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NOTES and COMMENTS

The Arts and Section 32 of the 1984 Finance Act*

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I BACKGROUND

Research on the economics of the arts has grown enormously in the last decade (see O'Hagan and Duffy, 1987). One area which has received particular attention is that of tax concessions to the arts (see, for example, Feld, O'Hare and Schuster, 1983; Hochman and Rodgers, 1986; Netzer, 1978; and Schuster, 1985 and 1986). Outside the United States, however, there has been little published research on this topic and the purpose of this short paper is to redress somewhat this situation by examining the 1984 Finance Act as it applies to the arts in Ireland.

Section 32 of the 1984 Finance Act grants a tax reduction for a gift of money to an approved body for the purpose of assisting that body to promote the advancement in the State of approved subjects connected with the arts. It is possible, and had been prior to 1984, for businesses to obtain a tax reduction for sponsorship of the arts provided the Revenue Commissioners are satisfied that the expense has been incurred wholly and exclusively for the purpose of the business. A deed of covenant has also been in existence since 1976, yet it has a limited number of beneficiaries, none of which include an arts institution. Section 32 of the 1984 Finance Act was a new departure then in that it acted as a charitable contribution deduction which was

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targeted *specifically* at the arts. The eligibility requirements are not restrictive and approval under the provision is granted by the Minister for Finance.

Section 32 applies to both income and corporation tax. The net amount of the gift must equal or exceed the lower threshold of IR£100 p.a., while not exceeding the upper ceiling of IR£10,000 p.a. By net amount is meant that the value of any consideration received either directly or indirectly as a result of making the gift shall be deducted from the value of the gift in calculating the total amount of relief due under the section. The relief is once-off, i.e., the net amount may be deducted from the person's income chargeable to income tax for that year alone. In cases where corporate tax is applicable a year of assessment is understood as an accounting period of the company. The net amount of the gift is interpreted as a loss incurred by the company in the accounting period in which the gift was made. The Minister for Finance also has the power to withdraw approval from any body or institution: this is to prevent the provision being used for tax evasion purposes.

By March 1987, a total of 46 bodies had been approved by the Minister for Finance and to assess the financial impact of this provision a short survey was carried out. This took the form of a postal questionnaire, containing four questions, to all 46 approved bodies. A total of 38 bodies replied, which represents a response rate of 83 per cent. The responses to each question are now outlined and discussed.

II SURVEY FINDINGS

Question 1 attempted to ascertain each approved body's assessment of the potential financial benefit of the 1984 Act to their organisation. As may be seen from Table 1, the vast majority did not consider the new provision would have a significant impact on their organisation's financial situation, with less than 11 per cent believing the potential benefit would be "large" or "very large".

Table 1: *Organisations' Assessment of the Potential Benefits from the 1984 Act*

Reply Category	*Assessment*	*No. of Replies*	*No. of Replies as a % of Total Replies*	*Cumulative %*
A	very large	0	0.0	0.0
B	large	4	10.5	10.5
C	moderate	12	31.5	42.0
D	small	11	29.0	71.0
E	very small	9	24.0	95.0
–	negligible	1	2.5	97.5
–	no reply	1	2.5	100.0

Question 2 asked whether the organisation had or had not benefited from the provision to date. The results show that 22 out of 36 organisations or 58 per cent of those who applied for approval had benefited from the provision. As one would expect, the percentage of organisations who benefited is higher in categories B and C than categories D and E, i.e., those bodies who thought the measure was likely to have a large or moderate impact were also more likely to have benefited from the measure. Of the 16 bodies who had not benefited, 5 (1 in category B and 2 each in categories C and D) attached notes explaining that they had only recently received approval or had not yet begun publicising their approval and exploiting this channel of revenue. Of the remaining 11 bodies, 2 mentioned that in the current economic climate, with limited individual or corporate disposable funds, the measure was unlikely to have a substantial effect. Three respondents mentioned that they did not believe Section 32 was sufficiently attractive to firms because they thought the firms were likely to find sponsorship more attractive as a form of donating funds to cultural activities.

Question 3 asked the organisation to indicate the number of donations it received in each of four categories: (i) IR£100-IR£999, (ii) IR£1,000-IR£4,999, (iii) IR£5,000-IR£9,999 and (iv) IR£10,000. The results are presented in Table 2. The pattern of donating is skewed very markedly towards the lower threshold donations, and this applies to both individual and corporate donations (see Table 2). Eighty-three per cent of donations were in category (i), with only 3 per cent in categories (iii) and (iv) combined.

Table 2: *Donations Received in Each Category*

Category	*No. Donations Received*	*Donation Received as % of Total*
(i)	608	83
(ii)	108	15
(iii)	11	2
(iv)	5	1
Total	732	

It is also possible to estimate the total *value* of the donations received under this provision. Our estimate is that the total value of donations received was approximately IR£0.7 million.[1] Table 3 gives a more detailed account of

1. The estimation procedure rests on two sources of information. In certain cases, organisations gave the exact value of donations received, in which case this was the value used. If no precise value was given then a mean value was imputed to all donations within each category. The resulting estimate needs to be qualified in two important respects. First, it is an estimate of the value of donations received by the 83 per cent of the approved bodies that responded. Second, some of these bodies had not yet been in a position to benefit. Thus the IR£0.7m is, if anything, a *lower* bound estimate. The *upper* bound estimate, however, would be unlikely to exceed IR£1.0m.

this estimate, disaggregated by category of donation.

As may be seen, while donations in category (i) represented 83 per cent of the total number, they accounted for only 42 per cent of the total value of donations. Donations in categories (iii) and (iv) combined accounted for 20 per cent of the total value of donations.

Table 3: *Estimated Total Value of Donations Received Under the 1984 Act*

Category	*Total Value of Donations*	*Value as % of Total*
	IR£	
(i)	296,150	42
(ii)	268,500	41
(iii)	90,000	13
(iv)	50,000	7
Total	704,650	

Question 4 asked whether the donations were received from individuals or firms. Donations from individuals constituted a minimum of 43 per cent (316 out of 732) of total donations. Although the number of donations per category of donation was not requested, it was possible to deduce this information from the data supplied. This is presented in Table 4.

Table 4: *Number of Donations from Individuals in Each Category of Donation*

Category	*Total No. of Donations*	*No. of Donations from Individuals*	*Donations as % of Category Total*
(i)	608	249	41
(ii)	108	56	52
(iii)	11	10	91
(iv)	5	1	20
Total	732	316	43

Donations from individuals were lowest for category (iv) and highest for category (iii). On the basis of this information alone it is not possible to provide an estimate of the tax forgone as a result of the IR£0.7m donation. The marginal tax rate of the donors and the corporation tax rate applicable to the donor companies would need to be known for this. However, it is unlikely that the tax forgone would have exceeded IR£0.3 m, i.e., less than 6 per cent of the Arts Council's annual budget.[2]

2. On the basis of the data in Tables 3 and 4, it appears that individuals and companies each accounted for about half of the total *value* of donations. The figure of IR£0.3m then is based on the assumption of an average *marginal* tax rate for individuals of 48 per cent, and 40 per cent for companies.

In conclusion, the main finding of note is that the amounts of money involved both in terms of contributions and of tax forgone are very small, particularly when compared to direct expenditure on the arts such as that of the Arts Council. This is consistent with the experience reported for other European countries that have introduced similar legislation, although no precise estimates appear to be available for these (see Schuster, 1986). It is, however, in sharp contrast to the situation in the United States, where arts-related charitable contribution deductions constitute a tax expenditure which is equivalent to around three times the level of *direct* government expenditure on the arts (see Feld, O'Hare and Schuster, 1983; and Schuster, 1985 and 1986). It appears that legislative provision alone cannot explain these differing experiences. Thus, at a time when a number of European governments may be contemplating further moves towards the United States model of funding, the above would suggest that it could prove much more difficult than initially thought to significantly alter, at least in the short to medium term, the historical pattern of state support to the arts in their countries.

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