

Effects of tax incentives on donations in the canton of Geneva

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Tax policy plays an important role in incentivising positive or preventing socially undesirable behaviours of taxpayers. While some tax incentives are efficient, others may be counterproductive as governments may forego tax revenues without achieving the desired objectives.

This article focuses on identifying different profiles of donors and attempts to discern whether the ceiling of tax deductions available in the Canton of Geneva may have influenced the amounts donated.

The article has identified the tax-incentive sensitive group of donors who have consistently deducted donations close to or exceeding the tax-deductible ceiling (pre-reform). This group of taxpayers contributed substantial amounts to the public cause, as their deductions amounted to 30%-54% of all deductions over ten years (2001-2011). Taxpayers in this group have similar socio-economical profiles: being in their mid-late 60s, primarily single and wealthier.

[#Donations](#) [#Taxation](#) [#Incentives](#) [#Generosity](#)

Background

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Context



- Tax policy measures aimed to facilitate charitable donations are frequent in tax systems of different countries and commonly take **two forms**: **deductions** reducing taxable income or **tax credits** reducing tax liability.
- While the **broad objective** of these measures is to **encourage more donations**, legal reforms introducing these measures rarely take into account consideration as regards to the ability to influence behaviour of taxpayers to the extent expected.
- With currently limited research available governments risk to adopt tax incentives that are **inefficient** and **unfair** as certain measures tend to be **more beneficial for wealthier taxpayers**.
- The existing research on the **influence of tax incentives** both in Europe and in the US confirms that **donors** from **higher income/wealth** segments are **more responsive** to tax incentives.
- In Switzerland individual taxpayers can deduct donations up to **20%** of their taxable income both for federal (as of reform of 2006) and, in the Geneva canton, cantonal (as of reform of 2009) tax purposes. Ceilings **before the reform** were respectively **10%** and **5%**.
- While the **objective** of these reforms was to facilitate transfer of **wealth which has risen sharply** in the years preceding the reform, the **effects** of these **reforms** remained largely **under-researched**.

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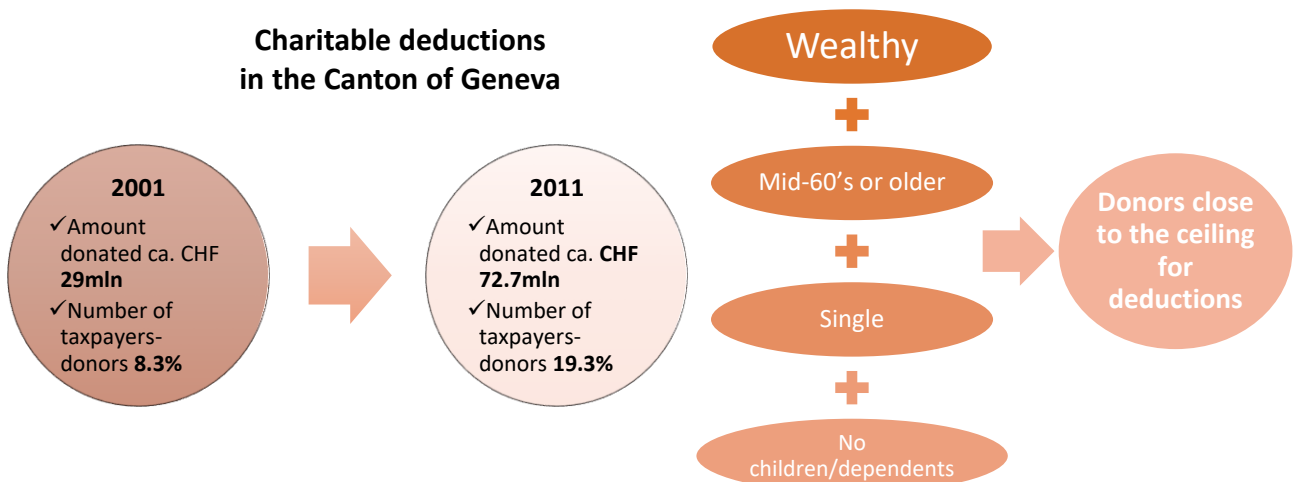
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Take aways & Learnings



- The research covers 11 years (2001-2011) and includes **all taxpayers** in the Canton of **Geneva**. During this period, the number of **taxpayers** deducting donations has more than **doubled** from **8.3%** (2001) to **19.3%** (2011). A similar trend was observed for **amounts deducted**, which rose from ca. **CHF 29 mln** (2001) to **CHF 72.7 mln** (2011).
- Data analysis revealed that before and after reform, only a minimal % of taxpayers were reaching or exceeding the ceiling for deductible donations. **Most donating taxpayers (80%) donate less than 2% of their net income**. After the reform, a similar percentage of donating taxpayers continued donating less than 2% of their net income.
- **The (close to) 5% ceiling** was consistently reached by a **sub-group of 4-5% of donating taxpayers, which donated similar amounts after the increase of the ceiling**. The **20% ceiling** was achieved only by **0,5% of taxpayers**, which remained constant over several years.
- **Taxpayers donating around 5% of their net income** tended to be **substantially wealthier and older (+10 years)** compared to the average age of other donors (mid-50s). In most cases, they were **single**, which contrasts with most donors being married/in partnership and/or having children. The donors deducting 20% and more are older and wealthier than those in the (close to) 4% group.
- Although sums donated by wealthier taxpayers in absolute terms were substantially higher than those donated by less wealthy ones, **relative wealth donations were lower for wealthier taxpayers**.

Charitable deductions in the Canton of Geneva



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