DEMOCRACY BUILDING
AND THE ALLOCATION OF REDISTRIBUTIVE DECISIONS

by
Éva Kuti

Introduction

Researchers of the nonprofit sector have long been concerned with the role NPOs play in building civil society and democracy. The nonprofit literature also includes thousands of papers dealing with theoretical and practical issues of government support, tax policies, charitable donations and their relationships. Nevertheless, there is precious little information on the effects that the system and techniques of public support and the allocation of redistributive decisions may have on citizens’ attitudes and development of democracy.

The paper tries to find this missing link. Using the Hungarian third sector as a case example, it argues that participatory decision-making techniques may significantly strengthen citizen-consciousness and awareness of redistribution issues. This approach is not motivated by the belief that citizens’ involvement in the distribution of public funds is a primary determinant of the development of democracy, but by the belief that it matters somewhat, it is one of the few policy instruments available to influence democratization, especially in the transition countries.

This hypothesis is tested through the analysis of a new method of supporting civil society, namely a law which allows Hungarian taxpayers to designate a nonprofit organization as the recipient of 1 percent of their personal income tax.

Can the society be changed by decree?

One can hardly disagree with Seibel (1998, p. 4) who states that “sustainability of personal networks and related embeddedness-structures of nonprofit institutions as well as voluntarism or private giving is beyond the control of governmental action” and quotes Crozier’s (1979) bon mot: On ne change pas la société par decret (One cannot change the society by decree). However, the Hungarian experience seems to prove that government policy toward the voluntary sector has some impact on citizens’ attitude and behavior. I even venture to suggest that both size and techniques of government funding are likely to broaden or narrow the scope for private initiatives and thus may influence the democratization process.

When government decides to support voluntary organizations, it tacitly cedes some (most often a minor) part of its redistribution power to private individuals or groups of citizens who have control of the supported nonprofit organizations. This inevitably results in changes of the decision-making structure. Voluntary organizations obviously represent various interests, many of them have preferences significantly different from those of the government. The strongest NPOs may act as alternative policy-makers and/or efficient lobbyists, the smaller ones have less direct influence on policy-making, but the way they use state subsidies is dramatically different from the structure of government expenditures.

The bigger and the more decentralized the state support for voluntary organizations, the larger share of the population can take part in the redistribution decisions. As far as citizens’ involvement and democracy-building are concerned, the technique of support can be as important as its actual amount is. Direct government grants are less likely to reach a large part of voluntary organizations

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2 The empirical findings presented in the paper are mainly the results of a research project which was designed by Ágnes Vajda and supported by the Aspen Institute Nonprofit Sector Research Fund.
than indirect state support (tax exemptions and tax deductibility). When deciding about grants and subsidies, the government clearly prefers supporting a limited number of organizations which are strong enough to play important roles either in service provision or in the redistribution process, and can be relatively easily kept accountable. By contrast, indirect support is available for a much bigger part of voluntary organizations. In addition, the actual decisions are not made by government authorities. If they want to get indirect state support (e.g. tax deductible donations), nonprofit organizations have to approach citizens, thus involving them in their work and enlarging the part of society which feel responsibility for public affairs.

In the course of democracy-building, a transition country can deliberately choose supporting techniques which intensify citizens’ involvement. This is what happened in Hungary in 1997 when the 1% scheme was introduced. Since then the Hungarian tax code permits the transfer of 1% of personal income tax payments to NPOs. Taxpayers are authorized to designate the civil society organizations to which they want their funds allocated.

### The impact of a special funding technique on recipient organizations

As far as its general impact is concerned, the 1% provision seems to contribute to the democratization of the redistributive decisions. In contrast with governmental redistribution, which concentrates on supporting a relatively small number of voluntary organizations, citizens’ preferences are much more diverse. Consequently, taxpayers’ involvement in the redistribution process makes public funds available for a much larger segment of the nonprofit community.

**Number of nonprofit organizations receiving support from the central government**

![Bar chart showing the number of nonprofit organizations receiving support from the central government in 1996 and 1997.](chart)

Source: Bocz et al., 1999

The introduction of the 1% scheme more than doubled the number of voluntary organizations which receive support from the central budget. This means that central government support became available for a large number of organizations which being far from the governmental decision-making centers, had not had access to these funds before 1997. Not surprisingly, citizens’ involvement in the decision-making process modified the structure of beneficiaries, as well.

3 See Appendix for a detailed description of the scheme.
Citizens are aware of both social problems and financial difficulties faced by the welfare institutions, which try to cope with these problems. Moreover, we have every reason to believe that, to a certain limit, they even feel responsible and this sense of responsibility and solidarity are among the most important motives behind their decisions. The statistical figures give strong support to these assumptions. They reflect that the main beneficiaries of 1% designations are NPOs engaged in welfare services.

**Structure of the nonprofit sector revenues from 1% designations and direct central government support, 1997**

<table>
<thead>
<tr>
<th>Fields</th>
<th>1% designations</th>
<th>Other central state support</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>40.6</td>
<td>16.7</td>
</tr>
<tr>
<td>Health care</td>
<td>20.9</td>
<td>3.7</td>
</tr>
<tr>
<td>Social services</td>
<td>15.2</td>
<td>23.0</td>
</tr>
<tr>
<td>Culture, spiritual activities, research</td>
<td>10.4</td>
<td>12.9</td>
</tr>
<tr>
<td>Other</td>
<td>12.9</td>
<td>43.7</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Bocz et al., 1999

More than three quarters of the nonprofit sector’s 1% income fall into 3 major fields. By contrast, NPOs working in these fields (education, health care, and social services) receive much less than half of the direct central government support. This gap indicates that there are very different considerations behind the taxpayers’ and the government’s decisions. The citizens are obviously eager to take the opportunity offered by the 1% provision to support nonprofit organizations which provide or contribute to the provision of important welfare services. The government seems to be motivated by some (not too well defined) concept of the welfare mix. It apparently wishes to finance a significant part of social services and some segments of education through nonprofit organizations but clearly opts for a state-run health care system.

At a level of the nonprofit sector as a whole, the financial impact of the 1% designation is rather limited. By contrast, financial effects can be significant at a level of the individual nonprofit organizations. Two or three billion HUF is not a large amount of money for a whole sector of the economy but two or three million HUF (not to mention the highest amount of HUF 100 million received by one of the beneficiaries in 1999) can help individual NPOs to solve concrete problems (e.g. to repair the roof of the community center, to hire a psychologist who deals with the children of the unemployed, etc.) or to meet urgent needs (e.g. to shelter the homeless, to clear pollution off a river or lake, etc.) in their local communities.

The income from the 1% designations is not just an additional element of revenues, it also has two other virtues. Firstly, unlike the overwhelming majority of central government support, it is a discretionary grant of money, it is not related to concrete projects. Secondly, it can be acquired without being close to high government officials or other central decision makers, being familiar with the rules, procedures and actors of the state redistribution process. This means that grassroots organizations and small local foundations have more chance of receiving 1% support than any other kind of central government grants.

The statistical data confirm that the small local nonprofit organizations are definitely more successful in persuading citizens to support them than in raising other central government grants. While 95 percent of the direct central government support goes to the largest NPOs, the latter receive only one third of the 1% income. Even the smallest grassroots organizations (mainly voluntary associations which are practically excluded from direct state support) manage to get 16 percent of the 1% designations.
Distribution of the 1% designation and other central government support by size of the supported organizations

Source: Bocz et al.

Similarly, the regional distribution of the 1% revenues is somewhat more even than that of the other government funding. Budapest, the capital city attracts almost three quarters of the direct state support and “only” 41 percent of the 1% income. More than half of the 1% support is realized by nonprofit organizations located in towns. Low as it is, the country’s villages’ share of it is still almost three times higher than their share in the direct state support.

Perhaps the central conclusion that flows from the above-presented statistical evidence is that the system of government funding has become slightly more equitable and significantly more democratic by the introduction of the 1% scheme.

The impact on citizens’ attitude and behavior

The results of a sample survey carried out in the spring of 1999 show that the 1% provision is generally known in Hungary. 94 percent of the adult population have already heard about the 1% opportunity. This share is even higher (98 percent) among the taxpayers who are actually able to make use of this opportunity. (We regard as taxpayers all the respondents who paid personal income tax in at least one year between 1997 and 1999.)

86 percent of the respondents approve the new tax measure supporting voluntary organizations. The 1% provision is more popular among taxpayers than among the people who do not pay personal income tax and, consequently, are deprived of the right to directly influence the redistribution process.

Nevertheless, the general level of approval is fairly high in both subpopulations. These figures seem to confirm the findings of some former population surveys (e.g., Czakó et al., 1995; Csontos et al., 1996) which have pointed out that Hungarian citizens opt for a mixed welfare regime rather than either government- or market-dominated systems. They accept their own responsibility, they

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4 This information was obtained from 1839 in-home personal interviews. The interviewees were adults aged 18 and over. We used three subsamples: a general population sample and two samples of taxpayers. The samples were randomly selected. In order to gross up findings for respondents to figures for Hungary as a whole, we used the basic statistical indicators representing the size and socio-demographic structure of the adult population.
are ready to pay taxes and help the needy with both donations and voluntary work. They do not want either to substitute for the government in solving problems or let the government decide on its own without public control. They do not see any contradiction between the need for charity, voluntary institutions, citizens participation, private service provision and the obligation of the state to tackle social problems and run some public welfare institutions. The intention of sharing responsibility and developing partnership is at the core of citizens’ efforts, and the 1% scheme perfectly fits in with these aims, at least this is what our interviewees assumed when they tried to explain what the reasoning behind citizens’ decisions on their 1% designation was.

The opinion of the adult population about the 1% provision

As part of the general exploration of attitudes of the respondents approving the 1% provision, we decided not to present them with preformulated statements. Instead we asked them a rather general open question: “When designating a foundation or voluntary association as the beneficiary of 1% of their personal income tax, citizens may consider several different points. Please tell us what you think the most important considerations influencing their decision are, and why.”

The types of reasoning mentioned vary greatly among respondents with no one consideration standing out above others. The two most frequent assumptions are that taxpayers intend to help people in need, including mainly the poor, sick and disabled persons, and victims of disasters (22.8 percent), or to support concrete fields or activities, mainly health care, social services, and education (22.6 percent) when they designate the recipient of their 1%. Respondents also assume that the designation decisions are frequently motivated by values, solidarity, and (both healthy and sick) children’s interests. As one of them said, people want to promote the notion that “numerous highly cultivated citizens be able to better themselves and the lot of the nation”.

Considerations behind the 1% designation decisions*

<table>
<thead>
<tr>
<th>Consideration</th>
<th>Percentage of all considerations mentioned</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Taxpayers</td>
</tr>
<tr>
<td>Helping people in need</td>
<td>20.5</td>
</tr>
<tr>
<td>Support for some specific field or activity</td>
<td>23.0</td>
</tr>
<tr>
<td>Promoting values, expressing solidarity</td>
<td>19.0</td>
</tr>
<tr>
<td>Support for children</td>
<td>10.4</td>
</tr>
<tr>
<td>Personal interests or involvement</td>
<td>8.9</td>
</tr>
<tr>
<td>Support for a special group of organizations</td>
<td>5.8</td>
</tr>
<tr>
<td>Solving social and economic problems</td>
<td>6.4</td>
</tr>
<tr>
<td>Organizational excellence of the beneficiaries</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

*Answers from respondents who expressed their approval of the 1% scheme.
A large number of respondents presume that people attach great importance to the public benefit character of the activities they decide to support. Another motive they mention is, that taxpayers want to contribute to solving or alleviating social and economic problems, among others the difficulties caused by deficient government funding. Similarly, public institutions (schools, hospitals, theaters, libraries, etc.) are mentioned by almost half of those respondents who think that supporting certain special groups of organizations is the main purpose of the designation decisions. (Though most of these public institutions are not eligible for the 1% designation, the majority of them have established grant-seeking foundations, which can also receive the 1% contributions.)

A relatively small part (7.2 percent) of all suggestions reflect the belief that designation decisions are motivated by the taxpayers’ personal relations, interests, commitments or involvement in eligible activities. Interestingly enough, transparency, accountability and efficiency criteria are also among the considerations which are mentioned quite rarely.

Taxpayers and respondents who did not pay personal income tax between 1997 and 1999 exhibit surprisingly similar patterns of thinking. Although their opinion is based on very different experience (the former could exercise their designation option, the latter have, in the best case, some indirect information on other persons’ decisions), their views on the motivational background of the 1% designation are rather similar. Taxpayers attach a bit more importance to solidarity, values and personal interests, while others put more emphasis on people’s willingness to help the needy.

Overall, our findings reveal a deeply positive opinion on the taxpayers’ behavior and suggest that the majority of Hungarians believe in citizens’ virtues. Ironically enough, the statements of the skeptic, those who expressed their disapproval of the 1% scheme, seem to prove that most of them also set a high value on these desperately missed virtues.

### Reasons for disapproving the 1% provision*

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage of all reasons given</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moral and accountability problems on the side of the potential beneficiaries</td>
<td></td>
</tr>
<tr>
<td><strong>Taxpayers</strong></td>
<td><strong>Non-taxpayers</strong></td>
</tr>
<tr>
<td></td>
<td>45.0</td>
</tr>
<tr>
<td>Transparency problems, procedural difficulties and high costs of the 1% scheme</td>
<td></td>
</tr>
<tr>
<td><strong>Taxpayers</strong></td>
<td><strong>Non-taxpayers</strong></td>
</tr>
<tr>
<td></td>
<td>38.8</td>
</tr>
<tr>
<td>Disagreement with the aims, refusing to take over government responsibilities</td>
<td></td>
</tr>
<tr>
<td><strong>Taxpayers</strong></td>
<td><strong>Non-taxpayers</strong></td>
</tr>
<tr>
<td></td>
<td>16.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Answers from respondents who expressed their disapproval of the whole 1% scheme.

When asked why they disapprove the 1% provision, almost half of the answers indicated moral and accountability problems on the side of the potential beneficiaries. Statements like “Investment and use of the money are not transparent. Funds are frequently misused. The administrative staff is overstretched. There are many new cars.”; “There are lots of bogus foundations”; “They embezzle money and carry out a number of frauds. If I only mention the cases we hear about...” seem to suggest that highly publicized scandals have an important impact on the image of nonprofit organizations. Media influence is easily detectable in the attitude of most our respondents who believe that charities are not sufficiently accountable to the public for how their money is spent. On the other hand, very few of them reported that they had come to this conclusion on the basis of personal experience.

The second most important reason for disapproval of the 1% scheme is a series of deficiencies of the designation mechanism itself. About one third of the reasons given by our respondents refer to either transparency problems or the lack of citizens control over the transfer mechanism. It is worth quoting one of the interviewees who expressed his reservations very clearly: “I don’t designate any beneficiary because I cannot follow the transfer of the money. Then it would be better to remain part of
the state budget. Although, in truth, I cannot follow what happens to it inside the state budget, either.”

Several respondents mentioned disappointing experiences which explain that they do not trust government authorities and do not have any illusion about influencing government decisions. For example: “The National Theater has still not been built.” “My children’s school was closed, notwithstanding the parents’ 1% designation.” Bitter, as they are, these answers are the reactions of citizens, they reflect strong (though frustrated) aspirations to have “voice”, to actively participate in public decisions.

Similarly, those respondents who mention procedural difficulties (“It is complicated to procure the tax identity number of the potential beneficiaries”) or the high costs of the 1% system seem to feel some responsibility for public affairs.

By contrast, a relatively small part (about one fifth) of the reasons for disapproval given by our respondents reflect that a minority of Hungarians are firmly against the 1% designation. Some of them think that this money should be put to some alternative use. Some others would prefer if the government provided for those in need and citizens were not pestered with demands.

Problems of beneficiaries’ trustworthiness, disagreement with the aims of the 1% scheme and willingness to rely on the government in treating social problems are more frequently mentioned by those who do not pay taxes, while taxpayers are more concerned about transparency problems and procedural difficulties.

To sum up, our findings seem to prove that the 1% provision has been generally welcomed by the overwhelming majority of the adult population, and taxpayers’ actual behavior corresponded quite well with our respondents’ expectations. Slightly more than half of them designated beneficiaries which were directly or indirectly (through friends, relatives) known by them. Personal interests (services received from or membership in the designated nonprofit organizations, close relationships between the employer and beneficiaries) influenced about one third of the decisions. Another one third of the decisions, those which favored unknown organizations carrying out charitable activities, were probably motivated by pure willingness to promote public benefit and alleviate social problems. About one fifth of the taxpayers decided to support organizations which are close to their friends or relatives and NPOs which may provide them with services in the future. In these cases the motivational background is not completely clear, interests and charitable considerations may equally influence taxpayers’ decisions.

Very few (less than 15 percent) of the omitted designation declarations are explained by a firm disapproval of the 1% provision or by some frustrating former experience of the taxpayers. In some sense, this is very promising. Voluntary organizations have to tackle several information and negligence problems but not hostility if they want to increase the number of their supporters and the amount of their 1% revenues.

Some reservations

To be sure, when we look on the 1% scheme as a vehicle for democratizing redistribution decisions, we do not intend to deny that these democratization effects are limited by the character itself of the 1% provision. Citizens who do not pay personal income tax (or not enough to reach the 10,000-HUF limit)

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5 Several fundraising campaigns have been organized over the last couple of years in order to build a new National Theater. (The old one was demolished decades ago because of some construction work.) Zealous donors feel very disappointed about the delay caused mainly by struggles between different political and professional groups.

6 As a reaction to financial constraints and the diminishing number of pupils, municipalities tend to close small schools, including even schools of high quality. Not surprisingly, parents and teachers try to protect these schools. It happens quite frequently that they establish foundations in order to contribute to financing the endangered institution. These foundations are not only beneficiaries of the parents’ 1% designations but also recipients of substantial private donations. Nevertheless, they can rarely save “their mother school”, which is obviously a source of indignation among the parents and other supporters.
are not allowed to have any influence on its distribution, thus there are some grounds for having similar reservations to those expressed by Simon (1987, p. 86): “income tax deductibility permits wealthy citizens to outweigh less-wealthy persons in controlling the disposition of taxable income ... and, as a corollary, ... makes it easier for wealthy citizens to use taxable income ... to influence the behavior of others.”

Composition of the adult population by taxpayer status and 1% designations between 1997 and 1999

Undeniably, the rich (provided that they honestly pay their personal income tax) are far and away the most influential players of the 1% system. On the other hand, the majority of the elderly, the poor, the unemployed, the disabled and all others who do not pay tax (their share amounts to 43 percent of the adult population) are automatically excluded. This can be considered (and in some sense this is) unjust even compared to the influence exercised through tax deductibility, especially because the 1 percent of the personal income is pure public money. In the case of tax deductible donations the donated income is partly owned by the taxpayers; they undoubtedly make some sacrifice when they decide to support voluntary organizations. The 1% designation is completely “free of charge” for taxpayers, they have the privilege to affect the allocation of public funds without facing any additional financial burden.

Until now only one third of the adult population have taken this exceptional opportunity of directly influencing public policy. Moreover, even those who have exercised their designation option did it rather irregularly. Much less than one fifth of the adult citizens (30 percent of all taxpayers) submitted their 1% declarations each year. Thus it is a minority of citizens who have gained some control over the use of public money through the 1% system. However, the weight of the inequity problem is somewhat decreased by three facts. First, as we have already pointed out, the preferences of taxpayers and those who do not pay personal income tax are only slightly different. Second, the distribution of the 1% designations is definitely much less uneven than that of central government support. Third, the opportunity for deciding on the use of the 1% has become an issue faced by millions of people. When considering the possible options, these persons have to think and behave as citizens, which is an important step toward strengthening democracy.

Theoretical implications

The 1% provision is obviously a borderline case of public and private finance. In some sense, it is nothing else but an extreme version of tax deductibility. In another interpretation, the 1% designations are similar to charitable donations, thus taxpayers’ decisions may be rooted in
considerations and motivations which are very similar to those behind the “real” charitable donations. As a consequence, a closer analysis of the 1% scheme may add some new elements to the endless debate between economists and sociologists who are seemingly unable to agree on how to answer specific and fundamental questions on the theme of altruism (Zamagni, 1995).

To start with the first approach, we must emphasize that 1% designations are not regarded as an element of tax advantages in Hungary despite the fact that the designation option is connected to the tax system. Both nonprofit leaders and government officials tend to interpret the 1% transfer as a new type of indirect state support. Consequently, the question of “treasury efficiency” has not even emerged. Most actors take for granted that beneficiary organizations provide charitable activities or instill values of solidarity, helpfulness and citizens participation, thus emit beneficial externalities. “A straightforward implication from welfare economics is that such activities ought to be subsidized in the name of efficiency, which makes tax deductions for charitable contributions a kind of Pigouvian subsidy” (Clotfelter, 1993, p. 591).

There have been more concerns about a possible “crowding out” effect, that is, about a danger that private donations or government funding may fall as a result of the 1% provision. Statistical figures (Bocz et al., 1999) seem to prove this did not happen, at least not at the level of the nonprofit sector as a whole. In an optimistic perspective, these findings support the conclusions drawn by Mohr and Guerra-Pearson (1996, p. 538) from a very different analysis: “Private charity is not ‘crowded out’ by public contributions and public/private sector relations are not governed by the logic of a zero-sum game.” However, several interviewees complained about some decrease in cash donations, which indicates that individual organizations may suffer from a “crowding out” effect, especially if they do not have enough energy to develop a consistent fundraising strategy and to conduct well-targeted, professional campaigns.

The 1% experience can also be interpreted as a minor contribution to the debate on the overall impact of tax deductibility on charitable giving. Policy analysts have long been concerned with these questions. The first empirical results (summarized by Clotfelter, 1985) seemed to prove that charitable giving was price elastic. Since tax deductibility obviously decreases the “price” of donating, these results provided strong support for the extension of tax subsidies to encourage charitable donations. Later on, a series of analyses based on new data and more advanced statistical techniques (summarized by Steinberg, 1990) strongly questioned the former empirical findings and indicated that giving was price inelastic. Without wishing to overemphasize the importance of the 1% experience, we think that it is at least meaningful in this context. From the taxpayers’ point of view, the price of supporting charities through the 1% scheme is, in financial terms, practically nil. If a large part of them still have omitted to make a designation declaration, this clearly indicates that price is a perhaps important but not decisive factor of the charitable behavior. In other terms, our findings seem to support the price inelasticity hypothesis.

Similarly, the 1% experience also refutes another quite widespread proposition. Many people may have utility functions that depend on the happiness or consumption patterns of other individuals or on the achievement of some general goal such as a cleaner environment, a high level of artistic creation, or breakthroughs in basic research, and still “little may be given to charity because of free-rider problems. ... Low levels of private giving may indicate not mean-spiritedness but free riding” (Rose-Ackerman (1997, p. 121). The relatively low share of Hungarian taxpayers who exercised their 1% designation option can highlight anything but free riding. The responses given to our motivation questions seem to prove that the explanation is not “mean-spiritedness”, either. This leads us to the conclusion that Halfpenny (1999, p. 213) is probably right when he presents not just an excellent overview but also a criticism of both economic and sociological

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7 The question whether the tax measure is efficient in the sense that the value of private donations it induces exceeds the induced loss of tax revenue.
theories of individual charitable giving and points out the need for parallel alternative, qualitative approaches embodying “fundamentally different conceptions of the very nature of social action, social interaction, and the explanation of social life”.

The first three years experience of the 1% scheme can be interpreted as a broad hint that factors like “relational obligations”, “event obligations” (Sen, 1999) or “the need for belonging” (Scitovsky, 1990) are at least as important in explaining charitable acts as utility functions or altruistic considerations. In other terms, a 1% designation decision, just like “real” philanthropy “is a matter not just of moral capital in the form of generosity. It is perhaps more a matter of associative capital in the form of social networks of invitation and obligation” (Schervish and Havens, 1997, p. 257). As such, it can be an important factor of the democratization process.

It is important to emphasize that this debate is not merely academic. The contrasting arguments put forward by different authors and the contrasting results of different surveys have very tangible implications for both public policy and nonprofit sector strategies.

**Conclusions**

As we have seen, 1% designations have become an important revenue source for numerous voluntary organizations and an important indicator of legitimacy for even more NPOs. “The increasing number of supporters is an outcome of intellectual investment, fundraising and management skills, and several other elements of organizational excellence, thus it is probably a better indicator of success than the growth of service fees or unrelated business income” (Vajda, 1999 p. 631). To acquire the taxpayers’ support, to become a beneficiary of their 1% designation has become an important aim for a lot of Hungarian NPOs. Many of them made serious efforts, even more of them only awkward attempts. Some of them start to discover that “philanthropic behavior can be illustrated as an expanding spiral that originates in social ties, and leads to participation in philanthropic activities which change the participant’s attitudes which, in turn, motivates him or her for further participation.” (Sokolowski, 1996, p. 275).

This means that it is necessary to build solid relationships between citizens and voluntary organizations. In the long run, this may result in more visibility of the sector and more citizens participation, which will hopefully strengthen democracy and civil society.
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Appendix
Provisions of the 1% Law

The 1% law (Law CXXVI/1996) sets two conditions for letting the taxpayers designate the recipient of 1 percent of their personal income tax. Namely,

- the personal income tax must be actually paid within the official deadline or, if the taxpayer gets a special permission from the Tax Office, not later than 30 days after that deadline;
- 1% of the tax must exceed HUF 100.

The taxpayers are allowed to designate only one beneficiary. However large it is, their 1% of the personal income tax cannot be distributed among several organizations.

Under the terms of the law, several different kinds of organizations are eligible for the 1% designation. There are two major types of the potential beneficiaries:

1. Public institutions which are declared to be eligible at the political decision makers’ discretion:
   - nation-wide cultural institutions (their list is included in Article 4 of the Law), and
   - local cultural institutions (theaters, museums, exhibition halls, community centers) which received subsidies from the municipalities in at least one of the former three years.

2. Non-governmental organizations which are engaged in preventive medicine, health care, social services, culture, education, research, public safety, human rights, environmental protection, protection of cultural heritage, sports and leisure time activities for the youth and the disabled; care for the elderly, children, the poor, the handicapped, national and ethnic minorities, and Hungarian minorities in foreign countries if they belong to the following groups of institutions and also meet some other requirements:
   - institutions run by churches which were officially registered not later than 3 years before the year of the tax declaration;
   - public law foundations regardless of their year of establishment;
   - private foundations and voluntary associations which
     - are registered in Hungary and have been in existence for at least 3 years;
     - are independent of political parties and do not support candidates for political office; and
     - are not in arrears with tax and duties, or they agree that the amount they would receive from the personal income tax is used to pay or decrease their debt.

The 1% designation is part of the tax declaration. After making their choice, taxpayers are supposed to obtain the tax identity number of the selected organization. In fact, this tax identity number is the only obligatory part of the designation declaration, indication of the name of recipient organization is optional. The designation declaration must be put into an envelope. Outside this envelope taxpayers have to indicate their own tax identity number together with their name and address. The sealed envelope must be sent to the Tax Office together with the tax declaration. (Taxpayers whose tax declaration is prepared by their employer have to give the sealed envelope to the employer who then forwards it to the Tax Office.)

The financial transfer itself is made by the tax authority. If the taxpayer does not name a recipient organization or makes some formal mistake when preparing the designation declaration, his/her whole tax remains part of the central budget. The transfer is not made either if the designated organization is not eligible, cannot get the necessary certificates within the deadline or thinks that the cost of meeting all the application and reporting requirements would be higher than the amount it could receive.