

A possible solution for Denmark

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The value added tax was introduced in Denmark in 1967. In the beginning it was 5 per cent. Now it is 25 per cent. For the non-profit organizations it has always been a problem. The situation is that when the donor gives his donation, the donor has first payed income tax, and then the non-profit organization pays the value added tax.

In Denmark we have a tax-law which gives a non-profit organisation the possibility to be recognized as an organization which may receive donations, which the donor may deduct his income before he shall pay income tax.

In The Danish Fundraising Association (a Counsel of non-profit organizations) we sent out in 2002 a questionnaire to the 671 organizations recognized as non-profit organizations. The search showed that all the organizations in the year 2000 payed 28 million euros in value added tax.

Since that search I have been in dialog with many members of the government and parliamentarians. In the Ministry of taxation the official attitude has been: It will be in conflict with the 6.th Directive of Value added tax if the Danish Government gives the non-profit organizations compensation for the value added tax. I disagree with the official argument from the Ministry of taxation. But some of the civil servants in the Ministry of taxation understand me, when I argue for a model of compensation for the value added tax.

The ministry of Finance has now estimated the situation again. The conclusion is, that it is possible to give partly compensation for the value added tax through a general grant. When the Danish Parliament pass the

Budget 2006 it is my hope, that there will be a special clause: General grant to non-profit organizations.

Now we in Denmark discuss both value added tax and energy tax. The total amount in 2006 will be 32 million euros for all the non-profit-organizations. We only count value added tax as a result of contribution from private donors not contribution from the state or the municipality.

The first problem: Is there in the Danish Parliament political will to use 32 million euros to the non-profit-organizations. When I discuss this with the parliamentarians we talk about a three year-period, with one third the first year, two third the next and the total amount year three.

The next problem is the criteria for receiving compensation for the value added tax.

- charity*
1. The non-profit organizations shall have a recognition as being non-profit. The ministry for Taxation can in Denmark give that recognition. Let me give some examples: a. An international humanitarian organization. B. A social organization. C. An organization helping sick and handicapped people. D Religious organizations. E. Organizations working with the environment and organizations working for the prevention of cruelty to animals. Totally we today in Denmark have more than 600 non-profit organizations with public recognition.
 2. The organization shall be nationwide or have a nationwide aim.
 3. The organization shall be deeply rooted in the Danish people. We are now working with a paper where we try to define what we mean with being deeply rooted in the Danish people. How much money does the organization collect from private donors? How much general education does the non-profit-organization do? We try to develop parameters for being deeply rooted in the Danish people. The more

deeply rooted in the Danish people, the more compensation for the value added tax.

4. To get compensation for the value added tax the non-profit organization shall commit itself to a codex of ethical obligations. We have in Denmark worked out such a codex. The main thing is, that the donor is in the centre. The organizations shall have open account revised by a chartered accountant. The donor shall have the possibility to follow his donation from beginning to end.
5. The parliamentarians have said, that they demand security that compensation for the value added tax entirely shall be used to purposive objects. They don't want that the compensation is used to greater salary to the staff or a bigger office block. We now work together with a chartered accountant to solve that problem.
6. The starting point is that it is a problem, that the non-profit organizations shall pay value added tax and energy tax. Many parliamentarians agree, that it is not OK, that non-profit organizations shall pay added tax and energy tax. The general public opinion is also against it. But you must convince the parliamentarians that they shall find the money to solve the problem. First problem is, that it costs money to solve the problem with the value added tax and energy tax. And the parliamentarians are requested for money to many good purposes.
7. It is my experience that if you get in dialog with the parliamentarians it is very important that they see themselves as joint owners to the project of compensation of the value added tax. Parliamentarians will only work hard for a cause when they understand themselves as joint owners to the project.
8. We have also discussed how the compensation of the value added tax shall be administrated. We have found two solutions: a. The Ministry of finance is responsible for the administration. The non-profit organisations send in an application form. An important information is of course the real expense for value added tax and energy tax. But the organization shall also throw light on the private collected money and other parameters. We have not yet prepared thoroughly the application form. We have not finished discussing the weighting of the different parameters. B. The other possibility is that ISOBRO

(Danish Fundraising Association, an umbrella organization for all the non-profit organizations, where I am the secretary general) receive a whole grant and together with a chartered accountant distribute the compensation among all the non-profit organizations. This will be a privatized solution. In my opinion it is the parliamentarians who shall choose if a ministry or a private organization together with a chartered accountant shall be responsible for the administration of compensation of the value added tax and the energy tax.

9. Such as I estimate the situation in Denmark, we have the football just in front of the goal. The next months will be very exciting. In December the Parliament passes the Budget. I will do what I can so that the Budget will have a clause with an adequate amount to compensation of the value added tax and the energy tax.