

T.C.
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SOSYAL BİLİMLER ENSTİTÜSÜ
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ULUSLARARASI İLİŞKİLER (İNGLİZCE) BİLİM DALI

**REDUCING THE HUMANITARIAN PLATFORM AND THE FUNDAMENTAL
LIBERAL DEMOCRATIC VALUES: RISE OF THE HUNGARIAN ANTI-NGO
ENDEAVOR**

Yüksek Lisans Tezi

TIRIA ELGABAILI

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Danışman : PROF. DR. ERHAN DOĞAN

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ÖZ

İNSAN PLATFORMLARIN VE TEMEL LİBERAL DEMOKRATİK DEĞERLERİN AZALTIMASI: MACARİSTANDA STK KARŞITI ÇABALARIN YÜKSELİŞİ

ELGABAILI, TIRIA

Yüksek Lisans, Siyaset Bilimi ve Uluslararası İlişkiler Anabilim Dalı

Tez Danışmanı: Prof. Dr. Erhan Doğan

2020

Sovyetler Birliği'nin dağılmasından sonra, Macar hükümeti ile hükümet dışı kuruluşlar arasındaki ilişkilerde bazı değişiklikler oldu. Komünist dönemlerde (1949-1989), egemen bir sivil toplum örgütü oluşturulması yasaktı. Bağımsız bir üçüncü sektörün kurulması, demokratik dönemin başlangıcında ana endişelerden biri haline geldi. Bu tez, üçüncü sektörü ve kiliseler için ilk hükümet yardım sistemi olan “Bir ve Yüzde Bir” yasasını vurgulayarak Macar üçüncü sektörünün büyümesini analiz etmeyi amaçlamıştır.

“Bir ve Yüzde Bir” yasasına göre, vergi mükellefleri yıllık vergi indirimlerinin yüzde 1'ini sivil toplum kuruluşları için, diğer yüzde 1'ini de kiliseler için ayırabilir. “Bir ve Yüzde Bir” yasası, komünizm sonrası zayıflamış bir sivil toplum içinde hükümet dışı alanı desteklemek için yeterli midir? Bu tez, Macar sivil toplumunda “Yüzde Bir” yasasının ortaya çıkışını ve uygulanmasını tartışmış ve sivil toplum örgütleri üzerindeki etkilerini araştırmıştır. Tez ayrıca, bu yasanın sivil toplumun hayırseverlik alışkanlıklarını nasıl etkilediğini de incelenmektedir. Bu tez, Macaristan'daki sivil toplum örgütleri, vakıflar ve dernek temsilcileriyle yapılan derinlemesine görüşmelerden, bu konudaki bilimsel çalışmalardan, vakıflar ve dernekleri kapsayacak bir biçimde arşiv verilerinden ve 1949'dan 2018'e kadar hükümet idaresinin tarihçesinden faydalanılarak yazılmıştır.

Bu tezde, halen maddi sorunlar yařayan Macaristan üçüncü sektörünün gelişmesi için “Bir ve Yüzde Bir” yasasının yeterli olmadığı iddia edilmektedir. Bu mali desteğin alıcılarını vergi mükellefleri belirlese de, kaynak esas olarak hazineden gelmektedir. Bu nedenle Macar toplumunun, Macaristan'ın üçüncü sektörünün geliştirilmesine ve genişletilmesine daha fazla kaynak ayırması ve devleti de bu kaynakların hızlı ve eksiksiz bir biçimde sivil toplum kuruluşlarına ulaştırılması yönde zorlaması gereklidir. Sivil toplum örgütlerinin etkinliğini artırabilecek diğer unsurları belirlemek amacıyla daha fazla araştırmaya gereksinim bulunmaktadır.

Anahtar Kelimeler: Post-Sovyet Macaristan, Yüzde Bir Hukuk, sivil toplum sektörü, sivil toplum

ABSTRACT

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ELGABAILI, TIRIA

M.A., Department of International Relations

Supervisor: PROF. DR. ERHAN DOĞAN

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After the collapse of the Soviet Union, there were several changes between the Hungarian government and the nongovernmental institutions' relationship. Under the Communist order, it was forbidden to create a sovereign civil society organization. The establishment of an independent third sector has become one of the main concerns at the beginning of the democratic era. This thesis aimed to analyze the growth of the Hungarian third sector, highlighting the "*One and One Percent*" law, which is the first governmental aiding system for the nongovernmental sector and the churches.

According to the "*One and One Percent*" law, taxpayers can allocate one percent from their annual tax deductions to members of the nongovernmental sector and an additional one percent for churches. Is the "*One and One Percent*" law sufficient enough to support

the nongovernmental sphere within a weakened, post-Communist civil society? This dissertation discussed the emergence of Hungarian civil society and the implementation of the “*One and One Percent*” law within the Hungarian context and explored its effects on the nongovernmental sector. Additionally, it discusses how this law influences the philanthropic habits of the Hungarian civil society. The thesis was conducted secondary scholarly studies, archival data from Hungary about the nongovernmental organizations, including foundations, and associations and the history of the government administration from 1949 to 2018.

The thesis argues that the “*One and One Percent*” law is not sufficient for the expansion of the Hungarian third sector, which still experiences financial and material deficits. Even though taxpayers determine the recipients of this financial support, the funding originates from the government’s aid framework. Therefore, it is essential to encourage civil society organizations to invest more in the progress and expansion of the Hungarian third sector by the state administration. Further research is needed to identify other factors that could promote the support of the nongovernmental sector.

Keywords: Post-Soviet Hungary, One and One Percent Law, nongovernmental sector, civil society

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1. INTRODUCTION

The Communist Party of the Soviet Union oppressed the civil society in the Eastern and Central European countries during the Communist order. There was no possibility of establishing individual and independent nongovernmental organizations. Several state-led 'nongovernmental' organizations were established and the state motivated and even forced the population to join in order to demonstrate loyalty with the Communist political leadership. The Communist party spread its influence throughout daily life and activities and did not allow individualistic initiations. The main idea was to expand the Marxist and Leninist ideologies and raise a new generation in line with the new Soviet regime.

After the collapse of the Communist regime, the expansion of the nongovernmental sector had begun. Due to the lack of financial resources, the system could not adapt as fast as expected. It is essential to understand the concerns of the Hungarian citizens about the nongovernmental sector. The Hungarian civil society dealt with numerous issues after the Communist regime, such as disappointments regarding the modernization process and mistrust towards the nongovernmental organizations. The people have only trusted to the NGOs in their close circles, and they were still hesitant to participate in the nongovernmental sector. The democratization process is still ongoing in Hungary. The establishment of the new institutional system, multi-party system, the new political elite, and the social and economic transformation struggled to suppress the post-Communist attitudes from the population.¹

Numerous scholars have examined the concept of post-communist civil society. New projects were necessary to reestablish the weakened post-communist civil society.² Several Western foundations began to provide support for the Eastern and Central European governments to assist them with financial and material resources. The main objective of these efforts was to decentralize the remaining monopolistic order and develop liberal democracy in post-soviet Hungary.

¹ Naimark (2010) *The Sovietization of Eastern Europe*, Cambridge History of Cold War III, Cambridge

² Walzer, Michael (1995) *The Concept of Civil Society*, in *Toward a Global Civil Society*. Berghahn Books, pp. 7-27

The adoption of the "*One and One Percent*" law in 1996 was the first governmental initiative.³ Through the funding system, civil society could allocate one percent of their tax to nongovernmental organizations and one percent to the churches as annual support from within their tax deductions. However, there were several arguments against this practice. The "*One and One Percent*" system survived for decades and continues to distribute annual allocations to nonprofit organizations and churches. It is important to explore this topic and discuss the advantages and the disadvantages of the "*One and One Percent*" law and civil society's support of the third sector. The allocation system is not a donation process. I will introduce the historical development of the "*One and One Percent*" law to show how it has affected the Hungarian nongovernmental sector and the civil society throughout the decades. The state administration modified the "*One and One Percent*" law several times, which I will analyze in the following chapters. There were other initiatives to establish additional funds for the nongovernmental sector, beyond the "*One and One Percent*" allocation. One of the main obstacles of the "*One and One Percent*" law is the low income *per capita* in Hungary. Without foreign funders, numerous nongovernmental organizations would not have survived after the regime changed.⁴

The structure of this dissertation connects the sections in a specific order. *The second chapter* discusses the Hungarian civil society and introduces theoretical analysis for the civil society, institutionalism, and the relations between civil society and the state. *The third chapter* illustrates the path toward the "*One and One Percent*" allocation system, provides a historical overview of main arguments, and concerns about the practice. The third chapter also describes the first reactions from civil society after the implementation of the "*One and One Percent*" law. The thesis will highlight the volunteering habits of the Hungarian people. I will explore the question of how the "*One and One Percent*" law motivates the Hungarian civil society to make private donations, in this dissertation.

The main research question is: Is the Hungarian government able to provide adequate financial support to the members of the nongovernmental organizations? Moreover, I will explore the following questions: Who can be a taxpayer's beneficiary? When was the law implemented, and how was it managed? What are the specific rules for being an association, foundation, or public benefit organization? How are civilians able to allocate the "*One and One Percent*"? What are the differences and the similarities between the allotment methods

³ Salamon, Anheier (1994) *The Emerging Sector, The Nonprofit Sector in the Comparative Perspective – An Overview*, Baltimore

⁴ Éva Kúti, István Sebestény, *The Nonprofit Sector in Hungary, in the Future of Civil Society*, 2004, pp. 654-671.

regarding the churches and the third sector? Can the third sector motivate enough of civil society to build a volunteer or philanthropic culture in Hungary? Do taxpayers have enough information to make correct allocations? Are there gaps and missing points in the instructions which lead to fewer contributions? How does the country construct a nongovernmental sector just after transitioning from a Communist setting to a democracy? How can civil society adapt to these new changes? Is the Hungarian government able to fund the members of the third sector, or do they need more assistance? Why did the Hungarian government adopt the "*One and One Percent*" allotment system?

The lack of a volunteering tradition within the population and a greater focus on everyday concerns decreased the attention to the nongovernmental sector. I reviewed the current Hungarian tax laws and related statistics to establish an adequate knowledge base and to explore the development and utilization of the "*One and One Percent*" law in different contexts. I focused on both the public and political discussions about the expansion of the law and discussed its several modifications throughout the years, and the funding distribution process. I examined the Hungarian institutional system, how it constructed and modified opportunities for the locals, implemented new technologies. My work is essential since there are few studies about this Hungarian law topic in the English language, and the Hungarian government has continued "the one percent system" since its implementation in 1996. As a Hungarian citizen, I have particular sympathy and enthusiasm about the Hungarian nongovernmental sector, the development of the civil society, and their relationship with the state administration.

I will present how the churches and the members of the nongovernmental organizations welcomed the introduction of the law. In the *fourth chapter*, I will examine the technical usage of the allotment system using analysis and an explanation of Hungarian tax law. It will include the prevailing structure of deductions, the tax return, and taxpayer requirements. The fourth chapter will also discuss the "*One and One Percent*" law and the current rule of the government, principles, mandatory tasks, and duties of the taxpayers and the beneficiaries. Finally, in the *last chapter*, I will build a bridge with the *second chapter* to discuss the roots of the post-Communist civil society. I will also analyze how the civil society made the transition from post-Communism to a new democratic order. Through the development of the thesis, I used secondary sources, read several academic articles and books in the Hungarian and English languages. In the *second chapter*, where I will evaluate the post-Communist background and

the theoretical structure, I include several sources in English. For the remaining chapters, where I will analyze the "*One and One Percent*" law, I used mostly Hungarian sources.

It is important to understand the value of the "*One and One Percent*" law. Since 1996, the members of Hungarian civil society have been using this mechanism to support the nongovernmental organizations. On the other hand, the state has begun to use the bill as a tool against the nongovernmental sector. Therefore, it is essential to highlight the importance of the law to maintain it for future nongovernmental organizations.



2. COMMUNIST HERITAGE OF CIVIL SOCIETY

2.1 Introduction

This section will analyze Hungary's Soviet past for a better understanding of the current issues of the Hungarian civil society, state relations. The section will begin with an exploration of the origins of the post-Communist order, which influenced current matters of the nongovernmental sector, political affairs, and the problems of the civil society. Key areas of focus will include the transition period, relations between government and the nongovernmental sector, and the importance of the "*One and One Percent*" law, which is a method of governmental support to the nongovernmental sector and churches from the utilization of taxes. Scholars highlight the importance of the post-communist legacies, which are shaping the current decision-making and political changes in the Hungarian state. The Communist past weakened the Hungarian civil society. It is essential to look at weakening Communist effects to understand the background of the nongovernmental sector. The Hungarian people's attitude was observed by numerous scholars and academicians, such as Éva Kúti, how the communist past continues to influence the life of Hungarians after 1989. The post-communist states have a different national and political culture from the Western states, where the support of the civil society and the nongovernmental sector is developed better.⁵

I will explore that even though the Communist Party abolished the establishment of the nongovernmental institutions and controlled each segment of everyday life, some organizations such as trade unions, advocacy organizations, or local leisure groups were able to survive under the Communist leadership. These organizations were pseudo-voluntary and belonged to the Communist administration. Even if under a Communist regime, civil society was oppressed and generally weakened, Hungarian civil society found a way to create nongovernmental institutions.⁶ Many organizations were established during the communist era, survived after the democratic changes have occurred. The government acknowledged that these institutions need governmental support and implemented funding and governmental aid plans, such as the "*One and One Percent*" law. The Hungarian State accepted support from the developed Western

⁵ Barany, Zoltan D. and Ivan Volgyes. (1995) *The Legacies of Communism in Eastern Europe*. Baltimore: Johns Hopkins University Press

⁶ Bermeo, Nancy (1992) *Surprise, Surprise. Lessons from 1989 and 1991*, in *Liberalization and Democratization: Change in the Soviet Union and Eastern Europe*, Baltimore, Johns Hopkins University Press, pp. 178-200.

countries to create a stable nongovernmental sector. The Western nongovernmental organizations supported the post-communist countries. During the theoretical discussion, I will introduce the experimental approach and institutional theory. It shows how the Communist past affects the behavior of Hungarians to participate in nongovernmental organizations, how the actor-network relations were born, and why there are limited relations between the civil society and the state after the collapse of the Soviet Union.

During the Communist era, the state did not provide enough financial resources and support for the nongovernmental sector. The main focus of the Communist Party was to spread the Marxist-Leninist ideology. Corruptions and continuous fights between the elite were significant. The question of civil society development was not in the center of attention. The Communist characteristics were deeply-rooted both in civil society and in the institutional system. Throughout this chapter, I analyze the mandatory participation of the Communist mass organizations, and the lessened attention of individualism negatively influenced the democratization process and institutional development after the clash of the Soviet regime. The experimental approach helps us to understand the real-life experiences of the Hungarian citizens, why the transition period created an extensive shock for them, and how the old experiences shape their decision-making after 1989. Moreover, it is crucial to question the conditions of people's adaption of democracy. Several factors can influence the patters of attitudes, for example, age, gender, education level. At the beginning of the democratic transition, civil society was open for the new implementations. Additionally, they were enthusiastic about getting rid of the burdens that were created by the Hungarian Communist Party. Therefore, civil society welcomed the societal, political, and institutional changes. On the other hand, if these changes did not match their expectations, they resisted adapting to the democratization processes.

2.2 Communist effects on the institutional system

By the 1950s, the Communist institutional order was based on the "charismatic impersonalism." This concept means that the Communist Party, as a ruler of the institutional setting of social organizations, was unquestioned. It was different from the Western-type of institutionalism, where the norms and values were the basis of the organizational system. I discuss the viewpoint of Valerie Bunce, who provided a detailed analysis of the non-democratic

base of the Communist institutional system.⁷ She implemented four actors that were significant to understand the Communist experience of civil society. First, she mentioned the Leninist ideological implementation of the ruling elite on the civil society. The elite focused on modernization in the economy, development of industrialization, urbanization, and agricultural growth to reach the standard of production of Western societies.

On the other hand, under the strict ideological base of the Communist regime did not provide enough space for development. It was not easy to implement reforms and apply new technologies. The Communist Party restricted these investments, which caused an economic shortage. The centralized production backed the Communist ideologies, where it was easier for the loyal members and the elite of the ruling Party to reach some goods in that period of economic scarcity. According to the Communist understanding, Western influences could break down the power of the ruling Party. This factor can lead us to the second factor. The Communist Party-controlled the civil society thought the communist mode of production. The economics, politics, and civil society were all interdependent. Individuals were able to engage in the state provided workplaces, but entrepreneurship was forbidden. Thirdly, the ruling Party appointed the leaders of different types of organizations, such as schools or mass organizations. Compared to the Western states, where people could apply to certain positions depend on their level of education or professional experiences, under the Communist order, the Party was deciding who can take which position. The main factors were ideological orientation to Marxism, expressed loyalty, and membership of the Party. Therefore, if the members of civil society tended to improve their careers, income, education level, travel opportunities, or possessing goods that were not available in the Soviet countries, it was indispensable to be a loyal member of the Communist Party.

The fourth approach of Bunce was to control and rule the civil society thought restrictions. The ruling Party provided several activities to the members of civil society through mass organizations, such as leisure, recreational and sports associations, and cultural clubs. After the transition, these organizations were widespread and had a robust civilian base. During the Communist times, these highly-politicized groups spread the Marxist-Leninist ideology through the youth in order to build a firm and stable base for the next generation. The participation of the state-provided organizations was mandatory; the members could benefit

⁷ Bunce, Valerie (1999) *Domestic Socialism: Monopoly and Deregulation*. In *Subversive Institutions: The Design and Destruction of Socialism and State*, Cambridge Studies in Comparative Politics, pp.20-37.

from several advantages. For instance, the Party ensured workplaces, cultural, sport and leisure activities, holiday opportunities, and the accession of certain goods from Western states.

As a consequence, the Communist institutional system is based on restrictive rules in order to govern civil society. The clash of the Soviet Union opened the space for a democratic transition. In the following years, there was a significant increase in the number of nongovernmental institutions. The state did not force civil society anymore to join the nongovernmental organizations. The participation was free, self-motivated, which was the opposite of the Soviet experiences. In the following section, I will analyze the factors based on the experiential approach, which decreased the people's participation in nongovernmental organizations.⁸

2.3 Civil Participation in Nongovernmental Sector after the transition

After the clash of the Communist regime, the expansion of the nongovernmental sector had begun. Due to the lack of financial resources, the system could not adapt as fast as the civil society expected. The Hungarian civil society dealt with numerous issues after the Communist regime, such as disappointment during the modernization process and mistrust towards the nongovernmental organizations. They trusted only in their close circles, and they were still dubitative towards the state administration and the nongovernmental sector.

There was no rapid transformation from the Communist system to Western-style democracy. The establishment of the new institutional system, multi-party system, the new political elite, and the social and economic transformation struggled to suppress the post-Communist attitudes of the Hungarian population.⁹ Several Western foundations began to support the Eastern and Central European governments to assist them with financial and material resources and ensure the establishment of a democratic civil society. The main objective of these efforts was to decentralize the remaining monopolistic order and develop liberal democracy in post-soviet Hungary.

After the clash of the communist regime, it was a widespread concept that the people would establish more organizations without any pressure for obligatory memberships. However, the members of the civil society lost trust in these organizations. It was a burden

⁸ Berlin, Isaiah (1969) Two Concepts of Liberty, in *Four Essays on Liberty*, Oxford, Oxford University Press, pp. 118–172

⁹ Walzer, Michael (1995) The Concept of Civil Society, in *Toward a Global Civil Society*. Berghahn Books, pp. 7-27

instead of enjoyment. Civil society needed time to recover and rebuild trust with the public organizations. The nongovernmental sector lacked financial resources and membership base. In the old democracies, the state has a significant role in supporting civil society development. On the other hand, the post-communist states were divergent. The members of civil society doubted the effectiveness of the nongovernmental sector. Skeptics preferred state authorities in any problems, instead of nongovernmental organizations. The people trusted in the power of the state and discredited the capabilities of the nongovernmental sector.

Moreover, the nongovernmental sector suffered from a lack of capital, memberships and the necessary volunteer base. Therefore, the Hungarian government and Western foundations assisted the reestablishment of the nongovernmental sector.¹¹ By 1992, the nongovernmental organizations started to learn the basic democratic elements and how to mobilize the Hungarian civil society for broader participation.

During the Communist era, public life was highly politicized. The state-controlled each segment of daily activities. For this reason, private relations became meaningful. There are two reasons why the personal relationship was prominent. First, under communist pressure, the ruling Party did not leave space for personal expression. The civil society was afraid of the Communist party's control. Therefore, the only place where they could express a personal opinion was among close family, friends. The close-tied networks existed in small circles and involved only a limited number of people. After 1989, the members of civil society maintained the importance of personal ties. Second, close network relations were necessary in case of economic development. Among the communist countries, there was a shortage of available goods. Personal connections played an essential role in possessing rare products, such as certain types of cars, clothes, foods, or drinks. However, the interpersonal connections for a particular purpose were loosened after the capitalist market was introduced. It allowed free access for each commodity, which was forbidden before the transition period.¹²

After the collapse of the Soviet Union, civil society expected fast political and economic transition, visa-free travel, access to every product, rapid institutional changes. In short, the members of civil society imagined a better life than before.

¹¹ Grabher, Gemot and David Stark (1997) Organizing Diversity, Evolutionary Theory, Network Analysis and Post socialism, *Regional Studies* 31, pp. 533-544.

¹² Gibson L. James (2001), "Social Networks, Civil Society, and the Prospects for the Consolidating Russia's Democratic Transition," in *American Journal of Political Science*, Vol. 45, No. 1, pp. 51-68.

On the contrary, reforms were not developing as fast as the civil society anticipated. The post-communist let-down created a gap between the Hungarian state and civil society. They alienated themselves from the public activities, avoided participation in the organization, and they believed the government misled them. All three main reasons: mistrust of the nongovernmental sector, close-tied networks, and the post-communist disappointment influenced the poor participatory attitude of the people in post-communist states.

2.4 Initiative of Democratic Civil Society

Western states helped to introduce the benefit of the democratization process in Hungary. According to the liberal approach, if a transition is successful, the post-communist implementations should develop adequately. Post-communist governments ensured freedom and legal allowances of the civil society to practice rights with no constraints.¹³ Nongovernmental organizations ensure the needs of citizens. Instead of relying on the state's guidance, citizens become free to make their personal choices without governmental oversight.¹⁴ After the transition period, the Hungarian state began to provide economic support for the nongovernmental organizations. It was one of the main reasons why the Hungarian democratic government introduced the "*One and One Percent*" law in 1996. The Hungarian state aimed to encourage the participation of nongovernmental organizations, increase the number of organizations, and build a philanthropic culture.

According to civil society theorists, there are certain stages of post-communist civil society development. Juan Linz and Alfred Stepan analyzed in their book *the Problems of Democratic Transition and Consolidation*, the groups of post-communist civil society. They distinguished five stages of the modernization process and evaluated the development of post-communist civil society. Linz and Stepan separated the private and public spaces and analyzed the interactions among civil society, economic society, political society, the rule of law, and the state bureaucracy.¹⁵ Figure 1. demonstrates the relations and interconnections among the stages mentioned above.

¹³Guo, Sujian and Stradiotto A. Gary (2014) *Democratic Transitions, Modes and outcomes*, Taylor and François Group, an Informa business, New York, pp. 9-23

¹⁴ Di Palma, Giuseppe (1990) *To Craft Democracies: An Essay on Democratic Transitions*, Berkeley: University of California Press

¹⁵ Howard, M. Marc (2003) *The Weaknesses of the Civil Society in Post-Communist Europe*, Cambridge University Press, Cambridge, UK, pp. 34.

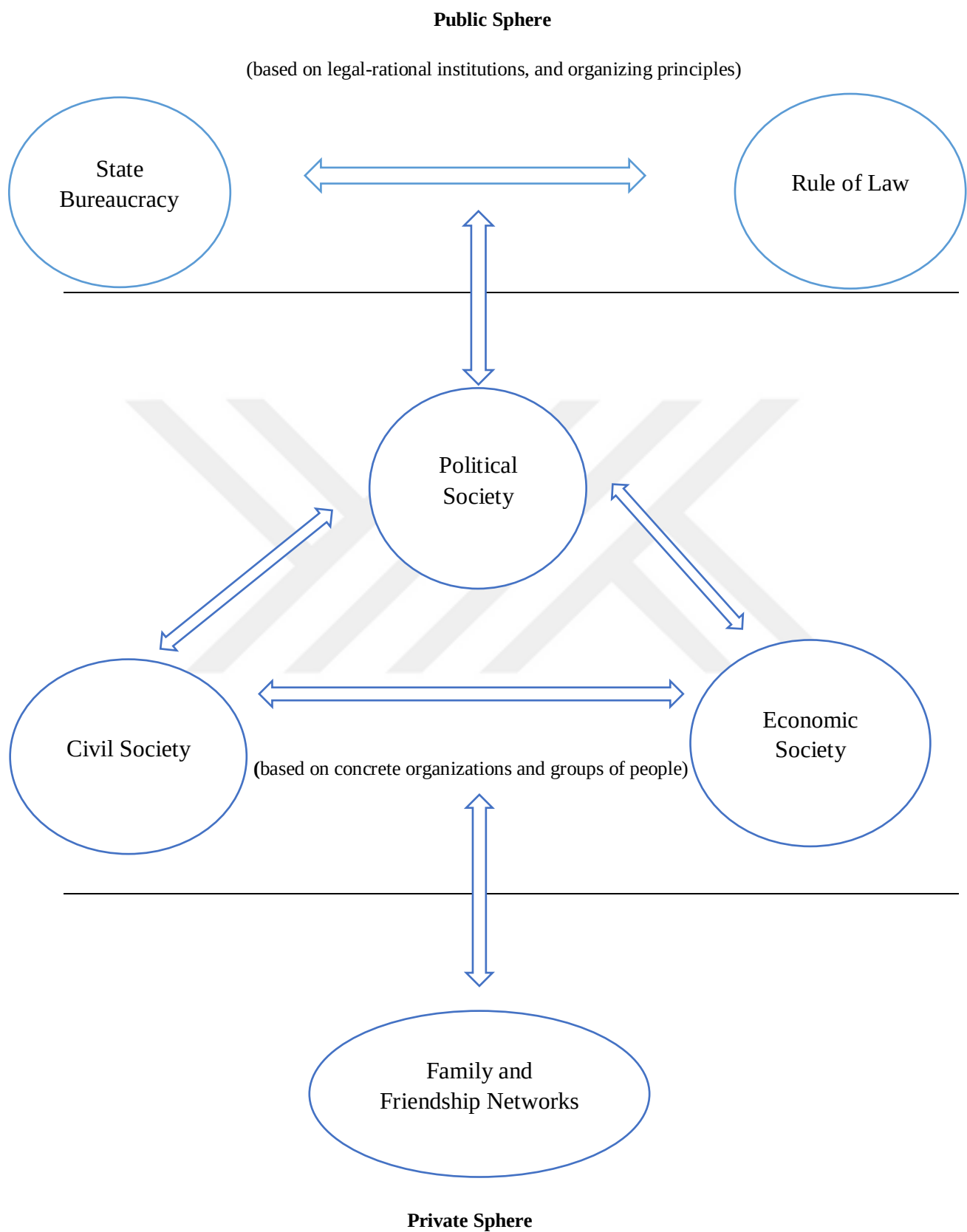


Figure 1. The Arenas of Democratization

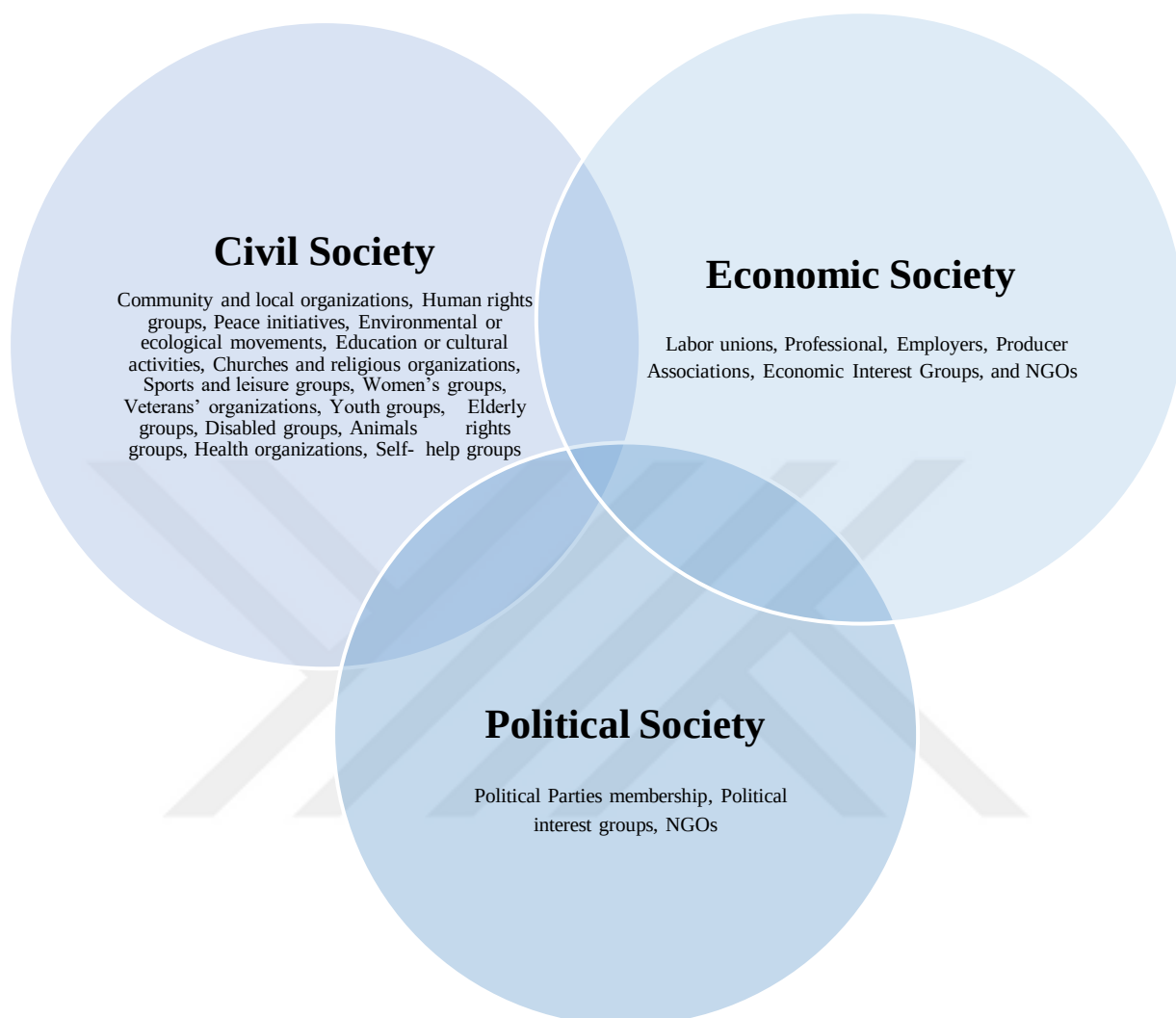
It is visible from Figure 1; there is a difference between state and nongovernmental organizations. The core concept was adapted from Jürgen Habermas's book, *The Structural Transformation of the Public Sphere: An Inquiry into a Category of Bourgeois Society*.¹⁶ It shows how the post-communist civil society adapted to democracy. The relation between the state bureaucracy and the rule of law symbolizes legislative institutions. Figure 1 shows how people interact in daily life and how formal institutions are established. At this point, it is essential to understand the actor-network theory by Bruno Latour. He analyzed the concept of actors as a group of individuals. The collective of civil society creates networks based on shared interests. The people identify common interests and convince others to join. After actors agreed to participate, the enrolment process starts. They speak on behalf of each other for achieving their purposes.¹⁷ The members of political groups are political parties, and the elite, who form alliances. The economic society consists of the members of financial organizations, entrepreneurs, and the economic elite. The civil group forms nongovernmental organizations, associations, which focus on the fundamental interests and needs of civil society such as human rights, women's rights, animal rights, religious organizations, disabled, educational, and cultural groups. The civil organizations seek significant political influence and financial support from the business-oriented organizations and from the political group to maintain their activities. These groups are interdependent.

Andrew Arato and Jean L. Cohen discussed in their book, *Civil Society and Political Theory* that the distinction of the three societal groups is necessary to understand the structure of a democratic state.²⁰ The civil, political, and economic societies are interacting and influencing each other. Figure 2 helps us to develop a deeper understanding of the overlaps among political society, civil society, and economic society. There are shared interests between the political and nongovernmental organizations. Both of them are essential to influence political power and individuals. The mutual purpose of civil society and economic society is to create a significant economic impact. The political and economic society is able to form political-economic interest groups, firms, and unions. There is one factor that affects all three societies, which is media.

¹⁶ Habermas, Jürgen (1989) *The Structural Transformation of the Public Sphere: An Inquiry into a Category of Bourgeois Society*, translated by Thomas Burger with the assistance of Frederick Lawrence, Cambridge, MA: MIT Press

¹⁷ Aykac, O. Selcen (2008) *An Actor-Network Theory (ANT) Approach to Turkish E-Government Gateway Initiative*, Sabanci University <http://research.sabanciuniv.edu/12691/1/turquia.pdf> accessed on: 7/09/2020

²⁰ Cohen and Arato, *Civil Society and Political Theory*, pp. 9-10.



Overlaps	Overlaps	Overlaps	Overlaps
Civil Society – Economic Society	Civil Society – Political Society	Political Society – Economic Society	Political Society-Civil Society-Economic Society
Labor Unions, Professional, Employer and Producer Associations, Economic Interest Groups, and NGOs	Political Parties, Political Interest Groups, and NGOs	Elite-based Political, Economic Interest Groups, and NGOs	Media

Figure 2. The groups of Political Society, Civil Society, and Economics Society

2.4.1 Democratic institutional system

Michael Walzer argued that only a democratic state could maintain a democratic civil society. He supports cooperation between the state and civil society.²² After the transition, a collaborative attitude was present in Hungary. The government provided a financial base for the nongovernmental organizations by creating the "*One and One Percent*" law in 1996 and the National Civil Fund in 2003.

On the other hand, after 2010, there was a conflictual relationship between the nongovernmental sector and the state in Hungary. The nongovernmental organizations began to seek foreign donors from the Western countries. It destabilized their relationship. At that time, the government lessened the support of the nongovernmental organizations, and they had no choice but to look for 'outsider' donors to maintain their activities. Moreover, the Hungarian nongovernmental organizations and the state have started to compete for financial resources. The Hungarian state suppressed the third sector through law regulations, such as the *Law of LXXVI/2017* and 'Stop Soros' law in 2018. According to LXXVI/2017 law, Hungarian nongovernmental organizations, which receive 7,2 million forint support from a foreign funder, it is categorized as an "*Organization Supported from Abroad.*" After an organization receives that amount of financial support, they have to report within 15 days to the government. Moreover, nongovernmental organizations, which provide services for immigration, have to pay an extra 25% tax, based on the Stop Soros law.²³

The institutional approach shows how nongovernmental organizations protect human rights. The nongovernmental organizations lobby to increase citizen participation in the decision-making process, provide information that can be essential for citizens, such as the state's legislative system, taxation rules, or the rights of the citizens. This phenomenon is described as social learning. It is a process in which the actors have to interact for possessing new knowledge. Hence, the state and the nongovernmental organizations build a stable relationship to increase the democratization process, develop new ideas, legislative measurements, and the state can assure civil participation in democratic decision-making processes. The way to enhance social learning starts with the institutional isomorphism. Paul J. DiMaggio and Walter W. Powell describe in their article, *The Iron Cage Revisited: Institutional*

²² Walzer, Michael (1998) *The Idea of Civil Society: A Path to Social Reconstruction*, in E. J. Dionne, Jr., ed., *Community Works: The Revival of Civil Society in America*, Washington, DC: Brookings Institution Press, p. 140 originally published in *Dissent* (1991), pp. 293–304.

²³ NIOK, *Foreign Funded Organizations' Accountability*, <https://www.nonprofit.hu/tudastar/A-kulfoldrol-tamogatott-szervezetek-atlathatosagarol>, accessed on: 07/09/2020

Isomorphism and Collective Rationality in Organizational Fields, the mechanisms of institutional changes. There are three possible ways of the homogenization of structure: it can be coercive, mimetic, and normative. In coercive isomorphism, the organizations with extensive power pressures the smaller organizations to develop, or the civil society's changing attitude causes changes as it happened after the transition period in Hungary. Mimetic isomorphism means the organizations follow a thriving institution. Normative isomorphism refers to institutional development by education. In this process, the post-communist state is able to learn about the demands of civil society, and nongovernmental organizations can have knowledge about administration and how to manage finances.

William Richard Scott (1995) developed a theoretical framework of the post-communist institutional system. He argued there are three institutional pillars which dominant in the post-communist state setting: regulative, normative, and cultural-cognitive. The regulative pillar includes rule-setting processes, sanctions, and strict observing methods. The second pillar describes how civil society should behave due to norms and values. Finally, the cultural-cognitive pillar describes the mutual interests, ideas of the state, and the civil society. Scott determined three sub-categories for the new structural arrangements. The new democratic states started with a pre-institutionalized stage and adopted reform, changes, and innovations. It is called habitulaziation. The second stage is the objectification, in which the innovations start to spread to the new institutions. The third stage is called sedimentation. In this case, the old institutional structure survives the transition period. Instantly, the Communist mass organizations were not dismissed after 1989. They survived the transition stage and continued their activities. On the other hand, these organizations did not have experience in how to manage the organizations because the Communist Party handled it before.

2.5 Conclusion

Throughout this chapter, I reviewed the cooperative and opposing relationships between civil society and state. After the transition period, the Hungarian government established the modernization process. In the following section, I will analyze how these modernization operations have assisted in establishing the groundwork for the Hungarian nongovernmental sector and the significance of the "*One and One Percent*" law.

3. ONE AND ONE PERCENT LAW

3.1 Introduction

The newly emerged neoliberal nongovernmental system directed the civil society toward a peaceful transition. The transition resulted in the construction of a new institutional system and infrastructure. These efforts led to the formation of the Association for Nonprofit Human Services for Hungary to establish a funding system for local nonprofits. The British Council also supported the Association's work to establish the capacity of nongovernment organizations in Hungary and to address emerging societal issues. The rudimentary grassroots organizations needed a foreign advocate to assist with navigating challenges encountered during the transitional phase and to establish a joint financial aid structure for the nongovernmental sphere.

In this chapter, I will discuss the root causes, motives, and utilization of the "*One and One Percent*" law, which is the cornerstone of the Hungarian nonprofit financial system. It allows taxpayers to reallocate one plus one percent of their annual tax returns to a designated organization such as a church. Thus, even though it was through the hands of the government, civil society was given the option to support voluntary organizations. I will argue that while the initiation of the law seemed advantageous and promising, throughout the implementation process, the government monopolized the method of financial allocation. Due to this control on the financial distribution of funds to nongovernmental organizations, governmental interests and agendas were usually abided by the NGO's to avoid financial defunding.

3.2 Decree of One Percent Law

Following the change of regime, the nongovernmental sector could not rely entirely on government funding due to a change in financial allocation. In the 1990s, the state-imposed stern taxes and dues on the nonprofit industry. This phenomenon introduced the role of foreign funds and private aid. The concept of donating funds already existed among the Hungarians; however, the low income *per capita* affected NGO funding. Without foreign funders, numerous nongovernmental organizations would not survive. Thus, through the advent of donors and philanthropists, civil society challenged the state administration to establish a vivid financing system for nongovernmental organizations. If financial funding for NGO's by the Hungarian

state were to become dependent on foreign financial backing, legitimacy and control could be lost by the Hungarian state.

The nonprofit sector played an integral role in the anti-totalitarian state setting. In the beginning, investments were focused on the nonprofit sector for the democracy-building process against the authoritarian state setting in Hungary. The influence of investments from countries such as the United Kingdom and the United States enhanced Hungary's democratization infrastructure. Moreover, the nonprofit sector assisted in enhancing pluralism, encouraging citizens to take steps towards the mutual good as a mediator between the government and civil society. Additionally, the private sector challenged the government. Organizations were able to observe and manage the equal distribution of public money, propose future developments to specific legislative representatives, and patronize the Hungarian civilian sphere. Since the government had no durable strategy for ensuring the financial base for the private sector, nongovernmental organizations relied on membership fees, funders and company earned profits.²⁴ Eventually, the political authorities would regard foreign private funds as only serving overseas interests.²⁵ All of these factors encouraged the state to establish its traditional charity and backing structure. Gabriel A. Almond and Sidney Verba (2003) argue in their book called the *Civic Culture* that the significant number of social organizations is the basis for the revival of a democratic state setting where individuals are an essential part of the decision-making process.

The government tended to spend most of its revenue on efforts to reshape the state. With increased outside support, nongovernmental organizations became less dependent and more beholden to their funders. As a result, the state began to develop a mistrust of the nongovernmental institutions. After the emergence of the new governmental system, the government focused on improving communication with civil society, which was a critical phase in Hungary's history. Most of the post-communist countries struggled to form stable civilian societies since they required a reciprocal relationship between the population and the political administration. The lack of trust originated from the communist past, and although the regime setting had changed, it had a mission to alter the behavior and mindset of the government and the civil society.

²⁴ Bocz, J. et. al, Nonprofit Organizations in Hungary, 2000, Central Statistical Office

²⁵ Éva Kúti, Sebesteny Istvan, The nonprofit sector in Hungary, in the Future of Civil Society, 2004, pp. 654-671.

Overall, several issues emerged during this period; the community was still not ready for significant changes within its social network due to the recent communist past. It posed difficulties in adapting a joint funding system without the trust of the private sector. Additionally, a mindset of vulnerability from the people always brought them back to the government instead of practicing problem-solving within the community. It ultimately resulted in problems of accountability and trustworthiness towards the private sector. The government was cautious about granting nonprofits financial support since they suspected potential misuse of these funds. The reputation of the private sector was not well-developed, and the adaptation of transparency was needed.²⁶

After the transition, the main issues surrounding the emerging nonprofit sector were the legal and economic regulations. No strict legislation for nongovernmental institutions and their finances had been established. It resulted in a financial vulnerability, which opened a space and encouraged foreign funders to support the position of Hungary's nonprofit sector. Furthermore, the philanthropic sector produced substantial advancements in the Hungarian community, mainly in the health field. The nonprofit organizations struggled with institutional immaturity, lack of reforms, and state support. It is essential to recognize the necessity of establishing a funding system for the nonprofit sector through grants, subsidies, tax-exemptions, and fee-for-pay services. Nevertheless, the state still struggled to provide these essential services since it was still under construction.

Additionally, civil engagement with the nonprofit sector lessened after the transition. As stated in the International Comparative World Values Survey²⁷ in the Central Eastern European countries, the population's presence was only one third in the voluntary organizations, political parties, and churches. Despite the flat rate of participation, the majority of the population took an interest in either sports or leisure activities or church activities. In 1995, 20 percent of Hungary's civil society belonged to a religious group. Hence, the post-communist states' central commitment was to strengthen their weaknesses to approach the level of Western countries. Based on the results of the International Comparative World Values Survey, almost every person took part in nongovernmental activities or at least made efforts to strengthen the country's nongovernmental sector.

²⁶ Peter, North, Constructing civil society? Green money in transition Hungary in *Review of International Political Economy*, 13:1, 28-52. 2006.

²⁷ www.worldvaluessurvey.org; Inglehart, 1997

The one percent law had two characteristics. First, it was only functioning in the Central and Eastern European states where the Communist regime left behind its legacy. Second, it was not a newly emerging phenomenon in the region. Germany had first adopted the law in 1990, which established that taxpayers designate a certain percentage of their tax return toward ensuring the financial support of the churches. It also allowed taxpayers to take part in the reallocation of public funds, which was an important factor following the collapse of the communist regime. The Central Eastern European states began to develop a democracy. However, the lack of transparency allowed for further dominance by the government. The relations between the state and nonprofit sectors were characterized by mutual mistrust and lack of cooperation, inherited from a history of state socialism. There was no firm foundation for the civil sector to expand in most of the post-communist states. Nevertheless, government and civil society did attempt to collaborate, in some instances, and experimented with establishing a legitimate civil society. The inchoation supported the '*power of the people*' approach that invited the population to participate in the decision-making process as a part of the newly emerging democracy. The pluralist adjustment had an *elan vital* for the democratization process in traditional societies. As Jean L. Cohan and Andrew Arato (2003) argued in the *Civil Society and Political Theory*, the essential factor of democracy is the placement of power and decision-making in civil society. Lester M. Salamon argued that the "*One and One Percent*" law would change the relationship between the state and nongovernmental spheres and resolve the backwardness of the legal and economic structure of the state. In 1991, the so-called third sector was based on churches and required the support of the government for sacred causes. The newly established liberal democratic state had to devise a structure for financing the churches.

The members of the Parliament instituted a session to prearrange the method of funding. The Alliance of Free Democrats presented their idea, which suggested the government should yield some authority to the civil society, granting them the opportunity to reallocate one percent from their tax deductions to a church or an organization. As a liberal party, they put a premium on civil society involvement in the political decision-making process. The constitutional court opposed the position of the party on the matter. The court claimed that the population should not have any involvement regarding political decision-making since they lacked professional experience. Thus, the democratically elected rulers disposed of the right to regulate public funds by members of civil society.

The assertions made by the constitutional court were based on two key factors; The marginalized civil society and the fact that only 50 percent of the population possessed the rights of taxation due to income thresholds. Furthermore, if the civilians did not meet the requirements of the income thresholds, they could not pay taxes, and thus were unable to reallocate the one percent share. The court established a solution to this dilemma by giving the government authority to grant each member of the society with voting rights in order to make all civilians eligible to designate one institution and one church for financial funding. The government introduced the share of one percent of the taxpayers' revenues, which established a new type of indirect state support and a new source of income. It is essential to consider the following questions: will this new strategy help to raise the budget of the nongovernmental sector, or will it lead to new support from private funders? It was evident that the "*One and One Percent*" legislation played a crucial role in the democratization process. The contribution of civil society to the political sphere helped to decentralize the state administration, which was a determining step after the Communist era. New democracies were struggling with the market economy; therefore, the nonprofit sector required support from local and foreign advocates. Since the most significant revenue base of organizations came from private or foreign donations, the state needed to compete with those designations. Thus, the one percent rule needed further adjustments.

The difference between the state provided allocation and foreign or private donations was the government-established limitations on the civil society. Private funders did not have limitations. Their donations could be unrestricted, infinite, and unbounded. Even though the private donors invested in the Hungarian nonprofit sector, according to the World Statistics, financial funding was at a minimum. The donation rate was 0.5 percent, which corresponded to the rate of Latin-America and Asian countries. In order to counterbalance the low tier of subsidies, society demanded an immediate reinforcement from the ministry. The construction of liberal democracy, raising awareness of social responsibilities, and the implementation of nation-wide campaigns to strengthen civil society were essential steps in this process.

Additionally, following the regime change, the parties' priority was to regain civilian trust. Thus, the other parliamentary members agreed on the establishment of the Liberal Party. At the same time, the Christian Democratic Party members opted for proposals hand-in-hand with the church community. A heated debate ensued against the inchoation parties were apprehensive of losing the government's financial support. The political parties did not wish to

be categorized with the civil sector and positioned themselves as different entities, which caused the political parties to lobby for the one percent funding.

For this reason, the Christian Democratic Party omitted the introduction of the rule until the 1994's election. The one percent rule was a key program of the Socialist Party and the Alliance of Free Democrats, who formed a coalition and won the majority of the parliamentary seats. By 1995, the Ministry of Culture took measures to implement the one percent regulation since many of the financial and human resources of the cultural institutions were deteriorating. The time had finally come for the Parliament to prepare the bill of the one percent law known as '*Law CXVII/1995, Article 45*', and it was passed on December 12, 1995. According to the regulation, the taxpayers could designate one percent from their annual tax declaration to any organization, institution, fund, foundation, or church. After the proposal was presented to the public, a robust contest began on the part of civil organizations. Churches had an adverse reaction to the changes since churches would also have to compete alongside nongovernmental organizations for funding.

The ruling party, Alliance of Free Democrats, attempted to establish a resolution to tranquilize the differences. The debates ceased on December 19, 1996, when the one percent law was modified to *be known as the "Law CXXVI/1996 on the Use of Some Part of the Personal Income Tax by the Disposition of Taxpayers"*. The regulation went into effect in 1997 as a cornerstone of the Hungarian democratization. As a result, the nonprofit sector started to establish bonds with the civilians, to encourage them to donate apart from the one percent dedication. Instead of lobbying to the government for support, smaller organizations could build connections and ties within the civil society for funding. Even though the Parliament passed the act, one task remained; the parties had to carry out a decision regarding the issue of churches. After the introduction of the one percent law, the smaller churches reconciled to receive the support of taxpayers, since the nongovernmental organizations developed closer ties with the civilians. The idea behind engaging the churches with the nonprofit sector and sharing the same one percent was secularization. In 1997, the government eased the one percent law with *Act CXXIX/1997*. It is called "*One and One Percent Law*." In order to serve the churches' interests, the decision-makers established an entirely identical decree for the sacred institutions as done for the civil organizations. The "*One and One Percent Act*" allowed the

tax payees to offer one plus one percent from their tax return to one organization and the other one percent to a church.²⁸

The law passed the Parliament, and the funds for the nongovernmental sector and churches could now be designated. Specifically, taxpayers would designate one nonprofit organization and one church with an expected contribution ranging from HUF 100 to HUF 10.000, which was later modified. Tax returns also had a 30 days buffer to be accepted after the deadline. Churches and organizations aimed to win as many supporters as possible from the taxpayers. Numerous organizations were eligible to receive the 1% funding. In 1997, there were two general types of recipients: First, *public cultural institutions* such as museums, libraries, academia, and universities. Second, private interest groups such as *foundations, associations, voluntary organizations, public law foundations, private foundations, and civic groups*²⁹. Funded recipients should not have any profit-orientated activities or political engagement and should have been registered as a nongovernmental organization for at least two years. However, public law foundations were exempt from this condition since the legal structure was unique for these institutions.

Hungarian *foundations* were grant-making bodies according to *Act V/2013, Section 3:378*. (later on, it was like this) The foundations functioned as financial supporters for the nongovernmental organization. Foundations offered financial support for nongovernmental works, projects, and activities. The organizations applied to the foundations for certain expenses.³⁰ Between 1994 and 2006, the government authorized the creation of public foundations led by the Parliament, municipality, minor state administrations, and council members to ensure the accomplishment of national responsibilities. However, these types of organizations interfered with the nongovernmental sector and were dismissed by 2006.³¹

The following are examples of the *public chamber*³² category: The Academy of Sciences, chamber of commerce, or the chamber in some professions. These were autonomous legal bodies, with registered members from the Parliament, to resolve public issues. The members of the public chamber had the right to present specific issues to the legislation.

²⁸ Vajda Ágnes, *Citizens' votes for nonprofit activities*, in "Forint votes" for civil society organizations Studies, Research Project on Nonprofit Organizations, Budapest, 2000 pp. 26-81.

²⁹ Act CLXXV/2011 Section 5/A (1), (2), (4)

³⁰ Act V/2013 Section 3:382

³¹ Act LXV/2006 Section 1(1) on August 24, 2006

³² The chamber is the part of the Hungarian Parliament. It deals with the public issues. The same rules and regulations are valid for its mechanism as the associations. (Act LXV/2006 Section 8/A (5))

However, there were no specific rules regarding relations between the associations and the Public Chamber.³³ Individuals or organizations established public benefit companies. According to the Civil Code, these types of companies were allowed to pursue a business or for-profit activity; however, the distribution of earned revenues was not permitted.

Private foundations and voluntary associations were required to have been formally operating for three years before entering the competition for the one percent benefit. The eligibility criteria also specified that the institutions adhere to the law and not owe debts to the government or the tax office. The Parliament expanded the list of beneficiaries in 1998.³⁴ Ineligible institutions were those in the field of business or those engaged in any political activities. The nongovernmental organizations were permitted to engage in business activities as long as earned revenues were only used for public benefit purposes.

*Nonprofit companies*³⁵ were eligible to share in the tax-exempt benefit as long as their activities, not entrepreneurial.³⁶ The other legal form of civil organizations were nonprofit companies. It is the nonprofit form of for-profit companies. The only difference between nonprofit companies and civil organizations is how revenues are distributed.³⁷

Local groups or voluntary associations were not required to report income revenues. The main purpose of reporting is to address public concerns and issues among the members.³⁸ According to the latest regulation, introduced in December 2019, the associations have had to obtain public benefit status in order to maintain their functions and participate in the one percent allocation. All these institutions have had register with the court, except for public benefit organizations who must register with the Registry Court.

This section will now discuss the *Public Benefits Organizations*. A year after the “*One and One Percent*” law, the Parliament adopted the regulation of Public Benefit Organizations. The status granted these institutions with a corporate tax exemption only if revenues do not exceed 10 percent of the total income HUF 10 million. The Public Benefit label was not restricted only to the nongovernmental sector; it could also be applied to business or for-profit

³³ Act LXV/2006 Section 8/A (1), (4), (5)

³⁴ Law CXXVI/1996, the Usage of the Certain Percentage of the Personal Income Tax, <https://net.jogtar.hu/jogszabaly?docid=99600126.tv> accessed on 17/02/2020

³⁵ Act V/2006 Section 9/F (1)-(3)

³⁶ Hartay Eszter, Nonprofit Law in Hungary, European Center for Not-for-Profit Law Stitching (ECNL), <https://www.cof.org/content/nonprofit-law-hungary#Types> accessed on 17/02/2020

³⁷ Act V/2006, Section 9/F (1)-(3)

³⁸ Act CLXXV/2011 Section 5/A (1), (2), (4)

oriented institutions conducting activities serving the public good, alongside public foundations, civil society organizations, public benefit companies, and the public chamber. The regulation of Public Benefit Organizations was amended as *the Law XIV and XXXIII of 1998*, and modified later by the *Act CLXXV/2011 Section 2(20)*. In order to receive the one percent tax designation, it was not necessary to obtain the public benefit status except for associations.³⁹ Associations had to comply with more conditions to participate in the one percent designations as of 2020. These institutions must also earn a minimum of HUF one million as annual income and engage in public advocacy activities. Since 2011, the Public Benefits Organizations were required to disclose reports about their activities and information on income and tax deductions to counterbalance the concerns regarding transparency and accountability. However, there was no systematic verification process to validate submitted information. The public benefit organizations had a biased scheme that raised several questions among scholars and the population. According to the law of 1996, the majority of nongovernmental institutions were created to the intention to serve public interests. Organizations that fulfill this role belonged under the public benefit organizations' designation.

Each institution had to maintain public benefit activities, but not all activities granted the public benefit organization status. Thus, it is important to note that public benefit status and public benefit activities are two different arrangements. In other Central Eastern European states, such as Poland, the Public Benefits Organizations was synonymous with nongovernmental status, and both were eligible to participate in the one percent designation process.⁴⁰ In Hungary, the state kept close ties with the Public Benefits Organizations since they tended to prioritize the government's interests. Thus, many privileges were valid for Public Benefit Organizations. For example, they did not have to account for value-added or corporate taxes after revenues in addition to the one percent allocations. The government was responsible for granting the members of the nongovernmental sector with support to become public benefits. Accordingly, Public Benefit Organizations were in more substantial positions to achieve eligibility compared to other nonprofit organizations. Donors and volunteers were

³⁹ This regulation was modified on January 1, 2020. Since this deadline, the Hungarian associations should possess the Public Benefit Status to be able to function more as nongovernmental organization, participate from the “*One and One Percent*” law and receive tax deduction. The parliament denoted two years period for each association to earn the public benefit status, until December 31, 2022.

Information for associations about law modifications, National Tax and Custom Bureau, https://nav.gov.hu/nav/ado/illetkek/Tajekoztato_alapitvan20191213.html accessed on 17/02/2020

⁴⁰ Tomasz Perkowski, *From Dimes to Millions The One Percent System: Financing for Central European NGOs*, in *NGO Sustainability in Central Europe, Helping Civil Society to Survive*, pp. 133-172

eligible to receive tax deductions, but only if they assisted or volunteered for a Public Benefit Organization.

In order to be a comprehensive member of the nonprofit sector, applicants had to possess the public benefit status. It should be noted that the public benefit status was different from the Public Benefits Organizations.⁴¹ Public Benefit Organizations needed to function within the framework of healthcare, social services, research, or education. Public Benefit Organizations could also be part of sports training centers, emergency relief efforts, or employment rights. Since 2004, those institutions which are also a part of Euro-Atlantic integration could be part of the nonprofit sector. Furthermore, the work of Public Benefit Organizations should involve the protection of children, youth, environment, human and public rights, safety, and the mission of the public benefit organizations. In general, public benefit organization's missions served public interests. The Public Benefit Organizations' business practices involved addressing investments and business activities without distributing earned revenues among the members while avoiding political interference. The organizations were able to access the 'eminently public benefit' status, which required two additional duties: the provision of public services and the declaration of annual information about ongoing activities, incomes, and achievements. Institutions, which obtain the public benefit status, enabled them more tax-deductions. The institutions were eligible to conduct business-related activities only if they did not jeopardize their organization's mission. According to the Civil Code, these institutions were entitled to business activities if the revenues did not exceed 60 percent or more of the total revenue of the nonprofit institution.⁴²⁴³

The foundations and associations could use their advocacy roles to address concerns regarding political leadership. They also had the right to support political parties and representatives. However, the organizations could not straightforwardly engage in political acts, financially or ideologically.⁴⁴ Additionally, the “*One and One Percent*” law applied to nongovernmental organizations that belonged to churches as well. For example, if a catholic temple possessed a nongovernmental body that served public interests, they could benefit from two sources of funding, earning a total of 2 percent from the tax allocations. The only difference between the civil and church-based institutions was that the latter was required to be registered

⁴¹ Which is different from the public benefit organizations

⁴² Act CLXXV/2011 Section 2(7)

⁴³ Act V/2013 Section 3:63(2), (3) 3:379 (1) – (2)

⁴⁴ Act V/2013, Chapter VII of Act CLXXV/2011 Section 34(1d)

with the court three years before they could be eligible to receive the one percent allocation. The tax office represented the state.⁴⁵ Furthermore, if a taxpayer did not designate any organizations or churches, the one plus one percentage was transferred to the state budget. Other circumstances preventing an eligible recipient from receiving the one percent allocation include tax return letter mistakes, missing the annual deadline, or if the tax donation fell out of the acceptable donation range that the law allowed.⁴⁶

3.3 Reception of the One and One Percent Law

The reaction to the one percent regulation was complex. Some organizations built closer ties with the government than with the population. For this reason, several institutions preferred direct revenues from the state. Specific associations dismissed or altered their identity and channeled financial growth into the for-profit sector. Others organized protests and oppositions against the implementation, but it did not change the outcomes. Lester Salamon (1987) argued that the government had an obligation to support the nongovernmental sector financially and materialistically. The nongovernmental organizations were able to participate in society by offering subsidies and advocacy and was the basis of the modern state and democratic order.⁴⁷ Some scholars ascertained the complexity of the tax return and method of designation. Thus, the government did not make nonprofits aware of the essential information about the system.

Moreover, there was no platform to deliver knowledge about the “*One and One Percent*” law and its mechanics. In certain instances, the tax office that was in charge of the state funding distribution. Several scholars argued that this method of delivery by the tax offices was not transparent enough, and this caused suspicions in tax offices conducting money laundering. To further substantiate this accusation, funding allocation amounts were also not disclosed. Funding at the early states also remained anonymous, which was later on amended to include donor names.⁴⁸ Anonymous funding with the inception of the “*One and One Percent*” law also caused personal data complications. Since the protection of personal data, according to Hungarian law, this caused a conflict of interest. Second, smaller organizations were affected. It was easier to dismiss funding to smaller organizations. In contrast, other activists and intellectuals supported the opportunity to expose the scheme. They argued that

⁴⁵ Before 2007, the allocator transferred the amount of designation directly to the denoted organization, but since 2008, the tax office took the position in order to enhance the transparency and accountability.

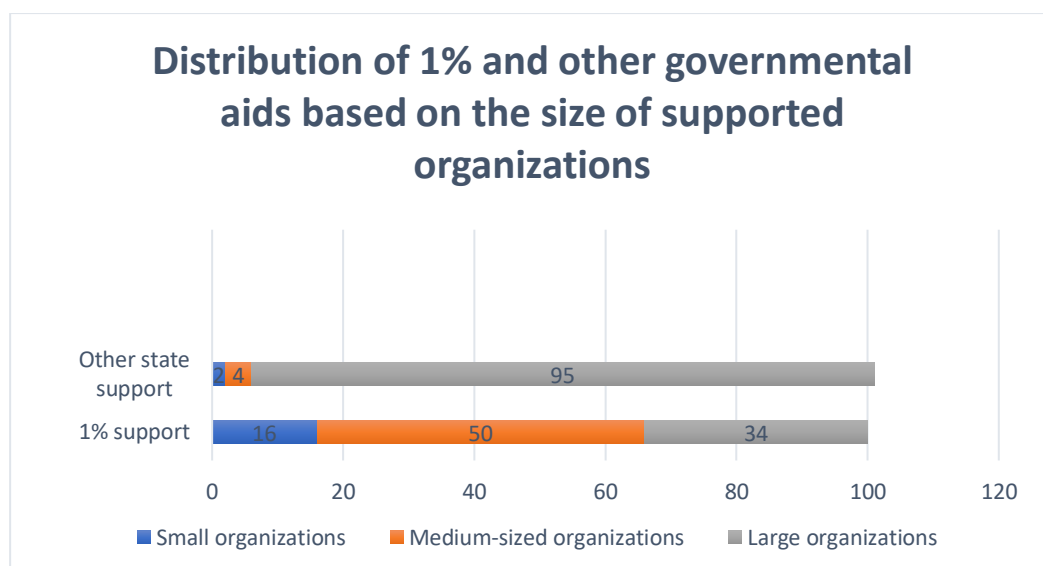
⁴⁶ Mészáros Geyza – Sebestény István, *Provision of the 1% Law*, in “Forint votes” for civil society organizations Studies, Research Project on Nonprofit Organizations, Budapest, 2000 pp. 13-14

⁴⁷ Steven Rathgeb Smith, Kirsten A. Gronbjerg, *Scope and Theory of Government and Nonprofit Relations*, in the Nonprofit Sector a Research Book, 2006, pp. 223-230

⁴⁸ Sector 1, Article 7

the dispersion of public funds was inconsistent and only benefitted the state-friendly institutions located in the capital or bigger cities and disregarded the minor institutions from minor villages. They argued that it was an organized and systematized pattern of the distribution of public funds. Previously, the government granted the stakeholders with most of the aid. However, the population tended to identify more with the grassroots organizations than the government.

Nevertheless, there were two significant arguments for the funds. One argument suggests that larger organizations could obtain a more substantial amount of allocations since they had big platforms, wealthy supporters, and professional staff. Because of the more extensive platforms within the society, the government tended to support them more and neglect the minor actors of the nonprofit sector. Before 1996, smaller organizations were close to receiving no financial allotments. Medium-sized organizations obtained only 4 percent, and the larger institutions held 95 percent of the public share. Reallocation of the one percent designation assisted in better dispersion of public funds. After the implementation of the one percent law, smaller organizations obtained 16 percent funding, medium-sized organizations obtained 50 percent funding, and the larger organizations received 34 percent funding. Grassroot organizations sought to reach a minor part of society through their familiarity.⁴⁹ The population did not put effort into investigating other organizations for funding due to select groups that they were familiar with. It was an advantageous approach for minor communities to boost their advocacy efforts.



⁴⁹Adapted from “Citizens’ Votes for Nonprofit Activities in Hungary,” by Ágnes Vajda and Éva Kúti, 2000, Research Project on Nonprofit Organizations, Budapest, pp. 44.

In most instances, the population of Hungary would allocate one percent of their funds towards organizations through sentimental feelings. Rather than thinking about society as a whole, citizens would allocate their one percent of funds towards organizations that they have feelings for.⁵⁰ Éva Kúti argued that the Hungarian population could not have been a rational decision-making body, while state authorities make more rational decisions not based on feelings but instead on statistics and logic.⁵¹ Even though the allocation of funding was not mandatory for citizens, participation was considered a civic duty that should be participated by all. Accordingly, the public would be responsible for reasonable decisions as much as political leadership. Éva Kúti also expressed that members of society should rely on the state as the primary authority when problems occur. Albert Otto Hirschman (1982) argued that civil activity is the main component for bringing change to the political environment and satisfactory outcomes for the democratic state. The Communist past posed barriers to civic engagement in associations and foundations. The reawakening of the population's connection with members of nongovernmental organizations encouraged active participation between the two. Citizens started to take charge of the process instead of trusting and waiting for assurance from the state.⁵² The path to improving citizen participation was through the volunteer organizations with keen interests in meeting the specific needs of the communities they serve. After the communist transition, numerous factors were affecting the population, notably the disappointment of democracy, which failed to deliver the outcomes the civilians expected. Albeit, the expectations such as visa-free travel or freedom of the press were still not established.

Civil society continued to prefer closer, familiar ties instead of trusting nongovernmental institutions to help solve their problems. Furthermore, during the communist order, organizational membership was mandatory. Therefore, after they were released from this obligation, the population embraced the individual interests instead of general or corporate concerns.⁵³ This situation hampered the development of the Hungarian nonprofit sector.

⁵⁰ Mészáros Geyza and Sebestény István, *Thoughts around 1%*, in "Forint votes" for civil society organizations Studies, Research Project on Nonprofit Organizations, Budapest, 2000 pp. 14-20

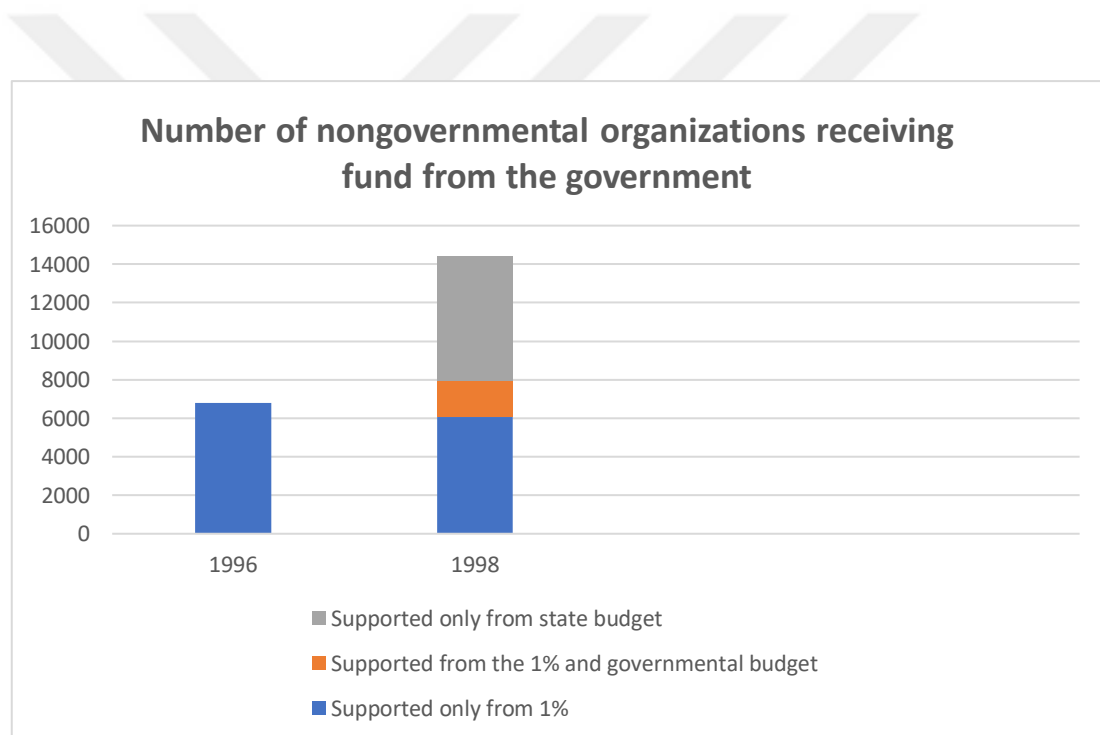
⁵¹ Éva Kúti and Ágnes Vajda, *In Defense of Partiality*, in "Forint votes" for civil society organizations Studies, Research Project on Nonprofit Organizations, Budapest, 2000 pp. 21-66

⁵² Zdenka Mansfeldova, Slawomir Nalecz, Eckhard Priller and Annette Zimmer, *Civil Society in Transition, Democratic Consolidation Based on Civic Engagement*, in *Future of Civil Society*, 2004, pp. 103-106.

⁵³ Zdenka Mansfeldova, Slawomir Nalecz, Eckhard Priller and Annette Zimmer, *Civil Society in Transition, Democratic Consolidation Based on Civic Engagement*, in *Future of Civil Society*, 2004, pp. 108-112.

Therefore, the nongovernmental organizations needed to demonstrate to the civilians their relevance in helping to solve the problems of the population.

After ten years of a democratic setting, the majority of the civilians still preferred to rely on the state to solve their problems. The survey, Consolidation of Democracy in Central and Eastern Europe, demonstrates that only 19.6 percent of Hungarian civilians agreed with addressing the concerns of the civil society without relying on the state.⁵⁴ It displayed the perspective of people ten years into democracy and highlighted the remaining challenges. The state administration allocated aid for specific projects or activities; however, the institutions did not have to specify for what they used the funding. Within a year, public 1% funding eclipsed state allotment funding for organizations.⁵⁵



Researchers have examined the response of civil society to the “*One and One Percent*” law, particularly the crucial factors of decision-making. Allocations were most commonly

⁵⁴ Edeltraud Rollerm Dieter Fuchs, Hans-Dieter Klingemann Bernhard Wessels, Simon Janos, Consolidation of Democracy in Central and Eastern Europe 1998-2001: A Fifteen Country Study (Continuation of the 1990-1992 Post-Communist Publics Study in Eleven Countries)

⁵⁵ Adapted from 'Citizens' Votes for Nonprofit Activities in Hungary,' by Ágnes Vajda and Éva Kúti, 2000, Research Project on Nonprofit Organizations, Budapest, pp. 42.

designated for supporting the poor, sick, victims of disaster, and disabled people. Social institutions specifically favored health care, education, and social services. Transparency, accountability, and familiarity remained the most critical factors impacting decision-making.⁵⁶

Consideration behind the 1%	Taxpayers	Non-taxpayers	Total
Helping people in need	20,5	26,1	22,8
Support for specific field or activities	23	22,1	22,6
Promoting values and expressing solidarity	19	16,1	17,9
Support for children	10,4	9,7	10,1
Support for a special group of organizations	5,8	9,1	7,2
Personal interests or involvement	8,9	5	7,2
Solving social and economic problems	6,4	6,1	6,3
Organizational excellence of the beneficiaries	6	5,8	5,9
Total	100	100	100

The taxpayers allocated the funds to nongovernmental organizations annually, but they did not have enough power to confirm that the designated beneficiaries received their funds. Therefore, there was no proof of the effectiveness of the process. It was evident that the allocation was not the tool to solve the financial problems of the organizations. There were also several new guidelines for how to re-allocate the one and one percent. Many organizations proposed that they should have the ability to combine their amount into two percent if the taxpayers do not designate any churches to support.

⁵⁶ Adapted from “‘Citizens’ Votes for Nonprofit Activities in Hungary,” by Ágnes Vajda and Éva Kúti, 2000, Research Project on Nonprofit Organizations, Budapest, pp. 35.

3.4 The Structure of Taxation

Nonprofits tended to have limited legal expertise; therefore, taxation remained a challenging task to accomplish without professional staff who had adequate and up-to-date knowledge and the legislation process. To acquire such expertise, organizations needed financial resources such as a certified professional from the government who could educate organization members on how to manage tax declarations or double-entry bookkeeping. Public benefit activities made organizations exempt from being taxed for receiving donations, funds, or investments for real estate.⁵⁷ Ordinary nongovernmental organizations were exempt from taxation until their earned revenues surpassed the amount of HUF 10,000,000 or 10 percent of their annual revenue. In the case of Public Benefits Organizations, they did not have to participate in tax payments until their income was less than 15 percent of their total earnings.⁵⁸

Nevertheless, increasingly complex taxation rules put nonprofit organizations at a significant disadvantage. Very often, nonprofit leadership was unaware of the requirements and process. As a result, members of the nonprofit sector tended to make mistakes in administration or bookkeeping. Unfortunately, due to a lack of knowledge on most accounts, the state was able to blame the organizations and could claim that they lacked transparency and proper management.

This case impacted relations between civil society and nongovernmental organizations. The question of reallocation raised several concerns among the taxpayers. Specifically, the issue of accountability and transparency raised concerns around morality. In the early 1990s, the regulations in the nongovernmental sector were liberal. Thus, several business associations took part in the tax-exempt status with deductible donations. The state-supported nongovernmental organizational growth ensured a successful democratization process. It is important to note that the nonprofit sector tended to operate without state control.

The Tax Law introduced on December 19, 2000, which was based on the Governmental Decree 224/2000, regulated the tax return for designated organizations and restricted the number of beneficiaries eligible for tax-exempt status. In other words, only those institutions having not-for-profit activities could participate, including the Public Benefits Organizations. In general, organizations that obtained the ‘Public Benefit Organization’ status were entitled to more tax exemptions compared to the nongovernmental institutions. In order to enhance

⁵⁷ Act LXXXI/1996 Section 1(1), 9a (1)

⁵⁸ Act LXXXI/1996, Section 20(1a) and Section 9(7)

transparency, the state ordered the institutions to prepare an annual report describing the utilization of the funding and functions of the organization.⁵⁹ In Hungary, the corporate income tax rate was set at 18 percent; however, public benefit organizations were tax-exempt from corporate tax. The nonprofit organizations had the right to conduct business activities or make investments to enhance the income of the institution if earned revenues are distributed for the public interest. Besides these actions, members of the nonprofit had a moral obligation to resist undermining their missions to generate more revenue.⁶⁰

The Parliament introduced a new regulation in 2015. Each year on January 1, the tax office has to disclose a list of the institutions which are eligible for the one percent funding allocation. Nongovernmental organizations would prepare an annual report of their activities and how they utilized the one percent designation, which is published for at least one year on their website. For organizations that lacked the electronic infrastructure to publish information, the Ministry of Human Resources would assist in publishing the tax fund information.⁶¹ It is important to mention that the “*One and One Percent*” law does not grant an organization tax-exemption status. Nonprofit organizations are legal entities; hence they have duties to the state, such as filing tax returns.

Nonprofit activities were generally for the public good to enhance the activity of the civil society activities within the state and, in a way, supported democratization by counterbalancing the role of government. Possible funding sources for nonprofit activities included private donations, individual aid, certain governmental funding, foreign funding, philanthropic funding, and earned incomes. Several activities require taxation and tax returns from the organization.

The other formation of tax, which was valid for the nongovernmental sector, is the value-added tax. The value-added tax was eligible for each person or organization, and the general rate is 27 percent. In some cases, for goods and services, it can be 18 percent or 5 percent. In some instances, some public benefit providers could be free from value-added tax requirements if the transactions occurred in associations, local groups, churches, nonprofit organizations, companies, or public benefit organizations. Additionally, if the institutions

⁵⁹ If the annual income does not exceed HUF 50 million, the organization were obligated to report in each two years.

⁶⁰ Karla W. Simon, *Tax Laws and Tax Preferences*, in *Future of Civil Society*, 2004, pp. 148-167

⁶¹ NIOK, how can the non-governmental organization publish the utilization of one percent designations? <https://www.nonprofit.hu/tudastar/hogyan-kell-kozzetenni-az-1-os-adomanyok-felhasznalasrol-szolo-kozlemenyt> accessed on 18/02/2020

participated in not-for-profit activities or volunteer activities for public benefit, organizations could be part of a value-added tax deduction process. Employment under health/social services, education, child/youth protection, daily care, sport, and cultural regarded initiations, and mental relive, are part of the value-added tax-exempt status.⁶² If the funders possessed the beneficiary label, any donations received by public benefit organizations resulted in an exemption from the value-added tax share.⁶³ Since December 31, 2019, if philanthropic activities did not meet the previously discussed criteria, institutions have been able to seek special exemption for value-added tax exemption.⁶⁴ However, the demand was only valid only if it met the conditions established by the state administration.

Individual donations were not considered part of tax benefits or deductive tax status. However, companies were entitled to tax allotments if they donated to specific nongovernmental organizations such as the National Cultural Fund, National Relief Fund, the Damage Mitigation Fund or any educational institution or public benefit organization.⁶⁵ The tax benefits were valid for 20 percent of the donation for a public benefit activity or public benefits association. Furthermore, under the contract of the long-term donation process, the deductible amount was 40 percent if the funds were for a public benefit organization. This type of agreement restrained funders from granting the organization with an equal number of amounts at least once annually for the following three years. A 50 percent tax exemption was available if the donator funded the Hungarian Relief Fund, National Cultural Fund, the Damage Mitigation, or institutions of higher education.⁶⁶

Éva Kúti (2000) argued that cooperation between the government and the nongovernmental sector was a turning point for the modernization of the Hungarian nongovernment sector. Éva Kúti also discussed the relations between the government and the nonprofit sector became fragile; new regulations for transparency and jurisdictional boundaries became difficult to follow and lacked clarity. It led to the widespread employment of clerks to make decisions on behalf of organizations.⁶⁷ As of 2017, the tax office has requested the

⁶² Act CXXVII/2007 Section 85(1), (4)

⁶³ Act CXXXVII/2007 Section 259 (9/A)

⁶⁴ Law (XXT201CSZ) Suller Kriszta, Conception and Misconceptions in the Everyday Activities of the Civil Organizations, <https://5percado.hu/hitek-es-tevhitek-a-civil-szervezetek-mindennapjaiban/> accessed on: 20/02/2020

⁶⁵ Act LXXXI/1996 Section 7(1)(z), 7(7)

⁶⁶ Lily Liu, Nonprofit Law in Hungary, International Center for Not-For-Profit Law, September 2019, <https://www.cof.org/content/nonprofit-law-hungary> accessed on: 22/02/2020

⁶⁷ Vajda Ágnes, *Citizens' votes for nonprofit activities*, in "Forint votes" for civil society organizations Studies, Research Project on Nonprofit Organizations, Budapest, 2000 pp. 26-81.

nonprofit organizations to state the origins of all donations and designations to improve transparency.⁶⁸ While this approach may clarify the sources of the nonprofit incomes, it was not entirely practical since most funders preferred to stay anonymous.⁶⁹ The organizations faced various dilemmas with inadequate management, which influenced reporting capabilities.

The “*One and One Percent*” law was designed to put greater emphasis on the nongovernmental sector while motivating the population to make personal donations. Nevertheless, these two factors were quite different. The one percent allocation originated from the government and did not require any additional effort from taxpayers since taxation was treated as a civil obligation. In contrast, philanthropic activities involved a more extensive engagement within the nongovernmental sector. It could confuse allocators when accurately define the categories of charity, philanthropy, volunteering, or the designation process. It also jeopardized an interest in making independent donations or volunteer activities since the taxpayer would feel satisfied with the one percent allocation. Voluntarism or philanthropic activities were usually unpaid, intentional, and premeditated acts, which provide long or short-term assistance for organizations. There were two types of volunteering activities. In the first type, a person would apply as a volunteer for a smaller organization for one-time events, which took place occasionally. In the second example, volunteers were paid to work for the organizations. In general, the first type was prevalent in Hungary since the organizations benefited more from unpaid public assistance. Members of the nonprofit also preferred to employ permanent staff rather than volunteer staff. It was essential to encourage the population to participate in the nongovernmental sector, establish a philanthropic culture through the one percent designation. The question emerged about how the one percent designation motivated the Hungarian civil society to participate in charitable efforts.

Initially, volunteers expected something in return, such as subsidiaries, new relationships, experiences, or connections. The desire to volunteer also originated from moral or emotional ties, general altruistic attitudes, and motivation from family and friends. Nevertheless, there was no legal framework for volunteer assets in Hungary. The volunteers gained no materialistic or legal benefits from the process. Although there was one exception:

⁶⁸ Law (479/2016) implemented on December 28, 2016

⁶⁹ Suller Kriszta, Issues of the Civil Organizations around Accounting, <https://5percado.hu/civil-szervezetek-szamviteli-kerdesei/> accessed on: 20/02/2020

if a person volunteers with the Public Benefit Organization, in this instance, certain expenses could be deducted during the tax return period.⁷⁰

Hungarian civil society tended to donate to nongovernmental organizations; however, they often had a lack of knowledge or opportunities to do. Due to the communist past, nongovernmental organizations were viewed to have already been serving foreign interests. It resulted in two outcomes. First, since the transition period began, no processes had been established for private funding or individual donations. Therefore, nongovernmental organizations are generally disadvantaged in Hungary. Second, the government did not fully provide comprehensive assistance for the nonprofit sector, and thus, organizations required international support and donations. The state was responsible for establishing a financial base for the nongovernmental sector, which is critical for helping to meet materialistic demands. However, members of the nonprofit sector, such as the legal body, were entitled to accept donations without any restrictions. Hence, it was essential to promote mutual communication, trust, and cooperation between the government and the nongovernmental sector.⁷¹

3.5 Role of the Government

Even though the Parliament introduced the “*One and One Percent*” regulation, the political leadership aimed to improve collaboration with the civil sector. The first attempt to form a department for civilian issues occurred from 1990 until 2006. The Parliamentary Committee for the Support of Civil Organizations functioned as a watchdog to supervise the legislative functions of the nongovernmental organizations. As a secondary measure, in 1998, the Prime Minister’s Office established the Department of Civil Relations. Shortly after that, the department became part of the Ministry of Labor and Social Affairs. It functioned to deliver new regulations and to enhance the nongovernmental sector with legislation such as volunteer laws. The department encouraged government support for the nongovernmental sector and improved communication between the two parties. Numerous debates occurred around what to do with undeclared allocations of 1% funding, which in turn ended up in the state’s budget. Scholars and experts endorsed the state administration to configure a municipal fund where these undesignated funds would be collected. In 1999, the state set up a meeting among seven cities with 700 nonprofit organizations to debate the issue. The nongovernmental organizations

⁷⁰ Olga Sozanska, Jiri Tosner, Pavol Fric, *Management of Volunteerism*, in *Future of Civil Society*, 2004, pp. 320-339

⁷¹ Hartay Eszter, *Nonprofit Law in Hungary*, European Center for Not-for-Profit Law Stitching (ECNL), <https://www.cof.org/content/nonprofit-law-hungary#Types> accessed on 21/02/2020

mutually decided that the accumulated amount of undesignated funds should fund civilian interests. During the discussions, several concepts emerged, such as the Parliament 2000 Budget that would act as an intermediary for the undesignated fund. The nongovernmental organizations would be able to receive governmental support from this foundation for specific projects. The discussions continued for the following two years. At the end of June 2003, the new leadership introduced the *Law/2003 of the National Civil Fund* with assistance from the John Hopkins International Philanthropy Fellowship Program, which established the Federation of Non-Profit Human Service Providers in Hungary. The allotments of funding from the Federation of Non-Profit Human Services also provided organizations with the extra funding that sometimes matched that of the 1% fund. It has been the second percent fund in which eligible organizations could apply. The accessible “second percent” was available for operational needs, modernization processes, financial and materialistic emergencies, and administrative expenses. Even though funding was available from the Federation of Non-Profit Human Services, due to unclear regulations from the government, rejection of seventy to ninety percent of the applications occurred. Additionally, the designated amounts were not distributed relatively due to the Department of Civil Relations supervising the administration of the fund.

The Parliament established the Hungarian Civil Office as an advisory body that updates the database of the number of references within the nongovernmental sector. The Civil Office maintains a connection with the members of the nongovernmental sector to forward requested demands from the nongovernmental organizations to the state administration. In 2002, the government established more communication with the nongovernmental sector. They proposed developing a single platform for all nongovernmental organizations, which would represent them as a single body within the Parliament. However, the nongovernmental sector harshly protested the idea, and the proposal was ultimately abandoned. After 2004, the Department for Social Dialogue emerged under the regulation of local governments, Regional Development, and the National Development Agency to audit the relations between the European Funds and the Hungarian nonprofit organizations. From 1990, the Parliament began to intensify the communication between the government and the nongovernmental sector in many ways. Even though there were many initiatives, these institutions only served a legislative role.⁷²

⁷² Gerencsér Balázs, Oprics Judit NIOK Foundation, *Good Practices of a nonprofit sector development organization for Promoting Percentage designation in Hungary*, in *Learning by Doing: Experiences on the Implementation of the Percentage Designation Mechanism Case Studies from Hungary, Poland and Slovakia*, European Center for Not-for-Profit Law 2016, pp. 1-41

The government had boosted the funding of the nongovernmental sphere through the one and one percent allocation and other funding through ministerial departments. These efforts helped to reinforce a robust civilian base with numerous organizations that had the ability to identify issues that may occur and present them to the government. Conversely, the amount of aid reaching the nongovernmental sector in post-communist countries was still small compared to the Western states where traditional democracies prevailed. The initial plan was to transition from an authoritarian to a democratic setting, which requires support from the political parties and leadership.⁷³ However, the state budget had not expanded, as the political leaders had expected. According to several nonprofit organizations, the post-communist states had multiple financial obstacles. Thus, the support of the third sector did not appeal to the state, and other concerns may have taken priority.

The state had begun to fund specific organizations and sectors which served their interests. Generally, authorities prioritized the activities of hospitals, educational institutions, and social care services to reinforce the regime's influence. Thus, political leaders were able to preserve their power and simultaneously support the public through private bodies that belonged to the government. Under these circumstances, they did not have to reallocate the revenues to any nongovernmental organizations. Apart from these practices, it was common for the government to establish its nonprofit foundations or associations in order to spread the reputation of the party and ensure that civil society supported social interactions between the state and the population. However, this strategy could dismantle the fundamental principles of democracy and hinder decentralization, which is one of the crucial aspects of democratization.

Multiple issues emerged on the topic of fundraising within the nongovernmental sector. Institutions had no experience or knowledge of fundraising strategies. Organizations often had employers lacking in necessary skills and knowledge to conduct fundraising or complete tax returns. Since the tax return and the one percent allocations occurred annually, organizations needed to campaign for funding accordingly. In many instances, if an organization campaigns and publicizes themselves too early, taxpayers may forget about them for funding. However, if organizations publicized too late, taxpayers would have already made their funding decisions. Organizations also had challenges with utilizing social media when considering how to influence the population.

⁷³ Salamon, Anheier, *The Emerging Sector, The Nonprofit Sector in the Comparative Perspective – An Overview*, Baltimore, 1994

The primary purpose of the allotment from the “*One and One Percent*” law was to support an organization’s principal mission. If the organization spent too much on advertising, it could reallocate revenues away from the original purpose. Thus, nonprofit organizations should disclose if they utilized the one percent designations for advertising purposes. John W. Mohr and Francesca Guerra-Pearson argued in the *Effect of State Intervention in the Nonprofit Sector* (1996) that the connection among nonprofit organizations could be analyzed through a zero-sum game. In other words, when one organization was winning an allocation of funds, the other organization would be losing funding allocation. The system was similar to the game of Monopoly, where the tax office serves as the banker, and the players are the taxpayers who adjudicate an organization for the allocation of the one percent tax returns.

Personal ties proved to be the most effective method of information sharing but only within small communities since it was not permitted for organizations to have personal contact with the donors. However, this regulation was later modified. As of October 15, 2019, personal contact with donors are allowed (to show gratitude in certain instances). The tax office now has the right to inform the organization or church about the identity, address, and e-mail of the donor.⁷⁴ It was often beneficial for institutions to form close liaisons with donors. Conversely, it allowed the state to acquire access to the personal data of donors; however, this poses a problem and violates the protections of individual independence and the right of religious freedom. In this case, it is highly plausible that the tax office, as the representative body of the state, learned about people’s religious affiliations and other aspects of influence for donations towards the nonprofit organizations. Furthermore, after the amount of the one percent was calculated, it was possible to calculate the annual income of an individual taxpayer. For this reason, those who decided to participate in the reallocation system risked exposing a lot of personal data and information. Therefore, many taxpayers were reluctant to participate since the foundations had the right to keep the data of donors for a year in their system.

There were basic strategies for successful fundraising activities that were important for the members of the nongovernmental sector to acquire. Organizations tended to publicize their needs and demands to the public by utilizing marketing techniques. Several organizations tended to use similar designs and methods. The more transparent the description and message of an institution, the more attraction organizations, received from taxpayers and donors for

⁷⁴ NIOK, Can the nonprofit organization know about the personal data of the assigner? <https://www.nonprofit.hu/tudastar/Megtudhatja-a-civil-szervezet-kik-ajanlottak-fel-szamara-1-ot> Accessed on 18/02/2020

funding. There were various tools and ways to communicate with civil society. In one example, organizations could start fundraising efforts by asking the people about their expectations or demands from an institution to encourage them to make donations.

Organizations reached out to donors through events, social media, advertising e-mails, or online fundraising. Despite this fact, there were many skill sets needed for collecting revenues by organizations such as critical negotiation and persuasion strategies. For example, if taxpayers could gain benefits from their participation, the opportunities for collaboration would increase. A solid financial structure would be required for the organizations to access the necessary members and experts to achieve effective outcomes from the fundraising activities. Organizations needed to possess a comprehensive financial and material base to gain more attention and attract funders due to the tremendous diversity of competitors.⁷⁵

3.6 Conclusion

Since the establishment of the “*One and One Percent*” law, the Hungarian nonprofit sector continued to struggle with many issues regarding its foundation, maintenance, and sustainability for financial and material resources. In this chapter, I proposed that even though the transition occurred over thirty years ago, the members of the nongovernmental sector still fell behind the Western states. The third sector was characterized by an old-fashioned, government-controlled environment, which monopolized public funds and revenues of the nonprofit sector. There was a distinction between large-scaled and minor nongovernmental organizations. Those with greater platforms, professional staff, and paid members did not put sufficient effort into enhancing the prominence of the whole sector since they thrived on sizable donations from Western philanthropists. The government-friendly nonprofit groups promote their political interests to the community. As a result, a competition ensued between the voluntary institutions and the indirectly and directly state-supported organizations for funding allocation. Small and medium-sized organizations needed equal distribution of public funds from the one percent designation. In theory, it worked flawlessly. At the beginning of the 1990s and 2000s, statistics show consistent financial and materialistic growth in the sector.

Conversely, progress had halted once the government introduced restrictions on civil organizations without assisting with their legislative education. In order to provide a stable and economic system, the one percent allocation needed further revisions. Thus, the Hungarian

⁷⁵ Marita Hainbach, Thomas Kreuzer, Fundraising, in *Future of Civil Society*, 2004, pp. 368-423.

political system should improve the one percent allocation process to support the objectives of the nonprofit sector. It is critical for responding to the essential needs and demands of the population in a democratic and modern state order where the population has considerable influence over the ruling power.⁷⁶ In the following chapter, I will analyze the technical evaluation and utilization of the “*One and One Percent*” law among the state’s tax office, members of civil society, and the nonprofit sector.

⁷⁶ Éva Kúti, Sebesteny Istvan, *The Nonprofit Sector in Hungary*, in the Future of Civil Society, 2004, pp. 676-679.

4. TECHNICAL USAGE OF ONE AND ONE PERCENT LAW

4.1 Introduction

Many analysts have observed that in liberal democracies, the nonprofit sector challenges the state authority in several ways. These organizations play a crucial role in addressing advocacy issues, the interests of civil society, balancing the state's monopolistic tendencies for a modern democracy. According to James Douglas⁷⁷, nonprofit organizations build a bridge between the civil society and the government, which simultaneously provided the basis for new democratic institutionalism.⁷⁸ It was particularly crucial in the post-communist states where the state positioned itself as a totalitarian authority over the population. The ruling jurisdiction disciplined and supervised the general public. Thus, there was no specific need for more nongovernmental groups or organizations. After the transition period, the Hungarian nongovernmental sector had gradually begun to adapt and build a path towards a democratic state setting. The new institutional system required plenty of adjustment and modification of the Hungarian law system to construct a pluralistic, state-backed financial system for the sake of nongovernmental sector growth. Robert A. Dahl argued that the nongovernmental sector had an outstanding opportunity to stabilize the relationship between the government and the civil society by giving a voice to the civilians to act alongside state power.⁷⁹ The one and one percent allocation system is a unique example of the collective capacity of the state and taxpayers. This allocation establishes a support system to ensure some revenues for the Hungarian organizations and churches. The system works equally only with the responsible participation of the taxpayers, beneficiaries, and state.

In the previous chapter, I presented the initial thoughts around the evolvement of the law, related conditions, and provided the foundational background about the “*One and One Percent*” law. I also discussed the essential elements, initial reactions from the Hungarian population, and nongovernmental structure perspectives. Moreover, I took an in-depth look at the intense response from the churches and how the government resolved this issue. Additionally, I analyzed the significant issues concerning the nature of the law and underlying

⁷⁷ James Douglas, ‘Political Theories of Nonprofit Organization’ in Walter W Powell (ed), *The Nonprofit Sector: A Research Handbook* (Yale University Press 1987) 46.

⁷⁸ Laszlo Kakai. (2015) *Focus on NGOs, Nonprofit Organizations in Europe and Hungary*, University of Pecs, Department of Political Studies. pp. 11-15.

⁷⁹ Ibid. p. 13.

problems that occurred following the implementation of the “*One and One Percent*” law. The Hungarian “*One and One Percent*” law reallocated the financial resources of the taxpayers. As a collaborative task between the taxpayers and the government, it guarantees one percent subsidy for the churches and one percent for institutions and organizations. These organizations can use revenues freely based on their own decisions. The role of the tax office was also explored, which superseded the court and state as the legislative body and the court. The office operated as the registration center where the organizations and churches would file for legal status. Finally, I described the goals of nongovernmental activities and related challenges and successes.

In this chapter, I provide a technical review of the details surrounding the “*One and One Percent*” law. I will continue my analysis from the previous section in this with legal explanations, and analyze the specific utilization of the law and its impacts by referencing the statute-book of 1996. I will introduce the considerable and varying legal changes that occurred throughout the decades until 2020 to illustrate the essence and mission of the one percent allocations. I will discuss the law, section by section, which is indispensable for understanding the appropriation of the “*One and One Percent*” law's benefits and challenges from the perspective of different participants. It is important to note that if one condition of eligibility were not met, the distribution of funds from the “*One and One Percent*” law would not be allocated until all eligibility conditions were met. Throughout this chapter, I will argue how the conditions for the application of the “*One and One Percent*” law grew increasingly complex as the state tax office and courts introduced complex criteria. In order to provide a comprehensive explanation of the implementation of the law, I will explore in detail, ten central controversies throughout this chapter.

The overall legal context will be analyzed, including the rights of the foundations and associations, the purpose of the free associate, and its legal protection. Besides, I will discuss how participants earn eligibility for nonprofit status and describe the main elements of how to become qualified. I also examine the feasibility of becoming a taxpayer in order to have the opportunity to designate the one and one percent from the annual tax returns. The Hungarian tax laws and regulations regarding the appropriation of the legal responsibilities of each shareholder will be carefully examined. Moreover, it is crucial to interpret the permissible business activities of the nongovernmental sector. Thus, I will examine the legal context of their rights and benefits from a business perspective. It is also important to clarify other legally approved financial opportunities and limitations which were encountered by churches and

members of the nongovernmental sector when dealing with the tax office. It is crucial to present information about how the changing nature of politics affect the nongovernmental organizations as the legality of rules fluctuate throughout the years. These changes will be covered in more detail in the ninth section of this chapter. Finally, I will evaluate the numerous issues surrounding the implementation of the *Act CXXVI of 1996*⁸⁰ and its alterations.

4.2 Overall legal context, the rights for associations, rights of foundations

The Act, which established the usage of the “*One and One Percent*” law was in full force after the fifth day of its enactment. For the first time, taxpayers could take advantage of donation allocation from the 1996 tax returns. The history of how the law was established will be discussed throughout this chapter.

After the communist regime ended, there were several adjustments and modifications within the Hungarian judicial system. While progress was slower than expected, the emerging democratic space empowered the nongovernmental sector and its members to take significant steps towards stabilizing the nonprofit sector. Associate rights were enacted into law in 1989. The provision granted the freedom to establish associations in order to strengthen the development of the societal sphere. Each Hungarian citizen had legal permission to establish organizations for the benefit of the public. The associations could affiliate with political parties. However, association founders could only be individuals possessing voting rights in parliamentary or municipality elections. Although the organizations could pursue business opportunities, the primary purpose should be to serve the population. Membership fees and some private donations were the only sources of income. Therefore, these organizations were obligated to engage in entrepreneurial activities. These activities had to adhere to the Fundamental Law of Hungary. Once established, associations could choose to represent the population over the state. Alexis de Tocqueville argued that associations are the essential elements of a democratic society.

These organizations were required to state their functions and operation methods in the memorandum and articles of association. Associations could form for any purpose to address the concerns of society. The court should then register the association and legally accept them as a member of the judicial system. As legal entities, these associations have access to real

⁸⁰ Amended as the Act of CXXIX/1996, On the Use of a Specified Amount of Personal Income Tax in Accordance with the Taxpayer's Instruction, Wolters Kluwer. (2020) *Valid Acts, Legal Jurisdiction* <https://net.jogtar.hu/jogszabaly?docid=99600126.tv> accessed on 06/03/2020

estate, renting, limited business activities, accounts, and employment rights. These types of organizations were also allowed to organize social movements with the participation of the non-members who did not engage in any political activities. At least ten members were necessary to form an association. The organization is led by a council that includes elected participants from the Hungarian assembly. They had to register first at the court, which functioned as a statutory authority over the associations. If a registration request was incomplete, the associations had thirty days to respond to the Hungarian courts providing the necessary documents.

The judicial system eventually extended the response time to allow associations at least forty-five days to reply and submit any missing documents. After the registration process was completed, a judge decided within sixty days whether the inclusion of the new association will be sustained. In the event of delays, tribunals were implemented to allot eight more days to make determinations. In the case in which a decision could not be made, the association was automatically registered. The Hungarian court was responsible for investigating and confirming the legality of association registrations.⁸¹ If an infringement of legality were suspected, the court would conduct investigations.

Judges had the right to exclude or eliminate associations if there was sufficient evidence of irregularity. By the law, the wealth of an abolished association was transferred to the state budget. However, records from the first associations often lacked transparency since their activities were not public. The court was the only legal entity that obtained any information about them.⁸² Thus, the national assembly implemented new regulations in 2017 and passed a bill to improve transparency and accountability of the associations. The new regulations required the submission of an annual report about association activities to help interpret the utilization of their finances and civic endeavors. (Civil Code 3:80/b)⁸³ Furthermore, among other obligatory steps, associations were required to produce annual statements to the general assembly.

⁸¹ In case of a political association, the prosecutor had the legal rights to launch examination or investigation against the organizations.

⁸² Hungary (1989): *Act II of 1989 on the Right of Association* (repealed) (Hungary)
<https://www.refworld.org/docid/4c348fb32.html>, accessed on 07/03/2020

⁸³ Act of the Civil Code CLXXVII/ 2013 (Section V.) regarding to the Associations which changed the old Civil Code from 1959 (Section IV.) The Act of CLXXIX/2016 entered into force on January 1, 2017, New Regulations of the Associations,
https://budapestkornyekitorvenyszek.birosag.hu/sites/default/files/field_attachment/egyesuletek_nyiri.pdf
accessed on 07/03/2020

For associations, most of their resources originated from membership fees, private funders, the one percent allocation, and grants from the state or foundations. The most recent organizations have a unique past in Hungarian history. They are viewed as new organizations since they could not operate during the Communist era. Foundations exist to provide grants and assistance to support the work of civil society-based associations. Helmut Anheier argued that the foundations were committed to funding and supporting associations. Peter Rawer stated that the foundations are run by the decision-making body, which is established by the founder. Therefore, to maintain legal and democratic standards within the organizations, the protocols outlined in the statutes and governmental verification process must be followed.⁸⁴

The second characteristic of foundations was its contribution to the public from the establishment of hospitals, museums, libraries, theatres. The Civil Code enacted in 2016 required foundations to renew their statutory documentation and adjust the public benefit purpose of activities and their target audience. It was an essential step for clarifying the purpose of these organizations, particularly in response to the misappropriation of the one percent allocation in recent years. Following the new requirement, foundations were required to provide accounting documentation for greater transparency with regards to corporation taxes and business activities. Foundations were obligated to follow the new requirements until March 15, 2016.

Additionally, before 2006, the state, government, or municipality could also establish their foundations as part of federal law.⁸⁵ These foundations were able to participate in the one percent allocation process as well. These foundations are known as Quangos (Quasi Nongovernmental Organizations). While governed by the state, these institutions have private and public functions and coexistence with several umbrella organizations that act as nonprofits. Anheier argued that there is high competition in the sector for governmental support from both sides of the nonprofit and for-profit organizations. Therefore, it is often hard to distinguish between the two sectors without firm segregation.⁸⁶ After 2006 the Act, which allowed the government to form foundations, was dismissed by the court.

Institutions can take advantage of public benefit activities and participate in the

⁸⁴ Freise Matthias, Pajas Petr. (2004) *Organizational and Legal Forms of Nonprofit Organizations* in Central Europe in Future of Civil Society. pp. 129-147

⁸⁵ Act LXV/2006 (which dismissed the Act XXXVIII/1992)

⁸⁶ Freise Matthias, Pajas Petr (2004) *Organizational and Legal Forms of Nonprofit Organizations* in Central Europe in Future of Civil Society. pp. 129-147

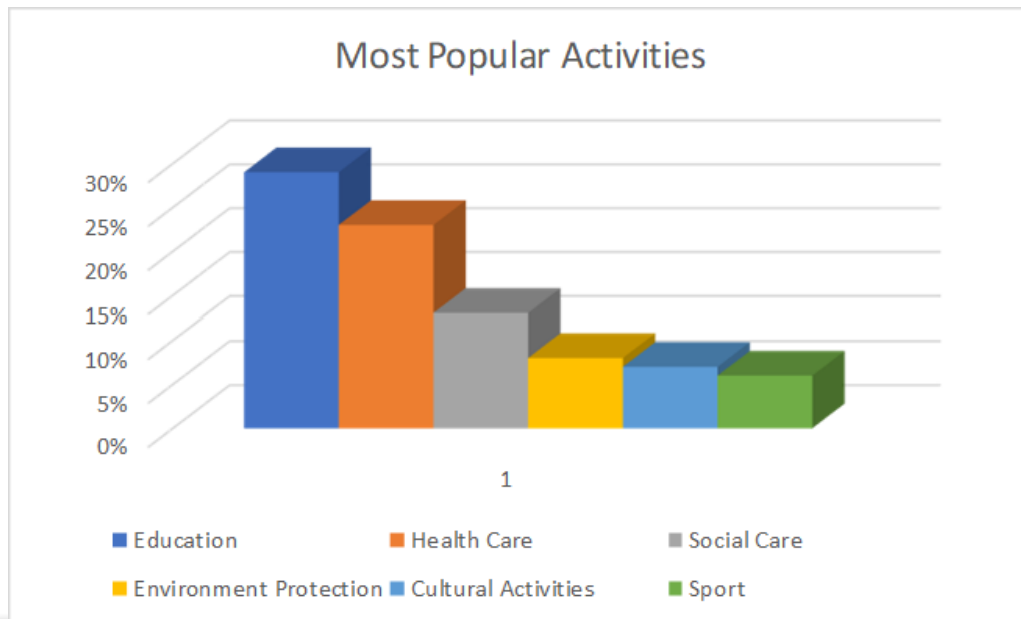
allocation process. The public foundations should support events defined by the memorandum of establishment with at least five percent from aggregated assets. Additionally, it is possible to opt in to share the advantages from other beneficiaries for further aid if there is valid regulation for these adjustments in the memorandum and articles of the association. Public foundations also have the right to establish supplementary branches that engage in business activities. However, these foundations are not able to associate with different entrepreneurial institutions, since it would conflict with the original purpose to assist the population and its mutual interests.⁸⁷ *Act CXXVI of 1996* states that foundations can support a wide variety of public interests such as health care, sports, consumer protection, and environmental protection.⁸⁸ It also provides a list of specific public benefit activities⁸⁹. In 2008, most institutions were operating in the fields of education (28.76%), health care (22.68%), social care (13.1%), environmental protection (8.42%), cultural activities (6.73%), and sports (6.31%).⁹⁰

⁸⁷ Wolters Kluwer, Compositions of Acts in Hungary, Act LXV/ 2006 which modifies the Section 74/G in the Hungarian Civil Code, <https://net.jogtar.hu/jogszabaly?docid=a0600065.tv> accessed on 08/03/2020

⁸⁸ (1) health care; (2) social work (exempli gratia family protection and support of the elderly people); (3) cultural activities (exempli gratia media, art, folk art, preservation of the Hungarian and minority traditional values, and cultures heritage); (4) sport (e.g. funding sport related associations and sponsor the non-official players); (4) personal pleasurable pastime and occupations (e.g. leisure activities); (5) licensed partnerships; (6) teaching and learning engagements (e.g. schools and collectives); (7) protection of civilians and rescue mission against disasters; (8) preservation of nature and environment and animal protection; (9) development of macro, minor and major cities, villages, and farms; (10) statutory fund for minority and human rights protection; (11) care of consumers in the market; (12) insurance of public protection against atrocity; (13) international projects (e.g. promotion of education in abroad); (14) political activities, Civil Partnership, Collection of Recent Regulations, Other Decrees, (12/1990) Decree of the Minister of Justice about the Registration of the Foundations, which was modified with the Act (35/2004)

⁸⁹ (1) health care, protection against diseases, pharmaceutical and curative methods, rehabilitations; (2) social work, family counselling, care for the elderly and disabled people; (3) research and educational performances; (4) cultural activities, protection of cultural heritage, protection of historical monument; (5) guardianship of environment and internal waters; preservation of the nature and shelter for animals; (6) children and youth education; (7) direction for schooling and guidance of education, development of personal capabilities, and enhancements of individual acquaintances; (8) preservation of civil and human rights; (9) national insurance regarded to the Hungarians living out of the country, and Hungarians who are living on the territory of near the Hungarian frontiers, minority protection; (10) sport activities except for those who have contracted with associations under the civil law; (11) preservation of public order, safety on the roads and in traffic, civilian fire fighters, rescue teams and any sort of activities and missions related to rescue and disaster prevention, management, or answer of the emerged cases; (12) consumer protection; (13) protection of labor force and market, enhancement of employment and education of minorities and impoverished classes in the labor market; (14) encouragement and improvement of the Euro - Atlantic integration; (14) remedial recruitments; (15) public benefit organization; (16) prevention against crimes and safeguarding the victims; (17) assistance and promotion for the functions and duties of the nongovernmental organizations; (17) action towards the ensure and systematization, development and rehabilitation of the public areas, roads, bridges, and tunnels; (18) enhancement of institutions of higher education and universities, this point is included since 2006; (19) endurance of electronic supplies in the public spheres;— Act of CXXVI/1996, Subsection 26/C, regarding to the reporting and accounting issues of the accounting activities

⁹⁰ https://www.nav.gov.hu/nav/archiv/szja1_1/Tajekoztatok_archiv/taj_090303.html



The Act of 2011 modified the requirements of nonprofit institutions.⁹¹ The foundations which are entitled to the one percent should provide aid for charitable activities. Since January 1, 2020, the definition of foundations has undergone significant modifications. Whether local or foreign, the government has demanded that foundations obtain the public benefit legal status to be eligible to receive federal funding. Under the new regulation, the organizations have a two-year waiting period before modifying their documentation. It means institutions established before December 31, 2019; their waiting period ends on December 21, 2022.

After finalizing the required adjustments, a report should be submitted to the court, confirming they can accomplish the expected tasks and are capable of continuing their functions. The Act is automatically valid for newly established organizations.⁹² In several ways, nonprofit organizations are multifunctional and focus on several activities. In the following chapter, I went into detail about how these practices affect an organization's ability to receive the one percent allocation when it comes to the annual tax reports and administrative tasks from the tax office.

Purpose and function are significant elements of the nonprofit sector, which help balance democratic leadership and support a more transparent and accountable administrative process. However, it is hard to define or separate these terms in some cases. For example, the

⁹¹ Act 2011/Section 2. No. 19-20.

⁹² National Tax and Duty Bureau, Information about the Changed Tax-Exempt Status of the Foundations. (2020) https://www.nav.gov.hu/nav/ado/illetek/Tajekoztato_alapitvan20191213.html accessed on 08/03/2020

most significant body of the associations is the general assembly, which includes its members and shareholders. This legal entity serves as a decision-making organization that appoints participants. The foundations operate differently because the foundation founder is the one who recommends the members of the board of trustees; in this context, foundations do not function within the democratic context.⁹³

Churches have very different characteristics compared to the aforementioned statutory bodies. It is essential to separate them from the other nongovernmental organizations since they have a unique portion of the 'one percent' from the annual personal income taxation. It is for this reason that it is called the one and one percent allocation. Furthermore, there are several reasons why churches are part of the allocation system. First, they genuinely serve the public benefit purpose, and some of them acquire supplementary organizations for particular objectives. However, this practice has caused some controversy around the one percent designations, and they have been criticized for '*playing in double leagues*.' They also have a unique liaison with the state administration, mainly due to the Vatican Agreement Law on Religions implemented on October 21, 2010.⁹⁴ Churches have the right to participate in the labor market, hire employees, establish educational institutions, engage in certain political activities, economic engagements, obtain real estate, and guarantee the interests and benefits of participants. Thus, the state granted them with a separate one percent to avoid competition with the other nongovernmental organizations to ensure their full support for charitable activities. The legal advantages, liabilities, and obligations are different for associations and foundations and will be analyzed in detail in the following chapter.⁹⁵

4.3 Eligibility for nonprofit status

After the implementation of the *Act CXXXIX/1997* (Section 3 and 5), a competition ensued for the largest portion of funding. The new law went through numerous adjustments, and the freedom of "the right to associate" specified in *Act II/1989* allowed specific civil society

⁹³ Freise Matthias, Pajas Petr. (2004) *Organizational and Legal Forms of Nonprofit Organizations* in Central Europe in *Future of Civil Society*, pp. 129-147

⁹⁴ Based on the Agreement, if the one percent allocation is less than the average income tax revenues in Hungary, the government supposed to fulfil the gap with an additional 5% donation. Later the percentage was increased to 7% then to 9%. This condition was especially applicable for the Catholic Churches. After 2013, the Hungarian Prime Minister adjusted the Hungarian education system and implemented religious studies and raised the salaries of those who is teaching these courses. Additionally, the government provided scholarships for students of Catholic schools for not less than 7.5 billion forints annually.

Novak, Benjamin (2013) Hungary updates agreement with Vatican, <https://budapestbeacon.com/hungary-updates-agreement-with-vatican/> accessed on 13/03/2020

⁹⁵ Ibid. pp. 129-147

groups to gain more financial support from the governmental aid system. Financial revenues were annually distributed among shareholders. Additionally, a range of allocations was determined based on the number of taxpayers and their income percentage. These factors impacted how much of the one percent allocation an organization would receive. Early on, the court required the tax office to announce the record of beneficiaries in the Official Journal of Hungary. The announcement would also disclose any alterations regarding regulations or Acts and was accessible from any newsstand and later from the official websites of the Hungarian government, tax office, or from the court. The government needs to model accountability and promote transparency to keep the public informed of any changes and opportunities. The statute of beneficiary eligibility stated that the government required foundations, associations, and the other determined organizations to submit for registration. To ensure accurate dates and procedures, the members of the nonprofit sector needed to submit these details to the tax office. It was important for the memorandum and articles of associations and foundations to include the schedule of their public benefit activities at least a year in advance.⁹⁶ Additionally, these organizations needed to apply for registration at the tax office at least three years before they could participate in the allocation process. This regulation was modified by the *Decree CLXXV/2011* of the Civil Code Section 4/A (1) (a) for two years and was fully enforced in 2014.⁹⁷ According to this decree, certified organizations must report on completed activities and their public benefit results and outcomes. With the development of new technologies, there were new factors in the registration process.

Initially, beneficiaries could submit their documentation and start their application via the online system, which is available through the website of the tax office. Later on, the government established a so-called 'customer gate' service where taxpayers of the beneficiaries can find relevant information and fulfill the documentation requirements, such as uploading the proposal for registration each year by September 30. This deadline was not flexible, and those who could not accomplish their requirements on time would miss the opportunity to participate. If an organization experienced any changes affecting their documentation or their functions, they had fifteen days to announce the changes. The tax office would then decide regarding maintaining their status. The tax office has the right to register or exclude nongovernmental organizations since it functions on behalf of the state. The most common

⁹⁶ Act CLVI/1997 Section 27/5

⁹⁷ National Tax and Customs Authority (2020) Information Notes, https://www.nav.gov.hu/nav/archiv/szja1_1/Tajekoztatok_archiv/tajekoztatas_szja_20140627.html accessed on 12/03/2020

reasons for exclusion are loss of public benefit status, fraud, missing deadlines, or failure to provide updates of significant changes in operations. The tax office published the list of the beneficiaries on their website to share with the public by January 1 annually. Additionally, this information was also forwarded to the Ministry of Civil Relations and handled by the responsible minister of tax politics to disclose the designated members for the one percent allocation.⁹⁸ As a result, individual institutions were not allowed to deviate from their declared missions.

Public foundations were able to participate in the allotment with the understanding that their activities would benefit civil society. The first record of beneficiaries was published by the tax office in the Official Journal of Hungary issued number 24th in 1997, five days after the codification of the law. It included certain foundations, associations, and other cultural institutions.⁹⁹ These organizations could benefit from the division only if they acquired a Hungarian-based headquarters, unique name, valid tax number, and bank account. The declared public benefit activities, which are in their statutes, serve Hungarian people living within the boundaries of the country and certain affected transborder countries.

Nongovernmental institutions had to publish a declaration about any adjustments and modifications in their memorandum and articles of foundation impacting their public benefit activities.¹⁰⁰ Additionally, it was essential to pay any national or local debts and prove there were no pending financial liabilities with the Office of Customs, Duties and Financials Guardianship, and National Tax Authorities. For the indebted organizations, there was an opportunity to reduce the amount of debt over time and keep the remaining revenue from the

⁹⁸ Section 7

⁹⁹ (1) Museum of Military History; (2) Museum of Applied Arts; (3) Commercial and Catering Trade Museum; (4) Museum of Contemporary Arts; (5) Vehicular Museum; (6) Hungarian Governmental Opera House; (7) Hungarian National Museum; (8) Hungarian National Gallery; (9) Hungarian Museum of Natural Science; (10) Agricultural Museum; (11) National Theatre; (12) Ethnographic Museum; (13) National Technical Museum; (14) National Szechenyi Library; (15) National Archives; (16) National Technical Informative Center and Library; (16) Petofi Literary Museum; (17) Semmelweis Doctoral Museum of History and Archives; (18) Outdoor Ethnographic Museum; (19) Museum of Fine Arts; (20) Museum of Sport and Physical Education; (21) Hungarian Scientific Academy; (22) Central Technical Development Program; (23) National Scientific Research Program; (24) National Program for Children and Young Education; (25) National Development Program for Higher Educational Institutions; (26) Segregated Governmental Fund; (27) Based on the declaration of the Act CXXIX/1997 Section 6 (1); those theatres, national collectives and national public educational institutions can take part of the distribution of the one percent, which came in for a share in an individual financial support from local municipality or from the central national budget at least once in a three year before the declaration of their memorandum and articles of foundation. (28) Moreover, in accordance with the Act CXXIX/1997 Section (1) as well the structural program and fund for the New National Theatre; (29) Neumann Janos Multimedia Center and Digital Library; (30) those higher educational institutions which declared at the decree of CCIV/2011 Annex (1); (31) National Civil Fund, as well as after a dismission of an organization which do not obtain any cessionary the National Civil Fund receives the wealth of that exact organization since 2011;

¹⁰⁰ Section 26/D and the 4/D (1)

one percent denotation.¹⁰¹ Organizations were required to provide documentation defining their actual aims, goals, and activities and their commitment to public benefit operations at least a year before implementation.

Aside from the civil and nongovernmental organizations, the one percent act declared another percent for the churches. This regulation emerged from *Act IV/1990*, which was the decree of freedom, conscience, and religion and outlined the rights of religious institutions, churches, and communions. These organizations were able to take part in the allotment of the one percent if they submitted their application to the court, a day before the memorandum and articles of the foundation were declared.¹⁰² However, other religious institutions were not eligible to apply for this part of the one percent. A significant regulation about the legal status of religious institutions was introduced in 2011 called the *C/2011 and CCVI/2011 Decree of the Conscience, Freedom of Religion, Churches, Communions, and Religious Communities*, which modified the *Decree of VII/2012* and the *Law CXXXIII/2013*. This legal framework defined the requirements to be eligible for the one percent allocation.¹⁰³ Simultaneously, Constitutional Law included discussion about cooperation between the churches and the government and the decision-making process of the parliament. After the religious institutions became part of the allotment system, there was a split distribution between the registered institutions. There was one segment enrolled by the parliament which did not participate in the reallocation.

The other segment, which registered as eligible institutions, needed to prepare an application for submission to the court. These institutions had the option to gain the other one percent to compete with civil organizations. This system enabled the churches and their charity institutions to compete in both pools for the one percent distribution. Furthermore, the Budgetary Committee of the National Assembly issued a requirement for institutions to display a financial statement of their assets starting from the year they were founded. This requirement was due to *the Decree of 1990*, which allowed for the emergence of so-called business churches which tended to misuse funds for different purposes outside of public benefit activities or

¹⁰¹ Section 9

¹⁰² The regulations and valid legislative measurements of the churches based on the Law CCVI/2011 on March 25, 2013 the Conscience, Freedom of Religion, Churches, Communions and Religious Communities that replaced the law of IV/1990

¹⁰³ Some of these regulations were against the Hungarian Constitutional Law therefore the national assembly and the court changed it five times to get the final declaration: the 164/2011 (XII. 20.) Regulation of the Constitutional Law which was against the Decree of C/2011 and the 6/2013 (III. 1) part as well from the Hungarian Constitutional Law did not agree in some part with the CCVI/2011 therefore those implementations were dismissed from the law collective

religious services. Thus, there were several cases where religious institutions engaged with several businesses for investment ventures using funds from governmental support and aid. As a result, stricter rules were established to regulate the churches. After the modifications of the *Law of CCVI/2011* were implemented, only fourteen religious institutions and communities out three hundred previously registered, according to the *Decree of IV/1990*, were left. The remaining institutions lost their 'church' status, and the parliament converted them to associations on January 1, 2012. The national assembly also expanded the reporting requirements for eligible religious institutions with more than thirteen members and introduced a substantial examination process.¹⁰⁴ Due to the extensive changes, the parliament provided eligible churches with three years to become a proper member of the system. Hence in the years 2012, 2013, and 2014, these institutions had until 2015 to implement the new regulations regarding their functions and methods. According to the new protocol, operations started from scratch to ensure adequate use of funds and support from the government and other foundations. Organizations that fulfilled their requirements in 2015, for the first time, had to prepare reports and accounting records in 2017.¹⁰⁵ After the evaluation period, there was a possibility to accept the excluded churches again if met the criteria established before May 20, 2012. In this case, they would obtain a new enrolment number to register in the allotment system again. The parliament addressed the latest adjustment regarding the situation of the churches with the *Decree of XXXVI/2019 Section (4) and 4/A (1)* and additionally with 6/B (2), which is valid for the first time beginning in 2020.¹⁰⁶

There is a unique process for churches within this framework. Instead of using their names, the tax office assigned a serial number to them to protect their identities. During the assignment process, the tax office released the record of churches with their names and serial numbers. Thus, in the designation form, taxpayers were required only to use the serial number of the churches. This regulation was only valid for religious institutions. Conversely, if the organizations mentioned above were unable to meet the requirements of the tax office and demonstrate their qualifications, the tax office could refuse to issue their enrolment serial numbers. Under the authority of the court, the religious organizations could give notice of

¹⁰⁴ Gabor, Schweitzer, Law Changes Regarding to the Situation of the Churches, Hungarian Scientific Academy, Institution of Law, Law Working Papers, 2014/44, 2014, https://jog.tk.mta.hu/uploads/files/mtalwp/2014_44_Schweitzer.pdf accessed on 12/03/2020

¹⁰⁵ Section 6/C (1)

¹⁰⁶ Wolters, Kluwer (2020) Collection of Law, CXXVI/1996 and its recent modifications, [tps://net.jogtar.hu/jogszabaly?docid=99600126.tv](https://net.jogtar.hu/jogszabaly?docid=99600126.tv) accessed on 12/03/2020

appeal, and the court had fifteen days to decide. It was essential for the churches to render their financial records and any further adjustment by June 30 each year.¹⁰⁷

4.4 Eligibility for taxpayers

The national assembly established a decree which discusses the rules regarding tax returns, notably the *Act CXVII/1995 Section 45*. There are several obligations that individuals must comply with in order to contribute to the one percent allocation under the authority of the tax office. First, the contributor should have no prevailing tax debt. If an individual does own debt, it must be resolved before the annual tax declaration deadline. In some instances, the tax authorities may offer a twelve-month grace period. It may also be possible to request that the period be postponed if allowable by the tax authorities. Once the contributor has resolved all debts, they are eligible again to participate in the allocation system. Taxpayers must issue declarations to the authorities about the one and the one percent separately for two beneficiaries. Beneficiaries may use taxpayer contact information to express gratitude for contributions or to inform them about upcoming activities or events. Individuals designate an organization once in a year, within a given time-limit, with changes unlikely after that. The tax office can implement requested modifications for funding allocations for the upcoming year on the assumption that the budget would grow by at least five thousand forints. The taxpayer should inform the tax authorities by July 31. The transaction is complete once the taxpayer has completed all the requirements issued by the tax office, and assets are transferred to the beneficiaries by September 30. Under the *Regulation of CXXIX/1997*, the minimum allocation was 100 forints. However, after the implementation of the *Decree of CCVI/2011*, the national assembly modified the charitable sum minimum to 1000 forints.¹⁰⁸

Taxpayers must submit their tax declarations by May 20 each year. The annual deadline for sole traders, agrarians, and those engaged in VAT (Value-Added Tax) activities, was changed to February 25. There is an opportunity for individuals to still participate in the one percent allocation who do not pursue entrepreneurial activities, who do not pay VAT motions, and whose tax returns are less than 100.000 forints. The process is different for churches where individuals designate an institution once, and then it is automatically renewed each year. The renewal remains in effect until the taxpayer notifies the tax office to change the designated

¹⁰⁷ Act CXXIX/1997 Section 6 (2), About the Utilization of the One Percent Allocation Process from the Personal Income Taxation Law CXXVI of 1996, <http://www.c3.hu/~civital/EGYSZTV.html> accessed on 10/03/2020

¹⁰⁸ Act CXXVI/1996 Section 1 (b) which was modified by the CCVI/2011 Section 3

church. As this is only available for religious institutions, for civil organizations, contributors must designate a nongovernmental organization each year. The tax office does not directly transfer revenue from the one percent to the churches. The Ministry of Coordination and Communication conducted the appointed legislative body for funding with the religious institutions.

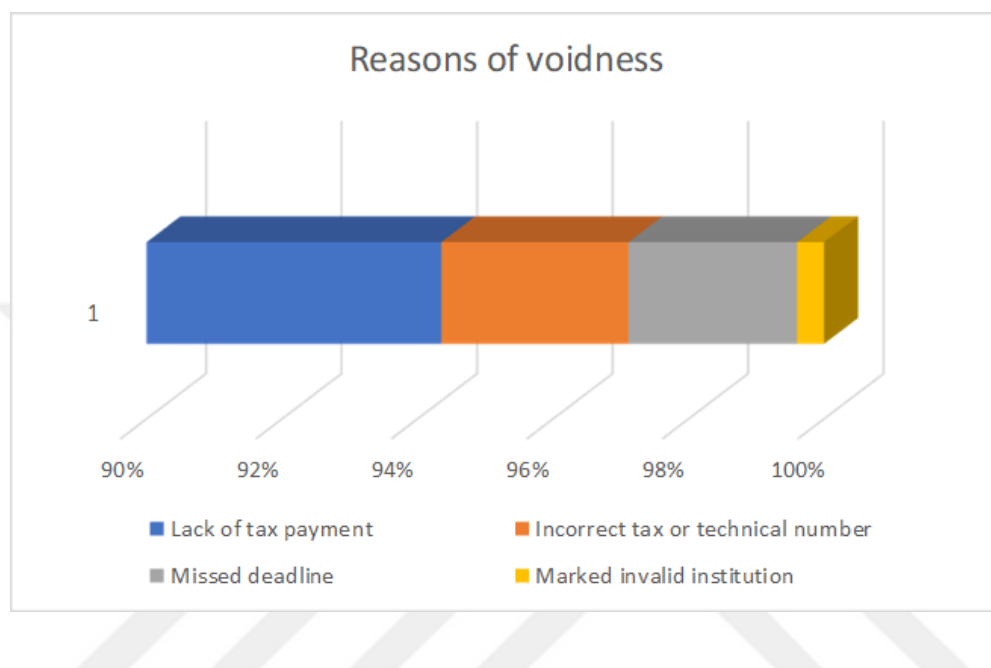
According to the new regulations, the government implemented a new system known as the e-SzJA (*e-Personal Income Taxations*). Through this online platform, taxpayers could submit their annual tax declarations and any supporting documents. The website was managed under the authorization of the tax office.¹⁰⁹ The document features a section for the beneficiaries' names, entered either as a tax number or beneficiary number (referred to as a technical number). There are several ways to submit the declaration to the authorities. If the designator is selecting the paper-based version, the sealed envelope must include the individual's tax number, name, and address. Individuals can send the documents by post or submit them to their employers for processing.

Additionally, envelopes should include the signature of the employee. The trustee is not allowed to open it or view the information inside of the package. The staff member must deliver it ten days before the closing date of May 10. After the due date has passed, the company cannot receive any more allocations. This protocol must be carefully followed; otherwise, the tax authorities may consider the submission invalid and select it for automatic exclusion. Individuals are also able to proceed within the "customer gate system" and submit all necessary documentation online. It was an online system in which citizens utilize in which a single account is given to each recipient for personal transactions within the state. There are a few factors that may result in invalid submissions. Generally, the most common mistakes occur from a lack of information, an incorrect tax number, or handwriting that is not legible. In many cases, taxpayers who designate two beneficiaries from the same category, such as two churches or two nonprofit organizations, would make an application invalid. Taxpayers can only designate one eligible institution from each category. Sometimes an individual may not be willing to add either a church or civil organization, which results in an empty designation. It would also result in the allotted funds to go to the government.¹¹⁰ In the case of invalidity, the authorities notify the individual about the issue(s), and corrections must be made by November

¹⁰⁹ National Tax and Customs Authority (2020)
https://www.nav.gov.hu/nav/archiv/szja1_1/Tajekoztatok_archiv/Hogyan_rendelkezhetsz_a20170110.html
accessed on 12/03/2020

¹¹⁰ Act LXXVII/2017 Section 5 (2) – (3)

30. From the figure below (*Figure 2*)¹¹¹, the most common aspects of application invalidity are shown. Taxpayers who do not contribute the tax payment (48.3%), an incorrect tax or technical number (14.1%), missed application deadlines (12.7%), and institutions that are excluded and marked invalid (2%).



Corrections are submitted either electronically or by post, and beneficiaries are announced online with the completion of the transactions. With regards to designations, individuals have until November 15 of each year to make any adjustments. If the designator is unable to complete this task, designators will be automatically excluded and will be notified electronically or by post by November 30. The tax office has the right to keep the public informed of successful or unsuccessful designation methods only if submitted through the customer gate platform.¹¹² Authorities release the report on the eligible beneficiaries annually by January 31. In addition to these official announcements, the tax office also provides information on successful outcomes and changes by mail or electronically.¹¹³

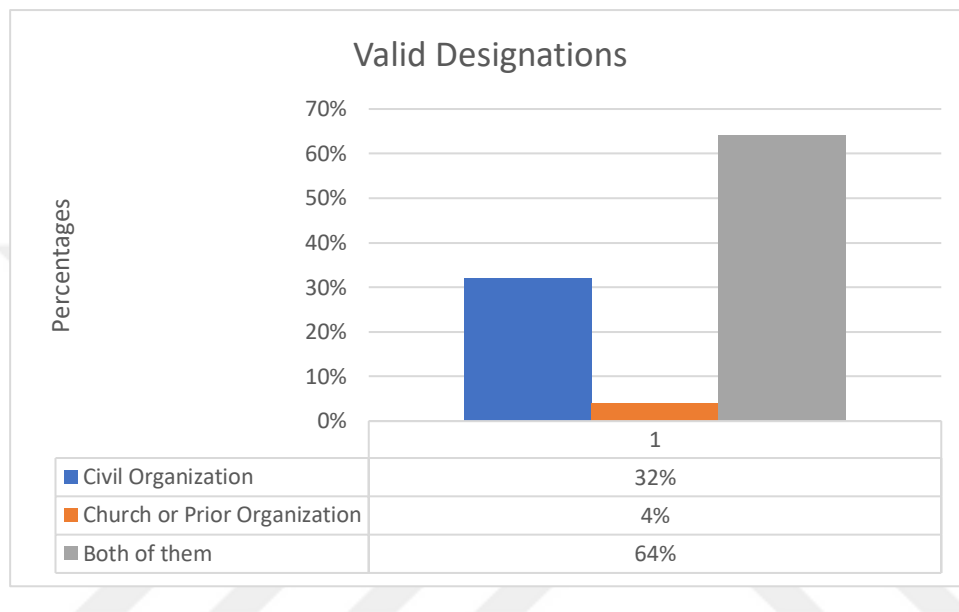
Data on the allocation process is accessible to the public through the tax office website. For example, in 2011, a total of 4,603,000 individuals submitted tax returns by post or online.

¹¹¹ https://www.nav.gov.hu/nav/archiv/szja1_1/Tajekoztatok_archiv/ogy_tajekoztato_2011.html

¹¹² Section 5 in accordance with the Section 6 (1) and Section 6/B (2)

¹¹³ The adjustments of the law CXXVI/1996, which was changed by the law CLIV/2017 should be applied for the first time from the year of 2019

Out of those, 3,441 had more than a 0-forint tax base, which represents 74.7 percent of the total, and translates roughly to 27.52 million forints. The rest of the percentage, which amounts to 2,067,000 people, made up the rest of the allocations for a total of 16.8 million forints. Moreover, 1,980 people earned valid designations: 1,273,000 for both non-profit and churches, 633,000 for organization, and 4,000 for churches or priory organizations.¹¹⁴

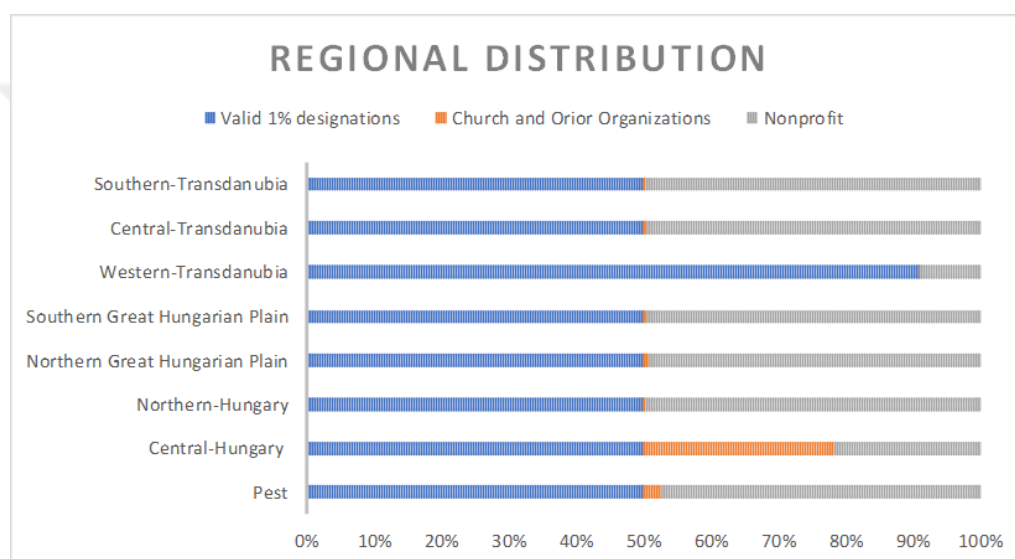


4.5 Duties and obligations of the tax authorities

The information on taxpayers and specific protocols for submitting designations are under strict rules to protect taxpayer privacy. The government is not allowed to review these designations or utilize the taxpayer's personal information. If the accredited institutions learn details about the designator, it means they surpassed legal boundaries and have committed a crime against the protection of personal data. However, there are some unique cases where judicial authorities are entitled to access personal information. One example is if the tax office initiates an investigation into a designation submission. In this case, participants in the judicial processes should acquire and review pieces of evidence. The legal entities assigned to such a case should acquire personal information. With the permission of the taxpayer, the legal office can inform the designated institution about the annual data on the designation process and outcomes. Additionally, since September 9, 2017, the legal authorities inform beneficiaries

¹¹⁴ https://www.nav.gov.hu/nav/archiv/szja1_1/Tajekoztatok_archiv/ogy_tajekoztato_2011.html

electronically of the expected total of the allocation if they request it. It may include demographic statistics on age, educational background, territorial escalation or decrease, and the exact number of members in the community who selected that particular organization.¹¹⁵ In 2008, 1,729,000 taxpayers designated at least one institution. Out of this data, churches and civic organizations obtained 1,111,000 allotments, resulting in 527,000 for nonprofits and 46 000 for churches. Allocation data is also differentiated by regional territory. For example, more allocations originated from the regions of Western-Danubia and the capital, compared to Northern-Hungary. The regional breakdown is illustrated in the following graph.¹¹⁶



The tax office labels the envelopes it receives with a unique code for each designator for data protection purposes. Thus, the legal authorities reduce the opportunity or possibility of inappropriate use of personal information. This method only applies to paper-based tax returns as electronic submissions have digital safeguards that are implemented. After receiving the online allocations, the tax office approaches the data carefully, and each individual dossier is marked with a technical number and placed into the evaluation. This method ensures that the designated institution and the name of the taxpayer remain separate. It would only be permissible to combine this information if mandated by the court for a legal case. In this manner, the designator's information would be available to the court until the judicial process

¹¹⁵ Section (4) Subsection 5/B (a, b, c)

¹¹⁶ https://www.nav.gov.hu/nav/archiv/szja1_1/Tajekoztatok_archiv/taj_090303.html

had concluded.¹¹⁷ Legal authorities are allowed to acquire the personal data of the designator, information about the allocation, and the designated institution until the end of an ongoing legal case, and the information may be retained for up to five years. After that time has passed, all personal data records accumulated over five years would be disposed of.¹¹⁸ Since 2015, beneficiaries were allowed access to some of the designator's personal information with their permission. In this manner, the tax office can send personal data electronically between September 30 and October 30 and keep it on file for the following five years. Once the data sharing period ended, the tax authorities informed the public that they would not have any legal supervision over the utilization of data shared with nonprofit organizations.¹¹⁹

Since the tax office was required to procure data on their website, a Frequently Asked Questions section was created featuring a list of the most common questions from beneficiaries. Additionally, they shared statistical data and parliamentary references about the outcomes of the designations. The legislative bureau launched its media tools such as television programs and online advertising. A monthly publication called *World of Tax* published recent laws and regulations, the functions and methods of tax returns, and information on the designation process. To ensure recipients were awarded their portion of the one percent allocation, the tax office informed them about the anticipated amount in advance. It is not the exact declared total but only an estimated number. Designated organizations could inform the authorities about whether they chose to accept their allocation or not. After the notification, the legal authorities were mandated to transfer the declared total to the named beneficiary by September 30 each year. The tax office would remind recipients to amend any missing or incorrect information before distributing the allocations out of the one percent. If the designated institution is currently disbanding or in bankruptcy, the designated institution would be ineligible to receive its allocation. In this case, the revenues remained with the government and placed into the National Civil Fund if there is no successor of the organization. During these procedures, organizations had to report current assets and debts to the tax office. Without an assigned successor, the leader of the institution was obligated to transfer the total assets to the legal authorities, and the funds would be moved to the governmental budget. The tax office handles these organizations separately from the general transferring methods. Among several

¹¹⁷ Section 1 (7), 2 (1)-(3), 5/A (4)-(6), 6/A (5)-(6)

¹¹⁸ Section 4 based on Section 1 (7)

¹¹⁹ National Tax and Customs Authority. (2020)

https://www.nav.gov.hu/nav/archiv/szja1_1/Tajekoztatok_archiv/Szja_1__os_rendelkeze20150219.html
accessed on 12/03/2020

requirements, the assigned authorities must report the total number of allocations to the designated organizations and disclose the results to the *Ministry of Tax and Customs*, the *Ministry of Coordination and Relation of the Religious Institutions and Churches*. Furthermore, they need to notify the department of *Public Relations* about the exact data on the designated institutions and percentage of tax allocation. Other reported data include void or incorrect allotments, the precise number of taxpayers who were eligible to utilize their one percent out of the annual tax returns, and the total number of the eliminated organizations. Finally, a statistical evaluation of the outcomes was completed.¹²⁰ These practices are essential to gain the public's trust by providing accountability and transparency of this important process.

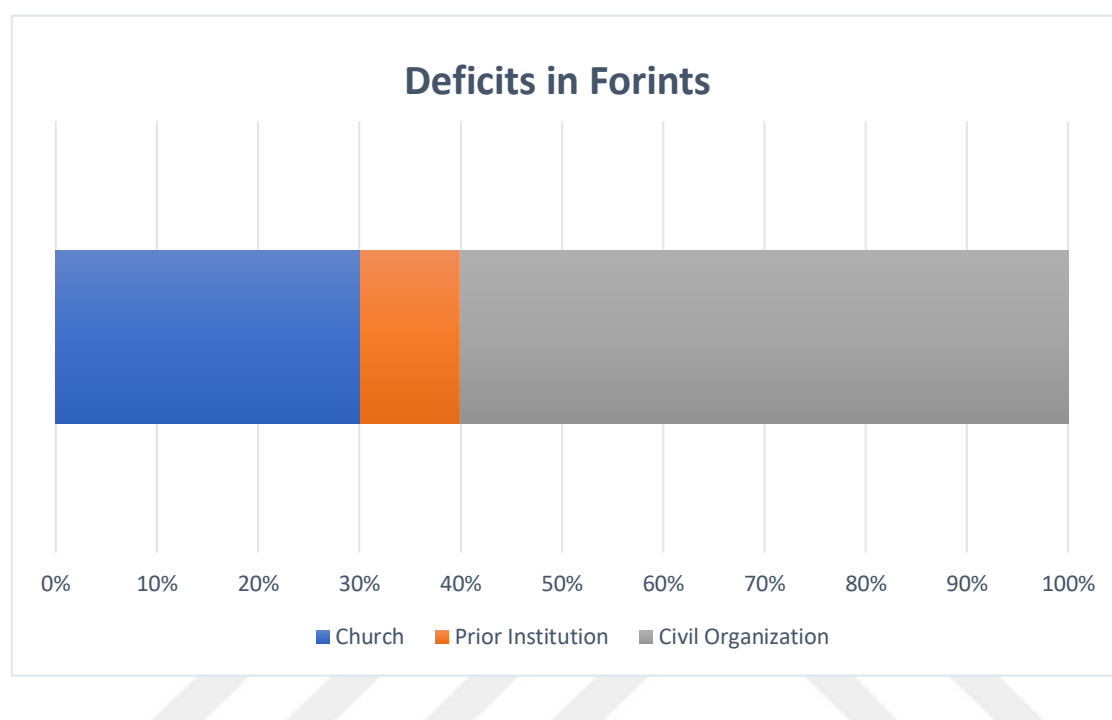
The tax office is required to announce the names, headquarters information, tax, or technical numbers of the beneficiaries, and the exact amount of the allocation by September 15 each year. However, the tax office did not have report information about organizations that were rejected from the process and those that did not receive any designations. To improve data collection accessibility, the tax office gathered all the relevant information about the designators in an online database. The designated institutions are then obligated to share this information with the public. This information should also be accessible to the ministry of civil relations for data processing purposes. Beneficiaries have the right to require the tax office to declare the exact number of valid, incorrect, and unacknowledged allocations based on districts, regions, allocators' ages, and explanations for void designations. The legal authorities must share the results with the beneficiaries on request electronically by October 15 annually within thirty days. Recipients are required to announce their allocation amount on the government portal website by December 15, and it must remain there for five years. After that time has passed, they need to update the system and eliminate the old data. Each year, the tax office has the right to notify the ministry of tax politics about the obtained information by August 31.

In the year 2011, a total of 3,434,000 vouchers were incomplete. Out of this number, designators allocated 2,012,000 for organizations and 1,415,000 for churches. Additionally, 7,000 were for either category.

There was a total of 3,254,000 valid designations, with 173,000 designations being invalid. It meant that annually, 880 million forints were lost for allocations. Specifically, organizations lost 101,000 allocations, which are equated to 509 million forints. Churches lost

¹²⁰ Section 6/A (a, b, c)

51,000 allocations, equivalent to 255 million forints, while other institutions lost 14 000 allocations for a total of 83 million forints. The total invalid denoted institutions were 7,000. Therefore, the sum of the total lost allocations equated to a total of 33 million forints.¹²¹



There are different methods for religious institutions to inform and share information. Since the tax office does not release data on churches, information about the church was forwarded to the *Minister of Coordination and Communication with the Religious Institutions and Churches*. The ministry is the institution which contacts the particular churches in order to engage in data sharing activities (before December 31 each year).¹²² If any changes occur regarding the designated allocation, the authorities must reveal the new amount for the churches by January 31 of the following year. It is essential to add those religious institutions must acquire a valid registration at the court and fulfill the declared obligations and requirements.¹²³

¹²¹ https://www.nav.gov.hu/nav/archiv/szja1_1/Tajekoztatok_archiv/ogy_tajekoztato_2011.html

¹²² Due to the changes of the law of CXXVI/1996, the new implementation is valid from January 1, 2018. Modifier decree CLIV/2017 Section 1 (7), (4), (5/A), (5/C) Subsection (3)-(4)

¹²³ Section 6/B which is based on the Section 4/A (1, a)

4.6 Common rules of utilization

Beneficiaries of one percent allocation are required to share the goals and activities the revenues will support. The report should be concise and provide budget details. Thus, the bills and receipts from the institution should be collected and documented for the accounting process. These reports should be submitted by December 31, every two years. Usually, a specific form known as the *KOZ* document should be submitted through the online customer gate platform. The name of the form changes to reflect the current year, while *KOZ* is a short way of saying "report." If there is a new registration for the tax office, that member should complete the *EGYREG*, which is published on the tax authority's website. The specified annual deadline is October 2. This documentation process is only for newly added institutions, and submission of this documentation is not necessary for older established institutions.¹²⁴ Additionally, there is an opportunity to save a certain amount of allocations. Beneficiaries must report the exact amount of the savings, its goals, and plan of utilization in each second year by May 31. The beneficiaries must also state the sum of the deductions and disbursements for debts or financial shortages. If there is an unused sum reported, which is over five thousand forints, the nongovernmental institutions must reimburse this amount to the tax office. In case of disbanding organizations nearing bankruptcy, which have no successor, these organizations must transfer all assets to the legal authorities. The sum of the assets is to remain with the National Civil Fund. In the case of organizations with a legal successor, the task of preparing an accounting report is mandatory. The one percent system ensures governmental support of the Hungarian churches and nonprofit sector. It is also legal, financial support for public benefit activities. Therefore, the tax office serves in a supervisory capacity based on the Decree and Policy of Tax Administration. In this manner, the tax office has the right to exclude or dismiss institutions. Aiding in the tax office's decision-making process, the tax office contacts the court, if necessary. A published commission of exclusions or dismissions, declared by the legal authorities, is generally undisputable.

The tax office keeps records of liquidation activities; therefore, the organizations have to be prepared to provide full accounting records annually. According to the regulation, nongovernmental institutions can potentially lose their beneficiary status. Common reasons for this occurrence are the failure to provide authorities with adequate financial documentation or

¹²⁴ National Tax and Customs Authorities. (2020) https://www.nav.gov.hu/nav/archiv/szja1_1/Tajekoztatok_archiv/A_civil_szervezetek_s20170904.html accessed on 12/03/2020

inaccurate financial data. Additionally, it is a common blunder by institutions to miss the strict deadlines imposed by the tax office. There are several cases where members of the nongovernmental sector deliver inaccurate statistics. These conditions can lead to the exclusion of benefits since the institution did not prepare reliable reports. Beneficiaries who save unused portions from one percent reallocation without notifying the tax office can also be excluded. The Hungarian court is required to announce the annual results of the designation process. These outcomes must also be sent to the *Ministry of Social and Civil Relations*, who will share the information on their website for easy public access. Beneficiaries often create webpages or other fact sheets to release testimonies which are presented by the legal system. This information must remain online for at least one year and should be published by June 30. Among these data, there are records of organizations categorized by revenues out of the one percent allocation.¹²⁵ Thus, budgetary accountability is the most significant factor of the system since this information represents accountability and trustworthiness. It is also a tool for maintaining the beneficiary status and ensuring the presence of competition among members of the nongovernmental sector for the one and one percent allocation.¹²⁶

Beneficiaries are entitled to use the reallocation accordingly to public benefit activities. Funds for these activities should be disbursed under the memorandum and articles of foundation. These mechanisms and functions are the principal motivators and reasons for operations. The tax office determined that expenditures for operations and activities should not exceed twenty-five percent of the total revenue. Conversely, this financial limitation of the aggregated budget for one unit means less than twenty-five million forints. The twenty-five percent, as mentioned earlier, or twenty-five million forints, includes credits and interest rates. Other accounting data include overhead expenditures for the headquarters and its assets. However, if the founders or members own the real estate, these costs do not burden the finances of the organization. Additionally, expenditures for communicative resources such as the internet, telephones, or mail should be calculated within the determined percentage as well as the individual wages. The expenses for commercial and social media endeavors should fall beneath ten million forints.¹²⁷ The allocation for "priory" institutions occurs in the same way

¹²⁵ Wolter, Kluwer (2020) Law CXXVI/1996 in the Law Collection, <https://net.jogtar.hu/jogszabaly?docid=99600126.TV&searchUrl=/gyorskereso%3Fkeyword%3D1996.%2520%25C3%25A9vi%2520CXXVI.%2520t%25C3%25B6rv%25C3%25A9ny> accessed on 11/03/2020

¹²⁶ Section 6/C

¹²⁷ Decree C/2000, the Law of Accounting Processes

previously described¹²⁸ This category participates in competition for the one percent with the churches. Each year, the manager of the funding is required to publish outcomes of how the one percent was used, and the tax office publishes their budget in the same manner in which it occurs for nongovernmental institutions.¹²⁹

4.7 Conclusion

There were several adjustments and modifications to improve the utilization and feasibility of *Act CXXVI/1996*, Plenty of other decrees and regulations affected and influenced the implementation of the Act. In this chapter, I introduced the technical process for implementation of the one percent law, including the relevant laws and regulations, for taxpayers and beneficiaries, including nonprofit organizations, churches, and priory institutions. In the following chapter, I will discuss the evaluation and consequences of the decree, including the debates and discussions among civil society.

¹²⁸ The prior financial or budgetary appropriations are a specific category which share the second part of the one percent allocation with the churches. These organizations can be governmental or nongovernmental at the same time and annually the national assembly choose them and make possible for them to participate at the competition. In each year the designable institutions are changing based on the governmental decision. Since 2011, according to the juridical decision-makers, to lessen the competition besides the churches, the national assembly can assign only one organization to be a prior budgetary appropriation. Since this time, there is only one, the National Talent Program, which appears annually as part of the allocation system. In 2010 and before there were several organizations strove for the revenues. Among others the (1) Groups Against the Ragweed; (2) Alignment to Stop the Deforestation; (3) Organization Against Putting Illegal Waste; (4) Program Against the Children Poverty; (5) Development for the Healthcare with Sport Activities; (6) Actions Against Societal Criminal Activities; (7) Motherland Fund;

One Percent Law - What is the prior financial appropriation? (2020)

https://ado1szazalek.com/adohirek/egyhazak/mi-az-a-kiemelt-koltsegvetesi-eloiranyzat_-183

accessed on 11/03/2020

¹²⁹ Section 6/D in accordance with the Law of National Central Budget

5. CURRENT RELATIONS OF THE HUNGARIAN THIRD SECTOR, CIVIL SOCIETY, AND THE GOVERNMENT

5.1 Introduction

After the transition period, the Hungarian State started to involve new democratic elements into civil society. Through “*Hungarian Round Table Talks*,” liberal institutions were adopted. The new constitutional system was based on the Western model. The democratic order was representing stability, multi-party governmental policy, democratic elections, nongovernmental sector, and a parliamentary voting system. The implementation of the “*One and One Percent*” law assisted the growth of the third sector. Organizations survived the collapse of the Soviet Union became a part of the modernization processes. The Hungarian State received much support from the Western states to create a firm and stable civil sector. It could provide a strong nongovernmental system and state administration. It is essential to analyze the relationship between the pluralistic societies, the government, and the significant number of stakeholders, and nongovernmental organizations, particularly in terms of policy development.

The chapter will conclude the debates of the Hungarian civil society, nongovernmental sector, and government relations. I will evaluate the effects of governmental aid to the nongovernmental sector, the previously discussed “*One and One Percent*” law, and explain how it influences the functions of the nongovernmental institutions. I will analyze the impact of cooperation among the members of the nongovernmental members. I will examine the legal framework of the “*One and One Percent*” system, the political participation of the Hungarians in the nongovernmental sector, and the influences of international politics. In this last section, I will argue that international assistance for the Hungarian nongovernmental sector began to function before the transition period to enhance the democratic civil society. Furthermore, this section will question the relationship between the nongovernmental sector and the state administration.

I will explore Hungarian political decision-making between the years of 1989 and 2018. It is fundamental to understand the nature of domestic political decision-making to observe the development of the nongovernmental sector. Finally, I will examine the Hungarian policy and the Western assistance towards the Hungarian nongovernmental organizations. This chapter

will introduce the characteristics of nongovernmental organizations. Additionally, I will explore the new Hungarian governmental policy on the nongovernmental sector initiated in 2010. The Hungarian government began to centralize the private and public spheres of civil society. It was considered the ‘*central area of power relations*.’ After the theoretical evaluation of the governmental-nongovernmental relations, the section will discuss the contemporary situation of the Hungarian nongovernmental sector.

5.2 Civil Society after 1989

The breakdown of the Soviet regime, the “*Hungarian Round Table Talks*,” began, where the political elite negotiated the steps of the democratization process. They agreed on the free election, adopting a new constitution, and established the multi-party system. The right-wing political party won the first parliamentary election. They were successful in creating a firm base for a democratic transition. Several scholars argued that one of the main issues of the transmission period was missing a stable civil society. After the Communist regime, the state administration lacked experience balancing the relationship between the new Hungarian political system and civil society. In the beginning, the Hungarian government could not establish the legislative and democratic institutional systems.¹³⁰ Civil society viewed the government as a problem-solver institution instead of turning to the nongovernmental sector for assistance. Therefore, it was a long process for Hungarian civilians to create a relationship with nongovernmental institutions.

The Hungarian administration established a top-down governance approach that was weak and lacked democratic authority, accountability, transparency. The decision-making processes were insufficient. There was also tension within the public policy-making. Therefore, these modernization methods were not successful in building a corruption-free and firm policy framework to solve the main issues within society. One of the biggest challenges for the post-communist order was regaining the public’s trust and demonstrating accountability and transparency. The main characteristics of the Communist government model included dominant authority with an influential international sphere, a complex legislative system, and prominent state power. One of the general features of the new democratic state administration is multi-level governance. The model requires a developed relationship between the nongovernmental and Hungarian State.

¹³⁰György, Jenei (2010) Supplements to the public policy – theoretical background of state participation, in: Hosszú Hortenzia and Gellén Márton (eds.), *State role in crisis*, Complex, Budapest, pp. 95.

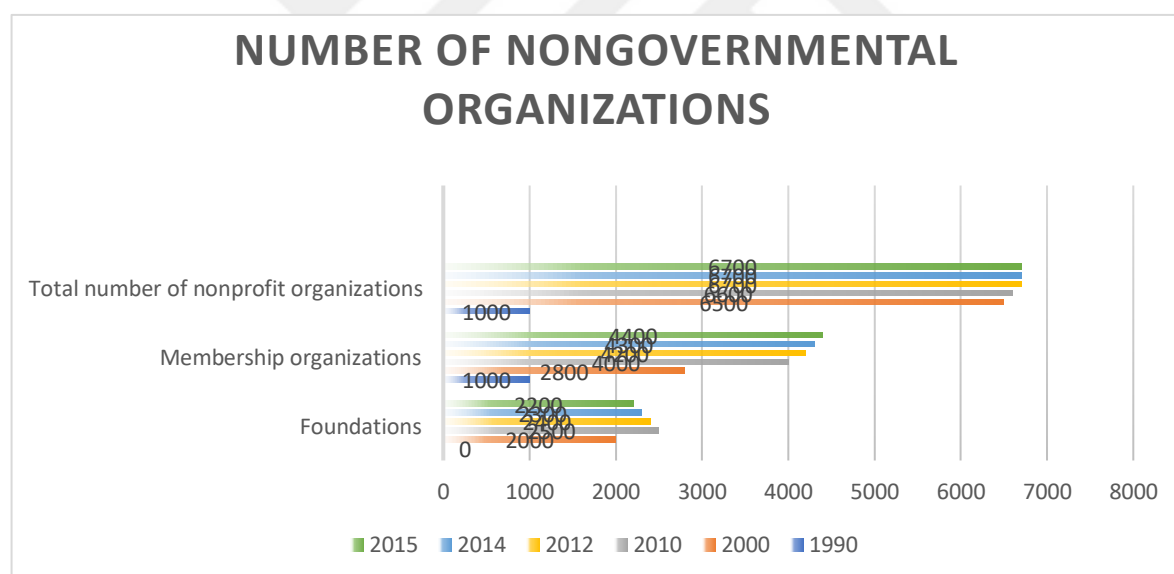
In Hungary, the concept of civil society formed throughout the 18th century with a revolution against the Communist power during the Prague Spring. Notable scholars such as Vaclav Havel, who was a Czech statesman after 1989, defined civil society as the ‘*third way*’ which is able to abolish the oppression of the communist order. In 1992, scholars from the *Third Sector Research Sector* established the definition of the nongovernmental sector. In Hungarian terminology, civil society is an independent network of different nongovernmental institutions formed by the citizens. It is a part of the political decision-making process, influencing rights, values, and practices in order to identify mutual interests and adaption to the democratic state order.¹³¹ In the 1980s, the last wave of the communist regime, the civil society emerged. As I discussed in the *second chapter*, there was a period for the large organizations separated into different groups and the peace movements. During this time, a civil society formed nongovernmental organizations that endured the transition period. These self-organized institutions resembled the Western nongovernmental sector. It was still difficult to adapt to these new changes. However, the origins of the associations, foundations had been established. The founders of these groups were mostly youth from universities aiming to demonstrate their opposition against the Communist Party. Many associations and clubs which expressed the political orientations of the people and their religious views were oppressed. These groups encouraged the adaption of the multi-party system and the capitalist market mode of production. The burden from the emerged economic crisis pressured the party to accept democratic changes. Acceptance of foreign aid from the Western philanthropic foundations enhanced the importance of civil society and played an important role in the modernization process. A significant step occurred in 1987.

After the removal of the *Hungarian Civil Code of 1949*, the Hungarian Communist Party allowed establishing foundations. After 1989, the modern Hungarian government adopted the original *Act of Associations*. It enabled the freedom and independence of Hungarian associations and nongovernmental organizations. As a result, they could openly operate and serve the common good without any pressure. Those nongovernmental organizations which survived the transition from a communist regime to a democratic state setting were able to adapt with assistance from the Western democratic system. The foundations and the associations could establish their objectives, roles, and responsibilities with the cooperation of the Hungarian government. The 1989 Act, under the International Covenant on Civil and Political Rights, created opportunities for the newly established

¹³¹ Béla, Jagasics (2001) *Theory of the Nonprofit Sphere*, Zalaegerszeg, 13. pp. 189

institutional system and civil society. It included the legislative formation of the associations, foundations, and nongovernmental organizations. The erosion of the past system and the new opportunities helped them obtain adequate experience. However, the past Communist tradition of forced participation challenged participation. One of the main problems of the civil sector in Hungary is the low level of individual activity, the transparency and accountability of the organizations, and the low level of professionalism of the nongovernmental sector.

After the adoption of the associational law, civil society understood the organizations' services, goals, and rules of employment, and there was an expansion of the public sector. The process became successful, and after 1989, the authorities had registered 8,796 institutions. By 1991, there were 24,051 nongovernmental organizations. This number was continuously growing, and by 1997. There were 47,365 nongovernmental organizations.¹³² By the implementation of the “*One and One Percent*” law, the boom of the organizations continued. However, in 2000, there was a fall in the number of nongovernmental organizations. At that time, the total number of organizations had only reached 47,144.



At the turn of the millennium, Hungary was still one of a kind among the Visegrad states with the highest number of nongovernmental organizations. The other members, such as Slovakia,

¹³² Biro, Endre (2002) Nonprofit Sector Analysis, Legislative Nature of the Civil Associations and Foundations in Hungary, Budapest, Foundation of EMLA

had 17,000 associations, Poland had 30,000 associations, and the Czech Republic had 44,000 associations¹³³

There was not only the expansion of the nongovernmental sector, but organizations also experienced several structural changes.¹³⁴ Many nongovernmental organizations started to focus on current issues such as environmental causes, human rights protection, protection of cultural heritage, and minority rights. Before this time, mainly sports, healthcare, and leisure activities were prevalent due to communist influence. The expansion of modernization helped to create a space to address issues within civil society. Under the Hungarian single-party system, foundations lacked adequate legal infrastructure. The political parties adopted an independent and self-regulating system, where the foundations and associations could function without any obstacles or political pressure.

The current administration targeted to create a connection with the Hungarian population by offering many benefits and privileges as a part of their political program.¹³⁵ Therefore, the Hungarian government had to eliminate the remaining elements from the previous regime because the Hungarian civil society was worried that it would jeopardize the emerging democratic system. The level of political engagement, participation, and trust did not reach the expected rate. The civil society was hesitant to trust the new government authorities, and the centralized welfare system struggled to adapt to the administrative changes. There was an urgent need to build cooperation between the nongovernmental sector and the Hungarian government for better civilian participation.¹³⁶ The fast-growing economic and political base could not meet the fundamental demands of civilians. The participation of the civil society both in political and nongovernmental sectors was low. It was approximately 5 percent of the whole population who participated in some groups after the transition period. Due to post-communist frustration, civil society could not counterbalance the political administration. The members of the Hungarian civil society needed free decision-making and the ability to freely travel to each state in the world, which was impossible at that time. Hence, disappointment occurred, and the

¹³³ Number of the Nonprofit Organizations between 1989 and 2013, Hungarian Central Statistical Office, 2015, Laszlo, Kakai (2015) Focus on NGOs, Nonprofit organizations in Europe and Hungary, Pecs, Hungary, vol Tamop-4.1.2. D-12/1/Konv-2012-0010 pp. 47.

¹³⁴ László, Kákai (2015) Focus on NGOs, Nonprofit organizations in Europe and Hungary, Pecs, Hungary, vol Tamop-4.1.2. D-12/1/Konv-2012-0010 pp. 45-61.

¹³⁵ Janos Bocz, Geyza Meszaros, Renata Nagy, Istvan Sebesteny (2005) The Nongovernmental Organizations in Hungary, 2003, Budapest, KSH.

¹³⁶ Fric, Pavol and Martin Butora (2003) The Role of the Nonprofit Sector in Public Policy, in Public Policy in Central and Eastern Europe: Theories, Methods, Practices, edited by Martin Potucek, Lance T. LeLoup, Gyorgy Jenei, and Laszlo Varadi, Bratislava, Slovakia: NISPAcee, Network of Institutes and Schools of Public Administration in Central and Eastern Europe, pp. 145-172

people blamed the Hungarian administration. Numerous other factors weakened civil society during this period. The negative attitude originated from misused financial support, lack of accountability, and transparency among the members of the political parties. One of the significant features that showed the passive political and public attitude was the “*Öszödi Speech*,” in which the Hungarian Prime Minister introduced the lack of the relationship between the political party and civil society. The Hungarian Prime Minister, who took over the bureaucratic office after 1989, was not able to adapt the political, economic, and societal changes as adequately as the members of the civil society imagined. There was an idealistic picture of the democratic civil society with a capitalist economic welfare system and an adequate Western political model among the Post-Communist countries.

The most fundamental step to achieve changes was to decentralize the political and economical administration and demonopolize civil society. Even though the end of the Communist regime was not that strict, the welfare system was undeveloped. On the other hand, Hungary was unique since it was the first country that adopted the multi-party system and the capitalist market and a new, democratic constitution among the Post-Communist countries. The Hungarian government introduced the new formation of a quasi-nongovernmental institution, the so-called GONGOs. They became popular among political parties because the GONGOs ensured political influence through civil society. On the other hand, it created inequalities. The government-backed organizations receive the majority of funding.

The relationship between the State and churches was advantageous since the establishment of *Act IV of 1990*, the Freedom of Conscience and Religion. They had an essential role since they gathered civil society. The State provided financial support for the churches. They also enjoyed a separate one percent out of the “*One and One Percent*” law. Since the 1990s, three significant church-based nongovernmental organizations, the Hungarian Interchurch Charity Service, the Baptist Charity Service, and the Hungarian Charity Service of the Order of Malta. These organizations had a developed relationship with the political administration. All these organizations were significant members of the Hungarian civil society, and they assisted the Hungarian government to establish a strong relationship between the nongovernmental sector and the state administration.

Moreover, Hungary was the first among the post-communist countries, accepted foreign aid to develop the relations between the Hungarian State and the nongovernmental

sector. Following the implementation of the nongovernmental sector had begun.¹³⁷ After the transition period, the liberalization was already present in the Hungarian nongovernmental sector. Hungarian researchers were also the first scholars from the post-communist countries to participate in the Johns Hopkins Comparative Non-profit Sector Project.¹³⁸

The Johns Hopkins Comparative Non-profit Sector Project educated the members of the third sector on how to manage better transparency, adapt administrative components, improve advocacy in the parliament, and train youth for research. Moreover, the Hungarian government invited financial experts and several professors from Western universities. Since the financial and resource base of the nongovernmental sector was fragile, it was essential to develop a governmental funding system and increase the number of private donations. For this reason, in 2004, the National Civil Fund was established to complete the “*One and One Percent*” law with additional support. However, this new system lacked stability and cohesion since it had never been done before. Through these efforts, civil society and the members of the parliament gained essential knowledge for understanding the crucial role of the Hungarian nongovernmental sector.¹³⁹ The main issues were the transparency and accountability that the nongovernmental sector had to deal with. At the beginning of the transition period, financial support for the nongovernmental sector was generous. It resulted that the nongovernmental organization began to use the funds for business-oriented purposes. The Hungarian state had to implement a stricter funding system, which required transparency and accountability from the members of the nongovernmental sector.

Many actors emerged in the Hungarian nongovernmental sector to solve the problems. The Federation of Hungarian Foundations was short-lived, and The Federation of Nonprofit Human Service Providers was established in 1992. The first lobbying organization was the Consultative Council, which focused on tax reduction, financial aid, and developing relevant laws for the enhancement of the civil sector. The creation of the Nongovernmental Informational and Educational Centre Foundation was a significant step for promoting collaboration among the members of the nongovernmental sector. Other umbrella organizations were established, such as the Research Project on Nonprofit Organizations in

¹³⁷ Cook, Linda (2007) *Post-communist Welfare States: Reform Politics in Russia and Eastern Europe*. Ithaca, New York, Cornell University Press

¹³⁸ Éva Kúti and Miklos Marschall (1991) *The Definition of the Nonprofit Sector. A dispute of definition and What Is Behind It*, Opportunity, pp. 61-69

¹³⁹ Éva Kúti (2009) *Policy Initiatives Towards the Third Sector Under the Conditions of Ambiguity: The Case of Hungary*, in *Policy Initiatives Towards the Third Sector in International Perspective*, pp.127-158

1994, Alliance for the National Civil Advocacy Organizations in 2003, and the Civil Bureau in 2006.¹⁴⁰ It was essential to promote volunteering within the Hungarian civil society. During the UN International Year of Volunteers, the State established the Volunteer Centre Foundation in 2002 and began to implement the advantages of volunteers. Five nongovernmental organizations¹⁴¹ supported the Volunteering Center in Hungary.

Between 2008 and 2013, the economic crisis had begun in Hungary, which hindered the success of the nongovernmental sector. The government refocused its finances to balance the Hungarian economic system and avoid bankruptcy. In 2013, only 35 percent of governmental aid was provided to nongovernmental organizations. Even though Hungary was in an economic crisis, the participants of the third sector were high. The Hungarian population showed motivation and positive attitudes toward nongovernmental organizations. The nongovernmental sector included mostly volunteers and a low number of paid members. Even though the nongovernmental participation in Hungary was more significant compared to other post-soviet states, Hungary still could not compete with the Western nongovernmental sector. During the economic crisis, the nongovernmental sector received financial support from foreign aid or private foundations. The nongovernmental organizations claim that the revenue from the “*One and One Percent*” allocation was not enough to cover their expenses, since they received it only once in a year, and the competition for the share was high. Therefore, the organizations preferred other sources for financing their activities, such as fundraising methods or donations.

5.3 Relations of the Hungarian Nongovernmental Sector and the State

At the beginning of 2002, the Civil Cooperation Programme was established to build a stable relationship between the Hungarian civil sector and the government. Numerous nongovernmental organizations refused to join the program. After several modifications and initiations, the program failed due to the lack of representation of the Hungarian nongovernmental sector.¹⁴² The Hungarian government intended to establish a beneficial relationship with the nongovernmental organizations. Therefore, the Hungarian State agreed to accept more foreign aids from Western countries. From 2003, the Hungarian government

¹⁴⁰ Sebestény, István (2005) Civil dilemmas – Challenges and alternatives in the civil sector, Civitalis Egyesület, Budapest, p.60.

¹⁴¹ Nonprofit Information and Education Centre, the Federation of Nonprofit Human Service Providers, the Foundation for Democratic Youth, the Associations of Community Developers, and the United Way Budapest Foundation

¹⁴² István, Nemoda (2005) Background Documents Necessary for the Preliminary Elaboration of the Agreement Between the Government and the Civil Sector, Budapest, pp. 14.

started to expand its civil society projects. Most of the support came from the United Nations Development Programme or the Canadian International Development Agency to begin training the members of the nongovernmental sector. The members of the Western nongovernmental organizations taught to the Hungarian members of nongovernmental organizations how to manage the organizations, establish fundraising procedures, or how to create a strong membership base. All these measures were necessary in order to implement changes to the new nongovernmental institutional system.¹⁴³ In the beginning, the Hungarian nongovernmental organizations were not interested in participating in these projects.¹⁴⁴ Additionally, funding from international support was also low, approximately US\$37 million in 2004 and 2005, which was not enough to boost the effectiveness of the Hungarian nongovernmental sector.

In order to develop the nongovernmental sector outside of the country, the Hungarian government began to support a large number of Hungarian minorities in neighboring countries, such as Serbia, Romania, or Slovakia. The Hungarian government granted them citizenship and participation in the “*One and One Percent*” allocation system. The role of the ethnic minorities is essential in the life of the political administration since a significant number of Hungarians are living outside of the Hungarian borders.

The Hungarian government introduced the *Civil Advisory Board* in order to establish a better relationship between the State and the nongovernmental sector. It was a civil advocacy forum that enabled the population to participate in the political decision-making processes. Members of the Civil Advisory Board were comprised of the Hungarian nongovernmental organizations, some scholars, trade unions, and members of the political leadership. It was possible to share some grants and aid among the members through the Capacity Development Programme. It aimed to develop the skills and abilities of nongovernmental organizations. The members of the Civil Advisory Board shared several values, motivations, and aims with the Hungarian government in order to solve common issues and problems.¹⁴⁵ At the same time, the Hungarian state administration created the *Hungarian Association of Nongovernmental Organizations for Development and Humanitarian Aid (HAND)*, which was an advocacy group for Hungarian nongovernmental organizations. It provided the collaboration among the

¹⁴³ Szent-Iványi, B. & Tétényi, A. (2013) The East-Central European New Donors, Mapping Capacity Building and Remaining Challenges, *Journal of International Development*, vol. 25, no. 6, pp. 819– 831.

¹⁴⁴ Paragi, B. (2011) Hungarian Development Policy, in Hoebink, P. (ed.) *European Development Cooperation: In Between the Local and the Global*, Amsterdam University Press, Eadi, Amsterdam

¹⁴⁵ Baser, Heather (2000) *Capacity Development*, Occasional Series, CIDA, Policy Branch, Vol.1, No. 1, Canadian International Development Agency, pp. 1-8.

http://nsagm.weebly.com/uploads/1/2/0/3/12030125/capacity_development_cida.pdf accessed on: 31/03/2020

members of the Hungarian nongovernmental sector, assisted their development, improved sustainability, and created international cooperation with other nongovernmental organizations. As a result, the Hungarian nongovernmental organizations began to build a better relationship with the Hungarian State. Several differences emerged between the smaller and larger nongovernmental organizations in Hungary. Larger nongovernmental organizations have more opportunities to obtain international and local success. Additionally, they have better experiences and professional assistance in managing their administrative tasks and finances. On the other hand, these nongovernmental organizations could not target a particular civilian base for promoting their goals or aims. They have to invest more to find support from civil society. The Hungarian state administration prioritized larger nongovernmental organizations in order to ensure the international support and represent the high potential and performance of the Hungarian nongovernmental sector.

In contrast, the small nongovernmental organizations had difficulty receiving Hungarian governmental aids. The projects that were managed by these minor nongovernmental organizations were not competent enough to gain the importance and the attention neither from the locals, international partners, or the Hungarian administration. Therefore, the relationship between the smaller nongovernmental organizations and the State could not develop as much as it happened with the larger nongovernmental organizations. In this manner, the smaller nongovernmental organizations did not cooperate with the Hungarian State and, in many cases. Therefore, one of the targets of the Millennium Development Goals of the Hungarian State was to create a better relationship with the smaller nongovernmental sector and implement more financial assistance for the members of the nongovernmental system. The Hungarian state administration tended to develop a better relationship with the small organizations. Therefore, the Hungarian government launched an international development program where all nongovernmental organizations could apply regardless of size. The advantage of the smaller nongovernmental was their target groups. They were located in smaller cities, where they could build a firm support-base from civil society easier than the larger nongovernmental organizations in the cities.

In 2006, there was a significant decline between the nongovernmental sector and Hungarian state administration. The new political administration, socio-liberal parliamentary coalition, won the parliamentary elections. Due to the economic decline of the country, the Hungarian State began to implement restrictive measurements on the nongovernmental organizations. The coalition stopped to support the nongovernmental sector and focused on the

Hungarian economy. The members of the nongovernmental sector blamed the new political party for dismissing the previously created aiding arrangements. At that time, the annual support of the nongovernmental sector was approximately \$15 million.¹⁴⁶ Simultaneously, the state administration suspended the work of all aiding and funding system in order to boost its financial base instead of the enhancement of the nongovernmental system. These measurements negatively affected the relationship between the nongovernmental sector and the Hungarian State since the population felt betrayed by the government.

The Hungarian government also stopped implementing initiatives to support smaller organizations. It damaged the relationship between them. The large nongovernmental organizations could manage their finances and membership independently. At the same time, the small-sized institutions suffered from limited government assistance. As a result of these circumstances, they had no other choice but to find additional support mechanisms to maintain their operations. One of the possible solutions was to apply for foreign aids in order to gain some support and protection against bankruptcy.

At that time, the Hungarian State was already a member of the European Union. Therefore, the nongovernmental sector was able to utilize the opportunities that were offered by the European Union's projects to help the nongovernmental organizations. However, the competition was higher among the member states for the European funds. Therefore, it was harder to receive aids from the European Union than from the Hungarian government. In the international arena, the Hungarian nongovernmental organizations had to compete with all the members of the European Union. On the other hand, it resulted in a positive outcome for the nongovernmental organizations in Hungary. They were able to become more independent from the Hungarian State after receiving international funds. However, this process worsened the relationship between the Hungarian State and the nongovernmental sector. The focus was on not developing their relationship.

In order to establish a better relationship between the Hungarian government established the institution of the *Hungarian Association of Nongovernmental Organizations for Development and Humanitarian Aid*. The *Hungarian Association of Nongovernmental Organizations for Development and Humanitarian Aid* issued a report, the so-called *Aid Watch Report to the Ministry of Foreign Affairs*. It described the worsening relationship between the

¹⁴⁶ Benczes, I. (2011) Market Reform and Fiscal Laxity in Communist and Post-Communist Hungary, A Path-Dependent Approach, *International Journal of Emerging Markets*, vol. 6, no. 2, pp. 118–131.

nongovernmental sector and the Hungarian government. Moreover, the organization included significant challenges and outcomes of the decreasing Hungarian governmental support of the nongovernmental organizations. Additionally, the *Aid Watch Report to the Ministry of Foreign Affairs* included the emerging range of poverty among the members of the Hungarian nongovernmental sector, the need for better transparency, the demand for fair competition for the governmental aids, where smaller institutions could participate in aid sharing.¹⁴⁷

The Hungarian nongovernmental sector was the main part of a modern democratic system. The members of the nongovernmental sector would need the Hungarian State to assist in their functions for better assets, and the Hungarian government had to implement new measurements to rehabilitate the financial support system to the nongovernmental organizations. The nongovernmental sector struggled to achieve significant progress. Despite the difficulties, the members of the nongovernmental sector mobilized the Hungarian population to participate in the sector, and the nongovernmental organizations tried to gain international support. The members of the nongovernmental sector highlighted the reformation of the Hungarian financial structure, but they failed to raise attention. The growing economic crisis in 2008 jeopardized the reformation efforts. The Hungarian government utilized the finances to protect the business-oriented organizations, and the nongovernmental sector gained less attention during the financial emergency. In 2010, the State made further restrictions regarding the government funding system and neglected to reach out to the Western philanthropic sector, where there was possible support for the Hungarian nongovernmental sector.

One of the strategies that the nongovernmental organizations used for getting attention in the Hungarian Parliament was lobbying. They discussed the current issues and how they affected the decision-making processes. The nongovernmental sector needed to improve advocacy within the parliament. Thus, the Hungarian Parliament adopted the *Act XLIX of 2006 on Lobby Activities* to encourage the members of the nongovernmental sector to engage in professional lobbying activities. It was a significant step from the local government. However, the Act was a failure for several reasons. One of the reasons was the lack of organizations. There were less nongovernmental institutions that took part in the lobbying activities. They did not participate as much as the members of the Hungarian parliament had anticipated.

¹⁴⁷ Kiss, J. (2007) Hungarian International Development Policy in Numbers, HAND, Budapest

The government increased the priority of the business-oriented and for-profit organizations instead of the nongovernmental institutions. For this reason, the members of the nongovernmental sector addressed an open letter to the Hungarian Ministry of Public Administration and the Ministry of Justice, in which the nongovernmental organizations requested an increase in the amount of state funding and assistance for development. In this letter, they introduced the concerns about the focused business interests of the Hungarian government and how it neglected the role of the nongovernmental sector. As a result of the open letter, the government enforced the *Act CXXXI of 2010*. The new law allowed social participation in the parliament and granted the nongovernmental organizations with more advocacy. It allowed the members of the nongovernmental sector to develop better cooperation with the Hungarian government.

In 2010, the Hungarian state administration prepared a form for a *National Consultation* in order to gain more importance within the civil society and to encourage the Hungarian society to express their concerns about the legislative structure. It was a primary step toward re-establishing the relationship between the Hungarian State and the nongovernmental sector. The Hungarian state administration created several public forums where civil society can express their opinion. In this platform, the representatives of nongovernmental organizations and the Hungarian State were able to present the issues and propose solutions. The concept was valuable, but the participation of the members of the nongovernmental sector was low. As a result of the *National Consultation*, the Hungarian government established a nongovernmental representative institution as a part of the local municipality. The municipalities represented the members of the nongovernmental sector, and they were able to counterbalance the Hungarian State. There were several projects, such as the Internet at *School Express Programme*.¹⁴⁸, in order to build cooperation between the Hungarian State and the nongovernmental organizations. The Hungarian government established a so-called *Social Committee*, where the nongovernmental institutions could practice the advocacy role. It was established by the *Act CXII of 2011*. The purpose of the committee was to create a discussion among the nongovernmental organizations and the economic chambers about employee rights and to influence the parliamentary arrangements. Committees function in multiple areas, including health care, education, the economy, and social affairs, with the cooperation of the local governments, such as the Regional Social Policy committees. However, the members of the

¹⁴⁸ Government Decree 283/2003, on the tasks and operational rules of the Sulinet Expressz Program Project Council.

committees only include the representatives of the Hungarian parliament. The government emphasized the need for improving cooperation between the local governments and the Hungarian civil society based on the *Act CLXXXIX of 2011*. According to this law, the political administration supports local nongovernmental organizations and provides them adequate resources.

The economic crisis demolished the financial base of the country. Therefore, the new Orbán-government aimed to fix the damages, and implement new measures for detecting corruption, adopt a new consensus and institutional system, and new taxation methods. The political party created numerous GONGOs in order to ensure their political influences. Despite some corrupt practices from the Hungarian government, the official determination of the Hungarian state was a liberal democracy. It was characterized by free elections, the strict rule of law, and independent opposition parties.

By 2011, there were significant changes from this regime, and the autocratic direction had begun. There were five significant parts of this process: a weighted central power, a national unification process with the cross-border Hungarians, replacement of the current political elite, establishment of a durable political power, and implementation of the reforms. After the modifications of the constitution, the power of the nongovernmental sector lessened; on the other hand, the monopolized personal networks developed. It changed relations between the nongovernmental sector and the Hungarian state administration. There were numerous efforts made for more transparent and accountable distribution of the governmental funds to motivate the Hungarian civil society to participate in the nongovernmental sector. The government aimed to integrate new e-administrative technologies in development programs such as the *e-SzJA* and *e-Government*. The Hungarian population could arrange online tax deductions. Until 2011, the Hungarian population could reallocate the one percent only in paper-based form. After the implementation of the *e-Governmental* system, the population used the online platform for the reallocation process. The nongovernmental sector could reach a civil base more easily through online methods. The technological developments assisted in modern fundraising techniques and ensured a better public presentation of the members of the nongovernmental institutions. The information became accessible everywhere, which eliminated previous barriers for the nongovernmental sector. The Hungarian population could search for different nongovernmental organizations and learn about their aims, purposes, and missions, which raised the chances for the nongovernmental institutions to receive more funds from the one percent allocations.

On the other hand, some members of the nongovernmental sector claimed these changes made the allocation process more difficult since many people were not yet familiar with the new governmental system. Thus, instead of improving the allocation process, it reduced the number of designators. Another argument that emerged about the online system was the difficulty of understanding the way of online allocation. For example, after finishing their mandatory tax deduction processes through the new online system, the elderly population was less likely to participate in the one and one percent allotment. As a response, the Hungarian government established the Magyary Zoltan Public Administration Development Programme. Throughout this program, the Hungarian population could report the problems of the online public administration to the government.¹⁴⁹ The connection between social media and human rights is a newly developed concern. The governments took control over the press and the news. It became one of the tools used by authorities to manipulate society. In March 2010, the government adopted the Media Act of 2010, *Act CLXXXVI*. In response, several Hungarian human rights organizations and members of the civil society protested against this regulation. It called the *One Million for the Freedom of Press*, which gathered over 30,000 people.

After the adoption of the new regulation, the relationship between the Hungarian government and the nongovernmental sector had changed. The State opened the way for international development to enhance the Hungarian nongovernmental sector. The orientation was essential for ensuring the permanent position of the nongovernmental sector. At the same time, the Hungarian state participated from the European-based financial assistance as well in order to boost the economy of the Hungarian government. The Hungarian State took part in a European project, the so-called *Project for Global Opening*. It focused on the relationship between the Hungarian nongovernmental organization and the State.

The Hungarian state adopted the first law, which targeted nongovernmental financial development and supported human and minority rights.¹⁵⁰ It was the *Act XXXVI of 2013*. The law allowed members of nongovernmental organizations to have a representative role in the local elections. The Act also allowed greater nongovernmental participation in the political making-processes. Other benefits include advisory rights and the ability to implement referendums related to prevailing issues. After the new regulations, the members of the nongovernmental sector were able to receive more governmental aids.

¹⁴⁹ Magyary Zoltán Public Administration Development Programme, pp 41–45.

¹⁵⁰ Act XC of 2014, and it was adopted in 1 July, 2015

After 2015, the state administration implemented numerous strict measurements on the nongovernmental organizations. There are numerous nongovernmental institutions such as the Hungarian Helsinki Committee or the Hungarian Civil Liberties Union, which disagreed with these severe restrictions from the Hungarian State and claimed the strict measurement damaged the roots of the democratic values and the reputation of the nongovernmental sector in Hungary. The Hungarian government adopted the ‘Stop Soros’ law in 2018¹⁵¹, in which the nongovernmental organizations, which support the immigration to Hungary, needed to pay an extra tax to the government. These implementations from the Hungarian government gained significant attention from both social media and numerous Hungarian scholars.¹⁵² In contrast, those organizations that are favored by the state administration were continually entitled to all the benefits and various governmental aid.¹⁵³

5.4 Conclusion

This chapter introduced the development of the Hungarian third sector, civil society, and the government after the transition period and the development of current issues and debates within the country. It is important to understand that Hungary is a post-communist country, which transitioned from the Soviet order to a democratic setting. The development of the nongovernmental institutions is still in progress toward achieving the standard of Western-style democracy. The nongovernmental sector needs financial support from the Hungarian state administration and foreign funders. Progress is achievable through common understanding and encouragement. Thus, one of the most important outcomes from this analysis that the Hungarian government has to build stronger cooperation with the nongovernmental organizations to ensure democratic values.

¹⁵¹ Act XLI of 2018, Magyar Idők (2018) Soros Organisations Hold New Demonstration, <https://magyaridok.hu/belfold/ujabb-tuntetest-tartottak-asoros-szervezetek-3314654/> accessed on: 31/03/2020

¹⁵² Cianetti, L., Dawson, J. & Hanley, S. (2018) Rethinking, Democratic Backsliding, in Central and Eastern Europe – Looking Beyond Hungary and Poland’, *East European Politics*, vol. 34, no. 3, pp. 243–256.

¹⁵³ Mérce (2018) KDNP Stigmatised an NGO in a Yellow-Starred House, <https://merce.hu/2018/06/14/csillagos-hazat-ragasztott-le-a-kdnp-hogy-megbelyegezz-en-egy-civilszervezetet/> accessed on 31/03/2020

6. CONCLUSION

In 1990, the democratization process had begun in Hungary. However, the transition was not as simple as it was anticipated by scholars, civil society, and the nongovernmental organizations. The third sector lacked financial and material resources. Western democratic countries supported philanthropic activities in post-communist countries. Moreover, the Hungarian state aimed to enhance civil participation in nongovernmental organizations and implemented a significant assistance program to boost the financial base of the Hungarian nongovernmental organizations. During the dissertation, I aimed to raise awareness of the nongovernmental aiding system in Hungary. I analyzed how the “*One and One Percent*” law emerged and effected the Hungarian nongovernmental sector, based on the analysis of Communist and post-Communist civil society and state – nongovernmental relations. The theories of notable philosophers were presented to understand the main stages of civil society development and the post-communist experiences which influenced the donation habits, philanthropic activities, and usage of the tax reallocation. I explored how the “*One and One Percent*” tax allocation affects the Hungarian civil society, and how it influences the development of the Hungarian nongovernmental sector. The finding of this research that there are some advantageous and disadvantageous outcomes of the “*One and One Percent*” law.

First, the “*One and one Percent*” law enhances donation culture. It brings awareness to nongovernmental organizations and increases opportunities for more donations, increased nongovernmental membership, and volunteering activities. Second, the “*One and One Percent*” allotment is from the government’s budget. Therefore, it is not a philanthropic activity. The members of the Hungarian civil society decide on who receives the designated amount of their tax deduction, but it does not come from their budget. Third, “*One and One Percent*” is distributed annually. Therefore, the nongovernmental institutions have to find other methods to enhance their finances. In this manner, they organize fund-raising events, campaigns, and appearances in social media to raise civic attention for donations.

Fourth, during the Communist regime, transparency and accountability were dismissed. Therefore, transitioned nongovernmental organizations focused on enhancing transparency and accountability. Fifth, there is a significant gap between the Hungarian nongovernmental organizations. The smaller organizations rely on the allocation process more; the invalid designation means a significant loss for them. Smaller organizations cannot afford paid staff to

tackle tax regulations, accountability, and transparency. On the other hand, larger organizations receive additional funds from the Hungarian government and Western philanthropists. Additionally, they have professionals to manage finances, conduct campaigns in the whole country and abroad. I explored that nongovernmental organizations aimed to build trust with the population by improving visibility, management, and internal expertise to receive more donations and “*One and One Percent*” allocations. The participation of the Western foundations was indispensable to the development of the Hungarian third sector.

On the other hand, the complicated tax system became an obstacle for individuals to utilize the “*One and One Percent*” law. The advanced technological tools lessened the rate of the one and one percent allocators. The civil society struggles to adjust to the new e-Szja system. Hence, the Hungarian people conduct only mandatory tax returns without utilizing the one and one percent allocation. Furthermore, there is an uneven contest between the churches and the nongovernmental organizations. Churches are in advanced positions compared to the other contestant for the one and one percent. Out of the “*One and One Percent*” law, churches compete with other churches for one percent in one category. However, these religious institutions also have their own nongovernmental organizations; the religious nongovernmental institutions compete for the other one percent in the second category. In this case, one church can play in ‘two leagues’ and earn two percent from the *One and One Percent*” allotment system.

After concluding the findings of this thesis, it should be taken into account to analyze the current Hungarian attitudes towards the 1% allocation process for further research. Which tools do the members of nongovernmental organizations utilize to increase the philanthropist culture in Hungary? How does the government enhance the donation culture in Hungary? In order to answer these questions, it is important to observe the Hungarian government's behavior towards the members of nongovernmental organizations through the restrictive bills that were applied in 2017 and 2018.

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