

THE PROPOSAL OF THE CHANGES IN THE TAXATION OF INCOME OF THE NON-PROFIT ORGANIZATIONS

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Abstract

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The paper is focused on the issue of the taxation of incomes of the non-governmental non-profit organizations, especially the civic associations in the conditions of the Czech Republic and in the selected countries of the European Union (Austria, Slovakia, Germany). The main emphasis is put on the comparison of the corporate income tax of the studied countries. Particularly the tax benefits that are provided to the non-profit organizations in the individual countries are compared here. This paper points to the current situation in the Czech Republic, where there is no clear legislation that would regulate the activities by the studied organizations. Changes in the taxation of the incomes of non-profit organizations are designed to eliminate absences with regard to the simplicity and clarity of the individual provisions, and also to prevent misuse of the benefits and to the speculative behavior of tax entities.

Keywords: non-profit organization, corporate income tax, civic association

INTRODUCTION

Non-governmental non-profit organizations have a key role to play in civil society, because they focus on assistance in all areas of the life. Their essence lies in the freedom of association, which results from the Charter of Fundamental Rights and Freedoms and is an essential pillar of a democratic state as one of the fundamental freedoms. Non-profit organizations are not founded or established primarily for profit (however these organizations do not have to be necessarily non-profit). Besides the main mission of the organization there is often performed secondary (economic) activity in order to increase the value of the resources and obtaining resources for core activities, i.e. for activities resulting from their mission, as says Kočí (2012). A secondary activity should always be profitable and serve mainly to cover a loss from core activities. Non-governmental non-profit organizations are not therefore established for profit, but in most countries are subject to taxation. Afterwards they have some kind of tax advantages through the tax exemption, reduction of tax base, deductible items

from the tax base etc. In the Czech Republic there have been discussions about the taxation of non-profit organizations for a long time, especially because of the lack of legal definition, which would regulate the activities of these organizations. In the case of the Czech Republic there are provided tax benefits to all non-profit organizations, and only on the basis of their legal form, which raises some doubts, mainly because of possible tax evasions. Hladká and Škarabelová (2007) comment that NGOs use the privileged status of the legal person, even if they do not contribute by their activity to the objectives, which are considered to be of public benefit. The above mentioned should change the present status of public benefit, and from its introduction it is expected greater transparency in the non-profit sector, especially in civic associations, which are the most common form of non-profit organizations in the Czech Republic. Entitlement for tax benefits would be newly given only to non-profit organizations with the status of public benefit. The new Civil Code, which comes into effect on January 1, 2014

defines this term but however the definition is very broad. There are expected also changes in other laws and tax laws with the definition of the public benefit. According to Boukal and Vávrová (2007) the transparent and efficient non-profit organization can be that, which from the perspective of the public has a reputation, a clear purpose and public benefit focus, has a transparent management, is able to promotion and publicity of its activities, has a wide range of supporters, well-conducted fundraising and ability to raise funds for projects that are consistent with the mission and the objectives of the organization.

Currently there is no separate legislation for the organizations that have not been founded or established for the purpose of business. The regulation of such entities is scattered in several legal provisions. Merlíčková Růžičková (2011) states that the Act No. 586/1992 Coll., on The Income Tax Act, as amended, collectively refers to non-profit organizations, without explicitly naming of this term or further explanation. Taxation of the non-profit organizations in terms of the proper performing is very difficult according to current regulations. Perhaps the most complex legislation and most differences in the regimes of taxation of non-profit organizations compared to the taxation of the profit entities can be found in the corporate income tax and the value added tax. The complexity in the field of the income tax is seen in the obligation to classify achieved incomes into groups and then assigned them to the costs for achieving, maintaining and securing of the incomes. The Income Tax Act, § 18 paragraph 7 obliges NGOs to keep accounts so that, no later than at the day of the financial statements closing, they would kept separately incomes that are subject to tax, incomes that are not subject to tax and the incomes that are subject to tax, but are exempt from tax. A similar condition applies also for the reporting of costs (expenditures). The issue of taxation is closely related to area regulating accounting of these entities. This is the area that is very administratively difficult, because of the increased requirements for financial records (mainly the evidence of individual type of activity) so that it can then be usable for tax purposes. Stejskalová (2006) adds that accounting is primarily a tool for gathering data for preparing the tax returns for most of the non-profit organizations.

The tax laws create conditions for the non-profit entities which would be more advantageous for them compared to other taxpayers. However the way which was selected for the implementation of these provisions, seems as less suitable and ultimately it brings many challenges to non-profit entities. Corporate income tax in the Czech Republic is regulated by Act No. 586/1992 Coll. on the Income Tax Act, in the current version. The Non-profit organizations must strictly divide their incomes into:

- incomes subject to tax,

- incomes subject to tax, but which are exempt,
- incomes that are not subject to tax.

Generally incomes from all activities and from the management of all property are subject of corporate income tax. In the case of non-profit organizations Rektořík (2010) says that only those organizations which generate a profit are subject to income tax, in respect of income arising from their mission. It is also necessary to respect other limiting conditions and to divide costs and incomes for the individual activities within one single type of activity, i.e. for the individual events within one single type of activity, as supplied by Pelc (2010). Incomes from advertising, membership fees, rentals and economic activities are always subject to tax. Membership fees according to regulations, status, establishing or founding charters are exempt from tax. Incomes which generally are not subject to income tax as well as incomes that are not subject to tax only in non-profit organizations belong to the category of incomes that are not subject to tax. Incomes from operations arising from their mission, under the condition that the costs incurred according to Income Tax Act are higher, incomes from subsidies, contributions and other support provided from the state, regional or municipal budget under special legislation and other means specified in the Income Tax Act, incomes from interests from deposits on current account are not subject to tax in the case of associations. In relation to the subject of tax it should be added that incomes derived from inheritance or donation of real estate or movable property or property rights, with the exception of incomes resulting from them, are not generally subject to tax.

Currently the concept of "public benefit" which is not defined in any legislation is much discussed topic. Non-profit is now assessed mostly according to the legal form of legal entities. This should be changed in the new regulation of the Civil Code and the non-profit should be considered according to the public benefit. It is assumed that there would be a significant change in the current legislation of the non-profit organizations, as the AVPO (2012) says. The aim of the status of public benefit is to contribute to greater transparency and credibility of the non-profit sector in the Czech Republic. The non-profit organization that will apply for the status of public benefit will prove the performing of the public benefit activities and meet other criteria, such as transparent management. Based on the granted status of public benefit the non-profit organizations will be able to get tax reliefs and support from public resources based on their objectives and activities that serve for common benefit. However this assumes in the context of the new Civil Code with the introduction of the new law on public benefit and also the preparation of the changes in the tax laws. In connection to the changes in the tax laws it will be mainly about the regulation of the Income Tax Act, as the Hudcová (2007) comments, due

to the fact that it is designed in this area with an emphasis on the legal forms of the entity.

MATERIALS AND METHODS

The aim of this paper is to propose changes in the taxation of non-profit organizations in the field of corporate income tax in the Czech Republic on the basis of comparative analysis of the taxation of non-profit organizations in the selected EU countries, namely in Germany, Austria and the Slovak Republic in comparison with the Czech Republic. These countries were selected because of their direct neighboring with the Czech Republic, and also based on the fact that all these countries have a similar tradition of the historical development. Another reason is the fact that the tax laws of Germany and Austria defines public benefit services, while the tax laws of Slovak and Czech Republic are missing this term. Considering the broad definition of the term “non-profit organizations”, the paper will only deal with the taxation of non-profit organizations with a focus on civic associations. The current state of the studied questions will be outlined based on the description and interpretation of the Czech and also foreign literature and the tax laws of each country. This information will be the starting point for the comparative analysis, through which will be compared the taxation of civic associations in the selected countries in the field of corporate income tax. There will be compiled examples using the modeling. The purpose of modeling and the model examples is to show the significant differences in the approaches to the taxation of civic associations in the selected countries in relation to the tax liability. Based on the synthesis the acquired information will be merged into comprehensive results and subsequently the recommendations for the taxation of non-profit organizations in the Czech Republic will be determined.

RESULTS AND DISCUSSION

Based on the analysis of the tax laws of the selected countries there was carried out a comparison whose aim was to summarize the most important differences in the taxation of associations by the corporate income tax. Comparison was made with regard to the taxation of civic associations in the selected EU countries, namely in Germany, Austria and the Slovak Republic, in comparison with the Czech Republic.

The table shows that the above introduced types of incomes are not subject to tax or are exempt in the studied countries. In this respect it should be noted that the tax assignments are implemented only in the Slovak Republic. Such generated incomes are not subject to tax. The following table shows the additional incomes which associations often face. Individual incomes are assessed according to whether they are subject to tax and whether they represent the taxable income or not for the associations.

The table shows the obvious differences between specific types of incomes. Incomes from advertising represent incomes from economic activity in all countries and are therefore taxable. Only in Austria the incomes from advertising may under certain conditions belong to necessary support activities which are not subject to taxation. These is possible in the case that the turnover of the advertising account for less than 25% of the total turnover of the activities in which the advertising is done. Incomes from rental in the associations in the Czech and Slovak Republic are always subject to tax. In Germany and Austria belongs the rental under the property management. Property management is exempt from income tax in both countries. Income from capital assets is always subject to tax in the association in the Slovak Republic. The situation is similarly in the Czech Republic, where only the interests from deposits on current account are removed which are not subject to tax. In Germany and Austria the incomes from capital

I: *Individual types of incomes and their relations to the corporate income tax*

Items of incomes	Czech Republic	Slovakia	Germany	Austria
Donations	Not subject to tax	Not subject to tax	Tax exempt	Tax exempt
Grants, contributions to operations	Not subject to tax	Tax exempt		
Membership fees according to articles	Tax exempt	Tax exempt		
Tax assignment	-	Not subject to tax	-	-

Source: work of the author based on the legal regulations

II: *Assessment of the individual incomes with regard to their taxation*

Items of incomes	Czech Republic	Slovakia	Germany	Austria
Incomes from advertising	yes	yes	yes	yes/no
Incomes from rentals	yes	yes	no	no
Income from capital property	yes, except interests from deposits on current account	yes	no	no

Source: work of the author based on the legal regulations

III: Comparison of the taxation of the main and economic activity of the associations

Items	Czech Republic	Slovakia	Germany	Austria
Taxation of the income from main operations	yes/no	yes/no	no	no
Taxation of the income from economic operations	yes	yes	yes/no	yes
Form of tax benefit	Deduction from tax base 11,733 EUR up to 39,108 EUR ¹	-	limit 35,000 EUR or non taxable amount 5,000 EUR	Deduction from tax base 7,500 EUR
Deduction of tax loss from tax base	yes	yes	yes, but only in the certain cases	yes, but only in the amount of 75% of the achieved profit
Deduction of costs for research and development from tax base	yes	yes	no	yes
Corporate income Tax rate	19%	19%	15%	25%
Tax relief	yes	no	no	no

Source: work of the author based on the legal regulations

assets belong under property management, they are exempt from tax.

Against the general principle that is applied in many countries, where the incomes from principal operations are not taxed, so in the Czech Republic and Slovakia the incomes from main operations exceeding the related costs become part of the tax base. Tab. III shows that the incomes from principal operations are not subject to taxation in Germany and Austria. Fact that in both countries there are statutory definitions of public benefit services, which may be performed within the main activities, speaks for this regime.

As regards tax benefits that are provided by the associations, so in the case of the Czech Republic and Austria the associations may apply the deduction from the tax base in the amount of 11,733 EUR² in the Czech Republic and 7,500 EUR in Austria. In Germany the economic activity is not subject to income tax if the annual gross incomes from this activity including VAT do not exceed 35,000 EUR. If the gross annual incomes are higher than the given amount so the economic activity becomes subject to tax. Subsequently, however, the association may apply a deduction from the tax base in the amount of 5,000 EUR. Tax benefits (allowances) are not provided to the associations in the Slovakia.

In all countries there is allowed the deduction of tax loss for associations. In the Czech Republic the tax loss can be deducted maximum in the five

tax years, in the Slovak in seven tax years that follow immediately after the tax period for which the tax loss was assessed. In Austria the losses are carried into next years without any limit, but it can be deducted a maximum of 75% of the achieved profits for the tax period. Deduction of tax losses in Germany is subject to stringent provisions, where the association may apply the deduction only in certain cases.

In the most of the selected countries there is possible a deduction of costs for research and development from the tax base for the legal entities and so for the associations as well. In the Czech Republic it can be deducted up to 100% of the costs. In the Slovakia and Austria only by the calculated proportion and in Germany there is not defined such a form of deduction at all. With regard to the rate on corporate income tax it should be pointed out to the adjustment of the tax rate in the amount of 15% in Germany. Corporate income tax in the amount of 15% is increased by so called solidarity contribution, to which are subject all legal persons. Solidarity contribution is currently in amount of 5.5% from the calculated corporate income tax. It can be said that due to the obligation to pay a solidarity contribution, the tax rate increased to 15.83% as outlined Boeijen-Ostaszewska (2011). Increase in the tax rate from 15% to 15.83% does not create difference that could fundamentally affect the amount of tax liability compared with other selected countries where the rates of corporation

1 Amounts are calculated by the exchange rate CNB from 7. 6. 2013 (25.57 CZK/EUR) and rounded mathematically to the whole euro.

2 Precisely the associations are allowed to decrease tax base by the 30%, but maximum of 1,000,000 CZK (39,108 EUR). In case that 30% of the decrease amounts to less than 300,000 CZK (11,733 EUR) it is possible to subtract the amount of 300,000 CZK (11,733 EUR). The decrease is possible to apply to a maximum of the amount of tax base.

income tax are significantly higher. For this reason it will be considered 15% tax rate in the calculation. Tax relief for the employment of disabled people is certain specificity in the Czech Republic. There are no such tax reliefs in other selected countries.

Comparative analysis of taxation of associations by corporate income tax will in theory now be transferred to the practical level using the model example and the starting point for the model will be the civic association (association). Given the fact that in the three out of the four selected countries, the domestic currency is euro, all amounts will be converted to this currency.

Model Example

Associations received donations, membership contributions and subsidies³ in the tax period. Within the main operations the association carried out following activities in the tax period:

- a) all of the activities were profitable. Association reported profit from main operations in amount of 10,400 EUR. In addition the association achieved profits from advertising in the amount of 15,500 EUR and profit from the rental in amount of 2,500 EUR⁴. Within the economic activities (such as selling of refreshments) the association reported profit in amount of 11,000 EUR for the tax period;
- b) all activities reported a loss, the association for the tax period showed a loss from main operations in amount of 1,900 EUR. In addition the association reported profit from advertising in amount of 15,500 EUR, income from rental in amount of 2,500 EUR and profit from the sale of refreshments in the amount of 11,000 EUR.

Ad a) Association showed only profitable activities for the tax period. Profit from advertising,

profit from rental and profits from the sale of refreshments were achieved in the tax period. Sale of the refreshments is included in the economic activity in all selected countries. The table shows that the profit from the economic activity caused a creation of the tax liability in all countries. We suppose that in Germany the sum of incomes from a taxable business activity exceeded 35,000 EUR, so then the association may deduct the non-taxable sum in amount of 5,000 EUR. Deduction in amount of 7,300 EUR was applied in Austria. The Czech Republic apply the deduction in the amount of 300,000 CZK (equivalent to 11,733 EUR), this is the highest deduction within the studied countries. Slovak associations cannot reduce the tax base under the current legislation. Tax rates vary by country, the highest tax rate on corporate income tax has been determined in Austria, on the other hand, Austria shows the lowest reduced tax base compared to the other studied countries.

Ad b) The reported loss from main operations caused a change in the tax base of the Czech and Slovak taxpayer. In the case of Germany and Austria, the tax base is the same as in the previous model thanks to not taxing the profitable core activities of the business. Although the reduced tax base is the lowest in Austria, the association is here facing a higher tax liability in comparison with Germany due to the high tax rate.

Significant difference with regard to the taxation of the main activities (operations) was found out based on the performed comparison of the corporate income tax. In the Czech Republic and the Slovakia the profitable main core business activity is subject to taxation while in Austria and Germany it is not subject which is again

IV: Comparison of the taxation of the civic association by the corporate income tax

Item	CZ a	CZ b	SK a	SK b	Germany a	Germany b	Austria a	Austria b
Main operations	10 400	-1 900	10 400	-1 900	10 400	-1 900	10 400	-1 900
Advertising	15 500	15 500	15 500	15 500	15 500	15 500	15 500	15 500
Rental	2 500	2 500	2 500	2 500	2 500	2 500	2 500	2 500
Economic activity	11 000	11 000	11 000	11 000	11 000	11 000	11 000	11 000
Tax base	39 400	29 000	39 400	29 000	26 500	26 500	26 500	26 500
Deduction	-11 733	-11 733	0	0	-5 000	-5 000	-7 300	-7 300
Rounded reduced tax base	27 667	17 267	39 400	29 000	21 500	21 500	19 200	19 200
Tax rate	19	19	19	19	15	15	25	25
Tax	5 256	3 280	7 486	5 510	3 225	3 225	4 800	4 800

Source: work of author

³ In terms of taxation the incomes in form of donations, membership fees and donations would not affect the taxation, because they are considered as incomes which are not subject to tax or are not tax exempt in all selected countries.

⁴ Incomes from advertising are part of the economic activity in all selected countries. Profit from its realization therefore will be shown in the tax base. Incomes from rental in the associations are always subject to income tax in the Czech Republic and Slovakia. Rental in Austria and Germany belong under the property management. Property management is tax exempt.

related to the definition of status of public benefit. The results of comparative analysis in the field of corporate income tax can be summarized into four basic situations.

- *The Association is performing only the main activity (operations) from which reports a loss.*

The tax base will equal to zero in all selected countries. The Association will not be subject to income tax.

- *Association is performing only the main activity (operations) from which reports a profit.*

The associations are not subject to income tax in Austria and Germany. In the Czech Republic, applying the possibility of deduction, the Association is subject to income tax only when the tax base is higher than 300,000 CZK. Slovak associations are subject to income tax.

- *Association is performing the main activity from which reports a loss and economic activity, which shows a profit.*

In this case the tax base for the association is the same in all selected countries. The situation from the perspective of tax deduction is the most favorable for the association in the Czech Republic.

- *Association is performing main and the economic activities, both are profit.*

Under this assumption, the association will pay the highest income tax in the Slovak Republic. The main profitable core business will be subject to taxation in the Czech Republic and the Slovakia. Rental is considered to be a taxable activity in the Czech Republic and the Slovakia but in Austria and Germany this income is not subject to tax. Generally it can be said that within the studied countries the tax regulation is the least favorable for the associations in the Slovak Republic. The tax liability of the association generally depends on the amount of the tax base, deductions and tax rates and this is the reason why it cannot be objectively determined which tax regulation is the most favorable.

It is possible to deduct from the previous text that the tax laws in the Czech Republic are favoring especially those associations which show a loss from the main activities (operations), and simultaneously they are carrying out the economic activity. The main objective of this paper is a proposal for changes for the taxation of non-profit organizations. Following recommendations are proposed, based on the comparative analysis, for the taxation of non-governmental non-profit organizations in the Czech Republic.

- *Classification of non-governmental non-profit organizations.*

The current legislation allows any non-governmental non-profit organization to derive tax benefits. Benefits are provided to entities based on the legal form, not on the basis of purpose as it is in the case of Austria and Germany. The introduced fact contributes to doubts

about the transparency of the whole non-profit sector. For that reason it would be appropriate to classify precisely non-governmental non-profit organizations with regard to the status of public benefit. This status should tighten the conditions for obtaining the entitlement to tax benefits and eventually also to obtaining subsidies from public sources. The introduction of the status of public-benefit in the Czech legislation should be accompanied by precise definition of services that would be considered a public benefit. Conceptual definition would not have to constitute the only condition for obtaining the status. Another criterion could be *determination of the ratio of profit and non-profit activities within the main activities (operations) of the association or determining the percentage limit of the turnover*, which could be achieved within the economic activity. Determination of the ratio of profit and non-profit activities within the main activities (operations) of the association can be considered very effective due to the fact that currently also the organizations that show only profitable activities are considered to be non-profit organizations. The question therefore arises whether these subjects are non-profit entities and are entitled to tax benefits. Another proposal seeks to determine the percentage limit of the turnover, which could be achieved within the economic activity. Nowadays it is possible that non-profit entity would show as 90% of the turnover from the economic activity and by profit from it the entity is financing the remaining 10% of the main non-profit activities. To the above mentioned it should be noted that there are also non-profit organizations that achieve these results entirely in accordance with the nature of their activities.

Following changes could be also introduced to the tax laws in connection to the tightening of conditions for entitlement to tax benefits:

- *Exemption of the main activity (operations) from the corporate income tax.*

This proposal could be implemented for non-profit organizations in connection to the definition of the status of public benefit. The non-profit organizations could thus offset the profits and losses of the activities arising from their mission (main activity). In the case that the main activity would be exempt from corporate income tax, there would be achieved a significant simplification in the context of accounting recording and subsequently also simplification with regard to the taxation of non-profit organizations.

- *Reduction of deduction (30%).*

Assuming that the main activity would be exempt from corporate income tax, the deduction in the amount of 30% would create significant advantage compared to business entities. Also from the performed comparative analysis it is

obvious that this deduction would be very high compared to the studied countries. Therefore the proposal supposes the reduction of this deduction to approximately 15%.

- *Graduation of the deduction.*

The amount of the deduction could be graduated just with regard to the proposed classification of non-governmental non-profit organizations. Only those non-profit organizations that wholeheartedly fulfill all conditions for obtaining the status of public benefit would apply the maximum claim for the deduction. Other organizations that would not meet all the criteria for the obtaining of the status would not be completely denied the possibility of the deduction, but they could use only its reduced amount.

At this point it is appropriate to mention the tax issues of non-profit sector in the Slovak Republic as this is the only studied country that implemented tax assignation. Although the tax assignation has been also discussed in the Czech Republic there was never its approval. Tax assignation was not even included in the list of proposed recommendations the main disadvantage is seen in the impact on the reduction of incomes of the Treasury, and also in connection to the increase in the costs of the state budget, i.e. costs associated with the administration and control of the used means. A second challenge

is, from the perspective of economic theory, the risk of inefficient allocation of funds and then probably less interest of citizens and businesses to provide donations.

The above proposed recommendations could be applied after the approval of the law on public benefit. At present, however, the misuse of legal forms of NGOs could also be solved by the tightening of conditions for the use of funds acquired through tax savings, which is created based on applied tax deduction (§ 20 paragraph 7 of the Income Tax Act). Here it would be appropriate to propose an obligation of use of these funds no later than **in the following tax year** to cover the costs related to the activities that result from the mission of non-profit organizations, and only in the case when the **total** main activity would show a loss in this period.

Concepts of lack of credibility and transparency are often used in connection with the non-profit sector in the Czech Republic. It is related also to the tax evasions, which unfortunately have a lot of space in the current legislation. The new Civil Code and the related laws should change this situation. However, the question remains what conditions will have to non-governmental entities meet for the acquisition of the status of public benefit.

SUMMARY

The aim of this paper was to propose changes in the taxation of non-profit organizations by the corporate income tax in the Czech Republic. Given the broad definition of the term of “non-profit organizations” the paper only dealt with the taxation of non-profit organizations with a focus on civic associations. There was made a comparison of the taxation of civic associations in the selected EU countries, namely in Germany, Austria and the Slovak Republic in comparison with the Czech Republic. These countries were selected because of the direct neighboring with the Czech Republic, and also based on the fact that all these countries have a similar tradition of the historical development. The comparative analysis which revealed the fundamental differences between the taxation of civic associations in the Czech Republic and the taxation of these entities in Germany and Austria was used in order to meet the aim of the paper. In both neighboring countries the essential concepts for tax laws are public benefit, charity and religious purposes, not the legal form of these organizations, as it is in the Czech Republic.

Although the paper dealt only with the issue of taxation of civic associations, the proposal of changes in taxation cannot be applied to only one legal form. Recommendations for the taxation of entire non-profit sector in the Czech Republic were proposed within the synthesis of findings from the comparative analysis. The most significant deficiency of current legislation was found out in providing tax benefits on the basis of legal form, not on the basis of purpose. That introduced fact leads to doubts about the transparency of the non-profit sector. The new Civil Code, which will introduced for the first time the concept of public benefit in Czech legislation, should change the situation. This corresponds to the first proposed recommendation, the need for classification of non-governmental organizations. The classification should be primarily based on the definition of public benefit, as it is for example in Germany and Austria. The determination of ratio of profit and non-profit activities was proposed as a further criterion for the classification of non-governmental organizations. This proposal responds to the fact that also the entities that show only the profitable activity are considered to be non-profits organizations and then there may be the misuse of legal form.

Two types of non-profit organizations are the result of classification according to the proposed criteria. The non-profit organizations with the status of public benefit and then those which have not meet the requirements for obtaining the status of public benefit. On this classification there is built other proposed recommendation which is the reduction and subsequent graduation of deduction (30%). When the non-profit organization does not meet all criteria for the obtaining the status

of public benefit, so the possibility of deduction is not completely denied but it could be used only its reduced amount. Other proposed recommendation could be used only by entities with the status of public benefit, i.e. the exemption of the main activity from the corporate income tax, which would have a positive influence with regard to the simplification of accounting and subsequent taxation by the corporate income tax in these subjects.

The proposed recommendations for NGOs would have a positive impact on the state budget because of the regulation of the provided tax benefits. This claim is based on the fact that under the proposed recommendations there would be a limit of use of tax benefits by the organizations that they only exploit the legal form of a non-profit organization. At the same time the classification of non-governmental organizations could also bring a change in the field of providing subsidies with regard to the more efficient and transparent use of funds from the state budget, with the option to provide resources to those organizations that are truly dedicated to public benefit.

The above proposed recommendations could be applied after the approval of the law on public benefit. Currently the misuse of legal forms of NGOs could also be solved by the tightening of conditions for use of funds raised through tax savings, which arises based on applied tax deduction. Here it would be appropriate to propose an obligation to use these funds no later than in the following tax year to cover the costs related to the activities that result from the mission of non-profit organizations, and only in the case if the total main activity would show a loss in this period.

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