



**IUPUI**

INDIANA UNIVERSITY  
Lilly Family School of Philanthropy

## The 2022 Global Philanthropy Environment Index Czech Republic

**Experts:** Kateřina Ronovská and Dagmar Goldmannová

**Institutional Affiliation:** Faculty of Law, Masaryk University, Brno, Czech Republic

Edited by the Indiana University Lilly Family School of Philanthropy

### QUICK FACTS

**Legal forms of philanthropic organizations included in the law:** Association, Benefit Corporation, Cooperative, Corporation, Foundation, Limited Liability Company, Society, Public Benefit Institutions (*Ústav*), Trust Fund (*Svěřenský Fond*)

**Five main social issues addressed by these organizations:** Environment, Human Rights, International Causes, Youth and Family, Sports

**Average time established by law to register a philanthropic organization:** 0-30 days

**Average cost for registering a philanthropic organization:** USD 0

**Government levels primarily regulating the incorporation of philanthropic organizations:** Central/Federal Government

### Philanthropic Environment Scores:

Year	Ease of Operating a PO	Tax Incentives	Cross-Border Philanthropic Flows	Political Environment	Economic Environment	Socio-Cultural Environment	Overall Score
2022 GPEI	4.50	3.95	4.10	4.20	3.30	3.20	3.88
2018 GPEI	4.33	3.50	3.60	4.00	N.A.	3.00	3.69

**Source:** Indiana University Lilly Family School of Philanthropy, 2022 *Global Philanthropy Environment Index*

## Key Findings

### I. Formation/Registration, Operations, Dissolution of a Philanthropic Organization (PO)

*The three indicator questions in this section pertain to the laws and regulations governing philanthropic organizations (POs). The scoring questions for this category cover three aspects of regulations: (A) formation and registration; (B) operations; and (C) dissolution.*

Question One: To what extent can individuals form and incorporate the organizations defined?

<b>Score: 4.5</b>
-------------------

Czech Law permits individuals to act collectively through unregistered groups and organizations. The formation/establishment and registration of philanthropic organizations (POs) (two-stage character of formation) are regulated in the Czech Civil Code (CC) (n. 89/2012 Coll.). Individuals enjoy the freedom of association and the freedom to own and dispose of property; there are some soft restrictions on the types and purposes of organizations and numerous clauses (such as a fixed maximum number of entrants admissible) for legal persons. Section 145 of the CC prohibits the formation of legal persons with unlawful purposes, such as organizations that seek to deny or limit political rights or incite violence. Further, a foundation cannot be formed to support political parties or movements, as explained in Section 306, and an association cannot have a business purpose (but it can conduct business or other for-profit activities, unless these activities support the primary activity of the association), as explained in Section 217. The registration of a PO is regulated in Law no. 304/2013 Coll. on the Public Registries (records) of Legal and Natural Persons and Trust Funds. The registration entity is a regional court, and the procedure is very quick and free of charge. It is also possible to ask a notary to register the PO in the Registries directly, so long as certain requirements are met. This option is commonly used when the statutes have to be executed in the form of a notarial deed, such as by foundations and some other kinds of business corporations. For other organizations, such as foundation funds, associations, institutions, etc., the notarial deed is optional. POs have the right to be registered when they fulfill the substantive and procedural statutory requirements (there is no discretion of the court to reject). The registration process requires moderate time and resources. The governing body is consistent and apolitical.

Question Two: To what extent are POs free to operate without excessive government interference?

<b>Score: 4.1</b>
-------------------

POs are free to operate without excessive government interference. Founders and POs enjoy several freedoms, including freedom of establishment, freedom to associate, and freedom to own property. POs are minimally inhibited in their internal governance, with few impediments on the purposes of their activities. The guidelines for operating associations and foundations, such as membership guidelines, organizational structure requirements, meetings—and, in the case of foundations, aspects referring to the endowment capital, board functioning, and annual reports—are clearly established in the CC. Organizations are free to communicate through various media channels and to cooperate with domestic and international entities. The reporting requirements are predictable, consistent, accessible, and require reasonable resources for completion.

Question Three: To what extent is there government discretion in shutting down POs?

<b>Score: 4.9</b>
-------------------

The organization's governing body is able to voluntarily terminate its activities. In the case of foundations/trust funds, termination mostly depends on the will of the founder expressed in the foundation deed. Involuntary termination by a government entity occurs only after severe violation and failure to correct said violation, as established in the CC. Clear and fair legal regulations exist to guide the involuntary dissolution of an organization.

Section 168 of the CC establishes that a legal the person can be dissolved through a juridical act, by the expiry of the approved legal period, by a decision of a public body, or by achieving the purpose for which it was created, as well as other reasons provided by a statute. The reasons for involuntary dissolution of an association include unlawful purposes, being involved in profit activities that do not support their primary purpose, or forcing individuals to become members of the association, as explained in Section 217 CC. In the case of foundations, foundations can be voluntarily dissolved if the purpose for which the foundation was created is achieved (Section 376 CC). Foundations will be involuntarily dissolved if: it pursues unlawful purposes, it conducts business activities over limits stated in law, it repeatedly violates the prohibition to provide foundation grant to members, employees, or persons close to the foundation; it provides foundation grants for more than two years without having a serious reason to do so; it disposes the endowment principal to secure a debt, or for purposes contrary to the will of the person who provided the gift to the foundation; the value of the endowment decreases below CZK 500,000 (USD 23,450) for more than one year; the endowment principal has not generated any yield for more than two years; or if it is not possible to fulfill the purpose (Section 377). Clear and fair legal regulations exist to guide the involuntary dissolution of an organization and are consistently implemented.

## II. Domestic Tax and Fiscal Issues

*The two questions in this section pertain to laws and regulations governing the fiscal constraints of giving and receiving donations domestically.*

Question Four: To what extent is the tax system favorable to making charitable donations?

<b>Score: 4.0</b>
-------------------

Individuals and corporations have access to tax deductions in the case of a charitable donation. The process of receiving a tax benefit is quite clear (see section 20 of the Czech Income Tax Act) but could be even more clear (it is better to discuss all tax issues with tax experts). Entities making the donations are relatively free from extensive government regulation. Any disputes that arise between donors and the tax authority may be submitted to the court. Due to COVID-19, in 2020 it was possible to apply for higher tax deductions for charitable donations.

Question Five: To what extent is the tax system favorable to POs in receiving charitable donations?

**Score: 3.9**

Organizations receive moderate tax exemptions and tax incentives. The process to receive tax-exempt status is clear and consistent but somewhat demanding, requiring moderate time and resources. Additionally, the tax law changes quite often. There are some limitations on the types of organizations that qualify for tax benefits, but the primary deciding factor is whether the organization fulfills a public benefit purpose, which can be found in Income Tax Act Section 19. Organizations are able to raise funds from private sources. Any disputes that arise between POs and the tax authority may be submitted to the court. The income of charitable organizations from donations or grants is exempted from income taxes. Investment incomes are taxed mostly by fixed-rate bonds; when the bonds or bank accounts are part of a foundation's endowment (a special tax treatment/exception), the income/interest is exempted. For POs' income from economic activities, there is a special deduction: Profits of less than CZK 300,000 (approximately USD 14,000) are exempt from income tax. The tax law is complex, and the expert recommends to always seek the assistance of a tax expert.

### III. Cross-Border Philanthropic Flows

*The two questions in this section concern laws and regulations governing the fiscal constraints of giving and receiving cross-border donations. The scoring for these questions pertains to the donor and receiving entities.*

Question Six: To what extent is the legal regulatory environment favorable to sending cross-border donations?

**Score: 4.1**

Cross-border charitable donations can be sent without additional cost. These are not eligible for the same tax incentives as domestic donations, except in countries of the European Union (EU) and the European Free Trade Association (EFTA). This is regulated in the Czech Income Tax Act, Article 20. The process to send charitable donations abroad is quite clear and consistent, requiring a moderate amount of resources and time. There are some limitations on the type of activities supported through cross-border contributions (for example in the Act on Public Collections, which is quite outdated).

Question Seven: To what extent is the legal regulatory environment favorable to receiving cross-border donations?

**Score: 4.1**

Cross-border charitable donations can often be received without additional cost, and they are generally eligible for the same tax incentives as domestic donations. There is a difference between the EU/EFTA regime and other countries, which is regulated in the Czech Income Tax Act. The process for receiving charitable donations from abroad is quite clear and consistent, requiring a moderate amount of resources and time, at least on the side of POs. There are some limitations on

the type of activities supported through cross-border contributions (for example in the Act on Public Collections, which is quite outdated).

#### IV. Political Environment

*The four indicator questions in the next three sections concern the political context, economic conditions, and socio-cultural characteristics that influence the environment for philanthropy.*

Question Eight: To what extent is the political environment favorable for philanthropy?

<b>Score: 4.2</b>
-------------------

There is a collaboration between the government and the philanthropic sector (so far). The government recognizes the role of POs as useful. There is a mutual understanding that POs can help the government to solve "public" issues (social, education, youth care, and sport among others). The government allows (and sometimes welcomes) the participation of POs in advocating for social causes and in implementing public programs. There is an acceptable level of political and economic stability, which is favorable for the success of philanthropy. There is also the Government Council for Non-Governmental Non-Profit Organizations, which is an advisory body of the government of the Czech Republic, but it has limited impact on the real government decision-making.

Question Nine: To what extent are public policies and practices favorable for philanthropy?

<b>Score: 4.2</b>
-------------------

The government promotes philanthropic values and generally facilitates equal access to national and international resources and opportunities. Donors are generally free to support any philanthropic cause without government pressure. Government agencies demonstrate enough capacity to support and oversee POs. The granting of subsidies to POs is partly regulated by law and partly a matter of policy of the central or local government authorities. State grant rules are, since 2020, set at the "governmental level"; regions or municipalities on a case-by-case basis. There is a quite consistent national policy (Strategy, updated in 2021) for the co-operation between government and the nonprofit sector.

#### V. Economic Environment

Question Ten: To what extent is the economic context favorable for philanthropy?

<b>Score: 3.3</b>
-------------------

Economic conditions are still quite stable, but due to COVID-19, it seems like that it will get worse. That is already influencing the philanthropy and nonprofit sector as such. The legal regime for POs supports the conditions to establish and enhance individual and institutional philanthropy. However, if the economy goes down, it will also influence the engagement of donors and the development of philanthropy.

## VI. Socio-Cultural Environment

Question Eleven: To what extent are socio-cultural values and practices favorable for philanthropy?

<b>Score: 3.2</b>
-------------------

A significant part of the financing of POs in the Czech Republic comes from grants and public funding, which sometimes may be an obstacle for the successful development of philanthropy as an independent sector. There will be also a lack of public funds soon. People still sometimes tend to distrust POs due to issues with transparency and accountability as well as the perception that POs do not always function efficiently. The tradition of individual giving is still not well-developed, but it is changing dramatically in the last years. For example, several “big” foundations were created by individual philanthropists/families. Most private giving comes from corporate donors. In general, people still believe that it is the government’s obligation to solve social problems. However, this view is changing slowly but surely.

## VII. Future of Philanthropy

*These questions are used to provide a general picture of the future of philanthropy in this country as well as recommendations to improve the philanthropic environment.*

Current state of the philanthropic sector

Private giving—both corporate and individual—is growing. Recently, the country has observed substantial growth in online giving, which is very popular with the public. What is also positive is that more attention is being given to “major gifts”. In the past few years, new foundations were also created by individual donors/philanthropists, with a very high endowment. Thoughts about philanthropy are slowly but surely part of the consideration of the transgenerational transfer of wealth.

Three major recent events affecting the philanthropic landscape between January 2018 and December 2020

1. 2021: Creation of Vlcek Family Foundation (supports palliative care for children);
2. 2020: Creation of Experientia Foundation (supports young researchers in the chemical field); and
3. 2019: Developing “philanthropic advisory” as a field of expertise (by Via Clarita Foundation fund).

Future development trends in the philanthropic landscape

A growth in online giving is expected, especially as a result of peer-to-peer campaigns. More “more giving” is expected to take place in the Czech Republic. We see more sophisticated individual philanthropy by families, professionalization, grow of responsibility for the future of the country.

Three key recommendations to improve the environment for philanthropy

- Maintain the stability of the legal environment; improve the outdated Law on Public collections and the not very clear tax regime;
- Support engagement in civil society and education of youth in this direction; and
- Express the importance of the role of POs for the society.

## VIII. Philanthropic Response to COVID-19

*These questions are used to provide a general picture of the philanthropic response to the COVID-19 pandemic in this country and recommendations for improving cross-sectoral collaboration.*

Areas where the nonprofit sector and philanthropy are playing a role in responding to COVID-19

POs react to the needs of society in crises faster and more effective than government, including by supporting people in need.

Innovation and new trends in the nonprofit sector and philanthropy related to COVID-19 responses

Key innovations in the nonprofit sector were online giving and new ways of transfers of information.

Impact of COVID-19 on the philanthropic environment

Society got a strong signal that the state is not able to satisfy all their needs in the crises. It showed that the civil law legal environment is flexible enough.

Anticipated impact of COVID-19 on the philanthropic environment in 2021

The importance of the philanthropic sector's engagement in public issues and the inability of the government to govern the state in the times of crises will continue to show.

## References

- Ronovská, K., & Lavický, P.: (2015). Czech Republic: Foundations and Trust Funds in the Czech Republic after the Recodification of Civil Law: A Step Forward? *Trusts & Trustees*, Volume 21(6), pp. 639–644. Available at: <https://doi.org/10.1093/tandt/ttv053>
- Ronovská, K., & Vitoul, V. (2017). Legal Framework for Civil Society in the Czech Republic. In van der Ploeg, T., van Veen, W.J.M., & Versteegh, C.R.M. (Eds.), *Civil Society in Europe; Minimum Norms and Optimum Conditions of its Regulation*. Cambridge University Press, pp. 344 – 362.