

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT
STRUCTURAL AND COHESION POLICIES **B**



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**ENCOURAGING PRIVATE
INVESTMENT IN
THE CULTURAL SECTOR**

STUDY



**DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT B: STRUCTURAL AND COHESION POLICIES**

CULTURE AND EDUCATION

ENCOURAGING PRIVATE INVESTMENT IN THE CULTURAL SECTOR

STUDY

This document was requested by the European Parliament's Committee on Culture and Education

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Original: EN
Translation: DE, FR

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Manuscript completed in July 2011.
Brussels, © European Parliament, 2011.

This document is available on the Internet at:
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Abstract

The study identifies trends in encouraging private investment in the cultural sector in EU Member States. The study elaborates on empirical data gathered through questionnaires, case studies of five countries and desk research. It provides an overview of mechanisms and measures used to encourage private investment, including: tax framework (i.e. encouraging the consumption of culture and business and philanthropic investment), financial and banking schemes and intermediary mechanisms. A comparison between private investment in culture in the United States and in Europe is provided.

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LIST OF ABBREVIATIONS

A&B	Arts & Business
ABSA	Association for Business Sponsorship of the Arts
ACE	Arts Council England
ACRI	The National Association of Local Savings Banks and Banking Foundations
ADMICAL	Carrefour du Mécénat d'Entreprise (A network for corporate philanthropy)
AEDME	Asociación Española para el Desarrollo del Mecenazgo Empresarial
BC	Bondardo Comunicazione
BDI	Haus der Deutschen Wirtschaft (Federation of German Industry)
CAF	Charities Aid Foundation
CATI	Computer-assisted telephone interviewing
CCR	Corporate Cultural Responsibility
CEG	Creative Exports Group
CEREC	European Committee for Business, Arts and Culture
CHPA	Cultural Heritage Protection Act
CIAV	Audiovisual Investment Certificate Programme
CNC	Centre National de la Cinématographie
CSR	Corporate Social Responsibility
CZK	Czech crown, currency
DCMS	Department for Culture, Media and Sport
EC	European Commission
EEA	European Economic Area
EFCS	European framework for cultural statistics
EGEDA	Audiovisual Producers' Rights Rearrangement Association
EIS	Enterprise Investment Scheme
EU	European Union
EUR	Euro, currency
FPC	Film production company
GBP	Pounds sterling, currency

GDP	Gross Domestic Product
ICAA	Institute of Cinematography and Audiovisual Arts
IFCIC	Institut de Financement du Cinéma et des Industries Culturelles
IMO	Institut za međunarodne odnose (Institute for International Relations)
IWK	Initiativen Wirtschaft für Kunst (The Austrian Business Committee for the Arts)
JSKD	Public Fund for Cultural Activities
LOF	Law on Foundations
MKIDN	Ministerstwo Kultury i Dziedzictwa Narodowego (Ministry of Culture and National Heritage)
MLA	Museum, Libraries and Archives Council
NCK	Narodowe Centrum Kultury
NDPB	Non-departmental public body
NESTA	The National Endowment for Science, Technology and the Arts
NEA	National Endowment for the Arts
NGO	Non-governmental organisation
NHMF	National Heritage Memorial Fund
NIOK	Nonprofit Information and Training Centre
NPO	Non-profit organisation
NSRK	The National Strategy for the Development of Culture
Nyx Forum	Danish Forum for Art and Business
OECD	Organisation for Economic Co-operation and Development
PBA	Law on Public Benefit Activity and Volunteerism
PBO	Public Benefit Organisation
PDAAIA	Protection of Documents and Archives and Archival Institutions Act
PLN	Polish złoty, currency
PPP	Public-private partnerships
PVF	Philanthropic Ventures Foundation
RCAHMW	Royal Commission on the Ancient and Historical Monuments of Wales
R&D	Research and development
RTV	Radio television

- SAZAS** Združenje skladateljev in avtorjev za zaščito glasbene avtorske pravice Slovenije (Society of Composers, Authors and Publishers for Copyright Protection in Slovenia)
- SEK** Swedish krona, currency
- SKK** Slovak crown (koruna), currency
- SME** Small and medium enterprises
- SOFICA** Société pour le Financement de l'Industrie Cinématographique et Audiovisuelle
- TCA** Tax Consolidation Act
- TFEU** Treaty on the Functioning of the European Union
- UK** United Kingdom
- UNESCO** United Nations Educational, Scientific and Cultural Organisation
- US** United States
- USD** United States dollar, currency
- VAT** Value added tax
- VP** Venture philanthropy
- ZUJIK** Exercising of the Public Interest in Culture Act
- ZAMP** Združenje avtorjev Slovenije (Slovenian Authors' Society)
- WWIK** The Income Provisions for Artists Act

EXECUTIVE SUMMARY

1.1. Introduction

1.1.1. The scope of the study

The mixed funding economy of arts and culture is generally perceived as a model of financial sustainability. While different sources of financing for cultural activities include public support, private support and earned income, this study is dedicated to the analysis of private investment in culture. This study seeks to analyse the various forms of private investment from the point of view of cultural policies and existing stimulatory measures. The study aims to provide the European Parliament with a better understanding of the importance of public incentives for the private funding of culture. The main focus of this research is on the importance of the economic, political and cultural aspects of the funding modes and mechanisms developed by governments to encourage private investment in the culture sector and the spread of the use of such modes and mechanisms. The study tries to identify general trends in the EU regarding private financing of the cultural sector, along with providing examples of new practices and policies in EU Member States. Its focus is on investigating the main motivations for financing the cultural sector and the main obstacles faced by private investors. The study addresses the need for comparative cultural policy research in this field and emphasises the common responsibility of EU member states to provide comparative data on the EU level. A short analysis of trends and main differences in comparison with the United States is also included.

The term private investment, as defined in this study, includes any investing in, giving to or spending on culture done by individuals, businesses or non-public organisations. This definition extends beyond a concept of private investment that is primarily associated with capital returns to include private support and earned income derived by individuals, business and not-for-profit organisations, whether they invest in, sponsor, donate to or consume culture. Therefore, the relevant forms of support discussed in this study are direct investment, sponsorship, patronage and donations, and earnings from self generated income such as tickets, entrance fees and other merchandise. Investing, giving and spending are driven by different motives: investing is driven by the principle of gain, as measured in terms of profit, giving is driven by the principle of social responsibility, as expressed through social, symbolic and similar non-economic values of culture, and spending is driven by the principle of the consumer's sovereignty, as measured by market or use value of culture, as well as culture's intrinsic value.

1.1.2. Data sources used

The widely held perception that the mixed funding economy of arts and culture could raise new perspectives for the sustainability of cultural sector activities instigated a pressure for finding other sources to complement public funds and encourage their use. Therefore, it is surprising that there is not sufficient comparative data about the size of private funds for culture and the effectiveness of given measures and comparative methodology in Europe. Some limited insight into different national realities is available through studies and surveys on private giving and cultural sponsorships that have been conducted by arts and business organisations. However, the existing data is being collected using different methodologies and therefore lacks comparable quality on a European level.

To compensate for the lack of systematic data on issues related to private investment in culture, and particularly on existing incentives for private investments in the EU, an attempt has been made to gain insight into the situations regarding private investment in different EU countries by collecting information via questionnaires. A questionnaire was sent to 27 Ministries of Culture in the EU to collect data on existing incentives for private investment in culture. The received answers varied in the levels of detail provided. We received answers from many Ministries of Culture informing us that such data are not systematically collected by them, or that they belong to competencies of Ministries of Finance. The existing arts and business organisations and cultural organisations in Europe have also been contacted with short lists of questions about private investment in the cultural sector. Deeper insight has been made into selected countries by creating five case studies (Italy, the Netherlands, Poland, Slovenia and the United Kingdom). The Compendium of Cultural Policies and Trends in Europe, a pan-European cultural policy mapping exercise, was another valuable data source for this analysis. Extensive desk research of relevant literature focusing on this subject has also been conducted.

1.1.3. Structure of the study

The study consists of seven chapters. Chapter I gives an introduction to the study. Chapter II provides the context that explains the main terms used in the study, giving basic cultural policy concepts and modes of funding, and providing a framework for understanding the role of taxation and its main characteristics. It gives an overview of the financing of arts and culture by classifying it into three sources (i.e. public funding, private funding and earned income) as well as according to the different funders (i.e. corporate, individual and non-profit). The chapter elaborates on the modes of funding through its economic, political and cultural dimensions. Bearing in mind the cultural sovereignty of EU Member States and the limited role of the EU tax regulation, this chapter also briefly addresses the impact of EU regulation on taxation in Member States. Typology of different kinds of private investment is made according to motives for such investments (e.g. direct investment, including public-private partnership; sponsorship; patronage and donations). It underlines that all governmental endeavours are in close relation with the proactive cultural sector: cultural entrepreneurship, effective marketing, intensive fundraising and audience development, along with 'digital shift', present new challenges for all involved. Chapter III describes selected mechanisms, instruments and measures regarding tax reductions and deductions, financial incentives aimed at attracting potential co-funders, major organisations that mediate between arts and business or arts and state sectors and other policy guidelines that might introduce new trends. Chapter IV presents five case studies from different parts of the EU: the North and South, old and new Member States and diverse cultural policy traditions (Italy, the Netherlands, Poland, Slovenia and the UK), in an attempt to identify existing practices and trends in encouraging private support of culture. Chapter V discusses the US system of incentives for private investment in culture in a comparative perspective. One of the reasons for disparities is the presence of cultural and systemic differences within European and US funding systems. Thus, selected mechanisms of US private funding are made available for consideration in this study. Chapter VI offers some final reflections, while Chapter VII proposes recommendations on how to encourage private financing of the sector at the EU level, as well as through policy ideas that lie outside the EU's strict area of competence but might correspond to the perceived trends relevant for national and regional governments.

The materials developed by the project-team, on which this report is based, consist of five annexes attached to this study: Annex 1 presents measures for encouraging private investment in selected cultural sectors; namely the audiovisual and cultural heritage sectors. Annex 2 brings complete, in-depth versions of the case studies that are presented

in Chapter IV of the Study. Annex 3 consists of an inventory of existing incentives for encouraging private investment in culture in EU countries that was made as a working file for this study. Annex 4 outlines the US system of private giving and its characteristics in more detail than in Chapter V, while Annex 5 offers a short glossary of terms used in the study.

1.2. Private investment in culture: Underlying concepts

In this study, **culture** is considered a sector of activity around the original creative arts that has economic impact and generates social benefits by creating, producing and distributing goods and services in different cultural areas. The cultural sector outputs embody different values of culture. To properly assess the value of culture, one has to consider culture as private market good, as well as a public good. The two main aspects of the value of culture are economic value and cultural value. Economic value consists of use and non-use values. Market or use value of culture can be expressed in terms of prices that are charged for cultural goods and services. The concept of non-use values denotes values that individuals associate with cultural goods or services despite not personally using them (e.g. attending events, seeing exhibits, reading books) (Hansen, 1997; Navrud and Ready, 2002). Non-use values can be further classified into option, bequest, existence, prestige and educational values (Frey and Pommerehne, 1989). The concept of cultural value refers to the value that a cultural good or service has, regardless of its place in the economic system. Cultural values are divided into social, symbolic, aesthetic, spiritual, historical and authenticity values (Throsby, 2001).

For the purposes of this study, a classification of sources in a **mixed funding economy** has been developed. Accordingly, there are three main sources of the financing of culture in Europe: public support (direct and indirect), private support (business support, individual giving, foundations and trusts) and earned income.

Public support includes public direct support and public indirect support. *Public direct support* for culture is defined as any support to cultural activities made by governmental and/or other public bodies. Public direct support includes subsidies, awards, grants, etc., that is, money is transferred directly from the public funds to the recipients' accounts. *Public indirect support* consists of measures, adopted by governmental and/or public institutions, usually via legal acts, for the benefits of cultural organisations, that do not involve money transfer from the former to the latter. Indirect measures refer mainly to tax expenditures, that is, the income that local and national governments forego because of tax reductions and exemptions granted to cultural institutions, matching grants, and other financial or banking schemes whereby beneficiaries, rather than government officials, determine which organisations will benefit.

Private support - Private support for culture denotes any financial support provided by investing, giving or spending at the individual or non-public level. Private support can be further divided into business support, individual giving and support from foundations and trusts. *Business support* denotes direct investment aimed at capital returns, including public-private partnerships and investments in arts collections, as well as sponsorship and corporate donations. *Individual giving* encompasses all transactions made by individuals, with a purpose of donating or contributing to culture. Individual giving should be distinguished from household expenditure for culture, which falls under the category of earned income. Support from *foundations and trusts* denotes support from intermediary institutions, usually founded by law, that serve special purposes and missions and are supported by private endowment.

Earned income - This category includes all individual spending for cultural purposes, such as, entry fees to cultural institutions, or the buying of cultural objects. Earned income therefore denotes all direct income made by cultural organisations on the market.

Public direct support to culture currently shows a tendency to decrease, with **the effects of the recent financial crisis** speeding up this process. Most countries are reaching the limits of their budgets, and are therefore starting to show willingness to experiment with systems of private support to culture. During the previous decades, the level of business support in European countries has been on a rise, but is presently diminishing due to the recent financial crisis. Private foundations in Europe are also cutting their budgets, and individual spending has also been negatively affected.

There is a link between investments in culture and values of culture. There are four subcategories of private investment in culture according to the motives for such investment: **direct/capital investments**, which have profit as their main motive (and are therefore mostly concerned with economic value); **sponsorship**, which is a two-sided business interaction (it brings profit and brand recognition to businesses as well as benefits to cultural organisations); **donations and patronage**, in which the motives of donors and patrons are mostly in concordance with social, symbolic and similar non-economic values, that is, donations are mostly concerned with the realisation of cultural values, in all their various forms; and **earned income**, which reflects both economic and cultural values.

Private funding also contains various imperfections, namely its focus on conventional artistic programmes and prestigious cultural organisations. Therefore the mixed economy, with public funding providing solid foundations for the stability of the sector, private funding supporting selected events or producers according to individual preferences and earned income giving value for money to consumers, can redeem from the defectiveness of each form of funding on its own. The diversification of sources of funding strives to smooth out unsystematic risks so that the positive performance derived from one funding source will neutralise the negative characteristics of another.

The cornerstone of the encouragement of private investment in the cultural sector is **tax policy**. The intersection between tax policy and cultural policy is evident, since tax regulation can have positive or negative implications on culture. Cultural policy and fiscal policy have always been and are increasingly becoming more and more intertwined. Tax legislation is important in terms of enlarging the financial independence of the cultural sector. As a mean of channelling public funding to the arts, the major advantage of tax policy is its neutrality in the sense that tax incentives do not relate to artistic contents. Rather, the criteria are general, and are linked to the field or types of beneficiaries. It is left to individuals, corporate businesses and non-profit foundations to make their own cultural decisions. Therefore, it is important to understand and promote tax policy that takes cultural aspects into account as a relevant instrument of cultural policy, thus allowing for individual decision making in supporting cultural projects.

There are many different terms that are used in referring to tax measures such as tax reliefs, tax breaks, tax deductions, tax exemption, tax allowance, tax incentives, etc. While most of these terms refer to write-offs that reduce the amount of tax base, tax incentives refer to specific measures aimed at the encouragement of desirable behaviour towards the arts and culture. Tax breaks are rarely designed for the culture and arts specifically, but are designed for the broader philanthropic category (O`Hagan, 1998). The field of culture is just one among many charitable domains, such as social affairs, health, sport, religion, etc. As available statistics do not always differentiate culture from the other philanthropic fields, it is difficult to monitor the private investment made in culture through the available

mechanisms.-. At the EU level the reduced VAT rate represents one of the most significant measures of indirect public funding, thus making VAT policy an important instrument of European cultural policy.

1.3. Private investment in culture: Selected mechanisms and measures

Different measures and mechanisms have been developed for increasing the support of private funding of arts and culture, such as: tax incentives for donors, consumers and sponsors, stimulations for fundraising through matching grants to combine public subsidy with money raised privately, regulation of private public partnership, support of intermediary mechanisms (e.g. arts and business forums, grant giving foundations, lottery based funds and social venture funds), use of publicly funded vouchers that stimulate cultural organisations to compete for audiences and banking schemes that provide for favourable access to loans. In comparison to public subsidies (i.e. awards and grants) as forms of direct public support, these measures represent indirect public support of culture. The state supports arts and culture indirectly through various efforts at stimulation, including tax forgone policies, whereby tax payers and beneficiaries, rather than government officials, determine which organisations will benefit.

This chapter presents the selection of sixteen specific mechanisms and measures for encouraging private investment in culture in EU member states. They have been identified through the questionnaire sent to the Ministries of Culture in EU countries, through data available from the Compendium of Cultural Policies and Trends in Europe and from other secondary sources used in this study, as well as through insights gained through case studies.

1. Tax incentives on the consumption of culture are those measures in which a subject of taxation is any form of cultural consumption (e.g. buying music, paintings, sculpture). Most general forms of such measures are **VAT reductions** for buying cultural goods, tax deductions for buying cultural objects, and other measures, such as transfer of art in lieu of payment of tax. The VAT reductions for buying cultural goods and services present the main implicit subsidies for cultural industries, especially in cases of market failures (i.e. when cultural products have to be subsidised since the market is too small to operate in an efficient manner).
2. Our research through questionnaires, as well as the supporting data from the Compendium, shows that the data on measures supporting **sponsorship** are inconsistently monitored. Business sponsorship of culture is present in all surveyed countries. Although sponsorship has a great potential and is encouraged via tax incentives, sponsorships still represent a small portion of the budgetary incomes of cultural organisations.
3. **Public-private partnerships (PPP)** usually denote an agreement between a government and the private sector regarding the provision of public services or infrastructure. Social priorities are thus merged with the managerial skills of the private sector, thereby relieving the government of the burden of managing large capital expenditures and transferring the risk of cost overruns to the private sector.
4. **Percentage legislation**, or percentage philanthropy, is a tax measure through which taxpayers may designate a certain percentage of their income tax to be allocated to a specific non-profit, non-governmental organisation, and in some cases to other organisations, such as churches. This measure is characterised by two

features: 1) taxpayers themselves individually decide on how a portion of their tax paid will be allocated; 2) the use of the designated funds is restricted to supporting certain beneficiaries (Bullain, 2004). Among EU Member States, percentage legislation systems in Eastern European countries, such as Hungary, Lithuania, Poland, Slovakia, Romania and Slovenia, are most widely recognised, though the system exists in some other countries, like Italy.

5. **Individual donations** for cultural purposes are defined as one-sided business transactions, from which the donor expects no direct benefit. Donations can be made in cash or in kind. Donations typically follow higher cultural values, and profit is not the main motivation. However, in situations where the donor receives some incentive to donate to culture, better results for the cultural organisations are usually achieved. A number of EU Member States have implemented measures regarding the stimulation of individual donations. Several countries offer deductions for individual donors, following examples from the US and countries of Anglo-Saxon cultural policy tradition. Some of these countries (like Germany, Italy and Greece) have special incentives for inheritance taxes, where the tax on bequests can be reduced up to 60% (Germany).
6. **Corporate donations** are gifts, in cash or in kind, made by companies and other legal subjects to cultural organisations or individual artists. Measures supporting corporate donations most often take the form of tax incentives for donors. Despite being a well established measure in countries of Anglo-Saxon cultural policy tradition, measures supporting corporate donations were found less frequently among the answers to our questionnaire than measures supporting individual donations. The lower number of answers in this category may be attributed to the lack of appropriate information and monitoring in this field.
7. Several countries allow taxpayers to **transfer** their property, including works **of art, in lieu of payment of different taxes**, such as estate tax. Such a system effectively acts as a 'tax credit' system, as compared to a 'tax deduction' system (Freudenberg, 2008) and thus is more beneficial for taxpayers than for the treasury.
8. **Matching funds**, or matching grants, is a term used to describe the requirement or condition that stipulates that private donation in money or in kind has to be matched by a certain amount proportional to the value of the donation from a third party (e.g. state or local community). There is a positive relationship between public subsidy and private investment; that is, private investors are likely to give more to culture when they are reassured of the value of this investment by seeing government support. Therefore, matching funds are being explored as a possible way to ensure that public investment works hard to harness greater investment from the private sector.
9. In many countries, **lottery funds** for culture are an important source of private investment in culture, as their distribution has allowed cultural interventions that would otherwise have not been possible. The use of lottery funds for culture is a rather new measure, but is gaining importance with the search for additional subsidies in the cultural field. Lottery funds collection and redistribution methods vary from country to country. These funds are often connected to earmarked taxes, and are thus earmarked for specific cultural purposes.

10. Another form of stimulating private investment in culture is the use of **vouchers**. In general, a voucher is a credit of a certain monetary value that can be used only for a specified purpose. In the culture sector, vouchers are used as a manner of stimulating demand for cultural products. In Europe, the most well-known voucher system is in Slovakia. Similar schemes have been tried in Germany and the United Kingdom.
11. An **earmarked tax** is a tax whose revenues (by law) are reserved solely for a specific group or usage. There are cases where earmarked tax recipients will also receive additional funds from state budgets. Earmarked taxes can be commonly found in the sectors of education, highway construction, ecological issues and social security (Pasquesi, n.d.). The use of earmarked taxes was seldom noted in answers to our questionnaire, or in secondary literature. This possibility provides another option for the efficient provision of complementary funds to cultural activities.
12. **Banking schemes** are usually schemes implemented by banks, or related to the work of banks, for directing bank support to the cultural sector. Banking schemes can include loan schemes that give a preferable interest rate to cultural activities, or any other instruments that favour cultural activities. One good example of a banking scheme exists in the Netherlands, where Triodos Bank has decided to focus its communication and corporate responsibility activities to support the cultural sector. The Triodos Cultural Fund issues loans to cultural institutions and finances the construction and renovation of cultural institutions such as museums and theatres (Holterhues, 2009).
13. Systems of encouragement for private support of culture are sustained by different grant-giving bodies. **Foundations** refer to a legal categorisation of non-profit organisations that typically either donate funds and support to other organisations, or provide the source of funding for their own charitable purposes. The European foundation sector is growing dynamically and is achieving a major presence and significance in the cultural sector. Most foundations support social issues and agendas, while culture represents the focus of activity of a smaller and limited number of foundations.
14. Another emerging form of private investment in the culture sector is **venture philanthropy** (VP), which applies venture capital investment principles, such as long-term investment and capacity-building support, to the voluntary and community sectors. It is a form of 'engaged' philanthropy.
15. Existing **arts and business organisations** provide important services through their training activities, awareness raising activities and linkage between the arts and business sectors. The establishment of such specialised agencies, which encourage engagement between business companies and the arts sector, enhances private involvement in the cultural sector. A particularly important aspect of their activities is monitoring and reporting on corporate giving endeavours, as data on private investment in culture is not systematically collected on national or European levels.
16. The importance of the new mechanisms developing in the digital arena, such as **crowd funding and online fundraising**, are highlighted as important new instruments for encouraging private investment in culture.

1.4. Private investment in culture: Country case studies

Europe has diverse systems of cultural policies in place that try to respond to challenges in balancing economic efficiency and productivity on the one hand and pursuit of desired social and cultural goals on the other (Boorsma, 1998). These systems differ in their organisational models, from centralised bureaucratic models to arm's-length models. Accordingly, there are differences in the uses and roles of indirect public policy measures, such as tax deductions and incentives, as well as demand-oriented subsidies, such as vouchers, interest-free loans, matching funds and public finance partnerships, and levels of presence of intermediary organisations (e.g. arts and business organisations and public benefit foundations).

For the purpose of analysing cultural policies and the ways in which they address this challenge, five in-depth country case studies have been included in this study. The cases of these selected countries bring insight into different systems that are currently in place and identify practical measures and examples of the best national practices in encouraging private investment in the cultural sector. The case studies thus identify different realities and issues regarding the financing of culture. The selected countries that are presented illustrate diverse European contexts: Italy, the Netherlands, Poland, Slovenia and the UK. The case studies findings highlight European commonalities and differences. The findings show that the UK and the Netherlands (countries of Anglo-Saxon cultural policy tradition) have the most advanced mechanisms and measures for stimulating the private sector in giving to culture. Slovenia and Poland, as new members of the EU with post-socialist backgrounds, have still underdeveloped systems of support for private investment, due to rather inflexible cultural sector structures. Italy, as a country of Mediterranean tradition, is a half-way case; state dominion is still present, as are ample opportunities for private sector involvement.

- The Italian case shows that, while the state holds the principal role and responsibility for supporting culture, there is a wide array of initiatives, incentives and systems in place for encouraging private support of culture. The most substantial position among these systems is assumed by banking foundations.
- Private giving to culture in the Netherlands has increased in the last decade, both as a share of total giving and in absolute amount. A great deal has been achieved by the government in terms of tax legislations and programmes that stimulate private giving. The present model of Dutch cultural policy combines both characteristics of arm's-length and entrepreneurial models. Announced changes in the cultural policy for the next four-year period stress the importance of entrepreneurial models.
- In Poland, encouraging private investment in culture is still in its early stages, and it needs a well-elaborated strategic approach for its further development. Such a need is connected to the need for overall restructuring of the cultural sector in Poland.
- There are too few structural changes leading to greater involvement of the private sector in culture in Slovenia. Despite the existing cultural policy objectives toward modernisation of the public sector in culture and mobilisation of private funding, there are few concrete measures in place that seek to implement this direction.
- In the UK, the so-called 'golden standard' for the financing of culture is considered to be a 'tripod economy,' whereby each source of income (public, private, earned) accounts for a third of total income. In reality, only earned income accounts for a third of total income (32%); public funding accounts for an average of 53% of arts organisations' income, while private investment represents the remaining 15%

(Mermiri, 2010a). Due to the recent cuts in national and local arts budgets, the arts and culture sector is faced with the necessity of finding alternative sources of income, namely private investments, to replace public subsidy. The government is looking into new ways to encourage private sector involvement by developing a challenge fund to incentivise donors and build the fundraising capacity of arts organisations.

1.5. Europe vs. US: A comparative overview of the incentives for private investment in culture

A comparison of EU and US trends in private investment in culture shows major differences in policy orientation and consequent outcomes. The systems are different both in their structures as well as in amounts of private giving. Some differences are related to political and legal environments, some stem from the availability of resources committed to fundraising and existence of a culture of asking, and some lie with the culture and tradition of giving and extending wealth.

Since the 1990s, major shifts in policy development, both in Europe and the US have occurred. While European countries have introduced fiscal legislation that supports and promotes private investment in culture, in the US, public bodies substantially reduced public support to culture, thus leaving it in the hands of market forces.

The distinction of culture as a public good and culture as a market commodity is the crucial differentiation when comparing levels of support for the cultural sector in the European countries and the US. The main challenge for Europe remains to maintain its achievements in terms of supporting arts and culture as a public good, while encouraging mechanisms for private funding which are more stimulating, broad and versatile.

Most of the differences between the US and the EU are evident in fiscal policy provisions, where the US employs more tax measures targeted at involving private sector giving to culture. Such measures include, by functional description: the diversity of forms of private giving, higher percentage of individual giving in the total private funding of culture, the charitable gift mechanisms created out of tax framework (e.g. pooled income fund, charitable remainder trust, charitable lead trust), the higher tax relief limit of individual giving and the eligibility criteria for tax relief.

In the US, business support of arts and culture has shifted from charitable giving to a more marketing-based and sponsorship-oriented strategy.

The differences in the levels of individual giving in the US and Europe generally relate to federal income tax, estate tax, capital gains tax and gift tax. The instruments that the US system employs, that are less commonly used in Europe, are in the fields of venture philanthropy and planned giving.

The high level of private support for the arts in the US does not necessarily result in a financially stable arts sector. Constant growth in fixed costs, combined with increasing competition, higher expectations from patrons, decreased public funding and overall economic crisis, re-opened the discussion regarding appropriate levels of support from both private and public funding of culture.

1.6. Final reflections

The European system of cultural financing is predominantly state oriented, and willingness to implement incentives for private giving is dependent on public policy frameworks and political determination. Most European countries are reaching the limits of their budgets, especially in light of the recent economic crisis, and should therefore show an increasing willingness to experiment with systems of private support to culture. However, very few new policy measures for encouraging private investment in culture have been implemented, thus showing that policies lag in their responses to current trends and challenges.

Following are highlights that underline the key points of this study:

- Public direct support to culture currently shows a tendency of decreasing, with the effects of the recent financial crisis speeding up this process. The need to reform the cultural sector to make it more sustainable and entrepreneurial is recognisable in European cultural policies, although the reality shows different levels of realisations of this strategic objective.
- Public direct support focuses primarily on supporting cultural infrastructure and production (i.e. cultural supply), but recent trends show that policies have changed in perspective to take consumption into account. The new consideration of consumption has resulted in a request for cultural organisations to demonstrate their relevance for audiences.
- Indirect public support measures via tax incentives in Europe are well developed, but the take-up of these provisions by citizens, cultural organisations and businesses varies in different countries, showing that the culture of giving needs to be promoted and developed.
- The tendency to over-emphasise the potential of private support to serve as an alternative to public support is controversial because private funds are decreasing rapidly in the period of crisis and many findings underline that there is a positive correlation between the roles of the state and private investment in culture. Public intervention in terms of matching funds or fiscal encouragement builds trust in the importance of culture for sponsors and donors who want to capitalise in an already successful and important sector.
- In Europe, the professionalisation of fundraising is not adequately developed. While there is a need for such professionalisation, the critical decision to employ fundraisers is very difficult to make when there are often not enough funds to properly pay for core cultural or artistic activities, or to appoint external fund-raising consultants. Therefore, fundraising is not sufficiently included as an integral part of the operational structure in most cultural organisations.

The general idea to increase the level of private contribution to arts and culture is widely considered as a promising alternative aimed at increasing the financial sustainability of the cultural sector in a period when public funding has been placed under serious scrutiny. However, the decrease in sponsorship and donations during the economic crisis does not support this idea. More efforts are needed to establish stronger ties between audiences, businesses and communities to recognise the different values of culture and to take advantage of them according to the various different motives behind private decisions to invest in culture. Governments face challenges in improving political and legal environments to promote and reward private support to culture. Sponsors must be

encouraged to explore new opportunities for more innovative advertising through the arts and culture, patrons must be encouraged to rediscover their passion to recognise new talents, donors must be encouraged to feel included in the shaping of cultural life and the cultural sector must be encouraged to find out that fundraising and sponsorship are not important for financial reasons only, but also for the social legitimisation of cultural missions.

1.7. Recommendations

Based on the findings of this study, the imminent challenges for encouraging private investment in the cultural sector are as follows:

- **Development of a good balance between direct and indirect public support for arts and culture**

Due to the specificities of European cultures and models of cultural development in Europe, the encouragement of private investment in culture should not be detrimental to public funding. Public and private funds are complementary, since a solid base of public funding consolidates the perception of trust in the public value of culture on the one hand, and provides for the stability of the cultural sector on the other. In a time of crisis, the demand for cultural goods suffers more reduction in respect to the demand for other goods. In order to preserve public value of culture, public support is indispensable.

- **Development of methodologies for collecting comparative information**

The lack of systematic comparative data of the EU tax situation that applies to the cultural sector, and the absence of data based on common methodology, are serious impediments for the research into private investment in culture in Europe. Another challenge is to develop a common framework to classify different forms of philanthropy, with culture as a separate category, and with various schemes available to make comparative research easier in the future. Thus, the existing initiatives, such as Eurostat's Cultural Statistics, and the Council of Europe and ERICarts Compendium project, need to be further elaborated.

- **Development of further support for international associations for monitoring comparative data and practices**

The dispersion of measures and mechanisms across EU Member States substantiates the need for international bodies and networks, which could provide more accurate and independent assessment of data and practices, as well as more efficient distribution of results to target groups. Data collected by the arts and business forums are valuable sources of information but would further benefit from a unified methodological approach to collecting and interpreting data. Providing further support for the international umbrella associations of existing arts and business forums and other intermediary bodies should be a natural task of the EU, in order to create and promote conditions that are beneficial to private funding of the arts and culture.

- **Raising awareness and understanding about existing tax measures and benefits**

The main discrepancy between the American and European system is not about the different measures (though this is sometimes the case), but mostly about their implementation. In Europe, favourable tax measures are defined in many different laws (Law on Income tax, Law on Inheritance and Gift Tax, Law on VAT, etc.) and pertain to

different sectors (e.g. broadcasting, education, environment). Therefore, there is a general lack of awareness among beneficiaries and investors/donors/sponsors. Raising awareness and understanding of the existing and planned tax measures is a necessary step towards productively utilising existing regulation. The effective use of legal provisions requires the creation of a cross-national catalogue or guide for giving, with a thorough description of the national legislation in force and national campaigns that promote the use of available tax measures.

➤ **Development of public support to the professionalisation of fundraising**

Another difference between the US and European system is evident when considering resources devoted to fundraising efforts. Corresponding to the levels of private support to culture in America, the American system fosters good fundraising practices, while fundraising is merely a complementary and irregular mechanism in the European cultural system. In the case of insufficient funds to cover core programming costs, the professionalisation of fundraising requires targeted cultural policy measures to support the development of fundraising programmes and strategies.

➤ **Raising awareness of lobbying possibilities given by the Article 167(4) of the TFEU (ex Article 151(4) TEC) to develop policies with cultural implications**

Article 167(4) of the TFEU stipulates that European institutions shall take cultural aspects into account in their actions under the various provisions of the Treaty. This article gives EU institutions the power and possibility to lobby for cultural issues, including mechanisms and measures to steer private investments to culture.

➤ **Harmonising VAT measures without threatening cultural goods and services' exceptional status**

The harmonisation of VAT measures is proclaimed by the European Union as one of the possible paths for future development of tax legislation in the EU. When following such changes, one should be careful not to ruin what has been achieved with cultural VAT exemptions mentioned in the study, and should follow the example of states that have a beneficial, exemplary status for cultural goods and services.

➤ **Providing support for the arts and business forums as mediators between arts, business and legislators**

Arts and business forums are intermediary mechanisms that encourage donors to develop a culture of giving, and encourage cultural organisations and artists to develop a culture of asking. These organisations take an active role in establishing and promoting partnerships between the cultural and business sectors. Such partnerships imply that the business organisations that support cultural projects get strategic insights of their brand images and visibility as promoted in the partnerships with the cultural organisations, while cultural organisations get more security in long-term programme planning. Arts and business forums are also vehicles used for the implementation of preferential tax schemes in practice.

➤ **Promotion and exchange of best practices in fiscal policies for encouraging private support to culture in the Member States**

The support of fiscal policy is very important in setting the framework for a greater involvement of private funds. Public officials and bodies with authority in the cultural field have somewhat limited insight into the diversity of measures and means available in the fiscal domain. Therefore, it is not surprising that greater support to enhancing existing or introducing new measures that would encourage private investment in culture is missing. This situation underlines a need to monitor and evaluate the effects of fiscal policy implementation in the cultural field, and to engage in a cross-comparative analysis on the EU level with the aim of detecting optimal solutions. Without competent tax expenditure analysis done by tax authorities and ministries of finances, any attempt to improve the tax environment is ideology-driven instead of being an articulated, pragmatic response to a shifting long-term fiscal outlook.

➤ **Cultural policy action driven by different values of culture**

A complexity of factors influence private investment for culture - some are external to the cultural sector (such as, the broader political and legal environment), some lie with the donor (such as, the culture of giving and extending wealth, including its intergenerational transfer in future years) and some are internal to the cultural sector (such as, resources committed to fundraising and the culture of asking). Such complexity requires cultural policy action that is multidimensional and holistic in its formulation and implementation, and is driven by different values of culture. Still, one of the principal challenges for cultural policy making is to create proactive mechanisms that can respond to imminent changes in the social, political and economic environments. Cultural policy measures for encouraging private investment in culture should predominantly address the development of competencies in the cultural sector for establishing productive relationships with the private sector. Furthermore, cultural policy development directions should result in providing adequate legislative framework that stipulates mixed economy principles as grounds for achieving sustainability.

1. INTRODUCTION

1.1. The scope of the study

The mixed funding economy of arts and culture is generally perceived as a model of financial sustainability and is therefore one of the central topics of discussion in cultural policy. While different sources of financing for cultural activities include public support, private support and earned income, this study is dedicated to the analysis and promotion of private investment in culture. In this context, the term **private investment** includes any investing in, giving to or spending on culture done by individuals, businesses or non-public organisations. This definition extends beyond a concept of private investment that is primarily associated with capital returns to include private support and earned income derived by individuals, business and not-for-profit organisations whether they invest, sponsor, donate or consume. Therefore the relevant forms of support discussed in this study are direct investment, sponsorship, patronage and donations, and earnings from self generated income such as tickets, entrance fees and other merchandise. Investing, giving and spending are driven by different motives: investing is driven by the principle of gain as measured in terms of profit, giving is driven by the principle of social responsibility expressed through social, symbolic and similar non-economic values of culture and spending is driven by the principle of the consumer's sovereignty as measured by market or use value of culture as well as culture's intrinsic value¹.

This study seeks to analyse these various forms of private investment from the point of view of cultural policies and existing stimulatory measures. Different **measures and mechanisms** have been developed for increasing the support of private funding of arts and culture, such as: tax incentives for donors, consumers and sponsors², stimulations for fundraising through matching grants to combine public subsidy with money raised privately, regulation of private public partnership, support of intermediary mechanisms (e.g. arts and business forums, grant giving foundations, lottery based funds and social venture funds), use of publicly funded vouchers that stimulate cultural organisations to compete for audiences and banking schemes that provide for favourable access to loans. In comparison to public subsidies (i.e. awards and grants) as forms of direct public support, these measures represent **indirect public support of culture**. The state supports arts and culture indirectly through various efforts at stimulation, including tax forgone policies, whereby tax payers and beneficiaries, rather than government officials, determine which organisations will benefit.

The cultural sector does not consist of only public institutions and non-profit organisations or artists, but includes cultural enterprises that benefit from indirect public measures, as well. Support of the cultural sector in cultural policy documents is justified by different **values of culture**: cultural, economic and social value. Cultural value is intrinsic; economic value promotes the development of economic potentials of the creative arts through culture or creative industries, and social value is reflected in the roles of non-profit cultural organisations and artists in social integration.

¹ See chapter 2.1.3 Values of culture.

² Tax incentives for producers (e.g. cultural organisations, self employed artists, other cultural professionals) are not considered since their favourable tax position has no direct impact on the enhancement of the private investment for culture.

Because of the limited time available for this study, as well as constraints on its length, the role of cultural organisations in the creation of a favourable environment for private funding is not considered. Therefore, the marketing methods and fundraising tactics that have been developed by cultural producers to enhance private investment and consumption of culture are beyond the scope of this study. The main focus of this research, then, is on the importance of the economic, political and cultural aspects of the funding modes and mechanisms developed by governments to encourage private investment in the culture sector; the spread of their use, and examples of good and bad practices that illustrate them. A short analysis of trends and main differences in comparison with the United States is also included.

1.2. Data sources and methodology

The widely held perception that the mixed funding economy of arts and culture could raise new perspectives for sustainability of the cultural sector instigated a pressure for finding other sources to complement public funds and encourage their use. Therefore, it is surprising that there is not sufficient comparative data about the size of private funds for culture and to the effectiveness of given measures and comparative methodology in Europe. Some limited insight into different national realities is available through studies and surveys on private giving and cultural sponsorships that have been conducted by arts and business organisations. However, the existing data is being collected using different methodologies and therefore lacks comparable quality on a European level.

To compensate for the lack of systematic data on issues related to private investment in culture, and particularly on existing incentives for private investments in the EU, an attempt has been made to gain insight into the situations regarding private investment in different EU countries by collecting information via questionnaires. The data collection and desk research for this study was done in the period from December 2010 to March 2011. A questionnaire was sent to 27 Ministries of Culture in the EU to collect data on existing incentives for private investment in culture. The received answers varied in the levels of detail provided. We received answers from many Ministries of Culture informing us that such data are not systematically collected by them or that they belong to competencies of Ministries of Finance. The existing arts and business organisations and cultural organisations in Europe have also been contacted with short lists of questions about private investment in the cultural sector. Deeper insight has been made into selected countries by creating five case studies (Italy, the Netherlands, Poland, Slovenia and the United Kingdom). Literature reviews on cultural economics dealing with indirect public funding of culture, including the role of tax regulation, and reviews of other available data sources have been done. The Compendium of Cultural Policies and Trends in Europe, a pan-European cultural policy mapping exercise, was particularly valuable data source for this analysis. Studies and surveys conducted by arts and business organisations have also been consulted.

The study "Encouraging Private Investment in the Cultural Sector" is a small-scale project that cannot fill the existing information gap, but it can provide the European Parliament with a better understanding of the importance of public incentives for the private funding of culture. The study tries to identify general trends in the EU regarding private financing of the cultural sector along with providing interesting examples of new practices and policies in EU Member States. Its focus is on investigating the main motivations for financing the cultural sector as well as the main obstacles faced by private investors. The study addresses the need for comparative cultural policy research in this field and emphasises the common responsibility of EU member states to provide comparative data on the EU level.

1.3. Structure of the study

Chapter II provides the context that explains the main terms used in the study, giving basic cultural policy concepts and modes of funding, and providing a framework for understanding the role of taxation and its main characteristics. It gives an overview of the financing of arts and culture by classifying it into three sources (i.e. public funding, private funding and earned income) as well as according to the different funders: corporate, individual and non-profit. The chapter elaborates on the modes of funding through its economic, political and cultural dimensions. Bearing in mind the cultural sovereignty of EU Member States and the limited role of the EU tax regulation, this chapter also briefly addresses the impact of EU regulation on taxation in Member States. Typology of different kinds of private investment is made according to motives for such investments (i.e. direct investment, including public-private partnership; sponsorship; patronage and donations). It underlines that all governmental endeavours are in close relation with proactive cultural sector: cultural entrepreneurship, effective marketing, intensive fundraising and audience development along with 'digital shift' present new challenges for all involved. Chapter III describes selected mechanisms, instruments and measures regarding tax reductions and deductions, financial incentives aiming at attracting potential co-funders, major organisations that mediate between arts and business or arts and state and other policy guidelines that might introduce new trends. Chapter IV presents five case studies from different parts of the EU: the North and South, old and new Member States and diverse cultural policy traditions (Italy, the Netherlands, Poland, Slovenia and the UK) trying to identify existing practices and trends in encouraging private support of culture. Chapter V discusses the US system of incentives for private investment in culture in a comparative perspective. One of the reasons for disparities is the presence of cultural and systemic differences within European and US funding systems. Thus, selected mechanisms of US private funding are made available for consideration in this study. Chapter VI offers some final reflections while Chapter VII proposes recommendations on how to encourage private financing of the sector at the EU level, as well as policy ideas that lie outside the EU's strict area of competence but might correspond to the perceived trends relevant for national and regional governments.

The materials developed by the project-team, on which this report is based, consist of five annexes attached to this study: Annex 1 presents measures for encouraging private investment in selected cultural sectors; namely the audiovisual and cultural heritage sector. Annex 2 brings complete, in-depth versions of the case studies that are presented in Chapter IV of the Study. Annex 3 consists of an inventory of existing incentives for encouraging private investment in culture in EU countries. Annex 4 outlines the US system of private giving and its characteristics, while Annex 5 offers a short glossary of terms used in the study.

2. PRIVATE INVESTMENT IN CULTURE: UNDERLYING CONCEPTS

KEY FINDINGS

- In this study, **culture** is considered a sector of activity around the original creative arts that has economic impact and generates social benefits by creating, producing and distributing goods and services in different cultural areas. To properly assess the value of culture, one has to take into account its use, non-use and cultural values, and must consider culture as private market good, as well as a public good.
- On the policy level, processes of decentralisation (delegating cultural authority to the lower governmental tiers) and processes of privatisation/de-etatisation have introduced a more significant role for the private sector in contributing to and supporting culture.
- For the purposes of this study, a classification of sources in a **mixed funding economy** has been developed. Accordingly, there are three main sources in the financing of culture in Europe: public support (direct and indirect), private support (business support, individual giving, foundations and trusts) and earned income. According to the motives for investment in culture, there are four subcategories of private investment in culture: direct/capital investments (driven by the principle of gain, as measured in terms of profit), sponsorship (which is a two-sided business interaction), donations and patronage (driven by the principle of social responsibility), and earned income (driven by the principle of the consumer's sovereignty).
- **Public direct support** focuses primarily on supporting cultural infrastructure and production (i.e. cultural supply), but recent trends show that policies have changed in perspective to take consumption into account. The new consideration of consumption has resulted in a request for cultural organisations to demonstrate their relevance for their audiences.
- **Indirect public support** measures via tax incentives in Europe are well developed, but the take-up of these provisions by the citizens, cultural organisations and businesses varies in different countries, thus showing that the culture of giving needs to be promoted and developed.
- The European system of cultural financing is predominantly state-funded, and willingness to implement incentives for private giving is dependent on public policies frameworks and political determination. However, the benefits of diversification of funding sources are under threat in the period of financial crisis. Public direct support to culture currently shows a tendency to decrease, with **the effects of the recent financial crisis** speeding up this process. Most countries are reaching the limits of their budgets, and are therefore starting to show willingness to experiment with systems of private support to culture. During the previous decades, the level of business support in European countries has been on a rise, but is presently diminishing due to the recent financial crisis. Private foundations in Europe are also cutting their budgets, and individual spending has also been negatively affected.
- Cultural policy and **fiscal policy** have always been and are increasingly becoming more and more intertwined, since tax regulation can have both positive and negative implications on culture. At the EU level, the lowest possible rate of VAT represents one of the most significant measures of indirect public funding, thus making VAT policy an important instrument of European cultural policy.

- **The need to reform the cultural sector** to make it more sustainable and entrepreneurial is recognisable in European cultural policies, although the reality shows different levels of realisations of this strategic objective. It is necessary to establish stronger ties between audiences, businesses and communities to recognise the different values of culture while preserving the status of culture as public good.

2.1. Contextual approaches

2.1.1. Definition of the cultural sector

Numerous definitions of the cultural field exist and overlap, thus reflecting changes taking place in the field and the development of new areas. While these definitions differ in how they conceptualise the field, they generally encompass the same area of activities. The definition of culture by the European Framework for Cultural Statistics (EFCS) is used to define the term 'cultural sector'. EFCS is restricted to activities that were recognised as cultural by every Member State. The field of culture is thus divided into about sixty cross-related activities (Eurostat, 2011):

- Eight 'domains' – artistic and monumental heritage, archives, libraries, books and press, visual arts, architecture, performing arts and audiovisual/multimedia
- Six 'functions' – conservation, creation, production, dissemination, trade and training

The encouragement of private investment is done for the purpose of developing and promoting cultural activities or cultural goods and services. For the purposes of this study, the cultural sector is composed of those subjects that benefit from both direct and indirect public support:

- cultural organisations, public and not-for-profit, from all eight domains that are classified within a broader set of charitable or philanthropic categories;
- cultural industries - profit making, private enterprises involved with a range of industrial sectors that produce cultural products aimed at mass reproduction and dissemination, such as publishing, music and audiovisual industries;
- self employed artists and cultural professionals.

In the context of today's overall social changes it is neither possible to consider culture only as a sector, nor to view it simply as a way of life that can be recognised in our communities. Rather, it should be understood as a complex multidimensional system with many roles: an economic role regarding the cultural and creative industries sector and the market; a social reproduction orientation (the role it has in forms of social organisation); a role in establishing, maintaining and challenging power relations; and a role in forming value systems and forms of identity (Mercer, 2002). Thus, culture is conceived as a dynamic set of practices that variably pertain to different areas of social and economic life. Culture needs to be conceived as a sustainable activity and a sustainable resource that contributes to the generation of knowledge, creativity, and innovation as well as to social cohesion. This study investigates approaches for enhancing private investment in culture, where culture is considered as a sector of activity around the original creative arts (Throsby, 2008) that has economic impact and generates social benefits by creating, producing and distributing goods and services in different cultural areas (e.g. performing arts, visual arts, publishing, music, film, heritage).

2.1.2. New models and sustainability agendas for cultural sector

New models and sustainability agendas are not only about funding. Rather, these models and agendas seek to ensure sustainability of the cultural sector by encouraging entrepreneurship, while also ensuring that artistic and cultural goals are not guided predominantly by money but are supported and sustained by viable and socially acceptable business models. Physical and digital events and activities can be combined into an integrated model in which ideas, products and staff interact with each other to move towards achieving sustainability in the cultural sector. Digital shift and entrepreneurship present new opportunities, possibilities and challenges for the cultural sector and its conventional modes of operation. To be able to appropriately partner with the private sector, the cultural sector needs to find adequate modes of organising cultural production that would ensure benefits to its cultural, social and economic goals. Entrepreneurship in culture is stated as an explicit goal of Dutch cultural policy, for example, but implicit orientations can be recognised in cultural policies of the UK and other countries that have provided a system that facilitates more active role of cultural organisations in engaging with their possible partners, funders and users.

2.1.3. Values of culture

The value of culture has been discussed in light of social, cultural and economic theories. In cultural policy documents, the public support for culture has been justified by cultural, economic and social values. In economic theory the concept of economic value of culture has been explored in detail and can hardly be described as a single concept. The two main aspects of the value of culture are cultural value and economic value. Economic value consists of two parts: use and non-use values. Market or use value of culture can be expressed in terms of prices that are charged for cultural goods and services. The concept of non-use (economic) values denotes values that individuals associate with cultural goods or services despite not personally using them (e.g. attending events, seeing exhibits, reading books) (Hansen, 1997; Navrud and Ready, 2002). Non-use values measure the external benefits that cultural artefacts have on their environments, and are therefore an appropriate measure of cultural artefacts as public goods (Hansen, 1997; Seaman, 2003). Non-use values can be further classified into option, bequest, existence, prestige and educational values (Frey and Pommerehne, 1989). The concept of cultural value – the value that a cultural good or service has, regardless of its place in the economic system – is a concept which is presently debated, especially in the field of cultural economics, yet methods to evaluate it are still not well developed (Throsby, 2001; Klammer, 1996, 2003; Hutter and Throsby, 2008). Cultural values are divided into social, symbolic, aesthetic, spiritual, historical and authenticity values (Throsby, 2001). To properly assess the value of culture, one has to take into account use, non-use and cultural values and consider culture as private market good, as well as a public good.

There is a link between investments in culture and values of culture. In economic terms, optimal financing of culture should include both public and private sources of financing. There are four subcategories of private investment in culture: direct/capital investments, where profit is the main motive; sponsorship, which is a two-sided business interaction; donations and patronage, where the motives of donators and patrons are mostly in concordance with social, symbolic and similar non-economic values; and earned income, which reflects both economic and cultural values. Capital investments are therefore mostly concerned with economic value, sponsorship brings profit and brand recognition as well as benefits for cultural organisations, and donations and patronage are mostly concerned with realisation of cultural values, in all their various forms. In practice, economic and cultural values are often entwined, and therefore capital investments can also embody cultural

values and donations can embody economic values for the community (despite not being oriented towards profit for the donator).

2.1.4. Cultural policy developments

Since the conclusion of World War II, the cultural life of European countries has been identified as a legitimate field for government intervention. The character and purpose of such interventions vary across Europe according to countries' social, political and strategic priorities. It can therefore be asserted that cultural policies in European countries are primarily represented as expressions of state involvement and commitment to the production of culture including the production of those social relations and identities that are maintained culturally (Volkering, 1996). Such involvement may take a variety of forms and activities from direct promotion (such as in France), to the use of „arm's-length“, quasi-independent organisations (such as Arts Councils in Britain, and Ireland), to the use of indirect governmental incentives (as in the use of tax concessions which are increasingly being used in European initiatives in supporting culture) (Grey, 1996).

While the European tradition of state-led cultural policy implied that the responsibility of differentiating between what is and what is not culturally significant was within the authority of public bodies, the last four decades have been marked by increasing trends in redistribution of cultural authority, first by the processes of decentralisation, delegating cultural authority to lower governmental tiers (i.e. regions, provinces, municipalities) and later by processes of privatisation/de-etatisation³ in order to reduce or reinvent government's role (Boorsma, 1998; Osborne and Gaebler, 1992).

With regard to private investment in the cultural sector, this tendency implies:

- A more strategic and less operational role for the government
- More autonomy for public cultural institutions and the incorporation of these institutions in private legal entities
- Influencing market forces rather than creating public programmes (support to cultural industries)
- Empowerment of communities and organisations (via tax incentives and other indirect mechanisms)

These trends have introduced to the private sector a more significant role in contributing to and supporting culture, but have also raised major concerns and debates, thus increasing the tension between two dominant policy directions, „cultural policy for economic development“ and „cultural policy for social development“. While these policy directions frequently merge, theirs is a difficult relationship (Wise, 2002). The main challenge has been and continues to be finding a balance between economic efficiency and productivity on the one hand, and pursuit of desired social and cultural goals on the other (Boorsma, 1998), thus ensuring that culture continues to be understood as public good.

In contrast to Europe, the conceptualisation of cultural policy in the United States as a field of public policy inquiry is a relatively recent phenomenon, as there has traditionally been a fear of uttering the phrase „cultural policy“ with all of its dirigiste implications. Moreover, most cultural policy inquiry in the United States has focused on what might be termed „arts policy“ (Schuster, 2002). US arts policy has been relatively highly institutionalised at the

³ The topic was first raised at The CIRCLE Round Table Privatisation/Detatisation and Culture: Opportunities for cultural development in Europe?, 11-14 June 1997.

state level through state arts councils. To the extent that it is institutionalised, policy for the humanities at the state level is realised through state humanities councils, which have been organised as private non-profit organisations rather than as state agencies. Heritage and preservation issues are addressed through a variety of institutional mechanisms involving state agencies as well as private non-profit organisations (Schuster, 2002).

2.1.4.1. Policy transfer and culture in the EU

The issue of how policies from other sectors are directly and indirectly influencing the field of culture (i.e. *policy transfer*) is one of the central issues for a more active EU role with regard to culture. In regards to the policies towards artists "*the conditions of artist are, as a matter of fact, already object of Union policy and harmonisation, but not as cultural policy but as social, labour, industrial, general economic and legal policy*" (Beckman, 2001). This issue sheds an interesting light on the question of subsidiarity in the EU and the ban on the harmonisation of cultural policies in Article 167(4) of the Treaty on the Functioning of the European Union (ex Article 151 TEC)⁴ (Beckman, 2001). The weakness of Article 167 as a policy instrument is underlined in the analysis of cultural mainstreaming by Psychogiopoulou (2008, p.347): "*the margin of discretion left to the European institutions has resulted in limited and rather dispersed cultural mainstreaming efforts. The current analysis suggests the conclusion that Article 151(4) EC is of little practical relevance to EC policy-making. It has not succeeded in giving greater resonance to the cultural implications of the European integration processes; but beyond this, it has also failed to forge positive regulatory links between the various EC policies and the EC cultural policy properly speaking*". Furthermore, the importance of lobbying is stressed as well as the importance of the involvement of Member States in the process of the cultural mainstreaming, as it is essentially a political process.

2.1.4.2. EU documents enforcing private investment in culture

Several EU documents are relevant for the analysis of efforts to encourage private investments on the international level. The potentials of cultural sponsorship and measures to encourage its most efficient implementation were discussed on the European level in 1986. The Resolution of the Ministers with responsibility for Cultural Affairs, meeting within the Council of 13 November 1986, on business sponsorship of cultural activities (86/C 320/02) recognises that European cultural heritage and cultural activities benefit from a combination of public and private support. In their view, this benefit can best be maintained and developed through strengthened support from a plurality of sources, including different forms of both private and corporate sponsorship. The resolution includes an agreement on future actions to be taken by the Ministers to foster cultural sponsorship, including promotion of this form of private support in the Member States, consideration of implementation of measures in individual member countries, setting up of organisations to help in cultural sponsorship projects and information, development of links between sponsorship organisations, and sharing of information and better monitoring of sponsorship activities. The European Parliament's Information Note On Cultural Sponsorship (IV/WIP/2003/06/0087 PW/AK/hk) describes both motivations for and forms of private

⁴ Article 167 of the TFEU (ex Article 151 TEC) stipulates in Clause 5 that every action concerning culture at the EU level is subjected to the threefold requirement of the exclusion of harmonisation, the principle of subsidiarity and qualified majority voting. Although the article asks the EU to support the cultures of its member states "while respecting their national and regional diversity, and at the same time bringing their common cultural heritage to the fore" (Clause 1), culture represents a very limited field of EU activity. However, Clause 4 stipulates that the European Commission must 'take cultural aspects into account in its action under other provisions of this Treaty', which implies a wide-ranging field of concerns.

support to cultural sector, as well as concrete actions to be taken by the governments to encourage cultural sponsorship, including establishing platforms for cooperation and information sharing, monitoring private sector support to culture more accurately, and establishing favourable tax structures for sponsorship.

The EU Council resolution on the European agenda for culture (2007) counts among its strategic goals both “promoting the availability of managerial, business and entrepreneurial training capacities specifically tailored to professionals in the cultural and creative fields”, as well as, “fostering a favourable environment for the development of cultural and creative industries, by making better use of existing programmes and initiatives and by stimulating creative partnerships between the cultural sector and other sectors, including in the context of local and regional development”. EU documents addressing cultural industries refer to partnerships among art and business sectors. The European Parliament Resolution on cultural industries in Europe (2007/2153(INI)) calls on “the Council, the Commission and the Member States to take the action required, recommending mixed methods of funding and financial security, and promoting a regulatory and fiscal framework that favours cultural industries as well as creative communities, and more particularly by applying tax credits and reduced rates of VAT to all cultural products, including online works.” Business and arts cooperation is addressed also in the European Green Paper on Unlocking the potential of cultural and creative industries, COM(2010) 183, as well as in the Council Conclusions of 13 and 14 November 2006 and 24 and 25 May 2007, regarding the contribution of the cultural and creative sectors to the achievement of the Lisbon objectives. The latter pay special attention to promoting “contacts and cooperation between the creative sector and the business world in order to increase the awareness of the latter regarding the potential of the cultural and creative sector”.

2.2. Systems for financing culture

2.2.1. Mixed funding economy

When considering the present situation in financing the cultural sector in Europe, it is appropriate to take into consideration the findings of the study *Financing the Arts and Culture in the European Union*, by Klamer, Petrova and Mignosa for the European Parliament (2006), which addresses three main sources in financing culture: the government, the market and the non-profit sector. The study findings assert that governments (central and local) still remain the largest supporters of culture in comparison to other sectors. Nevertheless, the three spheres – government, market and non-profit – operate simultaneously and their interconnection is more the rule than the exception (Inkei, 2010). Later work of Klamer, Mignosa and Petrova separates the three spheres into several main types of financial support for culture (Klamer, Mignosa and Petrova, 2010). For the purposes of our study, this classification has been enlarged with additional categories so as to provide a broader methodological foundation for analysis of private investments in culture:

I. Public support:

- a. *Public direct support* - Public support for culture is defined as any support to cultural activities made by governmental and/or other public bodies. Public direct support includes subsidies, awards, grants, etc., i.e. money is transferred directly from the public funds to the recipients’ account.

b. *Public indirect support* - Indirect support consists of measures, adopted by governmental and/or public institutions, usually via legal acts, for the benefits of cultural organisations that do not involve money transfer from the former to the latter. Indirect measures refer mainly to tax expenditures, i.e. the income that local and national governments forego because of tax reductions and exemptions granted to cultural institutions (Klamer, Petrova and Mignosa, 2006). Tax incentives provide extra funds for culture. Other indirect measures include vouchers or matching grants and other financial or banking schemes whereby beneficiaries, rather than government officials, determine which organisations will benefit. Lottery funds, through which the privately raised money is designated to cultural purposes according to the legal act, are also in place. Lottery funds whose purposes are stipulated in advance fall under the category of earmarked taxes.

II. **Private support** - Private support for culture denotes any financial support provided by investing, giving or spending at the individual or non-public level. Private support can be further divided into business support, individual giving and support from foundations and trusts.

a) *Business support* - Business support denotes direct investment aimed at capital returns, including public-private partnerships and investments in arts collections, as well as, sponsorship and corporate donations.

b) *Individual giving* - Individual giving encompasses all transactions made by individuals, with a purpose of donating or contributing to culture. Individual giving should be distinguished from household expenditure for culture, which falls under the category of earned income.

c) *Foundations and trusts* - Support from foundations and trusts, as grant giving organisations, is rapidly spreading in Europe. Such support denotes support from intermediary institutions, usually founded by law, that serve special purposes and missions, and are supported by private endowment.

III. **Earned income** - This category includes all individual spending for cultural purposes, e.g. entry fees to cultural institutions, the buying of cultural objects, etc. Earned income therefore denotes all direct income made by cultural organisations on the market.

2.2.2. Funding economy under crisis

According to the data for 2010 (Council of Europe/ERICarts, 2011b, 2011d, 2011f), national spending on culture as a percentage of GDP varies between 0.115% to above 1%, with Denmark being at the high end of the range and Greece and Ireland at the low end. Direct public support for culture is presently diminishing in many European countries, as the national cultural budgets in many countries are shrinking due to economic crisis. The latest data (Inkei, 2011) show that budgets have shrunk in the past two years, most significantly in Slovakia (by 9.11%⁵), Italy (by 14.08%) and Greece (by 18.04%). Inkei notes that some countries have shown opposing tendencies in the same period, eg. Finland (rise of 18.63%) and France (rise of 5.31%). The Netherlands and the United Kingdom have announced even greater cuts in the following years (20% and 25-30%, respectively) (Inkei, 2011).

5 Data from Inkei's study are the most recent data, but do not include inflation adjusted rates, so the numbers may be distorted in some cases, as noted by the author himself. We have therefore taken note of the inflation rates and the numbers presented take that into account and are therefore slightly different than Inkei's data.

Data on indirect public spending (i.e. taxes forgone) are difficult to gather. There are several new schemes under evaluation in the EU Member States, but their impact has not yet been determined. Some estimates for the Netherlands show that indirect public support accounts for a large part of the funding to the cultural sector (see case study The Netherlands). Findings by Hemels (2005) suggest that, in the Netherlands, indirect public support is on the same level as public direct support. Answers to the questionnaires received from the ministries of culture indicate that indirect support is documented as important also in Ireland, Italy, and several Eastern European countries (Poland, Slovakia, Hungary, Lithuania, and Romania) that have implemented "percentage legislation"⁶.

During the previous decade, the level of business support of culture in European countries has been on the rise (Klamer, Petrova and Mignosa, 2006), but is presently diminishing due to the financial crisis. These trends pertain to levels of direct investments in culture, sponsorships and donations. According to Inkei, a detailed survey of Hungarian enterprises with more than 50 employees, which provided cultural sponsorships before 2008, showed that about half of them suspended the decision to continue this practice in 2009 (Inkei, 2010). Arts & Business data (Mermiri, 2010, 2011) indicate a decline in business investment in the UK over the past three years. Business investment⁷ in 2009/10 amounted to GBP 144 million and was for 11% lower than in 2008/09. The total amount of business investment in 2009/10 is lower than it was in 2004/05, when it amounted to GBP 158 million.

The European foundation sector is growing dynamically and is achieving a major presence in European society (EFC, 2008). A characteristic of the European foundation sector is its wide diversity - foundations differ widely in their focuses, aims, procedures and legal structures. Even though most foundations do not perceive themselves as exclusive supporters of culture or the arts, and many aim primarily to fund projects with social priorities, still arts and culture receive a significant part of their support⁸. Due to the current economic crisis private foundations in Europe are also cutting their budgets. For example, in 2009 the VSB Funds in the Netherlands decreased their donations to arts and culture from EUR 31 million to EUR 16 million per year (see case study section).

Individual spending has also been affected by the current economic crisis. Eurostat data indicate a trend of lowering the household expenditure on culture (which feeds the earned income of cultural organisations). In individual EU countries, the share of cultural expenditure in household budgets at the end of 2005 varied from 2.0 % in Bulgaria to over 5.5 % in Denmark (Eurostat, 2011). According to Inkei, the fall in expenditure is estimated at 1.4 %, and is the most severe in the Baltic States (in range of 16 to 30.1%), and the least severe in some Western European States (even rising in the UK, France and the Netherlands) (Inkei, 2010).

2.2.3. Different aspects of indirect public funding for culture

The use of public indirect measures to encourage private investments has fiscal, political and cultural dimensions.

Economic effects - From the fiscal point of view there is little, if any, difference in whether governments support the arts and culture through public subsidies, i.e. *direct public funding*, or by introducing tax incentives and other supportive schemes, i.e. *indirect*

6 See chapter 3.4 Percentage legislation.

7 Cash sponsorship, in-kind sponsorship, corporate membership and corporate donations.

8 European Foundation Centre membership Synopsis reports that over 60% of their members support area of arts and culture, but only 10% support artists as their target group.

public funding, to either enable cultural organisations to operate under favourable tax treatment or motivate citizens and corporations to contribute to the prosperity of the arts and culture. The non-taxation of the net operating revenues of classified cultural organisations, tax deductions for investment, sponsorship and donations and tax incentives for grant making foundations are understood as tax revenue forgone. Therefore, from the fiscal perspective, the main question concerns economic effects of one or another approach of public support. If the total private net-of-tax giving is greater than the amount of forgone taxes, then the total contribution is more than tax expenditure alone, and tax incentives are justified (i.e. the price elasticity is more than 1 and cultural beneficiaries get in this way more than they would get from the state through the redistribution of taxes). The possibility that a tax incentive will actually increase the revenue of cultural organisations makes tax policy an important component of cultural policy. Due to the lack of literature and studies in this field, as well as the absence of adequate statistical frameworks on the leveraging effect of tax incentives in culture, this aspect must be elaborated further.

Political rationale - If the governments decide not to collect taxes from taxpayers but rather allow them to decide how to use such taxes for public benefit, such tax provisions are used in attempts to attract citizens to make their democratic choices and empower beneficiaries to exercise responsibility. When addressing the efficient use of the funds spent to finance those activities, it would be beneficial to involve private firms and individuals (i.e. the private sector) in supporting the cultural sector financially. Such investments give the private sector the opportunity to indicate its preferences on what to fund in the field of culture, thus permitting closer matches with individual needs and preferences. However, private funding works in a very restricted manner. It is focused on the leading and most visible cultural organisations with names, traditions and prestige, on the activities and projects which attract large audiences and on more conventional programmes and standard art forms. Therefore many studies underline that private funding can only complement, and not substitute public resources.

Cultural aspect - Government involvement in the arts has always been a polarising political issue, with all of its dirigiste implications. Tax legislation is important in terms of enlarging the financial independence of the cultural sector. As a mean of channelling public funding to the arts, the major advantage of tax policy is its neutrality in the sense that tax incentives do not relate to artistic contents. Rather, the criteria are general, and are linked to the field or types of beneficiaries. It is left to individuals, corporate businesses and non-profit foundations to make their own cultural decisions. Therefore, it is important to understand and promote tax policy that takes cultural aspects into account as a relevant instrument of cultural policy, thus allowing for individual decision making in supporting cultural projects. However, private funding also contains various imperfections, namely its heavy focus on conventional artistic programmes and prestigious cultural organisations. Therefore the mixed economy, with public funding providing solid foundations for the stability of the sector, private funding supporting selected events or producers according to individual preferences and earned income giving value for money to consumers can redeem from the defectiveness of each form of funding on its own. The diversification of sources of funding strives to smooth out unsystematic risks so that the positive performance derived from one funding source will neutralise the negative characteristics of another. Therefore, the benefits of diversification will hold only if the shares in the budget are not perfectly correlated.

2.2.4. Types of private investment

This subchapter presents a classification of the private investments that will be used throughout the study and facilitates the analysis of mechanisms that support such investments. Investment can be in the form of direct investment (including public-private partnerships), sponsorship, or patronage/donation.⁹

Direct investment in culture - Investments in culture are capital investments in culture made with the aim of making profit. One of the initial forms of investment was the purchasing of artworks, an act that resulted in a transfer of ownership in the permanent possession of a company. Presently, another important form of cultural investment is public-private partnerships (PPP). Public-private partnerships refer to government or private business initiatives that are funded and operated through partnerships between the government and one or more private sector companies.

Sponsorship - In its most general form, sponsorship refers to support with returns, in which the sponsor receives something in return for his or her support, either directly or indirectly. When describing sponsorship, it is useful to separate two forms: *associative sponsorship* which is the standard form of sponsorship, especially in the arts, in which the sponsor does not influence content and programming, and *deep sponsorship* in which the sponsor actually determines the form and the content of cultural production (McGuigan, 2004). Furthermore, the literature offers another division of sponsorship: *commercial sponsorship*, in which the company's objective is to derive a direct benefit in terms of enhanced sales or image (Klamer, Petrova and Mignosa, 2006), and *sponsorship as generosity*, which is characteristic of many Eastern European countries (Inkei, 2001).

Patronage and donations - Donations are considered one-sided business transactions, from which the donor expects no direct benefit; reasons to donate are therefore moral and not economic (Gruban, Verčič, Zavrl, 1996). Two forms of donations can be distinguished: 'pure' donations, in which the donor stays anonymous, and 'public' donations, in which the donor is publicly announced, and receives indirect benefits from the promotion of his name in public (Kovač, 2005). In some environments the subcategory of patronage provides support with some return (Klamer, Petrova and Mignosa, 2006). The assistance provided through patronage is of no direct benefit to the patron's activities, but adds to the patron's reputation and honour through the resulting fame (European Parliament, 2003, quoted in: Klamer, Petrova and Mignosa, 2006). Donations can be individual, corporate or channelled through grant giving bodies.

2.3. Taxes and culture

The cornerstone of the encouragement of private investment in the cultural sector is tax policy. The intersection between tax policy and cultural policy is evident since tax regulation has positive or negative implications on culture. Cultural policy and fiscal policy have always been and are increasingly becoming more and more intertwined.

It is often disregarded that the culture of giving reflects the way in which public provision encourages the redistribution of private funds to cultural sectors in certain countries. If taxes are high and public spending is considerable, taxpayers believe that they have

9 Apart from direct investing in culture we can speak about earned income, based on individual spending for books, theatre tickets, entrance fees for museums, etc. Although it is not within the scope of this study to elaborate upon cultural organisations and their own strategies to improve the financial performance, some tax measures relating to the consumption of culture are relevant to this type of private investment.

already accomplished their social responsibility. The results of existing incentives therefore have different effects in different countries.

There are many different terms that are used in referring to tax measures such as tax reliefs, tax breaks, tax deductions, tax exemption, tax allowance, tax incentives etc. While most of these terms refer to write-offs that reduce the amount of tax base, tax incentives refer to specific measures aimed at encouragement of desirable behaviour towards the arts and culture. However, these are just different angles from which tax measures could be observed.

Tax breaks are rarely designed for the culture and arts specifically, but are designed for the broader philanthropic category (O`Hagan, 1998). The field of culture is just one among many charitable domains, such as social affairs, health, sport, religion etc. As available statistics in most cases do not differentiate cultural share in the sponsorship revenues, philanthropic donations and capital investments, this makes it difficult to monitor the private investment made in culture through those mechanisms.

There are two main forms of tax incentives: one is based on deduction from income **prior** to calculating one's tax liability (**tax exemption**) and the other is based on deduction **from** one's taxes (i.e. **tax credit** or **tax rebate**). The cost of giving for the private donor who gives 100 units to cultural beneficiary is 100 minus tax liability on that amount. In the case of 100% tax credit the cost of giving is zero (the amount donated equals that which the taxpayer would have to pay in any case). A variation of tax credit is the "percentage legislation" (so-called designated tax) presented in Chapter III. The incentives in the form of 100% tax credit or designated tax do not attract private funds; rather, such incentives give the taxpayer the right to reassign a part of the tax to designated beneficiaries. As such, they are not attractive for the treasury since they divert money from the state and other beneficiaries, and are therefore accompanied by a ceiling on their use. From a fiscal point of view, tax exemption as an incentive to attract additional private funds is a more justified measure.

The main changes in tax regulation occurred as results of governments' intentions to define tax incentives more narrowly in order to target specific policy goals (e.g. not all cultural monuments but only those of national importance), so as to better reach intended beneficiaries (e.g. list of classified cultural organisations) and to avoid abuse (Schuster, 1999).

2.3.1. EU tax regulation and culture: VAT issue

It can be asserted that the EU evolved out of an idea of creating a bigger, unified market for countries on the European continent. The Four Freedoms, i.e. free movement of goods, services, capital and people in an internal market, are therefore the basic postulates of the EU. When designing or changing legislation, the member countries must ensure that they do not impose any measures that may breach any of these four freedoms¹⁰.

The relationship between EU tax regulation and culture is caught between the tendency for tax harmonisation in the European space and the national "particularisms" based on the national cultural sovereignty of EU Member States. VAT is the most influential of all taxes in terms of qualitative and structural impacts on cultural activities and industries (Rouet,

¹⁰ Very important role in protecting The Four Freedoms has European Court of Justice, the highest court of appeal in EU. It has power to decide whether a provision in a national law, based on the Directive, is correctly implemented in national law, and power to explain how certain provision of a Directive should be understood and implemented. It even has the power to decide that provisions of laws that are completely in domain of member countries provide an obstacle to or even a breach of these Freedoms. In such a case its decision on changing the provision is obligatory to follow by the country in question.

1999). VAT has been adopted differently across Europe, but remains the central point of EU fiscal harmonisation. A common tax system on consumption¹¹ is based on a small number of rates, with a minimum standard rate of 15% and a reduced rate not below 5%¹². However, reduced rates below 5%, applicable on 1 of January 1991, can be maintained in individual Member States as a relic from the previous system. There are some other derogations encompassed in the VAT Directive for newer Member States. Some activities are exempted from paying VAT on sales, but at the same time offer no right to reclaim VAT paid on purchases used for these activities. This practice is different from applying a zero rate for certain products or services. The application of a zero rate would mean that the producer/supplier may reclaim VAT paid on purchases of all material needed for his product or service while passing 0% VAT on end consumer. Therefore the VAT reclaimed would become a subsidy. This phenomenon is not unique to the zero rate, but occurs whenever a rate on sales is lower than a rate on purchases. If cultural goods or services enjoy the reduced rate while the material needed for their production fall under the standard rate, the difference could be interpreted as preferential treatment motivated by merit character of these goods and services. From the standpoint of cultural policy the lowest possible rate of VAT represents one of the most significant measures of indirect public funding, thus making VAT policy an important instrument of cultural policy.

The zero rate and extra reduced rates subsist in the current transitional European regime as an explicitly temporary derogation. If VAT continues to develop as powerful fiscal instrument, long standing orientation towards harmonisation within the European Union is inevitable. The special VAT treatment enjoyed by distinctive cultural goods and services may thus appear as one of these inherited imperfections to be corrected. This only makes debate on fiscal policy as an indispensable instrument of cultural policy more relevant than ever.

2.4. New perspective

The general idea to increase the level of private contribution to arts and culture is widely considered as a promising alternative aimed at increasing the financial sustainability of the cultural sector in a period when public funding has been placed under serious scrutiny. However, the decrease in sponsorship and donations during the economic crisis does not support this idea. The experiences of countries in Eastern and Central Europe that have gone through structural transition process also demonstrate that arts and culture do not enjoy unconditional private support. More efforts are needed to establish stronger ties between audiences, businesses and communities to recognise the different values of culture and to take advantage of them according to the various different motives behind private decisions to invest in culture. Governments face challenges in improving political and legal environments to promote and reward private support to culture. Sponsors must be encouraged to explore new opportunities for more innovative advertising through the arts and culture, patrons must be encouraged to rediscover their passion to recognise new talents, donors must be encouraged to feel included in the shaping of cultural society and the cultural sector must be encouraged to find out that fundraising and sponsorship are not important for financial reasons only but also for the social legitimisation of cultural missions. The new perspective does not concern the fiscal aspect only, but also tackles the political as well as cultural ones.

¹¹ Set by Council directive 2006/112/EC of 28 November 2006 on the common system of value added tax (OJ L 347, 11.12.2006, p. 1), last time amended by Council Directive 2010/88/EU of 7 December 2011 (OJ L 326, 10.12.2010, pp. 1-2); abb. VAT Directive. Consolidated text is available on: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2006L0112:20110101:EN:PDF>

¹² Reduced rates can be applied only to transactions designated in Annex 3 of the VAT Directive.

3. PRIVATE INVESTMENT IN CULTURE: SELECTED MECHANISMS AND MEASURES

KEY FINDINGS

- This chapter presents the selection of sixteen specific mechanisms and measures for encouraging private investment in culture in EU member states. The greatest number of these mechanisms is oriented to the category of consumption of culture (e.g. VAT reductions for buying cultural goods, tax deductions for buying various objects), to direct investment in culture that refers to exemptions on business investment (e.g. public-private partnerships, sponsorships), and to philanthropic investments.
- The **VAT reductions** for buying cultural goods and services present the main implicit subsidies for cultural industries, especially in cases of market failures (i.e. when cultural products have to be subsidised since the market is too small to operate in an efficient manner).
- Business **sponsorship** of culture is present in all surveyed countries. Although sponsorship has a great potential and is encouraged via tax incentives, sponsorships still represent a small portion of the budgetary incomes of cultural organisations.
- Systems of encouragement for private support of culture are sustained by different **grant-giving bodies**. The European foundation sector is growing dynamically and is achieving a major presence and significance in the cultural sector. Most foundations support social issues and agendas, while culture represents the focus of activity of a smaller and limited number of foundations.
- There is a positive relationship between public subsidy and private investment; that is, private investors are likely to give more to culture when they are reassured of the value of this investment by seeing government support. Therefore, **matching funds** are being explored as a possible way to ensure that public investment works hard to harness greater investment from the private sector.
- In many European countries, **lottery funds** for culture are rather new but have developed rapidly and are gaining in importance because of the search for additional subsidies in the cultural field. Collection and distribution methods for lottery funds vary from one country to another. Some lotteries allocate part of their revenues to foundations that divide the lottery funds to smaller organisations and special initiatives within the various cultural sectors.
- Existing **arts and business organisations** provide important services through their training activities, awareness raising activities and linkage between the arts and business sectors. The establishment of such specialised agencies, which encourage engagement between business companies and the arts sector, enhances private involvement in the cultural sector. A particularly important aspect of their activities is monitoring and reporting on corporate giving endeavours, as data on private investment in culture is not systematically collected on national or European levels.
- The importance of the new mechanisms developing in the **digital arena** (such as crowd funding and online fundraising) are highlighted as important new instruments for encouraging private investment in culture.

The previous chapter described the context of and some general classifications regarding private investments in culture. This chapter presents a selection of specific mechanisms and measures through which private investments can be made. In order to provide a broader picture of the existing categories of incentives being used to stimulate private involvement in culture, Table 1 presents an overview of the main mechanisms and measures that have been identified through the questionnaire sent to the Ministries of Culture in EU countries, through data available from the Compendium of Cultural Policies and Trends in Europe and from other secondary sources used in this study. The complete overview of these measures is presented in the Inventory of incentives for encouraging private investment across EU Member States in the Annex 3 to this study, while Annex 1 presents an overview of existing sectorial incentives for the fields of cultural heritage and audiovisual and other cultural industries, as support for these fields has some specific features not presented in this chapter.

Table 1: Overview of mechanisms and measures in 25 EU Member States

	Consumption of culture	Direct investment in culture - business investment	Philanthropic investment			Earmarked taxes	Financial schemes to stimulate business involvement in cultural financing	Arts and business forums
			Individual donations/patronage/maecenas	Corporations	Grant making organisations/foundations			
Austria	✓	✓						✓
Belgium	✓	✓					✓	✓
Bulgaria	✓	✓	✓					
Czech Republic	✓	✓	✓	✓				
Denmark	✓	✓		✓	✓			✓
Estonia	✓	✓	✓	✓		✓		
Finland	✓	✓		✓				
France	✓	✓			✓			✓
Germany	✓	✓	✓		✓			✓
Greece		✓	✓					
Hungary	✓		✓	✓			✓	✓
Ireland	✓	✓	✓					✓
Italy	✓	✓	✓	✓	✓			✓
Latvia	✓	✓		✓	✓			
Lithuania	✓		✓					
Malta	✓	✓	✓	✓	✓			
The Netherlands	✓	✓	✓	✓			✓	✓
Poland	✓	✓	✓	✓	✓	✓		✓
Portugal		✓			✓		✓	✓
Romania	✓	✓	✓	✓				
Slovakia	✓	✓	✓		✓			
Slovenia	✓		✓	✓				
Spain	✓	✓	✓	✓				
Sweden	✓	✓						✓
United Kingdom	✓	✓	✓				✓	✓

- Consumption of culture refers to the possible VAT reductions for buying cultural goods and services, existing tax deductions for buying various art objects, and other similar instruments (e.g. transfer of art in lieu of payment of tax);
- Direct investments in culture refer to exemptions on business investments – such as capital investments in cultural infrastructure (public-private partnerships), cultural industries, ownership of cultural monuments, sponsorships, and other related incentives (e.g. transfer of art in lieu of payment of tax);
- Philanthropic investment is further divided into
 - individual donations – percentage legislation, tax deductions for gifts of cash or in kind and testamentary gifts;
 - corporate donations – tax deductions for gifts of cash or in kind;
 - non-profit organisations - tax deductions for grant giving organisations, i.e. foundations;
- Earmarked taxes encompass taxes raised and allocated to specific expenditure programmes for example the preservation of cultural monuments, often through an extra-budgetary fund (this category includes lottery based revenues);
- Financial schemes to stimulate business involvement in cultural financing (matching funds, sponsorship incentives schemes, etc.).

The most relevant measures and mechanisms¹³ were selected for discussion in this chapter from the categories listed above. In presenting them we follow the theoretical specifications of the previous chapter by using a three-part structure. Each description will begin with the definitions of the particular measure, followed by an overview of how it is applied in EU Member States and finally illustrated with an example of one such type of measure.

3.1. Value added tax on culture (VAT)

Tax incentives on the consumption of culture are those measures in which a subject of taxation is any form of cultural consumption (e.g. buying music, paintings, sculpture). Most general forms of such measures are VAT reductions for buying cultural goods, tax deductions for buying cultural objects, and other measures, such as transfer of art in lieu of payment of tax. These taxes target consumers, and are represented in VAT deductions when buying or consuming art in any of its forms.

VAT is the most influential of all taxation measures as far as implicit subsidies are concerned. VAT has been adopted in different ways across Europe. Results of the survey regarding consumption of culture show that almost all of European Union countries have some measures for VAT reduction for buying certain cultural goods and services. Some countries apply a zero rate of VAT on certain cultural goods and services, most of all books (e.g. UK, Finland, Latvia, Ireland).

¹³ In this context measures refer to tax legislation while mechanisms are not necessarily created by regulation but rather developed as cultural policy instruments (i.e. matching funds, special financial or banking schemes etc.) or evolved through the practise in foundations or financial organisations over time.

ILLUSTRATIVE EXAMPLE

Lowering the VAT on books in Sweden

Throughout the 1990s Sweden had been applying its standard VAT rate of 25% to books. Because of the high VAT, books appeared more expensive to the consumer, as compared to other cultural products. Publishers expressed the view that high prices on books lowered turnover and margins and therefore argued for a lower VAT in their industry. Small bookstores in remote areas were deemed to be particularly affected, prompting the state to hand out subsidies (SEK 10 million in 2002). Lowering the VAT on books in Sweden was intended to lower prices and increase sales, in order to promote readership, quality of books and the variety of content.

In 2002 a decision was reached to bring down the level of VAT on books to 6%. The VAT reduction was immediately reflected in lower prices. The year following the VAT reduction, sales rose by 16%, thus confirming earlier estimates that books' price elasticity of demand being close to -1¹⁴. The effect has been persistent, with 2005 being described as a bumper year in the industry. The benefits of greater volume partly spilled over to the rest of the value chain. The VAT reduction has been equivalent to a sectorial subsidy, costing the government some SEK 600 million in foregone tax receipts, according to one estimate (Ahlmark, 2003). Greater turnover seems to have eliminated the need for bookstore subsidies in remote regions and such subsidies have consequently been dismantled. Similarly, the greater turnover brought a number of small publishers, specialising in quality or niche content, to the market.

Source: Copenhagen Economics, 2007

3.2. Tax relief for sponsorship

Sponsorship, or support with returns, in which the sponsor receives something back, either directly or indirectly, is becoming an ever more strategic and pivotal measure for increasing investment in culture. The sponsorship of cultural institutions, organisations or events can be treated the same as other expenses for advertising (i.e. it is fully deductible). The only condition is that it must be directly linked with business activities that are source of taxable income or that it must be a consequence of such activities. In the case that what the company receives in return for the sponsorship money is worth significantly less than the support itself, sponsorship is not recognised. On the other hand, due to the benefit, even a small one, it could not qualify as donation either (Inkei, 2001). To overcome this problem some countries have introduced special tax incentives for sponsorship. The advantages of sponsorship in comparison to the classic means of advertisement are: addressing the target group(s) in non-commercial situations, associating with a noble mission, using mass media as a multiplier for sponsoring messages, supporting public relations policy, event marketing and corporate image and the increasing of the awareness of the social position of the company.

Our research through questionnaires, as well as the supporting data from the Compendium shows that the data on measures supporting sponsorship are inconsistently monitored. Countries such as Czech Republic, Latvia, Lithuania, Slovakia, Slovenia, Sweden and the UK consider sponsorship as regular business expenses. Greece recognises the importance of sponsorship as necessary complement to public funds and has established a special Office

¹⁴ Price elasticity of demand denotes responsiveness of demand to changes in price. If it is close to -1, as in this case, it means that as price grows by one unit, the demand falls in almost the same amount (by almost one unit).

for Cultural Sponsorship, while several other countries (e.g. Austria, Bulgaria, Denmark, Ireland, Italy, Malta, Netherlands, Portugal and the UK) are supporting sponsorships with different incentives. For example, in Austria under the "Sponsors Ordinance", an enterprise/entrepreneur is granted a tax break on expenses for sponsoring cultural events. In Bulgaria, to encourage private persons and companies to sponsor the development of the arts and culture, a tax deduction is provided to resident and non-resident natural persons and legal entities. This amounts to up to 10% of taxable income for the purposes of conservation and restoration of historical and cultural monuments. In Malta companies that provide financial assistance to recognised non-profit making cultural organisations and/or to the Arts Fund are able to deduct these grants from their taxable income. In the Netherlands investments in arts and cultural projects that generate profits up to EUR 54 233, are exempted from charges on capital returns.

ILLUSTRATIVE EXAMPLE

Greek Office for Cultural Sponsorship – supporting sponsorship at the state level

The Office for Cultural Sponsorship is an institution established by the Greek state that aims at funding culture with resources emanating from the private sector. Recipients of cultural sponsorship can be both the public cultural sector as well as non-profit organisations active in the field of culture.

The pecuniary amount or the value of the supply which is being offered as cultural sponsorship is deductible fully from the taxable income of the ratepayer or the gross income of the enterprise offering the sponsorship. The total amount being deducted, cannot surmount 10% of the total individual taxed income or the net profits of the business, as described in business reports of the business offering the sponsorship. Once a year, the Minister of Culture awards prizes considering the Council of Sponsorships opinion.

They report that due to the flexibility of and lack of bureaucracy in the procedure of cultural sponsorship, many companies (or individuals) become sponsor on a regular basis.

Source: Answer to Questionnaire

3.3. Public-private partnerships and joint ventures

Public-private partnerships (PPP) usually denote an agreement between a government and the private sector regarding the provision of public services or infrastructure. Social priorities are thus merged with the managerial skills of the private sector, thereby relieving the government of the burden of managing large capital expenditures, and transferring the risk of cost overruns to the private sector (Oxford Dictionary of Politics, 2010). According to a study by Alfen Consult public-private joint ventures, can also include a particular form of partnership wherein the public and the private partners act as co-shareholders of a project company or institution that is formed as a result of public-private cooperation. (Alfen Consult, 2011).

Some measures of support to PPP projects in culture exist in Austria (especially in the field of museums), Belgium (where a special programme of support is being developed, which generates EUR 54.30 million per year), Ireland (Business Expansion Scheme for music projects), Portugal (where a Programme is in place for the rehabilitation of the classified cultural heritage, representing the most recent measure of public-private partnership in the culture sector; under this programme, the Ministry of Culture rewards agreements with construction enterprises with major public concessions in order that those enterprises donate in-kind 1% of that amount in services towards protection, conservation, reconstruction and restoration of classified cultural buildings), and the UK (PPP using tax

relief). In general, PPP projects are most suitable when cost innovation is more important than the possibility of quality deterioration due to cost reductions¹⁵ (Hart, Shleifer and Vishny, 1997; Iossa and Martimort, 2008; and Engel, Fischer and Galetovic, 2009). PPP projects are therefore less suitable for cultural projects, except for cooperation in large infrastructure projects (Srakar, 2011).

ILLUSTRATIVE EXAMPLE

JESSICA – Support to PPP projects on EU level

Different programmes exist at the EU level to support public-private partnership projects (e.g. JTI, JASPERS, JEREMIE, JESSICA). JESSICA is an instrument for promoting and financing integrated projects as part of a wider strategy for sustainable development. The EU Commission (DG Regio), supported by the European Investment Bank, launched JESSICA as a complementary way of financing projects in the framework of the EU Structural Funds period (2007-2013); by applying “financial engineering” techniques to EU Structural Funds to increase the efficiency and productivity of Structural Funds by making use of innovative and revolving financing instruments in the urban sector, as a complement to grant financing.

The most significant innovation under the JESSICA system is that funding is repayable, thus allowing for the invested capital to be reimbursed as well as remunerated. Projects must meet general criteria of economic and financial sustainability, namely the ability, on the basis of the project’s cash flow, to repay and remunerate the debt and venture capital in accordance with the various expectations of investors.

To make use of JESSICA funding, the PPP project has to be part of an integrated urban development strategy, and embedded in a holistic long-term development strategy, partial profitability or revenue generation potential, with a precondition for revolving financing approach. JESSICA financing instruments for profitable project components can be combined with „classical“ grant financing. Some specific project type examples may include site remediation and preparation, basic urban infrastructure, street furniture, green spaces, urban public transport or energy networks, restoration of historic/listed buildings, cultural complexes and “signature/landmark” buildings or multi-use recreational complexes.

Source: Alfen Consult, 2011

3.4. Percentage legislation

Percentage legislation or percentage philanthropy is a tax measure through which taxpayers may designate a certain percentage of their income tax to be allocated to a specific non-profit, non-governmental organisation, and in some cases to other organisations, such as churches. This measure is characterised by two features: 1) taxpayers themselves individually decide on how a portion of their tax paid will be allocated; 2) the use of the designated funds is restricted to supporting certain beneficiaries (Bullain, 2004).

Among EU Member States, percentage legislation systems in Eastern European countries: Hungary, Lithuania, Poland, Slovakia, Romania, Slovenia are most widely recognised,

¹⁵ A cost innovation denotes any 'innovation' (i.e. reduction) in costs. As defined by Hart, Shleifer and Vishny "M (the manager) can devote effort to two types of 'innovation' relative to the basic good: a cost innovation and a quality innovation. We suppose that a cost innovation leads to a reduction in costs C but is typically accompanied by a reduction in quality (i.e., B). Similarly, a quality innovation leads to an increase in quality, but is typically accompanied by an increase in costs" (Hart, Shleifer and Vishny, 1997, p.1133).

though the system exists in some other countries, like Italy. The Hungarian and Slovakian systems have been studied in depth (Gerencsér and Oprics, 2007), and percentage legislation in these countries proved to be an important mechanism for providing alternative financial resources to cultural organisations as well as broadening the support for culture and enabling its functioning and support in a more democratic manner. In some countries there have been critiques of the implementation of percentage legislation systems. Čopič and Srakar (2010) claim that the percentage legislation system in Slovenia does not serve its purpose in a consistent and efficient manner as only 2.99% of all given funds in this scheme are allocated to culture.

ILLUSTRATIVE EXAMPLE

Percentage legislation in six Eastern European countries

In 2007, the Nonprofit Information and Training Centre (NIOK) Foundation conducted a research study evaluating percentage legislation in five Eastern European countries (Hungary, Lithuania, Poland, Romania, Slovakia). Since then, Slovenia has enacted the percentage legislation system in culture as well.

The findings of the study indicate that percentage designation is an effective device for developing a culture of giving in the NGO sector. This system helps the NGO sector and potential givers to realise the importance and usefulness of donation as well as the function and elements of the process of giving. Percentage designation also helps to improve communication and the formation of effective and diverse interaction between givers and beneficiaries. The study concluded that, in societies with no tradition of donation and no models for the population to follow in order to take part in philanthropy, a meticulous application of the percentage system with regard to the given social and economic circumstances can be an effective way to stimulate giving.

Source: Gerencsér, Oprics, 2007

3.5. Tax relief for individual donations

Individual donations for cultural purposes are defined as one-sided business transactions, where the donor expects no direct benefit. Donations can be made in cash or in kind. They typically follow higher cultural values and profit is not the main motivation (even the name of the donor often stays unknown). Despite that, in situations where the donor receives some incentive to donate to culture, better results for the cultural organisations are usually achieved.

A number of EU Member States have implemented measures regarding the stimulation of individual donations. Several countries offer deductions for individual donors, following examples from US and Anglophone states. Some of these countries (like Germany, Italy and Greece) have special incentives for inheritance taxes, where the tax on bequests can be reduced up to 60% (Germany).

ILLUSTRATIVE EXAMPLE

Testamentary gifts in Germany – coming closer to planned giving

The inheritance tax for works of art can be reduced by 60% if their preservation lies, because of their artistic, historical or scientific value, in the public interest. Certain conditions apply, including that the works stay in the possession of the heir for at least 10 years and that eventual profits made from their use do not exceed the annual costs for their preservation.

A total exemption of works of art from inheritance tax is possible, if works of art are in the possession of a family for at least 20 years or, alternatively, are listed in a National Register of Valuable Cultural Goods. Successors are obliged to leave works of art in the custody of a museum for at least 10 years.

Source: Answers to Questionnaire

3.6. Tax relief for corporate donations

Corporate donations are gifts made by companies and other legal subjects to a cultural organisations or individual artists. These donations can be made in cash or in kind. Measures supporting corporate donations most often take the form of tax incentives for donors.

Despite being a well established measure in Anglo-Saxon countries, measures supporting corporate donations were found less frequently among the answers to our questionnaire than measures supporting individual donations. The lower number of answers in this category may be attributed to the lack of appropriate information and monitoring in this field. Measures supporting donations from legal entities are present mostly in Nordic (Denmark, Finland) and Eastern European (Czech Republic, Estonia, Hungary, Latvia, Poland, Slovenia) countries. Often the incentives come in pairs: both gifts in cash as well as in kind are supported, often in a similar manner (Hungary, Latvia).

ILLUSTRATIVE EXAMPLE

Tax rebates for donors – the Latvian way of supporting corporate donations

The Law on Enterprise Income Tax stipulates a tax rebate for donors: tax shall be reduced by 85% of amounts donated to budget institutions, state capital companies, which perform state culture functions delegated by the Ministry of Culture, societies and foundations registered in the Republic of Latvia, and religious organisations or the institutions thereof, to which public benefit organisation status has been granted, in accordance with the Public Benefit Organisations Law.

The total tax rebate in accordance with the provisions of this Section may not exceed 20% of the total amount of tax. The purpose of the *Law on Public Benefit Organisations* is to promote the public benefit activities of associations and foundations, as well as religious organisations and the institutions thereof. The tax is 15% of taxable income. Expenses not directly related to economic activity are deducted from the tax. It includes social infrastructure facilities, such as educational, cultural, sports institutions, the services of which are provided and rent is determined by prices which are lower than market prices, or free of charge.

Source: Answers to Questionnaire

3.7. Transfer of art in lieu of payment of tax

Several countries allow taxpayers to transfer their property, including works of art, in lieu of payment of different taxes, such as estate tax. Such a system effectively acts as a 'tax credit' system, as compared to a 'tax deduction' system (Freudenberg, 2008) and thus is more beneficial for taxpayers than for the treasury (as noted in chapter 2.3.).

In Ireland, tax relief is available for the donation of important national heritage items to the Irish national collections. The relief consists of a tax credit equal to the value of the heritage item(s) donated which can be credited against particular tax liabilities incurred by the donor.

In the United Kingdom an acceptance-in-lieu scheme has been in operation since 1947. This measure allows a person who is liable to pay inheritance tax, capital transfer tax or estate duty to settle part, or all of the debt, by disposing of a work of art or other object to the Board of Inland Revenue for public ownership. To be eligible for exemption, this person must donate an object of national, scientific, historic or architectural importance. In 2006-07, national authorities acquired art and heritage objects valued at GBP 25.3 million under the scheme. The scheme is managed by the Museums, Libraries and Archives Council on behalf of the government (Council of Europe/ERICarts, 2011n).

ILLUSTRATIVE EXAMPLE

Transfer of art in lieu of payment of tax– the Irish system

Section 1003 of Irish Taxes Consolidation Act (1997) provides that persons who donate heritage items can credit the value of those items against their liabilities for certain taxes. The taxes covered by the relief are income tax, corporation tax, capital gains tax, gift tax and inheritance tax. The market value of the item is determined by the Revenue Commissioners. To qualify for relief the Ministry for the Environment, Heritage and Local Government must approve the heritage property. The properties must be outstanding examples of their type, pre-eminent in their class and be intrinsically of significant scientific, historical, horticultural, national, architectural or aesthetic interest. A single item or collection of items must have a minimum value of EUR 150 000. There is a ceiling of EUR 6 million on the aggregate value of heritage properties that may be approved in any one year.

The annual allocation of EUR 6 million can be used quickly due to the nature of the items donated. This can create competition for the relief among recipient institutions. It is more generous than the tax reliefs contained in Section 848A of the same act. The full value of the heritage item can be deducted from the tax bill of the donor. Unlike Section 848A of the Taxes Consolidation Act, Section 1003 is not widely known among the general public.

Source: Answer to Questionnaire

3.8. Matching funds

Matching funds, or matching grants, is a term used to describe the requirement or condition that stipulates that private donation in money or in kind has to be matched by a certain amount proportional to the value of the donation from a third party (e.g. state or local community). Sometimes even the beneficiary has to provide a certain proportion of the funds needed, such as for the realisation of a certain project. The standard utility model of the donor behaviour does not stipulate how the subsidy to charitable giving is implemented. Eckel and Grossman (2006) found that individuals tend to give more under a matching system than under a tax-deduction-like rebate system. For rebates they found

that price elasticity of giving of cca. -1.2, while with respect to matching funds they found a much higher elasticity: +2.6¹⁶ (Rushton, 2008). Meier (2007) found that, while matching grants initially induce higher donations, donations fall to a level below their initial pre-matching grant amounts when the matching agreement is terminated.

These findings suggest that there is no clear optimal relationship between tax rebates and matching funds. Such systems are present in several, mostly Anglophone countries (e.g. USA, United Kingdom). Matching funds schemes exist in other countries as well; some of them are based on private initiatives, as is Soros' Roma Decade Matching Fund (Open Society Foundations, 2010).

ILLUSTRATIVE EXAMPLE

Matching funds in the UK – positive correlation to public subsidies

The high level of public subsidy to the arts and culture sector in the UK over the past decade has allowed the sector to flourish, thus securing a high quality of outputs, increased number of visitors and consequently increased earned income. In turn, this success has attracted more private investments from businesses and donors, eager to capitalise in an already successful sector. They are not willing to substitute government funding. It is therefore reasonable to claim that there is a positive correlation between public subsidy and private investment.

Matching funds are therefore a particularly attractive mechanism. For example the Arts Council England is currently in discussion with the current Culture Secretary regarding the implementation of a matching fund. The proposal is for a three-tier scheme. Tier 1, aimed at smaller organisations, will offer GBP 1 for every GBP 1 raised, tier 2 will offer GBP 1 for every GBP 2 raised and tier 3 will offer GBP 1 for every GBP 3 raised (Wylie, 2011). The scheme recognises the fact that there is usually a correlation between the organisation's size and its experience and ability to raise funds.

Source: Case Study UK

3.9. Lottery-based private funding

In many countries, lottery funds for culture are an important source of private investment in culture as their distribution has allowed cultural interventions that would otherwise have not been possible. The use of lottery funds for culture is a rather new measure, but is gaining importance with the search for additional subsidies in the cultural field. The lack of studies on the impact or evaluation of lottery funds for culture does not allow for the drawing of representative conclusions, but rather general observations. Lottery funds collection and redistribution methods vary from country to country. These funds are often connected to earmarked taxes, and are thus earmarked for specific cultural purposes. Decision making about the distribution of lottery funds to culture is either the responsibility of existing government agencies, newly established public agencies, non-profit organisations, the government itself, or the lottery company itself. Lottery funds do not always have a designated percentage or amount for culture, thus their contributions to culture can greatly vary. Funds from the central government can compensate for lottery shortcomings to culture, so some measures of state compensation have been suggested in

¹⁶ These elasticities mean, respectively, that raising the price of giving (therefore lowering the tax rebate) by one unit lowers the amount of money raised from the incentive by 1.2 units, while a raise in matching grant by 1 unit raises the amount of money by 2.6 units (note that only the absolute values are important in interpreting the amount of elasticity).

several European Union countries - e.g. Finland, Netherlands, Sweden and Slovakia (Klamer, Petrova and Mignosa, 2006).

In the Netherlands, lottery funds for culture derive from state-owned and private lotteries, where the contribution of the latter can exceed that of the national lottery. Annually, lottery funding for culture represents about 10% of central government expenditure on culture. In search for alternative funding sources for culture in the 1990s, Italy decided to provide revenues generated through the national lottery and therefore introduced the Law 662/1996, which anticipated that annual resources from lottery funds should amount to EUR 155 million. These funds are allocated in advance to the Ministry of Heritage and Cultural Activities for the restoration and preservation of cultural, archaeological, artistic, and archival and library goods based on triennial plans. Practically 100% of the lottery funds are invested in capital projects. More than 70% of the funds are earmarked for heritage (including architecture, archaeology, landscape, museums). Libraries receive around 15% of the lottery money and archives around 11% while other sectors receive far less.

ILLUSTRATIVE EXAMPLE

National Lottery in the UK – important grant giving body

In the United Kingdom, the National Lottery is a particularly important grant-giving body. For every GBP 1 spent on Lottery tickets, 28 pence goes to the Lottery's good causes. These causes are the arts, charities and voluntary groups, heritage, health, education, environment and sports. The money is allocated to funders who then redistribute them for specific projects. The funders are the four National Development Agencies the Heritage Lottery fund (specific for projects related to the local, regional and national heritage of the UK), NESTA (the National Endowment for Science, Technology and the Arts) and the Olympic Lottery Distributors. There are also other funders catering for sport-related projects and other programmes aimed at local communities.¹⁷

The total number of lottery grants awarded for 2010 was 20 913, totalling over GBP 643 million (Department for Culture, Media and Sport, 2010). A total of over GBP 125 million was awarded to the arts corresponding to 4 474 grants while the heritage sector received more than GBP 94 million for 980 projects. The UK Government is now committed to increase the shares of the National Lottery Distribution Fund to 20% for each of the good causes of sport, heritage and the arts as a way of compensation for some of the cuts to the arts sector budgets.¹⁸

Source: Case Study UK

3.10. Vouchers

Another form of stimulating private investment in culture is the use of vouchers. In general, a voucher is a credit of a certain monetary value that can be used only for a specified purpose, such as to pay for housing or food. Vouchers are often used to stimulate small and medium sized companies, and to support education in private schools¹⁹. In the

¹⁷ The full list of Lottery Funders can be viewed at <http://www.lotteryfunding.org.uk/uk/lottery-funders-listing.htm> [Accessed 12 March 2011].

¹⁸ In 2010 the DCMS launched a consultation on this issue. Further information can be found at <http://www.culture.gov.uk/consultations/7070.aspx> and <http://www.culture.gov.uk/consultations/7460.aspx> [Accessed 12 March 2011].

¹⁹ E.g. - a school voucher is a certificate issued by the government which parents can apply toward tuition at a private school (or, by extension, to reimburse home schooling expenses), rather than at the public school to

culture sector, vouchers are used as a manner of stimulating demand for cultural products. In European countries, the most well-known voucher system is in Slovakia. The voucher system in Slovakia is still under evaluation. Similar schemes have been tried in Germany and the United Kingdom. It is also possible that the issuer of vouchers can be a private company, as is the case in Belgium (Ancienne Belgique, n.d.).

ILLUSTRATIVE EXAMPLE

Stimulating demand for culture – the Slovakian system of cultural vouchers

A special tool for increasing the citizens' cultural consumption is the programme of cultural vouchers that was organised by the Ministry of Culture of the Slovak Republic in 2006. The cultural vouchers (each with the value of SKK 200, approximately EUR 6) were distributed to students and teachers of elementary and secondary schools free of charge. The vouchers could be used for visiting a cultural event or for access to cultural heritage institutions (museums, galleries, libraries) in the organisations that were registered with this scheme. Among the recipients of the vouchers were some cultural organisations administered by the central or local government, as well as some non-government cultural institutions. The Ministry issued a total of 900 thousand vouchers for students and 100 thousand vouchers for teachers. The Ministry then reimbursed individual cultural organisations the amount of money that they received in the form of vouchers. A total of 836 650 students and 66 363 teachers participated in the project. A total of 453 cultural organisations applied for registration to this project. Altogether, 527 194 vouchers were used, with a total value of SKK 105.5 million (approx. EUR 3.1 million).

The evaluation and analysis of this measure should take into account the effectiveness of the project in terms of increased access to cultural venues, and the analysis of the vouchers used in terms of the types of recipients and the type of individual cultural events that vouchers were used for.

Source: Compendium of Cultural Policies and Trends in Europe – Slovakia, (Council of Europe/ERICarts, 2011i).

3.11. Earmarked taxes

An earmarked tax is a tax whose revenues (by law) are reserved solely for a specific group or usage. There are cases where earmarked tax recipients will also receive additional funds from the state budgets (Pasquesi, n.d.). Earmarked taxes can be commonly found in the sectors of education, highway construction, ecological issues and social security (Pasquesi, n.d.). The use of earmarked taxes was seldom noted in answers to our questionnaire, or in secondary literature. This possibility provides another option for the efficient provision of complementary funds to cultural activities. The only countries to explicitly mention the existence of earmarked taxes for culture in their answers to the questionnaire were Latvia and Poland. Although Italian Ministry of Culture did not explicitly mention existing earmarked taxes is Italy, a part of the country's lottery funds are earmarked for specific cultural purposes.

which their child is assigned. In this case, vouchers are intended to allow citizens to spend their taxes toward the education of their choice without using a direct tax credit or deduction.

ILLUSTRATIVE EXAMPLE**The Story of the Two Funds – earmarked taxes in Poland**

Earmarked taxes are taxes raised and allocated to specific expenditure programmes (e.g. preservation of cultural monuments), often through an extra-budgetary fund. Examples of earmarked taxes exist in Poland. According to the regulation of the Polish Ministry of Culture and National Heritage, producers or publishers of literary, musical, artistic, photographic and cartographic works, which by law are not required to pay authors' rights' fees (copyright has expired - the so called "dead hand" funds), are instead required to pay 5% from gross sales income to the Fund to Support Artistic Creation. The Fund supports artists in three ways: scholarships, subsidies for publishing and one-off grants. In accordance with the decision of 17 May 2010, The Ministry of Culture and National Heritage also provides social assistance from the Fund to creators with artistic achievements. This is a one-off allowance, granted on the basis of application, for the artists in a difficult social or health situation.

Another example of earmarked taxes in Poland refers to the introduction of the Gambling Act in 2002 that opened the possibility of assigning funds from the lottery to culture – the division of the funding from lottery tickets between sports and culture is now 80:20 ratio. Article 47 of the Gambling Act prescribes that these funds be transferred to the Fund for the Promotion of Culture. This fund is managed by the Ministry of Culture on a yearly basis for the promotion of the activities prescribed by the terms of the fund. Both Funds represent another way to finance cultural activities from private funds.

Source: Case Study Poland; Answers to Questionnaire

3.12. Banking schemes

Banking schemes are usually schemes implemented by banks, or related to the work of banks in directing support to the cultural sector. Banking schemes can include loan schemes that give a preferable interest rate to cultural activities, or any other instruments that favours cultural activities.

One good example of a banking scheme exists in the Netherlands, where Triodos Bank²⁰ has decided to focus its communication and corporate responsibility activities to support the cultural sector. The Triodos Cultural Fund issues loans to cultural institutions, and finances the construction and renovation of cultural institutions such as museums and theatres (Holterhues, 2009).

ILLUSTRATIVE EXAMPLE**Triodos Bank Cultural Fund – Innovative Banking Scheme in the Netherlands**

Since 2004, cultural investment has been fostered through a special tax that allows private individuals to invest in cultural funds. The scheme seeks to encourage private individuals to invest through cultural funds in cultural projects that are important for the Dutch performing arts and Dutch museums. To qualify for a tax advantage, a minimum of 70% of the fund capital must be invested in cultural projects for which the Dutch government has issued a Cultural Declaration. The fund, a public-private partnership, offers cultural entrepreneurs the option of borrowing at a low rate of interest and of benefiting from a tax advantage.

²⁰ Triodos Bank is one of the world's leading sustainable banks with a mission to make money work for positive social, environmental and cultural change. It is a European bank with branches in The Netherlands (head office), Belgium, the United Kingdom, Spain and Germany.

Based on this regulation, Triodos Bank established the first *Cultural Fund* in 2006, through which cultural organisations can be granted loans with interest rates below the average bank interest (Council of Europe/ERICarts, 2010a). The Triodos Culture Fund has the character of an obligation fund: if the interest on the finance market rises, the exchange rate decreases. The Culture Fund is a semi-open-ended fund, meaning that the shares are issued via a bank, and shares may be purchased via all Dutch banks.

Another specialised investment fund, the Real Estate Culture Fund, was launched in the same year. This fund makes it possible for private parties to invest in financing property that is made available to cultural enterprises and arts bodies. The money in the fund is invested in loans on property projects. Both Triodos Bank and the Real Estate Culture Fund are investing a minimum of 70% of their money in projects that are certified by the Dutch Government with a Cultural Declaration.

The Rabobank also founded a *Cultural Bank*. While Triodos finances cultural institutions directly, Rabobank finances these institutions indirectly via municipality institutions.

Source: Case Study Netherlands

3.13. Foundations

Foundations refer to a legal categorisation of non-profit organisations that typically either donate funds and support to other organisations, or provide the source of funding for their own charitable purposes. Many foundations are founded by private companies and non-profit or public arts bodies. Laws regarding foundations vary across Europe, and the definition of foundations differs between one country and the next. Nevertheless, there exists across Europe a generally understood and accepted concept of what public-benefit foundations are. *"Public-benefit foundations are asset-based and purpose-driven. They have no members or shareholders and are separately constituted non-profit bodies. Foundations focus on areas ranging from the environment, social services, health and education, to science, research, arts and culture. They each have an established and reliable income source, which allows them to plan and carry out work over a longer term than many other institutions such as governments and companies"* (EFC, 2008).

The majority of foundations derive their income from endowments - capital sums given by individuals, families, companies or other organisations, and in some cases government institutions. Endowments can take the form of 'movable' property, such as cash, shares, bonds, works of art, authors' rights, research licences, or 'immovable' property, such as real estate. Endowments provide income that benefits from tax exemptions or deductions in most EU countries, and enables the foundation to carry out its activities, give grants to third parties and/or operate its own programmes. Increasingly, foundations in Europe receive their income from various sources, sometimes in addition to their initial endowment. Sources include: bequests and gifts from individuals, ad hoc or regular gifts from companies, regular appeals to public generosity, self-generated income from goods and services, public procurement, contracts from public authorities, and gambling or lottery proceeds. Some foundations also act as brokers for other donors and collect and pool funds to benefit a place (e.g. community foundation) or a specific field (e.g. contributions from religious bodies). The development of foundations requires enabling laws from national governments, and tax provisions, both of which allow donors to create endowments.

The European foundation sector is growing dynamically and is achieving a major presence in European society. Several countries in our questionnaire referred to cultural foundations as being very important to their cultural lives and financing of culture. Malta has a vibrant and broad system of intermediary institutions to support artists and arts activities (e.g.

Malta Arts Fund, Malta Film Fund, Extended Public Service Obligations, Francis Ebejer Prize, Investment Funds, Kreattiv, Malta Arts Scholarships, Malta Enterprise with several departments for supporting arts and creative industries, National Book Prize, National Lotteries, and several others). Other countries with well developed foundation systems include Italy and Spain, where banking foundations have a significant impact and importance on supporting cultural life, the United Kingdom and the Netherlands. Countries like Denmark, Germany, Latvia and Hungary reported special legislation that provides grant-making organisations and foundations a special legal status and tax exemptions for their work. For example in Germany since January 1st, 2000, an Act on the Taxation of Foundations has been in force. This act includes tax incentives for the establishment of and donations to foundations. In recent years, additional tax breaks have been incorporated into the law governing donations, and the tax-exempt ceiling for income from voluntary activity (the so-called standard exemption for course instructors) has been raised and extended to apply to other groups.

ILLUSTRATIVE EXAMPLE

Italian banking foundations – a widespread phenomenon in Italy

Support from banking foundations plays a significant role in Mediterranean countries. Banking foundations²¹ are a widespread phenomenon within the Italian credit system and in a wider European context of private donations to culture. Banking foundations are not-for-profit subjects, having the institutional task of giving donations to “relevant” sectors (e.g. scientific research, arts and heritage, health and welfare).

Italy’s banking foundations were created two decades ago when the philanthropic and lending activities of banks were divided, thus allowing for the industry’s privatisation. Capital was put in the hands of specifically created foundations and soon after, other private investors were also allowed to buy shares.

According to ACRI, the National Association of Local Savings Banks and banking foundations, the total grant-giving capabilities of foundations reached EUR 1.715 billion in 2007, 30.6% of which was channelled to the sector “Art, heritage and cultural activities”. In total, there are around 88 banking foundations in Italy, but only six of them are considerable in size, while the others have small patrimonies. These foundations are led by different actors: local authorities, non-profit organisations, public institutions, religious bodies, social cooperatives²². The biggest and most important foundations are located in the northern and central regions of the country.

Source: Case Study Italy

3.14. Venture philanthropy

Another emerging form of private investment in the culture sector is venture philanthropy (VP), which applies venture capital investment principles – such as long-term investment and capacity-building support – to the voluntary and community sector. It is a form of ‘engaged’ philanthropy. In measuring their results, VP organisations are focused on outcomes rather than outputs. There are higher risks associated with venture philanthropy investments than in usual philanthropic investments. Investors are more actively engaged,

²¹ For more information on banking foundations see the Case study Italy.

²² Management Council of the big foundations consist of mayors, presidents of the regions and provinces, bishops, etc. The largest share of Management Councils' members is nominated by politics, then follow those nominated by various bodies (such as chambers of commerce, bishops, universities), and then those nominated by co-optation by members already taking part in the Management Council.

in the operation and financing of the projects of grantees. They therefore demand stricter monitoring of grantees' operations, and usually remain more intensely involved in the functioning of the foundations.

This model originated in the US and was later imported to Europe, though with some differences. Europe offers a broader spectrum of financing, such as loans and surplus sharing mechanisms, which are often used in combination with grants. Europeans are also typically more open to investing in initiatives that are not registered charities, such as social enterprises, social businesses or individuals, a trend that stems in part from the varying legal forms of organisation and charitable tax relief in different countries. European VPs also are more likely to actively seek to work in partnership with other funders or government to advance their missions.

According to the European Venture Philanthropy Association, the key characteristics of European venture philanthropy are: high engagement, tailored financing, multi-year support, non-financial support, organisational capacity-building and performance measurement.

A recent report on UK venture philanthropy reveals it is worth more than GBP 1.5 billion and provides more than GBP 50 million in support for nonprofits. Investing in charitable funds has become particularly popular in the finance sector. Half of the trustees in UK VP organisations come from this sector, with 29% coming from the private equity industry. Many of these trustees are wealthy – the report identifies in fact more than GBP 5.2 billion in personal wealth.

ILLUSTRATIVE EXAMPLE

Identifying needs and building capacity: an example of the Rayne Foundation

The Rayne Foundation is a UK grant-maker that has adopted a venture philanthropy approach to its funding for the arts, education, health and medicines and social welfare and development.

The Rayne Trust was established by Lord Rayne to support organisations in which its Trustees have a close personal interests. Its annual expenditure is approximately GBP 400 000. It focuses its contributions on social welfare and arts charities known to Trustees and working in the UK to help young and older people and others disadvantaged by poverty and social isolation.

Rayne Ventures identifies a 'need', and then in collaboration with other programme partners select an organisation with the potential to meet that need, and work with it to build its capacity. The first venture was prompted by the work the Foundation did on developing choreographers. Research conducted, which included extensive consultation with senior figures in the UK dance world, revealed that while the UK was an international leader in dance film and dance for camera, there were virtually no opportunities for the public to buy these films. The Foundation has therefore initiated a collaboration with South East Dance to address the above problem.

Source: Case Study UK

3.15. Arts and business forums

Next to a favourable legislative environment that stimulates private support for the arts and culture, the establishment of specialised agencies, which encourage engagement between business companies and cultural organisations enhance private involvement in the cultural sector. Even though culture and business exist in seemingly different spheres with

different values and goals, they can learn from each other and can enrich each other through cooperation. Culture plays an important role for businesses - artistic skills are important in different business areas (marketing, public relations, communication, reputation management, product development, etc.), while cultural organisations need the business skills to drive economic balance, and good cooperation with the private sector can offer more opportunities than traditional sponsorship. Arts and business organisations operate on a national level as facilitators and advocates of co-partnership between business and artists and/or cultural organisations. Their main activities in Europe focus on advocating the importance of business and arts partnerships, providing information and support services, encouraging communication and co-operation between their member organisations (from business and cultural sides), researching relevant aspects of culture and economy by gathering information on European corporate giving to the arts, and representing their members' needs.

In the past three decades, organisations promoting arts and business ideas began to emerge in European countries:

- Austria - IWK –Initiativen Wirtschaft für Kunst (The Austrian Business Committee for the Arts), www.iwk.at (1987)
- Belgium - Prométhéa asbl, www.promethea.be (1985)
- Denmark - Nyx Forum (Danish Forum for Art and Business), www.nyxforum.dk (2002)
- France - ADMICAL - Carrefour du Mécénat d'Entreprise, www.admical.org (1979)
- Germany - Kulturkreis der deutschen Wirtschaft im BDI e.V., Haus der Deutschen Wirtschaft, www.kulturkreis.eu (1951)
- Hungary - Summa Artium, www.summa.artium.hu (2003)
- Ireland - Business2Arts, www.business2arts.ie (1988)
- Italy - Sistema Impresa e Cultura, WWW.IMPRESACULTURA.IT (1997)
- The Netherlands - Cultuur-Ondernemen, www.cultuur-ondernemen.nl (1996)
- Poland – Commitment to Europe Arts & Business, www.cte.org.pl (2003)
- Portugal - Fundação Luso-Americana para o Desenvolvimento www.flad.pt
- Spain - AEDME – Asociación Española para el Desarrollo del Mecenazgo Empresarial, (does not exist any longer)
- Sweden - Kultur och Näringsliv, www.kulturnaringsliv.se (1988)
- UK - Arts & Business UK, www.artsandbusiness.org.uk (1976).

In 1991 the existing national arts and business associations of Europe, with the support of the European Commission established CEREC - European Committee for Business, Arts and Culture (Comité Européen pour le Rapprochement de l' Economie et de la Culture).

A relevant body of knowledge has been developed through these platforms which encompass diverse services:

1. **Promoting partnerships** and providing platforms for companies and/or entrepreneurs who are interested in providing long-term support for culture:
 - helping, advising and training grant seekers and commercial companies, acting as fundraising consultancies which help to match the requirements of cultural organisations and businesses

- supporting businesses interested in joining the board of cultural organisations (businessmen can benefit from enhanced creative thinking while the art organisations gain valuable help in terms of business and management skills)
 - organising networking events where the business and culture sectors can meet.
2. **Spreading knowledge** about cultural sponsorship, arts-led CSR (Corporate Social Responsibility) strategies, corporate philanthropy, or other types of giving through web resources, newsletters, publications and events:
- monitoring and reporting on corporate giving endeavours by doing regular surveys and conducting opinion polls
 - publishing papers and studies on sponsorship and philanthropy issues or the related tax regulation
 - providing forums for meetings and exchanges through organising conferences and seminars (e.g. *2010 - The Promethea Symposium of Corporate Sponsorship*, ADMICAL's *20es Assises internationales du mécénat d'entreprise 2011*)
 - developing illustrative case studies
3. **Influencing and awareness-raising:**
- organising national arts and business awards
 - advocating and lobbying to ensure a positive legal framework for private investment in culture

ILLUSTRATIVE EXAMPLE

Arts and business forums – artists hand-in-hand with companies

The impact that Arts and business organisations have on encouraging private investment in culture can be illustrated by different examples taken from different contexts:

UK example: The UK has always had a strong tradition of philanthropy and business support to the arts. The organisation **Arts & Business** is particularly active in promoting mutually beneficial partnerships between the art and corporate sectors. According to an independent analysis by Frontier Economics total private investment by Arts & Business arts members is 24% to 30% higher than for non-members. The analysis suggests that for every GBP 1 received by Arts & Business they may be leveraging in excess of GBP 4 from donors. The correlation between being an Arts & Business art member and the amount of private money raised confirms the impact the organisation has in its field.

The Hungarian example represents a situation where the cultural sponsorship is rather new tradition. According to **Summa Artium** '*Current legal framework in Hungary is not supportive towards donations, and the sponsorship market is too small in Hungary to create a real market. We are still encountering the phenomenon that decisions are not made on professional and rational bases but are influenced by personal (top management) interest in a certain cultural project or artist. Summa Artium's main aim and its overall project is to raise private funding for the arts, to foster arts and business partnerships and individual donations for the arts.*' One of the main results of their activities is manifested by the amount forwarded to arts projects through this organisation - from 3 sponsors that sponsored 3 projects in 2004 to 30 sponsors that sponsored 50 projects in 2010 (Excerpt from the answer to the questionnaire).

The examples illustrate that such intermediary organisations, by enabling, supporting and brokering creative partnerships between business and the culture and arts sector, contribute to creating more sustainable conditions for cultural entrepreneurship.

Source: Case Study UK; Answers to the questionnaire

3.16. New mechanisms and digital reality

Today cultural organisations are not operating in a physical environment only. Their missions in the digital environment can be fulfilled by new ways of working and taking advantage of new opportunities. From the point of view of the cultural sector, the internet can be used for a variety of purposes – as a platform for developing new artistic projects, an audience development and marketing tool, a platform for distributing content and for e-commerce. Still, the cultural sector has no clear view on how cultural organisations' social and cultural goals relate to commercial activities and the sector needs to broaden its outlook, trying to find the right balance and adequate tools to be able to generate sustainable revenues. E-commerce, fundraising, advertising, sponsoring, and branding are explored as potential revenue models. Business model innovations benefit from integrating the digital space into the organisations' overall business strategies, thus allowing online and offline activities to cross-promote each other. There are no prescribed recipes to follow, but rather strategies that could be explored in search for viable solutions. New opportunities for online fundraising from users and new models of funding such as crowd funding have recently emerged.

ILLUSTRATIVE EXAMPLE

Online fundraising - taking advantage of digital tools

Crowd funding is a strategy that focuses on users, where users provide the income that makes a project possible. It is a type of pre-financing, in which users express their confidence that a particular artistic or cultural project may gain success on the market. Crowd funding is aimed at fundraising for concrete projects via internet donations made by the audience/users that are invited to donate a certain amount. Each project has an initial budget which must be reached within a limited time frame (e.g. 100 days). If the targeted percentage (e.g. 80%) of the budget is reached, the project is considered successful and can be implemented. Crowd-funding differs from donating as the backers always get some in-kind benefits. Benefits can include, in the case of films special mentions in the film credits or invitations for the premiere screenings; if the project is about music, a copy of a music album, etc. The supporters also get regular updates on the progress of the project. If a certain project does not reach its funding target, it will not be implemented and the money is usually returned to the backers. Crowd funding has the advantage of supporting artistic production while building at the same time an audience for it. It also relies on modern technologies and social media so that projects can be promoted easily and with limited costs.

The case studies of the Netherlands and UK have indicated that the crowd funding approach has been taken up by the cultural sector. The Dutch example refers to the Amsterdam Fund for Culture project Voor De Kunst (For the Art). This initiative promotes cultural entrepreneurship as an alternative to the cuts in public subsidies. It is supported by the ministry's support scheme for private investment "Innovative Cultural Expressions". The UK case study refers the example of Sponsume, the first crowd-funding platform for artistic and entrepreneurial projects in the UK. The website welcomes a wide range of projects including documentary, software, dance exhibitions, etc. The artist/creator is invited to pitch his/her project to persuade the crowd to finance it. Other UK examples of websites offering crowd funding for arts projects are: wedidthis.org.uk and www.wefund.co.uk.

Fundraising online – Fundraising tools are nowadays readily available on the internet. Fundraising applications for Facebook, Twitter and mobile phone are growing. Facebook Causes is an example of such application, but there are other examples like JustGiving app, ChipIn, Twitpay, etc. In addition, mobile fundraising and micropayments are also models that the cultural sector is looking into as possible fundraising tools. Online fundraising tools provide people with the ability to mobilise their social networks. They have been designed for effortless sharing and they allow users to support a cause by giving their recommendations or donations. Such tools make connections between donation and the expressions of values by 'breaking down barriers between giving, activism and awareness-raising' (Griffith, 2007). The Internet has broadened the range of tools available to fundraisers, but it has not fundamentally changed the ways in which organisations fundraise. Success or failure is largely based on the work that organisations do and how they communicate with potential donors. Thus, convincing messages and nurturing relationships with donors are still the key elements for success.

The UK example of The Big Arts Give, a pilot challenge fund for the arts, indicates possibilities for using digital platforms to reinforce other mechanisms, such as matching grants. People were invited to donate to certain previously selected projects while the Big Give Sponsors committed to double the amount donated by private individuals at the end of the fund-raising campaign.

Source: Case Studies UK and the Netherlands

4. PRIVATE INVESTMENT IN CULTURE: COUNTRY CASE STUDIES

KEY FINDINGS

- In accordance with European cultural policies, ethos and provisions that place culture in the domain of the public good with wider public accessibility, the provision of sustainable models and encouragement for private investment in Europe is placed under the national government's authority. Government involvement in culture may take a variety of forms and activities, from direct promotion, to the use of arm's-length, quasi-independent organisations, to the use of non-governmental incentives (such as tax concessions, which are increasingly becoming a part of European developments in supporting culture).
- The five case studies (Italy, the Netherlands, Poland, Slovenia and the UK) illustrate trends and practices in encouraging private investment in culture in diverse political, economic and cultural environments. The case studies bring an insight into different systems that are in place and that identify practical measures and examples of the best national practices in encouraging private investment in the cultural sector. The findings show that the UK and the Netherlands (countries of Anglo-Saxon cultural policy tradition) have the most advanced mechanisms and measures for stimulating the private sector in giving to culture. Slovenia and Poland, as new members of the EU with post-socialist backgrounds, have still underdeveloped systems of support for private investment, due to rather inflexible cultural sector structures. Italy, as a country of Mediterranean tradition, is a half-way case; state dominion is still present, as are ample opportunities for private sector involvement.
- The Italian case shows that, while the state holds the principal role and responsibility for supporting culture, there is a wide array of initiatives, incentives and systems for encouraging private support of culture. The most substantial position among these systems is assumed by banking foundations.
- Private giving to culture in the Netherlands has increased in the last decade, both as a share of total giving and in absolute amount. A great deal has been achieved by the government in terms of tax legislations and programmes that stimulate private giving. The present model of Dutch cultural policy combines both characteristics of arm's-length and entrepreneurial models. Announced changes in the cultural policy for the next four-year period stress the importance of entrepreneurial models.
- In Poland, encouraging private investment in culture is still in its early stages, and it needs a well-elaborated strategic approach for its further development. Such a need is connected to the need for overall restructuring of the cultural sector in Poland.
- There are too few structural changes leading to greater involvement of the private sector in culture in Slovenia. Despite the existing cultural policy objectives toward more private capital in culture, there are few concrete measures in place that seek to implement this direction.
- In the UK, the so-called 'golden standard' for the financing of culture is considered to be a 'tripod economy,' whereby each source of income (public, private, earned) accounts for an equal third of total income. In reality, only earned income accounts for a third of total income (32%); public funding accounts for an average of 53% of arts organisations' income, while private investment represents the remaining 15%. Due to the recent cuts in national and local arts budgets, the arts and culture sector is faced with the necessity of finding alternative sources of income, namely private investments, to replace public subsidy. The government is looking into new ways to encourage private sector involvement by developing a challenge fund to incentivise donors and build the fundraising capacity of arts organisations.

Europe has diverse systems of cultural policies in place that try to respond to challenges in balancing economic efficiency and productivity on the one hand and pursuit of desired social and cultural goals on the other (Boorsma, 1998). These systems differ in their organisational models, from centralised bureaucratic to arm's-length models. Accordingly, there are differences in the uses and roles of indirect public policy measures such as tax deductions and incentives, as well as demand-oriented subsidies such as vouchers, interest-free loans, matching funds and public finance partnerships, and levels of presence of intermediary organisations (e.g. arts and business organisations and public benefit foundations). For the purpose of analysing cultural policies and the ways in which they address this challenge, five in-depth country case studies have been included in this study. The cases of these selected countries bring insight into different systems that are currently in place and identify practical measures and examples of the best national practices in encouraging private investment in the cultural sector. The case studies thus identify different realities and issues regarding the financing of culture. The selected countries that are presented illustrate diverse European contexts: Italy, the Netherlands, Poland, Slovenia and the UK. The full case studies are presented in the Annex 2 section, while this chapter details a condensed version of findings that highlight European commonalities and differences.

4.1. Italy

4.1.1. Cultural policy context

In Italy, there is in place a mix of administrative, economic and arm's-length models. Italy has rather split and irregular competencies for the field of culture. The responsibilities for culture are split between various bodies on four levels: state, regional, provincial and municipal.

Since the 1990s, a continuous trend concerning the transformation of cultural institutions has been seen in Italy. Cultural institutions that were previously under the proprietorship of public authorities, have gradually been transformed into private organisations. Consequently, many prominent public institutions were converted into operational foundations. The aim was to more effectively manage the institutions in question, to disburden public cultural budget and to enable these institutions to involve a growing number of public and private partners in conducting their activities.

4.1.2. Government role as facilitator in private giving

Due to existing constraints on the national budget in recent years, government have been strenuously promoting a more direct involvement of the private sector in culture. Sponsors, donors, and the marketplace are encouraged as complementary sources of funding to both cultural industries and the fields of heritage and the performing arts (Council of Europe/ERICarts, 2011e).

Cultural goods and activities in Italy are financed by the public and private sectors. Public authorities primarily finance cultural heritage institutions, archives and libraries, and to some extent performing arts (e.g. music, theatre). Cultural industries (i.e. publishing, press, cinema and audiovisual industry) receive their support from the private sector through access to the marketplace for cultural goods and services and from advertising through radio, television and the press. However, the boundaries between what the public and private sectors fund have become less defined; the film industry and the press have been heavily subsidised by the public sector in recent years due to problems of "market failure," whereas, since the 1980s, sponsorship and donations have grown as relevant

sources of support for heritage institutions and museums (Council of Europe/ERICarts, 2011e).

The distinction between the role of the state and contribution from the private sector in financing culture is highly debatable. The analysis of available incentives for private investment in culture in Italy shows that public funds and political determination support and encourage such investments. Tax incentives, tax exemptions, tax relief and tax deductions represent yet another form of public subsidy or re-allocation of public funds. Lottery funds may be considered in this category, as such funds are also public quasi-private funds.

4.1.3. Private giving

4.1.3.1. Relations with the corporate sector

According to the Council of Europe, there is proportionately less private cultural sponsorship in Italy than in Germany or Britain, but more than in France. Most of this private support has traditionally been allocated to heritage conservation, thus not leaving sufficient funds for other areas of culture that need private support. Since 2000, the usual practice of corporate support to culture has been facilitated by the introduction of Law 342/2000, which allows for the total deduction of cash donations from taxable income, and Law DPR 917/1986—TUIR, which makes advertisement expenses and representation costs totally deductible from company income. The incentive proved to be rather successful, as private financial aid for culture derived from this law increased by 70% in 2004-2005, although donations were not equally distributed among regions and cultural sectors. The highest percentages of donations were seen in Lombardy, Veneto and Lazio, and the performing arts sector received 70% of the support. In 2009, EUR 29 439 453 was donated to culture by the corporate sector.

To further support cultural sponsorship and promote cultural investments as strategic choices and competitive assets for Italian companies, a non-profit organisation, Sistema Impresa e Cultura, was established in 1997. The objectives of Sistema Impresa e Cultura are to create a network between people, companies and institutions, and to provide a forum in which the culture and business sectors can meet²³. Through the activities of the organisation, cultural organisations and businesses meet with each other and establish planning dialogues, thus increasing competence and visibility among diversified audiences. The organisation works with companies, cultural institutions and local authorities. The award "Impresa e Cultura" was introduced in 1997 with the aim of stimulating the engagement of the business sector in supporting the arts. The award is now supported by the Presidency of the Council of Ministers, the Ministry of Foreign Affairs, the Ministry of Infrastructures and Transport and the Ministry of Heritage and Cultural Activities, and is sponsored by several local authorities, banks, publishing houses and companies (Klamer, Mignosa and Petrova 2006, p.59). The aim of the initiative is to identify and encourage small, medium and large companies that invest in culture and to facilitate their support by promoting continuous projects instead of occasional sponsorships. So far, the Award has involved over 800 businesses, thus providing a picture of the relationships between culture and business in Italy.

²³ Another partnership organisation of business and arts sectors in Italy, Museimpresa, The Italian Association of Company Archives and Museums. For more detailed information about Museimpresa see Case Study Italy in Annex 2.

4.1.3.2. Grant giving bodies and philanthropic giving

Private **grant-making foundations** and foundations with banking origins are fundamental resources in supporting social, cultural, political, and economic development in Italy. In 2001, the share of grant-making activities by foundations with banking origins aimed at arts and culture represented 40% of their total support. However, this percentage is not consistent and has been decreasing throughout the past decade. Banking foundations emerged in the 1990s, when a law²⁴ aimed at restructuring and adapting the Italian credit system to the changed economic environment was introduced. Banking foundations are not-for-profit subjects and have the institutional task of giving donations to relevant sectors (e.g. scientific research, arts and heritage, health and welfare). Foundations are free to choose to provide support to all or some of these sectors. They are required to administer and manage their assets in full autonomy, and are bound to pursue the public interest.

There are around 88 such foundations in Italy, but only six of them are considerable in size: Fondazione Cariplo, Fondazione Monte dei Paschi di Siena, Compagnia di San Paolo, Fondazione Cassa di Risparmio di Verona, Vicenza, Belluno e Ancona, Fondazione Cassa di Risparmio di Roma and Fondazione Cassa di Risparmio di Torino. The remaining foundations have small patrimonies. They are governed by different actors: local authorities, non-profit organisations, public institutions, religious bodies and social cooperatives. They give support to various fields of activity, primarily the organisation of exhibitions and events, the management of museums and sites, libraries and other cultural institutions and the restoration and conservation of cultural goods (Council of Europe/ERICarts, 2011e).

According to ACRI, the National Association of Local Savings Banks and Banking Foundations, the total grant-giving capabilities of these foundations reached EUR 1.715 billion in 2007, 30.6% of which was channelled to the sector "Art, heritage and cultural activities". This figure represents an increase of 9% with respect to the previous year. This percentage remained the same in 2008, but decreased in 2009 by 1.2 percentage points (29.4%) (ACRI, 2010).

In search for alternative funding sources for culture in the 1990s, the Italian government decided to provide revenues generated through the national **lottery** and has therefore introduced Law 662/1996, which allocates resources from lottery funds to cultural purposes (up to EUR 155 million annually). This sum represents a fixed ceiling amount. The funds are allocated to the Ministry of Heritage and Cultural Activities for the restoration and preservation of cultural, archaeological, artistic, archival and library goods, based on triennial plans. Lottery funds are then invested in capital projects. More than 70% of the funds are earmarked for heritage-related sectors, including architecture, archaeology, landscape and museums. Libraries receive around 15% of the lottery money and archives around 11%, while other sectors receive far less. Amendments to this Law in 2003 included the addition of cultural activities and the performing arts as recipients. From 2007-2009, 45% of the lottery money was earmarked for southern Italy, as the region does not benefit from private investments in culture in the same way as does northern Italy.

Another initiative being used to stimulate private giving to culture is **percentage legislation in favour of the arts**, which offers citizens the possibility to choose which art organisations to support. Citizens can choose specific institutions (e.g. art organisation,

²⁴ Amato-Carli Law (Decree law 218/1990) subsequently incorporated into the consolidated Law on banking (Legislative decree 385/1993). The further restructuring was undertaken and completed by the Ciampi Law (No. 461/1998) and the subsequent application decree (No. 153/1999).

social organisation, university) to which they can route 0.5% of the amount of taxes they pay. The measure has been introduced as a new form of public financing of the third sector. While the measure has been in place for more than five years, it has not become an actual law in Italy. The Italian government budget, which is currently under examination in the Italian senate, has reduced the monetary allocation for this experimental measure from EUR 400 million to EUR 100 million. This reduction has negatively impacted the activities of millions of volunteers and thousands of non-profit groups.

4.1.3.3. *Private giving through tax incentives*

The biggest problem regarding incentives for private investments in culture in Italy is the practical application of laws and regulations, which are complicated, bureaucratic and difficult to apply. Such regulations are scattered through many different laws and merely create environments in which private investments are stimulated, rather than directly regulate such investments.

The existing legal framework for encouraging private investment in culture in Italy is based on the following incentives:

Tax deductions and incentives

Consumption of culture

VAT reductions for buying cultural goods and for buying/selling antiquities. The total VAT reductions amount to 4%. This measure is in place to avoid double taxation for antiquities that are to be re-sold.

Investment in culture

Transfer of art in lieu of tax payment: according to the Decree of the President of the Republic No. 603/73, it is possible to cede cultural goods as well as works of living authors not older than 50 years to the state instead of paying taxes.

A special measure is providing the **favourable tax treatment of old (listed) buildings.**

Sponsorship: Law DPR 917/1986 – TUIR allows advertisement expenses and representation costs to be totally deducted from company income. Sponsorship is thus considered as a fully deductible expense for tax purposes. As for individuals, the law allows only a deduction of 19% from personal income taxes for financial aid given to private and public institutions that are active in the cultural sector.

Cash donations: law (no. 342/2000) allows for the total deduction of cash donations from taxable income.

Percentage legislation in favour of the arts: individuals are free to choose specific institutions (e.g. art organisation, social organisation, university) to which they can route 0.5% of the amount of taxes they pay.

Tax deductions for **donations in cash or in kind** to cultural purposes (DL 14/3/2005) can amount to 10% of the total income not exceeding EUR 70 000 per year for individuals and companies.

Gifts are not taxable if transferred to the state, regions, provinces or municipalities, public organisations, foundations or associations in the field of education, research or NPOs that execute social activities (D.Lgs. 31/10/990 n. 346).

Cultural goods as **testamentary gifts** are not subject to tax payment or tax reductions.

The Italian case shows that, while the state holds the principal role and has the primary responsibility in supporting culture, an array of initiatives, incentives and systems exists for encouraging private support for culture. Banking foundations assume the most substantial position among these systems.

4.2. The Netherlands

4.2.1. Cultural policy context

Based on the analysis of the implementation of policy priorities and programmes and the administrative organisation of cultural policy, it can be observed that the recent model of Dutch cultural policy combines characteristics of both arm's-length and entrepreneurial models of cultural policy. The announced changes in cultural policy for the next four-year period stress the importance of entrepreneurial models. The policy document "Art for Life's Sake" (Ministerie van Onderwijs, Cultuur en Wetenschap, 2007), outlines cultural policy priorities for the period 2009-2012. The policy goals stress the necessity of making the bureaucratic system for culture more results-oriented, encouraging wider involvement of the private sector in culture, and increasing the importance of culture in social terms. The Dutch cultural policy is shaped by a focus on promoting quality and social objectives, while striving to achieve greater financial independence of the cultural sector. This process dates back to the beginning of the 1990s, when cultural policy aimed to increase the involvement of private stakeholders, through the privatisation²⁵ of cultural organisations and self-generated income, by offering a wider diversity of commercial activities and by matching public and private financing. Additionally, financial incentives were introduced to strengthen private contributions to the cultural sector.

For the upcoming four-year period, as far as financing is concerned, the new cultural policy priorities put greater emphasis on cultural entrepreneurship and private giving (Zijlstra, 2010). The intention of the government is to limit its role in allocating subsidies to the cultural sector while still remaining responsible for basic cultural infrastructure, education, heritage and development institutions. The purpose of the policy change is to make the cultural sector more independent from government subsidies and to stimulate cultural entrepreneurship and mecenat. The goal of this change is to promote a stronger sector that is able to increase its own income by involving more private partners, and to create stronger bonds with possible financial supporters. The role of the government will remain that of a facilitating entity.

Due to the economic crisis, central and local governments are reducing funding to the arts and culture. For the period 2011-2014, the central government will reduce funding up to EUR 205 million, or about 25% of the current state budget for culture. Considerable decreases of current budgets are also expected at the municipal level.

4.2.2. Government role as facilitator in private giving

To enhance private giving, the government aims to enforce existing fiscal incentives towards both cultural institutions and private individuals and companies. Cultural institutions will be encouraged to realise more self-generated income, and private individuals and companies will be encouraged to contribute more to the cultural sector. The

²⁵ In the Dutch context, the privatisation of the cultural institutions is based on a shift from state ownership to private ownership, as realised by changing the legal status under the law of private foundation. The first six museums were privatised in 1994, and many museums have since begun to operate as private foundations; only some collections and buildings of national importance have remained state property. The new situation was marked by a change on the organisational level, as the business activities of cultural organisations were run independently from the state. However, the privatisation did not intend to replace public funding with private funding, and up to 70% of museum budgets are still supported by government subsidies. The difference is that they are allowed and encouraged to earn their own incomes from non-governmental sources, a practice that was not possible under their previous legal statuses. This restructuring also implies changes in management responsibilities, as well as in the contracting of employment.

government will further promote private giving by increasing awareness about tax incentives, both among people who can donate and organisations that can benefit from these donations.

The self-generated income of cultural institutions that are heavily supported by the state is an important issue in the new cultural policy. To encourage the autonomous generation of more income by the subsidised cultural institutions, the government plans to enforce a matching scheme that combines income from three sources: subsidies, ticket sales and merchandising and sponsorship and donations. Starting in 2013, the cultural budgets of these subsidised organisations will be required to earn 17.5% of their funds from self-generated income. This figure represents an increase from 15%, and this change has generated discussions regarding whether or not this measure is realistic. However, the data indicate that the introduction in 1994 of the rule of 15% share of self-generated income in the total cultural budget brought about positive development (Drenth, 2007). In 2005 cultural institutions were able to self-generate more than 15% of their incomes (ranging from 16% for literature to 54% for performing arts ensembles). This outcome strengthens the argument for an increased share of self-generated income.

To facilitate public-private partnerships, the Ministry of Culture promotes diverse programmes with various other ministries. In 2005, along with the Ministry of Economic Affairs, the Ministry of Culture launched a policy programme called "Our Creative Capacity," which focused on the potential of cultural industries. The programme for the period 2009-2013 combines the objectives of cultural policy and industry policy, while emphasising the importance of strengthening entrepreneurship and private involvement within the creative art sectors.

4.2.3. Private giving

In the Netherlands there exists a tradition of private giving to the arts and culture. In the last decade, private giving to culture has increased considerably, both as a share of total giving and in absolute amount. According to the annual report "Giving in the Netherlands" (2009), in 2007 the total amount of private giving was about EUR 4.6 billion, from which 8% (EUR 352 million) was given to arts and culture. The shares of giving vary between individuals, legacies, foundations, companies and "good causes" lotteries (see Table 8 in Annex 2). The highest share from fundraising for art and culture in 2007 was realised by companies, followed by private foundations and "good cause" lotteries. Individuals donated the smallest share of the total private funding for culture. The higher share of company giving that was seen can be explained by the fact that there was often no clear delineation between sponsorship and donation, and in some cases sponsorship deals were considered donations.

The government has achieved significant results through tax legislation and programmes that stimulate private giving. For example, Hemels (2005) suggests that indirect public support to art and culture in the Netherlands is at least equal to direct public support, though indirect public support is not accounted for in the official statistics. Hemels estimates that the state revenue lost from tax relief applied to the arts and culture is about EUR 800 million a year; state support to the arts and culture, excluding broadcast subsidies, is roughly EUR 750 million annually. However, according to experts, much more can be earned by cultural organisations from private giving (Sigrid Hemels and Ryclef Reinstra in Bolwijn, 2010). Still, the increase in wealth in the last few decades is disproportional to the generosity towards art and culture (Diana van Maasdijk in Bolwijn,

2010). It accounts for about 2-3%²⁶ of the total public and private financing of culture. The government expects that private investment will increase after the generous governmental financial support to arts and culture is withdrawn. However, experts question this outcome, especially when the recent financial crisis is considered. Though there is money and there are donors willing to contribute to the arts, Steenbergen (2010) stresses that it cannot be expected that people and companies will simply start to donate more to culture when government reduces its support. There is strong evidence that, when government withdraws its support, private donors tend to do the same. The donors see their role as being complementary to government support, rather than a substitute for it. In this respect, the government must retain its funding responsibilities with regard to operational costs that private donors are not willing to cover, as donors prefer to contribute to specific projects.

Cultural institutions have been relying on public subsidies for the past 70 years, so it is difficult for such institutions to be suddenly required to do their own fundraising. According to Steenbergen (2010), this change calls for a different "culture of asking," upon which the development of a "culture of giving" depends. This is a cultural shift that requires building different relationships between those who give and those who receive. After having relied on government support for many years, cultural institutions will need to invest in different communication strategies towards those who are willing to contribute. Steenbergen estimates that the sector needs a longer period (15-20 years) of active work and further encouragement from the government to develop an effective system of patronage.

4.2.3.1. Relations with the corporate sector

Along with a favourable legislative environment that stimulates private support to the arts and culture, the establishment of specialised agencies that encourage engagement between business companies and arts sectors increases private involvement in the cultural sector. Cultuur en Ondernemen (Culture and Entrepreneurship) is an organisation that operates on the national level as a facilitator of private involvement in culture and advocates for partnerships between businesses and artists and/or art organisations. This organisation was established in October 2010, after a merger between the two agencies, Kunst & Zaken (Art & Business) and Kunstenaar & Co (Artists & Co). It encourages artists, creative persons and cultural organisations to develop and use their entrepreneurial capacities. In order to increase the economic independency of artists and cultural organisations, it creates special investment arrangements with other financial partners. It also implements two programmes established by the government, Cultural Patronage and Cultural Sponsorship.

Fundraising has become an integrated strategy of the Dutch cultural sector. The available data sources do not make very precise differences between sponsorships and donations. They are often analysed under the category of private giving to art and culture. It is therefore difficult to estimate the exact amount of sponsorship in the Netherlands. According to Ad Maatjes (Drenth, 2007), cultural sponsoring has strongly increased in the last 25 years and has been estimated to generate approximately EUR 75 million annually since 2001. Still, the income earned from sponsorships is rather modest compared to other self generated types of income. Available insight into income in the museum sector shows that the average income from sponsorship amounted to 2% in 2003, thus representing a decrease from 3% in 1997 (see Table 9 in Annex 2).

²⁶ Here the percentages can vary in accordance to whether the estimates are made including both sponsorship and donations under private giving, or only donations.

4.2.3.2. *Grant giving bodies and philanthropic giving*

Different types of grant-giving non-profit organisations exist in the Netherlands: private associations (e.g. clubs, friends' societies) and foundations. They operate under different legislations, and the ways in which they provide and receive support varies. The foundations can be government-supported²⁷ or independent.

The activities of **independent grant-giving foundations** within the cultural sector, and their roles as enhancers of the creative arts, have increased. They are often established by families, community members or companies. Among the biggest private foundations supporting the arts and culture are Prince Bernhard Cultural Funds, VSB Funds and the DOEN Foundation. To a certain extent, foundations tend to follow the main directions given by the Dutch government, that is, stimulating entrepreneurial spirit and a greater involvement in the financing of the arts and culture by private individuals and companies. It became a common practice for both government and private foundations to allocate grants based on matching the needs of diverse stakeholders involved in ownership of projects. Private foundations not only directly finance the cultural sector but also provide assistance to or guarantee for cultural entrepreneurs when they apply for loans to start or maintain small enterprises.

Some estimates suggest (Smithuijsen, 2005) that private association and foundation support to culture accounts for as much as 2% of total cultural expenditure (including private and public sources). According to the "Giving in the Netherlands Report" (2009), private foundations contributed EUR 282 million (23%) to private giving to culture in 2007. Due to the current crisis, private foundations have also cut their budgets. For example, in 2009 the VSB Funds decreased their donations to arts and culture from EUR 31 million to EUR 16 million per year.

Dutch **lotteries** also allocate funds to the arts and culture. They are rather new, but have developed rapidly and are gaining importance because of the search for additional subsidies. Lottery funds to culture derive from state-owned and private lotteries; the contributions of private lotteries can exceed those of national lotteries. Annually, lottery funding represents about 10% of central government expenditure on culture (Ilczuk, 2004). The national lottery has established its own foundation (DOEN) for the re-allocation of its revenues. Private lotteries²⁸ usually allocate their revenues to foundations that use or redistribute these funds for cultural purposes. The aim is to allocate a part of the income from the lottery to smaller organisations and special initiatives within the various cultural sectors.

The National Postcode Lottery (1989) is Netherlands' biggest charity lottery and supports 75 charity funds. 50% of each lottery ticket is allocated to charity. In 2009, the amount earned for charity purposes was EUR 256 million.

The Bank Giro Lottery is Netherlands' cultural lottery; half of its budget is allocated to culture. Due to its monthly 750 000 participants, the lottery can support a large number of cultural organisations and museums. In 2009, EUR 60 million was granted to 57 cultural institutions.

²⁷ In the early 1990s, the Dutch central government established Public Cultural Funds as government-supported foundations that receive funds from state subsidies and redistribute them according to their own sector policy (e.g. Dutch Fund for Performing Arts, Dutch Film Fund, Foundation for Visual Arts, Design and Architecture, Mondriaan Foundation, Netherlands Architecture Fund and Cultural Participation Fund). The role of these foundations is to define qualitative measures for the development of the sector while remaining at a distance from decisions made by the state administration. State involvement is limited to providing finances based on the four-year plan provided by each Public Cultural Fund.

²⁸ E.g. Bank Giro lottery, Sponsor Bingo Lottery, Postcode (ZIP-code) Lottery.

Cultural organisations can establish their “**named” funds or associations of friends**, which can complement their cultural budgets by collecting donations and through legacies and membership fees (Ministry of Education, Science and Culture, 2004). The minimum amount required to establish a fund is usually EUR 50 000, and individuals can make personal donations or leave legacies to funds. Within the broadly defined objective of the institution concerned, the person providing the money or legacy specifies the particular objectives or projects he or she wishes to support under his or her name.

Individual donations - There is a strong tradition for individual giving to the arts in the Netherlands, and this tradition is supported by favourable legislation. The report “Giving in the Netherlands” (2009) estimates that, in 2007, individuals donated EUR 24 million in cash and goods to art and culture (7% of total private giving to culture) and EUR 7 million in legacies (2% of total private giving to culture). Individual donations represent the smallest share of total private giving to culture. However, Steenberg (2008) argues that individual giving in the Netherlands is an important source of funding for cultural organisations. According to her research, about 25% of private donations to museums is made by individuals. The author also suggests that 70% of private giving to culture comes from small donors. However, these contributions lack public acknowledgement.

4.2.3.3. Private giving through tax incentives

The existing legal framework for encouraging private investment in culture in the Netherlands is based on the following incentives:

Tax allowances on donations from individuals and non-profit organisations

Gifts (periodical) to cultural institutions and cultural associations that have at least 25 members and full legal capacity are 100% tax-deductible.

Gifts given to arts and culture are income tax deductible, if they amount to a maximum of 1% of total income prior to the application of the personal deduction (i.e. the threshold). The minimum amount of the 1% threshold is EUR 60, and the maximum is up to 10% of individual income.

Donations to officially recognised museums, foundations set up to support museums or associations of friends of museums are entirely free of gift tax. No gift tax needs to be paid to a Dutch association or foundation whose objective – for at least 90% - it is to promote the arts or sciences.

Tax allowances on legacies/inheritance tax - Cultural institutions on the list of officially recognised museums are entirely free of legacy tax. The same applies to foundations supporting museums or associations of “friends”.

Tax allowance on personal expenditure on historical buildings - Under the Income Tax Act 2001, any expenses and depreciations incurred in connection with a historic building in residential use in excess of 0.8% of its value are tax-deductible, with the maximum threshold being EUR 12 500. The maximum property value for tax purposes is set at EUR 100 000. The building and land depreciation is set at 15% of the gross imputed income from home ownership. In the case of other historic buildings used as homes, maintenance costs are deductible if they exceed 4% of the value of the building.

Other tax measure supporting the arts

Shared Giving is intended for people over 55 years old who wish to donate a minimum of EUR 250 000 on a fiscally friendly basis, but want to enjoy the benefits of their donations throughout their lives.

Volunteer work - Volunteers may earn EUR 1 500 a year tax-free (EUR 150 a month or EUR 4.50 an hour). Organisations that wish to pay volunteers a larger amount tax-free must report the relevant sum to a tax inspector.

4.2.4. Examples of Good Practices

Facilitating entrepreneurship in the creative art sector – A good example of a policy programme to stimulate collaborations between the arts and the profit-oriented private sector is the creative industry programme, launched in 2006. It is regarded as a successful model that creates possibilities for additional financing to the cultural sector through promoting partnership between the subsidised art sector, creative industries and other areas of the Dutch private sector. In the area of arts and culture, the programme more particularly focuses on strengthening the financial conditions for cultural entrepreneurs. Opportunities for cultural entrepreneurs to start up or maintain their own businesses were created. One of the outcomes of this programme is that the annual Working Relationship Declaration for one-person businesses is extended automatically and the person is allowed to pay VAT four times per year, instead of every month. Furthermore, Kunstenaar & Co (since 2010 Cultuur en Ondernemen) provides advice, training and workshops to artists in order to strengthen their business practices and profits. Under this scheme in 2009, 600 artists took part in innovative projects to gain knowledge and experience from collaborations with other businesses and sport and health care sectors. The intention of the programme was to provoke change in the mentalities of cultural actors and to be more proactive towards partners outside of the cultural domain. The creative industry policy programme also enables broader implementation of the existing cultural investment and patronage schemes, thus aiming to encourage private individuals to invest in cultural projects through cultural funds, and to improve access to capital (Ministry of Education, Science and Culture, 2009).

Cultural investment - A good example of supporting arts and culture is the use of a low interest rate when investing in cultural projects or buying contemporary art works. The use of cultural investment funds by cultural entrepreneurs and/or cultural organisations shows that since 2006, 42 projects were accepted and granted a total of EUR 382 million (Ministry of Education, Science and Culture, 2009). According to the manager of the Cultural Fund of Triodos Bank, Eric Holterhues, the Fund invested about EUR 175 million in cultural projects between its start and 2010. In its first year, it collected over EUR 60 million from cultural investors, an amount that was twice as large as what was initially expected. In 2010, the financial capital of the Triodos Cultural Fund grew by 89.3% reaching the amount of EUR 138.9 million. In cooperation with the Triodos Bank, Kunstenaars&Co (Artists&Co) developed in 2007 a Culture Loan for independent working professional artists, creative persons, collectives and initiatives that allows small (EUR 1 000 to 3 000) and large (EUR 10 000 or more) credits. The Culture Loan is intended to be used to provide for durable investments, including musical instruments, cameras, software, and even mortgage for an atelier or working space. Cultuur en Ondernemen, after the merger of Kunstenaars&Co and Kunst and Zaken, has taken on the role of examining the contents of these plans, while the Triodos Bank looks into their financial aspects. The Culture Loan is the first "grown-up" credit facility for the creative sector. Approximately 250 loans have been granted; in 140 cases, a guarantee was given for loans amounting to EUR 5 million in total.

It has also become common for some cultural organisations to establish their own funds. For example, De Kunsthal, an exhibition hall in Rotterdam, founded a culture fund in conjunction with ING Bank in order to support its own large-scale exhibitions.

The patronage scheme - is an initiative that stimulates private donations while promoting awareness of the social benefits of contributing to the arts. It encourages willingness of cultural giving by delivering workshops and advice on different legal forms of private support and tax benefits to cultural institutions, potential donors and intermediaries. Cultuur en Ondernemen implements the programme, and holds various courses, workshops and debates between those who are interested in donating and those who are seeking donations.

Culture sponsor code (www.codecultuursponsoring.nl) - was established by the Ministry of Education, Culture and Science in 1993 with the aim of stimulating cultural sponsorship. It came into effect as a response to a request for transparency regarding cultural sponsorship. It has been actualised in 1999 with respect to the mutual interests of various parties, such as the sponsors, the sponsored, the subsidisers and consumer organisations. The code of conduct regulates the relationship between sponsors and the sponsored cultural organisations and/or events. The code establishes a framework to facilitate this relationship when business objectives meet the artistic ones. It defines the nature and scope of the relationship, while dealing with definitions such as cultural sponsorship, advertising, cultural activity and artistic independence. According to code of conduct recommendations, the conditions under which the mutual interest between the parties can be reached cannot in any case diminish the artistic/cultural value of the event or/and cultural goals of the organisations. It also ensures substantial artistic independence, public accessibility, and equal benefits for the sponsor and the sponsored. The code sets out a series of guidelines for responsible cultural sponsorship, so both parties involved remain free to reach final agreements that better suit their respective needs. Despite its advisory nature, the code has been widely adopted by cultural organisations.

Crowd funding - A good initiative undertaken by the Amsterdam Fund for Culture is the project launched in 2010 "Voor De Kunst" ("For the Art"). It aims at fundraising for concrete projects through so-called crowd funding, that is, contributions made by audiences via Internet donations. Individuals are invited to donate between EUR 10 and EUR 2 000. Each project has an initial budget that must be reached within 100 days. If 80% of the budget is reached, the project is considered successful and can be realised. The initiative promotes cultural entrepreneurship as an alternative source of funding to public subsidies, but is supported on a governmental level by the ministry's support scheme for private investment, "Innovative Cultural Expressions".

4.3. Poland

4.3.1. Cultural policy context

In Poland, cultural administration bodies are located on four main levels: at the central (state) level and at local (provincial, district and municipal/communal) levels. The main entity that sets the cultural policy objectives is the central state administration, the Ministry of Culture and National Heritage (Ministerstwo Kultury i Dziedzictwa Narodowego-MKIDN). The ministry is responsible for the legal, financial and programme framework for cultural development in Poland. There is an orientation towards the decentralisation of management and financing of culture - evident from *The National Strategy for the Development of Culture (NSRK)* for 2004-2007 and *National Culture Development Strategy for 2004-2013*. The main cultural policy objectives reflect the major aims of the Council of Europe policy dealing with "decentralisation and democratisation of the decision making process, observing the principle of the decision making, compliance with the rules of diversity and subsidiary and departing from the idea of placing culture on the periphery of public administration" (Council of Europe/ERICarts, 2010, p.15).

The interest in restructuring the cultural sector exists in public, professional bodies and among artists. Several reports detailing this interest were published during the last decade, but the changes still have not occurred. The institutional changes are occurring gradually; there is a shift from the state monopoly over cultural institutions towards the diversification of ownership and the creation of the third sector. Nevertheless, the sphere of culture in Poland is still dominated by public institutions. Thus, the development of culture still depends on allocations from the central (state) and the local (provincial, district and municipal/communal) governments. The data on expenditure on culture from Central Statistical Office show that, in the year 2009, the state budget expenditure constituted 20%, whereas local governments' expenditures were 80%. Local governments' expenditures grew faster (increase of 142% in 2009 from 2003) than did the state budget expenditure (increase of 77% in 2009 from 2003) (Centre for Cultural Statistics, 2010, p.35). The allocations are mainly oriented towards the operational costs of institutions rather than to cultural programmes, thus other means of investment are needed to support programming activities. The Culture Congress in Krakow in 2009 provided an opportunity for a review of the present situation and a debate regarding further development, but solutions are still to be negotiated.

4.3.2. Government role as facilitator in private giving

Private investment in culture in Poland is a relatively new concept. It has been addressed in the National Strategy for Cultural Development 2004-2013, but has not been elaborated upon fully. It is connected to the need for overall restructuring of the cultural sector in Poland. The public authorities are still very influential regarding public services provision in the field of culture at both national and local levels. Other sources, such as grants from public bodies or private sponsorship and donations, are seen as complementary sources rather than substitutes for core public funding (Council of Europe/ERICarts, 2010, p.41).

The Fund to Support Artistic Activity was created according to the regulation by Act on Copyrights and Related Rights (1994), by which producers or publishers of literary, musical, artistic, photographic and cartographic works (who by law are not required to pay authors' rights' fees because copyright has expired, according to the so-called 'dead hand' funds), are required to pay 5% from gross sales income to the Fund to Support Artistic Activity.

Since 2005, with the introduction of the Cinematography Act and the establishment of the Polish Film Institute, Polish film is supported through grants for film production. According to the Cinematography Act, support can be provided for up to 50% of the film budget, or up to 90% in the case of art films (Council of Europe/ERICarts, 2010, p.38).

4.3.3. Private giving

4.3.3.1. Relations with the corporate sector

Sponsorship as a practice is rather new in Poland; culture was previously supported through the long tradition of patronage. Commitment to Europe - Arts and Business was established in 2003 as a private foundation dedicated to promoting cooperation and active mutual support between the business and art worlds²⁹. Its main activities are oriented towards information and training (e.g. organising forums, conferences and workshops, and publishing reports), raising awareness and increasing knowledge in the field, the initiation, co-organisation and implementation of projects related to the sponsorship of art and culture and increasing knowledge about business responsibility for culture and education.

Presently, there are several campaigns running regarding the importance of culture³⁰ for overall social and economic development. The yearly award "Benefactor of Polish Culture" was introduced to raise awareness and further encourage private investment for culture in Poland. This award is given by the Ministry of Culture and National Heritage to individuals and institutions that have financially supported cultural life in Poland. A special jury decides the recipient of the awards in three categories: *Sponsor*, *Donor* and *Media Curator*.

The latest data on sponsoring of culture in Poland (Kukułowicz, 2011) shows that, in 2009, only 14% of cultural institutions could not find sponsors despite their attempts to do so. The percentage of budget from private sources in the total budget of cultural institutions is still rather low: for 27% of cultural institutions, it is 0-1% of the total budget; for 21% of cultural institutions, it is 2-5%; for 18% of the cultural institutions it is 6-10% of the total budget; for 14% of cultural institutions, it is 11-25%; for 10% of cultural institutions, it is 26-50%; for 7% of cultural institutions, it is 51-75%; and for 3% of cultural institutions, it is 76-100% of the total budget. Of companies that sponsored at least once in the period 2006-2010, 40% dedicated their funds to sponsoring culture. Most of them were inclined to sponsor performing arts, projects in cultural animation/events and national heritage institutions. Private firms sponsor culture primarily to strengthen the image and prestige of their companies, as well as to reap the benefits of marketing (Kukułowicz, 2011).

The data from Commitment to Europe (2010a) show there has been a change in corporate support to culture in the period from 2006 to 2008; in 2006, the orientation was more toward sponsorship, while in 2008, focus had switched towards Corporate Cultural Responsibility (CCR) even Corporate Social Responsibility (CSR). However, most of the companies in Poland have still not developed strategies for CSR (Commitment to Europe, 2010b).

4.3.3.2. Grant giving bodies and philanthropic giving

The development of **foundations** in Poland is based on a broad legal framework that offers tax deductions to foundations and associations with Public Benefit Organisation (PBO) status, and tax benefits for both individual and corporate donors. PBOs are exempt from paying corporate tax on income devoted to their statutory goals. This exemption occurred with the introduction of the Law on Public Benefit Activity and Volunteerism (PBA) that was enacted in 2003 and amended in 2010. In order to qualify for PBO status, non-governmental organisations, such as foundations or associations (and also commercial companies and sports club that are not NGOs under the act's definition) must satisfy a

²⁹ Another initiative is an informal group 'Culture and Business' created by the Polish Confederation of Private Employers Lewiatan, engaged, among others, in elaborating sponsorship incentives.

³⁰ E.g. *Kultura sie liczy!*; "Kreatywni samozatrudnieni".

number of requirements specified in the PBA. To qualify, organisations must be active in one of the 33 areas listed in the Act (USIG, 2010), which, among others, include the promotion of culture and learning according to PBA Article 4(1).

The strongest foundations for grant giving in Poland are Culture Foundation, Leopold Kronenberg Banking Foundation and Stefan Batory Foundation that distribute funds according to their internal statutes.

Since 2004, Polish NGOs that have obtained a special public benefit status are entitled to receive up to **1% of an individual's income tax**. Taxpayers can choose from listed organisations of public benefit and transfer part of their taxes to these NGOs (Ilczuk, Kulikowska and Stępniewska, 2006, p.2).

The introduction of the Gambling Act in 2002 introduced the possibility of assigning funds from the **lottery** to culture; the share of funding from lottery tickets between sports and culture is now 80:20. Article 47 of the Gambling Act prescribes that these funds be transferred to the Fund for the Promotion of Culture. This Fund is managed by the Ministry of Culture and National Heritage on a yearly basis for the promotion of the activities prescribed by the terms of the Fund. The special funds to support culture from the Gambling Act were estimated by the Budgetary Act of 2004 at PLN 120 million (approx. EUR 29 million). This figure was based on calculations from the National Lottery (Council of Europe/ERICarts, 2011j, p.46).

4.3.3.3. Private giving through tax incentives

The existing legal framework for encouraging private investment in culture in Poland is based on the following incentives:

Tax reductions or deductions for cultural goods and services: The Act on Goods and Services Tax (2004 with later amendments); the Law on Museums (1996 with later amendments).

Tax exemptions for cultural organisations: The Law on Public Benefit Activity and Volunteerism of 2003 (amendments in 2010), the Law on Goods and Services Tax (2004) and other taxation acts that make it possible for NGOs with public benefit status to be exempted from income tax, immovable property tax, stamp duty, court fees, VAT tax and several other taxes. NGOs conducting business activities are exempted from income tax on judicial persons.

Tax exemptions for artists: The Law on Income Tax (1991 with amendments in 2003), which stipulates that artists and creative workers are allowed to deduct 50% of their income from their creative work as expenses for income tax purposes.

Incentives for sponsorship are elaborated upon through the Law on Broadcasting (1992, 2004) and the Law on Radio and Television, and are restricted by the Law on the Health Protection (1996).

Incentives for philanthropic investment: The Law on Income Tax on Individuals and Judicial Persons allows individuals to deduct 1% of their income tax as donation for a chosen Public Benefit Organisation (PBO). Individuals are also allowed to deduct donations up to 6% of income. Law on Income Tax (1993, amendments 2003) allows deductions up to 10% of income on donations made by legal entities (e.g. organisations, foundations) for "public good purposes". The possibility of this 1% of income tax deduction applies to all organisations with Public Benefit status. Charity organisations receive most of those deductions, while cultural organisations are lower on the priority lists of taxpayers, according to available data on the review of the '1% incentive' from the Ministry of Finance prepared for the Culture Congress in 2009.

Gambling Act in 2002 opened the possibility of assigning funds from the lottery to culture. Article 47 of the Act prescribes that these funds be transferred to the Fund for the Promotion of Culture.

The **Fund to Support Artistic Activity** was created according to regulations of the Act on Copyrights and Related Rights (1994), by which producers or publishers of literary, musical, artistic, photographic and cartographic works, who by law are not required to pay authors' rights' fees because copyright has expired, are required to pay 5% from gross sales income to the Fund.

Encouraging private investment in culture is still in its early stages in Poland and needs a well-elaborated strategic approach for further development.

4.4. Slovenia

4.4.1. Cultural policy context

The main elements of the current Slovenian cultural policy model are encompassed in the *Act on Enforcing Public Interest in the Field of Culture* (2002). This act defines public interest in culture (e.g. cultural creativity, accessibility of cultural assets, cultural diversity, Slovene cultural identity and a common Slovene cultural area), the bodies responsible for it (e.g. public authorities on state and local levels and public funds/agencies) and the mechanisms for its implementation (e.g. national and local programmes for culture, public calls for funding, founding acts of public institutions).

Public authorities take on a central role in the area of culture in Slovenia and they use intensive regulation as a method of managing cultural affairs. However, the monitoring of cultural development issues in Slovenia is still rather weak. The Slovenian cultural sector is characterised by strong institutionalisation—almost all important cultural organisations are public institutions. These organisations do not form part of the state or local administration, but are separate legal entities operating under administrative law and are therefore characterised by a high level of bureaucracy³¹.

Culture in Slovenia is co-financed by the state and local communities. On the state level, the Ministry of Culture is responsible for the distribution of the majority of public funds for culture (ca. 90%), and delegates the remaining 10% to three national public funds or agencies³². Public cultural expenditure in 2007 amounted to approximately EUR 272 million and corresponded to 0.81% of the GDP. The state's share in public cultural expenditure was 61% in 2007, with the local level providing the remaining 39%. Even though public funds for culture are diminishing in most European countries due to the current financial crisis, the information from the Slovenian Ministry of Culture shows that the national cultural budget has increased in absolute terms, amounting to EUR 204 million in 2009, EUR 209 million in 2010 and EUR 215 million in 2011. In 2011, a budget cut was announced in the amount of EUR 38 million as part of a series of measures to lower the spending in the public sector. The cut will mean a significant lowering of funds for cultural programmes both in the public as well as in the NGO sector, but will not affect salaries of employees in the public sector. If implemented, this cut will present a serious danger for cultural organisations and culture as sector in general.

The contemporary Slovenian cultural scene is strongly influenced by activities of non-governmental organisations in the fields of culture and the arts. A large part of public funds for cultural organisations is allocated to public institutions, and only a small percentage is allocated to NGOs. There is an initiative being led by the Slovenian government to modernise the cultural public sector. Whether or not this initiative will have some consequences for the non-governmental sector is hard to say at present.

³¹ The system is a centralised system of public servants with rigid fixed salaries, a regulated hierarchical system and permanent employment.

³² E.g. The Public Fund for Cultural Activities (focused on amateur art activities), Slovenian Film Centre and National Book Agency. Various programmes and projects are supported by national funds, including those of public cultural institutions (national and municipal), programmes and projects of minority groups, as well as subsidies and grants for artists, professional societies, cultural festivals, investments in information technology, sites and monuments, scholarships, covering at minimum social security contributions for freelance artists, retirement benefits for cultural workers.

4.4.2. Government role as facilitator in private giving

A great deal has been done in the last decade on raising the amount of private income for public cultural institutions. However, private sources of income represent a small part of the budgets of Slovenian cultural organisations. In 2007, public institutions' share of income originating from private sources amounted to 24.9% of their total budget. In the past few years, the trend has been reversed, and private income shares have decreased from 2007 to 2009. This decrease can be attributed to effects of the economic crisis, as well as the overall presence of competing organisations (e.g. sports venues). In the case of state cultural institutions, data for the years 2007-2009 show that earnings from organisations' own sources have decreased from 24.9% to 17.2%, while the shares of sponsorships and donations to the same institutions have decreased from 1.51% to 1.39% of their total budgets. Earnings of local public institutions have decreased from 14.7% to 13.3% of their total budgets.

In recent years it has become common for NGOs and other cultural organisations to be required to provide up to 50% of the total budget of the project in the form of their own contributions or other private funds when applying to tenders for public money. In some cases, especially in the EU projects, it is required that the respective public authorities verify the amount of private funds that have been raised and thus verify the correctness of their financial calculations in their applications. In Slovenia, the Ministry of Culture and other respective authorities very seldom verify if private funds have been raised as planned in the application budget.

Despite the existing cultural policy objectives towards more private capital in culture, there exist few concrete measures to implement this policy direction. There are various tax incentives in Slovene legislation that should stimulate private investments in culture, but such incentives are rather poorly exercised. Presently, there are few structural changes leading to more involvement of the private sector in culture in Slovenia, and there are no particular measures aimed at diversifying sources of funding in the cultural sector.

4.4.3. Private giving

4.4.3.1. Relations with the corporate sector

In Slovenia there exists no arts and business forum to facilitate relations between the cultural sector and the business sector. There have been proposals to create such a body, but no action has taken place. There are numerous problems related to encouraging private investments in culture in Slovenia. Culture is still not considered a profitable business, and entrepreneurs are not investing their money in this sector because they believe that culture offers poor return on investment, as compared to other sectors. Furthermore, the distinction between sponsorship and patronage is still not well developed. The available market for culture in Slovenia is rather small. There are no funds earmarked for the development of communication and marketing plans of cultural organisations. There is also not enough awareness of management, entrepreneurship and marketing features of cultural management work, nor is there an adequate educational programme for cultural management in Slovenia. The current tax incentives for investments and donations in culture are not adequately used or designed.

Concerning donations from companies and entrepreneurs, there are problems in implementing different provisions due to administrative obstacles. Different kinds of documents are required to prove that it qualifies as a donation and that the receiving organisation is an eligible recipient. Donations in kind and in cash are treated differently for tax purposes. Faced with cash-flow problems, companies will be more inclined towards

giving donations in kind. However, then they must contend with different treatment of donated goods and services for company income tax, and a special treatment under the VAT Act. Even if a company or an entrepreneur is convinced that all paperwork has been done properly, there is still a possibility that the tax officer may decide that the donation is not eligible. Many companies and entrepreneurs, recognising how small the tax savings resulting from donations would be, are unwilling to risk having the tax allowance denied by tax authorities after all of their efforts.

4.4.3.2. Grant giving bodies and philanthropic giving

Foundations and trusts in Slovenia are very few in number³³. A few private or NGO foundations or trusts exist in Slovenia: Gallus Foundation, Foundation of Father Stanislav Škrabec, Foundation Imago Sloveniae and Foundation Paths of Slovenian Cultural Heritage. Public authorities should consider implementing measures to improve the business environment for culture, thus providing a better environment especially for private and NGO foundations to emerge. Consistent state policy objectives and implementation are crucial to solving this issue.

In Slovenia, since 2007, the law on “percentage legislation” provides citizens with opportunities to allocate 0.5% of their taxes to certain organisations that work in the public interest (e.g. organisations that perform activities of humanitarian, charitable, scientific, educational, medical, sporting, cultural, ecological, or religious natures), as well as to political parties and trade unions. There are two main problems with this incentive: low awareness — individuals are informed about this opportunity on their tax return forms, but there are no public campaigns to raise awareness about this legislation, nor do NGOs try to encourage individuals to designate a part of their income tax to their organisations— and low amounts of donations — individuals are often reluctant to go through the additional paperwork in order to donate such a small amount of money, or they claim that there is no need to reveal their preferences to the authorities.

4.4.3.3. Private giving through tax incentives

The most important documents adopted by the Parliament that define the scope of culture, as well as goods and activities considered to be of a cultural nature, are Exercising of the Public Interest in Culture Act (ZUJIK) and National Programme for Culture (adopted for three-years' periods).³⁴ The incentives applicable in the field of culture, encompassed also in fiscal policy, usually adopt the definitions as laid down in these main documents.

Slovenian tax legislation provides several kinds of tax incentives:

VAT reductions for buying cultural goods - In the Slovenian VAT legislation, cultural goods and services (e.g. books, property rights of authors) are taxed at a reduced rate, which is currently 8.5%. This reduced rate also applies to transactions under the special scheme for second-hand goods, works of art, collectors' items and antiques. Activities in the public interest, as determined in the VAT Directive, are exempt from VAT (e.g. services that non-profit organisations provide to their members in return for subscriptions, certain cultural services, transfer of “old” buildings). The remaining transactions are taxed at the standard rate of 20%.

³³ There are two state funds, which are being led by public arm's length bodies: the Public Fund for Cultural Activities (focused on amateur art activities) and National Film Fund. In 2008 also a National Book Agency has been formed, which is also operated in arm's length manner.

³⁴ Current National Programme for Culture 2008–2011 (ReNPK0811) as well as Exercising of the Public Interest in Culture Act (ZUJIK) and other relevant acts, e.g. Cultural Heritage Protection Act (CHPA), Librarianship Act (ZKnj-1), Protection of Documents and Archives and Archival Institutions Act (PDAAIA) are available on: http://www.mk.gov.si/en/legislation_and_documents/ [Accessed 5 April 2011].

Sponsorship of cultural institutions, organisations or events is treated in the same way as other expenses for advertising, therefore such expenses are fully deductible. Any other kind of patronage, such as scholarships or grants, is deductible only if it is directly linked with business activities that are sources of taxable income or consequences of such activities.

Inheritance and Gift Tax applies to beneficiaries, individuals or private legal entities (e.g. foundations and associations). This tax is levied on inherited property or gifts at net market value (i.e. after deduction of debts and other liabilities). Progressive tax rates apply, depending on the value and the relationship with the testametary in the case of inheritance, and with the donor in the case of gifts. Private legal entities that have been established for religious, humanitarian, educational, cultural, charitable and certain other activities are exempt. Moveable property up to a value of EUR 5 000 is also exempt from taxation.

Tax on Transfer of Immovable Property applies to all payable transfers of immovable property that are not subject to VAT. It is levied on the market value of property at a tax rate of 2%. This tax is not charged on the transfer of property that possesses the status of cultural monument, is open to public or is dedicated to be used for cultural activities on the basis of the contract between the owner and the Ministry of Culture.

Percentage legislation for individuals - Residents of Slovenia who are liable for income tax on an annual basis can assign 0.5% of income tax levied to certain public interest organisations that are involved in activities of protection from natural and other disasters, humanitarian, charitable, scientific, educational, medical, sporting, cultural, ecological, religious and similar activities, and to political parties and trade unions. The minimal percentage to be assigned is 0.1%, so taxpayers can choose up to five recipients. The list of organisations and associations entitled to receive such donations is published each year.

Tax deduction for a gift in cash or in kind to cultural purposes - For donors who are running a business and are residents of Slovenia, EU Member States or the EEA (excluding Liechtenstein), the taxable base may be reduced for amounts paid in cash and in kind to a number of charitable purposes, including culture, up to an amount equivalent to 0.3% of the taxable revenue in the current tax period. The cumulative amount of relief granted may not exceed the amount of the taxable base. An additional reduction of 0.2% of the taxable revenue can be claimed for amounts paid in cash and in kind exclusively for cultural purposes and voluntary societies for the protection from natural and other disasters. Such purposes must be recognised to be in the public interest and in the interest of residents of Slovenia or residents of the EU or the EEA (excluding Liechtenstein). If the amount of donations given exclusively for cultural purposes and for the protection from natural and other disasters (i.e. 0.3% and/or an additional 0.2%, respectively) exceeds the taxable base in the current year, the residual amount can be carried forward for the next three tax years.

4.5. United Kingdom

4.5.1. Cultural policy context

The UK cultural sector is usually regarded as the archetypal "arm's-length" model, as governmental funds for culture are administered by non-departmental public bodies that distribute money to the final beneficiaries. The UK currently has four separate Development Agencies: the Arts Council England (ACE), the Arts Council of Wales, Creative Scotland and the Arts Council of Northern Ireland. In addition to distributing funds to art organisations and artists, these agencies promote various schemes to support the arts and research in the field that may inform future decisions and develop good practices for the sustainability of the sector.

The UK economy has been affected negatively by the recent economic crisis. This has forced the national government to implement considerable cuts in its budget in years to come. The public sector budget for the arts (both at the national and regional levels) has consequently been reduced quite significantly. Art organisations are now expected to become more financially independent through organisational savings, internal restructuring, increased earned income and improved fundraising strategies.

4.5.2. Government role as facilitator in private giving

The budget for culture in the UK has been considerably reduced as part of the Government's strategy to reduce public debt. The recovery strategy adopted by the Government is based not only on cuts to state expenditure, but also on the idea of the 'Big Society'. The government's goal is to give people more control over their lives, thus making them less reliant upon the state. In particular, people are expected to be more socially proactive and to give what they can (e.g. time, money, assets, knowledge and skills) to support good causes and improve the quality of life for all. The government is therefore actively engaged in promoting a culture shift, making the UK a more 'giving' society. To achieve this shift, giving should be made as easy and attractive as possible. This strategy involves devising new and better ways of giving, as well as a new communication strategy that makes individuals aware of all the opportunities for giving and celebrating publicly people's contributions, thus increasing their visibility.³⁵ As far as the arts and culture sector is concerned, this shift means that more must be done to attract private investments. There are already a series of tax incentives and matching funds in place in the UK, and the four National Development Agencies are actively involved in supporting art organisations to develop skills necessary to meet this challenge. In particular, the Arts Council England states that it is vital that the Council works with partners to strengthen the mixed economy of the arts. It intends to ensure that public investment works hard to harness even greater investment from the private sector.

4.5.3. Private giving

In UK, the so-called 'golden standard' for the sector is considered a 'tripod economy,' whereby each source of income (i.e. public, private, earned) accounts for a third of the total income. In reality, only earned income accounts for a third (32%), whereas public funding³⁶ accounts for an average of 53% of arts organisations' incomes and private investment represents the remaining 15% (Mermiri, 2010a). Due to the recent cuts in arts budgets both at the national and local government levels, the arts and culture sector as a whole is faced with the necessity of finding alternative forms of income to replace public subsidy.

The high level of public subsidy to the arts and culture sector over the past decade has allowed the sector to flourish and secure high quality outputs, an increased number of visitors and consequently an increased earned income. In turn, this growth has attracted more private investments from businesses and donors eager to capitalise in an already successful sector. They are willing to complement government funding but not to substitute it completely. Nonetheless, Arts & Business (A&B) data³⁷ (Mermiri, 2010, 2010a, 2011) show that the business sector is not strongly committed to donating to the arts, as their philanthropic behaviour can be influenced by external factors such as the current economic climate or even overall business performance.

³⁵ The Government's agenda for the 'Big Society' is set out in a consultation green paper entitled 'Giving'. The document is available at <http://www.cabinetoffice.gov.uk/resource-library/giving-green-paper> [Accessed 12 March 2011].

³⁶ Direct public funding for the arts and creative industries sector in England comes for the Department for Culture, Media and Sport. Following a reduction in its budget the department will have by 2014/2015 GBP 1.1 billion compared with GBP 1.6 billion in 2010/11.

³⁷ Please see complete case study in the Annex 2 for the concrete data presented.

4.5.3.1. Relations with the corporate sector

Public-private partnerships (PPPs) refer to collaborations between organisations representing public interests and the corporate sector, which pursues private interests and profit. The main problem regarding public-private partnerships is how to achieve the correct balance between public and private interests while avoiding situations in which art organisations renounce their artistic freedom, serving for example the business objectives of their corporate sponsors. Although the UK has a strong tradition of private involvement in supporting the arts, this does not go unquestioned especially with regard to the corporate sector.

The UK Government supports public-private partnerships indirectly by providing subsidy to a brokerage type of organisation, Arts & Business (A&B), an organisation devoted to promote mutually beneficial collaboration between the arts and corporate sectors. A&B acts as a fundraising consultancy that helps to match the requirements of art organisations and businesses and promotes training and research.

There is a positive correlation between public subsidy and private investment. **Matching funds** are therefore being explored as a possible way to ensure that public investment works hard to harness greater investment from the private sector. ACE is looking into new ways to encourage private sector involvement, by developing a challenge fund to incentivise donors and building the fundraising capacity of arts organisations. In particular, the ACE is currently in discussion with the Culture Secretary regarding the implementation of a matching fund that would offer public funds to complement private support. The scheme recognises the fact that there is usually a correlation between the organisation's size and its experience and ability to raise funds. The proposal is for a three-tier scheme. Tier 1 aimed at smaller organisations will offer GBP 1 from the public fund for every GBP 1 raised in private money, tier 2 will offer GBP 1 for every GBP 2 raised and tier 3 GBP 1 for every GBP 3 raised.³⁸

Examples of business-arts partnership support and matching funds:

- A&B promotes the *Board Bank*, a matching service helping business people to join the board of art organisations.
- A&B Wales offers a service called '*skills bank*' where business managers undertake a short-term part-time placement in an art organisation mentoring an individual arts manager in specific areas such as marketing and IT.
- A&B Northern Ireland has an investment programme called *Reach*. A&B contributes GBP 1 for every GBP 2 leveraged from business financing projects that benefit significantly both the art and business organisations.
- The Scottish Government funds *New Arts Sponsorships Grants*, a programme administered by A&B Scotland and Creative Scotland. The arts organisations receiving an eligible business sponsorship, in kind or cash, receive GBP 1 of public funding for every GBP 1 of sponsorship.³⁹

The arts and the business sectors also collaborate via '**corporate membership**'. In exchange for an annual fee, art organisations offer their corporate supporters a series of benefits such as corporate hospitality, a dedicated booking hotline, backstage tours in case of a theatre company, the opportunity to meet artists, curators etc. Compared to

³⁸ <http://press.artscouncil.org.uk/content/Detail.aspx?ReleaseID=1181&NewsAreaID=2> [Accessed 23 February 2011].

³⁹ Information on all the schemes just described is available at <http://artsandbusiness.org.uk> [Accessed 16 March 2011].

sponsorships, businesses perceive corporate memberships as a cheaper entry point, a way to maintain the relationship with the arts while reaping still considerable benefits.

Sponsorships are understood as payment in exchange for something, usually publicity. To benefit from tax relief, sponsorships must be given to a registered charity, as many arts organisations are. Sponsorships are usually short-term deals associated with specific projects. Therefore, they do not provide art organisations with the opportunity to make long-term plans to build their future sustainability (Shaw, 1993). Arts & Business data show that corporate support tends to decrease during economic downturns, as supporting the arts is not a core activity for profit-oriented companies (Mermiri, 2011).

A&B data on type of business investment, their shares and trends are presented in the table below.

Table 2: Type of business investments: shares and trends

	2008/2009	2009/2010	% change
Cash sponsorship	59.1%	54.9%	-18
In – kind sponsorship	13.1%	16.1%	+8
Corporate membership	12.7%	14.8%	+2
Corporate donations (philanthropy)	15.1%	14.2%	-17
Total Business Investment	100%	100%	-11

Source: Mermiri, Tina. *Private Investment in Culture 2009/2010 – What next for the arts?*, (2011, p.14).

4.5.3.2. Grant giving bodies and philanthropic giving

Trust and foundations - A charitable trust is a type of trust set up for a cause or purpose that will benefit a large group of people or society in general. Such a trust is considered to be for the benefit of the public and so qualifies for tax relief.⁴⁰ Charities Aid Foundation in the Charity Trends 2006 estimates (CAF, 2006) that the total number of grant-making trusts and foundations in the UK is 8 800. CAF also analyses the funding preferences of the top 500 grant-giving charities, and it appears that only 4% (GBP 230 million) of available funds went to art and culture in 2004. The art forms that received the most funding from trusts and foundations in 2009-2010 were museums, visual arts and theatre organisations, as was the case for the year before (Mermiri, 2011).

National Lottery - For every GBP 1 spent on Lottery tickets, 28 pence goes to the Lottery's good causes. These are the arts, charities and voluntary groups, heritage, health, education, environment and sports. The money is allocated to funders who then redistribute said funds for specific projects. Currently, sport, arts and heritage each receive 16.66% of the amount designated for good causes, and the Big Lottery Fund, specifically aimed at the voluntary and community sector, receives the remaining 50%. The total number of lottery grants awarded in 2010 was 20 913 totalling over GBP 643 million⁴¹. A total of over GBP 125 million was awarded to the arts sector, corresponding to 4 474 grants, while the heritage sector received over GBP 94 million for 980 projects. The UK Government is committed to increasing the shares of the National Lottery Distribution Fund to 20% for each of the good causes of sport, heritage and the arts as a way of compensation for some of the cuts to the arts sector budgets.⁴²

⁴⁰ See <http://www.hmrc.gov.uk/trusts/intro/basics.htm> [Accessed 7 March 2011].

⁴¹ <http://www.lottery.culture.gov.uk/BreakdownByYear.aspx?Year=2010> [Accessed 9 March 2011].

⁴² The decision was taken following a public consultation. For further information: http://www.culture.gov.uk/what_we_do/national_lottery/3397.aspx [Accessed 20 March 2011].

Another emerging form of private investment in the culture sector is **venture philanthropy** (VP) which applies venture capital investment principles, such as long-term investment and capacity-building support, to the voluntary and community sector. It is a form of 'engaged' philanthropy. A recent report on UK venture philanthropy reveals it is worth more than GBP 1.5 billion and provides more than GBP 50 million in support for non-profits. Investing in charitable funds has become particularly popular within the finance sector. Half of the trustees in UK VP organisations come from this sector, and 29% come from the private equity industry. Many of these trustees are wealthy—the report identifies more than GBP 5.2 billion in personal wealth among said individuals (Chapman, 2011). An example of a UK grant-maker that has adopted a venture philanthropy approach to funding for the arts, education, health and medicines and social welfare and development is the Rayne Foundation. Rayne Ventures identifies a 'need,' and then in collaboration with other programme partners selects an organisation with the potential to meet that need, and works with it to build its capacity⁴³.

4.5.3.3. Private giving through tax incentives

The State supports the cultural sector also indirectly, i.e. through favourable tax legislation. Tax incentives are meant to be advantageous both for the donors and for the organisation receiving donations. However, in order to benefit from this favourable regime, art organisations need to be registered as charities.

These are the main schemes for tax relief:

The **Gift Aid scheme** allows registered charities to reclaim a 20% basic tax rate on donations in cash received by individuals who pay UK tax. Donations are regarded as having basic tax rate deducted by the donor. For example, if a person makes a GBP 10 donation, this is worth GBP 12.50. In fact, the state assumes this 20% income tax has already been paid by the employer or will be paid via tax return for self-employed people. Hence, the charity can claim back the 20% basic tax rate from HM Revenue and Customs. Donors paying a higher rate than 20% are also able to claim the difference between the lower tax rate that the charity is claiming and the higher rate of tax actually paid.

Payroll Giving⁴⁴ is a flexible scheme allowing anyone who pays UK income tax to give regularly and on a tax-free basis to the charities and good causes of their choice. *Payroll Giving* donations are deducted before tax so each GBP 1 donation costs the employee just 80p, or 60p if the donor is a higher rate taxpayer.

People can also choose to **donate shares, land and buildings** to a charity or to sell them to a charity at a price lower than their market value. The advantage of this scheme is that neither the donor nor the arts charity receiving the assets is liable for any Capital Gains Tax and, furthermore, the donor can claim income tax relief. Businesses are also encouraged to donate money, land, building and shares. Donations of money should be paid in gross and are then deductible from the total profits of businesses when calculating Corporation Tax. Tax relief is also available for gifts of equipment or trading stock.

UK businesses have the **opportunity to second employees to a charity**. The cost of transferring the employee can be treated as a business expense in the accounts. If the business carries on paying that employee, such cost can be set against taxable profits as if the employee were still working for the company.

The **acceptance in lieu** scheme allows people to offer items of specific cultural and historical importance to the State in full or part payment of their inheritance tax, capital transfer tax or estate duty. Cultural objects are in this way acquired for public ownership and distributed to museums, galleries, etc. in the UK. During 2009-2010 the Museum, Libraries and Archives Council (MLA), responsible for administering the scheme on behalf of the government, dealt with a total of 33 cases for a value of GBP 15.7 million, resulting in a tax settlement of GBP 10.8 million (Museum, Libraries and Archives Council, 2010).

The MLA also deals with **private treaty sales**. These are agreements for the purchase by a public museum or gallery of an item which has been granted Conditional Exemption from Inheritance Tax, at a price which is beneficial to both public purchaser and private vendor.

⁴³ A more detailed description of the Rayne Foundation has been presented in chapter 3.14 of this study.

⁴⁴ Sometimes this scheme is also called 'give as you earn'. For further information visit www.payrollgiving.co.uk [Accessed 7 March 2011].

Tax incentives have been in place for quite a while now, however they have not been fully utilised mainly due to the fact that the arts and culture sector has traditionally relied on public subsidy and therefore less effort has been made to encourage private investment. The survey "Private Investment in Culture 2008/2009", carried out by Arts & Business, found that 87% of the organisations with annual incomes of more than GBP 100 000 claimed Gift Aid on donations, but only 12% with incomes under that level did so. The reason behind this discrepancy might be that smaller organisations are not aware that they are entitled to this claim or may not have the staff and time to deal effectively with the complex record-keeping involved (Mermiri, 2010).

4.5.4. Examples of good practices

The Pennies Foundation (www.pennies.org.uk) - When making a payment by card, in a shop or online, the customer is asked if he or she wants to 'round up to the pound', thus donating small amounts every time the card is used. For example if a product costs GBP 7.99, the customer is asked if he or she wants to pay GBP 8, and 1 pence is allocated to the Pennies Foundation, which will use it to fund other good causes. The amount donated is very small but the success of the fund-raising activity is based on the fact that many people donate and often. Furthermore, it has a minimal impact on what people perceive as the cost of the product/service they are buying. Such an idea could be easily transferred to arts organisations. The price of tickets could be rounded up and the money raised would go to a 'development fund' for capital investments, educational activities, new projects, etc.

The Big Arts Give (www.thebiggive.org.uk) In May 2010 Arts & Business launched a pilot challenge fund for the arts, the Big Arts Give, with an initial fund of GBP 500 000. The project was the result of a partnership with the UK philanthropist Alec Reed and his Big Give website. People were invited to donate to certain previously selected projects while the Big Give Sponsors committed to double the amount donated by private individuals at the end of the fund-raising campaign.⁴⁵

The Art Fund for Tate (www.artfund.org) - The Art Fund is a membership charity that raises money to secure artworks for Britain's public collections. In 2007 Tate needed to raise GBP 4.95 million to save Turner's watercolour "The Blue Rigi" from being sold and exported abroad. With help of the Art Fund, the campaign 'buy a brushstroke' was launched and members of the public were invited to buy brushstrokes online for GBP 5 each. A major grant came also from the National Heritage Memorial Fund (NHMF). More than 11 000 people helped to raise GBP 552 000, thus demonstrating a shared conviction that this masterpiece should not have been lost to an overseas collector. The amount raised included over GBP 73 000 from people 'buying brushstrokes' on this website.

Gallery V22 www.v22collection.com This is a collective art collection, structured as a traded, public limited company in which artists and investor-patrons own shares, and the company is in fact listed on the stock market. The collection is developed according to the recommendations of experts and its core of artist-owners base. This organisation is particularly interesting as it brings together artists and finance and business experts. The founders believe that this innovative model provides a new structure for the ownership of art.

Sponsume www.sponsume.com Sponsume is the first crowd-funding platform for artistic and entrepreneurial projects in the UK. The website welcomes a wide range of projects including documentary, software, dance exhibitions etc. The artist/creator is invited to pitch his or her project to persuade the crowd to finance it. Crowd-funding differs from donating, as the backers always get in-kind benefits. Usually there are different benefits according to the amount of money paid. Benefits can include, in the case of a film, a special mention in the film credits, an invitation for the premiere screening, or a copy of a music album if the project is about a music festival. The supporters also get regular updates on the progress of the project. If a certain project does not reach its funding target, it will not be implemented and the money will be returned to the backers. Other websites offering crowd-funding for arts projects are: wedidthis.org.uk and www.wefund.co.uk. Crowd-funding has the advantage of supporting artistic production while building an audience for it. It also relies on modern technologies and social media so that projects can be promoted easily and with limited costs. The potential for growth in crowd-funding is also confirmed by a Charities Aid Foundation report *Charity Internet Supporters Survey*. It found that there is a distinct group of e-donors: they are young (25-34 years old), lower to middle income earners (GBP 10 000 – GBP 30 000 pa), equally likely to be male or female and heavy Internet users (CAF, 2006a).

⁴⁵ For further information visit http://www.artsandbusiness.org.uk/Central/philanthropy/the_big_arts_give.aspx [Accessed 20 March 2011].

5. EUROPE VS. US: A COMPARATIVE OVERVIEW OF THE INCENTIVES FOR PRIVATE INVESTMENT IN CULTURE

KEY FINDINGS

- A comparison of EU and US trends in private investment in culture shows major differences in policy orientation and consequent outcomes. The systems are different both in their structures as well as in amounts of private giving. Some differences are related to political and legal environments, some stem from the availability of resources committed to fundraising and existence of a culture of asking, and some lie with the culture and tradition of giving and extending wealth.
- Since the 1990s, major shifts in policy development, both in Europe and the US have occurred. While European countries have introduced fiscal legislation that supports and promotes private investment in culture, in the US, public bodies substantially reduced public support to culture, thus leaving it in the hands of market forces.
- The distinction of culture as a public good and culture as a market commodity is the crucial differentiation when comparing levels of support for the cultural sector in the European countries and the US. The main challenge for Europe remains to maintain its achievements in terms of supporting arts and culture as a public good, while encouraging mechanisms for private funding which are more stimulating, broad and versatile.
- Most of the differences between the US and the EU are evident in fiscal policy provisions, where the US employs more tax measures targeted at involving private sector giving to culture. In the US, the existing instruments and measures are more developed both in the extent of their use and in their complexity (the original measures have been further developed in the US and new derivations have come to exist). Such measures include, by functional description: the diversity of forms of private giving, higher percentage of individual giving in the total private funding of culture, the charitable gift mechanisms created out of tax framework, the higher tax relief limit of individual giving, the eligibility criteria for tax relief.
- In the US, business support of arts and culture has shifted from charitable giving to a more marketing-based and sponsorship-oriented strategy.
- The differences in the levels of individual giving in the US and Europe generally relate to federal income tax, estate tax, capital gains tax, and gift tax. The instruments that the US system employs that are less commonly used in Europe are in the fields of venture philanthropy and planned giving.
- The high level of private support for the arts in the US does not necessarily result in a financially stable arts sector. Constant growth in fixed costs, combined with increasing competition, higher expectations from patrons, decreased public funding and overall economic crisis re-opened the discussion regarding appropriate levels of support from both private and public funding of culture.
- The present financial crisis shows that giving to the arts decreased at a greater rate than other areas of giving. This trend indicates that a primary dependency on private support exposes the cultural sector to greater vulnerability than other sectors.

5.1. Private giving in the US

A variety of incentives programmes have been created to motivate the private funding of culture in Europe. They reflect variations in the institutional structures and policy instruments employed to administer such programmes. These differences are not technical but substantial; they show different national traditions, constitutional structures and political mobilisation patterns. If this is an issue in Europe, it is even more significant when regarded in comparison to the US. Unlike in European countries, the United States arts funding system is not supported by a ministry of culture or another similar governmental agency as a main benefactor. Instead, a variety of public subsidies compose roughly 13% of the nation's total investment in non-profit arts groups, with the National Endowment for the Arts (NEA) being the largest single governmental funder. Significant changes occurred in the 1990s in the US system as a result of the so called 'culture wars,' the polarisation along ideological lines of 'progressive' versus 'orthodox' ideology in US politics and culture. This polarisation resulted in a substantial loss of funding to the NEA, as well as in a decision to stop the funding of individual artists and a number of other cultural activities. The roles of foundations in supporting culture therefore became particularly significant (Positive Solutions, 2009).

Correspondingly, the main elements that characterise the US approach to support of arts and culture are:

- a limited governmental role in the direct funding of culture, as subsidy and related state dirigisme is understood as a potential violation to the First Amendment of the Constitution, which guarantees the freedom of expression;
- a preference for individual over collective decision making, which derives from the ideology of individualism as one of the cornerstones in the US model;
- an influence of liberalism, which emphasises freedom of choice before the welfare state and thus makes collective goods provision more dependent on self organisation;
- a lower income tax, maximum 35% for individuals, and higher tax deduction that may reach 50% of the donor's contribution base, as compared to EU Member States;
- a longer tradition of providing tax incentives in the US, starting in the 1960s;
- different types of non-profit organisations to which different regulations and tax incentives apply;
- a professionalisation of fundraising and the use of planned giving vehicles;
- a different system of taxation on consumption in US that differs from VAT⁴⁶.

⁴⁶ Most states have a retail sales tax charged to the end buyer only. Therefore, this tax regime cannot be used for indirect subsidies of cultural industries as with VAT, because different rates for different classes of goods, such as the zero rate on books in the UK, are not applied.

The table below illustrates how these characteristics reflect the level of giving as a percentage of Gross Domestic Product (GDP). The US is upheld as an exemplary nation of givers among 12 countries included in the Organisation for Economic Co-operation and Development (OECD), as their charitable giving represents about 1.67% of GDP.

Table 3: Charitable giving in 12 OECD countries in 2005

Countries	Individual giving (% GDP)
USA	1.67
United Kingdom	0.73
Canada	0.72
Australia	0.69
South Africa	0.64
Republic of Ireland	0.47
The Netherlands	0.45
Singapore	0.29
New Zealand	0.29
Turkey	0.23
Germany	0.22
France	0.14

Source: CAF, 2006a

According to the "Giving USA" report 2008, charitable giving in the United States exceeded USD 300 billion for the second year in a row in 2008. Donations to charitable causes reached USD 307.65 billion in 2008, representing a 2% drop in current dollars from 2007 (Giving USA Foundation, 2009). The data for 2009 indicates a fall of 3.6% in current dollars (The Centre of Philanthropy, 2010).

The global financial crisis has also impacted the US culture and arts sector. Despite their heavy reliance on different forms of philanthropic funding, American cultural organisations have felt the crisis effects. For example the income from the Getty Trust endowment has fluctuated since 2001 and was reported to be lower in 2010 (USD 4.8 billion) than in 2001 (USD 4.9 billion)⁴⁷, with the most significant fall noted in 2009. Similarly, cultural organisations like the Metropolitan Museum lost support both from their endowment and from New York City (Positive Solutions, 2009). This indicates that a primary dependency on private support exposes the cultural sector to greater financial vulnerability as caused by shifts in economy. Thus, the European principle of mixed funding for culture reaffirms itself as a preferable sustainable model.

Individual charitable giving to culture — Charitable giving among individuals in high-income classes is considered to be a social obligation, and participation on non-profit boards and payroll giving among higher management is practically involuntary⁴⁸. In the US, supporting culture appeals largely to the top end of the social structure. However, according to *Giving USA 2004*, the arts received a significantly smaller portion of philanthropic dollars (5.4%) than the three most supported categories: religious

⁴⁷ See at <http://www.getty.edu/about/governance/pdfs/fyendowment.pdf> [Accessed 23 March 2011].

⁴⁸ In the US in 1997, 4.9% of households with a net worth of USD 1 million or more accounted for 42% of all donations to charitable organisations.

organisations (36%), health and human services organisations (16.5%) and educational organisations (13.1%). Nevertheless, the actual amount of philanthropic dollars received (USD 13.11 billion) is by any standard a substantial amount of private giving to the arts (AEA Consulting, 2004). From a very large proportion of households that made charitable contributions in the US, only 4.4% of households contributed to culture. Since these households are predominantly in the high-income category, their tax expenditures are much higher, due to the high marginal rates of income tax (O'Hagan, 1998).

The availability of cultural goods in the public domain in the US is dependent on the extent of private donations; this trend is in contrast to the European situation. According to a report by the National Endowment for the Arts comparing **government per capita spending on the arts** in ten countries, per capita arts spending in the US in 2010 was approximately USD 3.98, or EUR 2.69 (Han, 2010⁴⁹) – the lowest of any of the countries tracked, as compared with the data for per capita spending in some European countries – EUR 259.33 in Denmark (2008), EUR 148.00 in Spain (2007), and EUR 99.10 in Germany (2007) (Council of Europe/ERICarts, 2011b, 2011c, 2011i). It is evident that such a large discrepancy is an indication of systemic differences in the organisation and funding of arts and culture in Europe and the US.

Business support of culture — There have been significant changes in past years regarding the extent of private giving in the US as well as the structure of such giving. The changes have affected both business as well as individual private support to the arts. According to data for the year 2006 (Americans for the Arts, 2007), business support of the arts has shifted from general charitable giving to a more marketing-based and sponsorship-oriented strategy. In an effort to achieve more measurable results from philanthropy, more businesses are reducing their charitable focus to a single funding category, most frequently health or education and rarely the arts. According to longitudinal research conducted by the Conference Board of the Americans for the Arts, the arts have been steadily losing market share of total business support.

Professionalisation of fundraising — Another critical factor driving the differences in levels of individual philanthropy to the arts between the US and Europe is the extent of professionalisation of the fundraising field. Fundraising as a profession is more evolved in the United States⁵⁰ than in Europe, where mainstreaming fundraising began only in the 1990s and is still not fully developed. As some governments in Europe have scaled back their support for the cultural sector, demand for fundraisers has been increasing, especially for major gift fundraisers with experience in building long-term donor relationships. In some European countries, arts and cultural organisations are hiring fundraisers to develop and implement new practices. This trend underlines the fact that, while tax incentives are a critical component necessary to stimulate individual philanthropy in culture at a macro level, they need to be complemented with strategies to educate and connect donors and cultural organisations.

⁴⁹ See at: <http://www.qiarts.org/article/public-funding-arts-2010-update> [Accessed 11 February 2011].

⁵⁰ As evidence of the growth of the sector, the Association of Fundraising Professionals, the US professional association for the development of professionals founded more than 40 years ago, has seen a growth in membership from 2 500 in 1980 to more than 26 000 in 2004, thus representing a more than ten-fold increase (AEA Consulting, 2004).

5.2. Tax system for facilitating private giving in the US

The differences in levels of individual giving in the US and Europe, generally relate to federal income tax, estate tax, capital gains tax, and gift tax. The instruments that the US system employs, which are less common in Europe, are in the fields of venture philanthropy and planned giving.

Charitable giving vehicles — Private donations from individuals, corporations and charity foundations make up the greatest share of contributed income for art organisations, largely due to incentives in the US tax system. In 2008, giving to the arts by individuals, foundations and corporations amounted to USD 12.79 billion, a 6.4% decrease from USD 13.67 billion in 2007 (-9.9% when adjusted for inflation). Because giving to the arts decreased at a greater rate than other areas of giving, the arts again suffered from the long-term trend of lost philanthropic 'market share.' In the years around 2000, the arts maintained a 4.5-5.0% share of total philanthropy. This share decreased during the recession in the early part of this decade, reaching a low point of 4.0% in 2005. The arts sector rebounded in 2005 and 2006, but did not regain its earlier levels. In 2008, the arts market share dropped to 4.1%, and this downward trend is likely to continue for one or two years (Americans for the Arts, 2009).

The intermediary mechanisms in the United States include donor advised funds, social venture partners, venture philanthropy and private foundations. The United States' donor advised funds are vehicles that allow for the pooling of charitable giving, with donors who give to the fund recommending who is to receive the fund's grants. These donor advised funds are treated like other charities in terms of donations made to them and are not subject to excise tax⁵¹ on investments (Freudenberg, 2008).

There are also numerous successful examples of venture philanthropy organisations in the US⁵² that show that a creative approach to grant making and fundraising in the form of venture philanthropy can stimulate the development of the arts in a positive way.

Planned giving — In the United States, one of the most important legislative initiatives to promote philanthropy via planned giving was the Tax Reform Act of 1969. This act rearranged federal income tax deductions for gifts to non-profits and private foundations significantly, and provided tax exemptions for those organisations⁵³.

Within the framework of planned giving, the United States employs a number of mechanisms that allow taxpayers to make fractional or deferred gifts to charities: fractional gifts, retained life estates, charitable remainder trusts, charitable lead trusts and pool income funds. Deferred (or planned) gifts in general are those gifts that are committed in the present, but received by a charity in the future (Billings Clinic, 2006). Such gifts can be divided into life income gifts and estate gifts.

⁵¹ Excise tax is an indirect tax charged on the sale of a particular good. It is considered as an indirect form of taxation because the government does not directly apply the tax. An intermediary, either the producer or merchant, is charged, and then must pay the tax to the government (Investopedia, 2011).

⁵² E.g. Principal Art Foundation (<http://www.principalartfoundation.org/>), Philanthropic Venture Foundation (<http://www.venturesfoundation.org/>), National Venture Capital Association (http://www.nvca.org/index.php?option=com_content&view=article&id=104&Itemid=171), Fidelity Charitable Gift Fund (<http://www.charitablegift.org/>), and others.

⁵³ This legislative reform created the context for the development of new planned giving devices – such as charitable remainder trusts, charitable lead trusts, and pooled income funds, and changed the tax treatment of others. Congress has made modifications since that time, and several new important legislation documents have been put in place (e.g. the Federal Job and Growth Tax Relief Reconciliation Act of 2003), but the basic structure of the Act remains unchanged.

A **life income gift**⁵⁴ is a gift arrangement in which the donor makes an irrevocable transfer of property to a non-profit or charity, and at the same time retains an income interest to his/her benefit. The benefit of income will be allocated to the donor and any other beneficiary for life or a specified period of years. If the gift is for a specified period, the remainder will be distributed to the non-profit or charity after that specified period is over. Life income gifts help to maintain a continuous source of income and also provide an opportunity for donors to receive tax benefits (US Legal, 2011).

Estate gifts are a type of deferred gift distinct from life income gifts. Estate gifts are normally made through the donor's will, are revocable until the donor's death, and are received by the charity after the donor's death. All property owned by the donor, whatever the form of ownership, and whether or not it goes through probate after his/her death, is subject to federal estate tax. Currently, however, federal estate tax is due only if the donor's property is worth at least USD 2 million when he or she dies. Any property left to a surviving spouse, if he or she is a US citizen, or a tax-exempt charity, is exempt from federal estate taxes. Many states now also impose their own estate taxes or inheritance taxes (Legal Definition, 2011).

5.3. Private investment in Europe and the US: some distinctions

The high level of private support for the arts in the US does not necessarily result in a financially stable arts sector (AEA Consulting, 2004). Constant growth in fixed costs combined with increasing competition, higher expectations from patrons, decreased public funding and overall economic crisis re-opened the discussion regarding appropriate levels of support from both private and public funding of culture.

Since the 1990s, major shifts in policy development, both in Europe and the US occurred. While European countries have introduced fiscal legislation that supported and promoted private investment in culture, in the US, public bodies substantially reduced public support to culture, thus leaving it in the hands of market forces. On a policy level, the distinction between culture as a public good and culture as a market commodity is the crucial differentiation in any attempt to compare levels of support for the cultural sector in the European countries and the US. Correspondingly, most differences are evident in fiscal policy provisions, where the US employs more tax measures targeted at involving private sector giving to culture.

- The diversity of forms of private giving: the forms of private giving, both by individuals as well as companies, are broader in the US than in Europe. The amount of private funding dedicated for cultural purposes is higher in the US (EUR 8.74 billion in 2009, or EUR 28.35 per capita (National Park Service, 2010)), than in the European countries (e.g. EUR 0.75 billion in 2010 in the UK, or EUR 12.20 per capita (Mermiri, 2010))⁵⁵.
- Higher percentage of individual giving in the total private funding of culture: within private funding, the main difference relates to individual giving. In the US, individual giving represents 83% of private funding of culture (National Park Service, 2010), while in the UK, as the most successful EU nation in this regard, individual giving amounts to around 55% of private funding of culture (Mermiri, 2010);
- The charitable gift mechanisms created out of tax framework: the mechanisms that utilise tax provisions are more developed in the US than in the EU (e.g. pooled income fund, charitable remainder trust, charitable lead trust);

⁵⁴ A life income gift can be funded with cash, securities, immovable property or, in very rare circumstances, with tangible personal property such as furniture, books, automobiles, jewellery, paintings, and antiques. In the US, by far the most common assets used to fund life income gifts are cash and securities, followed by immovable property (AEA Consulting, 2004).

⁵⁵ While on the other hand, government (per capita) arts spending in the US is very low (in 2010, it was USD 3.98, or EUR 2.69 (Han, 2010)), as compared with data, ranging from approximately EUR 100 to over EUR 250 in different European countries (Council of Europe/ERICarts, 2011b, 2011c, 2011).

- Higher tax relief limit of individual giving: in the US, this limit can be as high as 50% of the donor's contribution base, and is significantly higher than such limits in European countries;
- The eligibility criteria for tax relief: with the intention of defining tax incentives more narrowly, the EU imposes more stringent guidelines and gives the government a more active role in the choice of eligible beneficiaries (i.e., by providing lists of classified organisations) or the definition of the national importance of works of art that are eligible for tax deduction;
- The extent of professionalisation of the fundraising: cultural activities are still largely financed through public funds in Europe and fundraising is not sufficiently professionalised. In the US, however, fundraising is professionalised on a much higher level.

The systems in place in the US and Europe are very different in provisions, structures and amounts of private giving. Some of these differences are related to political and legal environments, some stem from the availability of resources committed to fundraising and the existence of a culture of asking, and some lie with the culture and tradition of giving and extending wealth. These differences imply that the main challenge for Europe is to maintain its achievements in terms of supporting the arts and culture as a public good while encouraging mechanisms of private funding that are more stimulating, broad and versatile.

6. FINAL REFLECTIONS

In accordance with European cultural policies, ethos and provisions that place culture in the domain of the public good with wider public accessibility, the provision of sustainable models and encouragement of private investment in Europe is placed under the national government's authority. Government involvement in culture may take a variety of forms and activities, from direct promotion (as in France), to the use of arm's-length, quasi-independent organisations (such as Arts Councils in Britain and Ireland), to the use of non-governmental incentives (such as tax concessions, which are increasingly becoming a part of European developments in supporting culture).

Correspondingly, the European system of cultural financing is predominantly state oriented, and willingness to implement incentives for private giving is dependent on public policy frameworks and political determination. Most European countries are reaching the limits of their budgets, especially in light of the recent economic crisis, and should therefore show an increasing willingness to experiment with systems of private support to culture. However, very few, if any, new policy measures for encouraging private investment in culture have been implemented, thus showing that policies lag in their responses to current trends and challenges.⁵⁶

The five case studies (Italy, the Netherlands, Poland, Slovenia and the UK) illustrate trends and practices in encouraging private investment in culture in diverse political, economic and cultural environments. The findings show that UK and the Netherlands (countries of Anglo-Saxon cultural policy tradition) have the most advanced mechanisms and measures for stimulating the private sector in giving to culture. Slovenia and Poland, as new members of the EU with post-socialist backgrounds, have underdeveloped systems of support for private investment, due to inflexible cultural sector structures. Italy, as a country of Mediterranean tradition, is a half-way case; state dominion is still present, as are ample opportunities for private sector involvement.

Following are highlights that underline the key points of this study:

- Public direct support to culture currently shows a tendency of decreasing, with the effects of the recent financial crisis speeding up this process. The need to reform the cultural sector to make it more sustainable and entrepreneurial is recognisable in European cultural policies, although the reality shows different levels of realisations of this strategic objective.
- In Europe, while the state holds the principal role and responsibility for supporting culture, there is a wide array of initiatives, incentives and systems for encouraging private support to culture. Accordingly, there are three main sources in financing culture in Europe: public support, private support and earned income. The importance of a mixed funding economy in achieving the cultural sector's sustainability is reinforced by existing national policy objectives.

⁵⁶ The process of privatisation of cultural institutions and their incorporation into the separate legal entities in Europe has enlarged the managerial autonomy of these institutions in the last two decades and opened the space for indirect public support. Various tax incentives, matching mechanisms and favourable banking schemes that have been developed represent endeavours towards empowerment of citizens' cultural sovereignty. Partnership between the public, business and civil society can create synergies that can bring along in their wake a variety of benefits beside the purely financial ones.

- Public direct support focuses primarily on supporting cultural infrastructure and production (i.e. cultural supply), but recent trends show that policies have changed in perspective to take consumption into account. The new consideration of consumption has resulted in a request for cultural organisations to demonstrate their relevance for audiences.
- Indirect public support measures via tax incentives in Europe are well developed, but the take-up of these provisions by citizens, cultural organisations and businesses varies in different countries, showing that the culture of giving needs to be promoted and developed.
- The VAT reductions for buying cultural goods and services present the main implicit subsidies for cultural industries, especially in cases of market failures (i.e. when cultural products have to be subsidised since the market is too small to operate in an efficient manner).
- Business sponsorship of culture is present in all surveyed countries. Although sponsorship has great potential and is encouraged via tax incentives, sponsorships still represent a small portion of the budgetary incomes of cultural organisations.
- Systems of encouragement for private support for culture are sustained by different grant-giving bodies. The European foundation sector is growing dynamically and is achieving a major presence and significance for the cultural sector. Most foundations support social issues and agendas, while culture represents the focus of activity of a smaller, more limited number of foundations.
- In many European countries, lottery funds for culture are rather new but have developed rapidly and are growing in importance because of the search for additional subsidies in the cultural field. Collection and distribution methods for lottery funds vary from one country to another. Some lotteries allocate their revenues to foundations that subsequently divide the lottery funds to smaller organisations and special initiatives within the various cultural sectors.
- The tendency to over-emphasise the potential of private support to serve as an alternative to public support is controversial because private funds are decreasing rapidly in the period of crisis and many findings underline that there is a positive correlation between the roles of the state and private investment in culture. Public intervention in terms of matching funds or fiscal encouragement builds trust in the importance of culture for sponsors and donors who want to capitalise in an already successful and important sector.
- Existing arts and business organisations provide important services through their training activities, awareness raising activities and linkage between the arts and business sectors. The establishment of such specialised agencies, which encourage engagement between business companies and the arts sector, enhances private involvement in the cultural sector. A particularly important segment of their activities is monitoring and reporting on corporate giving endeavours by conducting regular surveys, as data on private investment in culture is not systematically collected on national or European levels.

- In Europe, the professionalisation of fundraising is not adequately developed. While there is a need for such professionalisation, the critical decision to employ fundraisers is very difficult to make when there are often not enough funds to properly pay for core cultural or artistic activities, or to appoint external fund-raising consultants. Therefore, fundraising is not sufficiently included as an integral part of the operational structure in most cultural organisations.
- Comparison of the EU and the US trends in private investment in culture shows major differences in policy orientation and consequent outcomes. The systems are indeed very different, both with regards to the amount as well as the structure of private giving. Some of these differences are related to political and legal environments, some stem from the availability of resources committed to fundraising and the existence of a culture of asking, and some lie with the culture and tradition of giving and extending wealth.

7. RECOMMENDATIONS

Based on the findings of this study, the imminent challenges for encouraging private investment in the cultural sector in Europe are as follows:

- **Development of a good balance between direct and indirect public support for arts and culture**

Due to the specificities of European cultures and models of cultural development in Europe, the encouragement of private investment in culture should not be detrimental to public funding. Public and private funds are complementary, since a solid base of public funding consolidates the perception of trust in the public value of culture on the one hand, and provides for the stability of the cultural sector on the other. In a time of crisis, the demand for cultural goods suffers more reduction in respect to the demand for other goods. In order to preserve public value of culture, public support is indispensable.

- **Development of methodologies for collecting comparative information**

The lack of systematic comparative data of the EU tax situation that applies to the cultural sector, and the absence of data based on common methodology, are serious impediments for the research into private investment in culture in Europe. Another challenge is to develop a common framework to classify different forms of philanthropy, with culture as a separate category, and with various schemes available to make comparative research easier in the future. Thus, the existing initiatives, such as **Eurostat's Cultural Statistics**, and the Council of Europe and ERICarts **Compendium project**, need to be further elaborated.

- **Development of further support for international associations for monitoring comparative data and practices**

The dispersion of measures and mechanisms across EU Member States substantiates the need for international bodies and networks, which could provide more accurate and independent assessment of data and practices, as well as more efficient distribution of results to target groups. Data collected by the arts and business forums are valuable sources of information but would further benefit from a unified methodological approach to collecting and interpreting data. Providing further support for the international umbrella associations of existing arts and business forums and other intermediary bodies should be a natural task of the EU, in order to create and promote conditions that are beneficial to private funding of the arts and culture.

- **Raising awareness and understanding about existing tax measures and benefits**

The main discrepancy between the American and European system is not about the different measures (though this is sometimes the case), but mostly about their implementation. In Europe, favourable tax measures are defined in many different laws (Law on Income tax, Law on Inheritance and Gift Tax, Law on VAT, etc.) and pertain to different sectors (e.g. broadcasting, education, environment). Therefore, there is a general lack of awareness among beneficiaries and investors/donors/sponsors. Raising awareness and understanding of the existing and planned tax measures is a necessary step towards productively utilising existing regulation. The effective use of legal provisions requires the creation of a cross-national catalogue or guide for giving with a thorough description of the

national legislation in force and national campaigns that promote the use of available tax measures.

➤ **Development of public support to the professionalisation of fundraising**

Another difference between the US and European system is evident when considering resources devoted to fundraising efforts. Corresponding to the levels of private support to culture in America, the American system fosters good fundraising practices, while fundraising is merely a complementary and irregular mechanism in the European cultural system. In the case of insufficient funds to cover core programming costs, the professionalisation of fundraising requires targeted cultural policy measures to support the development of fundraising programmes and strategies.

➤ **Raising awareness of lobbying possibilities given by the Article 167(4) of the TFEU (ex Article 151(4) TEC) to develop policies with cultural implications**

Article 167(4) of the TFEU stipulates that European institutions shall take cultural aspects into account in their actions under the various provisions of the Treaty. This article gives EU institutions the power and possibility to lobby for cultural issues, including mechanisms and measures to steer private investments to culture.

➤ **Harmonising VAT measures without threatening cultural goods and services' exceptional status**

The harmonisation of VAT measures is proclaimed by the European Union as one of the possible paths for future development of tax legislation in the EU. When following such changes, one should be careful not to ruin what has been achieved with cultural VAT exemptions mentioned in the study, and should follow the example of states that have a beneficial, exemplary status for cultural goods and services.

➤ **Providing support for the arts and business forums as mediators between arts, business and legislators**

Arts and business forums are intermediary mechanisms that encourage donors to develop a culture of giving, and encourage cultural organisations and artists to develop a culture of asking. These organisations take an active role in establishing and promoting partnerships between the cultural and business sectors. Such partnerships imply that the business organisations that support cultural projects get strategic insights of their brand images and visibility as promoted in the partnerships with the cultural organisations, while cultural organisations get more security in long-term programme planning. Arts and business forums are also vehicles used for the implementation of preferential tax schemes in practice.

➤ **Promotion and exchange of best practices in fiscal policies for encouraging private support to culture in the Member States**

The support of fiscal policy is very important in setting the framework for a greater involvement of private funds. Public officials and bodies with authority in the cultural field have somewhat limited insight into the diversity of measures and means available in the fiscal domain. Therefore, it is not surprising that greater support to enhancing existing or introducing new measures that would encourage private investment in culture is missing. This situation underlines a need to monitor and evaluate the effects of fiscal policy

implementation in the cultural field, and to engage in a cross-comparative analysis on the EU level with the aim of detecting optimal solutions. Without competent tax expenditure analysis done by tax authorities and ministries of finances, any attempt to improve the tax environment is ideology-driven instead of being an articulated, pragmatic response to a shifting long-term fiscal outlook.

➤ **Cultural policy action driven by different values of culture**

A complexity of factors influence private investment for culture - some are external to the cultural sector (such as, the broader political and legal environment), some lie with the donor (such as, the culture of giving and extending wealth, including its intergenerational transfer in future years) and some are internal to the cultural sector (such as, resources committed to fundraising and the culture of asking). Such complexity requires cultural policy action that is multidimensional and holistic in its formulation and implementation, and is driven by different values of culture. Still, one of the principal challenges for cultural policy making is to create proactive mechanisms that can respond to imminent changes in the social, political and economic environments. Cultural policy measures for encouraging private investment in culture should predominantly address the development of competencies in the cultural sector for establishing productive relationships with the private sector. Furthermore, cultural policy development directions should result in providing adequate legislative framework that stipulates mixed economy principles as grounds for achieving sustainability.

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ANNEX 1 - SECTORIAL INCENTIVES

The sectorial incentives annex was created so as to give a short outline of the diverse existing approaches to encouraging private investment in culture in the audio-visual field and the cultural heritage sector in countries of the European Union. Presented are special tax treatments that are not relevant for other cultural fields, as well as other mechanisms of support for private investment in these sectors.

THE AUDIO-VISUAL FIELD AND OTHER CULTURAL INDUSTRIES

THE AUDIO-VISUAL FIELD

There are two main models of encouraging private investment in the audio-visual field⁵⁷ in European Union:

Encouraging private investment **through specific tax incentives** for the audio-visual sector among European states has been on the rise in the last decade as demonstrated by research by Bermek (2007, pp.5-6). Some tax incentives include the 'cultural test' that applied projects must pass in order to be eligible for funding. The specific tax incentives available for the audio-visual field can be categorised as follows:

Tax shelters are government-approved tax incentives that include subsidies that provide tax deduction benefits in order to enhance audiovisual production. Different types of tax shelters are available in Belgium, France, Hungary, Ireland, Italy and the Netherlands.

ILLUSTRATIVE EXAMPLE

The Belgian Tax Shelter is a government-approved tax incentive that is designed to encourage the production of audio-visual works. It is one of the very few audio-visual systems that applies to the whole of Belgium, rather than to a particular language community. Through this system, the producer is offered an attractive way to finance his project, the investor obtains tax exemption through a virtually risk-free investment, and the Belgian state benefits from increased activities and spending. The Ministry of Finance estimates that, from 2003 to 2009, the system channelled over EUR 310 million into films and other audio-visual works, providing more than EUR 60 million in 2009 alone. Tax shelter activities continue to grow, and it seems that the ceiling is far from being reached⁵⁸.

Tax credit and rebates are incentives that function as a form of guaranteed finance offered by a lending institution to an organisation for a certain fee in order to provide cash-flow. The evaluation process on the part of the lender is based on the tax credit or rebate being treated as a type of financing agreement secured against the tax law of the nation or state that offers the incentive. Tax credits and rebates can take different forms that can be based on **spending, content** or both.

Different types of tax credits and rebates are available in France, Germany, Hungary, the UK and Luxembourg.

⁵⁷ For the purposes of this study, the audio-visual field includes film, video, broadcasting (radio and television) and the multimedia market.

⁵⁸ See: <http://www.locationflanders.be/production-guide/financing-and-incentives/the-belgian-tax-shelter-system/> [Accessed 23 January 2011].

ILLUSTRATIVE EXAMPLES

Established in 1988, the **Audiovisual Investment Certificate Programme (CIAV)**, provides assistance to offset a proportion of production costs incurred in the European Union, particularly the **Luxembourg** territory. The certificates are issued to producers to reduce the taxable income of their companies. Nevertheless, given the modest profits of production companies, producers sometimes decide to sell these certificates to other capital companies who can also use them to reduce their taxable incomes⁵⁹.

Through the **UK Tax Relief System**, tax relief is available for qualified British films. Films must either pass the 'cultural test' or qualify as official co-productions, and must be intended for theatrical release. Films, including those made under official co-production treaties, must reach a minimum UK spending requirement of 25% of the total corporation budget. Tax relief is available on qualifying UK production expenditure up to a maximum of 80% of total qualifying costs. There is no cap on the amount that can be claimed. The film production company (FPC) responsible for the film needs to be within the UK corporation tax net⁶⁰.

Tax credit as a **tax deduction scheme** is available in France through **SOFICAs** (Société pour le Financement de l'Industrie Cinématographique et Audiovisuelle), created in 1985. This system is based on the investments to SOFICAs made by individuals and companies to receive tax deduction. SOFICAs selects film and TV projects to invest in and negotiates the recoupment positions. In 2006, a total of EUR 32.8 million was raised through SOFICAs.

Other specific mechanisms of support are gap financing, specific guarantee models and interim finance.

"Gap financing" is a model that enables producers to procure a loan in order to complete the film financial package; the loans are secured primarily against the unsold foreign territories and rights of a production. This model is high-risk, and is therefore one of most expensive financial services. This model is available for the audio-visual industry in Germany and the United Kingdom (Baujard et al, 2009, pp.49-50).

The audio-visual industry is a high-risk business, therefore, the support provided by the regional and national funds is still very important. There are models in selected countries that serve as grant insurance bodies, that is, as **specific public-private guarantee models**.

ILLUSTRATIVE EXAMPLES

Institut de Financement du Cinéma et des Industries Culturelles (IFCIC) was established in 1983 in France as a link between the mechanisms of support offered by the Centre National de la Cinématographie (CNC) and the banks;

The Audiovisual SGR is a 'mutual guarantee society' that was founded in 2005 by the Ministry of Culture of Spain through the Institute of Cinematography and Audiovisual Arts (ICAA) and the Audiovisual Producers' Rights Management Association (EGEDA);

In Germany the **Landesbürgschaft** structure has been developed; that is, state guarantees are provided by state guarantee banks.

Source: Baujard et al, 2009.

Interim finance or **contract discounting** is a classic film banking operation that consists of discounting contracts between a production company and a public institution that provides a subsidy for the development, production, or distribution of a film (e.g. UK, France, Germany, Portugal, Denmark) (Baujard et al, 2009).

⁵⁹ See: <http://en.filmfund.lu/incentives-and-guidelines/index.php> [Accessed 23 January 2011].

⁶⁰ <http://www.ukfilmcouncil.org.uk/taxrelief> [Accessed 23 January 2011].

OTHER CULTURAL INDUSTRIES⁶¹

There are two main approaches to encouraging private investment in this field⁶²:

a) **As a sectorial approach to selected fields of cultural industries that is oriented towards specific tax incentives** - the most commonly used approaches are reduced taxes on selected cultural goods and services (e.g. lower VAT on books, newspapers, CDs, DVDs, journals, tickets), tax relief to investors in music talents (Business Expansion Scheme in Ireland), fixed book price model (Austria, Bulgaria, France, Germany, Greece, Netherlands, Norway, Portugal, Spain),⁶³ and definition of R&D for tax purposes (UK).

b) **Specific models created for the development of cultural or creative industries** oriented mainly to the creation of particular models that would support cultural industries' development, such as Cultuurinvest in Belgium (Flemish community), North Rhine Westfalia models for creative industries in Germany, Our Creative Capacity in the Netherlands, IFCIC (Institut de Financement du Cinéma et des Industries Culturelles) in France, and Creative Exports Group (CEG) in the UK.

In many countries, various studies on state, regional or local levels about the cultural and creative industries have been conducted recently. Strategies for promoting the development of these industries have been implemented, but it is still rather early to properly assess some of the instruments that have been introduced.

CULTURAL HERITAGE

As cultural heritage⁶⁴ (movable and immovable) is of intrinsic importance and its preservation is of economic and social significance, those responsible for its conservation deserve support from the wider community. Public funding alone is increasingly proving to be insufficient, particularly in countries with especially rich cultural heritages, or in those in transition from state-run economies. There is a need to develop special measures to foster the preservation of heritage in such countries. The cultural heritage field has attracted more government attention than other fields; governments have been seeking not only to create a range of different government tools but also to raise awareness about the application and enforcement of relevant tax rules and tax incentives. Various tax

61 "Cultural industries' are those industries producing and distributing goods or services which have specific attributes, uses or purposes that embodies or conveys cultural expressions, irrespective of the commercial values they may have. Besides the traditional arts sectors (performing arts, visual arts, cultural heritage, including the public sector), these industries include film, DVD and video, television and radio, video games, new media, music, books and press" European Commission (2010).

62 Data was obtained through the COMPENDIUM of Cultural Policies and Trends.

63 See: <http://www.culturalpolicies.net/web/comparisons-tables.php?aid=33&cid=45&lid=en> [Accessed 20 February 2011].

64 For the purposes of this study, as per the definition of cultural heritage stated in UNESCO's Convention Concerning the Protection of the World Cultural and Natural Heritage (1972), cultural heritage is defined as follows: monuments (architectural works, works of monumental sculpture and painting, elements or structures of an archaeological nature, inscriptions, cave dwellings and combinations of features), which are of outstanding universal value from the point of view of history, art or science (UNESCO's Convention Concerning the Protection of the World Cultural and Natural Heritage (1972), groups of buildings (groups of separate or connected buildings which, because of their architecture, their homogeneity or their place in the landscape, are of outstanding universal value from the point of view of history, art or science) and sites (works of man or the combined works of nature and man, and areas including archaeological sites which are of outstanding universal value from the historical, aesthetic, ethnological or anthropological point of view). Although this definition lacks the aspect of immaterial, intangible heritage, it addresses the situation in the field as presented in this overview of private funding for cultural heritage in member states: sponsorship and donations to heritage are principally given to material aspects of heritage, including museums, built heritage, archaeological sites and, in rare cases, landscapes.

instruments affect art museums indirectly but significantly⁶⁵. Tax incentives may take the form of reduced VAT, income tax, wealth tax, inheritance tax or gift tax. Other forms of tax incentives can apply to the activities of NGOs and particularly to action on an international level, where national tax arrangements cannot apply.

Tax incentives for private investment in the cultural heritage sector

1) Tax measures for buying and selling protected properties:

- Tax relief is offered for the purchase of a property that is a cultural heritage monument and whose protection is in the public interest (e.g. Spain). Such relief represents a percentage of the property's cost.
- Relief from VAT payment is also offered for selling, or renting out for an extended period of time, the protected building if the building was reconstructed or renovated with money from the seller or renter (e.g. UK).

ILLUSTRATIVE EXAMPLE

VAT relief on the selling of immovable properties – the Italian case

The transfer of immovable properties of historical, artistic and archaeological interest is taxed at a 3% rate (lower than the ordinary 7%). As far as the Value Added Tax is concerned, even though transfers of immovable properties subject to historical and artistic constraints are taxed according to the ordinary 20% rate, services typical of libraries, discos, museums, galleries, picture-galleries, monuments, villas, palaces, parks and botanic and zoological gardens are exempted from taxation (sect. 10, D.P.R. 633/1972).

Since 2001, law no. 383 has abolished inheritance taxes but has retained gift taxes, with a requirement that both the following conditions be met: 1) the beneficiaries are not closely related to the donor; 2) the value of each individual's share is higher than EUR 180 759.81. If both conditions are met, beneficiaries of immovable properties of historical, artistic and archaeological interest are required to pay ordinary mortgage and cadastral tax rates, as well as the reduced aforementioned registration fee for the exceeding part of the value.

Source: Cavalieri, Mignosa, 2006

2) Tax measures for enhancing the renovation and maintenance of cultural heritage include:

- Tax relief for investments in the renovation and maintenance of cultural heritage (e.g. France, Germany, Italy, Spain, Switzerland)
- Zero VAT rate for services and materials necessary for the renovation of cultural heritage monuments (e.g. Great Britain)
- Possibility of enforcement of subtraction of costs accrued in the renovation of buildings under monument protection from the taxable incomes of the building owners (e.g. France)
- Lowering of tax base for the statement or relief of property tax if the properties are declared cultural monuments and are properly maintained (e.g. Italy, Germany, Spain).

⁶⁵ Such instruments create incentives for individuals and corporations to make donations of art, reduce the relative cost of raising capital for museum projects, and they increase incentives for museums to make passive investments in securities rather than active investments in unrelated businesses.

ILLUSTRATIVE EXAMPLE**VAT on historic building repairs in the UK – supporting investment in cultural heritage**

The UK VAT regime has some beneficial VAT breaks, such as the zero VAT rate, for certain types of construction expenditure. Such VAT breaks extend beyond current European VAT rules on the application of reduced VAT rates. Well-known beneficiaries of these zero-rate rules are occupants of qualified listed property who carry out 'approved alterations' to such property.

In many instances, the zero rate exerts a positive effect, as some listed buildings have undergone detrimental alterations in the past, and new owners seeking to reverse these changes can benefit from VAT-free works. However, there are other occasions where repair and maintenance works are subject to the full VAT charge, such as in the removal of iron cramps in stone work; a reduced VAT rate would be beneficial for such works that protect and preserve the country's architectural heritage.

Although the register of goods and services that benefit from the 0% VAT rate in the UK cannot be widened due to restrictions in European VAT legislation, there is a 5% VAT rate that can be utilised for repair works. At present, there is no 5% rate for repairs made to historic buildings per se, but there are various other 5%-rated works that may be applicable to construction works in general, including those to historic dwellings.

Source: <http://www.buildingconservation.com/articles/vatandhb/vatandhb.htm> [Accessed 30 March 2011].

3) Lower taxes on heritage and gifts include:

- Tax reliefs on inheritance and gift tax, under the condition that the heirs or donees agree that the protected building or artwork will be at least partially open for public view, or that it will be devoted to the performance of cultural activities in the public interest (e.g. art ateliers), or that it will in some other way be used to benefit cultural heritage (e.g. France, Germany, Great Britain)
- Tax reductions for certain heirs and donees of protected properties. For example, in Spain, properties conferring entitlement to assessment of inheritance tax on a reduced base also qualify for an allowance equivalent to 95% of their value when they are transferred to a spouse or to descendants as a gift. The following conditions apply: the donor must be at least sixty-five years old and permanently incapacitated, and the beneficiary must keep the property for at least ten years⁶⁶.
- Possibility of tax payment on inheritance in the form of gifts of inherited artworks to museums and galleries that are open to the public (e.g. Picasso Museum in Paris)
- Lower shares for the usage of building sites by heirs and donees (e.g. Spain)

ILLUSTRATIVE EXAMPLE**Donations of heritage items in Ireland**

Section 1003 of the Taxes Consolidation Act, 1997 provides that persons who donate heritage items can credit the value of those items against their liabilities for certain taxes. The taxes covered by the relief are income tax, corporation tax, capital gains tax, gift tax and inheritance tax.

The market value of the items is determined by Revenue Commissioners. To qualify for relief, the heritage properties must be approved by the Minister for the Environment, Heritage and Local Government. The properties must be outstanding examples of their type, pre-eminent in their class and intrinsically of significant scientific, historical, horticultural, national, architectural or aesthetic interest. The item or collection of items must have a minimum value of EUR 150 000. There is a ceiling of EUR 6 million on the aggregate value of heritage properties that may be approved from one donor in any one year.

Source: Answer to the Questionnaire

66 <http://assembly.coe.int/Documents/WorkingDocs/doc03/EDOC9913.htm> [Accessed 23 January 2011].

4) Tax reductions for entry of properties into the register that are considered relevant to cultural heritage:

- Lower taxes for entries of buildings that are proclaimed cultural heritage sites, if the new owner, who is obliged to pay taxes on the building, accepts the duty of the maintenance of the building value (e.g. Italy)

5) Tax reliefs for buying objects of intangible cultural heritage:

- Companies that contribute the resources for the maintenance or buying of artefacts of national cultural heritage value are recognised for tax reductions at certain amounts of the building's original purchase value.

ILLUSTRATIVE EXAMPLE

Tax reliefs on the buying of ancient art objects in Italy

In Italy, there exists a scheme for VAT transactions on the purchase of works of ancient art. The VAT system is applicable to persons who trade used goods and works of ancient art with the aim of avoiding repeated taxation on goods that are supplied to a taxable person for subsequent resale after they have been purchased.

Source: Answer to the Questionnaire

Grant giving bodies' support to cultural heritage

Bank support of culture and cultural heritage plays a significant role in Mediterranean countries, where banks have established their own foundations through which they finance cultural heritage projects (Klamer, Mignosa and Petrova, 2010).

ILLUSTRATIVE EXAMPLES

Grant giving bodies and cultural heritage

An example of the private sector's direct involvement in cultural heritage is the example of the Egyptian Museum of Turin, the first national museum to be turned into a public-private foundation in 2005, in collaboration with the Piedmont Region and the Turin Province and Municipality. The Ministry for Culture gave concession for the management and use of the collections for a period of thirty years to an appropriate foundation, the Fondazione Museo delle Antichità Egizie di Torino, whose shareholders include the Region of Piedmont, the Province of Turin, the City of Turin, the San Paolo Bank and the CRT Banking Foundation⁶⁷. The improvement of the public-private partnership system in the management of museums and historical properties is a top priority for Italian heritage policies⁶⁸.

Similar initiatives in other member states exist, such as in the Netherlands, where the Mondriaan Foundation carries out different governmental subsidy schemes in order to support museum collections and heritage policy development (Boekman, 2007) or in Spain, where banking foundations account for up to 94% of the total private expenditure allocated to the protection of historical heritage. In Cyprus, such foundations support the preservation and promotion of the historic resources of the island, most specifically the enhancement of archaeological sites and historic monuments from all periods. In Malta, foundations collect neglected heritage properties and artefacts, and assist in the restoration or heritage sites.

Source: Case study Italy

67 <http://www.museoegizio.it/pages/Who.jsp> [Accessed 23 January 2011].

68 <http://www.culturalpolicies.net/web/italy.php?aid=429> [Accessed 23 January 2011].

ANNEX 2 – COUNTRY CASE STUDIES

CASE STUDY: ITALY⁶⁹

National context

"For Italians, investment in culture is almost a productive investment. The more we become a society whose output relies on aesthetics; the more culture becomes a contribution to competitiveness."
Severino Salvemini⁷⁰

In Italy, heritage has always represented the prevailing domain of public policy in the cultural sector. Starting in 1972, the process of the decentralisation of culture took place towards the regional level with the aim of better management of regional identities which are expressed through culture. Then the process of cultural decentralisation to the local level (i.e. municipalities) followed, although some of the issues (such as the re-allocation of competencies on heritage and performing arts) were not carried out. Therefore, responsibilities for culture in Italy are rather split between various bodies on four levels (state, regional, provincial and municipal); in this way, on the national level, responsibilities are shared among the Ministry of Heritage and Cultural Activities, the Prime Minister's Office, the Ministry for Economic Development, the Ministry for Foreign Affairs and the Ministry for Education. On the regional, provincial and local levels, there are Regional/Provincial/Municipal Departments for Culture, respectively, which are in charge of culture.

In total, there are 20 regions, out of which there are five so-called autonomous regions with extended competencies in the cultural sector (to which the state has devolved direct responsibility for heritage and landscape) and these are Valle d'Aosta, Sicily, Trentino Alto Adige, Friuli Venezia Giulia and Sardinia. In Valle d'Aosta, Sicily and Trentino Alto Adige, direct responsibility for heritage lies with the regions, while a special situation occurs in the regions of Sardinia and Friuli Venezia Giulia, which have great resources as well as responsibilities but the state is still in charge of their heritage. Further devolution is seen only in the region of Trentino Alto Adige, where the care for heritage is the responsibility of the provinces of Trento and Bolzano. Other regions are called ordinary regions, having Regional Departments of Culture as the main regional bodies responsible for culture. Autonomous regions also act through Regional Departments for Culture. There are also the Interregional Committee for Cultural Goods and the Interregional Committee for Performing Arts serving as coordinators among regions.

There are 107 Italian Provinces, but they are not greatly involved in cultural policy with the exception of the above-mentioned Trento and Bolzano. The provinces are responsible for their own cultural institutions through their Departments of Culture.

In contrast, Italian municipalities (8 101 in total) hold a greater share of public responsibilities for the field of culture. The governance, administration and financing of municipal cultural institutions is under the direct authority of municipal departments for culture. Also, high ratios of municipal investments in heritage are evident, while capital investments in contemporary art museums and performing arts centres deserve special attention.

⁶⁹ Prepared by Daniela Angelina Jelinčić and Ana Žuvela.

⁷⁰ Quoted from *The Economist* (2005).

It can be said that Italy does not follow any particular cultural policy model, having rather split and irregular competencies for the field of culture. A mix of an administrative, economic and arm's-length models is evident, the last being an exception to the rule (it provides for private funding, mostly in cultural industries, although supplemented by public subsidies in cases of poor market performance⁷¹).

Public authorities are particularly strong in the field of cultural heritage, museums, archives and libraries, and to some extent in the field of performing arts.

It is obvious that Italy, a country globally known for the universal value of its historic and cultural legacy, strongly relies on cultural heritage and most cultural activities are focused on or connected with it. The protection and enhancement of heritage is also Italy's main cultural policy objective and it has to do with the promotion of Italian cultural identity. The other objectives, mostly connected with supporting creativity, are: the promotion of reading and of books and libraries; the promotion of urban and architectural culture; the promotion of cultural activities, with particular reference to the performing arts and cinema as well as the visual arts; the support of artistic research and innovation; higher training in all cultural disciplines; and the diffusion of Italian culture and art abroad (Council of Europe/ERICarts, 2011e).

Since the 1990s, a continuous trend concerning the transformation of cultural institutions has been noted. Cultural institutions that were previously under the proprietorship of the public bodies have gradually been transforming into public-private and/or private organisations. Consequently, many of the prominent public institutions (such as opera houses, Biennale di Venezia, Triennale di Milano, Quadriennale di Roma, Centro sperimentale di cinematografia) have been converted into operational foundations. The aim was to achieve a better management of the institutions in question and to decrease the burden on the public cultural budget. For example, the Quadriennale di Roma is partly owned by the Ministry of Heritage and Cultural Activities and the City of Rome. In 1999, the Quadriennale, the Italian national institution responsible for promoting Italian contemporary art, was changed from a state agency into a foundation. In its new role, it is able to involve a growing number of public and private partners in the conducting of its activities.⁷²

Since the state budget provides funds for the running expenses, it can be said that these institutions do not operate entirely as private foundations but as public-private partnerships. Concerning state cultural institutions, *Decree 368/1998* allows the Ministry to associate with other public authorities or private entities in the operation of state institutions. Probably the most well-known example of such public-private partnership was the transformation of the National Egyptian Museum in Turin, which is now under the shared responsibility of the Piedmont Region and the Turin Province and Municipality, on the one hand, and the foundations Banco S. Paolo and Cassa di risparmio di Torino, on the other. At the local level, similar changes occurred.

⁷¹ Due to heavy constraints on the national budget, in the past few years governments have been strenuously promoting a more direct involvement of the private sector. Sponsors, donors and the marketplace are strongly encouraged to increase their funding to the cultural industries, the fields of heritage and the performing arts, Council of Europe/ERICarts (2011e).

⁷² *Quadriennale di Roma*. Retrieved in February 2011 from: www.quadriennaleidiroma.org/indexEng [Accessed 11 February 2011].

Foundations and other grant-giving bodies

Private, grant-making foundations – and, among them, foundations with a banking origin – are a fundamental resource to support the social, cultural, political, and economic development of a country. To fulfill their role, these foundations have to be free to deal with the needs unattended by the public administration, the market or other non-profit organizations or take a fresh approach to addressing the needs these entities have already tried to satisfy. A foundation cannot be called upon to act in place of government agencies by channeling towards them the foundation's financial resources. The potential to innovate civil society represents a foundation's strength and is the true contribution they can give to the country's development (Fondazione Cariplo, 2010b).

Support from banking foundations plays a significant role in Mediterranean countries. In Italy, in 2001, the share of grant-making activities by foundations of banking origins going to the arts and culture represented 40% of their total support. This percentage is subject to fluctuations: as stated in the following text, it has been decreasing throughout the past decade (2000-2010).

Banking foundations are a real phenomenon within the Italian credit system and, in a wider European context, of private donations in culture.⁷³ They date back to 1990s, when a law⁷⁴ aimed at restructuring and adapting the Italian credit system to the changed economic environment was set forth. The banking concern was conferred to a joint-stock company previously or newly set up and its shareholdings awarded, as well as all the powers not ascribable to the bank, to another entity expressly established and named "conferring entity". During this transaction, two entities with different tasks were created: a banking concern operating as a credit institution and an entity controlling one hundred percent of the banking concern, with charitable aims and financing non-profit initiatives. This allowed the privatisation of the banking system by transforming banks into joint-stock companies, but did not neglect gifts to the third sector and in support of the less privileged classes (Catelani and Martelli, 2009). Therefore, the first step was to separate the non-profit mission of grant-giving from core banking activities, and the subsequent one was to create independent private foundations devoted exclusively to public sector goals and endowed with the sale of banking assets (Council of Europe/ERICarts, 2011e). The capital was put in the hands of specifically created foundations and soon after, other private investors were also allowed to buy shares in the Casse. Now, only very few of the foundations still own a majority share of their related banks (Graves, n.d.).

73 It is thought that the Italian system of cultural foundations goes back to the Renaissance period when the Medici family used to support art introducing the mécénat system. Some theories claim that it was due to the stratification of the Italian society which resulted in the masses of poor people and a few rich families, who had great quantities of money in their possession. With it, they were able to direct some of it for luxury use. Therefore, the causes of private mécénat were not economic but rather political ones. Other theories explain it as the beginning of modern capitalism in which every cycle started with market expansion, concluding with the financial expansion. Market expansion opened the possibilities of greater income and the surplus capital turned to financial investment. Still, the stratification of the society seems as the most accepted theory. The religious mécénat system also appeared and was mostly evident in the construction of churches. It is explained by the fear of God (the Renaissance financiers who earned properties by extortion redeemed their "honesty" by investing money in churches, hospitals, monasteries, etc.). Therefore, mécénat was not developed to stimulate economic development, but was rather a basis on which capitalist society developed. It was a condition which forced financial aristocracy to make alliance with the governing aristocracy. Still, it resulted in new financial sources, which stimulated the development of culture and art. The demand was large enough to encourage the development of new professions and institutions such as artists, intellectuals, academies, art critics, historians. With economic sources reserved for culture, a basis was developed for the art as a social sphere (Breznik, 2009: 49).

74 Amato-Carli Law (Decree law no. 218/1990), subsequently incorporated into the consolidated Law on banking (Legislative decree no. 385/1993). The further restructuring was undertaken and completed by the Ciampi Law (No. 461/1998) and the subsequent application decree (No. 153/1999).

Banking foundations are not-for-profit subjects, having the institutional task of giving donations to definite sectors (scientific research, arts and heritage, health and welfare), fixed by the law and called "relevant". Within the list prescribed by the law, foundations are free to choose all or just some of these sectors, according to typical criteria of any organisation. Variables that every foundation considers are the size of patrimony and the consequent volume of gifts, the characteristic of reference territory, and the presence of other similar organisations in the region or in the reference zone. Substantially, every foundation selects the choice of relevant sectors on the basis of its own characteristics (Catelani and Martelli, 2009).

Thus, foundations of banking origin have the honor and the onus of filling a position, which hitherto has remained vacant in Italian society, unlike other countries in Europe and even more so in North America. The role of these foundations is to administer and manage significant assets in full autonomy, bound to pursue the public interest and independent of governments. To do so, however, "public benefit", as defined by the lawmakers, needs to be pursued through clear-cut objectives which leverage the specialist traits of these foundations, and, specifically, they have to pick up where public agencies leave off (*Fondazione Cariplo*, 2010a).

According to ACRI, the National Association of Local Savings Banks and Banking Foundations, the total grant-giving capabilities of foundations reached EUR 1 715 million in 2007, 30.6% of which was channelled to the sector "Art, heritage and cultural activities": This represents an increase of 9% with respect to the previous year (Council of Europe/ERICarts (2011e), according to ACRI, *15th Report on Banking Foundations*, 2008). In 2008, this percentage remained exactly the same (30.6%), while in 2009 there was a slight decrease of 1.2% (29.4%) (ACRI, 2010).

In total, there are around 88 foundations in Italy, but only six are large in size (Fondazione Cariplo, Fondazione Monte dei Paschi di Siena, Compagnia di San Paolo, Fondazione Cassa di Risparmio di Verona, Vicenza, Belluno e Ancona, Fondazione Cassa di Risparmio di Roma and Fondazione Cassa di Risparmio di Torino), while the others have small patrimonies. They are led by different actors: local authorities, non-profit organisations, public institutions, religious bodies and social cooperatives.⁷⁵ The biggest and most important foundations are located in the northern and central regions, and only small ones are in the south (only 12% of the total number of foundations operate in the south and the islands). To maintain the balance between north and south, in 2006, the Foundation for the South was established, with the scope of stimulating the economy by the creation of cultural districts (Givone, 2010, p.10).

The supported projects cover various fields of activity, mainly the organisation of exhibitions and events, the management of museums and sites, libraries and other cultural institutions and the restoration and conservation of cultural goods (Council of Europe/ERICarts, 2011).

Piedmont is the second largest Italian region, both in terms of size of banking foundations, and in terms of equity and disbursements per capita. Foundations in this region distribute approximately 25% of total disbursements at the national level (Fondazione Cassa di Risparmio di Torino and Compagnia di San Paolo) (Givone, 2010, p.11).

⁷⁵ Management Councils of the big foundations consist of mayors, presidents of the regions and provinces, bishops, etc. The largest share of Management Councils' members is nominated by politics, followed by those nominated by various bodies (such as chambers of commerce, bishops, universities), and then those nominated by co-optation by members already participating in the Management Councils.

The area that receives most of the grants is art and culture; cultural heritage, in fact, has always been a priority. The beneficiaries are both public and private entities throughout the region. Local governments receive 42% of disbursements, which they further distribute (*Ibid.*).

Brokerage bodies

There exists a partnership organisation of business and arts sectors, Museimpresa, The Italian Association of Company Archives and Museums. It was founded in 2001 after a few years of informal research and meetings undertaken by the representatives of 15 major archives and museums, with the active support of Assolombarda and Confindustria. Today, its members are rather numerous.⁷⁶ Museimpresa aims to promote cultural initiatives of companies through the valorisation of their museums and the archives. In this context, Museimpresa is committed to exchanging and promoting experiences and knowledge with the museum community, companies, institutions and the public. In addition, Museimpresa invests in research, training and development of company museums and archives. Its main activities include initiatives promoted within the *Week of Company Culture* (Settimana della Cultura d'Impresa) such as exhibitions, conferences, theatre plays and film shows; networking with research institutions, public administration, museums and universities; training/education and research in the field of company museum and archives studies; publishing; promotion of itineraries with the support of Turismo Industriale; and initiatives connected with company culture in the related fields (arts, design, communication). The organisation is presided by the President and two Vice Presidents, and has eight counsellors.

There is another example of arts and business organisations in Italy. **Bondardo Comunicazione** (BC) is the first Italian organisation specialised in leveraging culture in business, with the aim of producing tangible benefits for clients. The organisation develops, manages and communicates unique, culturally relevant projects for corporations, cultural institutions and regional bodies. In 1997, it created a non-profit organisation, Sistema Impresa e Cultura, which aims to improve and promote cultural investments as a strategic choice and a competitive asset for Italian companies, thus creating a tissue of connections between people, companies and institutions. Through the activity of the Sistema Impresa e Cultura, culture and business sectors meet each other and establish planning dialogues, thus achieving competence and visibility among diversified audiences. The organisation works with companies, cultural institutions and local authorities.⁷⁷

Funding

Cultural goods and activities in Italy are financed by the public and private sectors. Public authorities primarily finance cultural heritage, archives, libraries and, to some extent, performing arts (music, theatre, etc.). Cultural industries (books, the press, cinema and the audio-visuals) are mostly dependent on the private sector through the marketplace, through household expenditure for cultural goods and services and advertising for radio, television and the press. However, the boundaries between what the public and private

⁷⁶ Such as: Aboca, Alessi, Alfa Romeo, Alinari, Amarelli, Artsana, Barilla, Bergallo, Borsalino, Bracco, Fratelli Branca Distillerie, Cottoveneto, Ducati, Eni, Enel, Ferragamo, Ferrari, Gruppo Ferrovie dello Stato, Guzzini, Fondazione Fiera Milano, Intesa Sanpaolo, Italgas, Kartell, Museo Nicolis, Lungarotti, Magneti Marelli, Martini & Rossi, Museo della Paglia "Domenico Michelacci", Mediolanum, Olivetti, Peroni, Piaggio, Pirelli, Rossimoda, Sagsa, Safilo, Same, Tenaris Dalmine, Zamboni, Zegna, and Zucchi. The institutional supporters of the Association are Consorzio BAICR, Associazione Paesaggio del'Eccellenza, Sistema Cultura and Federturismo.

⁷⁷ *Sistema Impresa e Cultura*. Retrieved in March 2011 from: <http://www.impresacultura.it/ENG/sistema.shtm> [Accessed 23 March 2011].

sectors fund have become more permeable: cinema, and notably the press, have been heavily subsidised by the public sector in recent years, due to problems of “market failure”, whereas, since the 1980s, sponsorship and donations have become a more and more relevant source of support for heritage and museums (Council of Europe/ERICarts, 2010b).

Since no comprehensive data on public and private cultural expenditure exist in Italy, as such data are not collected on a regular basis, we have to rely on the year 2000, when the data were last collected. Interestingly, private expenditure was higher than public expenditure, and amounted to 73.3% of the total expenditure for culture. The highest private cultural expenditure comes from households (54.7%) and advertising (42.2%) while sponsorships and donations (3.06%) play far lesser role. Although, both household and advertising expenditures represent the private sector, this study focuses on intentional private investments in culture (such as grant-giving from individuals, businesses, foundations, trusts and public-private partnerships) and, therefore, we do not go into details explaining the types of market relations with culture.

Table 4: Public and private cultural expenditure by source in 2000, EUR in millions and % variations 1990-2000

		2000	%	% Variation
Public expenditure	State*	3 242.3		30.2
	Regions	984.4		29.7
	Local	2 245.0		64.3
	<i>of which</i>			
	<i>Provinces</i>	205.5		116.3
	<i>Municipalities</i>	2 039.5		60.5
	Total	6 471.7	26.7	40.2
Private expenditure	Household expenditure	9 712.5		10.1
	Advertising	7 492.8		65.4
	Sponsorship and donations	543.8		83.5
	Total	17 749.1	73.3	30.1
Total	24 220.8	100	32.6	

Source: Council of Europe/ERICarts (2011e)

As already stated and as visible from Table 4, in 2000, private expenditure exerted the dominant role, accounting for around three-fourths of funding, with an overall dynamic trend of +32% in real terms in the 1990s. Surprisingly, however, unlike in the previous decade (1980-1990), between 1990 and 2000, public expenditure had increased at a faster rate than private expenditure (+40% against +30%), in spite of the heavy constraints affecting public budgets for complying with EU parameters and the government’s strenuous efforts to encourage private support for culture and the arts. An explanation can be found in the boost in local cultural expenditure coupled with a dynamic state cultural policy at the end of the 1990s, and in an overall stagnation of household expenditure (Council of Europe/ERICarts, 2011e).

Comparable data was not available for the following years, therefore trends in public and private comprehensive expenditure for culture after 2000 cannot be precisely identified. As for public expenditure, though, it can be stated that, after two decades of a dynamic trend, the main feature has been stagnation (followed by a decrease in recent years), along with a

quite diversified trend in expenditure by the different levels of government. On the other hand, when it comes to the most important source of private financing of culture, household expenditure, a slight increase in its amount has been counterbalanced by a decrease of its share of household expenditure as a whole (Grossi, 2009, in: Council of Europe/ERICarts, 2011e).

Generally, it can be said that the present financial crisis affected some incentives, in particular, individual as well as corporation philanthropic investment in culture.

Legal landscape

The most important incentive for private investment in culture, that of public-private partnership in the form of foundations, is legally regulated by the Amato Law and the Ciampi Law (No. 461/98). However, the foundations' operation and grant decision-making are not prescribed by specific law, acts or regulations.

The biggest problem regarding incentives for private investments in culture in Italy is the practical application of laws and regulations, which are very complicated, bureaucratic and not easy to apply. Furthermore, regulations are scattered in many laws, and some cannot directly be considered to regulate private investments in culture, but rather to create an environment which would stimulate them. The most important pieces of legislation⁷⁸ are as follows:

1. Decree of the President of the Republic 633/1972 – regulating the reduction of VAT on books;
2. Regime IVA – general law on VAT;
3. Regime speciale beni usati D.L. 41/95 – regulating buying/selling of antiquities;
4. Decree of the President of the Republic 602/73 and D.Lgs. 31-10-1990 n. 346 – regulating transfer of art in lieu of tax payment;
5. Decree of the President of the Republic 917/1986, Testo unico sulle imposte sui redditi (TUIR) – regulating tax exemptions for taxable income both for individuals as well as for companies;
6. Law 342/2000 – regulating tax deductions for private donations of companies, if earmarked to a list of cultural institutions;
7. Decreti dei beni e delle Attività culturali (MIBAC) (Gazzetta Ufficiale n. 162/15.7.2009.) – regulating tax credits and tax shelters for the film sector;
8. Legge 296/2006 and other laws on state budget – regulating the freedom to indicate an institution to which the contributor gives the donation (5 per mille);
9. D.L. 14 marzo 2005, n. 35 (decreto "competitività") – regulating tax deductions for donations in kind for cultural purposes.

Still, there is not a problem of classification of cultural institutions or goods which fall under the definition that brings favourable treatment because the specific laws are very clear in defining them. Sponsorship is considered as a category for tax deduction.

⁷⁸ The listed information on legislative framework was obtained from the Compendium of Cultural Policies and Trends database, various articles listed in the references as well as from the questionnaire received from the Ministry for Heritage and Cultural Activities.

Tax deductions and incentives

Consumption of culture

In the area of consumption of culture, there are **VAT reductions** for buying cultural goods that amount to 4% for journals and daily newspapers, books, periodicals, printed musical editions, geographical maps, and the like. These are scattered among seven laws, as is also the case for Italy in other areas of investment in culture.

Also, there are VAT reductions applicable for buying/selling antiquities. The reductions have the aim of avoiding double taxation for antiquities which are to be re-sold. There are five tax/income bracket groups to which different tax reductions are applied:

1. receipts from 0 to €15 000 – 23%;
2. receipts from €15 000.01 to €28 000 – 27%;
3. receipts from €28 000.01 to €55 000 – 38%;
4. receipts from €55 000.01 to €75 000 – 41%;
5. receipts of more than €75 000 – 43%.

Another instrument concerns the transfer of art in lieu of tax payment: according to the Decree of the President of the Republic No. 603/73, it is possible to cede cultural goods as well as works of living authors not older than 50 years to the State in lieu of payment of various taxes.

Production of culture

Concerning the production of culture, there are **tax credits** available for artists to reduce payable taxes (Gazzetta Ufficiale n. 162/2009). The exemptions are permitted in the form of tax credits and tax shelters in the field of cinema as follows:

1. tax credit for production companies for films of "Italian nationality";
2. tax credits for executive and post-production companies for "cultural films" commissioned by foreign productions;
3. tax shelter for re-investment of profit for the production or distribution of films of "Italian nationality".

Investment in culture

A special measure refers to the **favourable tax treatment of old buildings**, but it differs according to whether these buildings have been recognised as being of special cultural interest under a decree issued by the Ministry of Heritage and Cultural Activities or whether they qualify as part of the "national historic and artistic heritage" (DRP 917/1986 – TUIR). Listed buildings benefit from favourable tax treatment, which is legislated as series of exceptions to the rules in place and is scattered throughout the legislation. Through these measures, there is a reduction in the registration fees on purchase,⁷⁹ a deduction (19%) of owners' share of any upkeep expenses from their income taxes, a deduction of maintenance expenses from rental incomes (generally 15%, but differs for various

⁷⁹ Registration fees generally amount to 7% of the market value of the property purchased. For listed buildings, this is reduced to 3%, which is also the percentage applied to taxpayers in purchasing their first main residence.

locations⁸⁰), an assessment of municipal property tax on favourable basis⁸¹ and a reduction in capital gains tax relating to properties (up to 75%). VAT is payable at a rate of 20% and there are no specific concessions for work on historic buildings, however works on dwellings are charged at a lower rate of 10%. Wealth tax is charged on property at a lower than market value, usually at a reduction of 60-70%. The gift of a historic monument, where a liability arises, is taxed at a rate of 3% of the monument's value, which is a set measure regardless of the price. There is no inheritance tax for historic buildings and monuments (Committee on Culture, Science and Education, 2003).

When it comes to **sponsorship**, DPR 917/1986 – TUIR provides for the total deduction of company income for advertisement expenses and representation costs. Sponsorship is considered as a category for tax deduction.

Since 2000, the usual practice of corporate support to culture has been introduced by a new law (No. 342/2000), which allows the total deduction of **cash donations** from taxable income (see Table 5). The incentive proved to be rather successful, since financial aid derived from this law increased by 70% in 2004-2005, although donations were not equally distributed among regions (highest percentages in Lombardy, Veneto and Lazio) and cultural sectors (performing arts receiving 70% of this support). The regional differences identified are interesting as they show different attitudes towards donating to culture in Italy, which cannot be explained as a result of the different price of donations, as this price is the same throughout the country (Klamer, Mignosa, and Petrova, 2006).

As for individuals, the law (Decree of the President of the Republic No. 917/1986) allows only a deduction of 19% from personal income taxes for financial aid given to private and public institutions active in the cultural sector. In 2005, for the first time since the introduction of the law, the Ministry of Heritage and Cultural Activities recorded donations of EUR 2.38 million (Klamer, Mignosa, and Petrova, 2006). In 2009, donations from individuals amounted to EUR 90 719 and EUR 22 463 529 from non-commercial organisations. The same Decree (No. 917/1986) regulates corporate deductions for cash donations, which includes total deduction of the company income. In 2009, EUR 29 439 453 was donated. Table 5 shows types of incentives.

⁸⁰ For properties located in central Venice or on the islands of Giudecca, Murano and Burano, the flat-rate deduction is 25%. In certain areas where rental property is at a premium (in particular, the cities of Bologna, Florence, Genoa, Milan, Naples, Palermo, Rome, Turin and Venice and the surrounding suburbs), owners are entitled to a supplementary 30% deduction, in addition to the 15% or 25% deduction.

⁸¹ Municipal property tax is payable annually at a rate which varies from 4% to 7% depending on the municipality concerned, and the tax base is proportional to the property's rateable value. For listed buildings, the rateable value applied is the lowest for the land register area in which the property is located.

Table 5: Tax incentives for companies and individuals

SUBJECT	LAW	Type of incentive	Type of donations, activity, and/or institution
1. Corporate tax	Law no. 342, 21/11/2000, article 38, (now art. 100, section m, General Tax Code)	Total deduction of donations from taxable income; Donations only cash; Ceiling = €139 443 362.75	Donations to specific institutions indicated by the Ministry of Culture
2. Corporate tax	Article 100, section h, General Tax Code	Deduction of donations up to 2% of income or €2 065	Donations to non-profit organisations (NPOs)
3. Corporate tax	Article 100, section f, General Tax Code	Total deduction from taxable income; Necessary authorisation of the Ministry of Culture	Donations for the acquisition and/or conservation of cultural heritage
4. Corporate tax	Article 100, section g, General Tax Code	Deduction of donations up to 2% of income	Donation to institutions operating in the performing arts sector
5. Corporate tax	Law no. 80 14/05/2005, article 14	Deduction of donations up to 10% of income, in any case not more than €70 000	Institutions operating in the Cultural Heritage sector, NPOs, Associations included in a specific register
6. Individual tax	Article 15, sections h and h-bis, General Tax Code	Deduction from total tax of 19% of the donation; Need for approval from the Ministry Donation; in cash or in kind	Donations to: State, Regions, Local authorities; Public institutions and organisations; Committees created by the Ministry of Culture; NPOs
7. Individual tax	Art. 15, section I, General Tax Code	Deduction from total tax of 19% of the donations (max. 2% of income)	Donations to public and private institutions operating in the performing arts sector
8. Individual tax	Law no. 80 14/05/2005, article 14	Deduction of donations from income (max. 10% of income or €70 000); Beneficiaries must keep records	Institutions operating in the Cultural Heritage sector; NPOs; associations included in a specific register

Source: Cavalieri and Mignosa, 2010

The numbers show that, in Italy, this type of donation is still small and not as widespread as it is in other countries, especially the Anglo-Saxon countries. Of the 41.7 million returns filed in 2007, only 6 291 tax filers (or 15.1 per 100 000 taxpayers) claimed a tax deduction for their charitable contributions to either cultural and artistic activities, performing arts institutions or music institutions (Cavalieri and Mignosa, 2010).

An interesting initiative aiming to stimulate **intervention in favour of the arts** while offering the freedom to choose which art organisation to support has been launched in Italy: people are free to choose a specific institution (art organisation, social organisation, university, etc.) to which they can route 0,5% of the amount of taxes they pay. If a taxpayer fails to indicate the direction of the amount, it remains with the state (AIRC, n.d.). The measure has been introduced as a new form of public financing of the third sector. It has been around for more than five years, but not only has the 5 per mille legislation not become an actual law (unlike in 12 other European countries where similar laws exist), but in the government budget, which is now under examination in the Italian senate, the coverage for the experimental measure has been drastically reduced from EUR 400 million to EUR 100 million. This reduction has resulted in a difficult situation for the activities of millions of volunteers and thousands of non-profit groups (VITAEurope, 2010).

Tax deductions for **donations in cash or in kind** for cultural purposes (DL 14/3/2005) include 10% of the total income not exceeding EUR 70 000 per year for individuals and companies.

Gifts are not taxable if transferred to the State, regions, provinces or municipalities, public organisations, foundations or associations in the field of education, research, or NPOs executing some social activities (D.Lgs. 31/10/990, no. 346).

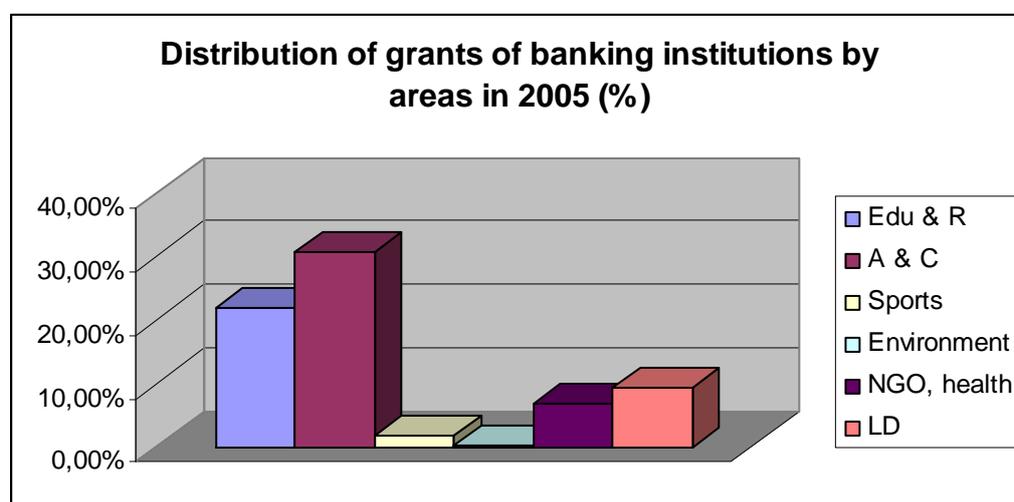
Cultural goods as **testamentary gifts** are not subject to tax payment or are subject to tax reductions.

Public-private partnerships (grant-making organisations)

Concerning donations, banking foundations play a very important role. They distribute donations directly to local governments or to grantees linked to them (see more about foundations in "Foundations and other grant-giving bodies").

Figure 1 shows the share of foundations' grants as percentage of municipal expenditure: this percentage is quite high for art and culture (17% of municipal expenditure) and for local development (9% of municipal expenditures) (Givone, 2010, p.4).

Figure 1: Distribution of grants of banking institutions by areas in 2005 (%)



In 2005, the banking foundations in Italy provided a total of around EUR 1.4 billion against EUR 73 billion final total payments of municipalities, that is to say about 2%, a limited share. If, however, one disaggregates the total disbursements by sector and relates them to the municipality expenditure, the picture changes significantly. Foundations' disbursements make up 17% of the municipalities' expenses for art and cultural activities (Givone, 2010, p.9).

In 2009, incorporated funds of banking foundations amounted to EUR 2.1 billion. Grant-making and the operating of foundations are not subject of any particular fiscal treatment in Italy.

Furthermore, the **award** "Impresa e Cultura" was introduced in 1997 by a communication company (Bondardo Comunicazione) with the aim of stimulating the engagement of the business sector in supporting the arts. It is now supported by the Presidency of the Council of Ministers, the Ministry of Foreign Affairs, the Ministry of Infrastructures and Transport and the Ministry of Heritage and Cultural Activities, and is sponsored by several local authorities, banks, publishing houses and companies (Klamer, Mignosa and Petrova, 2006, p.59).

The aim of the initiative is to identify and encourage small, medium and large companies that invest in culture to pursue their mission by promoting continuous projects instead of occasional sponsorships. So far, the award has involved over 800 businesses, thus tracing a clear and updated map of relations between culture and business in Italy.

Lottery

In search for alternative funding sources for culture in 1990s, Italy decided to provide revenues generated through the national lottery, and therefore introduced Law 662/1996, by which anticipated annual resources from the lottery amount to EUR 155 million. This sum is fixed and represents a ceiling amount.

The funds are allocated to the Ministry of Heritage and Cultural Activities for the restoration and preservation of cultural, archaeological, artistic and archival and library goods in advance, based on triennial plans. Practically 100% of the lottery funds are invested in capital projects. More than 70% of the funds are earmarked for heritage (including architecture, archaeology, landscape, museums). Libraries receive around 15% of the lottery money and archives around 11%, while other sectors receive far less.

Amendments to this Law in 2003 included cultural activities and the performing arts as recipients. From 2007-2009, 45% of the lottery money was earmarked for Southern Italy, which does not benefit from private investments in culture in the same way Northern Italy does.

Effects

Available resources, including official documents, literature, expert studies and articles, along with the empirical information obtained from the questionnaire specifically designed for this study,⁸² do not provide sufficient grounds for detecting the proven effects of private investment in culture in Italy. Therefore, any attempt to identify effects would be a speculation, which, in this case, could be more precarious than beneficial.

Policy pressure and re-orientation

In general, Italian cultural policy follows the main principle of the European cultural policies, which relies on government intervention and public subsidies. Italian cultural policy can be perceived as a large-scale national plan for supporting arts and cultural institutions, organisations, cultural heritage, cultural activities, initiatives, etc.

Private investment in culture in Italy is determined and regulated by state fiscal policy that has the end effects in the cultural sphere, but, in essence, does not originate from cultural or private sectors.

For example, in the US, there exist plural policies that affect and influence cultural lives. Those policies are decided at every level of government and are profoundly influenced by decisions made in the private sector, whether by philanthropic foundations, non-profit organisations or commercial enterprises (Smith, 2000). Cultural policy-making in the US has often been creative in linking public and private sector initiatives, a practice that is also evident in the Italian practice in bonding banks to charitable donations in culture. Indeed, as the numbers show, some of the shifts in Italian legislation between 1990 and 2000 have been nothing less than resourceful and productive.

⁸² Sent to the Italian Ministry for Heritage and Cultural Activities. Answers received on 1 February 2011.

Still, the distinction between the role of the state and the contribution from the private sector is highly debatable. The analysis of all available incentives for private investment in culture in Italy shows that public funds and political determination underline and encourage private investments. Namely, tax incentives, exemptions, relief and deductions are yet another form of public subsidy or re-allocation of public funds. Also, lottery funds are not far from this definition as public quasi-private funds.

Italy has been at the unfortunate end of financial crisis in the period of the last two years. But even before that, in 2006, the cultural sector in Italy experienced severe cutbacks that resulted with nationwide strikes of cultural workers. Eleonora Belfiore and Severino Salvemini agree that "while cutting off public money to the arts, Silvio Berlusconi's government has done too little to ensure the funds are replaced with private largesse. After then four years of conservative government, individuals still could not set patronage of the arts against their tax liability, and the fiscal incentives for corporations were more theoretical than real (*The Economist*, 2005)."

According to the Council of Europe, there was proportionately less private cultural sponsorship in Italy than in Germany or Britain, though more than in France. Much of this private money continues to be allocated to heritage conservation, and what is left cannot be increased overnight. But to be true to its own principles, the right-wing government should at least start to do so. This would show the extent to which individual and corporate generosity, when properly harnessed, can benefit the arts in a country whose heritage owes so much to patrons with deep pockets (*The Economist*, 2005).

Short description of the examples of good practices found

Instead of an example of a good practice, an interesting case is presented which illustrates the most recent project in the public call for private investment in culture in Italy. In 2010, the centre-right government of Prime Minister Silvio Berlusconi launched an international tender to select firms interested in the restoration of the Coliseum amphitheatre. This EUR 30 million project is the first milestone in an upheaval in the preservation of Italy's immense cultural heritage by opening it up to private sponsors. This is a result of significant cutbacks in public funds to the cultural sector: the Italian state has realised that it cannot maintain with its own resources the 414 sites scattered across the country (e.g. museums, monuments and archaeological areas), despite a cultural tourism income (net national ticket revenues) amounting to EUR 97 million in 2009.

Private funds are therefore crucial for the upkeep of Italy's monuments. The culture undersecretary of state, Francesco Giro, considers the international bid for the Coliseum restoration as the first landmark of just such an innovative approach, which is expected to be further applied to the preservation of all monuments and sites and states: "I hope the Coliseum's renovation will trigger a revolution. In order to attract private funding, we're working on a tax exemption for all investments in culture." However, it is also important to consider how financial resources are invested. For the four big cultural poles, namely Rome, Venice, Florence and Naples, the ticket revenues exclusively went to preserving the site locations in the cities (i.e. preservation, renovation, reconstruction).

Another approach by the government is the promotion of "additional services" around the main cultural sites in an attempt to boost tourist appeal. These services include bars, restaurants, cafeterias, bookshops, welcome points and multilingual information booths. (ChinaDaily, 2010).

Therefore, this case shows that the state awareness of private investment in culture is ever increasing and that the income generated from commercial markets such as tourism are not sufficient. The preservation and improvement of cultural goods and activities seeks integrated sources of funding. Although this provokes another issue, the one of governance and a public mandate on culture.

CASE STUDY: THE NETHERLANDS⁸³

National context

Cultural policy scope and priorities

The scope of Dutch cultural policy encompasses four domains: the arts, literature, cultural heritage and media. Each of these main pillars is branched out to form sub-sectors to cover the entire field. The heading arts includes within it visual arts, architecture and design, film, performing arts, amateur arts as well as arts education. Cultural heritage includes museums, monuments, archaeology and archives, while libraries and literature are represented by the sector of literature. The media includes the national and regional broadcasting.

Cultural policy in the Netherlands underlines the principles of cultural diversity, audience outreach and cultural entrepreneurship. The policy document "Art for Life's Sake" (Ministerie van Onderwijs, Cultuur en Wetenschap, 2007) outlines the priorities of the cultural policy for the period 2009-2012, which focuses on excellence (in the production and distribution of cultural goods), innovation and e-culture (with respect to the importance of digitalisation and media development), cultural participation and a stronger arts sector (being able to raise own income). The policy goals stress improving the cultural bureaucratic system, wider involvement of the private sector and increasing the importance of culture in social terms. While promoting quality and social objectives, greater financial independency of the cultural sector remains a focal point in shaping the recent cultural policy. This process dates back to the beginning of the 1990s, when the cultural policy was aimed at increasing the involvement of private stakeholders in the cultural sector realised through privatisation⁸⁴ of cultural organisations (Engelsman, 2006) and at increasing the need of self-generated income through offering a wider diversity of commercial activities and matching public and private financing. Additionally, financial incentives were introduced to strengthen the private contributions to the cultural sector.

Furthermore, the government has acknowledged the benefits of the arts and culture in a broader sense and has designed policy actions to facilitate the development of infrastructure and economic growth within cultural industries in general and specific territorial areas.

⁸³ Prepared by Lyudmila Petrova, Erasmus School of History, Culture and Communication, Erasmus University, The Netherlands.

⁸⁴ In the Dutch context, the privatisation of the cultural institutions is based on a shift from state ownership to a private one, realised by changing the legal status under the law of a private foundation. In the case of the museums, many have started to operate as private foundations and only some collections and buildings that were of national importance have remained state property. The new situation was marked by a change on the organisational level – the business was run independently from the states. However, the privatisation didn't mean to replace public funding with private funding and the museums are still supported by government subsidies for up to 70% of their budget. The difference was that they were allowed and stimulated to earn their own income from non-governmental sources which was not possible under the previous legal status. This also implied changes in the management responsibilities as well as in contracting of the employment. The first six museums were privatised in 1994, including the Van Gogh Museum and the Boerhaave Museum for the History of Science (Engelsman, 2006).

For the upcoming four-year period as announced in a letter to the Parliament at the end of 2010 (Zijlstra, 2010), the new priorities of the cultural policy put greater emphasis on cultural entrepreneurship and private giving as far as financing is concerned (Zijlstra, 2010).

Administrative organisation

In the Netherlands, the government responsibility for culture is divided between central and local levels where regions and municipalities have a lot of autonomy. On the behalf of the central government, the Ministry of Education, Culture and Science is responsible for cultural affairs under its specialised division led by the State Secretary of Culture. The central government takes the lead in designing the cultural policy on the national level. Public administration of culture defines the legislative framework and support to the major national cultural institutions. When it comes to decisions concerning art and quality matters, the central government leaves such decisions to various committees of experts that operate on the national level, such as the Council for Culture and the Committee on the Benefits of Culture.

The decentralisation of the culture sector is strengthened with the re-allocation of state subsidies through sector-specific arm's-length bodies (Public Cultural Funds), which autonomously define the scope of their support to the arts, often in coordination with external expert committees (see section "Foundations and other grant-giving bodies"). In addition to this, the Funds have a role in promoting the sectors to the wider public through organizing awards, competitions and debates, with some Funds taking responsibilities in the support of cultural infrastructure as well. State involvement is limited to providing finances. The implementation of the new policy plan will bring with it some reorganisation in the responsibilities and operations of the Public Cultural Funds; for example, the Mondriaan Foundation and The Netherlands Foundation for Visual Arts, Design and Architecture will merge to form a new Fund. Since 1993, Dutch cultural policy is planned for four-year periods, defining clear goals and a budget based on the assessment of past achievements. The Funds provide subsidies to smaller cultural organisations and individual artists, and the state finances the national institutions in basic infrastructure (new rearrangement of this infrastructure is proposed within the upcoming four-year plan). The Council for Culture evaluates these Public Cultural Funds every four years.

On the lower levels of government, cultural affairs are attended to by provincial and municipal governments, which are responsible for about 70% of the financing of art and culture. They again operate through specialised committees, such as the Rotterdam Council of Art and Culture and the Amsterdam Council of Art and Culture. In some sectors, such as the performing arts and the symphony orchestra, the system remains centralised; others, such as museums and libraries, are overseen by municipalities.

Cooperation with other ministries

To facilitate public private partnership, the Ministry of Culture promotes diverse programmes with various other ministries. In 2005, along with the Ministry of Economic Affairs, it launched a policy programme "Our Creative Capacity" (Ministry of Education, Science and Culture, 2005), which focused on the potentials of cultural industries. The programme for the period of 2009-2013 combines the objectives of cultural policy and industry policy, while emphasising the importance of strengthening entrepreneurship and private involvement within the creative art sectors.

Based on analysis of the implementation of the policy priorities and programmes and administrative organisation of cultural policy, it can be observed that the recent model of

Dutch cultural policy combines both characteristics of arm's-length and entrepreneurial models. The announced changes in the cultural policy for the next four-year period stress the urgency of the latter.

Foundations and other grant-giving bodies

Non-profit organisations are often explored as third-sector entities whose goals are to support civic society activities. When looking for new sources of funds, it is necessary to acknowledge the potential of the third sector for the financing of culture. They do indeed involve networks of contributors to the cultural sector, giving rise to social evaluations that go beyond market and governmental types of transactions.

Different types of grant-giving non-profit organisations exist in the Netherlands: private associations (e.g. clubs, friends' societies) and foundations. They operate under different legislation, and the ways in which they provide and receive support vary. The foundations can be government-supported or independent. In the early 1990s, the Dutch central government established Public Cultural Funds as government-supported foundations that receive funds from state subsidies and redistribute them according to their own sector policies. They are, namely, Dutch Fund for Performing Arts, Dutch Film Fund, Foundation for Visual Arts, Design and Architecture, Mondriaan Foundation, Netherlands Architecture Fund, and Cultural Participation Fund (Ministry of Education, Science and Culture, 2010b). The Funds define the scope of cultural promotion and support, frequently coordinating with external experts within specific art sectors. Their role is to define the qualitative measure for the development of the sector while taking a distance from the decisions made from the state administration. State involvement is limited to providing finances based on the four-year plan provided by each Public Cultural Fund. The main focus of the Funds is to support projects and individual artists and less so cultural infrastructure. Instead, the government remains responsible for the latter. In addition to this, the Public Cultural Funds play a role in promoting the sectors to the wider public through organizing awards, competitions and debates, with some funds taking on responsibilities in the support of cultural infrastructure as well.

The activities of the independent grant-giving foundations within the cultural sector and their roles as enhancers of the creative arts have increased. They are often established by families, community members or companies. Among the biggest private foundations supporting the arts and culture are the Prince Bernhard Cultural Funds, VSB Funds and the DOEN Foundation.

Prince Bernhard Cultural Funds

This foundation was established in 1940 to promote the humanities, art, education and conservation of cultural monuments and nature. On a yearly basis, it supports about 3,500 cultural projects within the performing arts, visual arts, literature and history, the restoration of monuments, publications and nature conservation. It allocates subsidies, awards and grants. The foundation is privately funded and is active as an intermediary for mecenat in the Netherlands.

VSB Funds

The VSB Fund a private fund that was established in 1990 by VSB Bank. More recently, the largest portion of its financing has come from the merger of VSB Bank with Fortis Bank. In the area of arts and culture, VSB Fund aims to support professional and amateur art projects that will lead to more people experiencing art. It puts its priorities on projects supporting the performing arts, film production and cultural heritage; attracting new

audiences; offering a deeper experience; projects of artistically and organisationally good quality. Since 1994, the fund supports a prize for poetry in order to promote poetry among the population.

DOEN Foundation

DOEN is a Dutch fund of charity lotteries. It supports projects by entrepreneurial people that promote sustainable, social and cultural values. The foundation was established in 1991 by the National Postcode Lottery. Since 1998, it has been also receiving contributions from the Sponsor Bingo Lottery and, since 2004, from the Bank Giro Lottery. It supports both large and small initiatives with subsidies, loans and guarantees. It allocates budgets to projects dealing with climate change, new economy, culture and cohesion. In addition to the projects undertaken in the Netherlands, DOEN, together with Triodos Bank, started a special programme in 1994 aimed at providing loans to small entrepreneurs in developing countries to start or expand their businesses.

Among the many other private foundations, Rembrandt Foundation, VandenEnde Foundation and Ars Donandi have an important role where supporting the arts and culture is concerned. The Rembrandt Foundation supports Dutch museums in the purchasing of art works important for the Dutch public art collection. Specifically, it does this by providing advice and financial support to museums and public art collections in the Netherlands. The VandenEnde Foundation was established in 2001 by Joop and Janine van den Ende after they sold their share of the Endemol company. The foundation supports a wide variety of activities in the arts, theatre and education fields, while promoting young talents and cultural entrepreneurship. In 2010, it invested in the newly built De La Mar Theatre in Amsterdam. Ars Donandi is a foundation that provides financial support and assistance to Netherlands-based institutions and individuals. It donates to projects aimed at general welfare and culture.

Besides the independent foundations, cultural organisations can also establish "Named" Funds or associations of "friends", who can complement their cultural budgets through collecting donations, legacies and membership fees (see "Legal landscapes").

The role of the foundations, both small and large, has been increasing in recent years. It is common that they allocate financing mainly to projects, and less to cultural infrastructure (with some exceptions; for example, the VandenEnde Foundation invested in building a new theatre in 2010). It is interesting to note that, to a certain extent, they tend to follow the main directions taken by the Dutch government, i.e., to stimulate the entrepreneurial spirit and greater involvement of private individuals and companies in the financing of the arts and culture. It has become a common practice for both government and private foundations to allocate grants based on matching the needs of other different stakeholders involved in the ownership of the projects. It can also be observed that some private foundations not only directly finance the cultural sector, but also provide assistance or guarantees to cultural entrepreneurs when they need to obtain loans to start or maintain small enterprises.

Brokerage bodies

Along with the favourable legislative environment that stimulates private support to the arts and culture, the establishment of specialised agencies, which encourage engagement between business companies and arts sectors, has enhanced private involvement in the

cultural sector. Among others, Cultuur-Ondernemen⁸⁵ (Culture-Entrepreneurship) is an organisation that operates on the national level as a facilitator and advocate of co-partnership between business and artists and/or art organisations. It was established in October 2010, after the merger of two agencies previously very active in these areas, Kunst & Zaken (Art & Business) and Kunstenaars&Co (Artists&Co).

Kunst & Zaken was a foundation established in 1996 with board members active in both cultural and business sectors. Its main goals were related to the enhancement of more sustainable cultural entrepreneurship practices within the cultural sector, while drawing on expertise and experience from the business sector. It also focused on the promotion of arts patronage. *Kunstenaars&Co* was founded in 2002 with the goal of providing support in the building of profitable business practices within the arts sector, while organizing professional trainings and workshops for individual artists. It also supported the artists in acquiring maximum benefits under the WWIK regulation (the Income Provisions for Artists Act, established in 2005). In 2009, about 1 560 artists participated in training and workshops and were coached by Kunstenaars&Co (Kunstenaars&Co, Annual Report, 2009). The organisation placed about 600 artists in innovative projects in collaboration with other businesses and the sport and health care sectors. It provided about 12 000 consultations to artists who could make use of the WWIK. About 500 artists gained work experience within and outside of the arts sector. Its budget for 2009 was about EUR 9.5 million, with equal allocations coming from the Ministry of Culture, Education and Science, the Ministry of Social Affairs and Employment and its own income.

Currently, Cultuur-Ondernemen is led by a general manager and two executive managers. It aims at the mutual understanding of interests and values of artists and cultural organisations and those of their potential business partners, while creating stronger bonds between them. It encourages artists, creative persons and cultural organisations to develop and use their entrepreneurial capacities. The foundation also facilitates the artists to improve their positions in society and extend their possibilities to earn higher incomes. In order to increase the economic independency of the artists and cultural organisations, it creates special investment arrangements with other financial partners. To realise its goal, the foundation is running diverse programmes orientated towards individual artists and cultural and business organisations. Each of these programmes focuses on the specific needs of each group while offering various training, workshops, consultations, debates and conferences.

It also implements two programmes established by the government, Cultural Patronage and Cultural Sponsorship (see "Good Practices" section). Since July 1, 2010, Cultuur-Ondernemen has taken on the responsibility of actualising and disseminating the Culture Sponsor Code.

Funding

Dutch cultural organisations derive funding from both public and private sources. Government financial support has the greatest share in the total financing of the arts and culture, while the share of private funding still remains modest.

⁸⁵ <http://www.cultuur-ondernemen.nl> [Accessed 23 January 2011].

Public financial support

There are two main sources of public funds for the arts and culture in the Netherlands: (1) *direct public support*, such as subsidies, awards and grants, as well as national lottery funds provided by central and lower levels of governments; and (2) *indirect public support*, such as tax expenditures, which refer to income that local and national governments forego because of tax reductions and exemptions (Klamer, Petrova, Mignosa, 2006).

Direct public financing of the arts and culture in the Netherlands is realised by a combined form of central- and lower-level government spending. The total annual spending of the government for the arts and culture is about EUR 2.8 billion.

The central government distributes various types of subsidies: subsidies for basic cultural infrastructure, subsidies to projects and individual artists and partly for infrastructure, re-allocated through the arm's-length bodies (Public Cultural Funds) and decentralisation subsidies (as of 2009, these subsidies have been allocated to the municipality funds). Institutional and individual support is granted over a four-year period. The share of central government subsidies to culture remains about 30 % (about 44 % when public broadcasting is included) or about 726 million Euros annually for the period 2004-2008 (Ministry of Education, Science and Culture, 2010b). For the period 2005-2009, the average growth in central government cultural expenditure was 6 %, as increase was observed in subsidies allocated to the arts, literature and libraries and Public Cultural Funds. Decrease was observed in the support for the cultural heritage, with the biggest cuts in the subsidies for monument maintenance, archaeology and archives. Since 2009, the Ministry of Education, Science and Culture only finances in four-year periods cultural institutions within the national basic infrastructure. Other cultural organisations and individual artists can apply for subsidies to the Public Cultural Funds on the basis of a four-year plan or projects. The performing arts funds received the biggest shares, followed by the visual arts (including heritage) and film funds.

About 70% of the total government budget for culture is distributed through the lower levels of governments. In 2009, municipalities allocated about 60% (EUR 1.7 billion) and provinces allocated about 10% (EUR 200 million). Central government priorities lay mainly with the performing arts (e.g. symphony orchestra, performing arts groups with a national reach), heritage and broadcasting; municipalities heavily support local museums (exceptions are a small number of state museums), archives (exceptions are the Royal Library and the Netherlands Archive in The Hague) and libraries.

There are interesting initiatives taken by the national and local art councils in response to the call for more diversity in financial support to the arts, including more private involvement. A good example in this respect is the programme KunsKoop, developed and run by the Mondriaan Foundation.⁸⁶ It aims to stimulate the market of visual arts while allocating about EUR 850 000 per year to people who buy art works. 135 galleries benefit from the programme and realise about EUR 11 million income from selling art. The result shows that about 50% of the buyers would not buy art without the support of KunsKoop.

Indirectly, the government supports the arts and culture through favourable provisions for tax incentives when individuals, companies and foundations donate and invest in the arts

⁸⁶ The Mondriaan Foundation is a Public Cultural Fund that allocates financial support to visual artists, design and cultural heritage. In 2009, it supported about 700 projects with EUR 18 million.

and culture. It is suggested that indirect support to arts and culture in the Netherlands accounts annually for about EUR 800 million (Hemels, 2005).

Additional financing from the government

Additional financing for culture comes from the Dutch Ministry of Housing, Spatial Planning and the Environment, the Dutch Ministry of Agriculture, Nature and Food Quality (cultural heritage), the Dutch Ministry of Economic Affairs (cultural industry), the Dutch Ministry of Foreign Affairs (international cultural projects) and the Dutch Ministry of Justice (private lottery).

Another government provision aimed at compensating for the income disadvantages of the artists is the WWIK (the Income Provisions for Artists Act, established in 2005). Under this scheme, artists can benefit from the social security system and meanwhile receive professional assistance on how to build their own professional practice. For the latter, the government allocates about EUR 10 million annually. About 90% of the 4,000 artists who annually take part in the WWIK programme have, on average, after two years, built their own professional practice. In terms of social security, under WWIK regulations, the artist receives an amount of EUR 991 per month (an amount that is lower than the regular unemployment benefit of EUR 1 416). The total amount that the government allocates under this scheme is about EUR 45 million.

For the period 2005-2008, the Ministries of Education, Culture and Science, along with the Ministry of Economic Affairs, initially invested about EUR 15.5 million to run various initiatives supporting the development of cultural industry. For the period 2009-2013, the programme continues to allocate financial support to the arts and culture (Ministry of Education, Science and Culture, 2009):

- To support the promotion of Dutch design abroad, EUR 12 million is invested.
- To promote the film and gaming industries, for the period of 2007-2010, EUR 10 million was allocated for a research programme on the gaming industry and EUR 20 million was reserved each year to promote film. In 2010, to promote affiliation between animation filmmakers and the gaming industry, a subsidy of EUR 0.5 million was granted to the Media Fund, which runs, together with the Fund for Visual Art, Design and Architecture, a Cultural Game Fund.
- To increase audience awareness of the importance of culture, a sum of EUR 3 million was made available under the scheme for innovation in cultural expression.
- To develop leadership qualities of upcoming talent in the cultural sector, EUR 0.7 million are allocated for the Cultural Leadership Programme for the period 2010-2013.

Self-generated income of cultural organisations

With the decreasing of the government budget, the increase of the own incomes of cultural institutions became more of a necessity. In order to increase their own incomes, cultural institutions have to rethink their price formation, marketing strategies and possibilities for additional support from donations, sponsorships and the merchandising of products and services. The self-generated income of those cultural institutions heavily supported by the state became a focal point in the new cultural policy. In order to encourage cultural institutions to become more entrepreneurial, the government introduced in 1994 an incentive to stimulate the subsidised cultural organisations to earn their own income (15%

of the total) in addition to the government support they received. In the new policy, this figure will be increased to 17.5% in 2012.

Recent research analysis on the 127 cultural organisations included in the basic cultural infrastructure supported by the government (Ministry of Education, Science and Culture, 2010a) shows that an average of 30% of the total annual cultural budget of EUR 541 million of the subsidised cultural organisations is realised by ticket sales, merchandising, catering, donations and sponsorships. For the period 2005-2008, the central government granted annually about 53% (EUR 288 million) as structural subsidies⁸⁷ to 127 cultural organisations within the national basic cultural infrastructure. The share of the provinces is about 1% (EUR 7.7 million) and of the municipalities about 9% (EUR 47.8 million). The share of the structural subsidies varies per category between 40% and 80%. In general, many performing arts institutions, like theatres, dance companies and orchestras, receive the largest shares (about 80%) of their cultural budgets from public subsidies, and festivals and development institutions have the smallest shares (about 42%) of government support within their total budgets.

Cultural organisations add 18% in own income from ticket sales⁸⁸ (about EUR 98 million) and about 12% (EUR 64.1 million) from commercial activities, sponsorship, donations and private funds. Furthermore, they receive 7% (EUR 35 million) income from other sources, such as rent and incidental subsidies. The share of each source of self-generated income varies between the sectors. For example, performing arts companies realised a greater share of their income by tickets sales (Table 6). Festivals and development institutions realised the highest percentage within their own income out of sponsorships, commercial activities and donations.

Table 6: Average own income and shares of ticket sales

	Own income (1 000 Euros)	Income from ticket sales as % of their own income
<i>Dance companies (7)</i>	1 194	82
<i>Festivals (12)</i>	1 091	35
<i>Youth companies</i>	187	81
<i>Museums (29)</i>	2 802	54
<i>Development institutions (19)</i>	279	8
<i>Opera companies (3)</i>	3 697	90
<i>Orchestras (10)</i>	2 665	82
<i>Visual arts venues (9)</i>	165	28
<i>Production companies (18)</i>	260	39
<i>Theatre companies (9)</i>	897	79

Source: Ministry of Education, Science and Culture, 2010a. *Kunst in cijfers*

Private giving

Along with the realised income of tickets and merchandising, fundraising has become an integral part of cultural institutions in the Netherlands. Based on different regulations and goals to achieve, it is relevant to distinguish between non-profit (donations) and for-profit (business) private forms of giving. The first is understood as a support without returns, often associated with philanthropy and mecenat, and considers different forms of donations

⁸⁷ These subsidies are only a part of the total budget of the central government (about EUR 726 million per year for this period).

⁸⁸ This also includes income from related catering activities.

from individuals and organisations. The latter is understood as sponsorship, where the objective is to derive a direct benefit in terms of economic returns. The available data sources do not make very precise differences between sponsorship and donations. They are often analysed under the heading of private giving to the arts and culture. When the data allow, here the differences will be made.

In the last decade, the private giving to culture in the Netherlands has increased considerably as a share of the total giving and in absolute amount (Table 7). In 2007, the total amount of private giving was about EUR 4.6 billion, from which 8% (EUR 352 million) was given to the arts and culture (*Giving in the Netherlands*, 2009).

Table 7: Private giving to culture in the Netherlands

	1995	1997	1999	2001	2003	2005	2007
<i>Total giving to culture (in millions of euros)</i>	83	87	165	335	610	326	352
<i>Giving to culture as a % of the total giving</i>	4%	4%	5%	9%	12%	7%	8%

Source: *Giving in the Netherlands*, 2009

The shares of giving vary between individuals, legacies, foundations, companies and “good cause” lotteries (Table 8). The largest share of fundraising for arts and culture in 2007 was realised by companies, followed by private foundations and “good cause” lotteries. Individuals donated the smallest share of the total private funding to culture. The larger share of companies’ giving can be explained by the fact that there is often not a clear delineation between sponsorship and donation, and in some cases sponsorship deals are accounted for as a donation.

Table 8: Private giving to culture in the Netherlands by type

<i>In %</i>	1995	1997	1999	2001	2003	2005	2007
<i>Individuals</i>	16	25	14	10	4	10	7
<i>Legacies</i>	-	-	1	2	2	1	2
<i>Foundations</i>	16	18	15	7	6	38	23
<i>Companies</i>	68	56	70	82	85	41	57
<i>“Good cause” lotteries</i>	-	-	-	-	4	10	11

Source: *Giving in the Netherlands*, 2009

Sponsorship is considered a commercial transaction linked to business objectives. It is difficult to estimate the exact amount of sponsorship in the Netherlands. According to Ad Maatjes (Drenth, 2007), cultural sponsorship has strongly increased in the last 25 years and, since 2001, it is estimated to generate approximately EUR 75 million annually. Cultural sponsorship is estimated at EUR 50 million (Council of Europe/ERICarts, 2010a). Still, it is observed that the income from the sponsorship is rather modest in comparison to the other own income sources. A closer look at the income in the museum sector (Drenth, 2007) suggests that the average income from sponsorship was 2% of the cultural budgets of organisations in 2003 and shows a decrease from 3% in 1997 (Table 9).

Table 9: Average own income and shares of the ticket sales

Income of museums in %	1997	2003
<u>Subsidies</u>	67	73
State	29	35
Provinces	7	5
Municipalities	27	24
Other subsidies*	4	9
<u>Entrance fees, subscriptions, etc.</u>	16	13
<u>Other incomes</u>	17	14
Returns from museum year card	2	1
Sponsors	3	2
Merchandised products	4	4
Commercial activities (catering)	1	1
Other**	7	6

* Incidental subsidies

**Income from rent and other services

Source: Drenth, 2007

Individual donations - The support system in the Netherlands has a long tradition of donating to culture and art. Good examples in this respect are the establishment and development of cultural institutions such as Museum Boijmans Van Beuningen (Rotterdam) founded in 1849, Concertgebouw (Amsterdam) founded in 1888, Van Abbemuseum (Eindhoven) founded in 1936 and Kröller-Müller Museum (Otterloo) founded in 1937. The tradition continues today and is facilitated by the government through a favourable legislative environment.

In 2007, individuals donated EUR 24 million in cash and goods to art and culture (7% of the total private giving to culture) and EUR 7 million in legacies (2% of the total private giving to culture) (*Giving in the Netherlands*, 2009). Accordingly, more women, young people and people owning real-estate, but not necessarily with high incomes, are likely to donate to culture. As it was mentioned earlier, individual donations have the smallest share of the total private giving to culture. However, Reene Steenbergen argues that individual giving in the Netherlands is an important source of funding for cultural organisations (Steenbergen, 2010). According to her research, about 25% of the private giving to museums is donated by private people. She also suggests that 70% of cultural giving comes from small donors, but these contributions still lack public acknowledgement.

Private foundation donations - Some estimates suggest that, in the Netherlands, private association and foundation support to culture accounts for as much as 2% of total cultural expenditure (including private and public sources) (Smithuijsen, 2005). Private foundations contributed EUR 282 million (23%) to private giving to culture in 2007 (*Giving in the Netherlands*, 2009). Among the biggest grant-giving foundations to culture are the Prince Bernhard Cultural Funds, VSB Funds and DOEN Foundation (see section "Foundations and other grant-giving bodies").

Prince Bernhard Cultural Funds allocated about EUR 27 million last year in subsidies, awards and grants. It received considerable funding from two private lotteries, the Bank Giro Lottery and De Lotto. The rest of the annual expenditure was supported by contributions from individuals, family foundations and corporations via donations, legacies

and Designated Funds, in addition to revenue from a unique annual collection campaign (called 'Anjeractie'⁸⁹).

In 2009, VSB Funds donated about EUR 23.6 million to different projects, supporting 943 cultural and art projects with the amount of EUR 14.8 million. It distributes small and large donations. The highest donation (EUR 500 000) went to the Open Air Museum. In 2009, the fund also awarded a poetry prize with a value of EUR 25,000. In addition to this, the VSB and National Restoration funds provide a loan with low interest for owners of historical ships in order to help preserve the sailing cultural heritage. The amount for this loan in 2009 was EUR 46 000.

In 2009, the DOEN Foundation received an amount of EUR 22.5 million from the National Postcode Lottery and allocated the budget to projects dealing with climate change, new economy and culture and cohesion; the amount of EUR 4.4 million that it received from the Bank Giro Lottery was further redistributed to culture & cohesion and new economy projects. The money received from the Sponsor Bingo Lottery, over EUR 3 million, was allocated to projects with the theme of "New Economy".

Lottery funding

Dutch lotteries also allocate funds to the arts and culture. They are rather new, but have developed rapidly and are gaining importance because of the search for additional subsidies. In the Netherlands, lottery funds to culture derive from state-owned and private lotteries, where the contribution of the latter can exceed that of the national lottery. Annually, lottery funding for culture represents about 10% of central government expenditure on culture (Ilczuk, 2004). The national lottery established its own foundation (DOEN) for the re-allocation of its revenues. Private lotteries⁹⁰ support culture, usually allocating their revenues to foundations, which use or redistribute them for cultural purposes. The aim is to divide a part of the income from the lottery to smaller organisations and special initiatives within various cultural sectors. The National Postcode Lottery⁹¹ (1989) is the biggest charity lottery in the Netherlands and supports 75 charity funds. 50% of the cost of each lottery ticket is designated to charity. In 2009, the amount the lottery income forwarded for charity was EUR 256 million. In 1991, it founded the DOEN Foundation. The Bank Giro Lottery⁹² is the cultural lottery from the Netherlands whose half of the budget is allocated to cultural activities. Due to its monthly 750 000 participants, it can support a great number of cultural organisations and museums in the Netherlands. In 2009, this lottery granted EUR 60 million to 57 cultural institutions.

Crisis

Due to the economic crisis, the government (central and local) is reducing its funding to the arts and culture, and private giving to culture is decreasing as well. For the period 2011-2014, the central government will cut up to EUR 205 million, or about 25% of the current state budget for culture. A considerable decrease of the current budget is expected on the municipal level, as well.

⁸⁹ This grassroots effort engages tens of thousands of people each year, as they go out into the streets throughout The Netherlands on appointed days with collection boxes decorated with the distinctive "orange carnation" logo.

⁹⁰ Bank Giro lottery, Sponsor Bingo Lottery, Postcode (ZIP-code) Lottery.

⁹¹ www.postcodeloterij.nl [Accessed 13 February 2011].

⁹² www.bankgiroloterij.nl [Accessed 13 February 2011].

Private foundations have also cut their budgets. For example, in 2009, the VSB Funds lowered their donations to arts and culture from EUR 31 million to EUR 16 million per year. The crisis affected many theatre and music festivals because of decreases in ticket sales and the withdrawal of main sponsors. According to a research study,⁹³ between 30 and 40 planned cultural activities were cancelled, which is equal to 3-5% of the planned festival activities for the 2008-2009 season. For example, one of the most popular music festivals in Amsterdam, Grachtenfestival, faced serious financial problems for its event in 2009 due to the withdrawal of one of its biggest supporters, Schiphol Funds, whose annual contribution of EUR 250 000 comprises about 25% of the entire festival budget. The association of Dutch galleries⁹⁴ announced a decrease of 15% in the turnover of private galleries for the period 2008-2009. Additionally, it is expected that one third of buyers will invest less in new art works over the coming three years.

Legal landscape

There are various Dutch tax measures that affect the cultural sector⁹⁵. They can be divided into the following categories: (1) income and wealth tax, (2) inheritance tax, (3) value-added tax and (4) corporate income tax.

The reduced value-added tax rate (6% instead of 19%) makes it possible to keep tickets and admission prices in the cultural sector low, thus making this an important source of tax-related funding. The 6% tax rate is in harmony with European Union rules and, in the Netherlands, it applies to tickets to the theatre, museums and cinemas, but the government is planning to raise all taxes in arts and culture to 19% by mid-2011. Sales of books, newspapers and magazines have been subject to the reduced rate for many years. Artists such as composers, writers and journalists are exempt from VAT. The Ministry of Finance has ruled that grants awarded under the Cultural Projects (Funding) Decree (1994) are not subject to VAT or income tax.

Private giving

Individuals, private foundations and companies contributing to culture and the arts can benefit from a favourable tax regime in the Netherlands.

Donations from individuals and not-for-profit organisations

The donations of private individuals and organisations to culture are exempt from gift and inheritance taxes and are income tax-deductible if they are given to officially recognised cultural organisations up to a certain amount. The donation can be given for a specific project, a purchase or for culture in general and can concern money, shares, a house, a painting or a collection (to a museum) or other forms of capital. It may differ in form: small and/or annual donation, one-off, regular or on paper.

Many private foundations and associations qualify (if they have at least 25 members and full legal capacity) for a reduction in or remission of gift and inheritance tax. The objects they aim to support must be set out in their articles of associations. Large institutions have general aims of a social and cultural nature, whereas small institutions often have specific aims, such as providing scholarships or travel stipends or grants for the purchase of materials. In general, the not-for-profit organisations are exempt from paying income taxes

⁹³ The results are quoted in www.culturbeleid.nl [Accessed 13 February 2011].

⁹⁴ Association of Dutch Galleries, www.galleries.nl/nga_headern2.asp?b=6 [Accessed 12 February 2011].

⁹⁵ Council of Europe/ERICarts (2011h).

as long as they “not compete with other businesses in any kind of profitable activities” (King Baudouin Foundation, 2010).

Some of the major cultural institutions establish their “Named” cultural funds (Ministry of Education, Science and Culture, 2004). The minimum sum is usually EUR 50 000 and individuals can make personal donations or leave legacies to the fund. Within the broadly defined object of the institution concerned, the person providing the money or legacy specifies the particular objectives or project that he wishes to support under his name.

In addition, any expenses and depreciations incurred in connection with an historic building in residential use are tax-deductible under the Income Tax Act 2001.

Tax allowances on donations from individuals and not-for-profit organisations:

- Gifts (periodical) to cultural institutions and cultural associations (if they have at least 25 members and full legal capacity) are 100% tax-deductible. Periodical donations must be made by means of a notarial deed. Other donations to the institutions are subject to partial tax exemptions.
- Gifts given to art and culture are income tax deductible if they are up to 1% of the total income prior to the application of the personal deduction (the threshold). The minimum amount of the 1% threshold is EUR 60. The maximum is up to 10% of the individual income.
- Donations to officially recognised listed museums, foundations set up to support the museums or associations of “friends” of museums are entirely free of gift tax. No gift tax needs to be paid to a Dutch association or foundation whose object – at least 90% of it – it is to promote the arts or science.

Tax allowances on legacies/inheritance tax

- Cultural institutions in the list of the officially recognised museums are entirely free of legacy tax. The same applies to foundations supporting the museums or associations of “friends”.

Tax allowance on personal expenditure on historical buildings

- Under the Income Tax Act 2001, any expenses and depreciations incurred in connection with an historic building in residential use in excess of 0.8% of its value are tax-deductible, with the maximum threshold being EUR 12 500. The maximum property value for tax purposes is set at EUR 100 000. The building (and land) depreciation is set at 15% of the gross imputed income from home ownership. In the case of other historic buildings used as homes, maintenance costs are deductible if they exceed 4% of the value of the building (Council of Europe/ERICarts, 2011h).

Corporate giving to arts and culture

Exemptions from gift and inheritance taxes as well as corporate tax deductions favour private giving made by businesses. An often-debated issue relates to the fiscal definition of sponsorship or donation. The Dutch tax regulation makes a difference in whether the giving is made with or without expected return. Donation involves the payment of money or the provision of in kind assistance to a not-for-profit cultural, social, environmental or sporting organisations without any benefit expected in return. A donation is viewed as a gift, whereas a sponsorship is a contract for specific and valuable benefits in return. The difference is important to the applicability of any form of tax relief. However, there is not a

strict requirement for the business expenses in terms of percentage of the total private giving in order to be claimed as a donation or sponsorship. Sometimes, the criteria to distinguish between the two and decide about the applicability of tax relief relates to the benefit that a company can get and to the existence of any form of *quid pro quo*, but the solution to such a dilemma is neither simple nor uncontroversial.

The giving to culture made by businesses may vary by its purpose and thus the tax relief may differ for a gift made for no consideration (without reward), a gift with mention of name (advertising) and a gift made for consideration (representation) (Ministry of Education, Science and Culture, 2004). Sponsorship expenses are fully deductible for corporate income tax purposes for the sponsor. The costs involved are 100% deductible. A gift for "consideration" is when the company receives returns in the area of representation or customer relations, for example, free tickets or other indirect benefits. This form of giving is only tax-deductible to a certain extent. The extent to which it can be deductible is sometimes a matter of negotiation with the tax department, as there is no clear delineation of specific measures, such as value of the received indirect benefits. Companies usually have a contract with the cultural organisation on their agreement for the sponsorship deal, which can be consulted using the existing Culture Sponsor Code (see "Good Practices" section). Corporate donations or giving for no "consideration" are deductible from taxable profit up to a limit of 10% of that taxable profit. The donation must be made to a public interest, not-for-profit organisation or foundation in the Netherlands. The deduction is also available on donations made to beneficiaries established abroad as long as they are recognised by the Dutch tax authorities.

Cultural investments

Since 2004, cultural investment has been fostered through a special tax that allows private individuals to invest in cultural funds. The scheme seeks to encourage private individuals to invest through cultural funds in cultural projects that are important for Dutch performing arts and Dutch museums. To qualify for a tax advantage, a minimum of 70% of the fund capital must be invested in cultural projects for which the Dutch government has issued a Cultural Declaration. The fund, a public-private partnership, offers cultural entrepreneurs the option of borrowing at a low rate of interest and of benefiting from a tax advantage: investments made in culture and venture capital⁹⁶ qualify for an exemption from capital gains tax of up to EUR 55 145 (2009). Cultural entrepreneurs are also allowed a tax exemption on their earned income: 1.3% of the average exempt amount on 1 January and 31 December. If two eligible entrepreneurs marry or form a permanent household, both may claim the exemption, and one of the partners may also transfer his or her exemption to the other. The tax advantage comes to approximately 2.5%, on top of the Culture Fund's own return of 2.5% over 10 years. This makes it possible to invest in a fund that supports culture without a loss on the return.

Based on this regulation, Triodos Bank established the first *Cultural Fund* in 2006, where cultural organisations can have a loan with an interest rate below the average bank interest (Council of Europe/ERICarts, 2010a). The Triodos Culture Fund has the character of an obligation fund: if the interest on the finance market rises, the exchange rate decreases. The Culture Fund is a semi-open-ended fund, meaning that the shares are issued via a bank, and shares may be purchased via all the Dutch banks. Another specialised investment fund was launched in the same year: the Real Estate Culture Fund. The fund

⁹⁶ Venture capital investments consist of loans made to start-up companies or participating interests in venture capital funds.

makes it possible for private parties to invest in financing property that is made available to cultural enterprises and arts bodies. The money in the fund is invested in loans on property projects. Both Triodos Bank and Real Estate Culture Fund are investing a minimum of 70% of the money in projects which are certified by the Dutch Government with a Cultural Declaration. In addition to the Cultural Fund, Triodos Bank and the Rabobank founded a Cultural Bank. Triodos Bank finances the cultural institutions directly, and the Cultural Bank finances cultural institutions, indirectly, via municipality institutions.

Other tax measures supporting the arts⁹⁷

Shared Giving

A rather new construction in the Netherlands is Shared Giving, meant for people over 55 years old, who wish to donate a minimum of EUR 250 000 on a fiscally friendly basis, but want to enjoy lifelong the profits of their donation. This way of giving is inspired by the American phenomenon of Planned Giving.

Artists Wage Arrangement

According to the 1964 Wage Tax Act, an artist, within the meaning of the Artists Arrangement, is a performing artist whose public performances are artistic in nature – ranging from a concert to a role-playing as part of a training or educational course – and who performs on the basis of a short-term contract (less than 3 months). In the case of the training example, the fact that the “audience” consists of course participants is irrelevant. The Artists Arrangement applies for all – independent – performing artists, from rock bands to symphony orchestras. DJs, VJs and MCs are also considered to be performing artists.

Volunteer work

Volunteers may earn EUR 1 500 a year tax-free (EUR 150 a month and EUR 4.50 an hour). Organisations that wish to pay volunteers a larger amount tax-free must report the relevant sum to the Tax Inspector on a special form.

Effects

Tax incentives

After a detailed analysis of the fiscal instruments that the government uses to support culture, Hemels suggests that indirect public support to arts and culture in the Netherlands is at least equal to the direct public support, though it is not accounted for (Hemels, 2005). She estimates that the tax lost from the tax relief that applied to the arts and culture is about EUR 800 million per year (the state support to the arts and culture, excluding broadcast subsidies, is roughly about EUR 750 million annually). A rough summary of the size of the indirect tax loss due to the applied tax incentives suggests that the biggest amount is due to VAT regulation (Table 10).

⁹⁷ Council of Europe/ERICarts, 2010a.

Table 10: Tax lost from tax measures applied to the arts and culture

Tax measures	(EUR)
Turnover tax (due to reduced VAT rates)	694 million (of which 577 million is for books)
Income tax (deductions by private individuals)	89 million
Corporation tax (on companies' profits)	? million
Death duties	13 million
Transfer tax (monuments)	11 million
TOTAL	more than 800 million

Source: Hemels, 2005

Private giving

For the entire subsidised cultural sector, the incomes of sponsorship and donations is estimated together to be between 2-3% of the total incomes including subsidies. In addition to favourable tax legislations and a long tradition of donating, the revenues from private giving (donation and sponsorship) still remain rather modest in the cultural budgets. This can be explained by the fact that the cultural organisations still do not make maximum use of the potential of private support to the arts and culture. In interviews with various experts on private giving, such as Ryclief Reinstra, managing director of VandenEnde Foundation, Diana van Maasdijk, researcher of private giving, and Sigrid Hemels, professor of fiscal law, some of them suggest that more private money could be directed to the cultural sector (Bolwijn, 2010).⁹⁸ Based on research results, van Maasdijk suggests that the wealth and generosity in the Netherlands have increased in the last decades, but not proportionally. Still, individuals are willing to donate more to non-profit organisations, but under certain conditions. For example, they expect more transparent and open communication with the support receivers. Others argue that the government still needs good strategies to facilitate private giving, especially after it plans serious budget cuts.

Policy pressure and re-orientation

Shifts in the cultural policy

According to recent policy documents, cultural policy of the Netherlands underlines the objectives of excellence, innovation in respect to digitalisation and media development, cultural participation and a stronger arts sector. The 2009-2012 goals stress improvement of the cultural bureaucratic system, increase the importance of culture in social terms and broader involvement of the private sector.

At the end of 2010, State Secretary Zijlstra announced the new cultural policy priorities for the next four-year period in a letter to the Parliament (Zijlstra, 2010). The intention is that the government limit its role in allocating subsidies to the cultural sector, while remaining responsible for basic cultural infrastructure, education, heritage, and development institutions. The purpose is to make the cultural sector more independent from government subsidies and as such to stimulate cultural entrepreneurship and patronage. In both cases, the idea is to promote a stronger sector that is able to increase its own income by involving more private partners and creating stronger bonds with possible supporters. The role of the government will remain as facilitator. Based on the new directions, the objectives for

⁹⁸ The interviews with various experts, such as Ryclief Reinstra, managing director of VandenEnde Foundation, Diana van Maasdijk, researcher of private giving, and Sigrid Hemels, professor of fiscal law, are published in Bolwijn, 2010.

subsidy allocations are public outreach, entrepreneurship, participation and education, national significance and regional dissemination.

In terms of financing, the government is planning cuts in the cultural budget amounting to EUR 205 million through 2014, that is, about a 25% decrease of the current state budget for culture⁹⁹. In 2011, the state budget for culture will decrease by EUR 48 million. The main cuts are expected in the performing arts, as cultural heritage and amateur arts will largely keep their budgets. It is suggested the new basic cultural infrastructure be reduced to 10 symphony orchestras, two dance companies, two opera companies, 30 museums and 10 sector institutions. Other measures affecting the cultural field include an increase of the VAT on tickets and art purchases to 19% (from 6%), the abolishment of the temporary income support for young artists (under the WWIK arrangements) and restructuring the public funding bodies into "investment funds". The prognoses for the cultural budgets of the municipalities show that, in 2011, about 50% of all municipalities are planning cuts as well, which are expected to continue in the following years (DSPgroup, 2010).

The government aims to encourage the generation of more own income by the cultural institutions by enforcing a matching scheme combining income from three sources: subsidies, ticket sales and merchandising, and sponsorship and donations. Starting in 2013, the new requirement for own income¹⁰⁰ of the subsidised cultural organisations will increase to 17.5% (from 15%) as a share in their cultural budgets. In addition to this, they have to realise a growth of their own revenues up to 4% for the period 2013-2016.¹⁰¹ An expert committee will monitor these companies every four years. There is a great deal of discussion regarding whether or not this measure is realistic. Yet past experience shows that the introduction in 1994 of the rule of a 15% share of own earned income in the total cultural budget brought positive development (Drenth, 2007). In 2005, the cultural institutions generated own incomes of over 15% – ranging from 16% for literature to up to 54% for the ensembles, a result which gives more strength to the argument for a new increase in the measure of self-generated income.

Shifts in private giving

Because of the planned decrease of the subsidies, individual artists and art organisations that are heavily relying on government subsidies will already face financial deficits in the coming year. Thus, they will have to search for new ideas and possibilities to increase their own/self-earned income while applying market strategies (in terms of pricing, marketing, auctioning, sponsoring, commissions), and generating ideas for alternative ways of fundraising by means of donations, patronage and contributions, as well as seeking new ways for the involvement of various public and private agencies and foundations.

In respect to the marketing strategies, it is suggested (Drenth, 2007) that the subsidised cultural institutions still do not effectively apply marketing tools to better target their audience, to analyse their visitors and to organise in collaboration with other cultural institutions marketing strategies to attract visitors from abroad. Furthermore, the analysis shows that subsidised cultural institutes need to invest more in various communication strategies than in publicity.

⁹⁹ The plan will be implemented after the consultation with the Council for Culture and submitted to the Parliament at the end of 2011 and take effect from 2012, as 2013 will be a transition year.

¹⁰⁰ The own income encompasses here income from ticket sales, income from donations and sponsorship and income from other commercial activities.

¹⁰¹ cultuursubsidie.nl/subsidieverstrekkers/ministerie-ocw/aanvragen-subsidieperiode-2009-2012 [Accessed 12 March 2011].

In respect to the alternative to government means of financing, in the Netherlands, there is a well-developed tradition of private giving to the arts and culture. In this respect, a great deal has been accomplished, but still, the increase of the wealth in the last decades is disproportional to the generosity towards art and culture (van Maasdijk, in Bolwijn, 2010) – it accounts for about 2-3%¹⁰² of the total public and private financing of culture. Accordingly, much more can be earned from private giving (Hemels and Reinstra in Bolwijn, 2010). To encourage the process of private contributions to art and culture, the government put more focus on enforcing the existing fiscal incentives towards both cultural institutions in realising more self-generated income and towards the private individuals and companies in contributing more to the cultural sector. In order to strengthen this income, it will take efforts not only to promote the benefits of private giving through tax incentives, but also to increase of the awareness of their use among those who can donate and those who might need donations.

Since the government's announcement of the new four-year plan, one of the questions widely debated is whether it is reasonable to think that the government budget cuts can be compensated for by an increase of private financing in so short a period. Though there is money and willingness of small donors to contribute to the arts, Steenbergen stresses that it cannot be expected that people and companies will simply start to donate more to culture once government reduces its support (Steenbergen, 2010). There is strong evidence that shows that when the government withdraws its support, private donors do the same. For example, it became very difficult to fundraise private money when the City Museum of Amsterdam needed a renovation after a fire in the building, and the Amsterdam municipality did not address this need. The donors rather see their role as complementing government support, instead of substituting for it. In this respect, government still has to keep its responsibilities for covering the operational costs that private donors do not like to cover – they prefer contributing to specific projects.

Another issue is that, because of the long period, over 70 years, of predominantly governmental support to arts and culture, many cultural institutions are used to obtaining government subsidies and need to learn how to deal with private fundraising. Accordingly, Steenbergen calls for a different "culture of asking", upon which the development of a "culture of giving" depends (Steenbergen, 2010). This is a cultural shift that requires building a different relationship between those who give and those who receive. After relying on government support for many years, cultural institutions will need to invest in a different communication strategy towards those who are willing to contribute. This will call for developing closer bonds and relationships between those who donate and those who ask for donations over the long term, instead of running ad hoc activities. For example, it is often suggested that cultural organisations will need to recruit intermediaries to fundraise. Steenbergen argues that this is not the case – the director of the organisation has to be the one who communicates and closes the deal with the donor. Furthermore, the standard promotional deals that are made between the donor and the cultural organisation do not necessarily satisfy the expectations of the private supporter. Rather, they seek for personal attention and a confidential relationship instead of free tickets and other services. Finally, to develop effective patronage, it needs at least period of 15-20 years active work and further encouragement from the government (Steenbergen, 2010).

¹⁰² Here, the percentages can vary according to whether the estimates are made including both sponsorship and donations under private giving or only donations.

Short description of the examples of good practices found

*Facilitating an entrepreneurship in the creative arts sector*¹⁰³

A good example of a policy programme to stimulate the collaboration between the arts and the economy is the Creative Industry Programme. The programme was initially launched in 2006. The programme is evaluated as a successful model that creates possibilities for additional financing to the cultural sector through promoting partnerships between the subsidised arts sector, creative industries and other areas of the Dutch private sector. In the area of arts and culture, the programme more particularly focuses on *strengthening the financial conditions for cultural entrepreneurs*. Opportunities for cultural entrepreneurs to start up or maintain their own businesses were created. One of the applications is that the annual Working Relationship Declaration for one-person businesses is extended automatically and they are allowed to pay VAT four times per year, instead of every month. Furthermore, Kunstenaar&Co (since 2010, Cultuur-Ondernemen) provides consultations, trainings and workshops to artists in order to strengthen their business practices and profits. Under this scheme, in 2009, 600 artists were allocated in innovative projects to gain knowledge and experience from collaboration with other businesses and the sport and health care sectors. The intention was to provoke a change in the mentality of the cultural actors and to be more proactive towards partners outside the cultural domain.

The creative industry policy programme also enables broader implementation of the existing cultural investment scheme and patronage scheme, aiming on the one hand to encourage private individuals to invest through cultural funds in cultural projects, and on the other, to improve the access to capital.

Cultural investment

A good example of supporting arts and culture is the use of low interest rates when investing in cultural projects or buying contemporary art works. The use of cultural investment funds by cultural entrepreneurs and/or cultural organisations shows that since 2006, 42 projects were accepted and granted a total of EUR 382 million (Ministry of Education, Science and Culture, 2009). According to the manager of the Cultural Fund of Triodos Bank, Eric Holterhues, the fund invested about EUR 175 million in cultural projects between its establishment and 2010 (Hemanides, 2010). In the first year, it collected over EUR 60 million from cultural investors, which was twice as much as expected at the start of the introduction of the fund. In 2010, the financial capital of the Triodos Cultural Fund grew by 89.3% to the amount of EUR 138.9 million. In cooperation with Triodos Bank, Kunstenaars&Co (Artists&Co) developed in 2007 a Culture Loan, accessible to all independent working professional artists, creative persons, collectives and initiatives, allowing small (EUR 1 000 to 3 000) and large credits (EUR 10 000 or more) (Council of Europe/ERICarts, 2010a). The Culture Loan is intended for durable investments, like the financing of musical instruments (for instance, an 18th century violin), a (digital) camera, software or a mortgage for an atelier or working space. Cultuur-Ondernemen, after the merger with Kunstenaars&Co and Kunst & Zaken, has the role of examining the contents of the plans, while the Triodos Bank looks into the financial aspects. The Culture Loan is the first "grown-up" credit facility for the creative sector. Approximately 250 loans have been granted; in 140 cases, a guarantee was given for a loan amount of EUR 5 million in total (Council of Europe/ERICarts, 2010a).

¹⁰³ Ministry of Education, Science and Culture, 2009.

It has also become a practice that some cultural organisations establish their own funds. For example, De Kunsthal, an exhibition hall in Rotterdam, founded a culture fund in conjunction with ING Bank in order to support its own large-scale exhibitions.

Patronage scheme

The patronage scheme is an initiative to stimulate private donations while connecting to people's awareness of the social benefits of contributing to the arts. It encourages willingness of cultural giving, delivering workshops and consultations on different legal forms of private support and tax benefits to cultural institutions, potential donors and intermediaries. Cultuur-Ondernemen (before 2010, Kunst & Zaken) implements the programme, while running various courses, workshops and debates between those who are interested in donating and those who need donations.

Culture Sponsor Code

The Culture Sponsor Code¹⁰⁴ was established by the Ministry of Education, Culture and Science in 1993 with the aim of stimulating cultural sponsorship. It came in effect as a request for transparency where cultural sponsorship is concerned. It was actualised in 1999 with respect to the mutual interests of various parties, such as the sponsors, the sponsored, the subsidisers and consumer organisations.

The code of conduct has the function of regulating the relationship between the sponsors and the sponsored cultural organisations and/or events. It puts forward a framework to facilitate their relationship when business objectives meet the artistic ones. It defines the nature and scope of the relationship while dealing with definitions such as cultural sponsorship, advertising, cultural activity and artistic independence. According to the code of conduct recommendations, the conditions under which the mutual interest between the parties can be reached cannot in any case diminish the artistic/cultural value of the event and/or the cultural goals of the organisations. It also ensures substantial artistic independence, public accessibility and equal benefits for the sponsor and the sponsored.

As it has an advisable character, with both parties retaining the freedom to close a final agreement in a legal contract, the code of conduct has the role of highlighting the possibilities and limits of possible agreement between the two parties without complicating it. Its applications are rather broadly accepted in the cultural sector as a guideline for a responsible cultural sponsorship.

Crowd funding

A good initiative undertaken by the Amsterdam Fund for Culture is the project launched in 2010, "Voor De Kunst" ("For the Art"). It aims at fundraising for concrete projects through so-called crowd funding, that is, contributions are derived by the audience via Internet donations. Participants are invited to donate between EUR 10 and 2 000. Each project has an initial budget that has to be reached in 100 days. If 80% of the budget is reached, the project is considered to be successful and can proceed to its realisation. The initiative aims at promoting cultural entrepreneurship as an alternative to the cuts in the subsidies to the arts. It is supported by the subsidies via the ministry's support scheme for private investment "Innovative Cultural Expressions".

¹⁰⁴ <http://www.codecultuursponsoring.nl> [Accessed 13 February 2011].

CASE STUDY: POLAND¹⁰⁵

National context

The cultural system in Poland has gone through many transformations in the last two decades, going through the transition from the socialist centralised system towards the capitalist market-oriented system. Although many social changes have occurred since 1989, a major restructuring of the cultural sector has not occurred. The cultural sector is still waiting for its true reform, which has been announced several times but never accomplished; in 2002, Minister Andrzej Celiński, announced reforms and ordered expert studies to be made, but with no concrete results (Council of Europe/ERICarts, 2010, p.6). The current Minister Bogdan Zdrojewski also announced reform of the cultural sector and ordered a number of expert studies, which were made again in 2009 for the occasion of the Congress of Culture in Krakow, where the state of Polish culture was discussed. Although no significant changes occurred after the Congress, the reports prepared and the discussions that were held at the conference at least introduced the “reflections on the economic significance of the cultural sector into the public discourse” (Ilczuk and Nowak, 2010, p.4).

In Poland, the cultural administration bodies are located on four main levels: at the central (state) level, and the provincial (“Voivodship”), district (“powiat”) and municipal/communal (“gmina”) levels. The main actor that sets the cultural policy objectives is the central state administration – the central ministry with cultural competence is the Ministry of Culture and National Heritage (Ministerstwo Kultury i Dziedzictwa Narodowego-MKIDN), being the responsible body that sets the legal, financial and programme frameworks for cultural development in Poland. It can be said that the public authorities are still very strong regarding the public services provision in the field of culture, whether we are speaking of the state or the local levels.

The institutional changes are occurring gradually; there has been a shift from the state monopoly over cultural institutions, diversification of ownership, and the creation of the third sector. There is an orientation towards decentralisation of management and financing of culture; this is evident from The National Strategy for the Development of Culture (NSRK) for 2004-2007 and in the document National Culture Development *Strategy for 2004-2013*.¹⁰⁶ The latter document did not introduce drastic changes as it was partially expected to. Nevertheless, the notions of the creation of the “third way” in culture are often mentioned, and it can be said that Poland is trying to create its own model of cultural policy rather than following a specific already existing one (Council of Europe/ERICarts, 2010, p.13).

The main cultural policy objectives reflect the major aims of the Council of Europe policy dealing with: “decentralisation and democratisation of the decision making process, observing the principle of the decision making, compliance with the rules of diversity and subsidiarity and departing from the idea of placing culture on the periphery of public administration” (Council of Europe/ERICarts, 2010, p.15). Since taking his post in 2007, the current Minister Bogdan Zdrojewski has worked on the preparations for the reform of Polish cultural policy, including the above-mentioned Congress of Polish Culture in 2009 as a part of this process. The restructuring of the cultural sector has not occurred and the

105 Prepared by Jaka Primorac. Thanks to colleagues Dorota Ilczuk, Malgorzata Nowak and Magdalena Kulikowska for their help with the research questionnaires.

106 As noted in Thesis 8.2.4. (Ministerstwo Kultury i Dziedzictwa Narodowego, 2009, p.111).

current programme of the ministry follows the NSRK 2004-2013 strategy through National Culture Programmes designed as specific functional plans.

Although the number of cultural institutions and entities conducting business in the sphere of culture is systematically and rapidly growing (Council of Europe/ERICarts, 2010, p.48), the sphere of culture in Poland is still dominated by public entities. Thus, the development of culture still depends on the allocations from the central (state) and the local levels (provincial, district and municipal/communal). The allocations are mainly oriented towards the maintenance of institutions rather than to cultural programmes, thus other types/means of investment are greatly needed to support programming activities.

An interesting example of a public award for private investment in culture is the "Benefactor of Polish Culture" ("Dobroczyńca Kultury Polskiej") award that was established in 2007 on the basis of the former "Patron of Culture Award". It is awarded to institutions and private individuals for support and development of culture in Poland, and for those that disseminate and promote other possibilities for the financing of culture from other (non-budgetary) sources. The award is given in three categories: sponsor, donor and media curator.

As one of the results of the deliberations of the Culture Congress in 2009, the special campaign **Kultura się Liczy!** (Culture Counts!) was developed, which aims at raising awareness of the social and economic potential of culture, and it has been executed by the public institution Narodowe Centrum Kultury (NCK).¹⁰⁷ In 2009, the same institution began with the work of the Culture Observatory (Obserwatorium kultury), a monitoring tool that aims to examine culture in the economic context.

Foundations and other grant-giving bodies

The development of foundations is based on a broad legal framework that offers tax deductions to foundations and associations with Public Benefit Organisation (PBO) status, and tax benefits for both individual and corporate donors. PBOs are exempt from paying corporate tax on income devoted to their statutory goals. This has occurred with the introduction of the Law on Public Benefit Activity and Volunteerism (PBA) that was enacted in 2003 and amended in 2010. "In order to qualify for PBO status, a non-governmental organisation (such as a foundation or association, but also commercial company or sports club, i.e. not an NGO under the Act's definition) must satisfy a number of requirements specified in the PBA. First, the organisation must be active in one of the 33 areas listed in the Act" (USIG, 2010). These areas include the promotion of culture and learning according PBA Article 4(1). "Since 2004, Polish NGOs that obtained a special *public benefit* status (abbreviated as "opp" in Polish) are entitled to receive 1% of an individual's income tax. Tax payers make the choice between listed organisations of public benefit and transfer part of their tax to these NGOs" (Ilczuk, Kulikowska and Stępniewska, 2006, p.2). It can also be mentioned that in the last ten years there has been a development of community foundations in Poland (Federation of Community Foundations, 2009).

As grant-giving bodies, the strongest are the following foundations: Culture Foundation, Leopold Kronenberg Banking Foundation, Stefan Batory Foundation and Warsaw Culture Foundation, all of which distribute funds according to their internal statutes. There is no monitoring data upon which one can assess the power of foundations or grant-givers.

¹⁰⁷ <http://kulturasieliczy.pl> [Accessed 12 February 2011].

Brokerage bodies

Arts and business forums are a novelty in Poland, and thus cannot be compared to the well-established ones in countries such as Great Britain or Sweden. The first such institution, Commitment to Europe - Arts and Business,¹⁰⁸ was established in 2003 as a private foundation dedicated to the initiation of cooperation and active participation in mutual support of the business and art worlds. Its main activities are oriented towards information and training (organizing forums, conferences and workshops, publishing reports); raising awareness and increasing knowledge in the field; initiation, co-organisation and implementation of projects related to the sponsorship of art and culture; and raising knowledge on business responsibility for culture and education. It has links with and is cooperating with an international network of institutions and associations dealing with arts and business, including the European Committee for Business, Arts and Culture (CEREC), Arts & Business Council of New York, Prométhéa Foundation in Brussels and Arts & Business in the UK. It is still difficult to assess the impact of their work. Another initiative is an informal group, "Culture and Business", created at the Polish Confederation of Private Employers Lewiatan, engaged, among other things, in elaborating sponsorship incentives.

Funding

Public funding is still the main source of support for culture in Poland. It is divided between the central (state) sources that are managed by the Ministry of Culture and National Heritage, and the local levels. There is a strong orientation towards decentralisation that has been developing in the last couple of years. The data on expenditure on culture from the Central Statistical Office shows that, in the year 2009, "the state budget expenditure constituted 20%, whereas local self-government entities expenditure constituted 80%. The local self-government entities expenditure grows faster (an increase of 142% in 2009 in relation to 2003) than the state budget expenditure (growth of 77% in 2009 in relation to 2003)" (Centre for Cultural Statistics, 2010, p.35).

Other sources are supplementary to public funding; the grants by public bodies and those by private sponsorship and donation are not in conflict in Poland. "The current level of private patronage should not, however, be seen as an alternative source of financing for culture, but as a supplementary one" (Council of Europe/ERICarts, 2010, p.41).

The introduction of the Gambling Act in 2002 opened the possibility of assigning funds from the lottery to culture – the division of the funding from lottery tickets between sports and culture is now at an 80:20 ratio. Article 47 of the Gambling Act prescribes that these funds be transferred to the Fund for the Promotion of Culture. This fund is managed by the Ministry of Culture and National Heritage on a yearly basis for the promotion of the activities prescribed by the terms of the fund. The special funds to support culture from the Gambling Act were estimated by the Budgetary Act 2004 at PLN 120 million (approx. EUR 29 million), which was based on the calculations of the National Lottery (Council of Europe/ERICarts, 2011j, p.46).

Another fund worth mentioning is the Fund to Support Artistic Activity. It was created according to the regulation in the Act on Copyrights and Related Rights (1994) by which producers or publishers of literary, musical, artistic, photographic and cartographic works (who by law are not required to pay authors' rights fees because copyright has expired – the so-called "dead hand" funds) are required to pay 5% from gross sales income to the Fund to Support Artistic Activity.

¹⁰⁸ <http://www.cte.org.pl/> [Accessed 12 February 2011].

Since 2005, with the introduction of the Cinematography Act and the establishment of the Polish Film Institute, Polish film production is supported through grants for film production. As listed in the Cinematography Act, support can be provided for up to 50% of the film budget, or up to 90% in the case of art films (Council of Europe/ERICarts, 2010, p.38).

The financial crisis has had an impact on the grants from the public sector, but the incentive systems for the private investment in culture have remained unchanged. Poland was the only country in the European Union showing economic growth in 2009 (Inkei, 2010, p.1). Comparing with the previous year, the Central Statistical Office report for 2009 outlines a 17.1% increase of the expenditure of state budget and local self-government entities on culture and national heritage protection.

Legal landscape¹⁰⁹

The legal framework for the incentives is as follows:

- **Tax reductions or deductions for cultural goods and services**

The Act on Goods and Services Tax (2004), with later amendments, the last one being the change in the VAT rates in 2011, addresses VAT incentives; the standard VAT rate was increased from 22% to 23% in 2011, and is applicable to most cultural services as well as the sale of CDs, audio and video cassettes and DVDs. The VAT rate on books and periodicals (with an ISSN or ISBN number) is 5%. The VAT rate on theatre and cinema tickets, for example, has been increased from 7% to 8%.

A similar instrument comes from the Law on Museums (1996, with later amendments), which stipulates that free admission to the public must be guaranteed one day per week and that tickets with reduced prices must be available (it is left to the directors to decide in what amounts).

- **Tax exemptions for cultural organisations (corporate tax)**

In Poland, there are two primary forms for not-for-profit, non-governmental organisations (NGOs) and these are associations and foundations. Associations are governed by the Law on Associations, and foundations by the Law on Foundations (LOF). Associations may be formed for either mutual benefit or public benefit purposes, while foundations are subject to the public benefit requirement (according to LOF, Article 1, one such economically and socially beneficial objective of interest to the Republic of Poland is "culture and arts"). The Law on Foundations does not distinguish between grant-making and operational foundations. The Law on Public Benefit Activity and Volunteering from 2003 (amendments in 2010) permits designations as PBOs (Public Benefit Organisations) to associations and foundations, but also to commercial companies and sports clubs. The organisation must be active in one of 33 areas listed in the Laws, and "promotion of culture and learning" is one of them. Therefore, the Law on Public Benefit Activity and Volunteering (2003), Law on Goods and Services Tax (2004, with later amendments) and other taxation acts make it possible for NGOs with public benefit status to be exempted from income tax (if their income is allocated according to statutory aims), immovable property tax, stamp duties, court fees, VAT tax and several other taxes. NGOs conducting business activity are exempted from income tax on legal persons (if the income is allocated on statutory activity exempted from tax).

¹⁰⁹ Data from Compendium, 2010 and 2011 editions, USIG (2010), MKIDN web. Thanks to colleagues Ilczuk and Nowak for their help with the research questionnaire in this regard.

- **Tax exemptions for artists (income tax)**

The Law on Income Tax (1991, with later amendments), by which artists and creative workers are allowed to deduct 50% of their income from their creative work as expenses for income tax purposes.

- **Philanthropic investment – donations, patronage, mecenat**

The Law on Income Tax on Individuals and Legal Persons allows individuals to deduct 1% of their income tax as a donation to a chosen PBO. Individuals are also allowed to deduct donations up to 6% of income.

The Law on Income Tax (1993, amendments 2003) allows deductions of up to 10% of income on donations made by legal persons (organisations, foundations, etc.) for “public good purposes”. Since 1991, state cultural institutions are allowed to receive private donations from individuals or legal persons. There are no obstacles with classification as to which cultural institutions or goods fall under the definition that brings favourable treatment.

The described tax deductions (6% for private and 10% for legal persons) are possible only for activity purposes and not in order to support chosen institutions. As for the possibilities of the 1% income tax deduction allowed to private persons – this applies to all organisations with the Public Benefit status, which means that the charity organisations receive the most of those deductions, while cultural organisations are lower on the priority list of the taxpayers.

- **Sponsorship**

Sponsorship as a model is rather new in Poland; the former model of support of culture was patronage, which had a long tradition.

The Law on Broadcasting, 22 December 1992 (OJ 2004, No 253, item 2531), Article 4 (paragraph 7), defines sponsorship and its difference from advertising. While advertising is a persuasive message that causes an increase in sales of goods and services to the recipient of the message, the main aim of sponsorship is to achieve a particular image of the sponsor and the dissemination of the knowledge on the sponsor’s brand image, etc.

Television sponsorship is regulated by the Law on Radio and Television as an active sponsorship.

The Law on the Health Protection from the Use of Tobacco and Tobacco Products of 9 November 1995 (OJ 1996, No. 10, item 1955, as amended) places restrictions and prohibitions regarding the manufacturer of tobacco products as a sponsor (Article 8, paragraph 2 of the Law expressly prohibits sponsorship by tobacco companies of sports, cultural, educational activities and the activities of health and those related to socio-political issues). Similar restrictions relate to the alcohol industry.

Effects

It is difficult to assess the effects of the existing incentives for private investment in culture in Poland as there are no monitoring instruments. The necessity of developing a cultural observatory has been stressed at the Culture Congress in 2009, and recently such an endeavour has started to develop. Unfortunately, there are no studies or surveys on private cultural financing, especially concerning commercial investors, and there is no financial data available (Council of Europe/ERICarts, 2011j, p.51).

According to available data from the Ministry of Finance prepared for the Culture Congress in 2009, the review of the "1% incentive" shows that this incentive has not proved to be of great significance for the cultural field. The philanthropic activities are oriented more towards assisting the social (sick, elderly and children) and not the cultural activities. In 2008, among the top 300 organisations on the list of organisations receiving funding as a result of the 1% incentive (prepared by the Ministry of Finance), there were no organisations connected to culture. This situation was also evident in 2007 (Narodowe Centrum Kultury, n.d.). This goes in line with the research on the charity of Poles (ECCO, 2010), which shows that support to culture is marginal; during 2010, nearly 80% of Poles engaged at least once in some sort of philanthropic activity – mainly sending money to charity, offering assistance in the form of clothes, books and toys, but less through voluntary work.

Policy pressure and re-orientation

Private investment in culture in Poland is a relatively new concept and there is space for its development. Although the existing incentives are valuable to have, they actually do not offer enough space for development and thus need to be amended. "According to widespread opinion, the tax changes in Poland do not encourage sponsors and donors to adequately support culture. Transparency and new measures are being called for."¹¹⁰ Research from other sources supports this (Kukułowicz, 2011, p.6); regarding the adjustments needed for the development of sponsorship, both cultural institutions and private firms agree that the priority lies in the changing of the tax laws. Concerning other changes, cultural institutions and private firms are not in unison, as cultural institutions are more prone to advocating for the need for public-private partnership projects and the creation of intermediary bodies for encouraging sponsorship in culture. The orientation towards encouraging private investment in culture is noted in the National Strategy for Cultural Development 2004-2013, but it has not been elaborated fully. It is connected to the need for the overall restructuring of the cultural sector in Poland, which has been postponed for some time. The Culture Congress in Krakow in 2009 provided an opportunity for debate, but solutions are still to be negotiated.

The interest for the restructuring of the cultural sector exists in the public, professional bodies and among artists; several reports were made during the last decade, but the changes still have not occurred. Arts and business forum types of organisations are rather new in Poland, but there are several campaigns running on the importance of culture¹¹¹ for overall social and economic development. The research in the field of cultural policy and cultural economics is well developed;¹¹² however, there is no continuous monitoring of the existing incentives for encouraging private investment in culture. The latest data on sponsoring of culture in Poland (Kukułowicz, 2011) shows that, in 2009, only 14% of cultural institutions could not find sponsors despite their attempts to do so. The percentage of budget from private sources in the total budget of cultural institutions is still rather low: for 27% of cultural institutions, it is 0-1% of the total budget; for 21% of cultural institutions, it is 2-5%; for 18% of the cultural institutions it is 6-10% of the total budget; for 14% of cultural institutions, it is 11-25%; for 10% of cultural institutions, it is 26-50%;

¹¹⁰ Response to our questionnaire – Ilczuk and Nowak.

¹¹¹ E.g., *Kultura sie licy!* (kulturasielicy.pl); "Kreatywni samozatrudnieni" (www.kreatywnisamozatrudnieni.pl) [Accessed 12 February 2011].

¹¹² "Although Culture Institute in Warsaw no longer exists, where the Department of Cultural Economics was actively engaged in systematic research in the field, part of its functions were taken over by independent researchers and independent institutions (e.g., Pro Cultura). Students of Cultural Management at the Jagiellonian University and Cultural Studies at SWPS have lectures on the subject of cultural economics." (Ilczuk and Nowak, 2010, p.8).

for 7% of cultural institutions, it is 51-75%; and for 3% of cultural institutions, it is 76-100% of the total budget. 40% of companies that sponsored at least once in the period 2006-2010 dedicated their funds to sponsoring culture. Most firms were inclined to sponsor performing arts, projects in cultural animation/events and national heritage institutions. Private firms sponsor culture primarily to strengthen the image and prestige of their companies, as well as to reap the benefits of marketing (Kukułowicz, 2011).

There are examples of good practices in the sponsoring of cultural events and donations to cultural organisations (see "Good practices"), but their financing can be analysed only on a case-by-case basis. When looking at the available data on the existing practices, the data from Commitment to Europe (2010a) shows there has been a change in corporate support to culture in the period from 2006 to 2008; in 2006, the orientation was more on sponsorship, while in 2008, it switched towards Corporate Cultural Responsibility (CCR) and, recently, even towards Corporate Social Responsibility (CSR). Still, most of the companies in Poland do not have developed strategies for CSR (Commitment to Europe, 2010b).

In Poland, encouraging private investment in culture is still in its beginning stages, and it needs a well-elaborated strategic approach for its further development.

Short description of the examples of good practices found

To show some of the good practices, we will mention the winners for the year 2009 of the Benefactor of Polish Culture award, which goes to individuals and institutions that have financially supported cultural life in Poland. The aim of this award is the promotion of funding culture from non-budgetary sources. A special jury decides on the awards in three categories.

In the category "*Sponsor*", the award was given to Bank BPH SA for the financial support of many cultural projects (World Book Day 2008, an exhibition of photographs by Janusz Gajos at the Art Gallery of Catherine Napiórkowska, shows such as "Sophia Stryjeńska 1891-1976" at the National Museum in Krakow, etc.); as well as for the overall endorsement of cultural institutions such as the National Philharmonic, the Royal Castle in Warsaw, and the Bishop's Palace Erazmo. The "*Sponsor*" award also went to Grupa Żywiec S.A. for their support of the 19th International Theatre Festival Malta, and for their support of numerous cultural events, including Open'er Festival, the International Mozart Festival Mozartiana, the International Festival of Mountain Folklore in Zakopane, Żywiec Brewery Museum, the Museum of Casimir Pulaski in Warka and others.

In the category of "*Donor*", the award went to The Orange Foundation for financing the purchase of a unique collection of Army Postal Service at an auction in Dusseldorf and for developing and financing the concept of the Virtual Museum of the Warsaw Uprising and other donations. Also in the category "*Donor*", for the second year in a row, the award went to Mr. Ronald S. Lauder, who was nominated by the Auschwitz-Birkenau State Museum for his support that enabled the Museum to install up-to-date conservation workshops and studios.

The "*Media curator*"¹¹³ award went to the English-language weekly *The Warsaw Voice* for its coverage of the cultural events in the Royal Castle in Warsaw in 2008, as well as for its

113 www.mkidn.gov.pl/pages/posts/dobroczyzna_kultury_polskiej_-_konkurs_rozstrzygniety_-330.php?searchresult=1&sstring=sponsor [Accessed 12 February 2011].

contribution to the promotion of high culture through the patronage of important cultural events and many cultural institutions.

Other example projects of good practice that can be mentioned are: the cooperation between Bank BGŻ SA and the National Museum in Krakow in the project Gallery of 20th Century Polish Art in 2004-2005 (together with seven other project partners and ten media partners); the company PKN Orlen's project "Chopin" in 2007 with four other partners, including National Institute Fryderyk Chopin; and the Samsung Art Master project of the Samsung company in association with the Centre for Contemporary Art Zamek Ujazdowski in Warsaw (Commitment to Europe, 2011).

CASE STUDY: SLOVENIA¹¹⁴

National context

Since 1991, Slovenia has been an independent state belonging to the group of post-socialist countries¹¹⁵. The democratisation of culture in Slovenia had already started before due to the ex-Yugoslav social experiment called self-management that introduced a kind of quasi democracy, quasi-civil society and quasi market economy in an otherwise one-party political system. Therefore, the Slovenian cultural policy developed at an incremental pace during the process of transition in the 1990s.

Contrary to Western EU countries that succeeded to multiply resources for culture by decentralising cultural responsibility in the 1980s to the lower governmental tiers, the establishment of local self-government in Slovenia did not reinforce local awareness and interest for culture in terms of increased funds. The majority of fresh funds came from EU structural funds. The majority is being spent for capital investments in local cultural infrastructure, which raises the question as to who will provide operating funds in the future. There is an on-going discussion reinforced by the current economic crisis about the too numerous municipalities that are not able to provide adequate services for their inhabitants, which puts additional burden on some of the bigger centres. This problem is especially present in the field of culture, where the main concept for cultural development applied after the Second World War was polycentric. Slovenia was divided into 62 municipalities (administrative units), and among them, 25 developed into traditional cultural centres, which now find themselves in the same legal position as others but without their cultural mission of broader importance being taken into account. These 25 municipalities are the founders of bigger museums, theatres, libraries, galleries and cultural centres. However, their funding lies with the central authority due to the bad experience of the 1980s when cultural funds had to be taken over by the national budget in order to protect them from the local intentions to reduce them in favour of other communal priorities. The democratic order with integral local budgets represents for regional cultural infrastructure the risk that cultural institutions rejected taking. The state acts as the protector of the cultural sector. The share of the state in public cultural expenditure was 61% in 2007, with the local levels providing the remaining 39%.

114 Prepared by Vesna Čopič, Andrej Srakar and Snežana Šušteršič.

115 Slovenia, a country of two million people and approximately 20 000 km², is divided into more than 210 municipalities, with no regional level yet established. More than half of the municipalities have less than 5 000 inhabitants, and another 23% less than 10 000 inhabitants (Government Office for Local Self-Government and Regional Policy, 2010). The local communities are weak in terms of resources and the great majority (over 85%) of them are eligible for protection through the institution of financial equalisation procedures, which are designed to correct the effects of the unequal distribution of potential sources of finance (Inštitut za lokalno samoupravo in javna narocila Maribor, 2005).

In a situation where there is no intermediate level of government between the state and local authorities, the *Ministry of Culture* is the main body responsible for: policies and strategies for cultural development; support for almost 25 national cultural institutions and 40 institutions in the already-mentioned 25 municipalities; legal issues in the field of culture; protection of the cultural heritage; support to ethnic minorities; and the regulating and preparation of the laws relevant to the media space.

Due to the absence of political autonomy, the role of culture has been of key importance in Slovenian history as a way to preserve national identity. In the extremely ideological context of socialism, its role became even more substantial and distinctive. In spite of the transitional period, Slovenia has kept the prevailing state model of cultural production from its past. It includes: (1) the strong public sector in culture, (2) a high dependence of overall cultural life on budget funding, and (3) a decisive role of public authorities in the cultural decision-making. The interventionist approach to the arts and culture reflects the paternalistic relation to culture that remains in spite of the post-socialist transition. The fundamental change from one political system to another that would bring about structural changes by re-positioning the role of the state towards the cultural sector has not occurred, not even in relation to the local level, since the process of decentralisation was postponed for the reasons described above. It should be explicitly underlined that even those fields that have been privatised, such as film production, publishing, cinema and media, cannot afford to produce artistically more demanding cultural content without the public support. The problem of weak market demand is the cause of a false market¹¹⁶ even in the case of commercial provision of cultural goods and services. Therefore, the public/private boundaries are very poorly drawn. There are seldom any public-private partnerships, despite the Slovenian cultural policy having a clear objective (written in the National Cultural Programme 2008-2011) to encourage and promote public-private partnerships as legal instruments also in the field of culture.

In a smaller system such as the Slovenian one with two million inhabitants, where almost everyone knows everyone, the potential inclination to cliquishness is a serious threat to the transparency of decision-making. Such a system produces a lot of clients, which results in high fragmentation of public funds. The cultural life in Slovenia is, on the one hand, underfunded, and on the other hand, hyper-productive.

As public funds are placed under scrutiny, a search for other sources of support has begun. The previous coalition in power (2004-2008) included in its Coalition Agreement an intention to adopt the law on the encouraging of private investments in culture. In 2006, the document was prepared within the inter-ministerial task force composed of experts from the Ministry of Finance and the Ministry of Culture, but was never presented to the public because the financial authorities in the end took the stand that they would not agree with any tax incentive that would favour only one sector and be regulated outside the general tax legislation.

After the abolition of the self-management system at the end of the 1980s, there was no explicit cultural policy in Slovenia until the adoption of a new National Programme for Culture for 2004-2007. But even afterwards, no clear strategic objectives or priorities were made, since the programme was more of a "wish list" (with 55 objectives) than a strategy. The next programme, for the period of 2008-2011, is not much different in this respect. In general, the main stress goes to artistic creativity, development of the Slovene language, the preservation and actualisation of cultural heritage, digitalisation, cultural education,

¹¹⁶ By false market, we mean a market where even the products of cultural industries have to be subsidised since the market is too small to operate only on the principle of demand and supply.

cooperation among ministries to realise projects funded from the EU Structural Funds, new capital investments and integration of culture in the social and economic development of Slovenia.

The main elements of the current cultural policy model are encompassed in the *Act on Enforcing Public Interest in the Field of Culture (2002)*, (Council of Europe/ERICarts, 2011m) and they are:

- The central role of public authorities in the area of culture;
- Intensive regulation as a method of managing cultural affairs;
- Weak monitoring;
- Complicated procedures;
- Expert advice on allocation of public funds;
- Heavy institutionalisation of Slovenian culture;
- QUANGO status of the public cultural institutions which are not a part of the state or local administrations but separate legal entities of public law;
- Multi-annual financing for NGOs in small scale;
- Decentralised cultural infrastructure funded by the state.

Despite the fact that we can speak about a very strong influence in the contemporary Slovenian cultural scene coming from the activities of non-governmental organisations in the arts, the huge majority of public funds for cultural organisations goes to public institutions, while only a small percentage goes to NGOs. There is an initiative to modernise the public sector in culture that is being led by the Slovenian government. What will happen and whether this initiative will have some consequences for the non-governmental sector as well is very hard to predict.

Foundations and other grant-giving bodies

Foundations and trusts in Slovenia are very few in number. We can name two state funds that are being led by public arm's-length bodies: the Public Fund for Cultural Activities (focused on amateur art activities) and the National Film Fund. The institutional support for amateur culture has a long socialistic tradition that was reorganized in 1996 when the government established the Fund for Amateur Cultural Activities (after 2000, the Public Fund for Cultural Activities – JSKD). The fund acts as a cultural intermediary, supports amateur cultural activities of broader importance, performs organisational and administrative services for cultural associations and assists the local communities in programming and allocation of local funds for amateur culture. The Slovenian state allocation for audio-visual culture financed through the Slovenia Film Fund (after 2010, the Slovenia Film Centre) was EUR 4.53 million or 2.75% of the national budget for culture in 2007, encompassing the programming, production, distribution, display and promotion of the national film programme. There are around 50 producers and three film studios in Slovenia. In 2007, five features and one short film were co-funded, with the public share for these films representing on average around 70% of their overall budgets. In 2008, a National Book Agency was also formed, which is also operated in an arm's-length manner.

There exist very few private or NGO foundations or trusts in Slovenia. We can name Gallus Foundation, Foundation of Father Stanislav Škrabec, Foundation Imago Sloveniae and Foundation Paths of Slovenian Cultural Heritage. The best known are the first three. The first one, Gallus Foundation, which has a 20-year tradition, mainly supports talented musicians and ballet dancers. The protégés receive support from funds given by donors and sponsors of the foundation. Each year, there are at most three protégés. The second one, which is perhaps the best known at present, is based on the cultural and religious tradition of Father Stanislav Škrabec, the Franciscan priest, living in 19th century, who is considered to be one of the most important linguists in Slovenian history. On the basis of his tradition, one of his descendants, businessman Janez Škrabec, in cooperation with Franciscan monks, established the foundation in 2003. Each year, several scholarships for students of Slovenian language are given by the foundation. Also, an award for contributions to the Slovene language is given each year to the most prominent Slovenian linguists. The third case, Imago Sloveniae, is focused on the revitalisation of Slovenian cultural heritage. The foundation was started by the late Primož Lorenz, a renowned Slovenian pianist. The project has united over 30 Slovenian municipalities, which each year organise a number of concerts of renowned musicians and composers as well as other cultural events.

We can therefore say that, in Slovenia, there exist very few public or private foundations and trusts. The public authorities would probably have to consider improving the business environment for culture (speaking in economic terms) and by that providing a better environment especially for private and NGO foundations to emerge. Consistent state policy objectives and implementation on that question would certainly be crucial. It would be mutually beneficial for the state and the artists, and would certainly mean a more balanced structure of funds for artists and arts organisations.

Brokerage bodies

In Slovenia, there exist no arts-business forums at present. There have been ideas, and even proposals for such a body, but no real action has taken place. The law that would encourage the creation of such bodies was initially prepared in 2006, but was put aside by the then ruling Minister of Culture. The law would stipulate a special forum for cooperation between arts and business, which would be financed as a public-private partnership, i.e., both from private as well as public funds, and would take care for enhancing the involvement of private companies in the arts sphere in Slovenia. The state would stimulate such a forum, on the one hand, through financial contributions (e.g., from lottery funds), and on the other hand, by awarding the best sponsors and donors with a prestigious prize, to be awarded each year.

As the draft of this law has been dropped and no private initiative has emerged so far, there exist no such forums in Slovenia at present, and therefore there are no data on the possible impact of such forums. In the survey of the CATI Centre in 2000, 46 companies of various sizes were asked whether they would become a member of such a forum if it existed. 69% of the surveyed companies replied positively, and 62% of the companies replied that the costs for joining such a forum would be more than covered by the benefits of membership in one (CIC, 2003). At a round table on Investments in the NGO Cultural Sector, which took place in 2010, two of the main business actors present were again asked if they would be interested in an Arts & Business forum being created in Slovenia. They both replied with great caution, expressing concerns about its organisation and doubting whether such a forum was even needed at all (Čopič and Srakar, 2010).

We can nonetheless observe that the experiences of other European Union Member States (e.g., United Kingdom, Austria, France, Ireland, Germany, Sweden) provide data that show relevant and positive impact of such forums, and it would be advisable to consider implementing this initiative in the Slovenian cultural policy system.

Funding

Within the public sphere, culture in Slovenia is co-financed by two main actors: the state and local communities. On the state level, the Ministry of Culture is responsible for the distribution of the majority of public funds for culture (ca. 90%), while the state's QUANGOs allocate the rest. Various programmes and projects are supported by the national funds, including those of public cultural institutions (national and municipal), programmes and projects of both minority groups, as well as subsidies and grants for artists, professional societies, cultural festivals, investments in information technology, sites and monuments, scholarships, covering minimum social security contributions for freelance artists, retirement benefits for cultural workers, etc.

In Slovenia, there are still no regional authorities that operate between the state and local levels. The local authorities' obligations in the cultural field are: to ensure conditions for common library activities; cultural and arts activities and amateur cultural activities; conservation of tangible and intangible cultural heritage; and other cultural programmes of local importance. In areas where national minorities live, the local communities are also obliged to support their cultural activities.

Public cultural expenditure in 2007 amounted to approximately EUR 272 million and corresponded to 0.81% of the GDP. The share of the state in public cultural expenditure was 61% in 2007, with the local level providing the remaining 39%. (This division includes all local level expenditure on culture, but at the central level it only refers to the expenditure of the Ministry for Culture). The share of state cultural expenditure, as part of the total state expenditure in 2007, amounted to 2.12%, and the share of local community cultural expenditure, as part of the total local community expenditure in 2006, amounted to 6.3%.

Household spending on cultural activities and goods in Slovenia was calculated on the basis of the National Household Budget Survey carried out by the Statistical Office of the Republic of Slovenia. In 2006, this amounted to ca. EUR 485.7 million or 4.27% of the total household budget (in 2005, it amounted to ca. EUR 474.3 million or 4.34% of the total household budget). The majority of cultural household expenditure was spent on the RTV subscription (32.5%) and the press (20.6%). Household spending on cultural activities and goods in Slovenia, in 2006, corresponded to 1.59% of the GDP (in 2005, it corresponded to 1.68%).

National cultural expenditure, calculated on the basis of public cultural expenditure and household spending on cultural activities and goods, in 2006, amounted to EUR 742 million and corresponded to 2.44% of the GDP (in 2005, it amounted to EUR 705 million and corresponded to 2.49% of the GDP).

There are almost no published data available for the importance and amount of other sources. As shown by the recent study on NGO organisations in culture (Hazabent et al., 2011), the division of funds for NGOs in culture is: 30% state; 25.4% local authorities; 4.6% EU funds; 24.4% own earned income; 2.1% memberships; 0.8% other sources; 9.3% sponsorship and donations; and 3.5% foreign sources.

We were also able to obtain the data on the funding of public cultural institutions for the years 2008 and 2009. The data for 2008 show that almost 77% of funds for national public institutions comes from providing public services. Almost 74% of the total budget is given by the Ministry of Culture, 1.4% by local municipalities, and 1.6% comes from other public funds, while 17% represents earned income, including admissions, the sale of catalogues and other materials, memberships and donations.¹¹⁷ From merchandise sales in the café, renting space and other services on the market, the remaining 6.1% of the total budget is raised.

For the local public cultural institutions of broader importance, 66.5% is given by the Ministry, 16.2% by local municipalities, 14.3% is earned from so-called other public services, and only 1.7% comes from the market. The smaller share of market revenues for local cultural institutions could be a consequence of the much smaller market, which has as a consequent overdependence on public funds for their operation.

We were also able to analyse the amounts coming from sponsorships and donations given to public institutions in 2008 and 2009, and the trends in their movement. In 2008, 1.3% of the budget of national cultural institutions was given through sponsorships, and 0.4% through donations. This amounts to EUR 1.3 million and EUR 0.4 million, respectively. The amount coming from donations for this category stayed the same for 2009, but the amount coming from sponsorships fell by EUR 0.3 million (a decrease of over 23%). There was also an apparent drop in the amounts coming from both sponsorships and donations to local public cultural institutions (a drop of approximately EUR 155 000, of which almost two-thirds was represented by a drop in donation amounts). Most apparent is the decrease in the amount coming from donations.

The difference between national institutions, where the donation level stays the same, while sponsorships drop, and local institutions, where the donation level falls drastically as well, could be a consequence of the lesser importance of donations for the financing of national institutions (where they represent only 0.4% of the total budget) as compared to local cultural institutions. Otherwise, we can hardly explain the decrease in the level of donations for local institutions, as donations are often a representation of devotion and identification with an organisation's mission, and we would normally expect this to be higher in local institutions.

Judging from this picture, the importance of private funds is low. For non-governmental institutions, the numbers are very respectable, and especially pronounced is the influence of earned income and sponsorships and donations. Together, they amount to over a third of all funds. But a totally different picture is provided by the data on public cultural institutions, where the level of private funding is much lower, and is decreasing year after year. Judging from the study by Klamer, Petrova and Mignosa (2006), where most comparative numbers regarding private funding are much lower, Slovenian cultural policy still does rather well in this aspect. It has to be noted, however, that the numbers in Klamer, Petrova and Mignosa's study are very incomplete (most of the data on private funding in EU states was unavailable) and would be much higher if all the sources of private funding were accounted for.

117 Revenues from ticket sales, publications, memberships, visits to other venues at home and abroad, subscriptions, received interests, received dividends and donations are considered as earned income from public services and are therefore distinguished from market revenues.

The practice in the field of sponsorship of cultural events in Slovenia has shown that both sides, sponsors and those sponsored, view the data on sponsorships as confidential, and have no motive to reveal it. The only available data exist in the public sector, where the Ministry of Culture follows the successfulness of public associations in gathering private sponsorship funds and donations. The analysis shows the following conclusions about funds from private sources:

- They do not represent a significant share in the structure of funding of public institutions
- They show a high volatility in amount and structure on a yearly basis
- They are highly concentrated and centralised in large institutions in the main regional geographic centres (Čopič and Srakar, 2010)

The exact data on the question of public funds possibly overcrowding private investments are not available. Our opinion is that the amount of public funds given to a certain project has both effects: on the one hand, it lowers the interest among possible private financiers (in one Slovenian case, it was clearly expressed by private companies that if the project was already successful on public tenders, why would it need private funding at all), but on the other hand, possible public participation also promotes the project in the eyes of private financiers and they give the funds more easily. The rent-seeking effect is also present, meaning that the private companies gain in public (mostly political) respect by financing the project that has already been supported by public funds.

There are no actual data available as well on whether the financial crisis has had any particular impact. As has been noted by Inkei (2010), the public funds for culture are being lowered in most of the European countries due to the crisis. The information from the Slovenian Ministry of Culture nevertheless shows that the national cultural budget has been raised in absolute terms, amounting to EUR 204 million in 2009, EUR 209 million in 2010 and EUR 215 million in 2011 (SIOL Kultura, 2010).

Legal framework

The most important documents adopted by the Parliament that define the scope of culture, as well as goods and activities that are considered to be of cultural nature, are the Exercising of the Public Interest in Culture Act (ZUJIK) and the National Programme for Culture (adopted for three-year periods).¹¹⁸ The incentives applicable in the field of culture, encompassed also in fiscal policy, usually adopt the definitions as laid down in these main documents.

There are also the Registry of Self-employed Professionals in the Field of Culture and the Registry of Independent Journalists, both kept by the Ministry of Culture. People who autonomously carry out a cultural activity as a professional or perform as a journalist are entered into these registries if they fulfil certain criteria. On that basis, they are treated the same as self-proprietors for tax and social security purposes.

¹¹⁸ The current National Programme for Culture 2008-2011 (ReNPK0811) as well as the Exercising of the Public Interest in Culture Act (ZUJIK) and other relevant acts, e.g., Cultural Heritage Protection Act (CHPA), Librarianship Act (ZKnj-1), Protection of Documents and Archives and Archival Institutions Act (PDAAIA), are available at: http://www.mk.gov.si/en/legislation_and_documents/ [Accessed 11 March 2011].

Main Tax Legislation

Slovenian tax legislation provides several kinds of tax incentives.

All persons carrying out commercial activities or individuals acquiring income in Slovenia and having their head offices or place of effective management or permanent abode in Slovenia, i.e., residents (partnerships and other corporate forms, sole proprietors, etc.) are subject to income tax (taxation on worldwide income).

Non-residents are subject to income tax only if the income has its source in Slovenia.

Corporate Income Tax Act (ZDDPO-2; UL RS, No. 117/06, last amended by ZDDPO-2E, UL RS, No. 45/10) applies to taxation of legal persons. There are a limited number of legal persons who are exempt from corporate tax for non-profit activities, e.g., institutes, societies, foundations, political parties, chambers, etc. The taxable base for computing the corporate income tax is profit, determined as the surplus of revenues over expenses recognised in the income statement according to accounting standards, unless otherwise stipulated by the Act. The corporate tax rate is 20%.

Personal Income Tax Act (ZDoh-2; UL RS, No. 13/11-UPB7) applies to taxation of entrepreneurs (i.e., sole-proprietors and other self-employed individuals who are registered as such, e.g., self-employed in the field of culture, independent journalists, lawyers, researchers, etc.). In general, their tax treatment (rules for determining the profit, rights and obligations) is the same as that of legal persons. The tax rate on profit is between 16% and 41%. During the tax year, which equals the calendar year, income tax is paid in instalments. The amount depends on profits made in the previous year.

Entrepreneurs, meeting some conditions (not being employers, having no more than EUR 42 000 of income in a 12-month period, etc.), are entitled to opt for a flat-rate scheme: during the year, their "taxable profit" is determined as the surplus of actual (paid) income over the sum of lump-sum expenses (currently 25% of income (or 70% for production of certain craft arts)). This surplus is subject to withholding tax of 25%. The actual profit is calculated in the income tax return when it is reduced further by the amount of social contributions payable (i.e., the amount they were obliged to pay in the tax year concerned, regardless whether they had paid it or not).

The profit from entrepreneurial activity is included in the annual income tax base. The tax rate is between 16% and 41%. 0.5% of income tax due can be allotted to certain organisations in the public interest (a list of these organisations is determined for every tax year by the competent ministries and published in an official journal).

The provisions of the Slovenian Value Added Tax Act (ZDDV-1; UL RS, No. 13/11-UPB3) correspond entirely to the provisions of the VAT Directive. Among others, special schemes for small enterprises (i.e., residents whose value of supplies within the period of the previous 12 months do not exceed the threshold of EUR 25 000) and for second-hand goods, works of art, collectors' items and antiques are applied.

Inheritance and Gift Tax Act (UL RS, No. 117/06) applies to beneficiaries – individuals or legal persons of private law (e.g., foundations and associations). It is levied on inherited property or gifts at net market value (i.e., after deduction of debts and other liabilities). Progressive tax rates apply depending on the value and the relationship with the testamentary in the case of inheritance, and with the donor in the case of gifts. Legal persons of private law, established for religious, humanitarian, educational, cultural,

charitable and certain other activities are exempt. Moveable property up to a value of EUR 5 000 is also exempt from taxation.

Tax on Transfer of Immovable Property (ZDPN-2; UL RS, No. 117/06) applies to all payable transfers of immovable property that are not subject to VAT. It is levied on the market value of property. The tax rate is 2%. The tax is not charged on some stipulated transactions, among which is the transfer of property possessing the status of cultural monument and open to the public or dedicated to be used for cultural activities on the basis of a contract between the owner and the Ministry of Culture.

Other Legislation

In the Act on Protection of Copyright and Related Rights (UL RS, No. 16/07-UPB3 and 68/08), there are provisions on royalties and remunerations that must be paid to authors and other performing artists. There are two special organisations (SAZAS and ZAMP) that are entitled to collect royalties for copyrighted material covered by this act when it is reproduced in public, such as in songs, played on the air or in concerts, video spots on TV, etc. They distribute money collected according to contracts with authors and copyright owners; a part of it is allotted to scholarships or grants.

Librarianship Act (UL RS, No. 87/01) includes provisions on "library compensation" or "library allowance".¹¹⁹ It was introduced in general libraries for the public loan of library material as support to the authors who have permanent residence in Slovenia or create in the Slovene language. The main criterion is the number of loans of certain material in a calendar year. The more-detailed criteria on entitlement, amount and form of distribution of funds is set by the Minister of Culture.

Tax deductions and incentives

Consumption of culture

In the Slovenian VAT legislation, wherever possible, cultural goods and services (e.g., books, property rights of authors, etc.) are taxed at a reduced rate, which is currently 8.5%, including the transactions under the special scheme for second-hand goods, works of art, collectors' items and antiques. Activities in public interest, as determined in the VAT Directive, are exempt from VAT (e.g., services that non-profit organisations provide to their members in return for a subscription, certain cultural services, transfer of "old" buildings). The rest of the transactions are taxed at the standard rate (20%).

There are no extra deductions or allowances for buying works of art or any other similar objects.

Investment in culture

- *Business investment*

The tax treatment of expenses for certain purposes is the same for legal persons liable for corporate income tax and entrepreneurs liable for personal income tax, who do not opt for the flat-rate scheme.

Sponsorship of cultural institutions, organisations or events is treated the same as other expenses for advertising, i.e., fully deductible.

¹¹⁹ The first expression is used in the Librarianship Act, and the latter in the current National Programme for Culture.

Any other kind of patronage, e.g., scholarships or grants, is deductible only if it is directly linked with business activities that are a source of taxable income or a consequence of such activities.

There are a few general tax incentives businesses can claim when they are in line with their taxable activities:

- R&D investment incentive: 40% of the amount invested in internal R&D activities and the purchase of R&D services can be deducted from the tax base (it can be increased to 50% or 60%, depending on the regional relief scheme).
- Investment in equipment (except in furniture, office equipment and non-ecologically friendly motor vehicles) and intangibles: 30% of the amount invested can be deducted from the tax base; the total amount of this incentive is limited to EUR 30 000 per year for legal persons but not for entrepreneurs.
- Certain employments: for employing persons under the age of 26 or above the age of 55 who have been, prior to employment, registered as unemployed for at least six months (a reduction of the tax base by 45% of the person's salary), disabled people and apprentices.

If the amount of the first two tax incentives exceeds taxable base in a current year, the residual can be carried forward for the next five tax years.

There is also tax relief for donations. The taxable base may be reduced for amounts paid in cash and in kind for humanitarian, disability, charitable, scientific, educational, medical, sports, cultural, ecological and religious purposes, for payments made to residents of Slovenia or residents of Member States of the EU or EEA (excluding the Principality of Liechtenstein) who are established under special regulations for the performance of such activities and up to an amount equivalent to 0.3% of the taxable revenue in the current tax period. The cumulative amount of relief granted may not exceed the amount of the taxable base.

An additional reduction of 0.2% of taxable revenue can be claimed for amounts paid in cash and in kind for cultural purposes and to voluntary societies for the protection from natural and other disasters recognised to be in the public interest and are residents of Slovenia or residents of the EU or EEA (excluding the Principality of Liechtenstein) and are established under special regulations for the performance of such activities.

If the amount of donations given for cultural purposes and for protection from natural and other disasters (0.3% and/or an additional 0.2%) – and for these two purposes only – exceeds taxable base in a current year, the residual can be carried forward for the next three tax years.

- *Investment of individuals*

Resident individuals of Slovenia who are liable for income tax on an annual basis can assign 0.5% of income tax levied to certain organisations in the public interest (so-called percentage legislation) that are involved in activities of protection from natural and other disasters, humanitarian, charitable, scientific, educational, medical, sports, cultural, ecological, religious and similar activities, and to political parties and trade unions. The minimal percent to be assigned is 0.1%, so the taxpayer can choose up to five recipients. The exhaustive list of organisations and associations entitled to receive such donations is published each year.

There are no other tax incentives for investment in culture for potential individual investor.

Effects

There is no special system for monitoring the implementation of incentives. The implementation is followed by the National Statistical Office, but they also lack in methodological terms, as argued by Čopič and Srakar (2010). It has been calculated by the same authors that the money raised by the main tax incentive for donations (0.3% + 0.2% of taxable income) ranges between 9.32% of all possible funds that could be given for that incentive for the year 2003 and 16.17% for the year 1997. In recent years, this amount has still been very volatile, and amounted to 9.38% in the year 2009. It has also been calculated that only a little bit more than 10% of all the organisations that could have given funds for that matter have actually donated their money. This number is highly controversial, however, as it amounted to less than 2.5% from 1997 to 2005, and later rose to 11.95% (2005), 13.06% (2006), 11.84% (2007) and 11.00 (2008), and then fell again to 9.66% in 2009. The large rise in percentages in 2005 can be attributed to methodological difficulties in following the implementation of incentive due to changes in legislation, as has been noted by Čopič and Srakar (2010).

The realisation of the "percentage legislation" incentive introduced by the Personal Income Tax Act in 2005 has been very poor, and was estimated to be 2.99% of all possible funds for this purpose in 2008 (Čopič and Srakar, 2010). The prevalence of charitable and religious organisations among the donation recipients shows the importance of a well-developed network of donors.

According to the same study (Čopič and Srakar, 2010), the available tax incentives are therefore very poorly realised. What shows to be alarming is the low realisation of the main tax incentive for donations, which shows the low public interest and awareness regarding donating to cultural purposes. The low realisation of the percentage legislation could also be attributed to the poor awareness of the existence of this incentive and the donors still not realizing enough its possibilities. All in all, the level of awareness of the positive sides of contributing to cultural purposes is very low, and further actions should be taken in this area.

The studies by the CATI Centre (2000) and CIC – Centre for International Competitiveness (2003) have evaluated the levels of sponsorships in culture in Slovenia. According to these numbers, 92% of surveyed companies have already sponsored sports and/or cultural projects. 62% of surveyed companies were not prepared to reveal the exact amount of their sponsorship money, and of the remaining companies, 38% have given amounts in the range of EUR 1 100 to EUR 75 000. The surveyed companies have already sponsored music, festivals and cultural heritage (85%), theatre (77%), visual arts (69%), museums, galleries, books and libraries (62%). They have stated that the most interesting fields for long-term partnerships are theatres, museums, galleries, festivals and cultural heritage (38%), music and visual arts (31%), industrial art (23%) and film, radio, TV, amateur arts, books and libraries (15%).

In 2005, the newspaper *Finance* performed a survey of a sampling of 400 Slovenian companies on their spending on donations and sponsorships. From this analysis, we can derive that Slovenian investors are much more inclined to investments in sports (82%) than in culture (18%). The five biggest investments in culture combined have amounted to EUR 1.1 million. Donations to foundations are relatively well developed, although most companies note that they don't have a long-term strategy in this field. From an estimate of the 50 most important companies and their investments in culture in 2005, it can be

derived that all available funds are about EUR 40 million, of which 20% is given to cultural projects.

As shown, there is quite a big variety of tax incentives in Slovenian legislation that should stimulate private investments in culture, but they are very poorly exercised.

Concerning donations of companies and entrepreneurs, one of the main reasons is the problems one faces in the implementation of different provisions. First of all, administrative burdens are high because different kinds of documents are required to prove that it was really a donation, that the receiving organisation is an eligible recipient, etc. Donations in kind and in cash are treated differently for tax purposes. Faced with cash-flow problems, companies would be more inclined towards donations in kind, but then they have to face the different treatment of donated goods and services for company income tax and special treatment under the VAT Act. And last but not least: even if a company or entrepreneur strongly believes that all the paperwork is done properly, there is still space for the tax officer's right of discretion to decide whether it is an eligible donation. Many companies and entrepreneurs – recognizing how small the tax savings resulting from donation would be – are not willing to take the risk that, after all the effort required, the tax allowance might still be denied by tax authorities.

Concerning donations of individuals through “percentage legislation”, there are basically two main problems:

- Low awareness: individuals were reminded of this opportunity on their tax returns only in the year this kind of donation was introduced. Afterwards there were no public announcements of this possibility, no explanation of how to make up one's mind, etc. There was actually no action taken on the part of organisations (except by certain big charities) to encourage individuals to designate a part of their income tax to their organisation.
- Small donation amounts: when encouraged (e.g., by their tax consultants) to take advantage of this option, individuals ask what the amount designated that way would be. When they realise how little it would be, they do not want to get engaged in the additional paperwork and/or they claim that there is no need to reveal their preferences to the authorities (for that little of an amount).

Policy pressure and re-orientation

Principal problems related to encouraging private investments in culture in Slovenia are:

- Culture is still not considered “good business”, and the entrepreneurs are not investing their money in culture because of the impression of poor returns on investment compared to other possible investments.
- Another obstacle in that respect is the small market for culture in Slovenia.
- Motives guiding entrepreneurs and managers to invest in culture are mostly of non-material origin. Despite that, they see investments in culture as opportunities to raise their image in the eyes of target groups.
- We could speak about Slovenia not yet reaching the sufficient development level to be able to have more private investments and about the need to raise awareness about them in society in general. Also, the level of development of institutions devoted to private investments shows the same.
- There are still no funds earmarked for the development of communication and marketing plans for cultural organisations. There is not enough awareness about

management, entrepreneurship and marketing features in cultural management work.

- The distinction between sponsorship and patronage is still not well developed.
- The available numbers show that the current tax incentives for investments and donations in culture are neither well used nor well designed.
- There is no educational programme for cultural management in Slovenia.
- There are no arts and business forums in Slovenia.
- There is too much influence of social networks and lobbies, which causes an uneven and unwanted redistributive effect of indirect cultural incentives.

Perhaps the key development is the introduction of the mentioned percentage legislation, which allows individuals to grant up to 0.5% of their income tax to chosen cultural organisations. But, as shown by Čopič and Srakar (2010), this incentive is not well used either. It has to be stated, however, that it is a very recent development and it is possible for it to grow more as it develops in future years.

There is a statement in the National Programme of Culture 2008-2011 that advocates for more inclusion of private capital in cultural projects, meaning especially public-private partnerships. There are also several similar objectives in the same document by individual cultural sectors:

- "attention to possible donors and enhancement of donations also by national recognition of tax and other incentives and awards" (from the field of visual arts);
- "enhancing producers by gathering international financial resources and by assuring investments from the economy" (from the field of performing arts);
- "introduction of new ways of financing the cultural monuments and other protection projects, in such a way as to assure higher efficiency of public funds' spending and to be more adjusted to the needs of owners and other users" (from the field of cultural heritage).

But it has to be mentioned that these objectives (as well as several others) are not well followed or implemented in actual policy.

The pressure from the public, professional bodies, artists and politicians regarding encouraging private investment in culture that we ought to mention comes from several non-governmental organisations, in recent years especially from the recently established NGO umbrella association Asociacija, which advocates for better conditions for the NGO sector in culture. There have been three important studies to be noted: The Statistical Evaluation of the NGO Field in Culture (2010), The Evaluation of the Importance of Private Investment in the NGO Field in Culture (2010) and The Evaluation of Self-employed Workers in the Cultural Field (2010). Asociacija also actively participates in public debates, in relation both to the Ministry of Culture and to the city municipalities.

There are also other initiatives, both by cultural organisations as well as by individuals. We should once again mention the withdrawn Law on Enhancing Private Investments in Culture in Slovenian legislation (2006), which would implement many important instruments for enhancing private investments in culture. Not many new similar initiatives are present, despite the Ministry declaring that it wishes to pursue a special econometrical study documenting the efficiency of tax incentives in the cultural field. It remains to be seen where these developments will lead the cultural policy in Slovenia.

Regarding market demand for cultural events/services, due to the mentioned problems, only the data on household spending and trends are available. Household spending on cultural activities and goods in Slovenia was calculated on the basis of the National Household Budget Survey carried out by the Statistical Office of the Republic of Slovenia. In 2006, this amounted to ca. 485.7 million Euros or 4.27% of the total household budget (in 2005, it amounted to ca. 474.3 million Euros or 4.34% of the total household budget). The majority of cultural household expenditure was spent on the RTV subscription (32.5%) and the press (20.6%). Household spending on cultural activities and goods in Slovenia in 2006 corresponded to 1.59% of the GDP (in 2005, it corresponded to 1.68%).

There are too few structural changes leading to more involvement of the private sector in culture in Slovenia. There are no particular measures in the direction of privatisation in the cultural sector at present. Despite the existing cultural policy objectives towards more private capital in culture, there are seldom concrete measures seeking to implement these objectives. Perhaps we should mention the Law on Percent-for-Art Scheme, proposed by visual artists' institutions, but this law also is still to be passed on to the legislative authorities.

Several of the above issues are present also in the local municipalities, which also have cultural programmes (Ljubljana, Maribor). These authorities are themselves participating in the process of the modernisation of the public sector, but are mostly neglecting systematic work on the NGO and private sectors.

Short description of the examples of good practices found

Foundation of Father Stanislav Škrabec

The Foundation of Father Stanislav Škrabec was founded in 2003 with its basic mission of supporting scientific work in the field of the Slovene language. The foundation supports young people to study and explore the Slovene language, which has been named after Stanislav Škrabec, one of most influential scholars of Slovene language in history, as the most beautiful among the languages. It also gives the selected young people scholarships for pursuing studies in the Slovene language. Students of Slavic languages and classic philology therefore can pursue their studies with the help of these scholarships, and some of the Franciscan students are enabled to pursue their graduate studies as well. With the Language Award, the foundation is also valuing and supporting the work of current Slovene language scholars and by that pointing out the achievements in that important scientific field.

The idea for the foundation came from Father Niko Žvokelj in 1999. The preparation committee which was formed on the basis of this idea and was formed by experts and supporters of the idea found strong support from the Slovenian Franciscan Province of Saint Cross and from Janez Škrabec, the director of Riko company and a descendant of Father Škrabec. In the seven years since its founding, the foundation has given over 50 scholarships, as well as three awards to renowned scholars, and has organised over 15 cultural events.

The foundation connects and cooperates with similar institutions in Slovenia (Škrabec Homestead, Škrabec Committee, universities across Slovenia) and Europe. It is financed exclusively from sponsorships and donations and is organised as a non-profit organisation, which takes care for maintaining the nobility of the Slovene language and other related scientific fields. The financial contributors are private companies (e.g., Riko, Lek, Triglav Insurance Company, Slovenian Post), municipalities (Ribnica, Nova Gorica) and individuals (Janko and Anica Moder).

We believe that the foundation is successful because of its clear mission, good fundraising, which is based on the ideas of Father Škrabec and their enthusiasts, and connections with both the clerical sphere as well as important Slovenian private companies. A lot of its success can be attributed to the devoted leadership and support of Slovenian businessman Janez Škrabec, who is widely considered to be one of most important figures in the private support of culture in Slovenia. He serves as an important figure of support for the work of foundation.

The experience from this foundation could be transferred to other situations, especially from its clear and concise mission, its fulfilment in gathering the necessary resources, and perhaps most of all, its support from the business sector and other relevant target groups (in this case, the Church) and widening the network of enthusiasts for its ideas.

Foundation Imago Sloveniae

The Foundation Imago Sloveniae was formed in 1994 on the basis of a previous organisation Association for revitalisation of the cultural image of Ljubljana. It's main background idea is the revitalisation of cultural images of old Slovenia's city centres, squares, sacral objects, castles and museums and any other cultural heritage objects by way of live culture.

The project has united over 30 Slovenian municipalities, which every year, under the brand Imago Sloveniae, organise a number of concerts of renowned Slovenian and foreign musicians and other cultural events. This lasting cultural initiative has helped to create cultural "needs" where they were previously non-existent, and with help from tourism and small and medium enterprises has managed to capitalise the hitherto frozen capital of cultural heritage of Slovenia.

The basic characteristics of the project Imago Sloveniae are:

- Polycentric character – spreading top quality art from big centres to the peripheries and to places and municipalities all across the country
- Complex revitalisation of cultural heritage buildings with the help of live culture and the organisation of cultural events
- Forming of a common brand of the Slovenian cultural image and the promotion of Slovenian culture
- Forming of cultural events in open spaces as well as in unconventional atmospheres (streets, atriums, castles, churches, museums)
- Professional organisation of cultural activities, high-quality level of performers and free access to cultural activities
- Connecting of events in the hinterland of Slovenia, connection of places and different cultural venues and coordination of mutual and common cultural activities (common cultural space)

The foundation, which operates on a non-governmental basis, is supported by a number of Slovenian companies: Halcom, Lek, Energetika Ljubljana, Energoplan, Kliping, Studio Mi. It is also supported by public institutions such as Slovenian National Radio and TV, the Slovenian Philharmonic, the Museum and Galleries of Ljubljana, and partner municipalities.

The foundation organises three main projects: Imago Sloveniae Summer Cycle, Imago Sloveniae Young Talents, and a cycle of Christmas concerts. It is also organised as a membership institution, and its members are 20 Slovenian municipalities (Beltinci, Bled, Dobrna, Jesenice, Komen-Štanjel, Kranjska Gora, Laporje, Lendava, Ljubljana, Metlika,

Nova Gorica, Novo Mesto, Ormož, Piran, Postojna, Ptuj, Ribnica, Slovenj Gradec, Šentrupert and Vipava).

The project works because of its uniqueness in the Slovenian cultural space, because of its tradition and the strong initial influence and leadership of renowned Slovenian musician Primož Lorenz, and also because of its well-formed marketing concept, which is built on the pronouncedly attractive brand of Imago Sloveniae. It is also successful due to its successful network-building as well as its proper assessment of target groups and their needs.

We believe the idea and experiences from the project could be successfully transferred to other projects, the most important point to stress being the well-developed marketing and brand concept.

CASE STUDY: UNITED KINGDOM¹²⁰

National context

Four nations, England, Wales, Scotland and Northern Ireland, make up the United Kingdom. Following a series of referendums across the nations concerned, in 1999, the UK central government devolved certain powers to national parliaments or assemblies. Hence, in Scotland, Wales and Northern Ireland, some government policies and public services are different from those in England. The Scottish Parliament and Northern Ireland Assembly can enact their own primary legislation and raise taxes for their own countries, also in the field of culture. The National Assembly of Wales can only introduce secondary legislation in the cultural sector.

The UK cultural sector is usually regarded as the archetypal "arm's-length" model, where governmental funds for culture are administered by a non-departmental public body which distributes money to the final beneficiaries. The UK has currently four separate development agencies: the Arts Council England, the Arts Council of Wales, Creative Scotland and the Arts Council Northern Ireland. In addition to distributing funds to art organisations and artists, these agencies promote various schemes to support the arts and research in the field which may inform future decisions and develop good practices for the sustainability of the sector.

The UK economy has been affected quite badly by the recent economic crisis. This has forced the national government to implement considerable cuts in its budget for the years to come. The public sector budget for the arts, both at the national and regional levels, has consequently been reduced quite significantly. Generally speaking, art organisations are now expected to become more financially independent through organisational savings, mainly internal restructuring and staff redundancies, increased earned income and a better fundraising strategy.

¹²⁰ Prepared by Giulia Lasen.

ENGLAND**Arts Council England** www.artscouncil.org.uk

The Arts Council England (ACE) is funded by the Department for Culture, Media and Sport (DCMS).

ACE's mission for the next 10 years is summarised in the slogan 'great art for everyone' (Arts Council England, 2010c).

Five goals have been identified:

1. Talent and artistic excellence are thriving and celebrated
2. More people experience and are inspired by the arts
3. The arts are sustainable, resilient and innovative
4. The arts leadership and workforce are diverse and highly skilled
5. Every child and young person has the opportunity to experience the richness of the arts

Regarding goal 3, the ACE says:

"It is clear that the future resilience of the UK arts sector is dependent on a sustainable mixed economy of increasingly varied income sources. However a model that relies on public subsidy as a catalyst for securing self-generated and private sector income may come under considerable strain in the short term. The need to reduce the UK public spending deficit over the lifetime of our strategic framework will have a major impact on the arts economy as a whole. We see it as vital, therefore, that the Arts Council works with partners to strengthen the mixed economy of the arts. Part of our response must be to ensure that public investment works hard to harness even greater investment from the private sector. This will be challenging in the current environment, so we will explore with our funded organisations how best to strengthen business models, diversify income streams, and encourage greater private giving. We will encourage enterprise and support the partnerships and networks that will determine future sustainability." (Arts Council England, 2010a, p.19).

This goal will be achieved by encouraging networking, collaboration and partnerships among arts organisations and between the ACE and other public and private funders. Furthermore, the ACE intends to work with other partners to encourage a higher level of private giving to support the arts.

The ACE's budget for 2010/11 has been reduced by a total of GBP 23 million. The cut to regularly funded organisations has, however, been limited to 0.5%. This relatively minimal reduction has been possible thanks to the exceptional use of GBP 9 million of the Arts Council's reserves, access to which was previously blocked by the government. Had this not been the case, the reduction in funding would have been 3% (GBP 10.8 million).¹²¹

Department for Culture, Media and Sport (DCMS) www.culture.gov.uk

This department is responsible for governmental policy for the arts, broadcasting, creative industries, libraries, museums and galleries, historic environment, national lottery, tourism and the 2012 Olympic and Paralympic Games.

Under the terms of a Funding Agreement, DCMS agrees with the Arts Council England on the objectives it wants to achieve and the Arts Council England then decides how to use its resources to meet these objectives.

The DCMS also funds directly 21 museums and galleries, both national and not national, and major organisations such as English Heritage, the UK Film Council, the Museums, Libraries and Archives Council and the Design Council.

Last October, the government set the budgets for each governmental department up to the years 2014-15. In particular, the DCMS has to face a 24% reduction in funds compared to the baseline for the year 2010-2011 (UK Government, n.d.).

English Heritage www.english-heritage.org.uk

English Heritage (officially the Historic Building and Monuments Commission for England) is a non-departmental public body of the British Government. It deals with the maintenance of such buildings, devising the balance between conservation needs and people's aspirations to enjoy these places.

It receives around three-quarters of its funding from the DCMS in the form of Grant in Aid and generates the rest mainly from membership and properties. In 2008/09, the grant in aid was GBP 132.7 million. Earned income comes mainly from admissions to English Heritage properties, from retail and catering and from membership. In 2008/09, self-generated income was GBP 48.1 million.¹²²

121 www.artscouncil.org.uk/news/arts-council-england-implements-cuts-201011-budget [Accessed 12 March 2011].

122 www.english-heritage.org.uk/about/who-we-are/corporate-information/how-we-are-funded [Accessed 5 March 2011].

<p>Local authorities</p> <p>Local government spends twice as much on providing cultural and sporting opportunities for communities as DCMS and the National Lottery combined.</p> <p>The importance of culture, leisure and sport in addressing issues such as social inclusion, health and crime is becoming increasingly apparent. In fact, local authorities spend over GBP 3 billion a year on these sectors. In 2009-10, local government net spending on culture and sport services was GBP 3.46 billion (it was GBP 3.32 billion in 2007-08).¹²³</p> <p>Local authorities own and fund many local museums and also have a statutory responsibility to deliver a library service. However, funding of the arts is discretionary: they are able to support them, but it is not a statutory requirement.</p> <p>Local authorities are, in fact, currently under pressure as a result of reduced proceeds from local taxation and cuts in central government funding. Some local councils have already reduced their funding for local art organisations (Orme, 2010).</p>
<p>Museum, Libraries and Archives Council (MLA) www.mla.gov.uk</p> <p>The council, funded by the DCMS, is a strategic adviser for museums, libraries and archives. It works nationally and regionally with government, local authorities, and other agencies such as English Heritage and the Arts Council England. It carries out research on best practice, provides training for staff working in the sector and advice on the management of collections.</p> <p>Particularly significant has been the programme Renaissance in the Regions, investing GBP 291 million in regional museums to increase their standards, number of visitors, the educational programme and the local community engagement.</p> <p>Finally, it oversees exporting licenses for cultural goods and other schemes offering tax incentives to those willing to dispose of cultural goods in favour of national museums.</p> <p>In July 2010, the DCMS announced that the council will be abolished by April 2012 as part of the Department's strategy to achieve savings and reorganise the sector.</p>
<p>UK Film Council www.ukfilmcouncil.org.uk</p> <p>The UK Film Council is the government-backed agency for film in the UK, ensuring that the economic, cultural and educational aspects of film are effectively represented at home and abroad.</p> <p>Since it was created in 2000, it has invested over GBP 160 million of lottery funding into more than 900 films, which helped generate over GBP 700 million at the box office worldwide, generating GBP 5 for every GBP 1 of lottery money it has invested. It administers different funds, catering for the production and development of films and for the distribution and marketing strategy for specialised films. It also offers sales support for films participating in international festivals and has an innovation fund focusing on digital opportunities for the sector.</p> <p>However, in July 2010, the DCMS announced the intention to dismantle the council. The situation is still unclear, but it seems that the council's responsibilities will be passed to the ACE.</p>
<p>WALES www.wales.gov.uk</p> <p>The Welsh Assembly Government allocates its funds via the Arts Council of Wales. In November 2007, it agreed also to provide the Welsh Millennium Centre, a venue for performing arts, with GBP 3.7 million per year for three years from April 2008. It also funds CADW?, the government's agency responsible for the historic environment.</p> <p>National Museum Wales received GBP 24.7 million Grant-in-Aid from the assembly government in 2007/08, while in the same financial year, the National Library of Wales had a GBP 12 million grant.</p>
<p>Arts Council of Wales www.artswales.org.uk</p> <p>The Arts Council of Wales distributes funding from the Welsh Minister for Heritage and the National Lottery. Furthermore, it actively raises money from a variety of public and private sector sources. It currently invests around GBP 31 million each year.</p> <p>Recently, the Welsh Assembly Government Heritage Minister asked the Arts Council to reduce running costs by 12% over the three-year period 2011/12 to 2013/14.</p> <p>Arts Council Wales's priorities are: supporting the creation of high quality art, encouraging more people to enjoy and take part in the arts, growing the arts economy and developing the effectiveness and efficiency of their businesses (Arts Council of Wales, 2009).</p>

123 Source: www.culture.gov.uk/what_we_do/communities_and_local_government/default.aspx [Accessed 4 March 2011].

Cadw www.cadw.wales.gov.uk
CADW offers grants for conservation and repair to the owners of historic buildings, buildings in designated conservation areas, and scheduled ancient monuments. In 2007-08, CADW made grants totalling over GBP 2 million for historic buildings, over GBP 1 million for conservation area schemes and over GBP 300 000 for scheduled ancient monuments. Public sector financial support for the historic environment in Wales comes also from other sources. For example, the Royal Commission on the Ancient and Historical Monuments of Wales (RCAHMW) also funds archaeological work. CADW and local planning authorities jointly fund Town Scheme Partnerships to provide assistance for repairs to the external features of a property. CADW is a partner in the Heritage Lottery Fund's Townscape Heritage Initiative to regenerate run-down historic areas through grants for conserving historic buildings.
SCOTLAND www.scotland.gov.uk
The creative industries in Scotland support over 60 000 jobs and contribute over GBP 5 billion to the economy; the historic environment supports 60 000 jobs and contributes more than GBP 2.3 billion; and Scotland's museums and galleries welcome an estimated 25.3 million visitors per annum and are worth an estimated GBP 800 million to the economy. The Scottish Ministry for Culture and External Affairs funds Creative Scotland, the arm's-length development agency for the arts, and Historic Scotland. Furthermore, it supports directly some national organisations and has a budget of GBP 6 million for Edinburgh Festivals Expo Fund.
Creative Scotland www.creativescotland.com
In July 2010, Creative Scotland took over the functions and resources of Scottish Screen and the Scottish Arts Council. Its budget for 2009/10 was GBP 61.06 million, which included GBP 48.14 million from the Scottish Government, GBP 12.43 million from the National Lottery and GBP 0.5 million from other income. The main priorities of the arts council are: to support artists and arts organisations in Scotland in fulfilling their creative and business potential; to increase participation in the arts; and to place the arts, culture and creativity at the heart of learning.
Historic Scotland www.historic-scotland.gov.uk
Historic Scotland is an executive agency of the Scottish Government responsible for safeguarding the nation's historic environment and promoting its understanding and enjoyment on behalf of Scottish Ministers. Resources amounted to GBP 15.969 million in 2009/2010.
NORTHERN IRELAND
Department of Culture, Arts and Leisure www.dcalni.gov.uk
This government department is responsible for arts and creativity, museums, libraries, sport, inland waterways and inland fisheries, linguistic diversity, archives, and for advising on National Lottery distribution. It funds the Arts Council Northern Ireland, the Northern Ireland Screen Commission and arts infrastructures primarily in Belfast as a way of facilitating the city's social and economic regeneration. In 2006, it established the Community Festival Fund to make community festivals less reliant on public funds by providing support and training. Recently, it has been announced that over GBP 3 million of additional money will be allocated to the arts in the coming four years until 2015. The initially proposed cut of about 23% was later abandoned following a strong lobbying campaign from people working in the sector and the general public. ¹²⁴
Arts Council of Northern Ireland www.artscouncil-ni.org
The Arts Council of Northern Ireland works to promote the value of the arts in society, support the sector (individual artists, art organisations and building infrastructure), growing audiences and increasing participation. ¹²⁵

¹²⁴ See: www.artscampaign.org.uk/index.php?option=com_content&view=article&id=423%3A110311item3&Itemid=97 [Accessed 19 March 2011].

¹²⁵ www.artscouncil-ni.org/subpages/strategy.htm [Accessed 5 March 2011].

Private/Public boundaries and Public-Private partnerships

As Wu (2002) observes, the terms 'public' and 'private' are usually seen as a dichotomy. They are, nonetheless, not fixed categories but subject to ongoing negotiation through social and political forces. The adjective 'public' can be, in fact, synonymous for 'state-related' and, conversely, 'private' stands for 'private economic activities and the domestic realm'. However, 'private' can also be understood as 'limited access' in opposition to what is 'public', i.e., open to the public.

The majority of UK art organisations are fully independent from the government. Technically speaking, they are therefore not 'public' in the sense that they are not part of the state apparatus as it is the case in many countries in continental Europe. However, art organisations receive public subsidy and many of them are also registered charities, which implies that they serve a public interest. In this respect, they can be considered 'public'. In this section of the case study, the term 'public-private partnerships' refers to collaborations between organisations representing public interests and the corporate sector which pursues instead private interests, i.e., profit.

The main problem regarding public-private partnerships is how to achieve the correct balance between public and private interests avoiding situations in which art organisations renounce their artistic freedom, serving for example the business objectives of their corporate sponsors. According to Wu's analysis, the trend to develop collaborations between the public and private sector is part of a neo-liberal ideology adopted first by Margaret Thatcher in the 1980s, continued by the New Labour Government and now promoted also by the Coalition Government that won the elections in May 2010.

The UK Government supports indirectly such partnerships, for example, by providing public subsidy to Arts & Business (A&B), an organisation devoted to promoting mutually beneficial collaboration between the art and the corporate sectors.¹²⁶ A&B promotes, for example, the *Board Bank*, a matching service helping business people to join the boards of arts organisations. Businessmen get the opportunity to shape the cultural life of their community and connect with creative people, contributing to the arts organisation their business skills and experience. A specific strand of this programme is also aimed at young professionals between 18-30 years old.

A&B Wales offers a service called 'skills bank': business managers undertake a short-term part-time placement in an arts organisation mentoring an individual arts manager in specific areas such as marketing, IT, etc. Art @ Work is a programme for Wales that takes artists to the workplace promoting arts-based training, courses and workshops to address specific business issues. CultureStep is an initiative jointly promoted by A&B Wales, Arts Council of Wales and the Welsh Assembly Government to encourage new investments into the arts. It is an open application scheme focusing specifically on businesses who have never worked with the arts sector before and businesses who have already supported the arts but want now to take their commitment a step further, either by offering additional financial support or targeting that support to a new area of the arts organisation, i.e., if the business has so far sponsored educational activities, it may now focus its support toward training the arts organisation's staff. The minimum investment from the business is GBP 1 000, while A&B Wales invests GBP 1 for every GBP 3 from the business.

126 For further details, see "Brokerage bodies".

A&B Northern Ireland has an investment programme called Reach. A&B contributes GBP 1 for every GBP 2 levered from business, thus financing projects able to benefit significantly both the arts and the business organisations. The Scottish Government funds New Arts Sponsorships Grants, a programme administered by A&B Scotland and Creative Scotland. The arts organisations receiving an eligible business sponsorship, in kind or cash, get GBP 1 of public funding for every GBP 1 of sponsorship.¹²⁷

Recently, there have been quite a few partnerships between the subsidised arts sector and private companies operating in the creative industries. Digital and media technologies have an obvious strategic importance for the future of the UK economy as a whole. Furthermore, these technologies are changing the way people engage with the arts and produce artistic content, opening up opportunities for digital marketing and fundraising via digital platforms.

Recently, Sky Arts¹²⁸ has published a pamphlet entitled *Building Innovative Arts Partnerships*, expressing its commitment to support new works, backing existing organisations and providing an additional outlet for the dissemination of cultural products (Sky Arts, 2011).¹²⁹ For example, in 2010, Sky Arts created a 3D film of English National Ballet performances. In partnership with the English National Opera, Sky Arts broadcast live performances of *Lucrezia Borgia* on its 2D and 3D channels together with live screenings across 15 UK cinemas as well. Meanwhile, filmmaker Mike Figgis created his own version of the opera, drawing on feeds from the 2D and 3D cameras and adding backstage footage with the help of a roving cameraman. The film was then broadcast on Sky Arts 1HD.

The arts and the business sectors also collaborate via 'corporate membership'. In exchange for an annual fee, arts organisations offer their corporate supporters a series of benefits such as corporate hospitality, a dedicated booking hotline, backstage tours in the case of a theatre company, the opportunity to meet artists, curators, etc. Usually, arts organisations offer different types of corporate memberships where the range of benefits is proportional to the fee paid.

In the UK, the term 'public-private partnerships' (PPPs) is also used to identify a very specific type of collaboration between the public and private sectors. PPPs were introduced first by the Conservative Government in 1992 with the name 'Private Finance Initiatives'. They are arrangements typified by joint working between the public and private sectors. In the broadest sense, PPPs can cover all types of collaborations to deliver policies, services and infrastructure.

Usually, the public sector may provide a capital subsidy, i.e., a grant or revenue subsidies, including tax breaks, or by providing guaranteed annual revenues for a fixed period.¹³⁰

With respect to the arts and culture sector, PPPs have played a significant role in financing and facilitating the development of cultural facilities. In fact, the construction and rehabilitation of facilities or some other form of arts promotion has become strongly associated with the theme of urban development. Culture is widely perceived as giving

¹²⁷ Information on all the schemes just described is available at <http://artsandbusiness.org.uk>. [Accessed 16 March 2011].

¹²⁸ Sky Arts is a private satellite channel dedicated to the arts and culture. It is available to subscribers only.

¹²⁹ Sky Arts, *Building Innovative Arts Partnerships*, 2011. Available for download at www.skyarts.co.uk. [Accessed 20 March 2011].

¹³⁰ See www.hm-treasury.gov.uk/ppp_index.htm [Accessed 4 March 2011].

cities or city districts a competitive advantage in attracting new businesses, residents and tourists.

For example, the City of London launched in 2003 the Street Scene Challenge to manage the appearance of streets. This initiative relies on public-private partnerships where the local council, local businesses, developers and architects come together to plan more liveable environments, including also cultural facilities and public arts.¹³¹

Public-private partnerships are also common in the field of tourism. For example, Visit Kent, a not-for-profit organisation active in promoting Kent county in the UK and abroad, brings together local authorities and around 3 000 tourism, leisure and hospitality businesses to market the county in a way that no individual business or organisation could do on its own.

Foundations and other grant-giving bodies

Trust and foundations are used as interchangeable terms in the UK context. A trust is another word for a charity. A foundation has income from an endowment of land or invested capital. Not all foundations make grants – some use their income to support their own activities. Many grant-giving bodies are both a foundation and a trust.

Generally speaking, a charitable trust is a type of trust set up for a cause or purpose that will benefit a large group of people or society in general, not specific individuals. Such a trust is considered to be for the benefit of the public and so qualifies for tax relief.¹³²

There are three main groups of charities that act as grant makers in the UK:

Charitable trusts and foundations: Grant-making is the predominant activity for most foundations as they do not engage in any operational activities, i.e., the provision of services or other direct support to beneficiaries.

Community foundations: Community foundations are charitable trusts that support local community causes. Their role is to manage donor funds and build endowments as well as make grants to charities and community groups, linking local donors with local needs.

Other charities: Some large operating charities, or operating fundraising charities (that is, those that do provide direct services), also carry out grant-making. This type of grant-making often supports a charity's own programmes and projects and/or provides specific funding for their field of interest.

Grant-making trusts and foundations operate in different ways according to their size and approach. Larger trusts and foundations may appear similar to public sector funders, such as the four National Development Agencies, and are likely to have a website, paid staff, published guidelines and application forms, etc. Smaller trusts and foundations are instead unlikely to employ staff or have the resources to provide information or advice to applicants.

Final funding decisions are made by Trustees, although in larger trusts, staff play an important role in assessing applications and making recommendations to the committee. In

¹³¹ www.cityoflondon.gov.uk/Corporation/LGNL_Services/Environment_and_planning/Urbandesign/Street_Scene/street_scene.htm [Accessed 19 March 2011].

¹³² See: www.hmrc.gov.uk/trusts/intro/basics.htm [Accessed 7 March 2011].

recent years, some trusts and foundations have begun offering loan finance in addition to, or rather than, grants.¹³³

Charities Aid Foundation (CAF, 2006) estimates that the total number of grant-making trusts and foundations in the UK is 8,800. CAF also analyses the funding preferences of the top 500 grant-giving charities, and it appears that only 4% (GBP 230 million) of available funds went to arts and culture in 2004. In 2004/2005, the top ten grant makers in the UK accounted for over half of the top 500's grant-making expenditure, which indicates that, in the UK, there are a small number of very large trusts and other charitable grant makers (CAF, 2006).

The art forms to receive the most funding from trusts and foundations in 2009/2010 were museums, visual arts and theatre organisations, as it was the case for the year before (Mermiri, 2011).

Another particularly important grant-giving body is the National Lottery. For every GBP 1 spent on Lottery tickets, 28 pence goes to the lottery's good causes. These are the arts, charities and voluntary groups, heritage, health, education, environment and sports. The money is allocated to funders who then redistribute it for specific projects. The funders are the four National Development Agencies, the Heritage Lottery fund (specific for projects related to local, regional and national heritage of the UK), NESTA¹³⁴ and the Olympic Lottery Distributors. There are then other funders catering for sport-related projects and other programmes aimed at local communities.¹³⁵

The total number of lottery grants awarded for 2010 was 20 913, totalling GBP 643 111 778.¹³⁶ A total of GBP 125 211 835 was awarded to the arts, corresponding to 4 474 grants, while the heritage sector received GBP 94 717 119 for 980 projects.

Currently, sport, arts and heritage each receive 16.66% of the amount designated for good causes, and the Big Lottery Fund, specifically aimed at the voluntary and community sector, receives the remaining 50%.

The UK Government is now committed to increase the shares of the National Lottery Distribution Fund to 20% for each of the good causes of sport, heritage and the arts as a way of compensation for some of the cuts to the arts sector budgets.¹³⁷ This change will be implemented in two stages. Starting from April 2011, the shares for arts, heritage and sport will increase from the current 16.66% to 18% each, with the Big Lottery Fund going from 50% to 46%. Then, from April 2012, arts, heritage and sport will each have a 20% share, while the Big Lottery Fund will settle for a 40% share.

Brokerage bodies

The Arts & Business (A&B) group consists of two companies: Arts & Business Limited (a registered charity), and one wholly-owned subsidiary company, Arts & Business Services

133 National Council of Voluntary Organisations, available at www.ncvo-vol.org.uk [Accessed 20 March 2011].

134 NESTA (the National Endowment for Science, Technology and the Arts) is a non-departmental public body (NDPB) working to improve the climate for creativity in the UK. www.nesta.org.uk [Accessed 20 March 2011].

135 The full list of lottery funders can be viewed at www.lotteryfunding.org.uk/uk/lottery-funders-listing.htm [Accessed 5 March 2011].

136 www.lottery.culture.gov.uk/BreakdownByYear.aspx?Year=2010 [Accessed 9 March 2011].

137 The decision was taken following a public consultation. For further information: www.culture.gov.uk/what_we_do/national_lottery/3397.aspx [Accessed 20 February 2011].

Limited. It was first established in 1976 as the Association for Business Sponsorship of the Arts (ABSA). The original name was changed to the current one in 1999 to reflect also the broader scope of the organisation.

Arts & Business supports partnerships between the arts and the business sectors with its offices across the UK. In particular, it acts as a fundraising consultancy helping to match the requirements of art organisations and businesses and promotes training and research.

The organisation is very active and has launched various initiatives throughout the years. In 1978, it created the Arts & Business Award celebrating the most successful partnerships between the two sectors. The organisation has a strong connection with the Prince of Wales, who joined first as a patron in 1987 and now is its president. Later on, in 2002, A&B funded The Prince of Wales Foundation for Children and the Arts and, in 2008, introduced The Prince of Wales Medal for Arts Philanthropy to honour five leading philanthropists. In 2004, the think-tank Mission-Models-Money was launched to explore organisational and financial sustainability in the non-profit cultural sector.

Business Plan and Financial Resources

According to the Business Plan 2008-11, adopted in July 2008, A&B has set out the following goals:

- 1) To build the knowledge and capacity of the arts and cultural sector to engage with the private sector and to stimulate philanthropy.
- 2) To build business performance through culture.
- 3) To build world-class research and thought leadership around culture, commerce and philanthropy.
- 4) To deliver world-class advocacy and communications that encourages the private sector to support the arts.

Currently, the Board has identified the principal risks for the organisation as being: (a) public sector funding constraints resulting in a cut in A&B's grant, with no viable commercial structure to sustain the organisation; (b) other income sources diminishing significantly; and (c) other agencies moving into A&B's corporate area of activity.

Arts & Business used to be a regularly funded organisation by the ACE. However, in October 2010, the ACE announced the intention to reduce by half the funds for A&B in 2011/12. ACE is in fact looking into new ways to encourage private sector involvement, namely by developing a challenge fund to incentivise donors and by building the fundraising capacity of arts organisations. Beyond 2012, there will be no funding for Arts & Business. This decision was motivated by the fact that Arts & Business is not directly involved in art production/distribution.¹³⁸

In addition to public funds, the organisation raises money for its activities by way of grants, subscriptions and donations, as well as through its trading subsidiary, and the sale of membership and other services.¹³⁹

¹³⁸ See: press.artscouncil.org.uk/content/Detail.aspx?ReleaseID=1105&NewsAreaID=2 [Accessed 20 March 2011].

¹³⁹ Actual figures are available from the annual review 2009/2010, downloadable at artsandbusiness.org.uk/About/aandb_annualreview.aspx. Information on Arts & Business can also be found on www.charity-commission.gov.uk by entering its registration no. 274040 [Accessed 19 March 2011].

A&B's impact in the arts and culture sector

According to an independent analysis by Frontier Economics, total private investment by Arts & Business arts members is 24% to 30% higher than for non-members. The analysis suggests that for every GBP 1 received by Arts & Business they may be leveraging in excess of GBP 4 from donors. The correlation between being an Arts & Business art member and the amount of private money raised confirms the impact the organisation has in its field. The same research suggests also that the longevity of the memberships correlates with the higher level of private investment (Arts & Business, 2010a).

Organisational structure and decision-making process

The day-to-day running of the organisation is carried out by a group of executive directors (Chief Executive, Chief Operating Officer, Commercial Director, National Arts Director, Finance Director). Being a registered charity, the organisation is governed by a board of trustees. In the financial year 2009/2010, it had 73 employees and 40 volunteers.

According to Arts & Business statutes, the Board of Trustees must be made up of a minimum of three and not more than 12 members. For the year 2009/2010, the Board met six times and at no time during the year did any trustee have a beneficial interest in the charity.

There are three standing committees of the Board: Finance & General Purposes, Remuneration and Nominations.

1. The Finance & General Purposes Committee is responsible for all financial aspects of the charity's activities; it advises the trustees in regard to the charity's financial statements and the maintenance of proper financial records and controls; it monitors the charity's annual delivery plan and financial performance.
2. The Remuneration Committee offers advice on the remuneration of the Chief Executive and the members of the senior management group and the reimbursement of expenses incurred by the trustees.
3. The Nominations committee advises the trustees in relation to the recruitment of members of the Board, the appointment of trustees of any subsidiary charities and the appointment of members of the boards of directors of any subsidiary companies.

The Sponsors Club for Arts & Business

Another small organisation supporting partnerships between art organisations and businesses is the Sponsors Club for Arts & Business. Set up in 1991, it operates in the North East of England and is a member of the national Arts & Business network, implementing their programmes in the region.

To encourage partnerships between the arts and the business sectors, the Sponsors Club runs an Award Scheme that matches the investment, from GBP 50 up to a maximum of GBP 2 500, of first-time business sponsors of cultural activity in the region.

The organisation is supported by the Arts Council England. It received GBP 35 858 in 2010/2011, while GBP 33 384 will be allocated in 2011/2012.

Funding

The so-called 'golden standard' for the sector is considered to be a 'tripod economy' whereby each source of income (public, private, earned) accounts for an equal third of total income.

Currently, only earned income accounts for a third of total income (32%), public funding accounts for an average of 53% of arts organisations' income, while private investment represents the remaining 15% (Mermiri, 2010a).

When talking about national museums in England, Scotland and Wales, it is, however, important to remember that, in 2001, free entry was reintroduced. This has resulted in a significant increase in the number of visitors from year to year. Despite the difficult economic climate, the scheme has been preserved.

Direct public funding for the arts and creative industries sector in England comes from the Department for Culture, Media and Sport. Following a reduction in its budget, the department will have by 2014/2015 GBP 1.1 billion, compared with GBP 1.6 billion in 2010/11.

In Scotland, the Minister for Culture and External Affairs has managed to limit the amounts of cuts for the sector. According to the figures released in October 2010, Creative Scotland will maintain its GBP 35.5 for 2011-12. Funding for Arts & Business Scotland has also been ring-fenced (GBP 0.3 million). A capital pot of GBP 20.5 million is dedicated to support major projects such as V&A Dundee and Glasgow Royal Concert Hall refurbishment. National companies (e.g., National Theatre of Scotland, Scottish Opera and Scottish Ballet) and national collections (National Galleries of Scotland, etc.) are to have a 4% cut. However, the government is keen to preserve free entry to museums. These figures might change in the future as there are National Elections taking place in Scotland in May 2011.

The state supports the cultural sector also indirectly, i.e., through a favourable tax legislation.

Those arts organisations which are registered charities can benefit from a series of incentives developed to encourage private donations (these schemes are described in details in the next section).

Films can also qualify for tax relief if: they are made by a UK film production company; are intended for theatrical release; have passed a 'cultural test' for British films, are administered by the UK Film Council, or are to be made under one of the UK's film co-production treaties, and have at least 25% of its budget incurred on UK expenditure. To pass the cultural test, a film needs to have 'British qualities' across four categories: cultural content (setting, characters); cultural contribution (heritage, diversity); cultural hubs (photography, post-production); and cultural practitioners (director, actors). Film Tax Relief is offered on UK expenditure only, defined as "expenditure on goods or services that are used or consumed in the UK". This relief can increase the amount of expenditure that is allowable as a deduction for tax purposes or, if the company takes a loss, can be surrendered for a payable tax credit.¹⁴⁰

The book sector benefits from a 0% rate for VAT. Another area covered by favourable tax treatment is admission charges to certain cultural exhibitions and events. Such charges can be exempted from VAT. This applies only to admission charges to museums, galleries, art exhibitions and zoos, and theatrical, musical or choreographic performances of a cultural nature. The exemption is, however, restricted to local authorities, government departments and non-departmental public bodies such as the national museums and galleries.

¹⁴⁰ See: www.hmrc.gov.uk/films/index.htm [Accessed 20 March 2011].

Creative people can agree with the Inland Revenue to have their tax spread over a period of years if they can demonstrate significant fluctuations in their income as a result of spending more time some years on the creative process and achieving therefore an income lower than normal. 'Buying time' bursaries are tax free, but other grants and awards to artists are taxable (Council of Europe/ ERICarts, 2011n).

Table 11: Private Investment in England

	England Total 2008/2009 (£/m)	English Regions – excluding London (£/m)	% of investment source over total private investments in English regions	% of regional contribution to overall England private investment	Year on year % change of English Region (above inflation)	Year on year % change of London alone (above inflation)	Year on year % change UK wide
Business Investment	130.9	52.8	38	40	-11	-5	-6
Individual giving	337.7	41.7	30	12	4	-8	-7
Trusts and Foundations	120.3	44.8	32	37	0	-13	-7
Private Investment	588.9	139.2	100	24	-3	-8	-7

Source: Mermiri, (2010a, p.14)

Table 12: Investment Type

Investment type	Sum (£/millions)	% change (above inflation)	Actual year on year change (£)	% of Private Investment
Business Investment	141.5	-12	-15,807,805	22
Individual giving	359.3	-4	-3,749,635	55
Trusts and Foundations	154.6	+11	20,019,588	24
Total Private Investment	655.4	-3	462,149	100

Source: Mermiri, (2011, p.12)

Table 13: Type of Individual Giving

	2008/2009	2009/2010	% change
Individual donations	33.09%	27.08%	-22
Legacies	17.95%	23.37%	+25
Friends – Membership schemes	48.16%	49.44%	-2
Gift of shares	0.80%	0.07%	-92
Give as you earn	0.00%	0.03%	+670
Total Individual giving	100%	100%	-4

Source: Mermiri, (2011, p.16)

Table 14: Type of Business Investment

	2008/2009	2009/2010	% change
Cash sponsorship	59.1%	54.9%	-18
In-kind sponsorship	13.1%	16.1%	+8
Corporate membership	12.7%	14.8%	+2
Corporate donations (philanthropy)	15.1%	14.2%	-17
Total Business Investment	100%	100%	-11

Source: Mermiri, (2011, p.13)

These data show that business is not strongly committed to donate to the arts as their philanthropic behaviour can be influenced by external factors such as the current economic climate or even overall business performance. However, in-kind sponsorships and corporate memberships have increased in value as they are perceived as a cheaper entry point for the arts, a way to maintain the relationship with the arts while reaping still considerable benefits.

Correlation between public subsidy and private sponsorships and donations

The good level of public subsidy to the arts and culture sector over the past decade has allowed the sector to flourish, securing a high quality of the outputs, increased number of visitors and, consequently, increased earned income. In turn, this has attracted more private investments from businesses and donors who want to capitalise in an already successful sector. They are not willing to substitute government funding. It is therefore reasonable to claim that there is a positive correlation between public subsidy and private investment. For this reason, matching funds are particularly attractive. For example, the ACE is currently in discussion with Culture Secretary Jeremy Hunt regarding the implementation of a matching fund. The proposal is for a three-tier scheme. Tier 1, aimed at smaller organisations, will offer GBP 1 of public money for each GBP 1 raised from the private sector, tier 2 will offer GBP 1 for every GBP 2 raised, and tier 3 will offer GBP 1 for every GBP 3 raised.¹⁴¹ The scheme recognises the fact that there is usually a correlation between the organisation's size and its experience and ability to raise funds. The government has also named 2011 UK Year of Corporate Philanthropy.

Private supporters' motivations to invest in culture

The City University London conducted a research on the motivations of low- and mid-level donors in England (University City London and Arts & Business, 2009). Low level are donations up to GBP 100, though the average amount is GBP 5 to GBP 10; mid-level giving is up to GBP 1 000, with an average donation below GBP 500. It has emerged that donations tend to happen at the point of sale, i.e., the person decides to round up the ticket price. Ninety per cent of low- to mid-level donors are highly committed attendees to the arts and have a personal engagement with the organisation by volunteering, acting as an ambassador, joining a friends' scheme, etc.

141 See: press.artscouncil.org.uk/content/Detail.aspx?ReleaseID=1181&NewsAreaID=2 Accessed 19/03/2011.

The three main motivating factors for donations are: artistic quality; a personal connection with the organisation and a desire for its sustainability; and finally, a feeling of social and civic responsibility. 40% of first-ever donations were prompted by a direct request.

The importance donors give to personal engagement with the arts is confirmed also in a study by Arts Quarter on legacies to arts organisations. Legators tend, in fact, to give to the organisations they grew up with, with long-established Victorian and early-twentieth century charities enjoying the highest levels of legacy income (Arts Quarter and Legacy Foresight, 2011).

Venture Philanthropy

Another emerging form of private investment in the culture sector is venture philanthropy (VP), which applies venture capital investment principles – such as long-term investment and capacity-building support – to the voluntary and community sector. It is a form of ‘engaged’ philanthropy. Venture philanthropy is about a much tougher relationship with grantees. VP organisations measure more closely and are interested in outcomes rather than outputs.

The model originated in the US and was later imported in Europe, though with some differences. Europe offers a broader spectrum of financing, such as loans and surplus sharing mechanisms, often used in combination with grants. Europeans also typically are more open to investing in initiatives that are not registered charities – such as social enterprises, social businesses or individuals – in part stemming from the varying legal forms of organisation and charitable tax relief in different countries. European VPs also are more likely to actively seek to work in partnership with other funders or the government to advance their mission.¹⁴²

According to the European Venture Philanthropy Association, the key characteristics of European venture philanthropy are: high engagement, tailored financing, multi-year support, non-financial support, organisational capacity-building and performance measurement.

A recent report on UK venture philanthropy reveals it is worth more than GBP 1.5 billion and provides more than GBP 50 million in support for non-profits. Investing in charitable funds has become particularly popular with the finance sector. Half of the trustees in UK VP organisations come from this sector, with 29% coming from the private equity industry. Many are wealthy – the report identifies more than GBP 5.2 billion in personal wealth (Chapman, 2011).

The Rayne Foundation is a UK grant maker that has adopted a venture philanthropy approach to its funding for the arts, education, health and medicines and social welfare and development.

The Rayne Trust was established by Lord Rayne to support organisations in which its Trustees (Lady Rayne and the Hon. Robert A. Rayne) have a close personal interest. Its annual expenditure is approximately GBP 400 000. It focuses its contributions on social welfare and arts charities known to Trustees and working in the UK to help young and older people and others disadvantaged by poverty and social isolation.

Rayne Ventures identifies a ‘need’, and then, in collaboration with other programme partners, selects an organisation with the potential to meet that need, and works with it to

142 See: www.philanthropyuk.org/resources/venture-philanthropy [Accessed 22 March 2011].

build its capacity. The first venture was prompted by the work the foundation did on developing choreographers. Research conducted, which included extensive consultation with senior figures in the UK dance world, revealed that while the UK was an international leader in dance film and dance for camera, there were virtually no opportunities for the public to buy these films. The foundation has therefore initiated collaboration with South East Dance to address the above problem.

Legal Landscape

Private investment in culture is also encouraged via various forms of tax relief.

The *Gift Aid* scheme allows registered charities to reclaim a 20% basic tax rate on donations in cash received by individuals who pay UK tax. Donations are regarded as having basic tax rate deducted by the donor. For example, if a person makes a GBP 10 donation, this is worth to the charity GBP 12.50. In fact, the state assumes this 20% income tax has already been paid by the employer or will be paid via tax return for self-employed people. Hence, the 20% basic tax rate can be claimed back from HM Revenue and Customs.

Donors paying a higher rate than 20% are also able to claim the difference between the lower-rate tax (that the charity is claiming) and the higher rate of tax actually paid.

However, before April 2008, the basic tax rate used to be 22%. The change meant that charities were able to claim less money. The government has therefore offered a transitional relief until 5 April 2011, worth 3 pence for every GBP 1 donation so that charities can still receive the equivalent of a 22% basic tax rate, i.e., 28 pence for every GBP 1.¹⁴³

*Payroll Giving*¹⁴⁴ is a flexible scheme allowing anyone who pays UK income tax to give regularly and on a tax-free basis to the charities and good causes of their choice.

Payroll Giving donations are deducted before tax, so each GBP 1 donation costs the employee just 80 pence, or 60 pence if the donor is a higher-rate taxpayer. Furthermore, some employers choose to match employees' gross donations. For example, an employee can donate GBP 100 gross, but this will cost him just GBP 60 deducted from his payslip. If the employer matches this donation for instance with GBP 2 for every GBP 1 given, the charity can benefit from a donation of GBP 300. The advantage of this scheme is that it offers regular donations to the chosen charity, allowing for the planning of future and sustainable projects.

People can also choose to donate shares, land and buildings to a charity or sell them to a charity at a price lower than their market value. The advantage of this scheme is that neither the donor nor the arts charity receiving the assets is liable for any Capital Gains Tax. Furthermore, the donor can also claim income tax relief. It is also possible to arrange donations in a will, i.e., a person can leave a legacy to an arts organisation. Legacies are deducted from the estate before inheritance tax is calculated.

¹⁴³ Information on Gift Aid has been drawn from HM Revenue and Customs (www.hmrc.gov.uk), the Arts & Business Tax Guide – 2009 (available at <http://artsandbusiness.org.uk>) and Compendium – UK Profile [Accessed 20 March 2011].

¹⁴⁴ Sometimes this scheme is also called 'give as you earn'. For further information, visit www.payrollgiving.co.uk [Accessed 5 March 2011].

Similarly to individual donors, businesses are also encouraged to donate money, land, building and shares. Donations of money should be paid gross and they are then deductible from the total profits of the business when calculating Corporation Tax. Some restrictions apply between the amount of the donation and the benefits for the business or 'connected' person. A 'connected person' is a husband, wife, partner, relative of the donor or a relative of the donor's wife, husband or partner. A person is 'connected' also if he/she is involved in a company under the control of the donor or his/her close relatives.

Tax relief is also available for gifts of equipment or trading stock.

Another interesting opportunity for UK businesses is to second employees to a charity. The cost of transferring the employee can be treated as a business expense in the accounts. If the business carries on paying that employee, such cost can be set against taxable profits as if the employee were still working for the company.

The "Acceptance in lieu" scheme allows people to offer items of specific cultural and historical importance to the state in full or partial payment of their inheritance tax, capital transfer tax or estate duty. Cultural objects are this way acquired for public ownership and distributed to museums, galleries, etc. in the UK. It is calculated that, on average, items donated to the state via this scheme are worth 17% more than if they were sold on the market, as tax must be paid on the amount the item is sold for. During 2009/2010, the Museum, Libraries and Archives Council, responsible for administering the scheme on behalf of the government, dealt with a total of 33 cases for a value of GBP 15.7 million, resulting in a tax settlement of GBP 10.8 million. Individuals offering objects under this scheme have the legal right to remain anonymous (Museum, Libraries and Archives Council, 2010).

The MLA deals also with private treaty sales. These are agreements for the purchase by a public museum or gallery of an item which has been granted Conditional Exemption from Inheritance Tax, at a price which is beneficial to both public purchaser and private vendor.

Incentives for private preservation projects

English Heritage allocates grants to people who own or manage individual historic sites and need to repair them.

Another important organisation working in this field is the National Trust (www.nationaltrust.org.uk), a charity completely independent from the government. It raises money from membership fees, donations and legacies, and other commercial operations. Its remit is the preservation and protection of buildings, countryside and coastline of England, Wales and Northern Ireland.

Sponsorships to charities and tax deductions

To benefit from tax relief, sponsorships must be made to a registered charity, as many arts organisations are.

Sponsorships are understood as a payment in exchange for something, usually publicity. Therefore, they tend to be treated as normal business expense that the company may be able to deduct when it works out its profits for tax purposes. Similarly, the charity is likely to have to pay tax on those monies as the sponsorship would be a trading income.

If the company does not get anything in exchange for the money, then it is a donation and its value can be deducted from corporation tax profit. The charity will not pay any tax on the money donated either, provided they use the money for charitable purposes. A simple public acknowledgement of the donation by the charity, as it usually would happen in the charity newsletter, does not affect the right to tax relief.¹⁴⁵

Membership scheme for arts organisations and fundraising activities

Some art organisations offer membership schemes both to individuals and corporate supporters and these are dealt with internally, i.e., they are administered directly by the organisation itself. In other cases, associations and friends' societies are registered charities, independent but connected to the 'mother' organisation. For example, Tate Membership, a charity associated to Tate Galleries, raises money for the purchase of works of art for the galleries; to support exhibitions and other projects; and to recruit members, thereby promoting the work of Tate to the general public. Its charitable objective is defined as "supports Tate in increasing public knowledge, understanding and enjoyment of the art."¹⁴⁶

It is estimated that only 32% of arts organisations have *Friends* schemes. The lack of memberships in small organisations seems to be a supply rather than a demand issue, i.e., small art organisations do not have the time and resources to implement such schemes (Mermiri, 2010a).

Effects

According to a research carried out by Arts & Business, 45% of arts fundraisers expect private investment to increase in the next financial year, as their fundraising activities and programmes become more attractive (Mermiri, 2011).

Furthermore, income from the private sector is expected to rise due to the private sector recovering earlier from the crisis as compared to the public sector.

The potential for growth thanks to better use of tax incentives

Tax incentives have been in place for quite some time now; however, they have not been fully realised mainly due to the fact that the arts and culture sector has traditionally relied on public subsidy and therefore less effort has been placed on encouraging private investment.

The 'Private Investment in Culture 2008/2009' survey, carried out by Arts & Business, found that 87% of organisations with annual incomes of more than GBP 100 000 claimed Gift Aid on donations, but only 12% with incomes under that level did so. The reason behind this discrepancy might be that smaller organisations are not aware they are entitled to this or may not have the staff and time to deal effectively with the complex record-keeping involved (Mermiri, 2010).

According to another research conducted by Arts & Business, the private sector, and philanthropists in particular, will not be able to fill the gap left by the cuts in public subsidies because this gap is too large and some major philanthropists themselves have said that they are not inclined to give more. However, there is scope for growth of private giving from individuals, especially those already engaging with the arts (Mermiri, 2010a).

¹⁴⁵ See: <http://www.hmrc.gov.uk/businesses/giving/sponsorship.htm> [Accessed 10 March 2011].

¹⁴⁶ <http://www.tate.org.uk/about/governancefunding/charities/#members> - [Accessed 20 March 2011].

According to recent research conducted by Arts Quarter on legacies to arts organisations, these are worth around GBP 65 million – that is just 3% of all the money left to charity. Only 4% of all the arts organisations surveyed received over GBP 100 000 a year in legacy income. Large, well-known organisations tend to attract the small number of major bequests. The low number of arts organisations receiving legacies can be explained with the fact that just 38% of respondents actively promote the idea of legacy-giving among their supporters. The most common reasons for not promoting legacy-giving are lack of capacity (27%), more pressing priorities (21%), and a perceived lack of expertise (18%). Furthermore, 21% of arts organisations without an active legacy strategy admitted to having never thought about it. Legacies are therefore an area where arts organisations should invest to increase their private funds (Arts Quarter and Legacy Foresight, 2011).

Policy Pressure and Re-orientation

General problems and debate in relation to encouraging private investment in culture

The UK cultural policy has historically always been a public-private affair. For example, let's just consider the Dulwich Picture Gallery, the first gallery opened in the UK and pre-dating by a decade the National Gallery. It was set up in 1811, when Francis Bourgeois, an art dealer, bequeathed his collection for the benefit of the public.¹⁴⁷ In more recent years, the art collector and media mogul Charles Saatchi opened his gallery to the public for free.¹⁴⁸

Although the UK has such a strong tradition of private involvement in supporting the arts, this does not go unquestioned, especially with regard to the corporate sector. Recent studies have highlighted the problem of the so-called 'privatisation of culture'. Wu conducted an interesting research on the subject, looking at corporate involvement in the arts in the US and the UK.

Business intervention in the arts is understood in terms of political power. The corporate sector enters the realm of arts and culture as this is functional in establishing good relationships with people retaining political power. Wu (2002) also makes a sharp critique of trustees in museums. The majority of them come from a common social and economic background and they even have family connections with the corporate sector, i.e., wives and daughters of powerful businessmen. Moreover, many trustees serving in visual arts museums are art collectors themselves. There is therefore a conflict of interests. A museum's endorsement of a certain artist has the effect of raising the market value of his/her artworks. In their capacity as trustees, art collectors can influence the museum programme towards certain artists. There is therefore the risk that they will promote certain artists they are already collecting privately as this will then raise the market value of their private collection.

With regard to corporate sponsorships, they are generally considered a compromising position for the art organisation involved. Usually, sponsors prefer to play safe and are reluctant to fund new experimental art practices, and this can affect negatively the development of artistic creativity and lead to self-censorship among artists and the management of the organisation involved. Furthermore, sponsorships are usually short-term deals associated with a specific project. Therefore, they do not provide art organisations with the opportunity to make long-term plans which can build the future sustainability of arts organisations (Shaw, 1993). In fact, as Arts & Business's data show,

¹⁴⁷ www.dulwichpicturegallery.org.uk [Accessed 5 March 2011].

¹⁴⁸ www.saatchi-gallery.co.uk [Accessed 5 March 2011].

corporate support tends to decrease during economic downturns as supporting the arts is not a core activity for profit-oriented companies (Mermiri, 2011).

The choice of the sponsor for art organisations is always a difficult one, as shown in the recent protests against British Petroleum (BP) sponsorships of many London arts organisations, including the Royal Opera House, Tate Galleries, British Museum and the National Portrait Gallery. Following the BP oil spill in the Gulf of Mexico in the summer of 2010, Tate was, for example, targeted by protests of climate change activists and artists (Vidal, Bowcott, 2010). The debate was around ethical issues given the fact that many art organisations endorse the government's green agenda to tackle climate change.

Corporate investments are concentrated for 52% in London in the major national art organisations (Mermiri, 2011). These organisations have also an international reputation for the quality of their output and can therefore offer better visibility for business, hence they offer better value for money. In 2009/2010, 68% of private investment went to London. This means that art organisations in the regions tend to rely more on public funds, namely from local authorities. The recent cuts are therefore expected to have a strong impact in regional arts organisations exactly because such organisations are less capable of attracting private investments (Holden, 2006).

With reference to PPP, Wu observes that private enterprises are able to pursue commercial interests in the name of serving public interests (Wu, 2002). They can make a profit when the market is booming, reassured that in bad days there will always be money coming from public funds to rescue the organisation in question. The intimate relationship between government and corporate power today is discussed by McGuigan in his analysis of the PPP behind the development of the Millennium Dome in London in 2000 (McGuigan, 2010). The failure of that project is seen as an example of the coalescence of social democracy with neo-liberalism. For example, Manpower was the sponsor for the 'work zone exhibition' inside the Dome, aiming to build its business in Britain. Manpower then handled staff for the Millennium Experience, hiring, training and relocating employees at the exhibition's closure. Later on, in association with Ernst&Young, Manpower won 9 out of 15 contracts for the management of employment zones in the country. This can then be seen as a New Labour Government's privatisation of public agencies.

Cultural policy objectives in national documents to encourage private involvement in culture

The recovery strategy adopted by the Coalition Government is based on the idea of the 'big society'. The government's ambition is to give people more control over their lives, making them less reliant upon the state. In particular, people are expected to be socially more proactive, giving what they have (time, money, assets, knowledge and skills), to support good causes and improve life quality for all. The government is therefore actively engaged in promoting a culture shift making the UK a more giving society. To achieve this, giving should be made as easy and attractive as possible. This involves devising new and better ways of giving but also a whole communication strategy, making people aware of all the opportunities for giving and celebrating publicly people's contribution, increasing its visibility.¹⁴⁹

¹⁴⁹ The government's agenda for the 'Big Society' is set out in a consultation green paper entitled 'Giving'. The document is available at <http://www.cabinetoffice.gov.uk/resource-library/giving-green-paper> [Accessed 4 March 2011].

Current pressures from the public, professional bodies and artists regarding the cuts to arts and culture budget

As expected, there has been quite a lot of resistance in the arts and culture sector, especially with regard to the amount of cuts and the time-scale in which they have been implemented. On the other hand, it is also clear that given the current economic crisis, there is no real argument for ring-fencing public spending on the arts and culture. Moreover, it has been also noted that the recent cuts have highlighted once more the sector's difficulty in arguing its case for public subsidy and providing evidence of its broader impact, both social and economic in society. Hence, the sector faces not just a crisis of finance but also a crisis of value.

In particular, a petition called 'Save the arts' was launched in August 2010 asking the DCMS not to slash the arts and culture budget (savethearts-uk.blogspot.com). Artists involved created artworks in support of the campaign.

More recently, there have been quite a few protests regarding the cuts in library services. In October 2010, a wide range of bodies and organisations in the sector involving authors, publishers, booksellers, librarians, etc. signed a letter to the local authority chiefs urging them to recognise the value of libraries and avoid closing them down (Page, 2010). A 'national day of action for libraries' was called on the 5th of February, 2011, involving also an all-night sit-in at a library in London against planned closures.¹⁵⁰

The government has so far replied to these protests by encouraging people to adopt the idea of the 'big society'. In the case of libraries, this would mean that closure could be avoided if local people affected volunteer their time to keep the library open. This issue of volunteering has generated quite a fraught debate, as it appears to be a way of substituting skilled and paid labour with unpaid and unskilled staff, denying in this way the professionalism of people working in the sector. Moreover, there are clear differences in the demographic composition of different neighbourhoods. People living in more affluent areas tend to be also better-educated, hence better equipped to eventually run local services themselves. In such a situation, disadvantaged people are expected to be those losing out the most, as they rely on public provision of services such as the local library and other education and art activities provided, for example, by the local museum/gallery.¹⁵¹

Market demand for cultural events/services

It is still too early to assess the full impact of the cuts to the arts and culture sector given the fact that such cuts were announced just last October in the Comprehensive Spending Review and will be implemented in different stages throughout the next years up to 2014-2015.

However, the most recent data available for the period between April 2009 and March 2010 in Great Britain (England, Scotland and Wales) show no statistically significant change in the attendance levels in England or Great Britain at theatre performances, plays, contemporary dance performances or art exhibitions from 2008/09 to 2009/10. A significant decrease was instead recorded in attendance at ballet and jazz events in

¹⁵⁰ Further information on this initiative can be found at <http://www.coalitionofresistance.org.uk/2011/02/artists-of-the-resistance-reports-from-day-of-action-for-libraries/> [Accessed 5 March 2011].

¹⁵¹ An interesting contribution on these issues is the speech given by the novelist Philip Pullman in defence of library services. The speech is available at <http://falseeconomy.org.uk/blog/save-oxfordshire-libraries-speech-philippullman> [Accessed 5 March 2011].

England and Great Britain as a whole, and in opera and classical music in Great Britain (Arts Council England, 2010).

At this stage, what it seems more clear is that there is going to be a contraction in cultural provisions, as many organisations have been forced to lay off staff and reduce the range of programmes and other activities; some organisations have even closed down completely.

This restructuring is believed to affect more those in the lower income brackets and people living in the most deprived areas in the UK with a negative effect on issues such as social inclusion and equality.

Short description of the examples of good practices found

The Pennies Foundation (www.pennies.org.uk)

When making a payment by card, in a shop or online, the customer is asked if he/she wants to 'round up to the pound', giving therefore small amounts every time the card is used. For example, if a product costs GBP 7.99 the customer is asked if he/she wants to pay GBP 8, and 1 pence is thus be allocated to the Pennies Foundation, which will use it to fund other good causes. The amount donated is very small, but the success of the fundraising activity is based on the fact that many people donate and often. Furthermore, it has a minimal impact on what people perceive as the cost of the product/service they are buying.

Such an idea could be easily transferred to arts organisations. The price of tickets could be rounded up and the money raised would go, for example, to a 'development fund' for capital investments, educational activities and new projects, etc.

The Big Arts Give (www.thebiggive.org.uk)

In May 2010, Arts & Business launched a pilot challenge fund for the arts, the Big Arts Give, with an initial fund of GBP 500,000. The project was the result of a partnership with the UK philanthropist Alec Reed and his Big Give website.

People were invited to donate to certain previously selected projects while the Big Give Sponsors committed to double the amount donated by private individuals at the end of the fundraising campaign.¹⁵²

*The Art Fund for Tate – The Blue Rigi Campaign*¹⁵³

The Art Fund is a membership charity which raises money to secure artworks for Britain's public collections.

In 2007, Tate needed to raise GBP 4.95 million to save Turner's watercolour "The Blue Rigi" in order for the nation to keep it from being sold and exported abroad. With the help of the Art Fund, the campaign 'buy a brushstroke' was launched, and members of the public were invited to buy brushstrokes online for GBP 5 each. A major grant also came from the National Heritage Memorial Fund (NHMF).

¹⁵² For further information, visit

http://www.artsandbusiness.org.uk/Central/philanthropy/the_big_arts_give.aspx [Accessed 15 March 2011].

¹⁵³ http://www.artfund.org/savebluerigi/The_Blue_Rigi.html [Accessed 15 March 2011].

More than 11,000 people helped to raise an astonishing GBP 552 000, demonstrating a shared conviction that this masterpiece must not be lost to an overseas collector. This included over GBP 73 000 from people 'buying brushstrokes' on the Art Fund's website.

Gallery V22 (www.v22collection.com)

This is a collective art collection, structured as a traded, public limited company in which artists and investor-patrons own shares, as the company is in fact listed on the stock market. The collection is developed following the recommendations of experts and its core base of artist-owners.

This organisation is particularly interesting as it brings together artists and finance and business experts. The founders believe, in fact, that this innovative model provides a new structure for ownership of art.

Sponsume (www.sponsume.com)

It is the first crowd-funding platform for artistic and entrepreneurial projects in the UK. The website welcomes a wide range of projects, including documentary, software, dance exhibitions, etc. The artist/creator is invited to pitch his/her project to persuade the crowd to finance it. Crowd-funding differs from donating as the backers always get in-kind benefits. Usually, there are different benefits according to the amount of money paid. Benefits can include, in the case of a film, a special mention in the film credits, an invitation to the premiere screening, or a copy of a music album if the project is about a music festival, etc. The supporters also get regular updates on the progress of the project. If a certain project does not reach its funding target, it will not be implemented and the money will be returned to the backers.

Other websites offering crowd-funding for arts projects are: <http://wedidthis.org.uk> and www.wefund.co.uk

Crowd-funding has the advantage of supporting artistic production while building at the same time an audience for it. It also relies on modern technologies and social media so that projects can be promoted easily and with limited costs. The potential for growth in crowd-funding is also confirmed by a Charities Aid Foundation report, *Charity Internet Supporters Survey*. It found that there is a distinct group of e-donors: they are younger (25-34 years old), lower- to middle-income earners (GBP 10 000–GBP 30 000 per annum), equally likely to be male or female and heavy Internet users (CAF, 2001).

ANNEX 3 – INVENTORY OF INCENTIVES FOR ENCOURAGING PRIVATE INVESTMENT ACROSS EU MEMBER STATES¹⁵⁴

An inventory of mechanisms and measures to encourage private investment in the cultural sector across EU Member States is presented here to give an overview of the existing incentives in 25 EU Member States¹⁵⁵. Sources used in creating the inventory were questionnaire-based surveys sent to the Ministries of Culture of various EU Member States and data from the Compendium of Cultural Policies and Trends. The categories of incentives and measures covered in the questionnaire include:

- **tax deductions and incentives** for:
 - **consumption of culture:** refers to possible VAT reductions for buying cultural goods and services, existing tax deductions for buying various art objects, and other similar instruments (e.g. transfer of art in lieu of payment of tax)
 - **investment in culture:** refers to exemptions on business investments, such as capital investments in cultural infrastructure (public-private partnerships), cultural industries, ownership of cultural monuments, sponsorships, and other related incentives
 - **philanthropic investment by individuals:** donations, patronage; includes percentage legislation, tax deductions for gifts in cash or in kind and testamentary gifts
 - **philanthropic investment by corporations:** includes tax deduction on corporate income, deductions for gifts in cash or in kind
 - **philanthropic investment by grant-making organisations:** includes all measures meant to stimulate philanthropic investment in foundations and trusts
- **earmarked taxes:** encompass taxes raised and allocated to specific expenditure programmes, such as the preservation of cultural monuments, often through extra-budgetary funds; this category includes lottery based revenue
- **financial schemes to stimulate business involvement in cultural financing:** matching funds, sponsorship incentives schemes, etc.
- **grant schemes to stimulate the professionalisation of marketing**

For each country, the inventory presents only those categories where such measures and mechanisms have been identified.

¹⁵⁴ Prepared by Andrej Srakar and Vesna Čopič. Thanks to colleague Snežana Šušteršič for her help in clarifying tax related issues.

¹⁵⁵ The data for Luxembourg and Cyprus was not available - the answers to the questionnaire were not received and there are no country profiles in the Compendium for these two countries.

Austria

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

1. For books the reduced rate of VAT of 10% is applied. The reduced tax rate is also applied for newspapers and cultural events (e.g. theatrical productions, film projections, music and song performances), as well as for revenues from artistic activities.

2. For the trade with art objects (as second-hand goods), Special arrangements for second-hand goods, works of art, collectors' items and antiques is applied (according to Article 24a of UStG – VAT Act). Depending on the difference between sale and purchase, an effective sales tax rate results between 0 and up to a maximum of 20%. The determination base for the taxation of the profit margin is the sales price subtracted by the purchase price, and again reduced by the standard VAT rate of 20%.

Tax deductions for buying works of art or any other related objects

Entrepreneurs can charge back an invoice of sales tax (10%) with the tax and revenue office; apart from this measure, there are no other tax reliefs for the purchase of art works.

Other similar instruments

The maintenance of prices for books is regulated in a way that is determined and announced by publishers or importers of books. Publishers announce a so-called "last sale price" of their imported or published books. Booksellers can give rebates up to a maximum of 5% of the minimum price.

Public, scientific and school libraries can receive rebates of 10%.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Capital investment in cultural infrastructure

In 1999, based on the Federal Museums Law of 1998, national museums received an independent legal status and have since been administrated as self-financed enterprises.

Sponsorship

The "Sponsors' Ordinance" regulation was adopted by the Federal Ministry of Finance in 1987. Under this regulation, an enterprise/entrepreneur is granted a tax break on expenses for sponsoring cultural events. The Ordinance lists various criteria that must be fulfilled in order to qualify for the tax break (sponsoring must, for example, be in the form of an advertisement). This regulation only allows for a very small amount of expenditure to be tax deductible (up to 0.5 % of the whole amount); however, plans for the introduction of new legislation, which has been discussed extensively, have been announced.

PHILANTHROPIC INVESTMENT: CORPORATIONS (TAX DEDUCTION ON CORPORATE INCOME)

Tax deduction for a gift in cash to cultural purposes

A new legal incentive was introduced in October 2002 that stipulates that donations made to museums (to important country-wide private museums, as well as to federal museums) are tax deductible.

Belgium

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

A new VAT system has been in force since 1993; this system was the result of a harmonisation of the different systems in the European Union. There are two rates: a standard rate of 21%, and a reduced rate of 6%. The reduced rate applies to most cultural objects (e.g. magazines, books, original works of art, collector's objects) and services (e.g. entrance tickets, copyright). Belgian legislation allows for many cultural exemptions (*Article 44, paragraph 2, 6-9° of VAT Act*) including visits to museums, monuments and natural monuments, botanical gardens and zoos, that are not exploited for profit.

Tax deductions for buying works of art or any other related objects

Belgian legislation allows for many cultural exemptions including the hire (renting) of objects of a cultural nature, when provided on a non-profit basis.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT**Capital investment in cultural infrastructure**

A public-private partnership programme is in place but is only attractive for cultural projects with a degree of commercial profitability. This programme has generated EUR 54.30 million per year.

Production

Since January 2003, investors can claim tax exemptions for the amounts they invest in Belgian audio-visual work. This amount may partly consist of loans. Apart from that, the available data report that Belgian law makes no legal provision for genuine corporate tax deduction for any investment in culture.

Sponsorship

Belgian law makes no legal provision for genuine corporate tax deduction for investment in culture.

FINANCIAL SCHEMES TO STIMULATE BUSINESS INVOLVEMENT IN CULTURAL FINANCING

The "Promethea" Association is responsible for creating an interface between the cultural world and the economic world through support of various projects, actions and incentives (among which foremost is support through sponsorship).

Bulgaria**CONSUMPTION OF CULTURE****VAT reductions for buying cultural goods**

There is a unified rate of 20% VAT on all goods and services in Bulgaria, including cultural goods and services. According to an amendment of *the VAT Act*, under *Article 42*, VAT was no longer charged at the reduced rate on the tickets for concerts, performances (excluding variety programmes, bars, and clubs), museums, art galleries, zoos, botanical gardens, and architectural and archaeological sites as of 2005. The same Article stipulates a VAT exemption on activities that are subsidised by state and carried out by the Bulgarian National Radio, Bulgarian National Television and Bulgarian News Agency.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT**Ownership of cultural monuments**

To encourage private persons and companies to sponsor the development of the arts and culture, a tax deduction is provided to resident and non-resident natural persons and legal entities. This deduction can amount up to 10% for the conservation and restoration of historical and cultural monuments. The rate of tax deduction was increased from 5% to 10% under amendments to the *Corporate Income Tax Act* adopted at the beginning of 2002.

Sponsorship

To encourage private persons and companies to sponsor the development of the arts and culture, a tax deduction is provided to resident and non-resident natural persons and legal entities. Main areas of sponsorship include popular music concerts, publication of literature, theatre, performances, and festivals.

PHILANTHROPIC INVESTMENT BY INDIVIDUALS: DONATIONS / PATRONAGE**Tax deduction for gifts in cash for cultural purposes**

Tax deduction is provided to resident and non-resident natural persons and legal entities, which amounts to up to 10% for donations for cultural purposes. The rate of tax deduction was increased from 5% to 10% under amendments to the *Corporate Income Tax Act* adopted at the beginning of 2002.

Czech Republic**CONSUMPTION OF CULTURE****VAT reductions for buying cultural goods**

On 1 January 2010, the VAT rate was increased according to *Act No. 235/2004 on VAT*—the base rate was increased from 19% to 20%, and the reduced rate from 9% to 10%. The reduced tax rate applies to specific cultural activities, including entrance fees to exhibitions, concerts, films, theatres and other cultural and entertainment performances, radio and television fees, and artistic and other entertainment. The reduced rate applies as well to the activities of writers, composers, painters, sculptors, actors, show and cabaret performers, and other independent artists. The reduced tax rate is applied to the importation of artwork, collectors' objects and antiquities, but only when these goods are imported. The base tax rate applies when delivered within the Czech Republic or purchased from another Member State.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Production

There are currently no tax incentives for business investment in the field of culture in the Czech Republic. The only exception is that there are incentives for the film industry as a part of the programme for the support of the film industry. According to this programme, which will be enforced after it is cleared by the European Commission, the stakeholder will be entitled to claim up to 20% of expenses paid after fulfilling all of the programme's conditions.

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE

Tax deduction for a gift in cash for cultural purposes

According to *Act No. 586/1992 Coll.* on income tax, individuals can deduct the value of a donation for cultural purposes from their tax base if the total amount of donations exceeds 2% of their tax base or is valued at CZK 1 000 at minimum in the period of taxation. The deduction can be a maximum of 10% of the tax base.

PHILANTHROPIC INVESTMENT: CORPORATIONS (TAX DEDUCTION ON CORPORATE INCOME)

Tax deduction for a gift in cash for cultural purposes

According to *Act No. 586/1992 Coll.* on income tax. Business entities can deduct the value of a donation for cultural purposes from their tax base if the value of the donation is at least CZK 2 000.

Denmark

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

VAT law section 13, 1, No 6, Law No 375 of May 1994. VAT exemptions: the Danish rate of VAT on cultural services and goods is 25%, but a few exceptions do exist:

- in the case of a first-time sale of an artist's own works, the artist and the artist's heirs may sell VAT-entitled works at a reduced price corresponding to 20% of the VAT taxation base (*VAT Law section 30, 3*, inserted through *Law No.375* of May 1994);
- an artist or the artist's heirs who sell their own works of art for the first time do not have to register for VAT when the sale does not exceed DKK 300 000, either in the current or the previous calendar year (*VAT Law section 49, 2, No 2*, inserted through *Law No 375* of May 1994, changed through *Law No 291* of May 2002);
- on imports of artefacts, the VAT calculation base is 20% of the base applicable for importing from non-EU countries;
- cultural institutions, including libraries, zoological gardens, etc., are exempt from VAT; this exemption includes closely associated goods deliveries. The exemption does not include radio and television broadcasts, cinema and theatre performances, concerts or similar arrangements. (*VAT Law section 13, 1, No 6, Law No 375* of May 1994);
- fees acquired by writing and composing work, as well as conducting other artistic activities, are exempt from VAT. The exemption does not include sale of art artefacts. (*VAT Law No 375* of May 1994);
- delivery of goods and services in connection with charity arrangements and the collecting and sale of used goods of small value is, under certain conditions, free from VAT duty (*VAT Law 375* of May 1994);
- charitable societies' sale of goods and benefits in connection with their activities are, under certain conditions, exempt from VAT (*VAT Law No 375* of May 1994).

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Sponsorship

Act nr. 1389 of 20 December 2004. Main areas of sponsorship include museums and art and music festivals.

Other related incentives

The Law on Tax Exceptions in the Cultural Field (Act nr. 138 of 20 December, 2004) made it easier for private companies to deduct a part of investments in the arts. When a company buys a painting, up to 25% of the price can be deducted for tax purposes.

PHILANTHROPIC INVESTMENT: CORPORATIONS (TAX DEDUCTION ON CORPORATE INCOME)

Tax deduction for a gift in cash to cultural purposes

Act nr. 1389 of 20 December 2004 also made it possible for private companies and funds to donate gifts to publicly supported cultural institutions. The conditions of this agreement are that the gift must be donated without any application process, and that a maximum of 25% of the donation can be deducted for tax purposes. Although the *Law on Tax Exceptions in the Cultural Field* (Act nr. 138, 20 December 2004, see above) has made it easier for private companies to deduct investments in the arts and to donate gifts to public-supported cultural institutions, only a maximum of 25% can be deducted for tax purposes.

PHILANTHROPIC INVESTMENT: GRANT-MAKING ORGANISATIONS

The *Law on Taxation of Funds* (Act no.145 of March 19th, 1986) was introduced and made effective starting with the tax year 1987. It was part of the tax reform of 19 June 1985. Since then, a number of adjustments have been made, but the principles from the 1986 law remain intact. The main principle is as follows: according to the *Law on Taxation of Funds*, funds are taxed by rules that are in principle similar to those applicable to joint-stock companies. In order to avoid hindering a fund from looking after the interests stated in its statutes, the *Law on Taxation of Funds* stipulates several exceptions on rights to tax deduction of division of profits and deposits:

- the fund may, according to rules similar to those governing limited companies, deduct operational costs. Expenses for sponsorships that are part of the fund's operations in reaching its aims may then be deducted as operational expenses;
- there is no tax limit on the amount a fund may give out for sponsorship. However, the sponsored amount may not exceed the taxable income assessed according to the normal rules;
- a distribution may be tax deductible either as a distribution to an unspecified charity, a distribution for the common good or as a statutory distribution. If the distribution is statutory, then the receiver must be taxed in order for it to meet the conditions for tax deduction;
- furthermore, the fund may deduct an amount corresponding to 25% of a year's distribution to the common good for consolidation purposes; and
- if the economic conditions within a fund disallows the implementation of a project in one session, there is the possibility of setting aside deductible funds for later distribution for the purpose of the common good. If the purpose is cultural or artistic, it may be permitted that deposits are made to non-specified projects that must be realised within a period not exceeding 15 years.

Thus, funds have wider access to tax deduction for grants to cultural activities than private corporations, because there is no tax limit to the amount a fund may give out for sponsorship.

Estonia

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

Value Added Tax law (section 15 (2)) specifies a reduced tax rate of 9% for books and periodic publications, as an exception from the standard rate (20%). This reduced rate excludes publications mainly containing advertisements or personal announcements, or publications in which the content is mainly erotic or pornographic. Value added tax is not imposed on the supply of goods and services of a social nature, like services provided by a non-profit association to its members free of charge or for a membership fee, and services provided by a non-profit association to natural persons relating to the use of sports facilities or sports equipment.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Sponsorship

The private business sector has not yet shown any major interest in sponsoring culture.

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE

Tax deduction for a gift in cash to cultural purposes

According to the Income Tax Act a resident natural person has the right to deduct from his or her income gifts and donations of which there is documented proof and which are made during a taxation period to an organisation on the list of non-profit associations and foundations benefiting from income tax incentives, a legal person entered in the register of religious associations, a state or local government scientific, cultural, sports, educational or social welfare institution, a manager of a protected area, a university in public law or a political party. This deduction is limited to 5% of the taxpayer's income during the same taxation period after the deductions enacted by the law.

Income tax is not charged on gifts and donations made to persons included in the list of non-profit associations and foundations benefiting from income tax incentives, legal persons entered in the register of religious associations, persons who own hospitals, state or local government scientific, cultural, educational, sports, law enforcement or social welfare institutions, or managers of protected areas. Such donations may not exceed one of the following limit values in total amount:

- 3% of the amount of the payments subject to social tax pursuant to the Social Tax Act made by the taxpayer during the same calendar year;
- 10% of the profits made by a taxpayer during the last financial year; such profits must be dissolved as of 1 January of a calendar year and calculated pursuant to the legislation that regulates accounting.

PHILANTHROPIC INVESTMENT: CORPORATIONS (TAX DEDUCTION ON CORPORATE INCOME)

Tax deduction for a gift in cash to cultural purposes

Registered non-profit organisations (NPOs), including those active in the cultural field, have the right to apply for a special status that allows private enterprises to deduct donations from their taxable income to an amount not exceeding 3% of the total payments subject to social tax (except fringe benefits), or 10% of the profit made in the last year. It should be noted, however, that not many NPOs and potential donors are aware of this possibility and that the Ministry of Finance, which makes decisions about granting this status, has not clearly announced its criteria of decision-making.

EARMARKED TAXES

Legislation on alcohol, tobacco and gambling taxes, and excise duties earmarks a fixed percentage of this income for two governmental arm's-length bodies, *the Council of Gambling Taxes* and *the Cultural Endowment of Estonia*. These two bodies grant money to cultural purposes, and the former does so also for other social purposes.

Finland

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

Regarding tax rates, the Finnish *VAT Act* has been enacted to suit the valid EC / EU VAT directives. The standard VAT rate in Finland is 22%. The reduced rate of VAT is 8% for books and entrance fees of cultural, art and entertainment services and performances (e.g. entrance fees to museums, box office receipts from cinemas, theatres, orchestras and circus, music and dance performances). The VAT rate on the price of newspapers and journals is 0%.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Sponsorship

There are no legislative or special administrative arrangements that would offer incentives for business sponsorship. In 2003, Finnish corporations were estimated to have spent only EUR 4.1 million on sponsoring and purchasing art. More recent estimates suggest that corporate support to the arts and culture at present is around EUR 10 million. The main areas of business sponsorship include the visual arts (e.g. art museums, main exhibitions), music (e.g. classical, popular, events), and music theatre (e.g. operas, musicals).

PHILANTHROPIC INVESTMENT: CORPORATIONS (TAX DEDUCTION ON CORPORATE INCOME)

Tax deduction for a gift in cash to cultural purposes

Income taxation legislation (Income Tax Act, paragraph 57, amended in 2007) offers tax deductions for donations. More specifically, a corporate entity (not a private individual) can deduct:

- a minimum of EUR 850 and a maximum of EUR 250 000 in donations that promote art or science or maintain Finnish national cultural heritage. The receiver of such donations must be another EEA state, publicly supported university or other institute of higher education or a fund linked to universities or institutes of higher education; and
- a minimum of EUR 850 Euros and a maximum of EUR 50 000 in donations that promote science or art or preserve Finnish cultural heritage, of which the receiver is an association or a fund that is mainly committed to the promotion of the arts or sciences or the preservation of Finnish cultural heritage. Such an association must belong to the Taxation Board's list of rightful receivers. The Income Tax Act (paragraph 22) also defines the criteria for non-profit organisations ("organisations accruing collective benefits"), which can benefit from total income tax relief for their small-scale non-commercial business activities. There have been debates about the conditions, under which this tax relief may conflict with the EU Treaty, Article 87, which prohibits competition-distorting subsidies or financial transfers of any other forms of resources to market organisations.

France

CONSUMPTION OF CULTURE**VAT reductions for buying cultural goods**

In France, there are three VAT rates. The *standard rate* of 19.6% applies to all sales of goods or services except those subjected by law to another rate; the rate is 20.6% for CDs and cassettes. The rate is *reduced* to 5.5% for the products required for everyday consumption, such as food and certain cultural products, such as books. This rate is the same for works of art carried out on digital or audio-visual carriers. The VAT rate is 2.1% for publications of the press and for ticketing of the first 140 stage performances of works recently created or presented in a new setting. The rate drops to 1.05% in the overseas departments. Reduced rate also applies to ticket prices for theatres, cinemas (excluding cinemas showing pornographic films or films inciting violence), circuses, concerts, variety entertainment, etc.

Tax deductions for buying works of art or any other related objects

Companies that purchase original works of living artists can, over a period of 20 years, deduct from their taxable earnings an amount equal to the purchase price. To benefit from this deduction, the company must exhibit the acquired work in public.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT**Sponsorship**

Sponsorship is guided by the following laws: Law no. 87-571 of 23 July 1987 on the development of sponsoring and *Law on the Development of Sponsorship* (1987), *Mécénat Law* (2003). They specify the conditions under which sponsor companies are authorised to benefit from a range of tax incentives. Companies may deduct from their taxable earnings value of gifts of a cultural nature to charities or organisations of general interest, up to a maximum of 0.225% (or, under certain conditions, 0.325%) of their turnover. The estimated value of sponsorships is EUR 183 million, and the main areas of sponsorship are fine arts and music.

PHILANTHROPIC INVESTMENT: GRANT-MAKING ORGANISATIONS

Law no. 90-559 of 4 July 1990, relating to the creation of corporate foundations, authorises companies to set up cultural foundations and defines their scopes of activity.

Germany**CONSUMPTION OF CULTURE****VAT REDUCTIONS FOR BUYING CULTURAL GOODS**

Indirect state support for the arts and culture in the form of tax breaks is not clarified in a separate piece of legislation but instead consists of a multitude of regulations contained in various specialised acts. In the case of VAT, some cultural products (such as books) are subject to a reduced rate of 7% instead of the standard 19%; under certain conditions, public cultural operations and non-profit activities (e.g. theatre performances) are exempt from VAT and corporate tax altogether. The sale of publications and other works of writers, composers or visual artists that are protected by authors' rights are also taxed with the reduced rate.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT**Sponsorship**

There is no single law to encourage private sponsorship of culture and the arts, but a series of tax breaks are summarised in a directive of the Ministry of Finance (BMF-Sponsoring-Erlass 1998). Incentives are mainly on the local government level. The estimated value of sponsorships is EUR 500 million.¹⁵⁶ Figures include contributions from foundations and other private donors. The main areas of sponsorship in Germany are fine arts and music.

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE**Testamentary gifts to cultural purposes**

The inheritance tax for works of art can be reduced by 60% if their preservation lies, because of their artistic, historical or scientific values, in the public interest. Certain conditions apply, including that the works stay in the possession of the heir for at least 10 years and that eventual profits made from their use do not exceed the annual costs for their preservation. A total exemption of works of art from inheritance tax is possible if works of art are in the possession of a family for at least 20 years or, alternatively, are listed in a *National Register of Valuable Cultural Goods*. Successors are obliged to leave works of art in the custody of a museum for at least 10 years.

PHILANTHROPIC INVESTMENT: GRANT-MAKING ORGANISATIONS

¹⁵⁶ Information about sponsorship in Germany was derived from a study undertaken by Sievers, Wagner and Wiesand for the German Parliament (2004).

Since January 1st, 2000, an Act on the Taxation of Foundations is in force, which includes tax incentives for the establishment of and donations to foundations. In recent years, additional tax breaks have been incorporated into the law governing donations, and the tax-exempt ceiling for income from voluntary activity (the so-called standard exemption for course instructors) has been raised and extended to apply to other groups. The reform of the Law on Non-profit Character and Donations in July 2007 eases taxation of civic commitment. Donations remain free from income tax to a limit of 20%, and the tax-free allowance for the establishment of foundations was raised from EUR 300 000 to EUR 1 million.

Greece

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Sponsorship

The Office for Cultural Sponsorship is an institution established by the Greek state that aims to fund culture with resources from the private sector. It is necessary to distinguish Cultural Sponsorship from state subsidies, as the latter concerns funding activities of the private cultural sector with public resources. Recipients of cultural sponsorship can be both the public cultural sector and non-profit organisations active in the field of culture. Law 3525/2007 offers incentives to individuals and companies for sponsoring cultural activities. The pecuniary amount, or the value of the supply being offered as cultural sponsorship, deducts fully from the taxable income of the taxpayer or the gross income of the enterprise offering the sponsorship. The total amount that is being deducted cannot surpass 10% of the total individual taxed income or the net profits of the business, as described in the financial reports of the business offering the sponsorship. The priority of the Office of Sponsorships is to facilitate procedures for the sponsors and the recipients.

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE

Testamentary gifts to cultural purposes

Inheritance tax on art collections can be paid in kind, therefore this measure is effectively equal to a public purchase of an art programme. This measure helps to ease the burden of people who would have to face heavy financial burdens if they inherited important collections.

Hungary

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

Act CXXVII of 2007 on value added tax outlines VAT reductions. The standard value added tax (VAT or, in Hungarian, ÁFA) rate of 20% was raised to 25% in the middle of 2009, thereby affecting music recordings, performing arts (including theatre tickets), filmmaking, video lending, cinema, etc. A reduced rate of 5% applies to books, including textbooks, and periodicals, including newspapers, as well as to licensed handicraft products. VAT registration is obligatory for all projects unless an individual tax exemption is granted, for those with annual turnovers under HUF 4 million (approximately EUR 16 000). The reduced VAT rate of 5% has been extended to e-books, audio books and journals since 1 January 2011.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Production

Tax legislation has great significance for investments. In this respect, the Law on Motion Pictures (Act II/2004 or Film Law) stands out, as it offers a 20% tax break on filmmaking. The tax credit has attracted the shooting of international productions and also provided incentives to some local projects. It has also created a favourable environment for investment in studios, the largest of which is the Alexander Korda Studios in Etyek. An important issue in 2008 was state support, including investment tax credits, given to filmmakers in negotiation with the European Commission. By the middle of the year, an agreement was reached; several of the criteria for public support were defined more strictly (with the cultural principle reinforced), and the limits of state subsidies have been set until 2013. On the whole, the main principles of the Film Law were found to be compatible with EU regulations.

Sponsorship

The Corporation Tax and Dividend Tax Law (1996) addresses sponsorship in Hungary. Sponsorship has received a great deal of attention, but tax exemptions are difficult to realise, and the entire amount of sponsorship can be deducted from the tax base as marketing expenses. Funds raised through sponsorship total HUF 4.3 billion (EUR 16.5 million), and main areas of sponsorship include performing arts, classical music, large festivals and fine arts.

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE

Percentage legislation for individuals

Act CXXVI of 2006 addresses the utilizing of defined parts of personal income tax according to the statements of taxpayers. All taxpayers can declare 1% of income tax to be transferred to organisations that carry out activities of public benefit, including major national museums, libraries and archives. According to the data disclosed by the

tax authorities in 2006, nearly 50% of taxpayers channelled HUF 8 400 million to 27 400 organisations, about a fifth of which is supposed to serve cultural purposes, including the protection of heritage.

PHILANTHROPIC INVESTMENT: CORPORATIONS (TAX DEDUCTION ON CORPORATE INCOME)

Tax deduction for a gift in cash to cultural purposes

Act LXXXI of 1996 on corporate tax and dividend tax regulates the corporate allowances related to support allocated to organisations of public utility. According to Article 7.(1) (z), the profit before taxes could be reduced in the frame of a long-term grant contract made with organisations of prominent public utility or non-profit associations with (prominent) public utility status, under the law on organisations of public utility that perform utility activities. This reduction may be:

- by 50% in case of support for organisation of prominent public utility
- by 20% in case of long-term grant contract

but together it can not exceed income before taxes.

The given grants can be validated as other expenditures in the tax base; a donation given to organisations with prominent public utility can be eligible for up to a 150% rate cut on the tax base. Pursuant to an amendment in 2010, the 13th point of Chapter A of the 3rd appendix of the act of Tao narrows the liquidability as expenditure for supports. However, the cost and expenditure accounted for in this way, along with value added tax accounted for in relation to allowances, does not qualify as cost or expenditure during the setting of the tax base, but as an allowance. Therefore, the income before taxes must be raised by these costs and expenditures if the person who allocates does not have the declaration of the receiver of the grant or donation. Accordingly, in the financial year, the income will not be calculated in the negative subtracting the income accounted for through allowance, which would be justified after preparing the report.

Tax deductions for donations in kind to cultural purposes

Tax deductions for donations in kind to cultural purposes are outlined in Act XCIX of 2008. This act addresses the support and special employment rules of performing arts organisations (Emtv.). Other relevant laws are the Act LXXXI of 1996 on corporate tax and dividend tax (Tao.tv.), and the OKM (Ministry of Education and Culture, currently the Ministry of National Resources) order of 7/2009 (III. 4.), which set detailed rules on authority processes related to functioning of performing arts organisations, material conditions needed during activities of music bands and choirs, and low limits on paying spectator numbers. This act essentially makes donating to theatres profitable. Sponsors are able to receive tax allowance for the current financial year and the following three tax years on support that does not exceed 80% of the annual ticket income of a given theatre. According to the order, the sponsor is not allowed to receive any services in return and cannot even represent his or her name among the sponsors. In practice, this rule means that, if a company gives HUF 100 000 as support for a registered theatre, it lowers its tax base by the sum of the sponsorship, because it can charge the sponsorship to costs, thus receiving 10%, or HUF 10 000, in return). The company does not have to raise its tax base with the sum at the end of the year. At the same time, HUF 100 000 is deductible from the payable corporate tax (from the tax, not from the tax base). Thus, the company can save HUF 110 000 through tax measures. Ultimately, the company lowers its tax, decreases the corporate tax advance for the following period, and effectively profits HUF 10 000.

FINANCIAL SCHEMES TO STIMULATE BUSINESS INVOLVEMENT IN CULTURAL FINANCING

According to the Order of Law of the 28th of October 2009 by the European Commission (2009 XCIX, section 48) on the Support and Arbitrary Employment of Performing Art Organisations, which modifies the Law on Company Tax and Dividend (LXXXI 1996), creative establishments supporting the organisations of performing arts can receive tax allowances in the current tax year for support given without repayment, value of the provided venue, book without payment, value of the service given without payment, if

- the contract for the support can prove that it serves a public utility aim
- the tax allowance does not result in an estate or non-estate advantage, as stated in tax laws
- the supported entity must not highlight the name of the supporter, and no public mention can be made regarding any of its activities related to the contract
- the amount of the annual supporting contracts of certain organisations of performing arts cannot exceed the 80% of the ticket income of the organisations.

The supporting programme makes it possible that the funds offered by the enterprises can be received back from the tax of the supporting organisations. The funds provided to the organisations of performing arts cannot surpass 80% of their annual ticket income. In the tax year 2007, this supporting scheme provided HUF 867 million to the

theatres. Such data has not been made available for the year 2010; supporting certificates will be published in 2011. It is expected that the results of the year 2010 will exceed the 2009 data significantly.

Ireland

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

A trader (individual, partnership, company or association) is generally required to register for VAT for supplying goods and/or services, as subject to his or her turnover exceeding certain thresholds. The most common thresholds are EUR 37 500 for the supply of services and EUR 75 000 for the supply of goods. Some traders are generally not required to register for VAT, although they may choose to do so. The standard VAT rate in Ireland is 21%. There is also a reduced rate of 13.5%, and 0% rate. These lower rates cover a mix of goods and services and cannot be easily categorised. Any VAT incurred on purchases that relate to the making of taxable supplies can be recovered by a VAT registered trader, whereas a trader engaged in the provision of exempt supplies only is not entitled to deduct any of the VAT incurred on costs. If a trader derives income from both taxable and exempt activities, only a portion of the VAT incurred on costs can be deducted. An exemption from VAT for live theatrical and musical events was introduced in Ireland in 1985.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Capital investment in cultural infrastructure

The Business Expansion Scheme for Music allows tax relief on investment in new and emerging commercial music acts and groups. To qualify, projects must be approved by the Ministry of Tourism, Culture & Sport. Certification requires that the performance applying has not had sales in excess of EUR 5 000 as a solo artist or member of a band.

Production

A scheme was introduced to promote the Irish film industry by encouraging investment in Irish-made films that make a significant contribution to the national economy and exchequer and/or act as effective stimuli to the creation of an indigenous film industry in the state. The scheme was broadened in 1993 to include individual investors.

The scheme provides tax relief towards the cost of production of certain films. The maximum amounts that can be raised under the scheme are:

- up to 80% of the cost of production for all budgets, up to the cap of EUR 50 000 000,
- in no case may the total amount raised under Section 481 exceed EUR 50 000 000.

Tax relief on 100% of their investment is available to individual investors and to corporate investors. Individual investors can invest up to EUR 50 000 under the scheme in any year of assessment. An investor that cannot obtain relief on all of his or her investment in a year of assessment, either because his or her investment exceeds the maximum of EUR 50 000 or his or her income in that year is insufficient to absorb all of it, can carry forward the unrelieved amount to following years up to and including 2012, subject to the normal limit of EUR 50 000 on the amount of investment that can be relieved in any one year. A corporate investor and any connected companies can invest up to EUR 10 160 000 in any 12-month period. The total amount that can be invested in any one film cannot exceed EUR 3 810 000. Investment may be made by an individual company or a corporate group. If the total investment exceeds EUR 3 810 000, the excess can only be invested in productions with a budget of EUR 5 080 000 or less. There are conditions governing investment in relation to:

- qualifying films
- qualifying companies
- qualifying investors
- relevant investment
- shares

Ownership of cultural monuments

Section 482 of TCA 1997 provides relief from income and corporation tax to the owner/occupier of an listed building in respect to a certain expenditure for the repair, maintenance or restoration of an listed building.

Sponsorship

Companies pay a corporation tax. This tax is charged on the company's profits, which include both income and chargeable gains. A company's income for tax purposes is calculated in accordance with income tax rules. In general, a sponsorship payment will be deductible when calculating the trading profits of a trader (e.g. individual, company, partnership) if it is wholly and exclusively for the purposes of trade and revenue, as opposed to capital expenditure. To satisfy the "wholly and exclusively" rule, the payment must have a genuine commercial objective

(e.g., advertising and publicity for the sponsor). If this rule is satisfied, then sponsorship is considered a normal business expense.

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE

Tax deduction for a gift in cash to cultural purposes

Section 848A provides for a scheme of tax relief for certain "eligible charities" and other "approved bodies" in respect to donations received on or after 6 April 2001. The minimum donation in any single year that must be made to any one eligible charity or approved body in the form of money or designated securities, or a combination of money and designated securities, must be of a value of GBP 250. Cash donations made in instalments (e.g. standing orders) also qualify. There is no maximum qualifying donation amount, except that, if there is an association between the donor and the eligible charity/approved body at the time the donation is made, (e.g. the donor is an employee or member of the eligible charity/approved body), the relief will be restricted to 10% of the total income of the individual for the relevant year of assessment. An overall restriction, or cap, applies to tax relief schemes as introduced by Section 17 of the Finance Act 2006.

PHILANTHROPIC INVESTMENT: CORPORATIONS (TAX DEDUCTION ON CORPORATE INCOME)

Tax deductions for donation in kind to cultural purposes

Tax breaks are allowed on: donations to eligible institutions, provision of certain goods and services such as printing of programmes or tickets, offering airline tickets, etc.

FINANCIAL SCHEMES TO STIMULATE BUSINESS INVOLVEMENT IN CULTURAL FINANCING

Business involvement in cultural financing is stimulated by programmes and awards, such as Arts2Business Programmes and the Arts Sponsor of the Year Award.

Italy

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

The reduced rate of 4% is applied to newspapers and daily news, dispatches from news agencies, books, magazines (including those in Braille and on audio-magnetic media for the blind and partially sighted, but excluding newspapers and pornographic magazines and catalogues of information other than books), music publishing in print, maps (including printed globes), documents and publications of the Chamber of Deputies and the Senate, and paper required for printing, typographical and similar material relating to election campaigns, if commissioned by the candidates, lists of parties or movements, or political opinion.

Tax deductions for buying works of art or any other related objects

The VAT rate for the sale of works of art is 10% (instead of 20%). A VAT margin scheme exists for the buying and selling of works of ancient art. The tax regime is applicable to persons who trade used goods and works of ancient art, so as to avoid double taxation for goods or reiterating taxation after goods are supplied to a taxable entity for subsequent resale. The method of calculating the total tax provides that the tax should not be determined in relation to each task, but with reference to all transactions carried out in a tax period (month or quarter). The gross margin is the difference between the amount of total sales and the purchase (including repair costs and incidental costs) made in the reporting period. Calculation of any taxes due from the sale of assets used (if the amount calculated is positive) is made by grouping the amounts of supplies for the period by rate and calculating the margin. The percentage incidence of any amount is calculated over the total margin for the period. The gross margin is divided into as many parts as there are rates set out above, by applying the percentages calculated. The amount obtained results in a segregated taxable income. The sum of the tax is the VAT liability from the sale of assets for the period.

Other similar instruments

A rule is in place that allows taxpayers to give to the state items of cultural heritage, including works by authors living or carried over by no more than fifty years, in lieu of paying taxes, including direct, personal income tax, IRES, and any penalties and interest. The provision does not apply, however, to the withholding of agents. The same possibility also applies to the full or partial payment of VAT and other tax revenues of the state, by virtue of the extension of the discipline contained in article 28, cited by article 20 of Legislative Decree no. 46/99. It should be taken into account that this provision does not apply to future payment obligations. In practice, it is necessary that there is a tax debt, or, liquid, certain and enforceable money (e.g. tax payments by way of deposit or the balance of the declaration, or in response to adhesion or reconciliation, enrolment in the role), and that the proposed supply of goods does not suspend the normal time limits for paying the tax. Under article 28, the proposed sale of properties, along with a description of the property or properties, shall be submitted to the Ministry for Cultural Heritage and cultural activities, and accompanied by documentation. The department certifies

the existence of the requirements of legislation for the acquisition of property by the state and the state's interest in buying such property. The conditions and the value of the sale are set and heard by a special commission in advance, through an interministerial decree (Ministry of Heritage and Culture and Ministry of Economy and Finance) issued within 6 months from the proposal and subsequently forwarded to the applicant. The taxpayer, to avoid penalty, has two months to notify the Department of its acceptance. The sale of movable property shall be effected by delivery within 30 days of acceptance, as the real estate taxpayer and acceptance of the interministerial decree are entitled to register the transfer in the land register.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Ownership of Cultural Monuments

The parties responsible for the maintenance, protection or restoration of things placed under the legislative decree of 29 October 1999, 90 and the Decree of the President September 30, 1963, No 1409 (now Dlgs. 42/2004 and amendments) are able to fully deduct all expenses accrued through such processes, to the extent of the full value of what has actually been paid for the transaction. The necessary expenses, when they are not required by law, must be certified by an appropriate certificate issued by the appropriate supervision of the Ministry of National Heritage and Culture, made upon verification of their adequacy in consultation with the appropriate office of the Agency in the area. Art.11.1. The Consolidated Income Tax act, approved by Presidential Decree December 22, 1986, no. 917 shall be amended as follows in Section 2. In any case, the income of real estate recognised historical or artistic interest, pursuant to Article 3 of Law of 1 June 1939, n. 1089, and subsequent amendments, is determined by the application of lower rates of valuation provided for homes in the area census in which the property is located.

Sponsorship

Sponsorship is eligible for full deduction from business income of costs for advertising and propaganda; such costs are deductible in the years they were incurred during the fiscal year or in current and the next four years. Representation expenses are deductible in the tax periods in which they were incurred if they meet the requirements of relevance and adequacy established by the Minister of Economy and Finance, depending on their natures and purposes, the volume of revenues, the activities of the enterprise and the enterprise of international activity. There are, however, deductible expenses related to goods distributed free of value, if the amount does not exceed EUR 50.

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE

Percentage legislation for individuals

When filing a tax return, the taxpayer can decide to earmark 5% of tax to non-profit organisations that operate in the social services, health and cultural purposes.

Tax deduction for a gift in cash to cultural purposes

Deduction from gross income to an amount equal to 19% is possible if the amount is non-deductible in the determination of individual incomes that form the total income for cash donations to the state, regions, local authorities, public agencies or institutions (specifically, organising committees established by the Minister for Cultural and Environmental Heritage or foundations and associations legally recognised as non-profit organisations, that implement or promote activities of study, research and documentation of significant cultural and artistic value, or organise and implement cultural activities according to special agreements for purchase, maintenance, protection or restoration). Donations made to organisations in Italy and abroad for exhibitions and events of considerable interest in science and culture, and donations made for studies and research, may also be included for this purpose, as well as any other manifestation of relevant scientific and cultural interest, including studies, research, documentation and cataloguing, and publications relating to cultural heritage.

Tax deductions for donations in kind to cultural purposes

Donations in kind for cultural purposes are deductible from the income of the donor up to a limit of 10% of his or her total income, and the extent of up to EUR 70 000 in annual donations in cash or in kind from individuals or entities subject to corporate income tax in favour of the non-profit public benefit provided for in Article 10, paragraphs 1, 8 and 9, Legislative Decree 4 Dec. 1997, No 460, as well as those granted in favour of social promotion in their national register provided for in Article 7, paragraphs 1 and 2 of the Law of December 7, 2000, No 383, and in favour of foundations and associations recognised as the object of statutory protection, promotion and valorisation of artistic, historic and scenic artefacts under the Legislative Decree 22 January 2004, No 42.

Testamentary gifts to cultural purposes

Transfers are not subject to tax if transferred to the state, regions, provinces and municipalities, or to public bodies and foundations or associations legally recognised with the sole purpose of care, study, scientific research,

education and other charitable objects, nor to those in favour of non-profit social organisations (NPOs) and foundations under the Legislative Decree issued in the implementation of the Law of 23 December 1998, no 461.

Active hereditary:

1. The estate consists of assets of all goods and rights that are the subject of succession, excluding those not subject to tax in accordance with Articles 2, 3, 12 and 13.
2. The estate considers all movable furniture intended for use in or the adornment of homes, including cultural property not subject to the constraint of Article. 13

PHILANTHROPIC INVESTMENT: CORPORATIONS (TAX DEDUCTION ON CORPORATE INCOME)

Tax deduction for a gift in cash to cultural purposes

Gifts in cash for cultural purposes are eligible for full deductibility from the business income of a corporation. Such donations may be made to the state, regions, local authorities, bodies or public institutions, or foundations and associations legally recognised for the performance of their tasks and the achievement of cultural programmes in the areas of cultural and performing arts. The Minister for Heritage and Cultural activities identifies such organisations by decree on a periodical basis, based on criteria that will be established after consultation with the Joint Conference. Article 8 of the Legislative Decree of 28 August 1997, No 281, addresses the subjects and categories of persons who may benefit of those donations, determines, pursuant to the order, the sum indicated for the allowances allocated to each institution or beneficiary, defines the information requirements from providers and beneficiaries, monitors the use of the donations and forwards the list of providers and the amount of donations by March 31 following the year in revenue to the Agency. If, in a given year, the total sums paid have exceeded the sum for the purpose specified or determined, the individual beneficiaries who have received the amounts greater than the amount of quota allocated by the Ministry of National Heritage and Culture will pay to the State an amount equal to 37% of the difference.

Tax deductions for donation in kind to cultural purposes

Donations in kind to cultural purposes are deductible from the income of the donor up to the limit of 10% of the donor's total income, and to the extent of up to EUR 70 000 annually. Donations in cash or kind from individuals or entities subject to corporate income tax qualify if granted in favour of the non-profit public benefit provided for in Article 10, paragraphs 1, 8 and 9, Legislative Decree 4 Dec. 1997, No 460, as well as those granted in favour of social promotion in their national register provided for in Article 7, paragraphs 1 and 2 of the Law of December 7, 2000, No 383, and in favour of foundations and associations recognised as objects of statutory protection, promotion and valorisation of artistic, historic and scenic artefacts under the Legislative Decree 22 January 2004, No 42.

PHILANTHROPIC INVESTMENT: GRANT-MAKING ORGANISATIONS

In Italy, there exists a particular kind of grant-making foundation. The **Italian Foundations of Banking Origin** are non-profit, private and autonomous entities that engage solely in socially-oriented and economic development undertakings. There are 88 of such foundations, and they have substantial resources available, which are deployed through diversified, prudent and profitable investments. These foundations use the income generated by the careful management of these investments to accomplish their institutional purpose, which is to provide support to various collective interest sectors (art and culture, education, research, support to the underprivileged, local community development, etc) through projects implemented both directly and exclusively by private or public non-profit entities.

Italian Foundations of Banking Origin – On 31st of December 2009, the book value of the net assets of the foundations of banking origin amounted to EUR 49.5 billion (up 1.3% in 2008), accounting for 84.4% of total assets, or EUR 58.7 billion (up 0.3% from EUR 58.5 billion in 2008). Such net assets are divided between 88 organisations that vary widely both in terms of size and location.

The institutional activity also incorporated funds from reserves created in previous years, thus reaching in 2009 the sum of EUR 2 132.8 million (EUR 2 443.4 million in 2008). In the sphere of institutional activity, EUR 1 386.2 million (EUR 1 679.6 in 2008; -17.5%) has already been allocated, from which amount EUR 1 333.4 million will be utilised for funding requests approved by the foundations of banking origin, and EUR 52.8 million will be allocated as special funds for the development of voluntary organisations in accordance with Law 266/91.

Latvia

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

The Law on Value Added Tax (1995) addresses VAT reductions for buying cultural goods. A reduced VAT rate is in place for the supply of educational literature editions, original literature editions, newspapers, magazines and

periodicals (issued at least quarterly). VAT is not imposed on theatre and circus performances, concerts and events organised by cultural institutions, library services, museums, exhibitions, zoo and botanical gardens, performances for children, performances of amateur arts groups and for charitable purposes, scientific research that is financed by public foundations, state or municipal budget or international organisations, remuneration received by an author for work and utilisation thereof, and remuneration received by a performer or phonogram producer for neighbouring rights object and utilisation thereof. The standard VAT rate is 22% and the reduced rate is 12%.

Tax deductions for buying works of art or any other related objects

A dealer has the right to choose the special arrangement for the application of value added tax (the margin between the remuneration received by the dealer for the goods supplied to the purchaser and the purchase value shall be taxed) or the general arrangement for the application of tax specified in the VAT Law for the supply of the following goods:

- 1) works of art, collectors' items or antiques that have been released for free circulation by the dealer himself or herself; and
- 2) works of art that have been supplied to the dealer by the creator of the works of art or the successor in title.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Production

The Law on Enterprise Income Tax (1995) regulates business investment in production. In determining taxable income, the profit of a taxpayer shall be decreased by expenditures for the production of the mandatory copy, which in accordance with the Mandatory Copy Law is supplied to the National Library of Latvia.

PHILANTHROPIC INVESTMENT: CORPORATIONS (TAX DEDUCTION ON CORPORATE INCOME)

Tax deduction for a gift in cash to cultural purposes

The Law on Enterprise Income Tax stipulates the Tax Rebate for Donors: tax shall be reduced by 85% of the amount donated to budget institutions, state capital companies, which perform the state culture functions delegated by the Ministry of Culture, societies and foundations registered in the Republic of Latvia, and religious organisations or the institutions thereof, to which the public benefit organisation status has been granted in accordance with the Public Benefit Organisations Law. The total tax rebate in accordance with the provisions of this section may not exceed 20% of the total amount of tax. The purpose of the Law on Public Benefit Organisations is to promote the public benefit activities of associations and foundations, as well as religious organisations and the institutions thereof. A public benefit activity is an activity that provides a significant benefit to society or a part of society, especially if it is directed towards charitable activities, the protection of civil rights and human rights, the development of civil society, education, science, culture, the promotion of health and disease prevention, support for sports, environmental protection, the provision of assistance in cases of catastrophes and extraordinary situations, and raising the social welfare of society, especially for low-income and socially disadvantaged person groups. The tax rate is 15%. Expenses not directly related to economic activity are deducted from the tax. Deductible expenses refer to social infrastructure facilities, such as educational, cultural and sports facilities, and institutions, that provide services and determine rent by prices that are lower than market prices, or free of charge.

Lithuania

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

The Law on Value Added Tax (2002) regulates VAT reductions for buying cultural goods. A reduced rate of 5% is applied to books, newspapers, magazines production, attendance at culture performances, services provided by artists, etc. VAT is not paid by organisations providing culture services, provided they are non-profit legal organisations. Standard rate of VAT on goods and services is 18%. VAT exemptions are applied only to government (state, municipalities) institutions.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Sponsorship

No single law to encourage private sponsorship of culture and the arts exists.

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE**Percentage legislation for individuals**

The Law on Population Income Tax (2002) regulates percentage legislation for individuals. This law gives the residents of Lithuania the right to transfer up to 2% of income tax to legal recipients of support.

Malta**CONSUMPTION OF CULTURE****VAT reductions for buying cultural goods**

VAT in Malta is 18%. Taxation measures for the cultural sector in 2009 encompassed the following:

- reduced VAT rate on the renting of space for artistic and cultural activities, as well as on entrance tickets for museums, art exhibitions, concerts and theatres (with the exclusion of cinemas) is 5% (introduced in 2008);
- all training in the arts shall be exempt from VAT, as long as this training will be provided by organisations that are accredited in the Register for Accreditation in the Training of the Arts (introduced in 2008).

INVESTMENT IN CULTURE – BUSINESS INVESTMENT**Production**

A rebate system of 20% was introduced to boost foreign film productions. According to the scheme, a production company filming in Malta is entitled to a rebate of up to 20% of its production costs once the commitment is fully undertaken (introduced in 2004). Fiscal benefits are available for qualifying costs spent on interactive digital media products and qualifying costs spent on sound recording houses, including costs incurred to bring productions to Malta (introduced in 2010).

Sponsorship

Companies that provide financial assistance to recognised non-profit cultural organisations and/or to the Arts Fund will be able to deduct these grants from their taxable income (introduced in 2008).

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE**Tax deduction for a gift in cash to cultural purposes**

A taxpayer can claim a deduction in a particular year of assessment, for a donation of money, or any other asset, excluding immovable property, of at least EUR 2 329.37 (MTL 1 000) to: the Superintendent of Cultural Heritage, Heritage Malta, Fondazzjoni Patrimonju Malti or NGOs, under the condition that a relevant certificate is issued by the recipient and submitted together with the return for the relevant year that the donation is used. The donation may be used for purposes of research, conservation or restoration, education and exhibition of heritage. A deduction may also be claimed in the case of donations to non-governmental organisations registered with the Superintendent of Cultural Heritage and not related to the donor company (introduced in 2004).

PHILANTHROPIC INVESTMENT: CORPORATIONS (TAX DEDUCTION ON CORPORATE INCOME)**Tax deduction for a gift in cash to cultural purposes**

Companies that provide financial assistance to recognised non-profit cultural organisations and/or to the Arts Fund will be able to deduct these grants from their taxable income (introduced in 2008). Companies that provide assistance or grant scholarships to Maltese artists will be entitled to deduct these grants from their taxable income, up to a maximum of MTL 8 000 (EUR 18 600) (introduced in 2008).

The Netherlands**CONSUMPTION OF CULTURE****VAT reductions for buying cultural goods**

The system of VAT in the Netherlands is divided into three rates: a standard rate of 19%, a reduced rate of 6% and a 0% rate. European legislation allows the member states to charge the reduced VAT rate on tickets for shows, theatres, circuses, funfairs, amusement parks, concerts, museums, zoos, cinemas, exhibitions and similar cultural events and venues. In 1993, the Netherlands lowered the VAT rate on cinema tickets, admission tickets to public museums (and on the sale of catalogues, photographs and photocopies produced by these museums), theatres and concert halls. Artists who work on commission, such as text writers, composers of advertising jingles, architects and designers, all charge the standard VAT rate. Tax authorities consider that certain forms of subsidy are subject to VAT. However, the Ministry of Finance determined that subsidies arising from the Dutch Cultural Projects Funding Decree [Bekostigingsbesluit cultuuruitingen] would not be subject to VAT. This decree covers all subsidies granted by the Ministry of Education, Culture and Science on the grounds of the Cultural Policy Act

(Special Purpose Funding) [Wet op het specifiek cultuurbeleid, 1993], including subsidies furnished by the cultural funds set up by this Ministry.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Ownership of cultural monuments

Expenses for monumental buildings and gardens are deductible if they are listed on the Monuments Register [Monumentenregister] and if the expenses do not exceed 0.8% of the value of the monumental building, up to a maximum of EUR 125 000.

Sponsorship

No main law regarding sponsorship is in place, but different tax incentive schemes exist that are relevant for the arts, media and heritage. EUR 50 million has been raised through these measures, mainly in the areas of fine arts and music.

Other related incentives

Investments in arts and cultural projects, which generate profits up to EUR 54 233, are exempted from charges on return capital. There also exists an exemption for labour income of 1.3% of the exempted sum.

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE

Tax deduction for a gift in cash to cultural purposes

Businesses, as well as private individuals, can profit from tax exemption regulations. This benefit applies both to sponsoring activities and donations. In 2005, the State Secretary of Financial Affairs decided to reduce donation taxes to zero.

FINANCIAL SCHEMES TO STIMULATE BUSINESS INVOLVEMENT IN CULTURAL FINANCING

Cultural Sponsorship Code applies for this category.

Poland

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

The Act on Goods and Services Tax (2004 with later amendments) regulates VAT reductions on buying cultural goods. Starting in 2011, new VAT rates have been introduced. The standard rate has been increased from 22% to 23%. This rate is applicable to most cultural services, as well as to sales of CDs, audio and video cassettes and DVDs. The VAT rate on books and special periodicals (with certain ISSN or ISBN numbers) is 5%. The VAT rate on theatre and cinema tickets, for example, has been increased from 7% to 8%. In 2007, the Ministry of Culture strived to maintain the preferential VAT rate on books and special periodicals. A decision was made by ECOFIN in December 2007 that allowed Poland to keep the 0% VAT rate on books and special periodicals for the next three years (until 2010), with the provision that the rate would increase to its current rate of 5% in 2011.

Other similar instruments

The Law on Museums (1996 with later amendments) stipulates that free admission to the public must be guaranteed one day per week and that reduced tickets must also be made available (at an amount to be determined by museum directors). Museums have developed cultural education programmes for children and youth. A similar educational obligation is in the remit of public theatres as a statutory aim, although it is rarely implemented.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Production

There is no overall legal framework to specifically promote and develop the culture industries. However, there are sector-specific measures, such as that for film. Polish film production is supported by the Polish Film Institute, which provides grants for film production that are returned later by the producers when the film generates income.

Other related incentives

The Benefactor of Polish Culture award is granted yearly by the Minister of Culture and National Heritage. The award aims to disclose the roles of institutions and private persons in supporting and developing cultural life in Poland, as well as to disseminate and promote the possibility of financing culture from non-budgetary sources. The award is granted yearly in three categories: sponsor, donor and media curator. The candidates, both private persons and institutions, are submitted by local administrations, non-governmental organisations and organisers of the events.

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE**Percentage legislation for individuals**

The Law on Income Tax on Individuals and Judicial Persons regulates percentage legislation for individuals. Individuals are allowed to deduct 1% of their income tax as a donation for a chosen Public Benefit Organisation. Individuals are allowed to deduct donations up to 6% of their income. According to the Central Statistical Office, in 2008, the Public Benefit Organisations acting in the field of culture received PLN 7 183 300 from this measure. This amount accounts for 2.5% of all deductions within this incentive. Since the tax year of 2007, taxpayers do not transfer the donations directly to the beneficiaries, but instead pay through tax revenue offices. This change simplifies the procedure.

PHILANTHROPIC INVESTMENT: CORPORATIONS (TAX DEDUCTION ON CORPORATE INCOME)**Tax deduction for a gift in cash to cultural purposes**

The Income Tax Act (1993, amendments 2003) regulates tax deductions for gifts in cash to cultural purposes. Deductions of up to 10% of income are available on donations made by legal persons (e.g. organisations, foundations) for "public good purposes". Since 1981, state cultural institutions have been allowed to receive private donations from individuals or legal persons. According to widespread opinion, the tax changes in Poland do not encourage sponsors and donors to adequately support culture. Transparency and new solutions and measures are being called for.

EARMARKED TAXES

According to the regulation of the Minister of Culture and National Heritage, producers or publishers of literary, musical, artistic, photographic and cartographic works, who by law are not required to pay authors' rights fees (because the copyright has expired—the so-called "dead-hand" funds), are required to pay 5% from gross sales income to the fund. The fund supports artists in three ways: through scholarships (6 and 12 months), subsidies for publishing and one-off grants. In accordance with the decision of 17 May 2010, the Ministry of Culture will also provide social assistance from the fund to creators with artistic achievements. This is a one-off allowance, granted on the basis of application, for artists in difficult social or health situations. According to Article 47 of the Act, funds from an increase of lottery ticket prices in games are transferred to the Fund for the Promotion of Culture, which is at the disposal of the Minister of Culture. These funds are allocated to support and promote the following activities: international all-Polish artistic or educational undertakings, literary creation and periodical press, activities connected with the culture of the Polish language, development of reading habits, supporting cultural periodicals with low circulation, safeguarding Polish national heritage, young artists, and activities aimed at creating wider access to cultural goods by the disabled.

Portugal**CONSUMPTION OF CULTURE**

The standard rate of VAT in Portugal is 20%, and the reduced rate is 5%. In the Autonomous Regions of Azores and Madeira, the standard rate is 14%, and the reduced rate is 4%. The reduced rate applies also to books, newspapers and magazines. Some activities are exempt without the right to deduct tax paid on purchases, such as cultural and sporting activities when carried out by non-profit making organisations, membership services of non-profit making associations, transfers of immovable property subject to the immovable property municipal transfer tax (IMT) or the letting of immovable property. All other cultural activities are subject to standard VAT rate.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT**Capital investment in cultural infrastructure**

New partnerships have emerged that present two different modes of co-financing: partnership between public and private (profit and non-profit) sectors and partnership between central power and local power. In the first case, the programme for the rehabilitation of classified cultural heritage represents the most recent measure of public-private partnership in the culture sector (Resolution of the Council of Ministers n^o 70/2009). Under this programme, the Ministry of Culture rewards agreements with construction enterprises with major public concessions in order to encourage those enterprises to donate in-kind 1% of that amount in services towards the protection, conservation, reconstruction and restoration of classified cultural buildings. In the latter case, the programme for the broadening of the performing arts (conducted by the late IPAE), effective from 1999 to 2001, aimed at sharing responsibilities and expenses between the Ministry of Culture and local administrations and constituted a new form of state intervention based on a wide autonomy of the partners. In 2006, the programme was launched as the Arts-Territory Programme.

Sponsorship

The *Sponsorship Act* was introduced 1986 and was followed by new laws, particularly the 1999 Statute of Sponsorship (Law 74/99) and the Law on Sponsorship (1999). These Acts regulate the different types of sponsorship, enlarge the area to include sponsorship of education, environment, sports, science and technologies, and increases the tax incentives available (the highest level is for long-term contracts).

PHILANTHROPIC INVESTMENT: GRANT-MAKING ORGANISATIONS

The 1986 legislation. Gifts made to foundations automatically reduce the amount due on taxable income, provided that the state, the autonomous regions or the local authorities contribute at least 50% of the initial funding.

FINANCIAL SCHEMES TO STIMULATE BUSINESS INVOLVEMENT IN CULTURAL FINANCING

The programme for rehabilitation of the classified cultural heritage (2009) is a significant example of public-private partnership. The main areas supported by public-private partnerships include music, fine arts and large-scale events.

Romania

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

In Romania, the reduced rate of VAT is 7% for sales of books and periodicals, and the standard rate is 19%.

INVESTMENT IN CULTURE - BUSINESS INVESTMENT

Production

Regarding the support and development of small and medium enterprises (SMEs) active in cultural and creative sectors, the Ministry of Culture and National Heritage signed a cooperation agreement with the Ministry for Small and Medium Enterprises, Commerce and Business in August 2009. The cooperation protocol was aimed at supporting the development of entrepreneurial culture in the cultural and creative industries and at developing a strategic framework to support and stimulate cultural SMEs through loans and grants. The Autonomous Board for Film Distribution and Exploitation (Romania Film) has been involved in a formal agreement with an important telecommunication company. The purpose of this agreement is to encourage cinema access for young people.

Sponsorship

The Law on Sponsorship and Donations was introduced in 1999.

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE

Tax deduction for a gift in cash to cultural purposes

Tax deductions for gifts in cash made by individuals are subject to the Law on Sponsorship and Donations, introduced in 1999.

PHILANTHROPIC INVESTMENT: CORPORATIONS (TAX DEDUCTION ON CORPORATE INCOME)

Tax deduction for a gift in cash to cultural purposes

Gifts in cash made by corporations are subject to the Law on Sponsorship and Donations, introduced in 1999.

Tax deductions for donation in kind to cultural purposes

Law No. 571/2003, "The Fiscal Code" states, in Article 210 (1) (c), that the exemptions from the tax payment apply to any imported product, obtained from donations or directly financed from unredeemable loans, as well as scientific and technical cooperative programmes, granted to educational, health and cultural institutions, ministries, other public administration bodies, employers' associations and trade union representatives at the national level, associations and public foundations, by foreign governments, international organisations and non-profit and charity organisations.

Slovakia

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

In order to increase the availability of literature and to promote the reading of books, the goods item "books and music" has been reclassified since 1 January 2008 to be eligible for a reduced VAT rate of 10%. This reclassification includes schoolbooks and is in accordance with the European Directive on a common system of

VAT. Publishers of printed books and music consider this tool to be of great assistance to the book market, as it results in the slowing down of the increase in the prices of books and music. Standard rate of VAT is 20%.

Other similar instruments

A special tool for increasing the cultural consumption of citizens was the programme of cultural vouchers organised by the Ministry of Culture of the Slovak Republic in 2006. The vouchers could be used for visiting a cultural event or for access to cultural heritage (e.g. museums, galleries, libraries) in the organisations that were registered as recipients of the vouchers. Among the recipients of the vouchers, were some cultural organisations administered by the central government, regional or local public authorities, and some non-government cultural institutions. The Ministry then reimbursed individual cultural organisations the amount of money for all of the vouchers that any given organisation received. The cultural vouchers (each with the value of SKK 200, approximately EUR 6) were distributed free of charge to students and teachers of elementary and secondary schools. The Ministry issued a total of 900 000 vouchers for students and 100 000 vouchers for teachers. A total of 836 650 students and 66 363 teachers, which represent 903 013 eligible individuals that received the vouchers, participated in the project. A total of 453 cultural organisations applied for registration to this project. Altogether, 527 194 vouchers were used, with a total value of SKK 105.5 million (EUR 3.1 million). The Ministry of Culture evaluated the project in 2007. The important aspect for consideration is the real effectiveness of the project in terms of increased access to cultural values, and the analysis of the applied vouchers in terms of the recipients and/or in terms of the type of individual cultural events that the vouchers were used for (according to unofficial statistics, the highest percentage of the vouchers was spent on visiting the cinema). Based on the project evaluation, the Ministry will decide on the possible continuance of the project for the next period.

INVESTMENT IN CULTURE - BUSINESS INVESTMENT

Sponsorship

Legal entities can claim tax relief for sponsoring culture (Act no. 595/2003 Z.z. on income tax, as amended).

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE

Percentage legislation for individuals

Non-profit non-governmental organisations (NGOs) that focus their activities in the field of cultural heritage have been included on the list of authorised recipients of direct allocation of 2% tax from the individual income tax rate and corporation income tax. This direct allocation is on a voluntary basis and every taxpayer can specify such organisations as recipients. A recipient of these funds must have been in operation for at least one year in the area stipulated by law and must be registered in the central register by Notary Offices.

Slovenia

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

In the Slovenian VAT legislation, wherever possible, cultural goods and services (e.g. books, property rights of authors) are taxed at a reduced rate, which is currently 8.5%, including the transactions under a special scheme for second-hand goods, works of art, collectors' items and antiques. Activities in the public interest, as determined in the VAT Directive, are exempt from VAT (e.g. services that non-profit organisations provide to their members in return for a subscription, certain cultural services, transfer of "old" buildings). The rest of the transactions are taxed at the standard rate of 20%.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Sponsorship

Sponsorship of cultural institutions, organisations or events is treated the same as other expenses for advertising, and is thus fully deductible. Any other kind of patronage, such as scholarships or grants, is deductible only if it is directly linked with business activities that are a source of taxable income or is a consequence of such activities.

There are a few general tax incentives businesses can claim when they are in line with their taxable activities:

- Research and development (R&D) investment incentive: 40% of the amount invested in internal R&D activities and purchase of R&D services can be deducted from the tax base (it can be increased to 50% or 60%, depending on the regional relief scheme).
- Investment in equipment (except for furniture, office equipment and non-ecologically friendly motor vehicles) and intangibles: 30% of the amount invested can be deducted from the tax base; the total amount of this incentive is limited to EUR 30 000 per year for legal persons, but not for entrepreneurs.

– Certain employments: for employing a person under the age of 26 or above the age of 55 who has been registered as unemployed for at least six months prior to employment (a reduction of the tax base by 45% of the person's salary), disabled people or apprentices.

If the amount of the first two tax incentives exceeds the taxable base in a current year, the residual can be carried forward for the next five tax years.

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE

Percentage legislation for individuals

Resident individuals of Slovenia who are liable for income tax on an annual basis can assign 0.5% of income tax levied to certain organisations in the public interest (so-called percentage legislation). These organisations must be involved in activities of protection from natural and other disasters, humanitarian, charitable, scientific, educational, medical, sport, cultural, ecological, religious and similar activities. Percentage legislation may also apply to political parties and trade unions. The minimal percent to be assigned is 0.1%, so the taxpayer can choose up to five recipients. The exhaustive list of organisations and associations entitled to receive such donations is published each year.

PHILANTHROPIC INVESTMENT: CORPORATIONS (TAX DEDUCTION ON CORPORATE INCOME)

Tax deduction for a gift in cash or in kind to cultural purposes

There also exists tax relief for donations. Taxable base may be reduced for donations made in cash and in kind for humanitarian, disability, charitable, scientific, educational, medical, sport, cultural, ecological and religious purposes. Such donations may be made to residents of Slovenia or residents of Member States of the EU or EEA (excluding the Principality of Liechtenstein) who are established under special regulations for the performance of such activities and up to an amount equivalent to 0.3% of the taxable revenue in the current tax period. The cumulative amount of relief granted may not exceed the amount of the taxable base. An additional reduction of 0.2% of the taxable revenue can be claimed for amounts paid in cash and in kind for cultural purposes to voluntary societies for the protection from natural and other disasters recognised to be in the public interest that are residents of Slovenia or residents of the EU or EEA (excluding the Principality of Liechtenstein) and are established under special regulations for the performance of such activities. If the amount of donations given for cultural purposes and for protection from natural and other disasters (0.3% and/or an additional 0.2%) – and for these two purposes only – exceeds the taxable base in a current year, the residual amount can be carried forward for the next three tax years.

Spain

CONSUMPTION OF CULTURE

VAT reductions for buying cultural goods

The 37/1992 Value Added Tax Act regulates VAT reductions for buying cultural goods. Books, newspapers and magazines qualify for a "super-reduced" VAT rate of 4%, while art objects, antiques and collectors' items traded among EU countries qualify for the "reduced" levy of 7%, as do tickets to the theatre, cinema, circus, museums, zoos and sports events. Other cultural goods and services, such as CDs and DVDs, qualify for a standard VAT of 16%.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT

Sponsorship

The Act on Tax Exemptions for Non-profit making Organisations and on Sponsorship regulates sponsorship. The main areas supported through sponsorship are classical music and painting, and the money raised through such ventures is EUR 59.7 million.

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE

Tax deduction for a gift in cash to cultural purposes

The Act on Tax Exemptions for Non-profit-making Organisations and on Sponsorship regulates individual donations. Individuals can also claim an income tax exemption on the amount of money donated to certain organisations such as those mentioned above (e.g. NGOs). Regional cultural institutions, public universities and university colleges, the Cervantes Institute, the Ramon Llull Institute and other bodies created to promote regional languages have similar tax breaks and can benefit from donations.

PHILANTHROPIC INVESTMENT: CORPORATIONS (TAX DEDUCTION ON CORPORATE INCOME)**Tax deduction for a gift in cash to cultural purposes**

Companies can also claim an income tax exemption on the amount of money donated to certain organisations such as those mentioned above (e.g. NGOs). Regional cultural institutions, public universities and university colleges, the Cervantes Institute, the Ramon Llull Institute and other bodies created to promote regional languages have similar tax breaks and can benefit from donations.

Sweden**CONSUMPTION OF CULTURE****VAT reductions for buying cultural goods**

In 2001, after intense criticism, the 25% VAT rate on books was reduced to 6% by the Parliament. The effects of VAT have been analysed by the Value Added Tax Rate Inquiry. In an interim report (Statens Offentliga Utredningar, SOU 2005:57), the Inquiry recommended a switch to a single flat rate of 21.7% (provisional estimate) for all categories of goods and services, including the cultural area.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT**Sponsorship**

The Culture and Business Forum regulates sponsorship measures. Half of all sponsorship benefits museums and art galleries and the rest benefits theatre and dance. Since the 1990s, business sponsorship has been advocated and tried as a complement to public financial support of cultural institutions. Expectations that sponsoring would become an important source of finance have however proved to be incorrect, and the issue has, in view of the marginality of factual sponsoring, cooled down politically. The report of the Committee on Culture in 2009 stresses the collaboration with civil society agents, rather than businesses, as a means towards achieving shared financial responsibility for culture. In terms of cultural funding from private foundations, and in terms of the mobilisation of voluntary work in various cultural associations, civil society support of culture is far more important than the support from businesses. However, public cultural statistics have not calculated the sizes of these contributions. The amount of money raised in 2002 was SEK 93 billion.

United Kingdom**CONSUMPTION OF CULTURE****VAT reductions for buying cultural goods**

Since a European Court of Justice ruling in 2002, bodies administered on an “essentially voluntary” basis have been exempt from paying tax on admission charges, including theatres, museums, heritage and other cultural organisations. Books and some artist supplies benefit from a 0% tax rate. The clarification of this VAT rate meant that a number of organisations benefited from a significant tax rebate at the time.

Other similar instruments

The Acceptance in Lieu scheme that has been in place since 1947 allows a person who is liable to pay inheritance tax, capital transfer tax or estate duty to settle part or all of the debt by disposing of a work of art or other object to the Board of Inland Revenue for public ownership. To qualify for exemption, an object must be of national, scientific, historic or architectural interest. These objects are often antiques, works of art, and archives. In 2006–07, the UK gained art works and heritage items to the value of GBP 25.3 million under the AIL scheme. The scheme is managed on behalf of the government by the Museums, Libraries and Archives Council (MLA). Individuals offering objects under the Acceptance in Lieu Scheme have a legal right to remain anonymous; few choose to be named.

INVESTMENT IN CULTURE – BUSINESS INVESTMENT**Capital investment in cultural infrastructure**

Public-private partnerships can benefit from tax relief. For example, if a business temporarily delegates an employee to a charity or educational establishment, such as an arts organisation, the salary cost and other expenses that the employer would normally continue to pay if the employee were still employed by the business would continue to be tax deductible.

An Enterprise Investment Scheme was also introduced by the government to help small companies raise money. This scheme offers income and capital gains tax breaks of at least GBP 1 000 to investors, though it is potentially high-risk.

Production

The new tax credit regarding support for film became law with the passing of the 2006 Finance Bill. The new tax incentives replace the section 42 and 48 film tax reliefs previously accessed via the sale and leaseback

mechanisms. The government completed its review of film tax incentives in March 2006, and the industry has welcomed the new measures, which will make the UK an attractive place to make films. The UK Film Council continues to work closely alongside officials to ease the transition between the old and new systems. One of the key policy priorities identified by the UK Film Council was to work closely with the government as tax incentives for film were reviewed and ultimately updated. Fiscal measures are essential to countering the market failures associated with film industries across the world, and it was essential that the UK's suite of incentives preserved levels of inward investment and worked to promote domestic production.

Sponsorship

No special law to encourage private sponsorship of culture and the arts exists.

Other related incentives

At a regional level in England, there are now a considerable number of public, quasi public and private sector agencies that are co-operating to develop regional economies, inward investment and further broaden social and cultural agendas. For instance, the regional offices of Arts Council England (formerly the Regional Arts Boards), the MLA Regional Agencies and the Regional Cultural Consortia, whose task is to develop an integrated regional cultural strategy, could be expected to co-operate with the:

- regional government offices in relation to European Union funds;
- regional economic development agencies in relation to cultural employment, the cultural economy and quality of life in the area;
- UK Trade & Investment in relation to the export of the products of the creative industries;
- regional tourist boards on inward tourism; and
- emerging regional assemblies that the government has been attempting to create as an instrument for possible devolution.

The direct tax (corporation tax) and indirect tax (VAT) implications of business support for the arts depends on the nature of the support, who is giving the support and the status of the recipient, most particularly if the arts organisation is a registered charity. More information can be found on the websites of HM Revenue & Customs (an organisation that followed a 2005 merger between Customs and Excise and the Inland Revenue) and Arts & Business

PHILANTHROPIC INVESTMENT: INDIVIDUAL DONATIONS / PATRONAGE

Tax deduction for a gift in cash to cultural purposes

Following a review of *Charity Tax Law*, the Chancellor of the Exchequer proposed major simplifications and improvements to the treatment of gifts to charities including an introduction of a tax efficient way to donate gifts of shares. Since 2000, and under the provisions of the 1989 *Gift Aid Act*, non-profit organisations whose income was used wholly for heritage upkeep could claim Gift Aid tax relief on donations, thereby making donations worth an extra 28 pence for each GBP 1 donated. After a national consultation to improve the Gift Aid initiative in 2007, the government recently announced that charities could claim Gift Aid at the new basic rate of 20% (instead of the 22% taxable rate) but would also be entitled to a transitional relief worth 3 pence for every GBP 1 donation received under the scheme. This transitional relief, applicable from 6 April 2008 to 5 April 2011, aims to give time to charities to adapt to the new basic rate, so they can continue to receive 28 pence per GBP 1 donated. Other changes to the Gift Aid scheme are to improve the HM Revenue & Customs audit processes to help reduce administrative burdens, as well as to encourage greater use of the scheme through new guides and training

opportunities directed to the charity sector. The British model has traditionally focused on the role of business in supporting the cultural sector, but several developments have encouraged a new view of the possibilities of increasing individual support for the arts. New models of donor involvement, known as venture philanthropy, have encouraged the treasury to consider implementing more advantageous tax regimes, since tax planning presents an obvious attraction for the individual donor. This new way of giving to charities took effect from April 2000 as part of the government plans "to get Britain giving". Following a review of Charity Tax Law, the Chancellor of the Exchequer proposed major simplifications and improvements to the treatment of gifts to charities, including an introduction of a tax-efficient way to donate gifts of shares. The changes were made in part to encourage private support, to complement the public money given to the arts, museums and heritage, and to increase the amount of money being allocated to charities. Many cultural organisations in the UK have charitable status and are thus able to take advantage of these changes.

FINANCIAL SCHEMES TO STIMULATE BUSINESS INVOLVEMENT IN CULTURAL FINANCING

The Business Sponsorship Incentive Scheme aims to stimulate business involvement in cultural financing. The main areas encompassed in this scheme are exhibitions, dance, music, theatre, festivals and heritage. The money raised by this scheme is GBP 452.1 million.

ANNEX 4 - THE US SYSTEM OF PRIVATE GIVING AND ITS CHARACTERISTICS¹⁵⁷

In the following Annex, we present the US system of private giving, with a focus on differences from European systems. We are not following the classification of measures used in Chapter 3 in all detail, but are focusing on the main differences in measures between the U.S. and European systems. We assume that the biggest difference lies in measures for private (both corporate as well as individual) giving, and we therefore present an overview of measures used in supporting gifts to the cultural sector according to a two-part distinction: outright gifts and deferred, or planned, gifts. The differences between the US and European systems are not as pronounced with outright gifts, but several measures to encourage deferred gift giving that exist in the US are seldom present in European systems. Finally, we describe foundations and venture philanthropy, both of which are mechanisms that are more developed in the US than in most European systems.

The description below is an accompanying text to Chapter 5, which provides a more general comparison between the US and European systems of encouraging private investment in culture.

Outright gifts

In the United States, *cash gifts to charities* are deductible. An individual giving to organisations that are either public charities, private operating foundations or grant making foundations may deduct contributions representing up to 50% of his or her adjusted gross incomes if he or she itemises the donation on his or her tax returns. This percentage is much higher than in the EU Member States. Individuals giving to organisations that are private foundations may deduct contributions representing up to 30% of their adjusted gross incomes. Corporations may deduct all contributions to the mentioned organisations, regardless of foundation status, up to an amount equal to 10% of their taxable income.

Tax incentives are the same for *credit card giving*, *debit card giving* and *online giving*.

There is a difference in the US from the European system of private giving in the form of *giving of securities*. This specific form of giving is seldom used in EU Member States. Charitable contributions of appreciated securities provide two potential income-tax advantages for donors. The first is that such donations qualify for charitable deductions, generally for the fair market value of the securities at the time of the contribution, subject to certain tax law limits. The second benefit is that one is not taxed on the capital gain that would result from selling the property. In order to qualify for these benefits, the stock must be a long-term capital gain property, that is, a stock owned for more than one year, or a stock that has been inherited. If the selling of the stock would generate a short-term capital gain, the donor's charitable deduction is limited to the cost basis, rather than to the stock's fair market value. The type of charity to which the gift is made is also important to consider. While a gift of appreciated stock to a public charity generally allows the donor to take a deduction for the stock's fair market value, a similar gift to a private foundation may only qualify as a charitable deduction that is limited to the donor's cost basis (Waggoner, 2010). As in the case of gifts of cash, unused deductions may be carried forward for five tax years. If securities have decreased in value, it is advisable to sell the stock, deduct losses against capital gains incurred in the same year and donate the proceeds. Securities

¹⁵⁷ Prepared by Andrej Srakar and Vesna Čopič.

may also be used to fund a variety of charitable gift mechanisms, such as gift annuities, pooled income funds and trusts.

Deferred gifts

The United States employs a number of mechanisms that allow taxpayers to make fractional or deferred gifts to charities: fractional gifts, retained life estates, charitable remainder trusts, charitable lead trusts, pooled income funds and others. These mechanisms can be advantageous for both donors and recipients. In addition to providing tax benefits, the deferred gifts also offer some certainty of income while donors are still alive. Furthermore, donors are able to claim tax deductions during their lives, as compared to if the donations were made through their estates. For the receiving donee, such deferred gifts can increase certainty by lowering the amount of risk taken when investing capital, as many of the deferred gifts are irrevocable, as opposed to being made through taxpayers' wills and thus potentially revocable, as taxpayers may alter their wills.

Deferred, or planned, gifts are gifts that are committed in the present but received by a charity in the future (Billings Clinic, 2011). These gifts are distributed, or the possibility of the transfer of their ownership is resolved, only after a specified event or period of time of at least one year has passed. Such gifts differ from outright gifts in that the receiving charities do not realise the assets immediately upon gifting by the donor, and the donor retains an interest in deferred gifts. Deferred gifts generally take one of two forms: an estate gift, which is provided for in a donor's will and typically comes out of the donor's estate, or a life income gift, which is made during the donor's lifetime and provides an income stream to the donor for the rest of his or her life (AEA Consulting, 2004). Deferred gifts are seldom given in Europe, and are therefore presented here as options and examples of good practices for stimulating donations to art purposes.

A life income gift

A life income gift is a gift arrangement in which the donor makes an irrevocable transfer of property to a non-profit or charity, and at the same time retains an income interest to his/her benefit. The benefit of income will be to the donor and any other named beneficiary, for life or a specified number of years. If the gift is for a specified period, the remaining amount after the end of the period will be distributed to the non-profit or charity. Life income gifts help to maintain a continuing source of income to donors and also provide an opportunity for donors to receive tax benefits (US Legal, 2011). A life income gift can be funded with cash, securities, real property or, in very rare circumstances, with tangible personal property such as furniture, books, automobiles, jewellery, paintings, and antiques. In the U.S., by far the most common assets used to fund life income gifts are cash and securities, followed by real property (AEA Consulting, 2004).

- A **charitable gift annuity** is a type of gift transaction through which an individual transfers assets to a charity in exchange for a tax benefit and a lifetime annuity. As with any other lifetime annuity, when the beneficiary dies, the annuity payments are stopped, and the charity retains the remaining funds. Charitable gift annuities are popular fundraising vehicles. The annuities simultaneously provide charitable donations, income tax deductions and guaranteed lifetime income streams (Investopedia, 2011).

- A ***pooled income fund*** works like a mutual fund. Gifts to these funds are pooled with similar gifts from other donors and then invested for the benefits of the donors or designees. Each donor's proportional share of fund assets passes to the charity upon the death of the donor or beneficiary (AEA Consulting, 2004).
- A ***charitable remainder trust*** is established by transferring assets to a trust that subsequently provides income to the donor or a designated beneficiary for life or for a term up to 20 years. Such trusts pay incomes to one or more individuals for specified lengths of time and subsequently allocate the remainder of the trust to designated charities. A charitable remainder trust can produce substantial tax benefits and is particularly suitable for use by a married couple with no children (The Free Dictionary, 2011).
- A ***charitable lead trust*** involves an irrevocable transfer of assets to a trust that pays income annually to a charity during its life, usually a period of 10 to 25 years. After that time expires, the remainder of the assets and income are given to the trust's beneficiaries. A charitable lead trust allows the grantor to provide for his/her survivors after death while reducing his or her estate tax, as a result of having donated some assets to charity (ibid.).

Estate gifts

Estate gifts are deferred gifts that are distinct from life income gifts. An estate gift is normally made through the donor's will, is revocable until the donor's death, and is realised by the charity after the donor's death. All property owned by the donor, whatever the form of ownership, and whether or not it goes through probate after his or her death, is subject to federal estate tax. Currently, however, federal estate tax is due only if the donor's property is worth at least USD 2 million at the time of his or her death. Any property left to a surviving spouse, if he or she is a U.S. citizen, or to a tax-exempt charity, is exempt from federal estate taxes. Many states now also impose their own estate taxes or inheritance taxes (Legal Definition, 2011).

- A ***charitable bequest*** is a provision in a will that provides for a gift of assets to a charity that becomes effective after the donor's death.
- A donor may make a ***gift of immovable property***, such as a personal residence or farm, to a charity, and reserve what is called a life estate for him or herself, and/or any others he or she wishes to include as life tenants. The donor and his or her designees thus continue to possess and retain use of the property, and retain all rights and responsibilities of ownership, for the remainders of their lives. The property then passes to the designated charity upon the death of the last remaining designee.
- A donor may make a ***gift of life insurance***, which is a method of contributing to charity in which the donor takes out life insurance and lists a designated charity as a beneficiary. Using charitable gift life insurance may allow donors to amplify their giving power. Rather than giving large cash gifts in their wills, some donors find it easier to simply pay life insurance premiums. Using charitable gift life insurance means the donor does not get a tax deduction for the premiums paid. However, the amount of the death benefit paid to the charity will be deductible for estate tax purposes. Charitable gift life insurance may also be less likely to cause probate disputes, since the intention to make the gift is clearly laid out by the insurance contract.

- A donor may also make a charitable gift by naming a non-profit as the ***beneficiary of a remainder interest in a retirement plan***. While such assets are often overlooked as potential charitable gifts, they can be convenient, tax-favoured giving options for charitably-minded individuals. Their appeal lies in that retirement plans grow on a tax-deferred basis, and thus generally leave significant tax burdens when left to heirs other than spouses. Since charities do not pay taxes, retirement plan assets can be accepted at their full values, without any tax liability (Emmanuel Foundation, 2010).

Charitable giving vehicles

Along with charitable remainder and lead trusts, foundations and other intermediary institutions play a big role in the US system of arts financing, as well. The intermediary mechanisms in the United States include donor advised funds, social venture partners, venture philanthropy and private foundations. Donor advised funds are vehicles that allow for the pooling of charitable giving, as donors who give to the fund recommend who is to receive grants from the fund. These donor advised funds are treated similarly to charities in terms of donations made to them and are not subject to an excise tax on investments (Freudenberg, 2008).

Venture philanthropy is an approach to charitable giving that applies venture capital investment principles, such as long-term investment and capacity-building support, to the voluntary and community sector. It is a form of 'engaged' philanthropy (ibid.). Venture philanthropy focuses on leadership, new, bold and risky ideas, development of strong teams, active board involvement and long-term investment (NetNews Blog, 2011). There are number of successful examples of venture philanthropy organisations in the US¹⁵⁸ that show that a creative approach to grant making and fundraising in the form of venture philanthropy can stimulate the development of the arts in a positive way.

The Principal Art Foundation is an independent, non-profit philanthropic organisation that works towards the advancement of the visual arts by furthering artistic excellence and innovation through funding programmes that support artists and increase public access to innovative art works. By identifying and supporting artistic talent, Principal Art aims to foster creativity and encourage experimentation and 'risk taking.' The foundation employs strategies that assist emerging artists at formative stages of development, with a view to making a meaningful contribution to the arts. The Principal Art Group works with the Principal Art Foundation to make a high social impact. This group leverages private sector techniques to maximise charitable giving. Its approach to charity funding aims to tap into a pool of funds previously unreserved for purely altruistic causes. As a result, the Principal Art Group provides a regular and scalable level of funding for the arts in the US.

Philanthropic Ventures Foundation, a 501(c)(3) public charity, was founded in 1991 to try new approaches to creative grant making and to maximise the impact of the philanthropic dollar. This foundation has been active for 19 years in the community and in making contributions to the philanthropic sector. During these years, Philanthropic Ventures Foundation (PVF) has given more than USD 70 million to outstanding projects and grassroots organisations in the San Francisco Bay Area and worldwide. The organisation

¹⁵⁸ e.g. Principal Art Foundation (www.principalartfoundation.org/), Philanthropic Venture Foundation (www.venturesfoundation.org/), National Venture Capital Association (www.nvca.org/index.php?option=com_content&view=article&id=104&Itemid=171), Fidelity Charitable Gift Fund (www.charitablegift.org/), and others.

has launched a model for immediate-response grant programmes that serve all sectors of the community, from health and social welfare to education and the arts, and has enabled more than 130 charitable initiatives to get started and accomplish their work through PVF's Designated Fund services. The foundation has collaborated with 50 local foundations to set up and administer creative granting programmes and has helped hundreds of visionary donors to develop and achieve their philanthropic goals through its Donor Venture Fund services.

ANNEX 5 – SHORT GLOSSARY OF TERMS

Arts and business forum: An organisation that promotes partnership between business and the arts. Such organisations develop a relevant body of knowledge and provide diverse services, such as promoting partnerships, spreading knowledge and influence, and raising awareness.

Beneficiary of a remainder interest in a retirement plan: A donor may make a charitable gift by naming a non-profit as the beneficiary of a remainder interest in a retirement plan. In the US, where charities do not pay taxes, retirement plan assets can be accepted at their full values, without any tax liability.

Business investment: Business investments in culture refer to any investments by corporations or individuals whose aims include business profit. Incentives to support business investments in culture encompass support of sponsorships, support of cultural industries, ownership of cultural monuments and/or art collections, and other related investments.

Charitable bequest: A provision in a will that provides for a gift of assets to a charity that becomes effective after the donor's death.

Charitable gift annuity: A type of gift transaction through which an individual transfers assets to a charity in exchange for a tax benefit and a lifetime annuity.

Charitable lead trust: An irrevocable transfer of assets to a trust that pays income annually to a charity during the life of the trust, usually a period of 10 to 25 years. After this period expires, the remainder of the assets and income are given to the trust's beneficiaries.

Charitable remainder trust: Established by transferring assets to a trust from which the donor or other beneficiary receives income for life or for a term of up to 20 years. Such trusts pay income to one or more individuals for specified lengths of time, and then allocate the remainder of the trust to a designated charity.

Concessional VAT treatment: A measure that allows specific groups of taxpayers (e.g. artists) to pay reduced VAT

Crowd funding: It is a type of pre-financing, in which users express their confidence that a particular artistic or cultural project may gain success on the market. Crowd funding is aimed at fundraising for concrete projects via internet donations made by the audience/users that are invited to donate a certain amount. Each project has an initial budget which must be reached within a limited time frame. If the targeted percentage of the budget is reached, the project is considered successful and can be implemented.

Deferred gift (or planned gift): Method of giving which requires the receiving non-profit organisation to wait a year or more before being able to use the gift assets. Deferred gifts are gifts that are distributed, or gifts whose ownership is resolved, only after a specified event or period of time of at least one year has passed. These gifts differ from outright gifts in that the charity does not realise the asset immediately upon gifting by the donor, and the donor retains an interest in deferred gifts. Deferred gifts generally take on one of two forms: an estate gift, which is provided for in a donor's will and typically comes out of his or her estate, or a life income gift, which is made during the donor's lifetime and provides an income stream to the donor for the rest of his or her life.

Donation: A donation is a gift given by an individual or a legal entity, typically for charitable purposes and/or to benefit a cause. Donations are to be distinguished from sponsorships, which include benefits for sponsors, as donors do not receive any special benefits (except for personal satisfaction) for their gifts. A donation may take on various forms, including cash, services, new or used goods, emergency, relief or humanitarian aid items, or development aid support. In general, donations can take on the form of cash or of goods or services, which are also called gifts in kind.

Direct investment: Direct investments in culture are capital investments in culture made with the aim of profiting from the investments. One of the initial forms of investment was the buying of artworks or cultural objects, which meant the transfer of ownership into the possession of a legal entity. Currently, public-private partnerships are emerging as another important form of cultural investment.

Earmarked tax: An earmarked tax is a tax whose revenues are reserved by law solely for a specific group or usage (e.g. tax revenues reserved specifically for cultural purposes). In general, the funding received by the recipient of earmarked tax revenue is limited to those tax revenues. However, there are cases where earmarked tax recipients will receive additional funds allocated from the general budget.

Earned income: Includes all spending by individuals for cultural purposes. Earned income is therefore the direct income made by cultural institutions from the market, such as entry fees to cultural institutions, or the buying of cultural objects.

Exempt income: A legally determined amount of the income for which tax exemption is allowed.

Foundation: A foundation, or charitable foundation, is a legal categorisation of non-profit organisations that typically either donates funds and support to other organisations (grant-giving foundation) or provides the source of funding for its own charitable purposes (operating foundation).

Gap financing: is a model that enables producers to procure a loan in order to complete the film financial package; the loans are secured primarily against the unsold foreign territories and rights of a production.

Gift of life insurance: A method of contributing to charity by taking out life insurance with a charity as a beneficiary.

Income averaging: Method of computing personal income tax whereby tax is figured by averaging the total of the current year's income with that of several (e.g., three, five) preceding years.

Life income gift: A gift arrangement in which the donor makes an irrevocable transfer of property to a non-profit or charity and at the same time retains an income interest to his or her benefit. The benefit of income will be to the donor and any other beneficiary, for life or for a specified period of years.

Matching funds (or matching grants): A term used to describe the requirement or condition that stipulates that a donor's donation (in cash or in kind) must be matched in a certain amount proportional to the value of the donation by a third party, such as the state or the local community.

Mixed economy: System of funding of a certain activity (e.g. culture) that consists of three parts: public (direct and indirect) support, private support (business support, individual giving, foundations and trusts) and earned income. Such a system of funding may be referred to as a “tripod” economy (Mermiri, 2010).

National treasury: A state treasury or exchequer or a royal treasury.

Patronage: Patronage is a form of philanthropic investment. In patronage, the assistance provided is of no direct benefit to the patron’s activities, but adds to his or her reputation and honour through the resulting fame.

Percentage legislation: Legal framework that supports the central idea of percentage philanthropy whereby taxpayers may designate a certain percentage of their paid income tax liability to a specific non-profit, and usually non-governmental organisation (NGO), including those in the field of culture.

Philanthropic investment: A type of investment driven by concern for human welfare and advancement, usually manifested by donations of money, property or work to those in need by the endowment of institutions of arts and learning, among others, and by generosity to other socially useful purposes.

Pooled income fund: This type of fund works like a mutual fund. Gifts to the fund are pooled with similar gifts from other donors, and subsequently invested to the benefit of the donors or designees. Each donor’s proportional share of all the fund's assets passes to the charity upon the death of the donor or beneficiary.

Public-private partnership: Public-private partnership describes a government service or private business venture that is funded and operated through a partnership between the government or any other public authority (e.g. region, local community) and one or more private sector companies or individuals. Public-private partnership involves a contract between a public-sector authority and a private party, in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project.

Public direct support: Any support to cultural activities made by governmental and/or other public bodies. Public direct support includes subsidies, awards, grants, and lottery funds provided by any level of government. In such arrangements, money is transferred directly from public funds to the recipients’ account.

Public indirect support: Indirect financial support consists of indirect financial measures provided (mostly in terms of legal acts) by governmental and/or public institutions for the benefit of cultural organisations. Such measures do not result in any direct money transfer from government and public institutions to cultural organisations.

Sponsorship: Sponsorship is a cash and/or in-kind fee paid to an organisation (typically in sports, arts, entertainment or charitable causes) in return for access to the exploitable commercial potential associated with that organisation or its specific property (e.g. brand name). Thus, the sponsor gains popularity while the sponsored entity can earn a considerable amount of money. Associative sponsorship is the standard form of sponsorship, especially in the arts, wherein the sponsor does not influence content and programming. Through deep sponsorship, corporate sponsors actually determine the form and the content of cultural production. Sponsorship must be distinguished from donation, as the donor receives no return benefits (except for personal satisfaction), whereas the sponsor does benefit from his or her support.

Tax credit: A sum deducted from the total amount of tax due. A tax credit may be granted for various types of taxes, such as income tax, property tax or sales tax. It may be granted in recognition of taxes already paid, as a subsidy, or to encourage investment or other kinds of activities. In some systems, tax credits are refundable to the extent that they exceed the relevant tax. Tax systems may grant tax credits to businesses or individuals, and such grants vary by types of credit.

Tax deduction: A reduction of a taxpayer's total income that decreases the amount of money used in calculating the tax due. Essentially, a tax deduction is a break granted by the government and reduces taxes by a percentage that is dependent upon the income bracket of the taxpayer.

Tax exemption: A reduction or elimination of the taxes normally imposed on individuals and organisations by state and federal governments.

Tax relief: Refers to tax breaks and write-offs that reduce the amount of tax due, or otherwise provide concessions for taxpayers. Tax relief can be granted on a local, state or federal level.

Tax shelter: An agreement of business affairs in order to reduce tax liability, such as, subsidies that provide tax deduction benefits in order to maintain production (e.g. of films).

Testamentary gift (or estate gift): A gift that is given to the receiving body, according to the donor's will, at the time of his or her death. In the field of culture, such gifts include a wide range of tangible artefacts, from paintings and listed cultural buildings to cash, securities, royalties, etc.

Transfer of art in lieu of payment of tax: This measure represents a different form of tax payment that allows taxpayers to transfer important works of art and other heritage objects into public ownership. Taxpayers may make transfers of art works rather than pay inheritance tax or some other similar tax. The taxpayer receives the full open market value of the item, which is then allocated to a public museum, archive or library. This mechanism allows people to offer items of cultural and historical importance to the state in lieu of full or partial payment of their inheritance tax, capital transfer tax or estate duty.

Value Added Tax: Consumption tax that is levied at each stage of production based on the value added to the product at that stage. In the study, we mostly refer to two measures addressing VAT, namely, concessional VAT treatment and VAT reduction.

VAT reduction (or VAT rebate): A reduction in payment of value added tax that is offered for a certain number of goods or services as determined by the government. The value added tax is used in around 150 countries throughout the world, but is best known for its use in the European Union. VAT reduction seeks to reduce taxes on specific goods or services and is often offered for some cultural products or services.

Venture philanthropy: An emerging form of private investment in the non-profit sector, which applies venture capital investment principles, such as long-term investment and capacity-building support, to the voluntary and community sector.

Voucher: A voucher is a credit of a certain monetary value that can be used only for a specified purpose, such as to pay for housing or for food. In the field of culture, vouchers are often perceived as a manner of stimulating demand for cultural products.

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

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ISBN 978-92-823-3471-3