dz. U. 1989 Nr 20 poz. 104 z późn. zm.), art. 2 [Act of April 7, 1989 on Law on Associations (Dz. U. (Official Law Journal), no. 20, item 104 with later amendments), art.2].

6 Ustawa z dnia 24 kwietnia 2003 r. o działalności pożytku publicznego i o wolontariacie (Dz. U. Nr 96, poz.873 z późn. zm.), art. 3 ust. 2 [Act of April 24, 2003 on Public Benefit and Volunteer Work (Dz. U. (Official Law Journal), no. 96, item 873, with later amendments), art. 3, par. 2.]. (Act from 24 April 2003 r. on activity for the public benefit and on voluntary services)

7 In accordance with the act, sports clubs are companies operating pursuant to the provisions of the act from day 25 of June 2010 r. on sport; Ustawa z dnia 25 czerwca 2010 r. o sporcie (Dz. U. Nr 127, poz. 857 i Nr 151, poz. 1014) [Act of June 25, 2010 on Sport (Dz. U. (Official Law Journal), no. 127, item 857 and no. 151, item 1014)].

8 Aims stipulated in the articles of association should assume conducting of business for the public benefit. Ustawa z dnia 24 kwietnia 2003 r. o działalności pożytku publicznego... [Act of April 24, 2003 on Public Benefit and Volunteer Work...], op.cit., art. 3 ust.3.
is should not apply to political parties and foundations formed by them, as well as to trade unions and organizations of employers.\(^9\)

In accordance with the act, the activity for the public benefit must be socially useful, run by non-governmental organization in the sphere of the public tasks, among others such as: social help, charity, protection and promotion of health, culture, science, education and behavior, the promotion and organization of voluntary services. The act is obliging the civil service to co-operate with non-governmental organizations in the sphere of public tasks set out in the act, as well as is implementing the division of the organization’s activity stipulated in the articles of association into pro bono activity and payable activity. A pro bono activity for the public benefit is a service for which the organization is not receiving compensation.

Non-governmental organizations can acquire the status of the public benefit organization if they conduct activity for the whole society, given community or determined group of people (including members of such organizations) being in difficult living or financial situation in relation to the rest of the society, and assure transparency of technical and financial activity, as well as the internal audit and the reporting.\(^{11}\) The non-governmental organization is receives the status of the public benefit organization the moment the National Court Register approves its application of interested organization. Acquiring the status of the public benefit organization bestows several benefits (e.g.: organization can be released from the stamp duty, court fees, income tax, and property tax)\(^{12}\), of course with reference to activity conducted by it for the public benefit.

4. Financing the organization

Non-profit organizations value humanitarian motivation above economic gain and are focused on the achievement of socially useful goals. However, as the activity of the organization is often based on subventions and donations, fundraising is a pivotal factor that influences the development and the smooth functioning of such

\(^9\) Ibidem, art. 3 ust.4.
\(^{10}\) Ibidem, art. 4.
organizations. The financial standing of the majority of such organizations is very weak and their budgets are minimal (the income of 50% non-profit organizations doesn’t exceed 20 thousand zlotys annually), though to function and to accomplish the goals stipulated in the articles of association they must secure proper funds.

There are many ways to raise funds, for example: government organizations, mailing, the sale of gadgets, booklets, auctions, lotteries, cans collections, legacies, street meetings, recognition of donors, charity parties, etc. The potential source of fundraising may depend on various factors, such as the scale and type of project, on how the organization is recognized, and on the season. Another important factor may be whether other organizations that they seek assistance from are organizing their own projects simultaneously.

For such organizations to more effectively function and develop, they have to adopt a marketing strategy that satisfies the expectations and needs of recipients, but also recruit donors. According to Alan Andreasen, “Social marketing consists on using techniques of commercial marketing to analyze, plan, realization and evaluation of programs that have an influence on recipients’ intentional behaviors, with the purpose of the individuals welfare improvement and the condition of the society.”

The aim of marketing activities can be to create a media spin, support programs and activities, achieve a change in the attitude toward a given problem etc. Appropriate communication with the market and the use of selected tools are crucial matters not only in building the organization’s recognition and the credibility, but also in raising funds.

Another important issue in raising funds is how to convince potential benefactors that their charity and their support can bring them specific benefits, such tax deductions of gaining the public’s respect.

5. Idea of transferring the 1% of income tax

Since 2004, the mechanism for taxpayers to donate 1% of their personal income tax has become an increasingly important source of funding for non-governmental organizations. However, it cannot be made ad hoc. To take advantage of this

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14 There are certain groups of taxpayers that are not reliable sources of income in this respect, however. For example, retired persons may transfer 1% of tax provided that they can personally complete the tax form. Taxpayers who ask their employer to complete their tax forms are not permitted to use the mechanism.
possibility, not only do non-profit organizations have to apply to be on the list of NGOs authorized by Ministry of Work and Social Policy, but they must also appoint in their articles of association the general assembly, as well as undergo the Ministry of Work and the Social Policy supervision. They are also obliged to draw up and to send financial statements on time to the Department of Labor and Social Policy.

The idea of transferring 1% of the income tax for the institutions other than State Treasury developed in Western countries in the post-war period. After the political transformation, Central and Eastern Europe countries also started applying the procedure in their legislation, which “allows the taxpayer personally administrate the part of money paid to the Treasury Department”\(^\text{16}\). Moreover, thanks to these regulations civil society institutions are reinforced and the involvement of citizens into philanthropic activity becomes more visible. Originally, this privilege was established for the ecclesial institution and religious associations (e.g. in Spain and Italy). Other public benefit organizations were included next.

In accordance with the act, money received by the public benefit organization from the 1% personal income tax can be used exclusively for the public benefit activity\(^\text{17}\).

Taxpayers who have acquired the right to transfer 1% of their tax and want to use this privilege must check whether the organization is listed in NGOs register since it is only possible to transfer 1% of the tax to listed organizations. The register is maintained in an electronic form by the Ministry of Work and Social Policy and by December 15\(^\text{th}\), every year the ministry is obliged to publish it on the Public Information Bulletin (BIP) website\(^\text{18}\). The list of organizations entitled to receive 1% of the tax is also available on the Department of the Public Benefit of the Ministry of Work and Social Policy’s website\(^\text{19}\), as well as in the public benefit organizations internet base. Donors must provide the number of the Na-

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\(^\text{15}\) Since 1997, citizens of Hungary have been able to transfer 1% of their tax to a chosen non-governmental organization and 1% to a church of their choice. In Slovakia, it has been possible since 2001. *Historia jednego procenta* ['The History of One Per Cent'], Strona Stowarzyszenia U Siemachy [Website of the Association “U Siemachy”], www.siemacha.org.pl/index.php?page=9753 [access: 24.03.11].

\(^\text{16}\) Ibidem.

\(^\text{17}\) *Ustawa z dnia 24 kwietnia 2003 r. o działalności pożytku publicznego*... [Act of April 24, 2003 on Public Benefit and Volunteer Work...], op.cit., art. 27, pkt. 2.

\(^\text{18}\) Ibidem, art. 27a, pkt.1.

\(^\text{19}\) *Baza sprawozdań Organizacji Pożytku Publicznego* [The Base of Reports of Public Benefit Organizations], Departament Pożytku Publicznego [Department of Public Benefit], www.pozytek.gov.pl/Aktualnosci;454.html#4079 [access: 28.03.11].
tional Court Register of the chosen organization, as well as the amount that they want to transfer in the tax declarations\textsuperscript{20}. They can also provide further instructions regarding the money allocation (e.g. to earmark it for a specific project).

**Graph 1. Number of taxpayers, which in years 2003 to 2009 transferred the 1% of the income tax to NGOs**

![Graph showing number of taxpayers transferring 1% of income tax to NGOs from 2003 to 2009](image)

Source: Authors’ study based on: *Information Regarding Amounts of 1% of the Tax Due to Public Benefit Organizations from the Tax Declarations for 2009*, Ministry of Finance, p. 1–5.

In the years 2003–2009, the number of taxpayers who transferred 1% to NGOs grew over 100 times (see Graph 1). In the first year, only 80 thousand taxpayers, i.e. 0.3% of the total number of taxpayers in Poland, transferred 10.4 million PLN. In the consecutive year, over 680 thousand taxpayers (i.e. 2.6% of total) transferred 41.6 million PLN. In the subsequent years, interest in transferring 1% continued to grow. The highest increase of the amount and number of taxpayers took place in 2007. It was connected with a change of the allocation mechanism (for the first time the transfer was made by the governor of the tax offices) and with widening of the taxpayers group, which could use this form of supporting social activity\textsuperscript{21}. As data from the Ministry of Finance shows, in 2007, over 5.1 million taxpayers made use of the 1% mechanism. This figured represents 28% all taxpayers that were entitled that year. They transferred almost PLN 291.6m to chosen organizations.

\textsuperscript{20} It cannot, however, exceed 1% of the total income tax in the declaration (art. 45c sec.1 of act on personal income tax).

Next in 2008 the number of donors grew to 7.3 m\(^{22}\), and a year later to 8.6 m (i.e. over 33% of the all taxpayers). In 2009, the number of taxpayers that filed an application to transfer 1% of their tax and the number of organizations to which the support was given grew (from 6,038 to 7,128), but the amount that these organizations declined to 357.1 million PLN in relation to 2008\(^{23}\) (see Graph 2).

**Graph 2. Amount of means transferred from 1% of the income tax to NGOs accounts**

The accumulated total of funds transferred by taxpayers to individual organizations in the given calendar year is transparent and the minister competent for public finance publishes it on the website until September 30\(^{th}\), of each year\(^{24}\). From 2004 to 2009, the amount remitted to organizations grew 36-fold (see Graph 2).

The mechanism of 1% tax transferring is very important for NGOs and the eight-years of the act have motivated NGOs to communicate more actively with potential donors by using various promotional means. They have also become convinced that the most important factor that could persuade donors to give funds

\(^{22}\) *Information Regarding Amounts of 1% of the Tax Due to Public Benefit Organizations from the Tax Declarations for 2008, Ministry of Finance, p. 2.*


\(^{24}\) *Act from April 24\(^{th}\) 2003 on Public Benefit Activity, op.cit., art. 27, point 3.*
for their particular organization and not others is either a direct request for support or a promotional campaign via the mass media.

An examination by the Donors Forum regarding the “influence of the NGO status on the activity of non-governmental organizations and their use of the financial resources from the allocation of the 1% of the income tax”\(^\text{25}\) found that benefits to the organization from acquiring the status of NGO are very significant. First of all, thanks to marketing campaigns their recognition is increasing and thereby their prestige grows, which allows them to expect increased support from volunteers. Also, over half of the studied NGOs “claim that after receiving the status they have increased the scope and the scale of the conducted activity”\(^\text{26}\). Examinations confirm that the peak of financial means depends on the efficiency of marketing, marketing tools, and the organization's creativity\(^\text{27}\).

6. Civil society

Civil society comes into existence as a result of the voluntary citizens’ commitment to the social and political state's life. In the history of social thought, this notion has been defined in frames of four basic currents:

1. Civil current – puts pressure on virtues and the responsibility of citizens (Aristotle, theoreticians of natural laws);
2. Liberal – appealing to the category of the business and the market (Smith, Hegel);
3. Political – based on the assumption that the civil society stays in many contexts in opposition to the state (Marx, Gramsci);
4. Community – stressing the maturity of collective identities and the group solidarity (Tocqueville, Ostrom)\(^\text{28}\).

In this article, the definition taken from methodological guidelines of the examination “Index of the civil society in Poland in 2007”, fulfilled by the Association

\(^{25}\) D.M. Mól, \textit{Jaki pożytek z 1%?} [What is the Use of 1%?], Civipedia badania społeczeństwa obywatelskiego [Civipedia of civil society studies], http://civicpedia.ngo.pl/ngo/595889.html [access: 19.03.11].

\(^{26}\) Ibidem.

\(^{27}\) As many as 63% of the organizations, which were researched, permit taxpayers to earmark their 1% donation for a specific person. It seems that these organizations, “in which the families and friends of persons who are the final recipients of the means are engaged in the acquisition [of resources]”, receive the most donations. Ibidem.

Klone/Jawor as part of an international research project coordinated by the CIVICUS organization, will be accepted (Alliance Word for Citizen Participation). According to its authors, civil society is interpreted as “a space outside family, the authority of the state or area regulated with market mechanisms, where people form a union, in order to act for the common wealth”\(^{29}\). The basic indicators of civil society are:

- First – membership rate in a different kind of organizations such as associations, unions, committees, or political parties;
- Second – activity in this type activity, understood as the participation in meetings, giving a speech, or exercising formal functions in them;
- Third – participation in national and local elections;
- Fourth – the level of trust towards the institution and other citizens\(^{30}\).

The condition of the civil society is often identified with the level of the social capital. As noticed in a report about this phenomenon in Poland\(^ {31} \), it is a result of peculiar description in the popular Robert Putnam book concerning differences in the level of the social capital mainly in the North and the South of Italy\(^ {32} \). Various definitions of social capital are cited in the sociological literature. The most significant are the concepts of Pierre Bourdieu, James S. Coleman, Robert D. Putnam, and Francis Fukuyama\(^ {33} \). The majority of quoted authors think that the high level of the social capital is beneficial for the society because it has a positive effect on economic development, improves activity of public institutions, and encourages behaviors that foster mutual aid. Therefore, in this article, the definition drawn up by Maria Theiss will be used. Theiss, the author of “Relatives – Friends – Citizens. Social Capital and Local Social Policy”, defines social capital as “a network of social ties and related social norms that contribute to the cooperation between people for the improvement of individual life situation and helps to pre-


vent and resolve social problems”\textsuperscript{34}. It is assumed that the impact of this phenomenon on the “quality and standard of living is made at least in two ways. First, people who participate in the informal support networks or are members of social organizations can perform certain economical, educational, or professional goals outside the market and state structures. Secondly, formal and informal relationships between people, norms determining the principles of cooperation, and the level of trust in institutions create the social environment that affects on how they work”\textsuperscript{35}. In this concept, it is assumed that social capital has the most positive connotation since it helps to achieve the objectives desired by the citizens, where state and market cannot or do not want to interfere. The main components of this phenomenon refers to networks of relationships, trust, and principles of cooperation arising during the interaction that takes place in formal or informal structures.

7. Social capital in Poland

Social capital is considered by a significant part of the authors who analyze this phenomenon in Poland, in the context of system transformation\textsuperscript{36}. Political and economical changes in Poland are following a model created by the states of western democracy. Its essence consists on recasting the party dominant system (Polish United Workers’ Party) into a model of democratic pluralism and “replace the centrally planned command economy system by free market economy”\textsuperscript{37}. The transformations in these areas have a large affect on the social structure and generate the new system of social control. However, as Dariusz Niedźwiedzki points out “an extremely important element of the transformation would be to fill the social vacuum created by the previous system”\textsuperscript{38} which means therefore the need to take some actions to encourage citizens to produce social capital in order to “manage” the area situated between the sphere of responsibility of the state and the business


\textsuperscript{35} Ibidem.

\textsuperscript{36} You can find more in – A. Giza-Poleszczuk, M. Marody, A. Rychard, Strategie i system. Polacy w obliczu zmiany społecznej [Strategies and the System. Poles in the Face of Social Change], Warszawa 2000.

\textsuperscript{37} D. Niedźwiedzki, Liderzy społeczni w warunkach kryzysu społeczeństwa obywatelskiego [Social Leaders in the Conditions of the Crisis of Civil Society] [in:] Teorie wspólnotowe a praktyka społeczna [Community Theories and Social Practice], A. Gawkowska, P. Gliński, A. Kościański (eds.), Warszawa 2005, p. 245.

\textsuperscript{38} Ibidem.
market. Such changes are a long-term process. In order to achieve them, it is necessary not only to create the right political and legal conditions, which can be performed rapidly, but above all the citizens themselves must take a series of voluntary initiatives.

Over a dozen of years have passed since the political and legal changes were carried out, starting the transformation in Poland. It is a period that allows to look at the creation of social capital from a time perspective. The work on social capital is distinguished by its two main varieties. First – considered as very positive for the social development is known as “bridging”. It is a form of cooperation between people with different socio-economic status, allowing to break strong intragroups ties, which may limit the interactions with individuals that do not belong to those groups. It creates a network of relationships and trust between representatives of different parts of society. The second type is bonding social capital. It “creates strong in-group loyalty, that may also create strong out-group antagonism”\(^{39}\). That means it can generate solidarity inside one group, but it can also provoke distrust against people who are outside. In this article, the first type of social capital will be analyzed. It emerges from the fact, that it manifests itself primarily in participation in “formal, horizontal structures of public life in Poland such as: membership in social organizations, local governments or political parties. It can also create trust in the public sphere, and provide assistance (including the transfer of resources) to social organizations”\(^{40}\).

### 8. Membership rate

From the end of the second decade of systemic change in Poland, the participation of citizens in the formal non-governmental organizations remained at a low level compared to that of Western Europe. In 2009, the number of Poles involved in such organizations totaled 13%\(^{41}\), which represented a slight increase compared to the situation two years before, when 11% of Poles declared their membership in the organization\(^{42}\). Formal membership does not mean that the person is actively working for the common good. In 2007, of the 11% of citizens who declared affiliation, only 7% indicated that they actually got involved in the work of these

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40 M. Theiss, T. Żukowski, op.cit., p. 2.

41 *Diagnoza społeczna 2009…*, op.cit., p. 265.

42 M. Theiss, T. Żukowski, op.cit., p. 3.
organizations. More suitable indicator would be the active participation of citizens claiming membership.

In a survey conducted in 2009, of all the respondents that had defined themselves as members of any organizations, 37.9% claimed to “have ever acted” officially in an organization’s functions. This means that only 5% of all respondents performed formal functions\(^\text{43}\). It should also be noted that some citizens that belong to organizations are active members in just a few of them. Nearly 87% of Poles do not get involved in the work of any organization that could fill the void between the state and the market\(^\text{44}\).

Association, as a form of membership, is mostly characteristic for people aged 35 to 64 years. Younger and older citizens are rarely members of foundations, associations, and councils\(^\text{45}\). Extensive research conducted in 2007 pointed out that there were no greater differences in the case of organizational affiliation between men and women\(^\text{46}\). Membership is related mostly to the level of education. People who have completed only the primary education constitute 7.1% of the total associated while the share of graduates stands at 22.1%. A similar relationship is observed in the context of income. Citizens with higher incomes often declare membership in NGOs\(^\text{47}\). The level of religiosity also has a positive effect on association. People that declare they participate in religious practices at least once a week are twice as likely to belong to public benefit organizations (even after excluding religious organizations and movements)\(^\text{48}\). The degree of association is also affected by place of residence. According to the research, nearly 16% of the residents of large cities (over 200 thousand inhabitants) are active while only 11.6% of those living in rural areas (11.6%)\(^\text{49}\) are active in such organizations.

\(^{43}\) Ibidem, p. 4.
\(^{44}\) *Diagnoza społeczna 2009...*, op.cit., p. 265.
\(^{45}\) Ibidem, p. 266; M. Theiss, T. Żukowski, op.cit., p. 4.
\(^{47}\) *Diagnoza społeczna 2009...*, op.cit., p. 265.
\(^{48}\) A. Baczko, A Ogrocka, op.cit., p. 35.
\(^{49}\) Ibidem.
9. The links between the allocation of 1% of the tax and civil society development

The results of 1% tax share transfer are not taken into consideration as indicators of the social capital. This is largely due to the fact that deductions from the fees paid from 1% tax are not typical social activities. Taxpayers may submit the amount, but are not required to do so. Despite this, there are certain relationships between the allocation of 1% of the tax and development of the so-called pro-social attitude. Firstly, the creation of such a solution might unleash an interest in the functioning of NGOs. Secondly, it can give another opportunity to support public benefit organizations (PBOs) by those citizens who are already actively working for the common good. Thirdly, it opens another channel for the flow of funds to non-profit organizations.

10. The level of support to NGOs

Funds collected as part of the 1% tax transfer may only be used by entities with public benefit status (PBO). In accordance with the list submitted by the Ministry of Finance in 2009, 6,038 of such organizations acquired money in this way. The Foundation for Children “Help on Time” received the largest share with a total amount of 61,859,671 zł being added to its coffers. This figured represented almost 74% of its total registered income. The one percent donation favorably affects the construction of civil society. Since 2003, income for PBOs has grown steadily thanks to this mechanism. This means that a large group of NGOs gained an important source of financial support. It is a mechanism that enables the work of PBO regardless of how large the organization’s other sources of revenue are. A study conducted by the CBOS indicates that differences in the declarations of the money transfer to charity changed a few percent from 2007 to 2010. Similarly, a negative trend was evident in relation to the provision of public assistance in kind (such as clothing or books). (Detailed data presented in Diagram 2).

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Graph 3. Declarations of respondents about payments transfers to charity and providing assistance in kind (in%) 

Source: Authors’ study based on: R. Boguszewski, Dobroczynność w Polsce. Komunikat z badań CBOS [Charity in Poland. The Report of the Public Opinion Research Centre], Warszawa 2010, p. 3.

In recent years, voluntary donations to NGOs have seen considerable fluctuations. They are of course not the only source of money available for social organizations. An important place in the revenue structure of the third sector entities is occupied by various public subsidies. But, in the context of confirming pro-social attitudes, it appears very important that the citizens themselves can decide which organization they want to receive the money.

11. 1% tax allocation and the social capital creation

Funds that receive PBO by allocating 1% tax are classified as public money\(^{51}\). However, the citizens themselves choose the organizations they want to transfer funds to and after the donation it is up to the PBO to manage the money. This regulation establishes the state’s trust in the citizens and NGOs. The possibility of 1% tax al-

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location created by legislature may be considered as an attempt to involve the taxpayers in some aspects of NGOs activity.

Such activities fall within the concept of creating social capital in the countries where a transformation is taking place.

The authors of “The Social Capital. Socio-Economic Sketches” emphasizes that during the transformation period there are two entities that can create social capital:

– The social, political, economical, and cultural elite,
– The citizens that consciously take part in social life (in elections, for example) and are considered to be electorate and public opinion, but not the elite.

In the case of introducing the PBO donation mechanism, it was the political and social elite that were the initiators.

12. Social characteristics of people involved in 1% tax donation

It is easier to convince people to allocate their money in PBO if they are familiar with the mechanism of the transfer. Even after a couple of years after the introduction of the mechanism that permits the donation money to PBOs, Poles are less informed about these possibilities than in other Central Europe countries, where similar regulations were introduced. The legislators in Poland patterned their law after the law that was introduced in Hungary in 1996. Three years after initiating the tax donation possibility, 98% of Hungarian taxpayers declared to have an extensive knowledge about this possibility. In Poland, in 2007, only 58.7% of surveyed citizens declared to have such knowledge and not all of them were able to describe the whole procedure. Over 16% of respondents conscious of the donation's possibility claimed not to support any PBO due to the lack of detailed information.

In the group of well-educated citizens, 44% declared that they had donated 1% tax to a PBO. This group was also the best represented in terms of money donated.

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54 A. Baczko, A. Ogrocka, op.cit., p. 44.

55 Ibidem, p. 53.
Less-educated people are even less informed and less interested in supporting PBOs (the detailed information for the ear 2007 in graph 3).

Graph 4. Declared participation in the share transfer taxes action by level of education (in%)

The feature that determines in a visible way the inclination towards the donation’s support is the age of the respondents. The largest percentage of people who declare that they will avail themselves of this option is recorded in the age group between 36 and 45 years old (39%). Similar trends are evident in the age category 46–55 years (37%). The third group of citizens is aged 25 to 35 years (31%). The smallest share is recorded among the youngest respondents (under 25 years – 23%) and the oldest ones (over 55 years – 24%). In the first group, a significant limitation consists of the lack of a job. The category of people above the age of 55 also includes retirees who are not required to file tax returns.

Citizens who do not use the possibility to transfer the money from tax to PBOs cannot save those funds for themselves. Nonetheless, people with lower income are less likely to use this mechanism than wealthier citizens. A group of poorer taxpayers explained that they think the transferable the amount is “too low that nobody can have a real benefit from this”.

The declaration of participation in the action seems not to be linked to the place of residence. For detailed data, see Diagram 4)

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56 A. Baczko, A. Ogrocka, op.cit., p. 53.
57 It was 12% in 2006 and 12.5% in 2007; Ibidem, p. 53.
Diagram 5. Declared participation in the 1% tax allocation action by place of residence

Comparing the characteristics of people who belong to various non-governmental organizations with the characteristics of citizens who declared to have transferred of 1% of their tax, it the convergence of the relationship between education level and the amount of income and activity in both areas should be noted. The higher the level of education and income level, the more likely respondents will declare their affiliation and payment of 1% for PBOs. People who are “active in other fields – those who participated in the recent parliamentary elections (37% versus 20% not involved), those who give donations to the church/religious organization (35% versus 23% among those who have not given any donations), and persons involved in social work (49% versus 27% of inactive volunteers) are more willing to transfer 1%”\(^{58}\). This means that the opportunity to support NGOs in this way is largely used by people already active socially. However, 1% the income tax is also allocated by those who do not normally exhibit such activity.

13 Conclusions

The dynamic development of NGOs in Poland took place after the beginning of the transformation. Non-profit organizations are active in charitable, educational, and cultural areas. Their main task is to implement duties that are undertaken for various reasons by the private sector and by the state.

\(^{58}\) Ibidem, p. 51.
In the case of countries in transition, their activities are seen in the context of filling the so-called “social vacuum”, which is the result of the previous system and its centralist tendencies to organize the social life. The proper functioning of the non-profit sector is based not only on the involvement of citizens, but also on stable access to financing. Since 2004, Poland launched the possibility to provide funds to the third sector through the possibility of sending 1% of the tax paid by the citizens. This mechanism covers only those entities that have the special status of public benefit organizations. It limits the number of beneficiaries, but also ensures transparency in the disbursement of amounts obtained in this manner. From 2004 to 2009, the amount of funds transferred by taxpayers to individual organizations grew 36-fold. It is an important financial support to these entities.

Obtaining money for the statutory activity of the PBO through the allocation of 1% tax has a strong social dimension. It provides a stable source of potential income for organizations that are the foundation of civil society and confirms the legislators’ and citizens’ trust towards such entities. It also creates a new opportunity to support the third sector by people who are in some way engaged in their activities and for those citizens who, for various reasons, did not participate in such a way in the past.

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