

Research on Tax Incentives for Charitable Donations of Non-Monetary Assets by Chinese Corporations

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Corporate donations form a substantial part of social charitable donations in China. Corporate non-monetary asset donations are important in this regard as they bring goods and materials to areas where they are desperately needed. However, the current scope and scale of corporate donations are narrow due to a lack of tax incentives. This paper will explain the incentive effects of the current tax regime by analysing how asset donations are treated by Chinese taxation laws, from the perspective of macroeconomic policies and market demands. It focuses particularly on the relatively heavy tax burden and limited scope for tax exemptions on corporate asset donations in China. In light of this, we propose some pragmatic suggestions on incentivising policies that are more suitable for China's current situation, such as increasing the exemptions before tax and allowing exemptions to roll over to future years, developing incentive policies on indirect and property taxes, and establishing the mechanism for third-party price evaluation and equity donation regulation, etc.

I. INTRODUCTION

1.1 Background

2008 was the pivotal moment in the development of social charitable donations in China, with the rapid growth of charitable organisations and increased public awareness for this type of charity. With an increased number of natural disasters occurring in China in recent years, the demand for charity has increased and channels where disaster-stricken people express their need for help have become more varied. As public awareness increased, so too did the amount of donations. Corporate donations form a substantial part of Chinese social charitable donations, and play a significant role in the development of charitable undertakings in China. According to a questionnaire conducted by the Chinese Entrepreneur Association in 2006, over 90 per cent of Chinese corporations have made charitable donations in the past and these donations accounted for more than half of the total Chinese social charitable donations. Donations of goods, materials and other non-monetary assets were a very important part of corporate donations. In 2007, the value of donated goods and materials were worth 5.385 billion RMB, which comprised mainly medical equipment, medicine, production equipment and teaching instruments, with five corporations having donated more than 50 million RMB worth of such goods and materials. In 2008, goods and materials donated were worth 20.88 billion RMB, which accounted for 19.5 per cent of the total donations for the year. This was mainly due to the Wenchuan earthquake in 2008, which created a large demand for tents, food and daily necessities in the affected regions. In 2009, the total amount of good and material donations was worth 17.5 billion RMB, of which most of them were quilts.

There are two positive effects as a result of corporations being able to conduct charitable operations. Firstly, donations will benefit people in poor and disaster-struck areas, through greater participation in charitable programs by commercial corporations, the fruits of the economy will be spread more evenly and as the third distribution, it will create a positive social atmosphere that can influence society and the economy. Secondly, corporate donations are an effective way of improving a business' corporate image, attracting more customers and expanding market influence. Appropriate donations can become part of a strategy to achieve profit maximisation.

1.2 Scope of Research and Concept Definition

This paper will discuss tax issues for corporate donations and focus on incentives for donations of non-monetary assets. Non-monetary assets are a very important part of corporate donations; however, the timely distribution of these materials is important for those areas and the people who require them. Goods and materials donated and their methods of distribution have become more varied as the capital market has and continues to become more mature and awareness of social charity has increased.

In this paper, it is important to note three important definitions. The first is 'charity', and its differences in regards to social welfare. The goal of charity is to alleviate poverty, to help the poor and care for the needy. It is the integration of love, virtue and philanthropy. The goal of social welfare is to address social needs, to enhance public benefits and to resolve social problems. In this sense, the extension of public welfare is wider than that of 'charity'. The second definition is 'charitable donations'. According to Article 51 in The Release of Regulations on the Implementation of Enterprise Income Tax Law of the People's Republic of China by the State Council, public welfare donations indicated in Article 9 are donations which enterprises have made through social welfare organisations, people's governments or other relevant administrative departments which are above the county level, with their use as stipulated in the Welfare Donations Law of the People's Republic of China. Charitable donations are part of public welfare donations and should be made through social welfare organisations and other recognised organisations. The third definition is 'non-monetary assets', which includes all assets except monetary assets, including assets such as inventory, fixed assets, intangible assets, equity and bonds not prepared to be held to maturity.

II. LITERATURE REVIEW AND RESEARCH FRAMEWORK

The notion of charity began early in Western countries, with there being many relevant theories and empirical research on tax incentives since the 1960s. However, most research has focused on individual donations. Charity in China developed rapidly despite its late start, and while there has been much research on charity in China, such research was not authoritative, as the statistical standards used were inconsistent and the relevant policies and regulations in force were incomplete. There is also foreign and local research on tax policies, incentives for corporate donations and motives for corporations to donate.

2.1 Foreign Research on Corporate Donations

R A Schwartz (1968) used aggregated data from 1931 to 1961 to conduct a regression analysis on facts including the amount of donations, tax rate, price of donation and corporations' income. He concluded that the amount of donation, the corporation's income and cash flow all have a significant impact on corporate donations. Among them, the impact of a change in cash flow was more significant than a change in the income of the corporation. His conclusion reflected that the price elasticity of donations in most industries was between -1.06 and -2.00, and the income elasticity was between 0.53 and 1.34, proving that tax deductions on donations was of great significance. James R. Boatsman and Sanjay Gupta (1996) used panel data from 1984 to 1988 to show that corporations' donations would reduce net income, thus corporations are limited by their net income when they are making a decision on donations. The income effect of the price of donation was more important than the substitution effect. Corporate donations would decline when corporate income tax

rates increase. William O Brown, Eric Helland, and Janet Kiholm Smith (2006) pointed out that the existence of agency costs played a leading role in corporate donations. Corporations with larger boards of directors tended to give more donations in cash and have their own corporate charitable foundations. In contrast, corporations with higher asset-liability ratios tended to make fewer donations and did not have their own corporate foundations.

2.2 Chinese Research on Corporate Donations

Cao Hongbin (2006) suggested that government expenditure in education, public health, social security and other areas had a positive correlation with corporate donations. The increase of government expenditure led corporate donations to increase and the two would 'merge'. Guo Jian (2008) provided a systematic analysis on the inner motives and external factors of corporate donations. He divided the inner motives into three kinds according to the degree of altruism: pure altruism, mutually beneficial, and deriving immediate benefit. From a demand and supply perspective, philanthropy demand, main donors, methods of donation, non-profit organisations and government policies were the external factors which influenced social donations. Furthermore, according to the utility maximisation model, he concluded that tax incentives had a long-term effect on corporate donations, and empirical analysis revealed that the amount of corporate donations and taxes on prices were negatively correlated. Huang Guixiang and Huang Huaqing (2008) used a cost-benefit analysis to study the effects that tax had on donors. They concluded that increasing the benefits or reducing the tax cost could effectively encourage donations. They also divided tax incentives into total tax incentives and partial tax incentives, concluding that tax-free donations would encourage more donations and partial tax-free donations would inhibit charitable behaviors of generous donors. Chen Honghui and Wang Pengfei (2010) based their research on the theory of stakeholders, taking external factors affecting donations by privately-owned corporations in Guangdong province as data for empirical analysis. They proposed that the corporation's image, charitable decision mechanism, size and life cycle stage had a significant impact on corporate donations. Privately-owned corporations should combine internal resources and the external environment to make strategic charitable donations, which would contribute to the businesses' sustainable development.

2.3 Research Frame

In contrast with other research which focuses on donations of monetary assets, this paper will focus on non-monetary asset donations by corporations. Firstly, this paper will analyse the great importance that non-monetary asset donations have on the government and on corporations. We will study the impact of the orientation of the government and the motivation behind corporations donating. Secondly, we will analyse current tax policies on non-monetary asset donations and their incentivising effects. We will divide non-monetary asset

donations into four categories: products that are either produced by the corporation or externally bought, fixed assets such as factories and machinery, intangible assets such as land-use rights, and finally shares and equity. We will calculate the tax burden using an example from each category. It should be noted that this paper will discuss local corporations and non-monetary assets produced or purchased locally, without reference to foreign corporate donations and donations of imported goods. We are also ignoring creditors' donations because donations of creditors' rights are usually donated by individuals and are not clearly regulated. Finally, keeping in mind the current circumstances in China, we will suggest recommendations to optimise tax incentives for corporate non-monetary asset donations.

III. Analysis of Government and Corporations in Non-Monetary Asset Charitable Donations

3.1 Role of the Government

3.1.1 Government's Role from the Perspective of the Social Distribution Mechanism

The demand for charity in China is not met with adequate supply. For a long time, wealth inequality, uneven developments between regions, natural disasters and the expansion of polluted areas have posed great challenges for the government and its ability to mobilise social resources and to control the distribution mechanism for the community.

Li Yining, a leading economist, divided the present social distribution mechanism into three levels: initial distribution, redistribution and the third distribution. The market dominates the first distribution with market efficiency. However, due to market inefficiencies and defects such as market failure, externalities, transaction costs, unfair distribution of income and consumer preferences, the government carries out redistribution with a view to achieve greater fairness. This is generally done by generating government income through taxes, fees, benefits and debt, which is then used to fund social welfare systems, public services, etc., in order to redistribute income.

However, as welfare systems in China have not been fully developed, there is a large demand to relieve the poor and needy. Thus, the third distribution comes into effect. The third distribution is the mobilisation of social resources to establish systems and mechanisms which primarily serve to provide charitable relief and donations, along with volunteer services. It serves as a supplement to governmental redistribution. Among them, charitable aid is an extremely important part of the third distribution. Donations, as the main form of charitable aid, are complementary to market and government distribution, which can better promote social harmony and realise social care. Therefore, the government should use taxation policies as leverage to promote and support such donations.

3.12 Government Role from the Aspect of Government Credibility

The government should act as a coordinator and policy supporter for corporate donations. A coordinator does not interfere using administrative means, but will implement appropriate policy to establish a positive communication platform between corporations, charities and the recipients of donations. To fulfill this role, the government must create a loose policy environment and lead corporations and the public through public advertisements and other appropriate means.

Fulfilling this role helps to improve the credibility of the government and the existence of charitable donations can effectively fill the gap left by government services, increasing public satisfaction and thus maintaining social stability. Moreover, the government can lead public discussion to promote charity through a variety of activities, including a display of its approval of charitable involvement, publicising philanthropic slogans and screening philanthropic advertisements. An improved atmosphere for charitable operations due to government support will increase the public's satisfaction towards the government.

If charity-related policies are fully implemented, the credibility of the government will be improved. Under these circumstances, good relationships between the government, corporations and charities will require corporations and charitable organisations to comply with financial and taxation laws, in conjunction with the cooperation of the tax offices in interpreting and applying national policies. All of the above will help to maintain the authority of the law and, overall, assist in maintaining society's trust.

3.13 Government Role from the Perspective of Quasi-Public Goods

Most of the goods and services provided by charity are quasi-public goods. Public goods have two features according to the theory of public finance: they are non-exclusive and non-competitive. Governments will provide public goods when their provision by private entities cannot fully meet social demand, but these goods may be produced privately or publicly. On the other hand, quasi-public goods are generally provided mutually; in other words, the government and the market will both supply it. In addition, as mentioned above, tax incentives can effectively encourage corporate donation, and the loss of government income due to tax reductions or tax breaks would be far outweighed by the increase in donations due to increased incentives.

With the increased operating efficiency of the private sector, the use of tax incentives to encourage donations ensures that corporate donations, especially non-monetary asset donations, can truly help poorer areas and vulnerable groups through the cooperation of the government,

corporations and charitable organisations.

3.14 Principles of Tax Incentive Policies

According to tax equity and tax efficiency theories, the government should make the principles and the effects of tax incentive programs clear when determining their roles. The principles should realise tax equity and achieve tax efficiency. On the one hand, fair taxation requires the avoidance of double taxation on charitable donations. Furthermore, the same amount of donations in different forms should have the same amount of tax applied. Only then can the government encourage corporations to actively participate in donations in a variety of ways. Otherwise, the forms and sources of donations will be very limited.

In addition, the reduction of management and compliance costs should be a consideration when developing tax incentive policies. The government can encourage corporate donation through effective measures and centralising management systems, making it easier for corporations to donate. At the same time, simplifying procedures and increasing publicity can attract more corporate donations while not allowing for the existence of loopholes for tax evasion.

3.2 Motivations of the Corporations

3.21 The Cost-Profit Analysis of Corporate Donations

As corporations aim to maximise profits, they will conduct a cost-benefit analysis when making donations.

There are two sources of costs in corporate donations: one is the direct cost which equates to the market value of the property donated, denoted by C_1 , and the other is the indirect cost from taxes, other fees, and the expenses from the use of human and material resources throughout the donation process, denoted by C_2 .

The benefit of corporate donations is threefold: the first is the realisation of the management's altruistic inclination and the corporation's benevolent goals, denoted by R_1 ; the second one is the positive social reputation and honor granted by the government that the corporation gains through the donations, denoted by R_2 ; and the third is the partial reduction in the expenses of donations before tax, which reduces the actual cost of donations, denoted by R_3 . Corporations will decide to donate only when $R_1 + R_2 + R_3 \geq C_1 + C_2$. Additionally, the more altruistic the management, the more honour awarded by the public and government, and the higher the amount of tax deduction available, the greater the motivation of the corporations to donate to charities.

3.22 The Analysis of the Marketing and Brand Strategies of Corporate Charitable Donations

Corporations have a greater demand for corporate donations from the perspective of marketing and branding strategies. The charitable donation of non-monetary

assets is an ideal method for corporations to market their products. Corporations with higher advertising expenses are more inclined to make non-monetary asset donations, as this is one of the most important marketing techniques.

In comparison with traditional monetary asset donations, non-monetary asset donations provides the corporation with a variety of donation methods, such as donating products with the corporate brand or logo, building schools or water conservation facilities in rural areas. Thus, the corporation can influence students and the poor, which make up an overwhelmingly large proportion of the Chinese population.

Taking P&G's sponsorship support for education in China as an example, P&G places a high priority on supporting education from kindergarten to university. By having substantial sponsorship in China's education sector, they are influencing the Chinese with bright abilities, the people P&G hopes to attract to join their company. Apart from acquiring acknowledgement by the government, it is also highly beneficial in promoting their products and brand.

The corporation can receive social honor and approval through making charitable donations, and therefore obtains a series of marketing opportunities. The corporation can also refer to its altruistic behaviors in its annual reports, securities analysis reports, sales manuals, advertisements, news reports, staff communications notices and business letters to raise awareness of their acts. This attracts even more customers and nurtures a stronger sense of honor and belonging in their staff towards the company.

3.23 Liquidity Analysis of the Assets Donated by the Corporations

It is necessary for a corporation to maintain liquidity in order to survive. This is also where monetary assets and non-monetary assets differ. Monetary capital, transactional monetary assets and investments that are held up to three months are regarded as money equivalents and possess high liquidating ability. Monetary assets are clearly more liquid than non-monetary assets. By donating the corporation's highly liquid monetary assets, the corporation's liquidity will change. If the corporation's donations are done on a large scale, its liquidity will be severely affected, which is unfavorable for the corporation's operation from the view of risk management.

Non-monetary asset donations are not limited by the liquidity constraint. Moreover, an appropriate amount of non-monetary asset donations at the appropriate timing will support and assist in maintaining a proper inventory turnover ratio. For listed companies, having good operating capacity contributes positively to the corporation's image.

Corporations that require high liquidity, such as those carrying out expansion plans, companies whose products have a high circulation rate, companies that do not have high

bargaining power etc., should be cautious when making charitable donations. Taking liquidity into consideration, these corporations will have lower motivation to engage in monetary asset donations. Therefore, the government should encourage more non-monetary assets charitable contribution.

In conclusion, there is a two-way demand for non-monetary asset donations by the government and corporations. Altering corporate donations from a government requirement to market motivation is an important issue discussed by the government and society. Not only are corporation donations an important source of social charity, it is also a fundamental component in the development strategy of the corporation. This is particularly true, as making non-monetary asset donations will become an increasingly popular method of corporation donation.

IV. EFFECTS OF CURRENT POLICIES AND INCENTIVES

The form of non-monetary asset donations has been changing according to the changes in demand and has become more diversified in nature. The four main forms of non-monetary asset donations that are currently used include the donation of produced or purchased products, donation of fixed assets, donation of intangible assets and donation of equity. Among them, equity donation is a new form of donation, which appeared with the development of capital markets and improvement of charitable awareness in China. This paper will review the current policies in accounting and taxation and reflect on the effectiveness of these tax incentives.

4.1 The Differences of Current Policies in Accounting and in Taxation

Under the current laws and regulations, there are different tax and accounting policies for different forms of corporation donation. This paper will analyse each in the following table. It should be noted that the following discussion does not consider urban maintenance and construction tax, and the additional tax on education funds.

According to tax regulations, the fair value mentioned above should meet the following conditions. Corporations should provide certification which states the fair value of the non-monetary assets being donated when they donate through social public welfare organisations, other non-governmental organisations and local governments above county level. If the above certification is not provided, the organisations that have received the donations cannot issue the donation invoice that corporations need to obtain tax benefits.

	Inventory	Fixed Assets	Intangible Assets	Equity
Concept	Donation of medicine, tents, drinking water, quilts and other items urgently needed. This includes goods that are produced by the corporation as well as those purchased from external sources.	Donation of vehicles, electronic equipment, plants etc. This includes new purchases or fixed assets that have been used for years but are still workable.	Donation of self-developed or purchased software, land-use right etc.	Donation of property rights, company shares, etc.
Accounting Method	Dr. Non-operating expenses (donation expenditure); Cr. Finished goods/ Raw materials (valuation at cost); Tax payable -value added tax (valuation at the product's fair value and appropriate tax rate);	1. Fixed asset disposal Dr. Fixed assets disposal (net book value); Accumulated Depreciation; Depreciation reserves of fixed assets Cr. Fixed assets (original cost); 2. Disposal cost and relevant taxes Dr. Fixed assets disposal Cr. Cash in bank (disposal expense); Payable taxes (relative taxes; if the purchase is made after 2009, value-added tax); 3. Carry forward to fixed assets net profit and loss Dr. Non-operating loss (donation expenditure); Cr. Fixed assets disposal	Dr. Non-operating expenses (donation expenditure); Depreciation reserves of intangible assets; Cr. Intangible assets	Dr. Non-operating expenses (donation expenditure); Cr. Long-term investment on company stocks
	For expenses incurred outside business operation in the income sheet, they have to be less than 12% of the financial year's accounting profits in order to be deductible, with deducting limit applied.			
Taxation Methods	1. If regarded as sales, value added tax should be paid. 2. If regarded as sales of special goods, consumer tax should be paid. 3. If regarded as sales and the amount of donations is calculated into non-operating income, for the part that is over 12 per cent, enterprise income tax should be paid.	1. If regarded as property transferring, value-added tax should be paid (The tax rate is chosen based on the method of obtaining the assets). 2. If regarded as selling and the amount of donations is calculated into non-operating income, for the part that is over 12 per cent, enterprise income tax should be paid.	1. For donations of land-use rights, normal tax payable behaviors are carried out and sales tax should be paid. 2. If regarded as selling and the amount of donations is calculated into non-operating income, for the part that is over 12 per cent, enterprise income tax should be paid.	There are currently no clear or special regulations for equity donation.

4.2 Tax Burden Comparison Under Three Different Conditions (With Examples)

From the analysis above, we can conclude that the amount of donations of inventory, fixed assets and intangible assets will not be calculated as an income in accounting, but related taxes should be paid according to tax laws and regulations. Unlike individual income tax, all donation expenditure should obey the partial deductions rules. There are no special items from which donations can be fully deducted before tax under corporate income tax calculations. In the following case, taking an inventory donation as an example, the taxes under three different situations will be discussed, using donations of the same scale or the same fair value. The tax burden of charitable non-monetary asset donations, charitable monetary asset donations and general goods and material sales is compared.

For example, A Co. Ltd. is a general tax payer of value-added tax; they have donated some self-produced computers to the schools in the underprivileged mountain region through the local Civil Affairs Bureau in May, 2010. The net value of the computers was 800,000 RMB. The tax deductible was 85,000 RMB. It is assumed that at the time of the donation, the fair value of these computers was 1 million (without tax) and the profit earned by A Co. Ltd. was 5 million this year (it is also assumed that there were no other adjustment events, the profit did not include the donation and the enterprise tax rate was 25%).

Taxes to be paid are calculated in the following three scenarios:

- 1) In a situation as described above.
- 2) In a situation where A Co. Ltd. first sold these computers and then donated the money to the schools in the poor mountain region.
- 3) The tax burden of selling the computers directly.

The calculations are as follows:

Categories Items of Taxation	Non-Monetary Asset Charitable Donations (situation 1)	Monetary Asset Charitable Donations (situation 2)	Normal Sale (situation 3)
Value-Added Tax Payable	$17-8.5=8.5$	$17-8.5=8.5$	$17-8.5=8.5$
Enterprise Income Tax Payable	1. Taxable income (adjusted for sale)*: $100-80=20$; 2. Total accounting profits: $500-97=403$; 3. Taxable income over 12% of total profit; $97-403 \times 12\%=48.64$ 4. Tax payable: $(20+48.64) \times 25\%=17.16$	1. Total Accounting Profits: $500+100-80-100=420$; 2. Deductible income before tax: $420 \times 12\%=50.4$; 3. Taxable income over 12% of total profit: $100-50.4=49.6$ 4. Tax payable: $49.6 \times 25\%=12.4$	Tax payable: $(100-80) \times 25\%=5$
Total	$8.5+17.16=25.66$	$8.5+12.4=20.9$	13.5

* income regarded as sales revenue

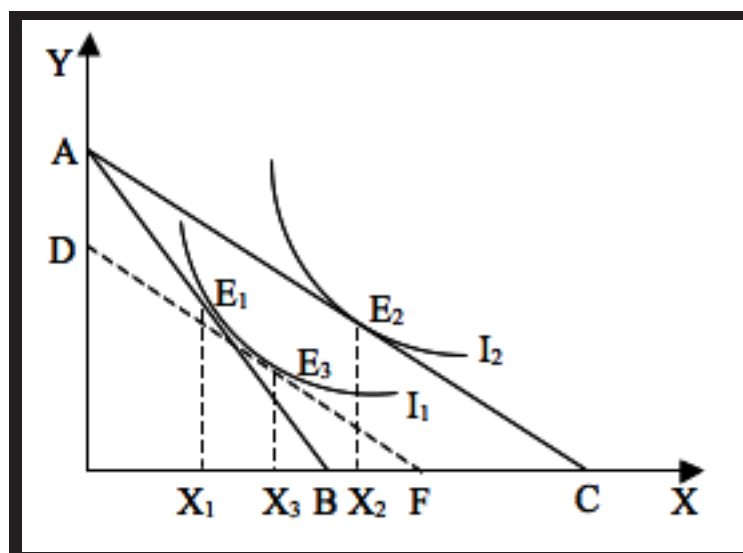
According to the calculations above, we find that non-monetary asset donations bear the highest tax burden, followed by monetary donations and the least for normal sale. Particularly, non-monetary donations bear nearly twice the taxes as that of normal sale. This reflects the onerous tax burden borne by corporate non-monetary donations, which discourages firms to donate.

4.3 Analysis of Tax Incentives in Current Policies

According to current tax law, various taxes including enterprise income tax, deed tax, land appreciation tax, stamp duty tax and many other indirect taxes (value added tax, consumer tax and business tax) will be incurred upon donation.

Donation expenditure, which is less than 12 per cent of accounting profits, can be deducted when calculating enterprise income tax, which will reduce donation cost and encourage donations. In this paper, we build a simple model to analyse the effects of tax incentives on charitable donations.

FIGURE3-I. DECOMPOSITION OF THE EFFECTS OF TAX INCENTIVES ON CORPORATE DONATIONS



The X-axis is the amount of the corporate donations while the Y-axis represents the amount of wealth owned by the corporation, and AB is the budget curve of the donor. Assume that the prices of donating and owning the wealth are both 1, without tax. In this case, the quantity donated is X_1 . After tax incentives are applied, the price of owning the wealth changes to $(1-t)$. The budget curve turns into AC and the indifference curve changes from I_1 to I_2 , because the total wealth owned remains unchanged. Now, let's imagine that the donor makes more donations and the quantity increases to X_2 . The change from X_1 to X_3 comes from the substitution effect of tax incentives and the change from X_3 to X_2 represents the income effect. Both effects are positive, so tax incentives encourage more donations. Besides, the larger t is, the higher utility will be, and the stronger tax incentive effects are.

For the current policies of indirect taxes (value added tax, consumer tax and business tax) in China, the donations of self-produced, consigned manufacturing or purchased raw material and products, fixed assets, intangible assets and securities should be managed under two categories, namely, sale and donations, to calculate enterprise income tax. When donating, corporations are still required to pay indirect taxes even though they do not make any profit. For imported goods and materials, tariffs will be imposed except if the goods and materials are donated by foreign governments, international organisations and by those who have special regulations for tariff-free donations, which will reduce the enthusiasm of corporations.

For some donations, such as donating real estate, corporations will bear property taxes, which includes deed tax, land appreciation tax and stamp duty tax. Thus, the amount donated by the corporations will be reduced because of these taxes. Also, part of deed tax is paid by the recipient, so the amount received is different from the amount donated, which will impact negatively on corporate charitable donations.

To summarise the preceding analysis, there are several pitfalls with respect to current tax policy of non-monetary charitable donations.

1. Non-monetary charitable donations bear heavier tax burdens in that corporations need to pay indirect taxes and property taxes, while the amount deductible from income tax is lower.
2. Categories of deductibles are ambiguous.
3. While many different forms of non-monetary charitable donations are in place, relevant legislations and regulations are still lacking, which impacts negatively on corporate donation and governmental control.

V. OPTIMISATION PROPOSALS ON THE TAX INCENTIVES OF NON-MONETARY CHARITABLE DONATIONS BY CORPORATIONS

The Guideline for the Development of China's Charity (2006-2010) was made in 2005. The guideline suggests that the Chinese government should regard the improvement of the tax reduction policy on charity and the protection of the enthusiasm of the public charitable donations as the fundamental policies and measures. However, hitherto, no obvious progress was made on the reform of charity taxes except that the deductible income before tax rate has been increased from 3 per cent to 12 per cent in Enterprise Income Tax Law. Therefore, the Chinese government should make suitable tax incentive policies based on China's charity development, while learning from the experiences of other countries and taking China's specific circumstances into account. According to the previous analysis, we propose the following policies to optimise the handling of charitable donations both in tax law and in tax management.

5.1 To Increase Tax Deduction Limit and To Allow the Deduction Accruing to Future Years

Currently, the tax burden of corporate charitable donations of non-monetary assets in China is still high, compared with other countries or other kinds of donations. Double

taxation also exists. In the United States, corporations are allowed to accrue the excess that is over the donation limit to later years and to deduct them before tax. Usually, the time limit is five years. In Germany, tax is deducted differently for charitable donations and non-charitable donations, according to two different criteria. These tax arrangement works more efficiently in meeting different needs of corporations. Learning from the experiences of the United States and Germany, the Chinese government should relax the tax deduction limits on the rescue in natural disasters, aid to poverty, assistance to the disabled and to other disadvantaged social groups, for example, donations to compulsory education in rural areas, the cultural construction in the Midwest rural areas and the employment of the disabled. The excess of the donation over the limit should be permitted to accrue to the next 3 to 5 years. Hence, some large donation expenditure can be deducted before tax, which encourages corporations to provide the timely aid when catastrophes occur.

5.2 Exemption on Indirect Taxes and Property Taxes

The deficiency in the tax preference on indirect taxes (value added tax, consumer tax and business tax) and property taxes is the shortcoming in the tax law of corporate charitable donations on non-monetary assets. This defect even prevents corporate donations. Actually, the demand for corporate non-monetary donations is very large. For example, during the Wenchuan earthquake, some corporations would donate their medical care products, tents and drinking water in stock, which were goods and materials in urgent need in areas affected by the disaster. Though tax-free policies were set for these donations, these policies did not survive for similar events. Therefore those tax-free policies are only available in special cases. In fact, the Chinese government should exempt tax for corporations that make charitable donations on non-monetary assets, such as rescue in natural disaster, aid to poverty and help for the disabled. In those circumstances, certain donation certificates should be given by state accredited agencies for exempting relevant indirect taxes and property taxes. Furthermore, these policies should be established by law.

5.3 To Establish A Third-Party Price Evaluation Mechanism

A third-party price evaluation mechanism should be established in China, and criteria of donation acceptance as well as an assets evaluation brochure should be developed. They should also be monitored in the ISO quality management system. Volunteers should be recruited for price evaluation of charitable donations. Price evaluation is vital for both for the corporation and the tax imposer, because it concerns the amount of charitable donations of non-monetary assets. Since the estimated value of the donation can affect the deduction amount before tax directly, therefore only independent and fair price evaluation mechanism can guarantee the good operation of non-monetary charitable donations, which then can satisfy the donation need of corporations, thereby increasing the

amount of non-monetary asset charitable donations, as well as promoting the development of China's charity. In addition, the third-party price evaluation mechanism is beneficial in enhancing public credibility in charity, and the volunteers' work can lower the cost of the donation.

5.4 To Legislate On Equity Donation

The Chinese government should accelerate the process of legislating new forms of donation, including equity donation, and regulating equity transfer and donation, as well as regulating the operation modes of different funds. The family businesses in China are facing the taking over period. During this process, many enterprise funds probably will appear, including charitable donation funds. However, many funds in China are being affected by heavy bureaucracy, and private equity is usually in unfavorable situations. Therefore, the key to Chinese charity development is to explore suitable fund modes to provide healthy growing space for the funds. Although there is little difference between equity transfer and equity donation in terms of forms, what is transferred differs greatly; hence clear distinction should be made to prevent tax evasion. At the same time, relevant documents should be published for the right accreditation and procedure of equity donation deduction before tax, and higher level of monitoring and relevant legislations should be applied to manage the value uncertainty and tax revenue issues.

5.5 To Simplify the Procedure and to Strengthen Tax Administration

The Chinese government should simplify the application procedure of charity organisations, regulate the invoicing of charitable donations, integrate the donation system with the tax systems and share information together in possible places. In recent years, the number of charity organizations has expanded rapidly, but their coverage in China remains limited. Many not-for-profit organisations are registered in the Industrial and Commercial Bureau as companies because of the complicated application procedures. This will certainly lead to double taxation and affect the long-term development of such organisations. In addition, the administration of donation invoices is also very important, for they are the only original documents which corporations can use to for tax exemption purposes. It is also very helpful for non-profit organisations to regulate their financial management. In terms of information sharing, the local donation system should share information with the tax administration systems. Tax officials can then access relevant information when corporations make donations. This can lower the tax administration cost and tax compliance cost.