

## Экономические аспекты налоговых реформ

### Economic issues of tax reforms

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### FEASIBILITY OF THE CHARITABLE TAX DEDUCTION INTRODUCTION IN THE RUSSIAN FEDERATION

**ABSTRACT.** The article devoted to evaluation the influence of preferential tax treatment for charitable expenses of commercial organizations. The aim of the study is to prove that the introduction of tax incentives for charitable activities of commercial organizations will promote their charitable expenses. Banking sector's organizations were selected for the empirical basis of the study; because the information about the charitable expenditure of other organizations is not available. The study has used a sample of 49 banks operating in Irkutsk Oblast as a constituent member of the Russian Federation in 2011–2014. The study sample was divided into three groups according to the principle proposed for the evaluation of social responsibility of banks in the United States. The current level of participation of banks in corporate philanthropy is evaluated in view of preferential taxation as a mechanism to reduce the cost of charitable services for the company. The study attempts to construct a theoretical model describing the effect of tax incentives for the financing of the charitable sector, as well as to find the optimal limit registration of charitable expenditure as an expense. It has also been found that, regardless of the charitable expenditures limit set as part of total expenses, the majority of credit organizations could exploit a maximum potential growth of donations (from 49,5 % to 74 % of the studied credit institutions, depending on the chosen accounting limit). It is concluded that introduction of preferential tax treatment might mean a possible rise in charitable expenditures, and the optimal level of charitable expenditure accounts as an expense in terms of budget efficiency is substantiated.

**KEYWORDS.** Tax deduction, Charitable deduction, Charity, Corporate donation's on charity, Commercial Banks.

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### ОБОСНОВАНИЕ ВВЕДЕНИЯ НАЛОГОВЫХ ВЫЧЕТОВ НА БЛАГОТВОРИТЕЛЬНОСТЬ В РОССИЙСКОЙ ФЕДЕРАЦИИ

**АННОТАЦИЯ.** Статья посвящена исследованию влияния льготного налогообложения на благотворительные расходы коммерческих организаций. Целью исследования является доказательство того, что введение налоговой льготы для благотворительной деятельности коммерческих организаций будет способствовать росту их благотворительных расходов. В качестве эмпирической базы

исследования выбран банковский сектор, так как информация о благотворительных расходах других организаций не раскрывается в публичной отчетности. Используются данные 49 банков, действующих на территории Иркутской области за период 2011–2014 гг. На основе анализа данных о сумме благотворительных расходов и направлениях благотворительной деятельности в сравнении с прибылью и собственным капиталом банков дана характеристика существующего уровня корпоративной благотворительности банковского сектора. Проведенный корреляционный анализ выявил, что налоговая нагрузка является фактором сдерживающим рост благотворительных расходов. Предложен алгоритм и построена модель оценки влияния налоговой льготы на благотворительные расходы организаций, учитывающая их благотворительную деятельность и величину прибыли в условиях отсутствия льготы. В результате применения модели установлено, что большинство кредитных организаций при введении льготы смогут увеличить благотворительные расходы (от 49,5 % до 74,0 % исследуемых кредитных организаций). Использование статистических инструментов множественного сравнения, позволило сделать вывод, что все исследуемые кредитные организации могли бы увеличить свои благотворительные расходы на 0,5–3,0 %, чтобы влияние льготного налогообложения было статистически значимым ( $p < 0,05$ ). Предложена льгота на благотворительные расходы в размере 5,0 % от налогооблагаемой прибыли, как наиболее эффективная для соотношения бюджетных потерь и роста благотворительных расходов. Таким образом, в ходе проведенного анализа было установлено несомненное позитивное влияние льготного налогообложения на величину благотворительных расходов.

**КЛЮЧЕВЫЕ СЛОВА.** Налоговые вычеты, благотворительные налоговые вычеты, благотворительность, расходы организаций на благотворительность, коммерческие банки.

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### Introduction

Development of the organization's socially desirable activities is the important element of social support during a growing crisis. From this point of view the socially desirable activities of private organizations can provide viable alternatives to direct government programs.

Taxation can stimulate this social activity through the mechanism of tax deduction. Charitable deduction is generally determined as the preferential tax treatment of expenditures or gifts to organizations that the law qualifies as having a socially beneficial characteristic and for which the donor is not motivated by direct benefit when making the contribution. The most widespread form of this preferential tax treatment is charitable deduction when taxpayers have been allowed to deduct gifts to charitable and certain other nonprofit organizations. Hereafter such organizations will be

called «charitable» [1, p. 55]. A charitable deduction extends the benefits of exemption to taxpayers, so that income donated to charitable organizations is exempted from all levels of income taxation. The deduction is intended to subsidize the activities of private organizations that provide viable alternatives to direct government programs.

The ability to deduct the costs of charitable donations from taxable income existed in Russian tax law before 2002, but today there are no tax benefits available to corporate donors in Russia. Due to this fact, preferential tax treatment of charitable activities is not popular subject in Russian economic literature and justified irrelevance and effectiveness of tax incentives for charity. Therefore, in our research, we tried to justify the obligatoriness for charitable tax deduction using the developed countries experience. The analyzing the long experience of the charity stimulation

with the tax mechanism can show the way for implementation the same mechanism in Russia.

The objectives of this paper are to study the degree of current participation of commercial entities in the charitable activity, and to evaluate the socio-economic benefits of preferential tax treatment and feasibility of its introduction. The socio-economic benefits of preferential tax treatment of charitable activity expressed in the social consequences of the tax incentives. In this paper we estimate the socio-economic impact of tax benefits by comparing the existing charitable contributions and the contributions that could be expected if the tax benefit would be introduced. This value is called the «potential for larger donations» [2, p. 28], that is the amount by which a particular organization could increase their welfare costs by compensating the effect of the introduction of tax exemptions.

To investigate the effect of preferential taxation for corporation charity we used the commercial banking sector information. The availableness of information sources justified this selection. Commercial organizations donate on the charity their net income and do not obliged to reflect this spendings in their public reports. Therefore, complete and reliable information about the commercial organization's charitable donations is not available for the study. On the other hand, banks are required to report about their charitable contributions to the Central Bank. In addition, the structure of banking sector is not uniform. In this structure we can see large, medium and small banks. This structure also contains banks with foreign capital, the central and regional banks. It makes possible to investigate the influence of preferential tax treatment to charities for different banking groups. We analyzed the current level and structure of banks philanthropy using the information about a charitable contributions, capital and profit of banks. Then we made the comparison of the existing charitable contributions and the contributions that could be expected if the tax benefit was introduced.

### **Literature review**

The deduction subsidizes giving by lowering the price that donors must pay privately to support charitable organizations. This price reduction affects giving in two ways, which economists refer to as income and substitution effects. The income effect is due to the reduced price that effectively makes more income available for all consumption [3]. If people normally give more as income rises, the income effect of price reduction will induce people to increase giving. The substitution effect arises because the reduced price makes giving cheaper relative to other commodities, which will induce people to give more.

The awareness of charitable tax deduction influence on the amount of giving, has grown in recent years, but still remains incomplete. The empirical evidence shows that the amount of giving is at least partly sensitive to the cost of giving. The evidence also suggests that giving is fairly responsive to temporary changes in the cost of giving, though few researchers agree on how sensitive it is to more permanent price changes. But much remains to be learned, especially about charitable giving in the Russian Federation, where charity is not so extensive as in OECD countries [4].

There is an abundant literature on the analysis of charity and the study of economic and non-economic factors affecting its output. For example, in a study conducted by C. Clotfelter on the data for the period of 1936–1980, an undoubted positive effect of preferential taxation in the United States in respect of corporate charity was noted. He also noted the strong role played by private donations in funding the non-profit sector [5, p.41]. Regarding the differences in the value of corporate philanthropy that depend on the area of activity, there was a link between communications with consumers of goods and services of the organization and the work in the field of charity [6; 7, p. 198]. So the largest share in the profit value of charitable contributions was held by the banking sector and trade in foods and other essential commodities. According to C. Clotfelter, this can be explained in terms of the

value that the management and owners of the company attribute to the formation of a positive image. The effect of preferential tax treatment on increasing the volume of charitable activities has been studied by G. Fack and C. Landais [8, p. 137]. According to their findings, the response of a donor to preferential tax treatment depends largely on the volume of donations made earlier. So in their research they came to the conclusion that the more generous donors have tended to respond more rapidly to the increase in the tax credit rate for donations in France after the reform. Therefore, they note that high tax credit rate in France can be economically justified, based on the premise that private foundations are able to perform many tasks more efficiently than the state.

R. Carroll and D. Joulfaian [9] have shown in their article on the role of taxation in the behavior of commercial organizations in the field of charitable activities that the applicable taxes are an important factor in determining the amount of charitable donations. So they came to a conclusion, on the basis of a large amount of surveyed companies, that the value of charitable donations is reduced with an increase in prices for the company's contributions after tax and growing together with the company's income and the amount of advertising costs. It should also be noted that, according to Carroll and Joulfaian, companies with foreign owners donate more. J. R. Boatsman and S. Gupta's research [10, p. 208] based on the data from 212 donor firms over the period of 1984 to 1988, suggests a negative correlation between corporate charitable donations and the amount of income tax rate. Wallace and Fisher [11] express a concern that higher tax rates would discourage private charity. In other words, high tax rates hinder the development of charity. Tax incentives for philanthropists as a means of state support for non-profit organizations have also been considered by the Russian authors O. V Makarenko and B. L Rudnik [12].

Another direction of charitable tax deduction investigation is the price elasticity of giving. Price elasticity of giving is a

measure of how responsive giving is to a change in its cost. It assesses the degree to which donors give more or less depending on how expensive the donations are [13].

As has become obvious from the literature review, there is much uncertainty about how much the cost of giving affects charitable contributions [14, p. 76].

The first generation of statistical studies of private giving, conducted in the 1970s, generally found that the price elasticity of giving was equal to or greater than 1 (in absolute value), in some cases significantly so. The implication was that giving was fairly sensitive to the after-tax cost of giving and that changes in tax rates that raised or lowered the cost of giving could significantly affect the amount of charitable contributions [15].

There were concerns that if private giving were as sensitive to cost as implied by the existing research, lower tax rates would cause private giving to fall by an appreciable amount. The predicted drop in giving, however, did not materialize. With the exception of taxpayers in the highest income tax brackets, charitable giving remained quite stable. The implication was that giving may not be as sensitive to price incentives as indicated by some econometric models.

In the 1980s and 1990s, improved data made it possible to better distinguish between temporary and permanent changes in the cost of giving [16, p. 332; 17, p. 794]. As expected, researchers using these data generally find that annual giving is less responsive to permanent than to temporary tax changes. Indeed, the results of several recent studies suggest that the price elasticity of giving may be less than 1, perhaps closer to -0.40 [18; p. 3].

#### **Preferential tax treatment for charitable contribution in the OECD countries and Russian Federation**

Many countries recognize the important and significant role the voluntary sector plays in welfare and economic growth. As a consequence they provide tax incentives or tax relief to those organizations (and their donors) that typically constitute

the voluntary sector: unincorporated community organizations, registered charities (charities) and non-profit corporations.

There is considerable diversity within the OECD countries in the nature of the development of the charitable sector and the way in which charities and donors are treated for tax purposes. The countries' descriptions of the OECD country's tax

benefits for charitable contributions, is provided in table 1.

In the Russian Federation, there are no tax benefits available to corporate donors. An individual can claim a charitable deduction up to 25 % of their taxable income. The ability to deduct the costs of charitable donations from taxable income existed in the Russian tax law before 2002.

Table 1

**The OECD country's tax benefits for charitable contributions**

Country	Tax benefits
Argentina	Deduction from the taxable income (Income Tax), up to 5 % of the total amount of the donor's net income
Austria	Donations for charities which pursue science and research matters reduce the income tax basis up to 10 %
Belgium	For an «individual» donor, the overall deductible amount cannot exceed 10% of the overall net income or € 331 200. For a «corporate» donor, limits are 5 % and € 500 000.
Canada	Donors are rewarded with a tax deduction or credit for gifts made to a registered charity up to 75 % of annual net income.
Chile	Certain types of donations, under specific conditions can be subject of tax credit or an expense allowance
Czech Republic	Donors are entitled to tax reduction up to 10% of their annual net income. Minimum donation is 1 % of net income or 2 000 CZK (€ 81). Such advantage can be obtained only regarding donation on specific purpose.
Denmark	A person/firm that can claim a tax deduction from DKK 500 (€ 167) up to DKK 14 000 (€ 1 800) annually for the registered charity, for some type of charities from DKK 15 000 (€ 2 000) up to 15 % of his annual income.
France	Individual donors are entitled to a tax deduction from their income tax equal to 66% of the donation. Businesses receive a tax deduction from corporate income tax equal to 60% of payments taken from the 5% of sales limit.
Germany	Considerable incentive to encourage the financing of public-benefit, religious and charitable associations by allowing the deduction of donations
Ireland	Tax relief applies to donations which are €250 or greater in one year
Italy	Deduction the amount of the donation up to 2 % of reported income (depending on the nature of the donor).
Netherlands	Tax relief/ deductions for charitable donations from 1 % of the taxable income (or at least € 60) but it is limited up to 10% of the taxable income. The threshold in the Corporate Income Tax equals € 227 limited up to 10% of the taxable profit.
Norway	The donation to each charity must exceed NOK 500 (€ 62) annually, and the maximum annual deductible donation per taxpayer is NOK 12 000 (€ 1 500).
Portugal	Donation may be considered as cost or net loss, and may be calculated at 120 %, 130 % and 140 % of the total amount of the donation, according to the entity benefiting from the donation to the maximum threshold of 8/1000 of the entity's turnover
Spain	An individual can claim 25 % of the donation on his/her income tax and a corporation can claim 35% of the donation (with a limit on the amount of the donations of 10% of the taxable profits).
Sweden	There are no tax benefits available to the donors
Turkey	The donors are entitled to a deduction of up to 5% of their annual net income
UK	There is no annual limit on donor tax relief for individuals but corporate donors are limited to relief up to 100% of chargeable profit.
USA	Donors to eligible charities can reduce their own federal income taxes (and usually State income taxes) by a percentage of the amount of their donation (as much as 40 %)

Source: Organisation for Economic Cooperation and Development, Committee on Fiscal Affairs. Report on abuse of charities for money-laundering and tax evasion. France, OECD Publishing, 2008, p. 6.



In accordance with the law «On taxes on profits of enterprises and organizations», passed on 27.12.1991, corporate taxpayers were allowed to deduct the costs of charitable donations up to 5 % (for banks and insurance companies up to 3 %) of the taxable income for the year.

The tax incentives for businesses involved in charitable activities were canceled in 2002, after Chapter 25 of the Tax Code came in effect. According to the Letter of the Russian Ministry of Finance, if the firm provided free services or donated its products, the costs which arose at the same time did not reduce the firm's payments to the budget. In the literature of that period tax incentives for charity were described as an example of negative, inefficient use of tax mechanism. There was an opinion that commercial organizations were rarely motivated to make donations due to the low level of confidence of the tax system.

As the tax deduction can be alternative to direct government programs we suppose that their introduction for corporate donors would stimulate the donations in Russian Federation.

### Theoretical basis

In our opinion, the incentive should not be regarded as a proper economic stimulation to commit expenditure to charity, but rather as a special mechanism of reducing the cost of charitable activities for donors. The charity is part of social responsibility, so the profit from a good business reputation also would stimulate

the charitable expenses growth. Therefore, the company management behavior will be supported by the availability of the possible tax deductions (fig. 1).

So, if we take charity as a resource that can be sold together with other goods, we can talk about the value of the charity as a good. Considering this concept from an economic point of view, we can talk about preferential taxation as a way to reduce the resource cost for the «seller», which will be the benefactor organization.

Therefore, we can talk about the tax deduction as a tool, the ability to increase the amount of the charitable donations by strengthening the motivation to commit more expenditure due to compensation through the provision of incentives.

Due to the fact that at the moment this type of incentive do not exist in the Russian Federation, it is very difficult to assess how great charitable donations would be increased with the introduction of deduction. We can assume two scenarios of further response to its introduction:

1. Commercial organizations (in this study – credit institutions) will reply with growth of the donations. Thus, due to the action of preferential taxation their profits in the model would not change in comparison with the actual profit, but will increase the amount of charitable expenses. The larger volume of expenditures, in its turn, accelerates the achievement of the objectives set by any commercial organization, which is involved in charity in prejudice of net profit.

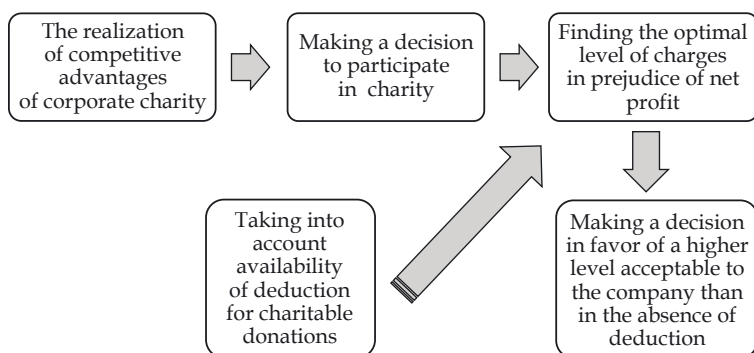


Fig. 1. Influence of tax deduction on the increase of organization charitable donations

2. Commercial organizations who committed costs in the past, will take advantage of tax incentive, but won't decide to change their optimal size, which they could spend without an economic stimulant, upwards. Thus, due to the action of mechanism of preferential taxation their net income in the model will increase compared to the current actual earnings and the amount of the charitable expenditure will not change. Both of these scenarios are equally probable, as the wish of increasing of the amount of charitable expenses should, firstly, be supported by the need in greater volume, for whatever reasons. All aforesaid indicates the need to investigate the minimum amount of charitable expenditure – the value when a link between incentive and cost increases appears.

The factor that will determine the subject's behavior in terms of constructing the model will be the choice of maximizing charitable expenses in response to the

introducing of incentive. As mentioned above, the actual level of expenditure at the moment is considered optimal, so the maximum for possible reduction of net profit, but at least enough minimum to pursue non-economic goals and objectives with the support of charity. We start from the premise that for the commercial organization is not profitable to spend for charity at the expense of its net profit more than the value of the optimum level, which she spends virtually without the preferential taxation support. In this case, we will take for the maximum level for increasing – the break-even level, which will be compensated by the action of the incentive, so that the actual price of the charitable expenditures for the company remained unchanged.

Our model takes into account the possible scenarios based on several factors (fig. 2):

– actual company's charitable expenses without charitable deduction;

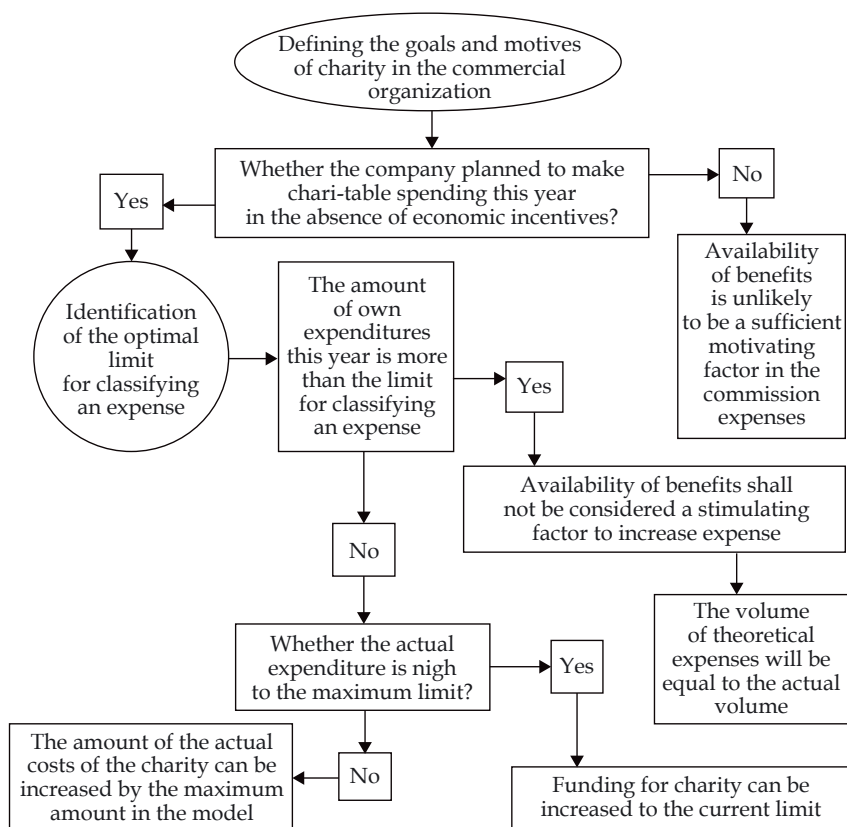


Fig. 2. The algorithm for evaluating the likely behavior of the taxpayer with the introduction of preferential tax charity

- the limit for tax deduction determined as share of the taxable profit;
- expected increase the charitable expenses within prescribed model.

The model does not include the possibility to reduce the company's net profit, as the growth of the charitable expenses in prejudice of net profit is observed in the absence of benefits. Consequently, the potential for growth of charitable expenditure should be limited by a value which will be compensated by a decrease of income tax. When modeling the response of taxpayers, we assume that the profit after taxation in any case cannot be less than actual profits, as in this case we deny the relationship between the increase in costs and action of incentive.

Accordingly, we assume that  $P^{mod} \geq P^{fact}$ , as potentially available resources can be directed either to increase charitable expenditure, or on the maximization of their profits. Thus, the actual profit after taxation could be less or equal then the obtained in the model. Therefore, to make a profit within the framework of the model, we can reduce the actual return on the amount of increased costs when introducing the incentive ( $G^s$ ), but at the same time increase on the value of the incentive on the current income tax rate of 20 %, which will apply not only to actual charitable expenses ( $G^f$ ), but also on the increment value ( $G^s$ ).

In the form of disparity we can represent:  $P^{fact} - G^s + 0,2G^f + 0,2 G^s \geq P^{fact}$ .

Expanding disparity, we obtain:  $0,2G^f \geq 0,8G^s \rightarrow G^s \leq 0,25G^f$ .

In general terms, by steps disparity will have the form:

$$P^{mod} \geq P^{fact} \rightarrow P^{fact} - 0,8G^s + 0,2G^f \geq P^{fact} \rightarrow \\ \rightarrow 0,2G^f \geq 0,8G^s \rightarrow G^s \leq 0,25G^f,$$

where  $P^{mod}$  – modeled net profit;  $P^{fact}$  – actual net profit;  $G^s$  – the amount of increased expenditures in a model;  $G^f$  – the actual amount of expenditures.

Thus, for the maximum amount to increase the charitable expenditures in this model we will take 25 % of the actual costs for charity in the absence of incentive, and for the minimum volume to increase – the value when the «null

hypothesis», which indicates that there is no relationship between the incentive and changes in expenditure, becomes untenable.

### Method and data

In our study, tax deduction means a reduction in the corporate income tax (CIT) base in a certain percentage of the profit. Following method was used to assess the hypothetical value of donations:

Step 1. At this stage, were unloaded banks represented in the Irkutsk Oblast, excluding from the sample those banks that have received comments from the Central Bank in connection with some doubts in their reporting.

The study sample was divided into three groups according to the principle proposed for the evaluation of social responsibility of banks in the United States [20]. According to this principle, the first group included banks with the volume of own funds of less than 10 billion rubles (small banks). The second group included organizations with the volume of capital more than 10 billion but less than 100 billion rubles (medium-size banks), and the third group – with a volume of more than 100 billion rubles (large banks). The sample was grouped according to the amount of capital in accordance with the proposed principle. At the same time, we received initial empirical data for the period of 2011–2014 about the income, the value of charitable expenses, and current income tax.

Step 2: Calculation of the hypothetical limits accounting for charitable expenditure as an expense on the study sample for the respective years.

Step 3: Comparison of actual costs to the value of hypothetical limits.

Step 4. For the banks whose actual costs do not exceed the prescribed limits, calculation of the increase of charitable expenditure to be compensated through the mechanism of preferential tax treatment, the so-called «potential to increase donations».

Step 5. Summation of actual costs and the potential to increase in each test organization for the respective years.



Step 6: Comparison of the amount received with the value of the hypothetical limits.

Step 7. For the banks where the amount exceeds the limit, the full potential of an increase will be equal to the difference between the amount of the limit and the amount of the actual costs and will be considered as fixed at a submaximal level.

Step 8. For the banks where the amount does not exceed a predetermined limit, the full potential will be considered as fixed at the maximum level.

The study has been based on a sample of banks operating in one region of the Russian Federation, Irkutsk Oblast, in 2011–2014 years. In order to improve the quality of the study, the banks which the Central Bank had expressed concerns about or suspected of dubious performance reports, were not taken into account. Thus the survey covered 49 banks represented in Irkutsk Oblast.

To obtain data on the degree of involvement of the investigated banks in corporate philanthropy, we used the information provided on the official websites of credit institutions and the information provided in annual reports.

### **The influence of preferential tax treatment for charitable expenses of commercial organizations**

The calculated data on the value of committed expenditures and the net profit of researched credit institutions broken down by size are presented in table 2. As can be seen from the table, the average value of charity spending committed by

credit institutions grew steadily throughout the study period.

Before moving on to the research on the existing level of charity's support by credit institutions in the form of qualitative and quantitative indicators, it is appropriate to represent primary definition of the range of factors that can influence the investigated index, that is, in this case, the absolute and relative value of charitable expenditures in profit that are made in the situation of economic incentives absence.

Existent level of actual spending might be considered as an acceptable level of support for a particular charitable organization, from which you can later make a start in detecting potential of a commercial organization to increase charitable expenditures in the implementation of preferential taxation of charity. Thus, in conducted correlation analysis of the total number of the factors that may affect the value of charitable expenditures, which credit institution is ready to incur as a loss of its net profit, we can identify factors that have a statistically significant correlation coefficient when the level of significance  $p < 0,05$  (table 3).

Based on detected correlation coefficients, we can conclude that at a significance level of  $p < 0,05$ , that is acceptable for this false positive probability problem solving (the probability to reject the null hypothesis when in fact it is true), not all factors can affect the value of charitable spending. The amount of capital as well as the availability of a sustainable strategy for charitable activities might be considered as statistically significant factor for both absolute and relative value of charitable expenditures.

Table 2

### **Charitable expenses and bank's profit in different groups of the banks in Irkutsk oblast in 2011–2014**

Group of Banks	Growth 2014–2011, %	
	The average value of charitable contribution	The average value of net profit
Total sample (49 Banks)	79,9	1,4
Small banks(the volume of capital less than 10 billion rubles)	8,7	32,3
Medium-sized banks (the volume of capital from 10 billion to 100 billion rubles)	-63,1	-45,8
Large banks(the volume of capital more than 100 billion rubles)	123,5	3,6

Source: Author's calculations on the base of bank's report to the Central Bank.

Table 3

**The identification of the significant factors for the absolute and relative value of charitable expenditures to the amount of profits of credit institutions**

Factors	Ranked ratio of a Spearman correlation			
	Absolute-value	Significance level	Relative value	Significance level
Amount of capital	0,82	0,000 000	0,32	0,024 523
Attribute of the bank to the regional ones	-0,55	0,000 000	-0,23	0,119 320
Presence of the state participation in capital	0,37	0,008 410	0,19	0,191 505
Presence of foreign participation in capital	0,18	0,370 021	0,13	0,370 021
Amount of profit	0,79	0,000 000	0,17	0,239 694
Value of a tax burden	-0,07	0,637 639	-0,35	0,014 461
Availability of a stable strategy of charitable activities	0,6	0,000 004	0,48	0,000 527

*Source:* Author's calculations on the base of bank's report to the Central Bank and bank's websites.

The strongest relationship was observed between the size of the bank and the average value of profit after taxation for the explored period. The resulting correlation coefficients were 0,82 and 0,79 respectively, which can be described as a strong degree of relation.

These factors have a logical explanation. For example, the total amount of profit influences on the value of charitable expenditures that owners and management of a company might spend on charity and avoid negative effect on net income. Thus there is no significant difference between the proportions of welfare expenditure in the more or less profitable banks.

The bank's capital is the basis of its growth and protection against risk, that's why there is a relation between the value of bank's own funds and the value of charity expenditures. The value of the bank's capital affect indirectly on the value of the bank's expenses in the area of charity.

At the same time the impact of the value of capital on the charitable expenditure is much weaker in relative terms and the correlation coefficient here is 0,32. We can say that small, medium-sized and large banks are willing to spend on charity on almost equal measure.

Detected correlation coefficients for all other factors indicate the average degree of influence on the value of the bank's charitable expenditures. So correlation coefficient of -0,55 for the attribute of a bank to the regional ones, indicates that between the value of charitable expenditures and

regional banks there is an inverse correlation. Since in Russia there is no legal definition of the term «regional bank» during the investigation to them were attributed credit institutions registered on the territory of the subject of Russian Federation. At the same time, in relative terms factor of attributing of the bank to regional ones has no statistically significant effect on the profit share that is used for charity.

Factor of a state participation in the bank's capital has a statistically significant impact only on the absolute value of the charitable expenditures. So, we can say that in this case, the correlation coefficient shows the participation of the state mostly in large banks, which spend more in absolute terms, but does not indicate on more significant social orientation of state-owned banks. The hypothesis of a greater social orientation of banks with foreign capital can be regarded as untenable, since the connection between the charitable expenditures in absolute and relative terms is statistically insignificant.

The value of the tax burden may have a reverse effect on the value of charitable expenditures in relative terms, which is expressed in a correlation coefficient of 0,35. So, we can say that the higher is the share of income tax; the lower is the share of charitable expenditures. Thus, the tax burden can be considered as a factor that restrained the growth of expenditures on charity.

The relationship between the presence in the bank's long-term strategy of charitable activities and the amount of ex-

penses in absolute terms was expressed in direct correlation coefficient of 0,6. So we can say that banks, which have a specific strategy for the development of charity, spend more in absolute terms than those whose charitable activities were spontaneous. This can be attributed to the greater responsibility positions in support of the charity in the presence of partner funds or detected lines, which results in a greater value of funds allocated for this purpose. This hypothesis is also supported by a factor of statistically significant impact on the value of philanthropy strategy costs in relative terms. Banks, which had this strategy, spent a larger share of charitable funds as compared to the profit after taxation.

After identifying factors which may affect the value of charitable expenditures in absolute and relative terms, we can continue study of the existing level of charitable activity in the banking sector on the basis of qualitative criteria.

To assess the quality parameters of the banks' participation in charitable activities, the criteria have been used developed by the Czech researchers on the basis of the banking system of the Czech Republic [21, p. 55]. These options were designed to assess the level of corporate social responsibility at the level of banks. In order to evaluate the participation of the banking system in supporting charity, these parameters have been adapted to meet the needs of our study (table 4).

Thus, the main elements of the existing involvement of credit institutions in support of socially important areas for today, according to the authors, will be:

- publication of social reports on the results of the charitable activities;
- provision the open and full information on the types and forms of charitable activities on the company's official website;
- the employees involvement in the charity, and encouragement of voluntary initiatives in the company's team;
- creation and introduction the banking products aimed to the charity;
- the long-term sustainable strategy for the development the charitable activities in the framework of corporate social responsibility.

Table 4  
Evaluation criteria bank's involvement in charity

Criteria in the Management of CSR (Corporate Social Responsibility)	Author's criteria
Appointment of CSR representatives	Information about the forms and directions of charitable activities on the bank's website
Determination of a scope of authority, strategies and objectives of CSR	Strategies and objectives of corporate charity
Documents and records about CSR	Documents and records about corporate charity
Human resource management	Promotion of volunteer initiatives in the team
-	Own charity funds
-	Development of banking products oriented to charity

The study provided data on the prevalence of charitable activities of credit institutions on the basis of selected quality indicators (fig. 3).

Information on the forms and directions of support of charitable activities in the organization can be found on the official websites of 67,3 % of credit institutions. Based on the 95 % confidence intervals, we can speak of 53,8–80,2 % in the total population of banks in the Russian Federation. Reference to long-term partnerships with a particular recipient of donations or prioritized charitable activities was found in 46,9 % of the banks [95 % CI 32,9–60,8]. Promotion of volunteer initiatives in the team, as well as organization of volunteer projects, featured in 28,5 % of the studied organizations [95 % CI 15,8–41,1], and the development of banking products oriented to charity 38,7 % [95 % CI 25,1–52,3].

Regarding the differences investigated involvement of credit institutions, depending on the size of the capital, we can say that most of the indicators significantly hire in the group of large credit institutions than for the others banks involved in philanthropy ( $p < 0,05$ ). Thus, information about the organization's

philanthropy could be found on the official websites of 44 % of small banks [95 % CI 21,2–66,9], 71,4 % medium-sized banks [95 % CI 52,1–90,7], and all the large banks without any exception. Volunteer work in the organization is encouraged by 5,5 % of small banks [95 % CI 5–16,03] and 23,8 % medium-sized banks [95 % CI 5,6–42,01], while 80 % of the large banks in the study group [95 % CI 55,2–104,8] mention projects that involve employees. It should be noted that the study has revealed an interesting trend: while the big banks are much more involved in charitable activities than small banks on all evaluated parameters ( $p < 0,05$ ), the differences between the involvement of medium and large banks have been identified only in terms of reflecting a significant own contribution.

Because of the lack of information about the forms and types of charitable activities on the banks sites, it is difficult to draw conclusions about the differences in the group strategy of charity. However, other indicators for large credit institutions differ from the small and medium-size bank indicators. While some indicators are already close to those of the larger banks, in terms of requiring a significant own contribution, medium-sized banks still differ from the large banks. This may explain the limited available financial and human resources of medium-sized banks. So they are ready to commit spending,

but do not have more opportunities to adequately inform the public about their activities and to support the charity in many forms, not just in the form of direct cash donations.

Based on the totality of the credit organizations represented in Irkutsk Oblast, we can conclude that the actual amount of own contributions exceeds the limit of 10 % of taxable profit at the few of banks. Therefore, the proposed model does not make sense to consider options in the amount of more than 10 %. Thus, for this study variations in the amount of 1 %, 3 %, 5 % and 10 % of the taxable income have been reviewed.

Fig. 4 shows the mechanism of action of the preferential taxation, depending on the limit donations account as an expense.

Based on fig. 4, we can conclude that setting any level of charitable donations account for the majority of banks benefit can form the potential to increase charitable expenditure. In addition, for the overwhelming majority of banks have the potential to form the maximum size to be increased in the model. Thus, taking into account contributions as an expense for tax purposes at a rate of up to 1 % of the taxable profit, the number of banks that could increase their donations to the maximum volume amounted to 49,5 % of all the banks operating in Irkutsk Oblast. On the basis of confidence intervals, it

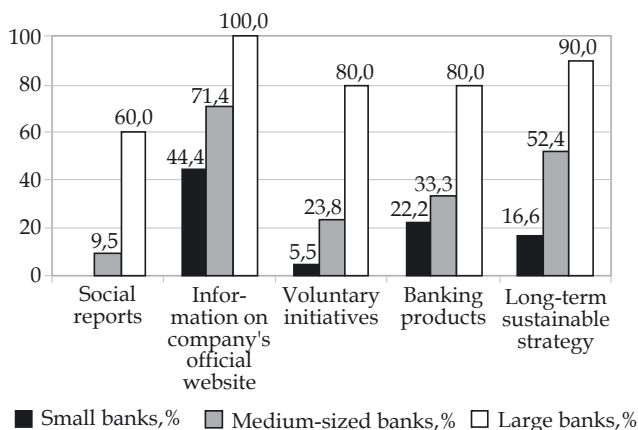
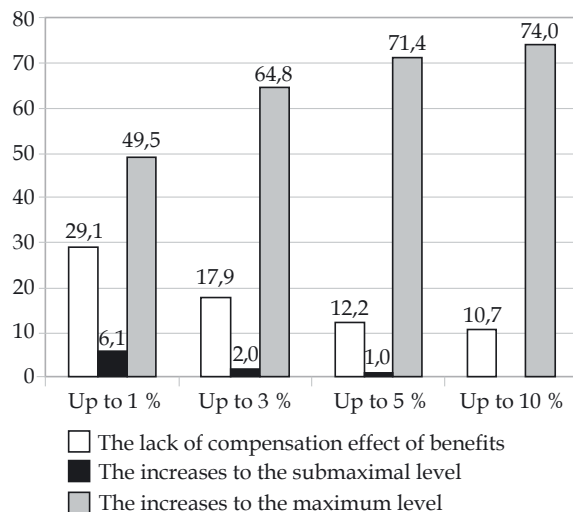


Fig. 3. Differences in the degree of involvement in support of charity, depending on the size of the bank's capital, %



**Fig. 4. Impact of the different limit for tax deduction determined as share of the taxable profit**

can be assumed, with a 95 % probability, that in the Russian Federation with the introduction of preferential taxation and setting limits on the size of the accounting of donations amounting to 1 %, the share of banks in which the benefit would form the potential to maximize, would be in the interval from 42,5 % to 56 % of the entire population. In the transition from the lowest level for each subsequent average share of banks in this group is gradually increased from 61,9 % to 80 % of the population.

At the same time, the share of credit institutions, which have not shown an increased spending through the compensation effect of the benefit, is relatively high at 1 % level accounting for tax purposes, ranging from 22,7 % to 35,5 % of all the banks. Changing the number of credit institutions that are attributable to this group is the opposite of the change in the group with the potential to maximize, and would have fallen to a relatively small number of 10,7 % at the maximum limit. The share of banks that did not make donations and, consequently, for their benefit tax profits could not be a motivating factor to an increase in donations, ranged from 3,8 % to 22,8 % and was independent of the level of spending in charity account expenses. There are

banks in the considered sample (2 %) that made charitable spending but ended the year with a negative financial result and, consequently, it was not possible to determine the potential to increase, caused by the action of the benefits due to the lack of base of income tax. The share of banks whose potential to increase charitable donations to a set maximum size limit was close to the limit and, therefore, stopped at sub-maximal level, ranging from 1 % to 6,1 % depending on the set limit, with no bank reaching the limit of 10 % for this group.

### Conclusion

As the review of the literature has shown, over the recent decades the importance of searching for alternative sources of financing for non-profit organizations as providers of public goods and services in relation to the direct subsidies has been growing. One such source that has several advantages over direct financing is a mechanism for preferential tax treatment of charitable activities used in the Western countries.

In conclusion, with regard to the quality indicators expressing support for charity, the study has shown that, in terms of opening up, the majority of banks post



information about their activities on their official websites. Nearly a half had a sustainable charity strategy, which is understood to work with partners of charitable aid over several time periods or selected priority. At the same time, taking advantage of corporate philanthropy by using special forms of charity, it is inherent in the banking sector but developed fairly weakly. The study has also found that, for every limit, taking into account the

charitable expenditure as an expense, the majority of credit organizations have a potential for maximum growth of donations (from 49,5 % to 74 % of the study of credit institutions depending on the limit of the account). These results suggest that the introduction of preferential tax treatment of charitable activities could boost the flow of financial resources for socially important areas of commercial organizations, in this case, the banking sector.

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