

CULTURE CHANGE IS HARD

Evidence from a tax reform in the Netherlands¹

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1 Context

All around the world, governments stimulate individuals and corporations to give to nonprofit organizations by providing tax incentives. How can such tax incentives be designed to encourage individuals and corporations to support nonprofit organizations? In this chapter, we provide evidence on a legal reform in the Netherlands introduced in 2012. The reform (Weekers, 2012) not only changed conditions for all registered charities in the Netherlands but also targeted one specific sector: the cultural sector. In this chapter, we answer the following two research questions: (1) How did giving to cultural nonprofit organizations change after the charity law reform between 2011 and 2018? and (2) How did fundraising by and entrepreneurship within cultural nonprofit organizations change after the charity law reform between 2012 and 2019?

Giving in the Netherlands. The Netherlands is a country with a long and rich philanthropic history (Wiepking & Bekkers, 2015, p. 211). Data on giving behavior in the Netherlands became available in the mid-1990s. We have evidence that amounts donated to charitable cases increased substantially since then (Bekkers, Gouwenberg & Schuyt, 2020). Philanthropic giving in the Netherlands to all causes amounted to €5.7 billion in 2018 (Bekkers, Gouwenberg & Schuyt, 2020). There is a widespread participation in charitable giving in the Netherlands, with about 80% of Dutch households giving to charity (Bekkers & Van Teunenbroek, 2020; Van Teunenbroek & Bekkers, 2020). This puts the country in the top 10 of the World Giving Index (CAF, 2019). Yet philanthropy entails only a small fraction of the economy; the total value of philanthropy in the Netherlands amounts to 0.85% of GDP (Bekkers, 2018; Bekkers, Gouwenberg & Schuyt, 2020). In the Netherlands, philanthropy is generally viewed as a complement rather than a substitute to government intervention (Wiepking & Bekkers, 2015). In 2018, on average, a household donates 265 EUR per year, with a median gift of 55 EUR (Van Teunenbroek & Bekkers, 2020).

Reform objectives. One goal of the reform of the law on giving (“Geefwet”) was to reduce the dependency of the cultural sector on government grants. The reform intended to encourage philanthropic giving by both private donors and corporations, and to stimulate entrepreneurship by cultural nonprofit organizations (De Nooij, Bekkers & Felix, 2017; Franssen & Bekkers, 2016; Koolen-Maas, Van Teunenbroek & Bekkers, 2021). To achieve these objectives, the government enhanced the deductibility of donations to cultural nonprofit organizations and cultural organizations were given more freedom to earn commercial income.

How the reform could diversify income sources. In theory, the legal reform in the Netherlands facilitated a more diverse income portfolio for cultural nonprofit organizations, such that their dependence on government funding would reduce. Generally speaking, nonprofit organizations draw financial support from multiple sources, including private and corporate donations, commercial activities, government support and other sources of income – resulting in a mix of income sources. Generating a sufficiently robust and diversified mix of income is critical to sustaining the nonprofit organization (Chikoto-Schultz & Sakolvittayanon, 2020; Hung & Hager, 2019). Strong dependence on a single source of income could endanger the organization if income from that source is suddenly reduced. Thus, nonprofit organizations are advised to diversify their income sources. Earning more non-government income could substitute for reduced income from government grants. Private donations and commercial activities provide sources of income that may help organizations survive and thrive when income from government grants is reduced. To provide cultural nonprofit organizations with more freedom to earn commercial income, the legal reform permitted organizations to engage in commercial activities, as long as 90% of the activities benefit a public goal and total income does not exceed expenditure.

Tax incentives for donations. Governments can support nonprofit organizations with direct subsidies in the form of government grants or tax exemptions and rebates, as well as with indirect subsidies such as tax incentives for donors. Tax incentives can take many forms (European Fundraising Association, 2018; OECD, 2020). The Netherlands is one of many countries to offer charitable deductions for donations from taxable income of individuals or corporate profits. Both tax deductions and tax credits are indirect subsidies because they benefit nonprofit organizations indirectly through a price effect on donors. The lower tax-price allows donors to give more at the same cost to themselves. The tax incentives benefit nonprofit organizations only when donors are price sensitive and increase their donations as a result of a lower price of giving. Therefore it is crucial to know to what extent donors to the cultural sector are actually using the deduction and are aware of the enhanced deductibility through the multiplier.

Tax treatment of philanthropic organizations in the Netherlands. Before the reform, the Netherlands was already providing an excellent environment for charitable causes (Hudson Institute, 2013). The Netherlands has favorable tax treatment of philanthropic organizations, ranking number 1 on the Index for Philanthropic Freedom (Hudson Institute, 2015) and the Global Philanthropy Environment Index (2018). Philanthropic organizations in the Netherlands are exempt from income tax, estate tax and gift tax. There is no spending requirement for foundations and no mandatory disclosure of large gifts. On the donor's side, the Dutch tax deduction scheme offers tax incentives on individual and corporate donations. For instance, donors can deduct the value of their gift from the income tax up to 10% of total income when the recipient is registered as a public benefit organization (“ANBI”). Planned gifts are deductible from the income tax for private taxpayers when they are declared in an official deed by a notary. Occasional gifts are deductible when they exceed the threshold of 1% of pre-tax income. Corporate taxpayers can deduct the annual value of their donations up to 50% of their annual profit or revenues.

A separate status for cultural nonprofit organizations. The charity tax reform created a separate category of tax-exempt nonprofit organizations: cultural nonprofit organizations registered as a public benefit organization (“Culturele ANBI”). To register as a cultural ANBI, the nonprofit organization must be for at least 90% committed to and focus on activities in the cultural field (Belastingdienst, 2021). The tax code itself does not specify exactly which purposes and activities belong to the sphere of culture. In practice, a wide range of nonprofit organizations qualify. Registered cultural nonprofit organizations include museums, archives, theatres, libraries and heritage preservation societies, as well as (pop) music, dance and film festivals. The more than

4,000 organizations registered in 2020 include museums with collections of global significance attracting millions of visitors per year, as well as many small, locally bound associations run by volunteers that do not have their own building that is open to the public.

A multiplier for donations. The legal reform in the Netherlands enhanced the deductibility of donations by individuals and corporate taxpayers to registered cultural nonprofit organizations through a multiplier. The multiplier of 1.25 for individuals is capped at a deduction of 10% of tax income. The multiplier of 1.5 for corporate taxpayers is capped at 50% of profit with a maximum of €100,000. Through the multiplier, households and corporations could give higher amounts at the same price. An example: consider a €1,000 gift to a registered cultural nonprofit organization by a household with an income of €60,000 and a marginal tax rate of 52%. In the old situation, the charitable deduction would reduce the price of the gift to €480. For the calculation of the tax deduction after the reform, the gift may be multiplied by 1.25. The tax-deductible amount of €1,250 results in a tax benefit of €650 ($1,250 \times 0.52$). Thus, the net cost of the €1,000 donation is only €350. If the household uses the tax benefit to increase the amount donated up to the previous price point of €480, it may give €1,371 at no additional cost (Bekkers & Franssen, 2015). By making donations to cultural nonprofit organizations more attractive, the Dutch government expected that donations would increase. The government budget for 2012–2015 included a projected decrease in the income tax as a result of an increase in the charitable deduction, amounting to €22 million per year (De Jager & Weekers, 2012, p. 45).

Concerns about substitution. Because the reform made giving to culture more attractive than giving to other charitable causes, donors may have redirected their giving to cultural nonprofit organizations. When introducing the tax reform, the minister stated that such substitution effects are unlikely to occur because amounts donated to culture tend to be low (Bekkers & Mariani, 2012) and sought approval from the European High Court (De Nooij, Bekkers & Felix, 2017). This process took a long time. While the reform took effect on January 1, 2012, the court approved the reform only on March 20, 2013. Pending approval, cultural nonprofit organizations were uncertain whether the law would in fact apply and were barely active promoting the enhanced deductibility to donors. The charity tax reform initially applied until December 31, 2017. On October 10, 2017, the Dutch government decided that the law on giving will remain in effect for an indefinite period of time (Nijboer, 2017).

Cutbacks. The legal reform coincided with sizeable cutbacks in direct government funding to cultural nonprofit organizations (Raad voor Cultuur, 2017). The national government announced that it would cut about 20% of the budget for arts and culture. In practice, between 2011 and 2015, the cuts amounted not only to €200 million in direct funding from the national government but also included cuts worth €47 million from provincial governments and €250 million from municipalities. During these periods of government cutbacks, the resources available to support cultural nonprofit organizations have been restricted. The uncertainty and decline in government funding – combined with the charity tax reform – necessitated income diversification among cultural nonprofit organizations. The reduction in government grants reduced the income for some cultural nonprofit organizations more strongly than others; those relying more on government funds were affected most. There were, however, instances in which some cultural nonprofit organizations received protection from the government cutbacks. These organizations included, for instance, the largest museums in the tourism industry in the biggest cities (e.g., Amsterdam, Rotterdam and The Hague). Initially, the charity tax reform was seen as a test case for other nonprofit sectors that the government wanted to cut back on (e.g., international relief and development).

When announcing the cutbacks in 2011, the newly appointed minister for Culture, Education and Science lamented dependence on government funding and called upon cultural nonprofit organizations to become more entrepreneurial and to diversify their income, for example, by increasing income from donations, corporate sponsorships and commercial activities (Broer & Niemantsverdriet, 2011). At the time, the cultural sector largely depended on direct funding from the national government and from local governments. The cutbacks threatened the existing basis of support for the future of the cultural sector. Protests were futile. One of the parties supporting the minority government at the time even justified cutbacks by qualifying culture as a “leftist hobby” not worthy of government support. In the caricature, cultural nonprofit organizations appeared to be passive welfare recipients waiting for handouts and lacking creativity and a business mindset. Indeed, because of their dependency on government funding, few cultural organizations will have developed skills and capacity for fundraising among private donors. Due to the legal restrictions, commercial activities were largely absent within cultural nonprofit organizations.

To support a culture change within the cultural sector to become more entrepreneurial and attractive for donors and sponsors, the Ministry of Culture, Science, and Education subsidized two training programs: a leadership program, “Leiderschap in Cultuur”, and a workshop on fundraising, “Wijzer Werven” (De Nooij et al., 2017; Franssen & Bekkers, 2016). In addition, the Ministry of Culture, Education and Science executed a public awareness campaign to inform the public about the charity tax reform (“Cultuur, daar geef je om”).

Previous research

At least five strands of literature are relevant for the analyses we present in this chapter. The first pair of strands concerns the donor side: 1. research on tax incentives for charitable giving; 2. research on the effects of changes in government funding. The other three strands concern nonprofit organizations: 3. research on entrepreneurship, 4. research on fundraising and 5. the Matthew effect.

1 Tax-price effects on charitable giving

A considerable body of literature in economics studied how changes in the tax-price of giving influence private giving. Though most donors report that the price of giving is not a relevant motivation to donate (Konrath & Handy, 2018), previous research indicates that tax incentives do in fact affect charitable giving (Peloza & Steel, 2005; Steinberg, 1990). In their 16-year-old meta-analysis, Peloza and Steel (2005) find a considerable price elasticity of giving. Subsequent research continued to demonstrate strong price effects (Adena, 2014; Almunia et al., 2020; Bönke, Massarrat-Mashhadi & Siela, 2013; Duquette, 2016; Eckel & Grossman, 2008; Fack & Landais, 2010; Hungerman & Ottoni-Wilhelm, 2021; Karlan & List, 2007; Meer, 2014; Scharf & Smith, 2015). In the United Kingdom, Almunia et al. (2020) concluded that gift aid may have increased the amounts donated but not the proportion of donors.

Several studies also analyze differences between individuals and causes in their sensitivity to tax incentives of charitable giving, finding that the wealthy are more responsive to changes in the price of giving (Bekkers & Wiepking, 2011). As a result, it is likely that giving to culture is more price sensitive than giving to other causes, because giving to culture is much more prevalent among the wealthy than among non-wealthy households (Bekkers, Gouwenberg & Schuyt, 2020).

Previous research in the Netherlands confirms that taxpayers in the Netherlands are also sensitive to price changes (Bekkers, 2012, 2015; Bekkers & Mariani, 2009; Brennenraedts et al., 2016; De Jong, 2012; Ministerie van Financiën, 2008), suggesting that giving in the Netherlands is price sensitive, though much less so than studies from other countries indicate (Peloza & Steel, 2005). We can rule out the possibility that taxpayers are not responsive to the price of giving because they don't know about it. Fewer than 10% of taxpayers are unaware of the charitable deduction (Franssen & Bekkers, 2016, p. 34). We can, however, question the extent to which taxpayers are aware of the enhanced deductibility as a result of the legal reform. A majority of taxpayers gave incorrect answers in a knowledge quiz consisting of two questions on the legal reform (De Nooij, Bekkers & Felix, 2017).

2 Effects of changes in government funding

Because the legal reform coincided with significant government cutbacks, it is important to take note of the vast body of literature that has examined the relationship between government funding and private giving. In theory, a crowding-out effect occurs when a decrease in government funding leads to an increase in philanthropic giving for a cause or when an increase in charitable giving reduces government funding (Abrams & Schitz, 1978; De Wit & Bekkers, 2017; Lu, 2016). Reduction of government funding could lead nonprofit organizations to invest more in fundraising (Andreoni & Payne, 2003). A crowding-in effect occurs when an increase in government funding leads to an increase in charitable giving or vice versa (Khanna & Sandler, 2000). Institutional signaling theory predicts a crowding-in effect, as government support can signal that nonprofit organizations are trustworthy, leading to a positive relation between government funding and charitable giving (Handy, 2000; Heutel, 2014). Conversely, a reduction of direct government funding may signal to citizens that a charitable cause and the organizations supporting it are not worthy of support. In our case, it was an explicit objective of the government to create a crowding-out effect by replacing direct funding in the form of government grants by indirect support in the form of charitable deductions. If the signaling explanation holds, however, the pejorative remarks about the cultural sector by policy makers may have undermined the desired crowding-out effect.

The empirical evidence on the effects of changes in government funding is mixed. Though early studies (Kingma, 1989) suggested that an increase in government funding may decrease charitable giving, subsequent estimates have been less clear and may as well go in the opposite direction. Two recent meta-analyses (De Wit & Bekkers, 2017; Lu, 2016) showed that estimates vary widely from study to study, depending on the data, methods and context. De Wit and Bekkers (2017) show that laboratory studies are more likely to find crowding-out effects than studies relying on surveys or administrative data. There is little support for crowding-out (or crowding-in) outside the laboratory. The assessment by Payne (1998, p. 338) still holds: “a severe cut in government funding to nonprofit organizations is not likely, on average, to be made up by donations from private donors”. One interpretation of the finding that estimates from experiments are stronger is that most citizens are not aware of changes in government funding, while participants in experiments receive explicit information (De Wit & Bekkers, 2020; Horne, Johnson & Van Slyke, 2005). The meta-analysis by Lu (2016) found a *positive* correlation between government funding and charitable giving to arts organizations in the United States, United Kingdom and Canada. This finding suggests a crowding-in, though it is not clear whether it holds in the Netherlands.

Four years before the legal reform, when the Netherlands government announced cutbacks after the 2008–2009 financial crisis in which it bailed out national banks, we asked participants

in the Giving in the Netherlands Panel Study whether they would be willing to increase donations in various areas. At that time, it was not yet clear how much the government would cut in which areas. Among donors to cultural organizations, a mere 12% said they would be willing to increase donations. At the same time, among donors to culture, there was also a group of 9% that said they would be reducing their gifts in response to government cutbacks (Bekkers & Mariani, 2012). Because those who reported a willingness to increase their gifts gave low amounts anyway, and larger donors were reluctant to increase their gifts, the net effect in the entire population is likely to be minimal. After the cuts were announced, we asked similar questions and found even less positive results. Among those who gave to culture and were aware of the enhanced deductibility, only 8% expressed willingness to increase gifts to culture (Bekkers, Mariani & Franssen, 2015). Ten percent of these participants said they would give *less* in the coming year.

In sum, the effects of the legal reform on donor behavior by households are likely to be rather small: the tax-price effect on giving in the Netherlands is weak, and the willingness of citizens to increase donations after government cutbacks is small. Now we consider the changes that the legal reform may have had on the behavior of cultural nonprofit organizations.

3 Revenue diversification and entrepreneurship in nonprofit organizations

All organizations need to acquire and maintain financial resources for their operations (Pfeffer & Salancik, 1978). Nonprofit organizations are generally advised to adopt a revenue diversification strategy, as nonprofit organizations operate in a resource-scarce, competitive and therefore uncertain environment (Chang & Tuckman, 1994; Gronbjerg, 1993). Strong dependence on a single source of income could endanger the nonprofit organization if income from that source is suddenly reduced. Thus, nonprofit organizations are advised to avoid “putting all their eggs in one basket”. Revenue diversification is a financial strategy in which the organization relies on diverse and multiple sources of income. It improves the financial health and stability of nonprofit organizations because it lowers the risk of financial crisis, provides the organization with a financial cushion and improves the likelihood for financial organizational survival (Chikoto-Schultz & Sakolvittayanon, 2020). A particularly relevant finding by Hager (2001) is that arts nonprofit organizations with a higher degree of revenue diversification were less likely to close down. Kingma (1993) advises nonprofit organizations to consider the expected return, risk and correlation between different income sources when they are making decisions about the level of revenue diversification they seek to achieve.

Despite the theoretical relevance of revenue diversification, empirical estimates of its association with the financial health of nonprofit organizations, operationalized by either financial capacity, vulnerability or sustainability, do not reveal a clear pattern. Hung and Hager (2019) and Lu, Lin and Wang (2019) conducted meta-analyses of revenue diversification. Both found a large degree of heterogeneity in the association between revenue diversification and nonprofit financial health. Some studies reveal positive results, others reveal negative results. Lu, Lin and Wang (2019) find that a majority of studies that examined the association between revenue diversification and financial capacity report a negative correlation, though the average is very close to zero. The bottom line is that there is no simple pattern in the association between revenue diversification and financial health, not even in the differences between the results.

In addition to government funding, nonprofit organizations can also raise income from private or corporate donations, engage in corporate sponsorships, apply for grants from foundations, sell goods and services, raise membership fees or obtain income from investments or other resources (Chikoto-Schultz & Sakolvittayanon, 2020; Garcia-Rodriguez & Romero-Merino,

2020). These other sources have gradually been considered more relevant in recent years (Garcia-Rodriguez & Romero-Merino, 2020). In particular, nonprofit organizations gradually adopted business practices and are said to become “business-like” (Maier, Meyer & Steinbereithner, 2016; Vaceková et al., 2020). One example of such business practices is implementing commercial activities to generate commercial income to support the nonprofit organization’s mission. This involves, for instance, selling goods or products related to the nonprofit’s mission but also asking admissions fees for nonprofit services (e.g., admission tickets to a museum, orchestra or theatre). Commercial activities may generate a substantial source of income for cultural nonprofit organizations.

Entrepreneurship. The charity tax reform in the Netherlands not only sought to encourage the financial independence of cultural nonprofit organizations by allowing them to generate more commercial income. The reform aimed to enhance their entrepreneurship. Entrepreneurial orientation involves three components: 1. innovation, 2. risk-taking and 3. pro-activeness (Lumpkin & Dess, 1996). Organizations with low scores on these dimensions are characterized as conservative (e.g., Morris, Webb & Franklin, 2011). Innovation is the degree of creativity and the extent to which new services, products or processes are introduced. Risk-taking refers to the degree to which an organization is willing to bear the risks and invests in services, products or projects that still have to prove successful. Pro-activeness refers to the extent to which an organization actively seeks opportunities and anticipates on future market needs.

The trend among nonprofit organizations to adopt business-like practices, however, also raises serious concerns (e.g., De Goede, Schrijvers & De Visser, 2018; Eikenberry & Kluver, 2004; Maier et al., 2016; Trommel, 2018; Vaceková et al., 2020; Weisbrod, 2004). One concern is mission drift. Weisbrod (2004, p. 40) recommends that “nonprofit organizations should get out of commercial ventures”, as becoming business-like produces mission drift: a diversion of resources away from a nonprofit organization’s mission. Maier, Meyer and Steinbereithner (2016) echo this warning. Vaceková and colleagues (2020) also highlight that income from commercial activities can be a risky approach. As nonprofit organizations adopt business-like practices, their commitment to public welfare may be in danger, at least in the public’s perception. Commercial activities could cause a loss of income from private donations and government grants. On the other hand, they may also help to secure survival of the organization (Vaceková et al., 2020). The arguments supporting the legal reform ran along these lines.

Nonprofit organizations may demonstrate an entrepreneurial orientation in the programs and services they offer, as well as in the activities they engage in to generate income. Investments in fundraising activities are an important example of entrepreneurship (Mourdaunt & Paton, 2013).

4 Fundraising: If you don’t ask, you don’t get

Historically, private donations are the most distinctive source of income for nonprofit organizations (Garcia-Rodriguez & Romero-Merino, 2020; Weisbrod, 1998). While the literature is replete with studies examining the individual determinants and motivations of donating behavior (e.g. Bekkers & Wiepking, 2011; Konrath & Handy, 2018), very few studies investigated how fundraising activities by nonprofit organizations affect giving behavior. Without fundraising, however, nonprofit organizations would receive very few donations. In the Netherlands, more than 95% of all donations by individuals occur in response to some form of solicitation (Bekkers, 2005). As a result, differences between households in giving behavior are strongly affected by the likelihood of exposure to fundraising solicitations (Bekkers, 2005, 2019).

Approaches to fundraising “are nearly as diverse as the types of nonprofit organizations that populate the nonprofit sector” (Hager, Rooney & Pollak, 2002, p. 312). Effective fundraising activities attract contributions by private individuals or corporations at a scale that exceeds their costs. Effective fundraising requires practical knowledge that can be taught and learned (Breeze, 2017). On the other hand, fundraising also benefits from social skills that some people have more of than others.

The prevalence and effectiveness of fundraising activities vary considerably across countries and organizations. Though the Netherlands has a long philanthropic tradition, the current degree of professionalization of fundraising in the Netherlands is not as high as in Anglo-Saxon countries (Wiepking & Handy, 2015; Wiepking et al., 2021). Fundraising activities in the Netherlands rely heavily on volunteers who have not been trained as fundraisers. The most common fundraising method in the Netherlands is door-to-door collection. This method is highly effective in terms of compliance but inefficient in terms of return on investment (Bekkers, 2005), because strong social norms direct low gift amounts, irrespective of income (Wiepking & Heijnen, 2011). Moreover, the reduced availability of volunteers has made it more difficult for charities to organize fundraising campaigns. As a result, households receive a lower number of solicitations to contribute to charities.

Fundraising efforts also depend on a range of organizational factors, including the field of activity, organizational age, organizational size in terms of paid staff and total revenues, geographical scope and location and tax status (Lyon & Zappala, 2006). For instance, younger nonprofit organizations experience greater difficulty in raising funds, as they have not yet earned a solid reputation and donor trust. This is a problem for new organizations in the market for charity.

Fundraising investments and effectiveness are a function of capacity (size, paid staff) and experience. This implies that cultural nonprofit organizations with more fundraising experience and more capacity in terms of size and the presence of paid staff are more likely to attract donations (Hager, et al., 2002). Chang and Tuckman (1994) find that higher spending on fundraising is positively associated with revenue diversification. Larger organizations arguably have more capacity to invest in fundraising. When facing cuts in government funding, they will be more able to replace that amount by income from fundraising. Thus, fundraising experience and capacity determine the ability to deal with reductions in government grants.

The Matthew Effect. The previous can result in the so-called “Matthew effect”, labeled by Merton (1968) after a phrase in Matthew (13:12): “to him who has will more be given, and he will have abundance; but from him who has not, even what he has will be taken away”. Matthew effects occur when previous advantage leads to further advantage and previous disadvantage leads to further disadvantage (Merton, 1968). Matthew effects exacerbate existing resource disparities and are essential in understanding the dynamics of inequality. Matthew effects are observed across a broad spectrum of social, economic and political institutions and systems (Rigney, 2010).

In our study context, larger cultural nonprofit organizations are most likely to invest in fundraising, gaining experience and capacity, and thus obtain more income from fundraising. Smaller cultural nonprofit organizations, on the other hand, are most likely unable to make investments in fundraising and will thus lack fundraising experience and capacity and receive less income from fundraising. Thus, larger cultural nonprofit organizations will obtain more fundraising income, while smaller cultural nonprofit organizations will obtain less fundraising income. The larger cultural nonprofit organizations are advantaged by being able to make necessary investments and being more experienced, while smaller organizations are disadvantaged. A dynamic analysis of income changes among the 465 largest charities in the Netherlands in the period 2005–2010

indicated that, indeed, government funding and fundraising capacity are positively related (Bekkers, 2013). In flat contrast to the crowding-out hypothesis, charities that saw their income from government funding increase in a given year were more likely to increase investments in fundraising in subsequent years. Charities that lost government funding, in contrast, were less likely to increase investments in fundraising. Such patterns suggest that in the Netherlands, government funding and private donations are complements rather than substitutes. To better understand this complementarity, it is crucial to examine the dynamics of different revenue sources (De Wit, Bekkers & Wiepking, 2020, p. 83). Hung (2020) performed a meta-analysis on the relationship between commercialization and private donations, finding that commercialization and private donations were not related in cultural nonprofit organizations – again in studies that were largely from the United States, United Kingdom and Canada. Examining earned revenue activities, Levine Daniel (2021) showed that earned revenue activities complement donations when the activity entails offering new products or services to existing donors.

The Dutch government cutbacks and the charity tax reform will most likely widen the income gaps between larger and smaller cultural nonprofit organizations. Resources accumulate among the larger cultural nonprofit organizations, carrying them in a upward spiral towards further advantage as they gain more experience and gain more financial means to make further investments in fundraising. Smaller cultural nonprofit organizations will experience a downward spiral.

One reason larger organizations may be advantaged compared to smaller organizations with regard to the government cutbacks is that it takes resources to be resilient (Barasa, Mbau & Gilson, 2018). Organizations with fewer resources at their disposal are less likely to fully recover from adverse events such as cutbacks. In an analysis of register data, the national audit chamber found that 16% of cultural nonprofit organizations that had received government grants prior to the cutbacks went out of business after the cutbacks (Algemene Rekenkamer, 2015). This is an important caveat for the following analyses of changes in the behavior of cultural nonprofit organizations: we are essentially looking at a population of relatively resourceful and resilient survivors.

Data and methods

In the following analyses, we examine changes at both the donor and recipient side of the market for giving to cultural nonprofit organizations in the Netherlands. On the donor side, we document changes in giving behavior of households, corporations and high-net-worth households. Have donations to culture increased after the charity tax reform? On the recipient side, we document changes in the income sources as well as entrepreneurial behavior among cultural nonprofit organizations. An analysis of this data allows us to estimate to what extent the reduction of direct government support has been compensated by other sources of income.

Data. We collected longitudinal data covering the period between 2011 and 2019. For the donor side, we rely on data from the Giving in the Netherlands (GIN) studies, an initiative of the Center for Philanthropic Studies at the Vrije Universiteit Amsterdam. Since 1995, the research provides biennial macro-economic estimates of philanthropy by households, corporations, foundations, bequests and lotteries. For the recipient side, we rely on data gathered among cultural nonprofit organizations in the Netherlands. The appendix provides details on both data sets.

As income diversification and entrepreneurial behavior by cultural non-profit organizations vary with the level of income, we divide the responses from cultural nonprofit organizations into five groups: very small (max €2,000), small (€2k–€50k), medium-sized (€50k– €1.5 million), large (€1.5– €10 million), and very large (more than €10 million). In some analyses, we combined the two highest income levels into one group of (very) large cultural nonprofit organizations. Table 26.1 provides an overview of the composition of the sample for 2012, 2015 and 2019.

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Table 26.1 Sample composition in number of cultural nonprofit organizations per income class (n), the share of the response per year (%) and the average income (€) for 2012, 2015 and 2019

	2012		2015			2019			€ ¹
	n	%	€	n	%	€	n	%	
Very small Max 2K	229	23	267	51	12	436	33	6	745
Small (2–50K)	407	41	17.942	203	46	17.816	219	38	18.743
Medium-sized (50K–1.5 mln)	243	25	353.265	126	29	366.789	182	32	401.979
Large and very large (>1.5 mln)	103	10	8.366.911	58	13	9.493.479	140	24	8.974.125
Total sample	982	100	904.337	438	100	1.370.950	574	100	2.323.462
Excluding the very large organizations (>10 mln)	964	98	455.132	428	98	601.447	539	76	909.422

The composition of the response varies from year to year as a result of changing priorities in the data collection strategy. In the first edition, we sought to obtain the broadest possible representation of the cultural sector. We included as many organizations as possible and invested a lot of effort to recruit them. As a result, the response consisted mainly of small organizations with no paid staff. In the second edition, we had fewer resources available but sought to retain as many organizations as possible that participated in the first edition. This proved difficult for the smallest organizations. In the third edition, we focused on the largest organizations to capture the majority of all economic activity in the cultural sector. As a result, almost one-fourth of the response consisted of large institutions. To control for changes in the income distribution of the response by organizations, we stratified the analyses per year by income class.

This chapter provides a descriptive analysis of changes in giving behavior by households and corporations and in income sources and entrepreneurial behavior among cultural nonprofit organizations over the course of the period 2011–2019. Unfortunately, the nature and chronology of the policy decisions do not allow for a clean causal identification of the effects of the legal reform. Most importantly, the legal reform coincided with severe government cutbacks in the cultural sector. As a result, we cannot identify the effect of either one of the two. At best, we obtain an aggregate estimate of the combined effects of the charity tax reform and the government cutbacks. In the more likely scenario, however, numerous other unmeasured factors such as ongoing trends in giving behavior, technological advancements and fluctuations in the economy created changes in giving behavior and the behavior of cultural nonprofit organizations. On the donor side, we can to some extent control influences on giving to culture that also occur in other sectors. Because the multiplier favored cultural nonprofit organizations, the proportion of total giving that goes to cultural nonprofit organizations should have increased. Even when the exact size of the price effect due to the introduction of the multiplier cannot be identified, we can observe its sign. Theoretically, the reduction in the price of giving should lead to an increase in the amount donated, particularly among those who use the charitable deduction. If we do not observe such a change, we can either assume that the price effect is absent or that it has been neutralized by a negative effect of the reduction in direct government funding. In both cases, we can infer that the price effect is weaker than the effect of the reduction in direct government funding.

Results: a small increase in total amounts donated to culture after the reform

A first result is that giving behavior to culture and arts increased from €293 million in 2011 to €439 million in 2018 (see the light grey line in Figure 26.1). This seems like a large increase. In the same period, however, contributions to other causes (religion, health, international assistance, environment, nature and animal protection, sports and recreation and education and research) increased as well, roughly at a similar pace.

Total giving (the dark grey line) increased from €4.3 billion in 2011 to €5.7 billion in 2018. As a result, the share of culture (the striped black line) remained small and did not increase much. In 2011, culture received 6.8% of all contributions; in 2018, the share was 7.8%.

Figure 26.2 breaks down the sources of contributions. Households provide a small share of all contributions to culture. In 2018, households donated €78 million to culture, amounting to 18% of all contributions to culture. In 2011, the amount donated was €26 million, amounting to 9% of all contributions. We cannot attribute the full increase to changes in giving behavior by households, because the method improved. We will revisit this issue in the following when we discuss amounts deducted, particularly by wealthy households.

In the Netherlands, charity lotteries also provide a significant share of funding to cultural nonprofit organizations. The amount was €80 million in 2018, 18% of all contributions to culture. In 2011, lotteries gifted a total of €68 million (23%). Gifts from lotteries are mostly coming from one lottery: the BankGiro Loterij.

An increasing share of total income for cultural nonprofit organizations comes from bequests. In 2018, the total amount to culture and arts received through bequests amounted to €33 million, 8% of total contributions. The amount in 2018 is much higher than in previous years, mostly as a result of a single very large bequest of €22 million to the Prins Bernhard Cultuurfonds. Excluding this bequest, we still observe an increase in bequests, from €5.7 million in 2011 to €10.8 million in 2018.

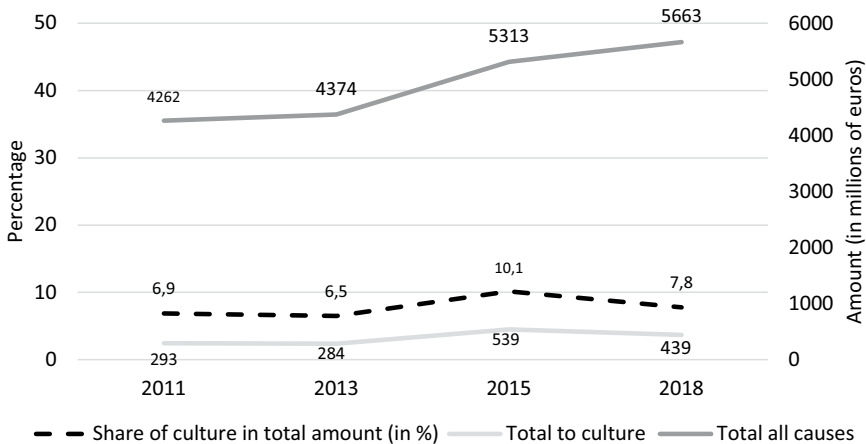


Figure 26.1 Total amounts donated to charitable causes, to culture and the share of culture in the total amount, 2011–2018

Note: Data for 2018 are based on a new estimation method in which the donations of high-net-worth households are also included.

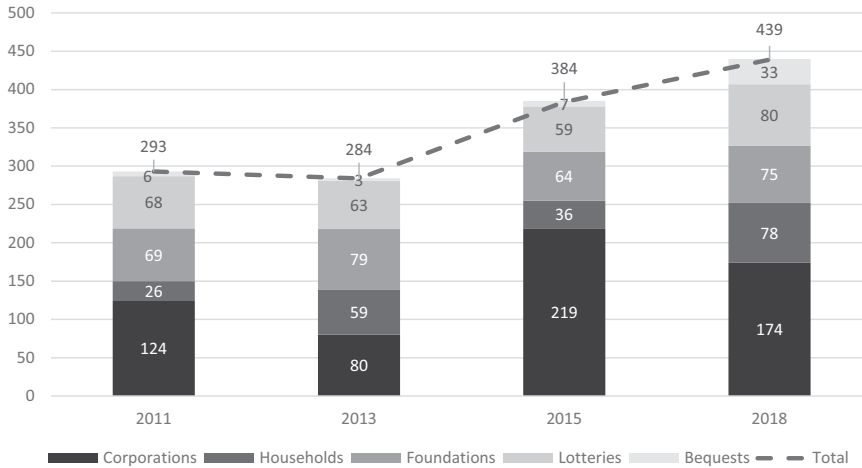


Figure 26.2 Total contributions to culture and arts in millions of euros, 2011–2018

Note: Data for 2018 are based on a new estimation method in which donations by high-net-worth households are better represented.

The largest share of contributions to culture typically comes from corporations. In 2018, corporations gave a total of €174 million to culture and arts. This was 40% of all contributions to culture. Compared to 2011, when corporations gifted a total of €124 million (42% of all contributions), this is an increase. The share of corporate donations to culture, however, remained small throughout the period (see Figure 26.3). In 2011, it was 9%. In 2013, it declined to 6%, then jumped to 11% and plateaued at that level in 2015 and 2018.

The total amount contributed by corporations consists of sponsorship and gifts. Corporations prefer sponsorships over gifts; almost three quarters (73%) of the total amount consists of sponsorships. About one third (36%) of corporate contributions to culture and arts were gifted in the form of manpower or in-kind donations (e.g., offering office space to host an exposition). Culture and arts is probably a sector where corporations can easily connect their name to a one-time event. The percentage of corporations supporting the culture and arts sector with gifts is small. Since 2011, the percentage of corporations using sponsorships is 10%. For gifts, this was 7% in 2011 and 5% in 2018.

Giving by households increased slightly

In 2018, about one in nine households donated to culture and arts (see Table 26.2). This proportion has not increased much since 2011. The average amount donated to culture and arts among those who give to culture has increased, from €37 in 2011 to €48 in 2018. We also see an increase in the median amount donated. The average amount among all donors (where we assigned those households that did not donate to culture a value of 0) also increased, from €3,50 in 2011 to €4,70 in 2018. While the amount donated to culture increased, the share of culture in total giving did not increase by much; it was 1.5% in 2011 and 2.0% in 2018.

High-net-worth households give less to culture

In 2018, about one in five high-net-worth households to culture (see Table 26.3). Unexpectedly, the proportion of high-net-worth households that give to culture has decreased since

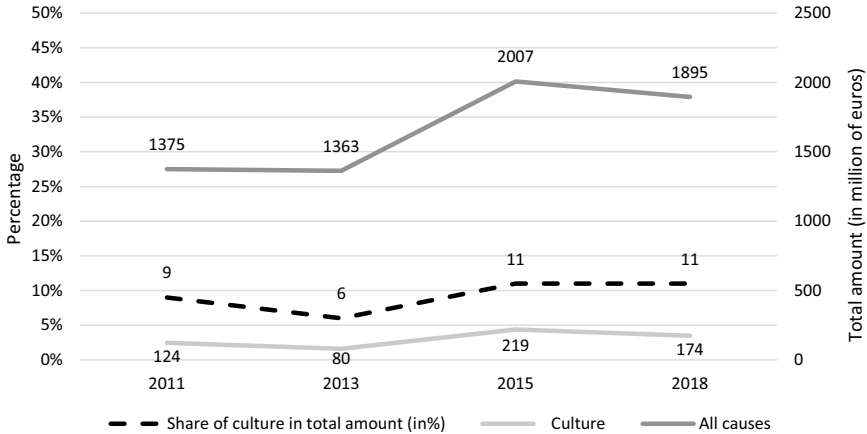


Figure 26.3 Share of culture in the total amount given by corporations, 2011–2018

Table 26.2 Percentage and average amount given to culture and arts by households, 2011–2018

	2011	2013	2014	2015	2018
% giving to culture	10	10	10	11	11
€ Average amount donated to culture (among donors)	37	34	28	36	48
€ Median amount donated to culture (among donors)	15	13	10	10	20
€ Average amount donated to culture (among all households)	3,50	3,50	2,80	4,90	4,70
€ Average amount to all causes (among all households)	225	240	216	247	236
Share of culture	1.5%	1.5%	1.3%	2.0%	2.0%

Table 26.3 Percentage and average amount given to culture and arts by high-net-worth (HNW) households, 2011–2018

	2011	2013	2014	2015	2018
% giving to culture	29	29	30	22	21
€ Average amount donated to culture (among HNW donors)	607	318	343	589	295
€ Median amount donated to culture (among HNW donors)	100	50	76	100	79
€ Average amount donated to culture (among all HNW households)	176	92	102	139	63
€ Average amount to all causes (among all HNW households)	2.254	1.009	1.267	1.657	1.071
Share of culture in total giving by HNW households	7.4%	9.1%	8.1%	8.4%	5.9%

2011, when it was 29%. The average amount donated to culture among those who give to culture has decreased as well, from €607 in 2011 to €295 in 2018. We also see a decrease in the median amount donated among high-net-worth households. The average amount among all donors (where we assigned those households that did not donate to culture a value of 0) also decreased, from €176 in 2011 to €63 in 2018. Thus, the share of culture decreased from 7.4% in 2011 and 5.9% in 2018.

Use of the charitable deduction by Dutch households decreased

Since 2012, donations to cultural ANBIs are eligible for an additional gift deduction. The percentage of households that use the deduction, however, has not increased since 2011. On the contrary, the proportion of households deducting gifts has declined from 8.9% in 2011 to 7.2% in 2018 (see Figure 26.4). Among high-net-worth households with a net worth exceeding €1 million, the proportion using the deduction has also decreased, from 17.0% in 2011 to 15.6% in 2018.

At the same time, we see that the average amount deducted increased, from €1.113 in 2011 to €1.423 in 2018. As a result, the total volume of donations for which Dutch households use the charitable deduction increased slowly from €723 million in 2011 to €792 million in 2018. The increase of €69 million over a period of 7 years is less than half the budgeted amount of €22 million per year.

Among households with a net worth exceeding €1 million, the percentage of households using the deduction decreased, but the amounts deducted increased slightly (see Table 26.4). We see the reverse pattern among the most wealthy households in the country with net worth exceeding €10 million. The net result is that the most wealthy households in the Netherlands have a higher share of all amounts deducted in 2018 (9.1%) than in 2011 (8.4%). For comparison, it is important to note that this group forms only 0.06% of all households in the Netherlands. This means that the inequality in the use of charitable deduction is large and increasing. The even more disconcerting conclusion is that the increase in the use of the charitable deduction was not accompanied by an increase in the amounts donated to culture among wealthy households.

Changes among cultural nonprofit organizations

Now we turn to the behavior of cultural nonprofit organizations. Were they able to diversify their income? Did their dependency on government funding decrease? Have cultural nonprofit organizations become more entrepreneurial?

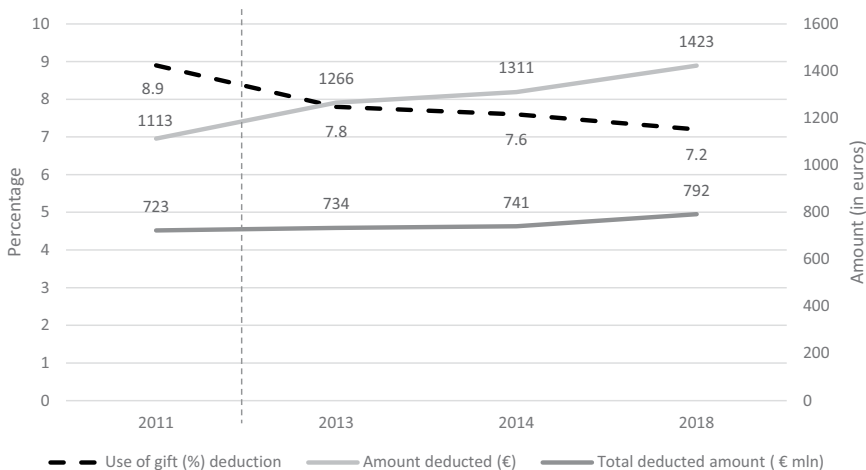


Figure 26.4 Percentage of Dutch households using the gift deduction, 2011–2018

Source: Statistics Netherlands (CBS)

Note: The vertical dotted line represents the legal reform (2012).

Table 26.4 Charitable deductions by wealthy households, 2011–2018

		2011	2013	2014	2018
Net worth >€1 million	%	17.0	16.2	16.0	15.6
	€	5.803	6.550	6.461	6.047
Net worth >€10 million	%	19.4	19.4	20.5	22.2
	€	16.800	18.200	15.600	16.000

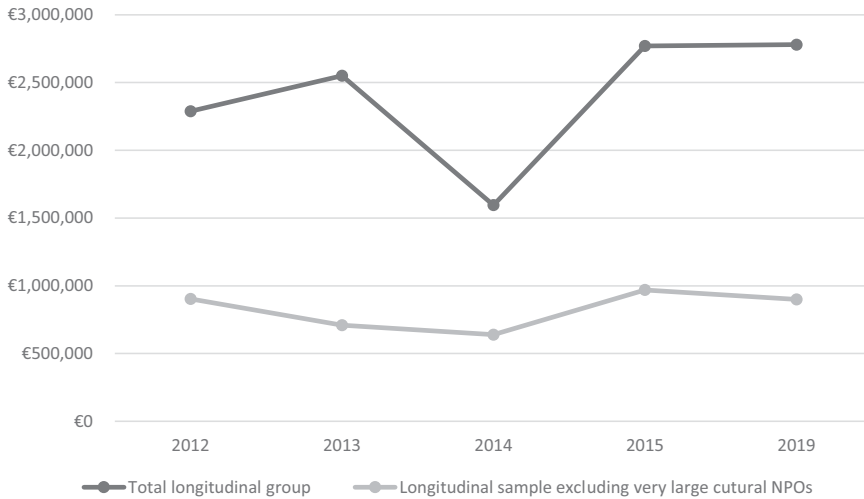


Figure 26.5 Total average income, longitudinal group 2012–2019

Were Dutch cultural nonprofit organizations able to diversify their income?

Table 26.1 shows the changes in total income of cultural nonprofit organizations for every income class in the period 2012–2019. Although the average income is subject to sample fluctuations, we see an increase in average total income within the very small and medium-sized cultural nonprofit organizations. There is no increase in revenues visible within the small and large cultural nonprofit organizations as the average amount in 2019 is roughly the same as in 2012. To obtain a more reliable view on revenue development over the years, we examine the longitudinal group.

Figure 26.5 shows the total income for the entire longitudinal group increased slightly over the period 2012–2019 with a decrease in 2014. This decrease can be a result of the small *n* and the lack of larger cultural nonprofit organizations in the response for that year. If we exclude the largest organizations, we see a smaller fluctuation in total income in the period 2012–2019 with no clear trend.

Income diversification

We divide the income of cultural nonprofit organizations into income sources: government funding, commercial revenues, private income, sponsorships, indirect revenues and other

income. Government funding was furthermore divided into national or state government funding and other government funding (i.e., funding provided by the European Union, provincial government, municipalities). Commercial revenues refer to commercial activities related to the core activities of the nonprofit organization, such as entrance fees and tickets. Private income refers to donations, gifts, bequests from individuals and corporations. Sponsorships consist of income received from corporations in exchange for something in return that benefits the corporation. Private income and sponsorships together form fundraising income. Indirect revenues refer to generated income that is not directly related to the core activities of the organization. This includes for example, revenues generated by renting out facilities and other indirect commercial activities.

We examine the income mix over the years for every income class separately to control to some extent for the sample fluctuation. Important to note is that we calculate the share of each income source in total income using the sum of all seven income sources as the total income. This sum, however, differs from the total reported income as reported in Table 26.1. After discussing the income mix, we examine each source of income separately.

Income mix

Figure 26.6 shows the income mix for all income classes in 2012, 2015 and 2019. Our data indicate that the income mix differs substantially between cultural nonprofit organizations when we divide them into the four income classes. Figure 26.6 shows that based on their income class, cultural nonprofit organizations differ not only in the sources from which the organizations derive income but also where the center of gravity lies in the income mix.

Very small cultural nonprofit organizations are less dependent on government funding in 2019 than in previous years. Moreover, sponsorships and other income sources are an important income source. Very small cultural nonprofit organizations rely on private revenues,

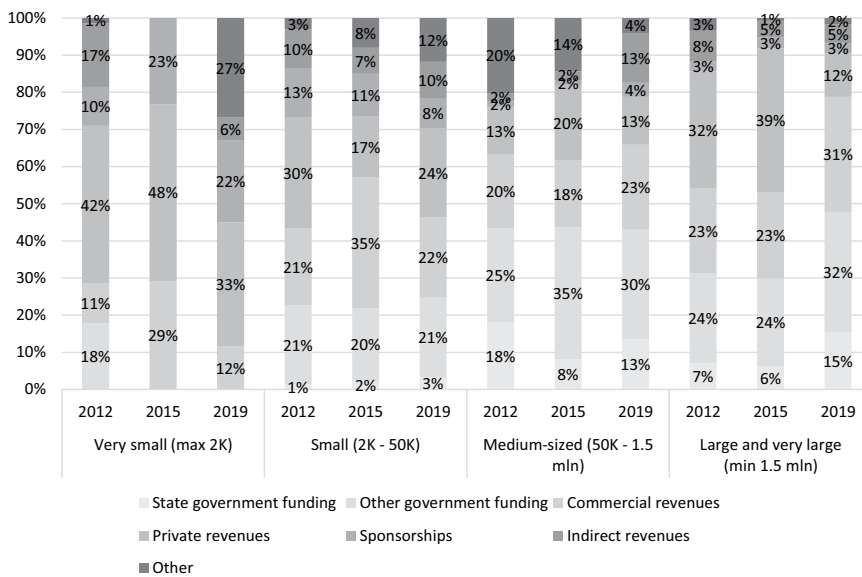


Figure 26.6 Income mix in share (in %) of total income for each income class in 2012, 2015 and 2019

sponsorships and other income, as these sources generate most of their income. Other cultural nonprofit organizations still rely for a large part of their income on grants and public activities. State government funding, other government funding and commercial revenues make up a large part of the total income of medium-sized, large and very large organizations. As the nonprofit organization grows, grants and public activities form a more important source of income. A smaller portion of the income comes from sponsorship, private, indirect and other sources. Private revenues, sponsorship and other income form a more important part of the total income for the (very) small nonprofit organizations. Private income and sponsorships increase importance when the cultural nonprofit organization is smaller.

The income mix of small cultural nonprofit organizations did not change much between 2012 and 2019. Other government funding, commercial and private revenues remain the most important sources of income. The income mix of medium-sized organizations remained largely unchanged. The main sources of income are still other government funding and commercial revenues. The income mix of large and very large cultural nonprofit organizations appears more unbalanced in 2019 than in 2012 and 2015. Income from state government funding, other government funding and commercial revenues is more important in 2019. Private revenues, on the other hand, seem less important; sponsorships within the large and very large institutions still only generate a very small part of their total income.

Government funding

Table 26.5 strikingly shows that the share of state government grants in total revenues of the large and very large cultural nonprofit organizations is *higher* in 2019 compared to previous years. Very small cultural nonprofit organizations did not receive any government funding by the state during the entire period. The share of state government funding in medium-sized organizations fluctuates over the years. The share of state government funding in the class of small cultural nonprofit organizations seems to be stable over the years.

Table 26.6 shows the average income from other government funding for each income class over the years. We see that the share of other government funding in the total income in 2019 is higher for large and very large cultural nonprofit organizations. Very small cultural nonprofit organizations did not receive other government funding. Among small and

Table 26.5 State government funding in average amount (in €) and share (in %) in the total revenues per income class 2012–2019

	2012		2013		2014		2015		2019	
	%	€	%	€	%	€	%	€	%	€
Very small (Max 2K)	0	2	0	3	0	0	0	0	0	0
Small (2K–50K)	1	178	3	399	1	212	2	339	3	1.018
Medium-sized (50K–1.5 mln)	18	53.865	14	39.672	17	50.177	8	22.735	13	80.925
Large and very large (>1.5 mln)	7	648.060	5	487.822	5	489.483	6	540.656	15	1.659.939

Note: Share in % calculated based on the sum of the seven income sources as total income.

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Table 26.6 Other government funding in average amount (in €) and share (in %) in the total revenues per income class 2012–2019

	2012		2013		2014		2015		2019	
	%	€	%	€	%	€	%	€	%	€
Very small (Max 2K)	17	101	1	8	0	0	0	0	0	0
Small (2K–50K)	21	2.770	19	2.787	19	2.834	20	3.048	21	6.508
Medium-sized (50K–1.5 mln)	25	75.400	33	96.636	26	78.447	35	98.454	30	179.545
Large and very large (>1.5 mln)	24	2.221.084	20	1.942.755	20	1.886.522	24	2.058.428	32	3.473.801

Note: Share in % calculated based on the sum of the seven income sources as total income.

medium-sized cultural nonprofit organizations, the share of other government funding in total income in 2019 did not change compared to 2012, although slight fluctuation is visible between the years.

When we add both government funding sources together, we see that government funding remains an important source of income for the majority of Dutch cultural nonprofit organizations. Government funding accounts for 24%, 43% and 47% of the total revenues for small, medium-sized and (very) large cultural nonprofit organizations. Contrary to the objective of the legal reform and the cutbacks, dependence on government funding among (very) large cultural nonprofit organizations is much higher in 2019 than in previous years. The dependence on government funding among small and medium-sized cultural nonprofit organizations is similar in 2019 and 2012. Only the dependence on government funding among very small nonprofit organizations fell sharply when we compare 2019 with 2012.

Commercial revenues

Table 26.7 shows that the share of commercial revenues is subject to fluctuation for all income classes. In 2019, it appears that commercial revenues have become a more important source of income for larger cultural nonprofit organizations. The share of commercial revenues in total income for (very) small organizations does not differ too much in 2012 and 2013; in 2014 and 2015, there appears to be an upward trend. Nonetheless, the trend did not continue in 2019. Among medium-sized cultural nonprofit organizations, the share of commercial income is slightly higher in 2019 after a small decrease in 2014 and 2015. When we look at (very) large cultural organizations, commercial revenues constitute a bigger share of the total income.

Private revenues

The share of private revenues in the total income fluctuates over the years for all income classes; it appears that private revenues such as donations, gifts and bequests from individuals and corporations is a less important source of income when the cultural nonprofit organization is larger. In Table 26.8, we see that the share of private revenues in the total income among (very) small cultural nonprofit organizations is lower in 2019 compared to 2012. The share of private

Table 26.7 Commercial revenues in average amount (in €) and share (in %) in the total revenues per income class 2012–2019

	2012		2013		2014		2015		2019	
	%	€	%	€	%	€	%	€	%	€
Very small (Max 2K)	10	60	10	62	27	90	29	259	12	154
Small (2K–50K)	21	2.682	27	3.844	24	3.539	35	5.416	22	6.568
Medium-sized (50K–1.5 mln)	20	59.281	20	57.565	18	53.619	18	50.117	23	136.787
Large and very large (>1.5 mln)	23	2.097.792	24	2.362.998	20	1.905.460	23	2.025.139	31	3.333.086

Note: Share in % calculated based on the sum of the seven income sources as total income.

Table 26.8 Private revenues in average amount (in €) and share (in %) in the total revenues per income class 2012–2019

	2012		2013		2014		2015		2019	
	%	€	%	€	%	€	%	€	%	€
Very small (Max 2K)	42	240	25	152	57	191	48	423	33	444
Small (2K–50K)	30	3.902	21	3.066	30	4.494	17	2.564	24	7.292
Medium-sized (50K–1.5 mln)	13	38.016	18	53.655	14	43.938	20	55.667	13	77.773
Large and very large (>1.5 mln)	32	2.900.695	27	2.652.564	27	2.552.921	39	3.365.523	12	1.259.389

Note: Share in % calculated based on the sum of the seven income sources as total income.

revenues in the class of medium-sized organizations remains relatively stable. Interestingly, the share of private revenues of the (very) large organizations fluctuates over the years. When we compare the share of 2019 with 2012, the share of this income source fell sharply in the class of (very) large organizations. Commercial revenues seem to be an important source of income over the years for smaller cultural nonprofit organizations.

Sponsorships

Similar to private revenues, sponsorships also appear to be a more important source of income for smaller cultural nonprofit organizations. See Table 26.9. The share of sponsorship income in the total income is higher in 2019 compared to 2012 among the very small organizations. Again, we see strong fluctuation over the years without a clear trend. Within the group of small cultural organizations, sponsorships constitute a smaller share in 2019 than in previous years; sponsorships thus became a less important income source for these organizations. The share of sponsorships remains the same for medium-sized and large organizations over the years; sponsorships generate only a small portion of their income.

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Table 26.9 Sponsorship revenues in average amount (in €) and share (in %) in the total revenues per income class 2012–2019

	2012		2013		2014		2015		2019	
	%	€	%	€	%	€	%	€	%	€
Very small (Max 2K)	10	59	5	29	2	6	23	206	22	294
Small (2K–50K)	13	1.718	14	1.974	10	1.433	11	1.748	8	2.514
Medium-sized (50K–1.5 mln)	2	4.757	2	5.621	2	5.342	2	4.276	4	22.900
Large and very large (>1.5 mln)	3	243.145	3	330.556	3	283.373	3	252.981	3	289.597

Note: share in % calculated based on the sum of the seven income sources as total income.

Table 26.10 Indirect revenues in average amount (in €) and share (in %) in the total revenues per income class 2012–2019

	2012		2013		2014		2015		2019	
	%	€	%	€	%	€	%	€	%	€
Very small (Max 2K)	17	97	50	306	13	45	0	0	6	81
Small (2K–50K)	10	1.349	13	1.878	13	1.882	7	1.087	10	2.963
Medium-sized (50K–1.5 mln)	2	6.535	3	8.127	10	30.895	2	6.585	13	80.573
Large and very large (>1.5 mln)	8	763.930	7	638.919	11	1.021.566	5	398.608	5	537.567

Note: Share in % calculated based on the sum of the seven income sources as total income.

Indirect revenues

Our data show that the importance of indirect revenues on the total income fluctuates for all income classes and is a relatively small source of income in 2019. For instance, we see that the share of indirect revenues in the total source of income in the group of very small, large and very large institutions in 2019 is lower compared to 2012 but higher or equal to the years in between. In the class of medium-sized organizations, the share of indirect revenues is also subject to strong fluctuations from year to year without a clear trend.

Changes in fundraising

Private revenues such as contributions, donations, gifts, sponsorships and bequests from individuals and corporations can be considered fundraising income. The data show that larger cultural nonprofit organizations engage more often in fundraising and invest more in fundraising. In 2019, 55%, 50%, 73%, 89% and 100% of very small, small, medium-sized, large and very large cultural nonprofit organizations engaged in fundraising. On average,

in 2019, very small nonprofit organizations invest on average €113 in fundraising; small, medium-sized and (very) large organizations invest on average €507, €7.127 and €97.970, respectively. In addition, we find that smaller organizations more often rely on volunteers for fundraising activities, whereas larger cultural nonprofit organizations hire more paid staff to raise funds.

We also asked respondents one question inquiring their knowledge on the legal reform. Our inquiry, asked the height of the multiplier for individual donations to cultural nonprofit organizations (1.25). Large(r) organizations were more likely to answer this question correctly and have more knowledge about the reform.

The data also show a relation between the size of the organization and whether a cultural nonprofit organization communicates about the multiplier to potential donors. The larger the cultural nonprofit organization, the more likely it is that the organization communicates about the multiplier. Cultural nonprofit organizations that do not communicate about the multiplier generate substantially fewer revenues than those that do communicate about the reform.

Did cultural nonprofit organizations become more entrepreneurial?

Besides stimulating individual and corporate donations to cultural nonprofit organizations, the legal reform also aimed to stimulate cultural nonprofit organizations to become more entrepreneurial. This would subsequently reduce their dependency on government funding and would diversify their income. Within our study, we provided respondents with various statements related to entrepreneurship to measure their attitudes towards and levels of entrepreneurship within their organization. Our statements stem from the theoretical concept of entrepreneurial orientation (EO). Were cultural nonprofit organizations able to become more entrepreneurial, and which cultural nonprofit organizations have been most successful in achieving this? We can conclude that the cultural nonprofit organizations that participated in our study had a more positive attitude towards entrepreneurship in 2020 than in previous years.

We included one statement related to entrepreneurship in general. We asked to what extent respondents agreed or disagreed with the statement “Working in an entrepreneurial way is important for our organization” on a 6-point Likert-scale ranging from “totally disagree” (1) to “totally agree” (6). Figure 26.7 shows that, over the years, an increasing proportion of respondents (fully) agreed with this statement.

We presented three statements to respondents about innovation – with the same 6-point Likert scale. Figure 26.8 shows that the majority of respondents indicated that their organization behaves rather innovatively by exploring new opportunities, improving and innovating programs and projects and by constantly seeking new projects and activities. The percentage of cultural nonprofit organizations that have a positive attitude towards innovation was higher in 2019 than in 2015 and 2016.

To measure pro-activeness, we provided respondents in 2020 with two statements in which they had to choose between two alternatives on a 7-point Likert scale. At the one end is a “reactive” alternative (1), while the other end gives a “pro-active” alternative (7). Reactive organizations wait, while pro-active organizations take the lead. Respondents could also choose a middle position (4). We organized the responses in such a way that respondents choosing 1–3 were classified as “reactive”, while respondents choosing 5–7 were classified as “pro-active”. Figure 26.9 shows that cultural nonprofit organizations are very divided when it comes to their attitude towards being proactive.

Third, we investigated the extent to which respondents indicated their organizations are willing to take risks. Similar to pro-activeness, we provided respondents with two statements in

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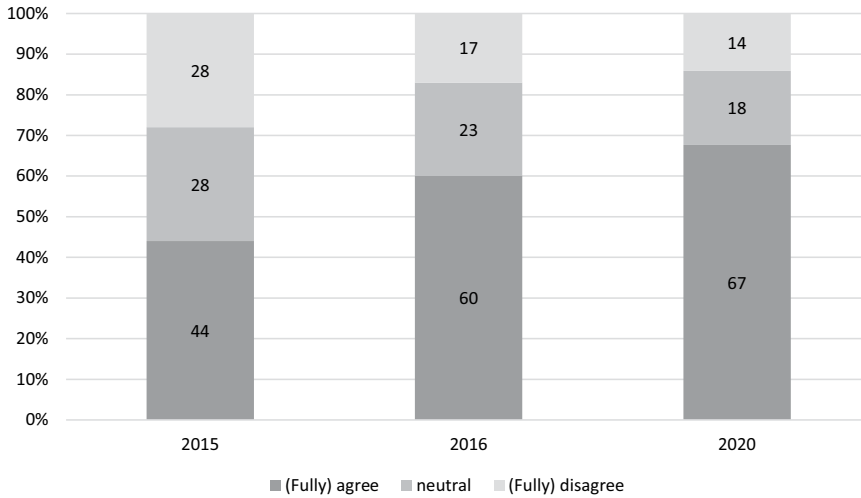


Figure 26.7 Agreement to the statement “Working in an entrepreneurial way is important for our organization” in 2015, 2016 and 2020 (in %)

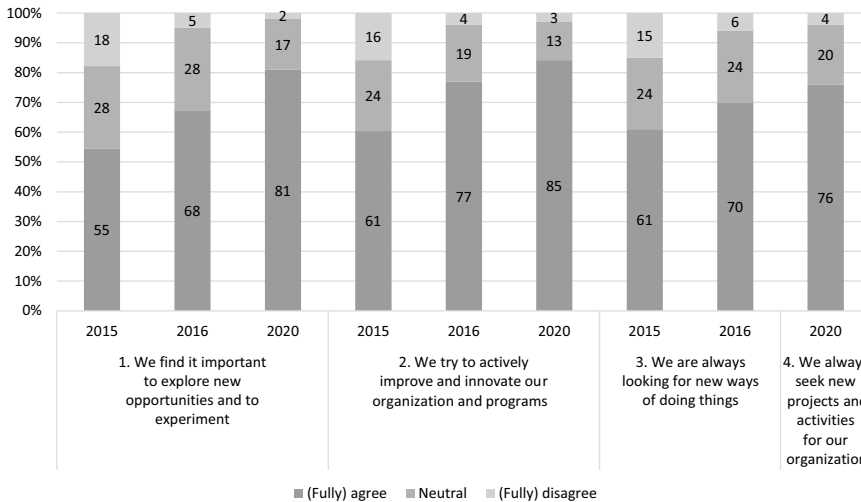


Figure 26.8 Agreement to statements on innovation in 2015, 2016 and 2020 (in %)

which respondents needed to choose between two alternatives on a 7-point Likert scale. Both statements provide a risk-averse alternative (1) versus a risk-taking alternative (7). Figure 26.10 shows that respondents in 2020 more often say that their organization takes risks when it comes to projects and activities. This increase stems from a decrease in organizations that did not make a clear choice (4; neutral). The percentage that indicates their organization avoids taking risks remained the same over the years. We do not see a clear change in the more general statement about uncertain situations.

We also asked respondents about their attitudes towards being independent as an organization. These statements relate to the respondent’s attitude towards government funding and

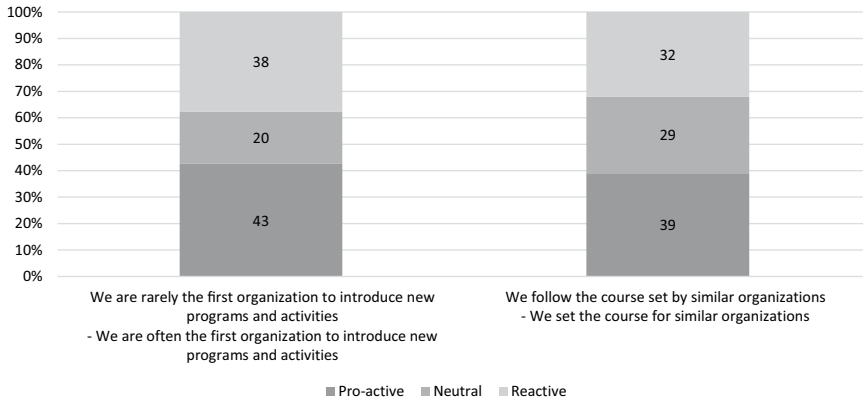


Figure 26.9 Responses to statements on pro-activeness in 2020 (in %)

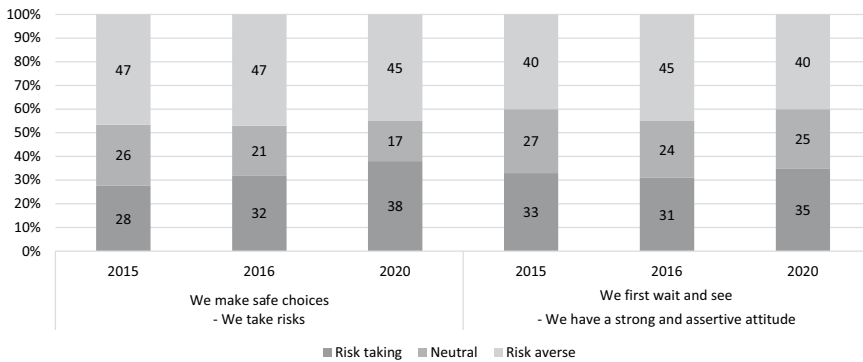


Figure 26.10 Responses to statements on risk-taking in 2015, 2016 and 2020 (in %)

income diversity: “It is good to be less dependent on the government” and “We rather engage in fundraising than receive government funding”. Both statements had a 6-point Likert scale ranging from “fully disagree” (1) to “fully agree” (6). Figure 26.11 shows that the attitudes towards these two statements did not change substantially since 2015. Cultural nonprofit organizations attach greater importance to increasing their fundraising income to a lesser extent, they value independence from the government.

Finally, we provided two statements to respondents regarding the organization’s collaboration with corporations and partnerships more broadly. Figure 26.12 shows that the attitudes towards cross-sector collaboration did not change substantially over the years. Most cultural nonprofit organizations in our sample indicate they are not reluctant when it comes to collaborating with corporations; attitudes towards collaboration with other parties outside the cultural sector are even more positive.

In Table 26.11, we look at four different aspects related to entrepreneurship per income class in 2020. It is evident that larger cultural nonprofit organizations score higher on entrepreneurship. The four aspects are innovation, risk-taking, cross-sector partnerships and independence. For innovation, we only look at the first three statements on innovation. When we look at

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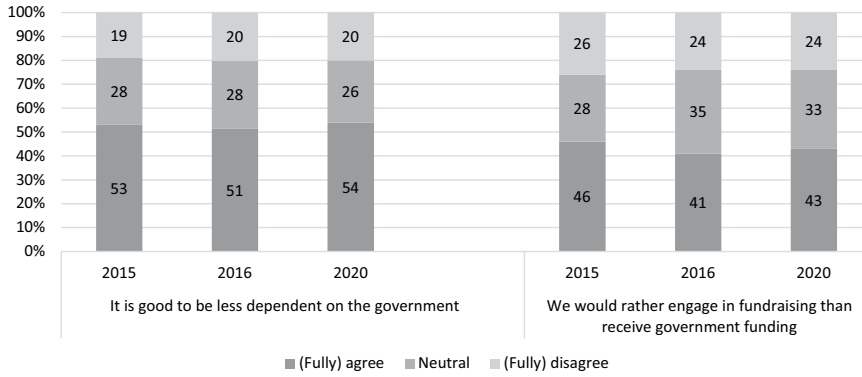


Figure 26.11 Responses to statements on independence in 2015, 2016 and 2020 (in %)

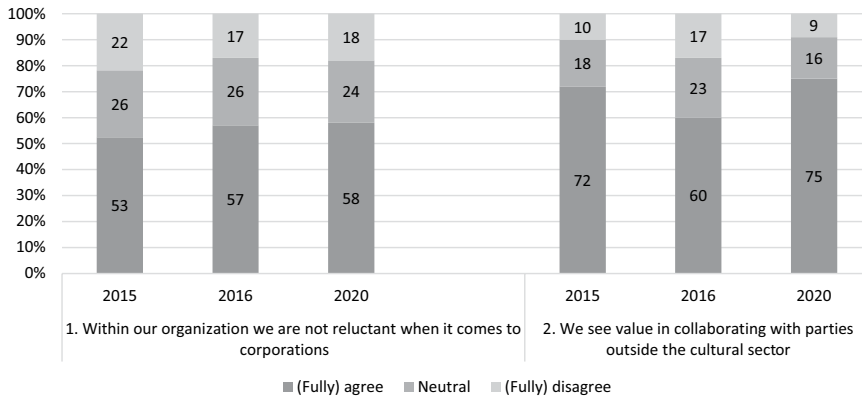


Figure 26.12 Responses to statements on cross-sector collaboration in 2015, 2016 and 2020 (in %)

Table 26.11 Highest score on four aspects of entrepreneurship per income class in 2020 (in %)

	<i>Innovation</i>	<i>Risk-taking</i>	<i>Cross-sector partnerships</i>	<i>Independence</i>	<i>Entrepreneurship</i>
Very small (Max 2K)	57	35	42	47	44
Small (2K–50K)	60	43	45	32	44
Medium-sized (50K–1.5 mln)	72	61	61	39	58
Large and very large (>1.5 mln)	92	71	66	48	68
Total sample	69	53	53	38	52

innovation, 57% of very small cultural nonprofit organizations (fully) agree with all three statements. In contrast, 92% of the largest organizations (fully) agree with these three statements. The same applies to risk-taking and the attitude towards cross-sector partnerships. Large(r) cultural nonprofit organizations have more positive attitudes. We see a different pattern when we look at independence. Very small organizations and (very) large cultural nonprofit organizations all score similarly. Their scores are more positive compared to medium-sized organizations. The total score in the last column is calculated based on the number of times that respondents have a positive attitude towards the four aspects of entrepreneurship. We see that the percentage of organizations that say they engage in entrepreneurial behavior increases markedly with the size of the organization.

Conclusions

We studied developments in donations to cultural nonprofit organizations and changes in their income sources and entrepreneurial orientations. On the donor side, we find that donations to culture increased somewhat after the charity law reform. The increase comes solely from an increase in the amount donated. The increase roughly kept pace with the increase in giving to other causes. This means that we do not see much of a substitution effect away from other causes to the cultural sector. Because the reform coincided with large cutbacks in direct government funding, we cannot isolate the tax-price effect on giving to culture. It is, however, unlikely that the effect comes from a crowding-out effect of reduced government funding. Before the reform, we found that households were not willing to compensate government cuts. The joint effect of the reduced tax-price of giving and the cutbacks is much less than projected by the Ministry of Finance. The increase in the amount deducted from the income tax was roughly half of the projected increase. Finally, we see that the increase does not come from the group of wealthy households that gives the highest amounts to culture and benefits most from the tax deduction. As a matter of fact, donations to the cultural sector made by wealthy households even decreased after the introduction of the charity law reform, though at the same time, the amounts deducted by the most wealthy households increased. This makes it unlikely that the increase in giving to culture is the result of the multiplier for donations to culture that the legal reform introduced.

The results on the side of cultural nonprofit organizations are very different. Our findings indicate that cultural nonprofit organizations succeeded in earning more income from private sources and became more entrepreneurial. The increase in entrepreneurship is evident both from the attitudes of cultural nonprofit organizations as well as from their behavior. These results are in line with the objectives of the reform.

At the same time, cultural nonprofit organizations are still relying on government funding quite heavily. Contrary to the objective of the charity tax reform, cultural nonprofit organizations relied more strongly on government funding in 2019 than in previous years. Their sources of income did not become more balanced or diversified. We also see that a Matthew effect occurred: differences between smaller and larger organizations increased. In part, this development is due to more investments in fundraising by larger organizations and more effective communication about the reform to prospective donors.

We conclude with a few insights for policymakers in other countries. What can they learn from the Dutch charity tax reform for the effective design of tax incentives for charitable giving? A first lesson is that one should not expect miracles: enhanced deductions do not easily expand the pie of total giving. A second lesson is that it is important to help organizations to become entrepreneurial and learn how to successfully engage in fundraising. Cultural nonprofit organizations that invested in fundraising were more likely to increase their fundraising income.

These were larger organizations. Prior experience and current income allow these organizations to build capacity and invest in fundraising, enabling them to obtain the necessary skills and capacity for fundraising. Subsequently, these investments generate income out of fundraising and commercial activities. Finally, we warn policy makers to be aware of adverse consequences such as the Matthew effect or substitution effects. Though we did not see much of a substitution effect in giving behavior, we do see a Matthew effect among cultural nonprofit organizations.

Note

1 This text and supporting materials are available at <https://osf.io/qrdfc/>.

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APPENDIX

Data on giving behavior

The results on giving behavior to culture and arts in the Netherlands are based on data from the Giving in the Netherlands (GIN) studies. GIN is an initiative of the Center for Philanthropic Studies at the Vrije Universiteit Amsterdam. Since 1995, GIN biennially publishes macro-economic estimates of philanthropy by households, corporations, foundations, bequests and lotteries. The data among households and corporations include weighted responses to survey questionnaires on giving in the past calendar year. The data among foundations, bequests and lotteries are based on annual reports (and in the case of foundations, an additional survey).

The data on households include two samples: 1. a general sample among Dutch households and 2. a targeted sample among Dutch high-net-worth households. The high-net-worth sample is included to improve the coverage of the high end of the income and wealth distribution in the Netherlands. The sample includes respondents with a capital (freely disposable) of at least €50,000. Most of the households in the high-net-worth sample (37%) have a capital above €500,000. Besides being a Dutch resident and the age restriction of being 18 years or older, there were no restrictions for the general household sample. The general household sample has a longitudinal design: the same respondents are approached every two years. Both samples are weighted based on age, gender, region, household size and education level. See Table 26.A.

The data on corporations are collected via a survey among a representative sample of corporations located in the Netherlands. The questionnaires were completed by an employee responsible for the corporation's sponsorships and donations. In the questionnaire, sponsorships are described as donations with a "business interest" and where the corporation receives something in return, while gifts are donations without a business interest without a return. We extrapolated the data from the sample to the total population of corporations in the Netherlands. The sample was weighted based on the total number of corporations in the Netherlands per sector, including data on the number of employees per company.

The data on lotteries are based on annual reports of all nine lotteries in the Netherlands. The data on foundations are based on contributions by foundations from surveys and annual reports. For foundations, we report a minimum estimate, since not all foundations are represented (i.e., incomplete data). For 2018, the data include 122 endowed foundations (with a budget of more than €500,000) and 676 fundraising foundations.

Table 26.A Sample sizes on giving behavior

	2011	2013	2014	2015	2018
Households	2.193	980	1.001	1.192	1.201
Corporations	1.164	1.201	1.115	1.007	1.022
High-net-worth households	1.307	1.356	836	891	1.087

Table 26.B Sample sizes of cultural nonprofit organizations

	2012	2013	2014	2015	2018	2019
Cultural nonprofit organizations	928	928	512	438	21	574
Response rates (in %)	39	39	–	–	–	10

Data on cultural non-profit organizations

We collected data on cultural nonprofit organizations via a survey administered three times: in 2014, 2016 and 2020. We collected the data on 2012 and 2013 in the autumn of 2014. We collected the data on 2014 and 2015 in the summer of 2016. In the winter of 2020, we collected the data on 2019. As some cultural nonprofit organizations did not have their annual report ready for 2019, we allowed them to provide their revenues and expenses for the year 2018. In this chapter, we refer to the year 2019 for both 2018 and 2019, as the responses for 2018 were negligible (see Table 26.B). We rely on survey data, as we cannot rely on income tax returns. Tax returns only contain information about the donations that households declared as deductible gifts. Not all households that could make use of the gift deductibility do so in practice. As a result, the insight into the giving behavior via tax returns is incomplete (Bekkers, 2010). Moreover, tax returns do not distinguish between in-kind and monetary gifts.

To obtain a wide and varied data set, we invited all Dutch cultural nonprofit organizations registered with the tax authority as a cultural nonprofit organization with a public benefit (Culturele ANBI). We invited these cultural nonprofit organizations several times using multiple methods. When email and/or correspondence addresses were available, we sent an invitation per postal service and via email. In 2020, the email invitation was sent three times. In 2020, we also called the cultural nonprofit organizations that participated in our study in all previous years (i.e. longitudinal sample group) and the largest cultural nonprofit organizations by telephone to solicit participation. As we were particularly interested in the largest cultural nonprofit organizations, we supplemented our survey data on 2019 with publicly available annual reports from 82 largest Dutch cultural nonprofit organizations.

The survey included questions on the organization's revenues and expenses, as well as attitudes towards entrepreneurship (i.e. innovation, risk-taking, and pro-activeness). As we expected that the effect of the charity tax reform became only noticeable after several years, we mainly focussed on the data gathered in 2020. Our sample is unlikely to be representative of the entire Dutch cultural nonprofit sector. The sample of cultural nonprofit organizations for which we gathered data in 2014 and 2015 consisted to a greater extent of medium-sized and large cultural nonprofit organizations. The 574 cultural nonprofit organizations that provided data in 2020 are also unlikely to be representative of the entire cultural sector, especially since

we were particularly interested in the largest Dutch cultural nonprofit organizations. As we supplemented the data with annual reports of the largest Dutch cultural nonprofit organizations, the largest cultural organizations are probably overrepresented, while smaller organizations are underrepresented in the data collected in 2020. To account for this, we carried out certain analyses over the years for different income classes (i.e., very small, small, medium-sized and (very) large cultural nonprofit organizations).