

Giving to government

In his [speech](#) last week to the Conservative Party conference George Osborne, the shadow chancellor, argued 'we are all in this together' when it comes to getting Britain out of the recession. The argument was that we all have to bear the burden of higher tax or lower public spending. It's therefore with some interest that yesterday [Jennifer Fenn Lefferts](#) of the [Boston Globe](#) reported that a number of municipalities are asking nonprofit organisations to voluntarily pay land and property taxes in order to help.

So-called voluntary [PILOT agreements](#) – Payment In Lieu Of Taxes – would seem to be becoming more common as cash-strapped municipalities seek new income streams. The Globe reports one official as saying "As the cost of government continues to escalate, everyone should share in the cost of these services. We feel they have a moral obligation to contribute." It would seem some nonprofits agree, but others don't.

We recently observed in [The State and the Sector](#) that [HMRC](#) estimates that relief from non-domestic rates is worth some £960m to charities. But charities in the UK don't get complete [relief](#) from non-domestic rates– the final 20% is discretionary – whilst the proceeds are then pooled and redistributed, making this sort of local moral dilemma less likely. But it nevertheless highlights the dilemma that local authorities face over the coming years what consultants [PWC](#) describe as a '[perfect storm](#)'. Rising need and declining income streams will leave many local authorities not just in a recession-related cyclical deficit but in a long-term structural deficit.

But back to the notion of [voluntary payment of taxes](#). In a [paper published earlier this year](#), economists working on the Dallas University project [Giving to Government](#) ran a series of experiments to see whether or not individuals would rather donate to charity...or pay voluntary taxes. Which I find fascinating. I particularly like the conundrum posed at the beginning of the paper:

*Giving USA 2007 reports that for 2006, giving to nonprofit organizations totalled \$295 billion...In the same year, the combined federal, state, and local governments had current expenditures of \$4,130 billion...Many of the government agencies funded by these outlays have missions that mirror or overlap with the missions of many nonprofit organizations. While government agencies and nonprofit organizations often serve the same constituent bases with the same end goals, the means by which their respective activities are financed are perceived very differently. **The concept of paying taxes is vilified by individuals who, at the same time, contribute to nonprofit causes.** [My emphasis] (page 3)*

No surprise perhaps – after all, legitimate avoidance of taxation is America's national sport – but nevertheless worth investigation. In a series of experiments, participants were given \$20 which they could keep, give to government or give to nonprofits. And the result? Well, it seems lots of factors influence the decision (such as whether it's local or national government/nonprofits), but broadly speaking people gave more to nonprofits:

We find that people give an average amount of \$4.40 (22% of their budgets) to government organizations, and \$5.30 (27% of their budgets) to private nonprofit organizations. The willingness to give varies by the type, function and level of the organization, as well as by perceptions of the

organization...National organizations (whether public or private) attract more contributions than do state or local organizations. (pages 17-18)

The authors then argue that this is driven by perceptions of greater efficiency and effectiveness in nonprofits. It's important to remember though that participants were often prepared to give to government – something it seems some nonprofits in Boston clearly aren't prepared to follow.