

# **Philanthropy – Do taxes matter for Foundations?**

**Master Thesis in**

Corporate Finance

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## **Executive Summary**

No matter whether it is money, time or the donation in kind, charitable giving in Switzerland enjoys a favorable tax treatment. This is either tax reduction or even tax exemption, depending on the philanthropic activity. An important and well known player in this charitable environment with preferential tax treatments are foundations. But, foundations do not automatically enjoy tax privilege. Charitable activities are to be proven by the strict compliance with specific requirements. Hence, are taxes part of the decision process when it comes to charity? If foundations were not to have this preferential tax treatment would they anyway behave philanthropically?

This master thesis aims at answering these questions. Literature review completed by interviews with experts provide a solid basis analyzing the context of philanthropy, the non-profit organization (NPO) sector as well as the legal framework in Switzerland.

An important contribution to the motives of philanthropy in Switzerland has been published by the CEPS, Center for Philanthropy Studies, at the University of Basel and by the organization Swiss Foundations in collaboration with the University of Fribourg. They show that there is a wide range of motivations for charitable behavior as every philanthropic action is due to a personal motive. The willingness to help people in need and the contribution to the resolution of a precise problem are the main drivers of the philanthropic activities of foundations. Tax exemption may be supportive for the establishment of foundations but empirical studies show that it is not the leading criteria.

To see how factors differ in Switzerland and whether taxes are important, own data has been collected for Zurich, as the financial heart of Switzerland, and Basel, as a tri-state-area. Out of the regression analysis follows that foundations in both regions show a similar understanding of taxes as very unimportant factor for charitable behavior. Results further show that all significant drivers are altruistic ones, beside the motivation to compensate socially irresponsible behavior and the wish of self-fulfillment. Also voluntary engagement in earlier years is considered to be an important factor for foundations' philanthropy. These results are based on a reasonable sample size, although the sample is rather small in comparison to the amount of foundations in Zurich and Basel. Nevertheless, the results imply that, even though improvement is possible, the legal system in Switzerland seems to be good created. Also international comparison confirms this finding.