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Impure Altruism and Other Donor Attraction Factors
A Study Based on a Database of Non-Government Organizations (NGOs) in the Philippines

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Abstract

This study uses panel data on a sample of non-government organizations (NGOs) to estimate the factors that motivate donors to contribute to them. The results of empirical estimation suggest that a mix of conventional and tax factors influence donors. The results are consistent with the hypothesis that donors are not totally altruistic and are motivated by private benefits from donating. There is strong evidence that the private benefits come more from tax concessions from the act of donating. Hence, tax planning and arbitrage motives, more than "warm glow" factors influence donor contributions.

Key words: Nonprofit corporations, donations, altruism

JEL Codes: C80 D64 H26

I. Introduction

This paper is a first attempt at determining the factors that motivate donors to contribute to nongovernment organizations (NGOs) and nonprofit enterprises in the Philippines. Empirical estimation of such factors is made possible by construction of a short panel database of NGOs and nonprofits in the Philippines. One of the primary motivations for this line of research is the well-known shortage of public goods in the Philippines. This in turn is brought about by perennially low tax to GDP ratios.

The dearth of public funds has undermined many of the causes traditionally espoused by NGOs: education, social welfare, disaster response, arts and culture, health, etc. NGOs in the Philippines (as NGOs in many other countries) can serve as an important conduit for delivering public goods, indeed sometimes augmenting or even substituting for government services where government is unable to deliver (either geographically or quickly). NGOs in the Philippines, such as the Red Cross, for instance, are often the first responders to emergency or crisis situations. The potential for NGOs to deliver emergency services under such circumstances is unquestioned. The scope of NGO-delivered public goods encompasses a much broader set of activities, such as the promotion of arts and culture, education, poverty alleviation, religion and a host of other social causes. The Ayala Foundation promotes Philippine art, culture and history, while Feed the Children promotes the uplift of child nutrition.

NGOs exist to serve as conduits for voluntary contributions of one’s time and money to augment public resources in public good provision. In principle and in practice, NGOs promote the production of public goods in support of a wide variety of social and cultural causes. In theory, therefore, donations should represent voluntary contributions to finance such production and reflect the social interests of the donors. Documenting factors that motivate monetary contributions to NGO therefore serves to further the analysis of public goods that are privately provided.

Despite their potential role in augmenting government resources in delivering public goods and services and promoting other desirable activities in society, the academic literature on NGOs in the Philippines, much less donations to finance them, is relatively scant. Much of the existing research comes in the form of surveys of non-stock, non-profit corporations (Carino, 2008), among which are many categories of NGOs. NGOs are almost always organized as nonprofits. However, such surveys do not shed sufficient light into the more substantive work done by NGOs. Reside, et al (2012) surveys nonprofits and nonprofit laws in the Philippines and analyzes many aspects of NGO work, including the quality of the public goods they deliver, the extent to which the regulatory and tax system in the Philippines enables NGOs to deliver public goods (versus other benchmark countries), and more. This study concludes that many weaknesses exist within the tax, legal and regulatory framework for nonprofits in the Philippines, potentially undermining their ability to deliver public goods, rendering their operations nontransparent and exposing them to abuse. Subsequent scandals in the misuse of pork barrel funding by Philippine legislators has only reinforced the need to study NGOs further. A brief discussion of the Carino (2008) and Reside et al (2012) studies is included in Appendices.

This study of NGOs focuses on donations made to NGOs. In an ideal paradigm for donor funding of NGOs, the tax, legal and regulatory framework encourages well-intentioned donors to contribute to the financing of public good production by NGOs. This should augment public good provision by government itself.

The literature on nonprofit corporations classifies these organizations into four types depending on source of income as well as who has the power to elect the board of directors (Hausman, 1980):

Table 1: Hausman's (1980) classification of nonprofit corporations

	Mutual (power to elect board of directors lie with the patrons)	**Entrepreneurial (board of directors is self-perpetuating; patrons do not have the power to elect board of directors)**
Donative (receive substantial portion of income by way of donations)	Political clubs/political party foundations in the Philippines National Audubon Society in the USA	Most corporate foundations in the Philippines Philippine National Red Cross
Commercial (receive substantial portion of income by way of sales of goods and services)	American Automobile Association Homeowners associations in the Philippines Professional organizations Philippine Economic Society	National Geographic Society Private schools and hospitals in the Philippines

Since this study only focuses on donations, the nonprofit NGOs which will be covered by this study will primarily be of the donative type. A strict implementation of this classification, however, would exclude private hospitals and schools who receive most of their income from patient billings and tuition payments, but may also receive a nontrivial amount of resources from private donations. For purposes of this study, private schools and hospitals are included in our sample.

This paper's contribution is to introduce a small panel database containing financial records of NGOs that can be used for empirical and other analytical purposes. The data can be used for regulatory and tax audit and administration purposes, as a majority of the raw and processed data can be used to develop quantitative indicators of service efficiency and the extent to which positive social spillovers/externalities are generated by tax incentive-benefiting taxpayers. In the absence of more analytical work on the subject, the quantitative information provides some feedback on the state of NGOs and the state of NGO laws and regulations.

II. Motivations and Legal Principles Underlying the Construction of the Database of NGOs Used in this Paper

The NGO database that is the subject of this paper is constructed primarily with Philippine tax law, tax administration and NGO regulation in mind. Reside, et al (2012) have questioned the efficiency and effectiveness of NGO activities in the Philippines, casting doubt on the efficacy of tax incentives in motivating NGOs to produce public goods as well as positive social externalities and spillovers. Donations to NGOs are an integral part of the database. The database can be used for:

a) conducting empirical research on NGOs and their modes of financing;
b) facilitating tax audits and tax audit research;
c) refining legislation and executive rules on NGOs;
d) distinguishing among various NGOs, for risk-based tax profiling;
e) strengthening tax administration; and
f) benchmarking the Philippine tax system versus other tax jurisdictions
g) strengthening the transparency of NGOs and their activities.

Observations made by Reside, et al (2012) regarding weaknesses in tax administration of NGOs underscore the need for a database to help auditors and researchers refine the public goods and spillover related criteria by which to assess NGO activities. US NGO law is generally regarded as the global standard in this regard, and this law provides tax administrators such as the Internal Revenue Service (IRS) with the tools needed to assess how well NGOs perform. Specifically, US law has specific provisions that prohibit NGOs from the following:

a) Engaging in unrelated businesses and profiting from them;
b) Benefiting private interests with any part of their net earnings inuring to the benefit of any shareholder or individual
c) Providing any benefit in excess of the value of the consideration received by the organization to nonqualified parties; and
d) Engaging in political and legislative activities

These criteria can serve as a guide in assessing the relative strength of NGO tax administration in the Philippines. An initial benchmark for our NGO tax law is US NGO tax law, because many laws worldwide covering NGOs are based on US NGO tax laws.[1] Notwithstanding this, US NGO tax law can still be subject to differing interpretations. Whether or not upholding the public goods/social spillovers principle then depends on the quality of tax administration officials to interpret the law in accordance with the intent of US lawmakers. The benchmark is actually a collection of laws described in the appendix. In general, US tax law seeks to ensure that NGOs adhere to their stated aims and that their activities have a public good and social character, instead of a private good character. They therefore contain provisions that seek to tax and/or limit private goods produced by NGOs.

[1] It is widely acknowledged that laws on NGOs originated in the US in 1914, when the US government started to allow citizens to deduct donations to finance US World War I expenditures from their taxes (perhaps the first tax deductions in history).

Table 2: Legal Principles in US Tax Administration Regarding Tax-Exempt Non-Stock, Non-Profit Corporations

Legal principles benchmark	Rationale for regulation	How deviations from the benchmark might be estimated
Unrelated business	NGO should not engage in activities that are inconsistent with their primary purpose or do not further their exempt purposes and may jeopardize their exempt status	Extent of income generated from businesses unrelated to stated primary purpose of the NGO Type of activities conducted
Inurement and private benefit	NGO should exist for the benefit of society, public benefit and should not engage in self-dealing	Donations made by related parties Type of activities conducted
Excess benefit	An NGO transaction should create much greater benefits for society, and not narrow interests	Extent of income accruing to parties not qualified to obtain benefits from NGO
Political and legislative activities	NGO should exist for the benefit of society, not narrow political interests	Composition of board of NGO Uses of funds Type of activities conducted

Source: Author

The table above suggests that there are always public and even fiscal risks in allowing NGOs and donations to them to benefit from tax concessions. This also suggests that good NGO regulation, vetting and monitoring can help ensure the integrity of public goods delivered by NGOs. An initial analysis of the data in the database can shed some light into the publicness of goods being produced by NGOs. This can suggest whether there need to be changes in tax law or improvements in tax administration, or both.

III. The Economics of Charitable Giving: Factors Which May Motivate Donations to NGOs and Nonprofits in the Philippines

Several important theories related to nonprofit enterprises are the potential subject of empirical testing in this paper. They are the phenomenon of increasing returns to charitable giving and the "warm glow" effect of giving. Both are offshoots of the field of behavioral economics.

a) Increasing Returns to Charitable Giving

James Andreoni (1988) suggests that charitable activities generate two types of returns. The first is the conventional financial rate of return or financial ROI. The second is the charitable, social or economic return of the activity. Unlike the financial returns to a particular charitable activity or public good, the social returns to the same activity or good can be increasing in the level of voluntary contributions (charitable giving), even at low levels of provision of the good. Charitable giving is thought to generate increasing returns when an increase in any one individual's donations increases the return to investment to each unit donated/invested by all other donors. In other words, individual donors create a positive externality for all other donors as increases in individual donations enhance the social returns per unit currency donated by other donors.

The financial ROI of a charitable activity serves as a social hurdle rate such that if the social returns of the project lie below the financial ROI, it will not be socially viable. Hence, there are strong arguments for seeking large and discrete pre-arranged gifts, called seed donations, that can create sufficient initial increasing returns to bring charitable ROI close to or above financial ROI.

Increasing social returns imply that fundraising campaigns may not require great numbers of individual donors to start a campaign. All that is required is a small group of discrete funders. Increasing returns also suggest that modestly sized campaigns may not require many discrete donors.

b) Warm glow considerations

A major aspect of economic theory on nonprofit enterprises centers on ascertaining the primary motive for donors making donations to them. The theory leads to striking implications for fiscal policy. Proponents of "warm glow" theory (Andreoni, 1989, 1990) argue that donors already internalize the greater public good in their individual utility functions and therefore, do not require stronger incentives to donate for causes they already view as promoting the greater public good. Hence, since charitable giving helps donors boost their private utilities by giving them private benefits (a "warm glow" when giving), giving is not purely altruistic in most instances. According to Andreoni, "donors care about the returns to the charitable investment, but also about the joy they will feel from helping someone in need, from the social esteem they may get from others, and from the pride and self-esteem they feel from making a difference. Combining these and other sources of joy from the act of being charitable yields the warm-glow of giving."

The warm glow theory of donations focuses on the altruism of donors. When donors are altruistic in a pure sense, they receive no private benefits for contributing public goods; the social return is a sufficient motivation for their contributions. If donors receive private warm glow benefits from their contributions, then it is possible for their motives to be less than purely altruistic. Abstracting from any tax concessions that can be granted by law to donors, older theories of donor contributions suggest that donors do not obtain utility beyond that that is obtained already by donees (recipients). Hence, if the government spends money procuring public goods for the same recipient, the donors will view this as fully substitutable with their own contributions. In this light therefore, government spending on public goods can crowd out private donations. However, a different view holds that donors may obtain private benefits from their contributions – a warm glow that only they themselves can sense emanating from their act of donating. Since the act of donating also enhances their private utility, government spending on public goods need not crowd out donations fully or partially.

c) Tax considerations in donations

Another branch of the literature concerns the analysis of the effect of the tax concessions themselves on the price of giving and hence on the amount of giving. Do tax incentives in the form of tax deductions and donors' tax exemptions, encourage giving? Several authors find evidence that this is indeed the case. If tax incentives encourage giving, then there are two private benefits from giving – the warm glow and the financial benefit of the tax concession. Discriminating between the two is a challenge for empirical work to accomplish.

Private returns to donations are not confined to warm glow benefits. They also include tax benefits from tax concessions under the law – tax deductions and/or tax credits related to the size of their contributions, which lower the cost of making donations and increase donors' after-tax incomes. If donations are driven by private tax benefits, it is not only possible that their motives are not fully altruistic, but it is also possible that the private benefits extend beyond conventional warm glow benefits. Motives for tax arbitrage and tax planning can also be systematically driving the observed pattern of donations to NGOs.

Also, the granting of tax incentives for donating to NGOs representing worthy causes would be fiscally inefficient because such donors would be maximizing their own utility by making such donations anyway (even without the incentives).

Conventional tax law confers concessional tax benefits on donations made to donee NGOs that satisfy certain legal preconditions for public good or social externality production).

The potential positive social externalities, as well as the public good nature of their activities a rationale for providing them with tax concessions. In practice, NGOs are often allowed to be classified according to conventional corporate law, as non-stock, nonprofit corporations and hence, are entitled to tax concessions, including income tax exemptions. The externalities and public goods nature of NGO activities may also entitle the donors and their donations to tax concessions as well. In the Philippines, donors may be entitled to tax deductions corresponding to a multiple of the value of their donations. Donors may also be entitled to exemptions from donors' taxes.

In the Philippines, tax concessions on the potential income of NGOs are vetted in the conventional manner by the Bureau of Internal Revenue (BIR). If any NGO surplus or income can be shown to be inconsistent with the public good nature of their primary mission, then in theory, it should be taxed. This is consistent with the principle of taxing primarily activities that generate private benefits and subsidizing public goods and positive externalities in the form of income tax exemptions.

However, whether donors can avail of tax concessions on their donations (tax deductions and exemptions from donors' taxes) depends on the status of the donee, or donation-receiving institution. Donations receive tax deductibility and donors' tax-exempt status if the donee institution is registered with the Philippine Council for NGO Certification (PCNC), itself an NGO with special status – authority delegated to it by the Department of Finance (DoF) of the Philippines, to audit NGOs applying for donee certification and accredit those that pass their standards, enabling them to achieve special donee tax status. In the Philippines, therefore, only the donations that are received by PCNC donee institutions receive tax concessions, while others are not accorded with tax benefits. Since donors have an option to donate (consciously) to PCNC-certified institutions to receive tax benefits and the latter can also (consciously) pursue certified donee status in order to attract donations, donation to PCNC-certified institutions can be seen as both a donor-specific and donee-specific factor – both mutually benefit from PCNC.

Unfortunately, the special tax status of NGOs, as well as their weak regulatory framework has also in recent years made them highly vulnerable to abuse. NGOs in the Philippines have been used as conduits to channel (donate) public funds accessed by corrupt legislators into fake projects. The extent of abuse in the use of pork barrel funds highlights the need to analyze the mode of financing of NGOs, as well as their operations and of course, the level of transparency thereof.

d) Other factors motivating donations

Many other factors possibly motivating donations are specific to the donees. Donees which depend on donations for much of their income have very strong incentives to reveal themselves as legitimate and well-governed to attract donors. Hence, other donation attraction factors include those related to the credibility of the NGO, its reputation, sector of interest, mode of governance, etc. Further, donations may also be motivated by factors external to both donors and donees such as natural disasters and calamities, which occur very often in the Philippines. The occurrence of such may constitute tests for the strength of warm glow considerations because calamities are also almost always followed by government spending (on emergency response), as well as reconstruction. Warm glow considerations are not present if private donations do not respond to calamities and disasters, suggesting that private donors view subsequent government spending as full substitutes.

IV. Database of nonprofits/NGOs

The panel dataset of NGOs contains data across 50 NGOs from 2008-2014. The following table lists summary statistics from the sample of NGOs in 2014:

Table 3: Summary 2014 statistics from sample of NGOs

Corporate foundations	23.00
Of which: PCNC-registered	32.00
Value of donations (in pesos) (Source: NGO financial statements in Securities and Exchange Commission)	172,491,186.94
Average age in years of operations (as of 2014)	24.88
Average value of assets (in pesos) (Source: NGO financial statements in Securities and Exchange Commission)	2,350,300,603.94
Charitable NGOs	19.00
Social development NGOs	13.00
NGOs classified as “Other”	18.00
Headquarters in NCR	34.00
Headquarters in Luzon	5.00
Headquarters in Visayas	5.00
Headquarters in Mindanao	6.00
Average number of calamities recorded in region (source: PAGASA)	4.94
Average value of damage wrought by calamities in millions of pesos (source: National Disaster Coordinating Council)	43,421.48
Average regional population affected by calamities (source: PSA)	10,781,560.36

The sample was constructed, keeping the need to be adequately representative, using aggregate NGO data derived from SEC files on public corporations. Note that the majority of NGOs in the sample are based in the National Capital Region. This conforms with observations from aggregate NGO data from SEC.

NGOs were classified by activity as either "charitable", "social development" or "other". Charitable NGOs include those that provide welfare services, including emergency response services, to the public. Social development oriented NGOs include those that provide income and livelihood support. The residual NGOs are classified as other NGOs, which includes NGOs devoted to the promotion of arts, culture, environment, etc.

Table 4: Factors that may motivate donations to NGOs

Donor-specific	Donee-specific
Warm glow – donations may be motivated by private benefits accruing to the donors	Reputation – donees may attract donations based on reputations built over time
Income growth – donors may be motivated by the income effect	Size of assets – asset size may be a reflection of the NGOs ability to deliver public services and hence may be correlated with ability to raise donations; it may also be explained by the "increasing returns" hypothesis of Andreoni (1980)
	Age – the age of an NGO may be correlated with accumulated expertise in delivering public goods
	Geographical location – proximity to donors may facilitate donations
	PCNC certification; tax considerations – enabling tax benefits to be granted to donors may reduce the price of contributing to NGOs and may induce substitution effects (as donors substitute donations for other forms of expenses)
	Type of NGO – sector specific NGOs may have a greater number of public supporters
	Corporate affiliation – corporations in need of conduits for corporate social responsibility (CSR) activities may contribute their funds towards their corporate foundation.
	Governance structure of NGO – Donative NGOs classified as mutual attract less donations than those that are classified as entrepreneurial

In addition, three other panel observations of variables external to the donee and donor were added: the log of the absolute number of calamities (storms, volcanic eruptions, floods, major earthquakes) experienced by region or country within the scope of operations of the

NGO during a particular year; the log of the value of damage caused by calamities experienced by region or country within the scope of operations of the NGO during a particular year; and the log of the population effected by calamities experienced by region or country within the scope of operations of the NGO during a particular year. Observations of these variables were obtained from sources such as the National Disaster Risk Reduction and Management Coordinating Council and the Philippine Atmospheric and Geophysical Science Administration (PAG-ASA). The inclusion of these variables is rationalized on the possibility that the scale, frequency and human toll of calamities may influence the level of donations to NGOs and nonprofits.

V. Empirical tests of factors motivating donations to NGOs

This paper seeks to determine donor motivations in the Philippines. An attempt will be made to determine from the data the extent to which donor motives are purely altruistic. It is also possible to determine if, if impurely altruistic motives drive donation patterns, they are driven more by warm glow considerations as against more predominantly tax considerations. These tests are made possible by a new NGO database that also exploits features of the Philippine tax system – a special NGO that vets other NGOs in that seek to vest donations to them with tax deductible and donors tax exempt status. Hence, NGOs that receive such “certified donee” status should tend to be more well-known and also more well-managed than non-certified NGOs. Hence tests of whether variations in donee quality can also drive donation patterns can be made. Regressions will be run using panel data. These will control for tax factors (and hence, impurely altruistic motives) through the inclusion of proxies for certified donee status – donations to the NGO receive tax concessions. Having controlled for tax considerations, the other independent variables control for characteristics specific to the NGO that can attract donations – reputation, size, age, geographical location; and also warm glow considerations – control variables related to the frequency, scale and human cost of calamities that affect the Philippines. Note therefore, that regressors may be either donor-specific or donee-specific.

Still another aspect of donations that can be tested is their sensitivity to situations where public goods and services are most urgently needed: calamities. The Philippines is very prone to natural disasters, such as storms, earthquakes, volcanic eruptions, and more. The extent to which donations change in response to the frequency and scale of these disasters would be an interesting study indeed.

VI. Panel Regression Results

The regression analysis in this study controls for private benefits from contributions – tax benefits from giving. Tax benefits can come in the form of deductions from taxable income of the same value as the amount of charitable giving.

If it can be shown that charitable giving is sensitive to proxies for the tax benefits of charitable giving, then in addition to warm glow motives, private tax benefits can cause contribute even further to the reduction in crowding out of private donations. In addition, private tax benefits can also crowd out the warm glow motive, as giving becomes more sensitive to private tax benefits than to private warm glow benefits.

Generalized least squares (GLS) random effects regression on panel data was used for estimation. To account for the possibility of endogeneity in some of the control variables, instrumental variables GLS was also used, with log of age of the NGO and lagged log of the value of assets used as instruments. Table 5 below lists panel regression results associated with tests of the factors motivating private donations (dependent variable is log level of donations). Table 6 that follows presents a summary qualitative interpretation of the panel regression results in general.

Table 5: Outcomes of panel data regressions of log of NGO donations to various control variables (coefficient estimates beside variable names; p-values underneath coefficient estimates)

	Regression Method			
	Random-effects GLS	**Random-effects GLS**	**G2SLS random-effects instrumental variables**	**Description of Regressor**
Regression number	**1**	**2**	**3**	
logassets	0.733	0.342	0.354	Log of value of assets of NGO
	0.000	0.000	0.000	
clrgdp	12.100	14.74		Change in log of real GDP
	0.096	0.027		
corp	0.077	0.195	0.231	Corporate-affiliated NGO
	0.083	0.003	0.002	
lage		0.267	0.270	Log of age of the NGO in years
		0.004	0.008	
ncr		0.495		NGO located in National Capital Region
		0.053		
Min		-0.883	-1.44	NGO located in Mindanao
		0.015		
donmut		-0.144		NGO is classified as a mutual type NGO
		0.025		
donent			0.165	NGO is classified as an entrepreneurial type NGO
			0.019	
pcnclevel			-0.070	Level of PCNC accreditation
			0.085	
constant	1.32	3.32	3.918	Constant
	0.000	0.000	0.000	
R-sq: within	0.51	0.20	0.22	
Between	0.22	0.41	0.43	
Overall	0.27	0.37	0.39	
Number of observations	350	350	258	

Instruments			lage; laglogdon	

Table 6: Interpretation of panel regression results

Increases donations	**Interpretation**
PCNC-registered	PCNC accreditation is a seal of good housekeeping on the NGO and enhances reputations; enabling them to attract more donations
Age	Older NGOs have more established reputations; enabling them to attract more donations
NCR-based	NCR-based NGOs are more easily accessible to donors; enabling them to attract more donations
Corporate NGO	Larger donors realize are better able to exploit increasing returns to charitable contributions
GDP growth	Donations increase with income
Size of assets of NGO	Larger NGOs are better equipped infrastructure-wise to attract donors and solicit donations; also suggests the working of Andreoni's increasing returns hypothesis, as corporate foundations with larger assets are better able to attract donations, increasing the feasibility of larger scale production of public and social goods and services.
Higher level of PCNC accreditation	Better-maintained or governed NGOs attract more donations
Entrepreneurial type NGO	Self-perpetuating boards tend to be more stable Entrepreneurial (board of directors is self-perpetuating; perhaps with longer term programs than boards whose composition is subject to greater uncertainty
Reduces donations	
Mindanao-based	Foundations further away from donors attract fewer donations
No impact on donations	
Frequency of calamities	Warm glow factors do not strongly motivate donations
Scale of damage caused by calamities	Warm glow factors do not strongly motivate donations
Number of casualties caused by calamities	Warm glow factors do not strongly motivate donations

The panel regression results suggest that donations are driven by factors that are internal to both donors and donees. In the Philippines, tax considerations appear to have a very strong influence over donations because to donative nonprofits/NGOs because donations flow to institutions vested with PCNC-certified donee status, allowing donations made to them to obtain tax concessions. There is less evidence (if at all) in favor of warm glow effects, since the variables most strongly associated with warm glow sentiments (scale of calamities and natural disasters and the proxy for the human toll associated with them) are insignificant. The evidence does not preclude tax planning and tax arbitrage motives and in fact suggests that tax planning and arbitrage dominates warm glow effects. The lack of warm glow effects implies that government spending on public goods should at least partially crowd out private donations to nonprofits/NGOs.

The other factors driving donations are donor-specific and are backed by intuition. Donors are attracted to older, larger, more credible, more reputable, more geographically accessible, more stably managed nonprofits/NGOs. Hence, contributions to donative NGOs are motivated in general by conventional factors, but also strongly by tax considerations.

VII. Conclusions

The NGO database is populated with panel data from 2010-2014 with the cross-section sample constructed to conform closely with the actual composition of nonprofit NGOs or foundations in the Philippines. Hence, it may be updated regularly to check if the regression results hold over time. It may also be expanded in the future to enable empirical investigations into the regulation of NGOs and nonprofits.

The panel initial regression results suggest that tax arbitrage and tax planning effects drive donations to NGOs. There is less evidence of warm glow factors. Conventional reputational factors also play a role in driving the pattern of donations to NGOs.

The empirical evidence also favors Andreoni's (1988) increasing returns hypothesis, as corporate foundations with larger assets are better able to attract donations, increasing the feasibility of larger scale production of public and social goods and services.

If this is the case, then this also suggests that although nonprofit NGOs in the Philippines play a role as efficient aggregators of donor funding and do in fact produce public and social goods to augment public goods production by the state, such nonprofit NGOs are mostly utilized for tax mitigation purposes (especially by their for-profit corporate affiliates). This leads to the phenomenon where donations are relatively insensitive to the scale and severity of natural calamities affecting the country. Donors possess impure altruism because they are motivated by tax benefits and less by warm glow effects, which is inconsistent with well-known outcomes of experimental approaches to the warm glow question as well as outcomes of non-experimental approaches to testing warm glow effects in other countries such as the US. In general, impure altruism exists, but the nature of the less than fully altruistic behavior differs. The results also suggest the possible need for authorities to be vigilant against misuses of tax concessions and to consider improving the design of the legal, tax and regulatory framework for NGOs and nonprofit enterprises in the Philippines in general.

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Appendix A

Past NGO Profiles

Carino (2008) provides one of the first profiles of the SEC NGO database. The table below is a lifted from her paper and is a cross section of the entire SEC database as of March, 2008. The fact that a large number of NGOs are described as doing “Activities of other membership organizations, n. e. c.” or “Not classified” suggests that a large number of NGOs do not present sufficient information about their activities to allow these to be clearly classified. This paper presents an attempt to clarify what NGOs do.

Table A1: Industrial classification of registered non-stock, non-profit organizations, as of March 15, 2008

Industrial classification	Total	Percent
Organizations involved in real estate activities	438	0.6%
Organizations involved in research and experimental development	80	0.1%
Miscellaneous business activities	684	0.9%
Public technical and vocational post-secondary non-degree	111	0.1%
Private pre-school education	2,237	2.9%
Private elementary education	2,305	3.0%
Private general secondary education	387	0.5%
Private technical and vocational post-secondary non-degree	802	1.0%
Private higher education	554	0.7%
Activities of business and employers organizations	6,051	7.9%
Activities of professional organizations	1,819	2.4%
Activities of trade unions	9,169	12.0%
Activities of other membership organizations	142	0.2%
Activities of religious organizations	7,433	9.7%
Activities of political organizations	1,004	1.3%
Activities of other membership organizations, n. e. c.	31,853	41.6%
Sports associations	218	0.3%
Organizations involved in other recreational activities	82	0.1%
Organizations in other amusement and recreational activities, n. e. c.	163	0.2%
Miscellaneous service activities, n.e.c.	890	1.2%
Others	2,320	3.0%
Not classified	7,770	10.2%
Total	76,512	100.0%

Cariño, Ledivina V. and PNSP Project Staff, *Defining the Nonprofit Sector*: The Philippines Caucus of Development NGO Networks (2008).

Reside, et al (2012) provide a more recent snapshot of the entire SEC database (see Table 2 below). Several notable observations can be made. The first is that only half of the thousands of NGOs on record are still operating, and of this total, only half report to the SEC on a regular basis. The overwhelming majority of NGOs are not PCNC-registered. Also, the number of unqualified public charities (defined as NGOs with a very diverse set of donors) is a small (8%). Lastly, politician-oriented NGOs comprise a small, but nontrivial fraction of the total (2%).

Table A2: A Profile of NGOs in SEC database (as of February 2012)

Foundations in SEC database	**Number**	**Percentage**
Total	23,425	1.00
Of which: Number estimated to be operating (still registered; licenses not revoked)	11,713	0.50
Of which: Number estimated to be reporting regularly	6,353	0.54
Number not reporting regularly	5,360	0.46
PCNC-registered	220	0.02
Not PCNC registered	1,493	0.98
Number of private foundations	3,772	0.32
Number of unclassified foundations	2,581	0.22
Number of unqualified public charities	993	0.08
Estimated number of political party foundations	199	0.02
Estimated number of politician foundations	199	0.02
Estimated foundations in Luzon	7,028	0.60
Estimated foundations in rest of the country	4,685	0.40

Source: Reside, et al (2012), SEC, PCNC, author estimates

Appendix B

Much of the following write up on US NGO tax law is lifted from Reside, at al (2012). Many thanks to Dionne Marie Sanchez for assistance in compiling information in this section of the Appendix.

US Law on NGOs[2]

Organization

A non-profit organization is a group organized for purposes other than generating profit and in which no part of the organization's income is distributed to its members, directors, or officers. Non-profit corporations are often termed "non-stock corporations." They can take the form of a corporation, an individual enterprise (for example, individual charitable contributions), unincorporated association, partnership, foundation (distinguished by its endowment by a founder, it takes the form of a trusteeship), or condominium (joint ownership of common areas by owners of adjacent individual units incorporated under state condominium acts). Non-profit organizations must be designated as nonprofit when created and may only pursue purposes permitted by statutes for non-profit organizations. Non-profit organizations include churches, public schools, public charities, public clinics and hospitals, political organizations, legal aid societies, volunteer services organizations, labor unions, professional associations, research institutes, museums, and some governmental agencies.

Non-profit entities are organized under state law. For non-profit corporations, some states have adopted the Revised Model Non-Profit Corporation Act (1986). For non-profit associations, a few states have adopted the Uniform Unincorporated Non-Profit Association Act (See Colorado §§ 7-30-101 to 7-30-119). Some states exempt non-profit organizations from state tax and state employment programs such as unemployment compensation contribution. Some states give non-profit organizations immunity from tort liability (see Massachusetts law giving immunity to a narrow group of non-profit organizations) and other states limit tort liability by enacting a damage cap. State law also governs solicitation privileges and accreditations requirements such as licenses and permits. Each state defines non-profit differently. Some states make distinctions between organizations not operated for profit without charitable goals (like a sports or professional association) and charitable associations in order to determine what legal privileges the respective organizations will be given.

There are also some federally chartered charities, though, including the American Red Cross, the Boy Scouts of America, and the United States Olympic Committee.

[2] Source: IRS Website and Database

TAXATION

Nonprofit status, as explained above, is a state law concept. Nonprofit status may make an organization eligible for certain benefits, such as state sales, property and income tax exemptions. *Although most federal tax-exempt organizations are nonprofit organizations, organizing as a nonprofit organization at the state level does not automatically grant the organization exemption from federal income tax. To qualify as exempt from federal income tax, an organization must meet requirements set forth in the Internal Revenue Code.*

To be recognized as exempt from federal income taxation, most organizations are required to apply for recognition of exemption. The Internal Revenue Service (IRS) will recognize an organization as tax-exempt if it meets the requirements of the Internal Revenue Code. For federal tax purposes, an organization is exempt from taxation if it is organized and operated exclusively for religious, charitable, scientific, public safety, literary, educational, prevention of cruelty to children or animals, and/or to develop national or international sports. Organizations applying for tax-exempt status must submit two applications: First, if they have not previously received an Employer Identification Number (EIN), they must apply for one, and second, an application for recognition of exemption. The IRS sometimes recognizes a group of organizations as tax-exempt if they are affiliated with a central organization. This avoids the need for each of the organizations to apply individually.

In general, if an organization is to qualify for tax exempt status, the organization's **(a)** *charter* — if a *not-for-profit corporation* — or **(b)** *trust instrument* — if a trust — or **(c)** *articles of association* — if an association — must specify that no part of its assets shall benefit persons who are members, directors, officers or agents (its principals). Also, the organization must have a legal, charitable purpose, i.e. the organization must be created to support educational, religious, or charitable activities. These elements do not mean that the organization cannot pay employees or contractors for work or services they render to the organization. This limitation means that as long as the organization operates within its exempt purposes and it maintains an endowment or uses any excess revenue to further develop its activities it will not be taxed by the Internal Revenue Service.

Such a surplus — that is, whatever part of its income is left after its operating expenses are paid — which might be considered similar to "profit" — must be spent on the charitable or public purpose(s) for which it was organized, not paid as a dividend or benefit to anyone associated with running or organizing it.

Section 501 (c) (3) Organizations

To be tax-exempt under section 501(c)(3) of the Internal Revenue Code, an organization must be organized and operated exclusively for exempt purposes set forth in section 501(c)(3), and none of its earnings may inure to any private shareholder or individual. In addition, it may not be an action organization, i.e., it may not attempt to influence legislation as a substantial part of its activities and it may not participate in any campaign activity for or against political candidates.

The exempt purposes set forth in section 501(c)(3) are charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and preventing cruelty to children or animals. The term charitable is used in its generally accepted legal sense and includes relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erecting or maintaining public buildings, monuments, or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law; and combating community deterioration and juvenile delinquency.

Organizations that meet the requirements of Internal Revenue Code section 501(c)(3) are exempt from federal income tax as charitable organizations. In addition, contributions made to charitable organizations by individuals and corporations are deductible under Code section 170.

Every exempt charitable organization is classified as either a public charity or a private foundation. Private foundations and public charities are distinguished primarily by the level of public involvement in their activities.

Generally, organizations that are classified as public charities are those that (i) are churches, hospitals, qualified medical research organizations affiliated with hospitals, schools, colleges and universities, (ii) have an active program of fundraising and receive contributions from many sources, including the general public, governmental agencies, corporations, private foundations or other public charities, (iii) receive income from the conduct of activities in furtherance of the organization's exempt purposes, or (iv) actively function in a supporting relationship to one or more existing public charities.

Private foundations, in contrast, typically have a single major source of funding (usually gifts from one family or corporation rather than funding from many sources) and most have as their primary activity the making of grants to other charitable organizations and to individuals, rather than the direct operation of charitable programs.

Public charities generally receive a greater portion of their financial support from the general public or governmental units, and have greater interaction with the public. A private foundation, on the other hand, is typically controlled by members of a family or by a small group of individuals, and derives much of its support from a small number of sources and from investment income. Because they are less open to public scrutiny, private foundations are subject to various operating restrictions and to excise taxes for failure to comply with those restrictions.

Under the tax law, a section 501(c)(3) organization is presumed to be a private foundation unless it requests, and qualifies for, a ruling or determination as a public charity.

Every organization that qualifies for tax exemption as an organization described in section 501(c)(3) is a private foundation unless it falls into one of the categories specifically excluded from the definition of that term (referred to in section 509(a)). In addition, certain non-exempt charitable trusts are also treated as private foundations. Organizations that fall into the excluded categories are institutions such as hospitals or universities and those that generally have broad public support or actively function in a supporting relationship to such organizations.

Even if an organization falls within one of the categories excluded from the definition of private foundation, it will be presumed to be a private foundation, with some exceptions, unless it gives timely notice to the IRS that it is not a private foundation. If an organization is required to file the notice, it generally must do so within 27 months from the end of the month in which it was organized.

There is an excise tax on the net investment income of most domestic private foundations. Certain foreign private foundations are also subject to a tax on gross investment income derived from United States sources. This tax must be reported on Form 990-PF, and must be paid annually at the time for filing that return or in quarterly estimated tax payments if the total tax for the year is $500 or more.

In addition, there are several restrictions and requirements on private foundations, including:

- restrictions on self-dealing between private foundations and their substantial contributors and other disqualified persons;
- requirements that the foundation annually distribute income for charitable purposes;
- limits on their holdings in private businesses;
- provisions that investments must not jeopardize the carrying out of exempt purposes; and
- provisions to assure that expenditures further exempt purposes.

Violations of these provisions give rise to taxes and penalties against the private foundation and, in some cases, its managers, its substantial contributors, and certain related persons.

A private foundation cannot be tax exempt nor will contributions to it be deductible as charitable contributions unless its governing instrument contains special provisions in addition to those that apply to all organizations described in 501(c)(3). In most cases, this requirement may be satisfied by reference to state law.

Restrictions/Obligations of Exempt Organizations

- **Unrelated Business Income Tax**

Even though an organization is recognized as tax exempt, it still may be liable for tax on its unrelated business income. For most organizations, unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the charitable, educational, or other purpose that is the basis of the organization's exemption. An exempt organization that has $1,000 or more of gross income from an unrelated business must file Form 990-T. An organization must pay estimated tax if it expects its tax for the year to be $500 or more.

There are, however, a number of modifications, exclusions, and exceptions to the general definition of unrelated business income.

The obligation to file Form 990-T is in addition to the obligation to file the annual information return, Form 990, 990-EZ or 990-PF. Each organization must file a separate Form 990-T, except title holding corporations and organizations receiving their earnings that file a consolidated return under Internal Revenue Code section 1501.

- **Inurement/Private Benefit - Charitable Organizations**

The organization must not be organized or operated for the benefit of private interests, and no part of a section 501(c)(3) organization's net earnings may inure to the benefit of any private shareholder or individual. If the organization engages in an excess benefit transaction with a person having substantial influence over the organization, an excise tax may be imposed on the person and any organization managers agreeing to the transaction.

A section 501(c)(3) organization must not be organized or operated for the benefit of private interests, such as the creator or the creator's family, shareholders of the organization, other designated individuals, or persons controlled directly or indirectly by such private interests. No part of the net earnings of a section 501(c)(3) organization may inure to the benefit of any private shareholder or individual. A private shareholder or individual is a person having a personal and private interest in the activities of the organization.

- **Excess Benefit Transactions**

An excess benefit transaction is a transaction in which an economic benefit is provided by an applicable tax-exempt organization, directly or indirectly, to or for the use of a disqualified person, and the value of the economic benefit provided by the organization exceeds the value of the consideration received by the organization.

To determine if an excess benefit transaction occurred, include all consideration and benefits exchanged between or among the disqualified person and the applicable tax-exempt organization and all entities it controls.

In addition, if a supporting organization makes a grant, loan, payment of compensation, or similar payment to a substantial contributor of the organization, the arrangement is an excess benefit transaction. The entire amount of the payment is taxable as an excess benefit.

In an excess benefit transaction, the general rule for the valuation of property, including the right to use property, is fair market value. Fair market value is the price at which property, or the right to use property, would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy, sell, or transfer property or the right to use property, and both having reasonable knowledge of all relevant facts.

An excess benefit can occur in an exchange of compensation and other compensatory benefits in return for the services of a disqualified person, or in an exchange of property between a disqualified person and the applicable tax-exempt organization.

Certain transactions to which donor-advised funds or supporting organizations are parties are excess benefit transactions.

An excess benefit transaction occurs on the date the disqualified person received the economic benefit from the applicable tax-exempt organization for federal income tax purposes. However, when a single contractual arrangement provides for a series of compensation payments or other payments to a disqualified person during the disqualified person's taxable year, any excess benefit with respect to these payments occurs on the last day of the disqualified person's taxable year.

Section 4958 applies to all excess benefit transactions occurring on or after September 14, 1995. However, Section 4958 does not apply to excess benefit transactions that occurred under a written contract, if the contract was binding on September 13, 1995 and at all times thereafter before the excess benefit transaction occurred.

A disqualified person corrects an excess benefit transaction by undoing the excess benefit to the extent possible, and by taking any additional measures necessary to place the organization in a financial position not worse than that in which it would be if the disqualified person were dealing under the highest fiduciary standards. The organization is not required to rescind the underlying agreement; however, the parties may need to modify an ongoing contract with respect to future payments.

A disqualified person corrects an excess benefit transaction by making a payment in cash or cash equivalents equal to the correction amount to the applicable tax-exempt organization. The correction amount equals the excess benefit plus the interest on the excess benefit. The interest rate may be no lower than the applicable Federal rate. There is an anti-abuse rule to prevent the disqualified person from effectively transferring property other than cash or cash equivalents.

With the agreement of the applicable tax-exempt organization, a disqualified person may make a payment by returning the specific property previously transferred in the excess benefit transaction. The return of property is considered a payment of cash (or cash equivalent) equal to the lesser of: the fair market value of the property on the date the property is returned to the organization, or the fair market value of the property on the date the excess benefit transaction occurred.

If the payment resulting from the return of property is less than the correction amount, the disqualified person must make an additional cash payment to the organization equal to the difference.

If the payment resulting from the return of the property exceeds the correction amount, the organization may make a cash payment to the disqualified person equal to the difference.

Section 4958 of the Internal Revenue Code imposes an excise tax on excess benefit transactions between a disqualified person and an applicable tax-exempt organization. The disqualified person who benefits from an excess benefit transaction is liable for the excise tax. An organization manager may also be liable for an excise tax on the excess benefit transaction.

These taxes are reported on Form 4720, Return of Certain Excise Taxes on Charities and Other Persons under Chapters 41 and 42 of the Internal Revenue Code.

Section 4958 does not affect the substantive standards for tax exemption under section 501(c)(3) or 501(c)(4). In appropriate cases, the IRS may also propose revocation of tax-exempt status, whether or not section 4958 excise taxes are imposed.

- **Restrictions on Political and Legislative Activities**

Section 501(c)(3) organizations are restricted in how much political and legislative (lobbying) activities they may conduct.

Depending upon the nature of its exemption, a tax-exempt organization may jeopardize its tax-exempt status if it engages in certain activities. For example, section 501(c)(3) charitable organizations may not intervene in political campaigns or conduct substantial lobbying activities.

A ruling may also be requested regarding the effect of a proposed transaction on an organization's tax-exempt status.

- **Required Filings/Disclosures**

Although they are exempt from income taxation, exempt organizations are generally required to file annual returns of their income and expenses with the Internal Revenue Service. Such returns include Form 990, Return of Organization Exempt From Income Tax, Form 990-EZ, Short Form Return of Organization Exempt From Income Tax, Form 990-PF, Return of Private Foundation, Form 990-BL, Information and Initial Excise Tax Return for Black Lung Benefit Trusts and Certain Related Persons, and the Form 1065, U.S. Partnership Return of Income.

Beginning in 2008, small tax-exempt organizations that previously were not required to file returns because their gross receipts did not exceed a certain threshold may be required to file an annual electronic notice.

If an organization has unrelated business income, it must file an unrelated business income tax return. In addition to filing an annual exempt organization return, exempt organizations may be required to file other returns of and pay employment taxes.

At the federal level, most tax-exempt organizations are required to file an annual return or notice with the Internal Revenue Service. Section 6033(j) of the Internal Revenue Code automatically revokes the exemption of any organization that fails to satisfy its filing requirement for three consecutive years. The automatic revocation of exemption is effective as of the due date of the third required annual filing or notice.

Organizations on the Automatic Revocation of Exemption List (Auto-Revocation List) previously recognized as exempt under section 501(c)(3) of the Internal Revenue Code are no longer eligible to receive tax-deductible contributions under Code section 170.

Publication of an organization's name on the Auto-Revocation List serves as notice to donors and others that the organization is no longer eligible to receive tax-deductible contributions under section 170 and that donors and others may not rely on an IRS determination letter dated before the effective date of revocation or on a prior listing in either Publication 78 or the BMF extract for purposes of claiming tax-deductible contributions.

If an organization has had its tax-exempt status automatically revoked and wishes to have that status reinstated, it must file an application for exemption and pay the appropriate user fee even if it was not required to apply for exempt status initially.

If the IRS determines that the organization meets the requirements for tax-exempt status, it will issue a new determination letter. The IRS also will include the reinstated organization in the next update of Publication 78, Cumulative List of Organizations described in Section 170(c) of the Internal Revenue Code of 1986, and indicate in the IRS Business Master File (BMF) extract that the organization is eligible to receive tax-deductible contributions. Donors and others may rely upon the new IRS determination letter as of its stated effective date and on the updated Publication 78 and BMF extract listings.

In most cases, the effective date of reinstated exemption will be the date that the organization's exemption application was submitted to the IRS. However, organizations may choose to request that reinstatement be retroactive to the effective date of revocation. The IRS will grant retroactive reinstatement of exemption under certain limited circumstances.

An exempt organization must make available for public inspection its exemption application. An exemption application includes the Form 1023 (for organizations recognized as exempt under Internal Revenue Code section 501(c)(3)), Form 1024 (for organizations recognized as exempt under most other paragraphs of section 501(c)), or the letter submitted under the paragraphs for which no form is prescribed, together with supporting documents and any letter or document issued by the IRS concerning the application. A political organization exempt from taxation under section 527(a) must make available for public inspection and copying its notice of status, Form 8871.

In addition, an exempt organization must make available for public inspection and copying its annual return. A section 501(c)(3) organization must make available for public inspection and copying any Form 990-T, Exempt Organization Business Income Tax Return, filed after August 17, 2006. Returns must be available for a three- year period beginning with the due date of the return (including any extension of time for filing). For this purpose, the return includes any schedules, attachments or supporting documents that relate to the imposition of tax on the unrelated business income of the charity. See Public Inspection and Disclosure of Form 990-T for more information.

An exempt organization is not required to disclose Schedule K-1 of Form 1065 or Schedule A of Form 990-BL. With the exception of private foundations, an exempt organization is not required to disclose the name and address of any contributor to the organization.

A political organization exempt from taxation under section 527(a) must make available for inspection and copying its report of contributions and expenditures on Form 8872, Political Organization Report of Contributions and Expenditures. However, such organization is not required to make available its return on Form 1120-POL, U.S. Income Tax Return for Certain Political Organizations.

An exempt organization must provide a copy of covered tax documents to an individual who makes a written or in person request at the organization's principal office. If the organization regularly maintains any regional or district offices having three or more employees, it must also respond to request submitted to any such office. Covered tax documents include, in general, the organization's application for tax-exempt status and its annual returns for a period of three years beginning on the date the return is required to be filed. If the request is made in person, it will generally be honored on the day of the request; if it is written, then the organization generally has 30 days to respond. (A request that is faxed, e-mailed or sent by private courier is considered a written request.)

Appendix C

Table A3: Comparative Summary of Tax Exempt Entities & Donee Institutions (source, implementing rules and regulations of PCNC)

Activity	Income Tax Exemption	Full Deductibility	Limited Deductibility	Donors Tax Exemption
Religious	Exempt	Not applicable	Applicable if accredited non-stock, non-profit corporation	Exempt
Charitable	Exempt	Applicable if accredited NGO	Applicable if accredited non-stock, non-profit corporation	Exempt
Scientific Research (Note for purpose of deductibility, “scientific”& “reearch” purposes are defined together)	Exempt	Applicable if accredited NGO	Applicable if accredited non-stock, non-profit corporation	Exempt
Athletics Character Building Youth and Sports Development (Note for purpose of deductibility ”athletic purpose has the same definition as “character building and youth and sports development”	Exempt	Applicable if accredited NGO	Applicable if accredited non-stock, non-profit corporation	Exempt if accredited NGO
Cultural	Exempt	Applicable if accredited NGO	Applicable if accredited non-stock, non-profit corporation	Exempt
Rehabilitation of veterans	Exempt	Not Applicable	Applicable if accredited non-stock, non-profit corporation	Not Applicable
Social Welfare	Exempt	Applicable if accredited NGO	Applicable if accredited non-stock, non-profit corporation	Exempt
Educational	Exempt	Applicable if accredited NGO	Applicable if accredited non-stock, non-profit corporation	Exempt

Source: PCNC

Appendix D

Description of the NGO Database in This Study

Much of the raw data is extracted from the electronic database of the Securities and Exchange Commission (SEC) of the Philippines, which in principle, requires all registered institutions to report and disclose their activities on a regular basis (a minimum of annually). The primary source of data within the electronic database are the NGO's financial statements, which contain statements of assets and liabilities, income and expenses, as well as notes to the financial statements which describe the legal bases for the formation of the NGO, the legal bases for tax exemptions and brief descriptions of their activities. NGOs can benefit from tax exemptions under various laws, but by far the National Internal Revenue Code (NIRC), the chapter in the country's tax code related to NGOs, is cited by most NGOs as the basis for their exemption from paying taxes. After the tax code, NEDA Board Resolutions 2 and 4 (1989) are also frequently cited laws (actually Administrative Orders and not pieces of legislation). Satisfying the preconditions laid out in these resolutions provides basis for obtaining tax exemptions. Beyond the NIRC and NEDA resolutions, a host of other laws and regulations provide bases for conferring tax and other privileges to NGOs.