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## A COMPARATIVE ANALYSIS OF TAX RELIEFS FOR INVESTING IN CULTURE IN SERBIA AND EUROPE

### Abstract

*This paper analyses the structure of state support for culture through tax relief meant for business entities for their investment in cultural institutions. Tax relief is an incentive from the state which creates a certain behavior among the taxpayers. Therefore, it is a very important segment of the association between economy and culture. Culture is the backbone of the identity of a state, which is an important reason why it should be nurtured and promoted. In this paper, the concept of culture has been narrowed down to include art and cultural institutions of national importance, since they are the most vulnerable virtually the world over, due to the considerable expense required both for the maintenance of the building itself, the funds needed to pay the numerous employees, as well as funding for production itself. In times of crisis, culture is usually the first to be affected by budget cuts. That is why encouragement of direct investments can maintain the level of quality of cultural institutions irrespective of the circumstances.*

**Key words:** culture, art, cultural institutions of national importance, tax relief

**JEL classification:** H25, H71, K34

## УПОРЕДНА АНАЛИЗА ПОРЕСКИХ ОЛАКШИЦА ЗА УЛАГАЊЕ У КУЛТУРУ У СРБИЈИ И ЕВРОПИ

### Апстракт

*У овом раду биће реч о структури државне подршке култури кроз пореске олакшице намењене привредним субјектима за улагање у установе културе. Пореске олакшице, представљају подстицај државе, који креира одређено понашање пореских обвезника. Из тог разлога, чине веома битан сегмент када је у питању повезивање привреде и културе. Култура окосницу идентитета једне државе, што је важан разлог за њено неговање и унапређивање. У овом раду, појам културе сужен је на уметност и институције културе од*

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*националног значаја, јер су оне скоро свуда у свету најрањивије, с обзиром на велике трошкове које изискују како одржавање саме зграде, плате за велики број запослених, тако и саме продукције представа. У кризним временима, култура је обично прва ставка којој држава смањује новац који јој је намењен из буџета. С тога се подстицањем директних улагања, може одржати ниво квалитета које би институције културе требало да одрже без обзира на околности.*

*Кључне речи: култура, уметност, установе културе од националног значаја, пореске олакшице*

## **Introduction**

In every government, taxes play an important role in their programs and they are a tool to achieve the main goals in the economy (Kalaš, Mirović & Andrašić 2020, p. 4). Paying taxes is a legal obligation and is the most important source of revenue for the state budget. Taxes as such are imposed in the interest of the social community in order to finance its vital functions which are available to the entire population (Jovanović 2022, p. 81). The government plays a central role in economic development by providing the necessary amount of public goods, and encouraging productive investments, thus ensuring economic growth (Đaković, Inđić & Cicmil 2022, p. 140). One of the important items that the state manages and finances is culture. Culture affects the development both of individuals and society as a whole. According to the definition of cultural policy, culture cannot develop on its own, without any help from the state, and it is necessary, through different instruments and strategies of cultural policy, to determine the possibilities and needs for stimulating the further development of culture and art (Bajić 2017, p. 9). Cultural policy is a set of measures and activities through which the bearers of public policy manage the cultural life and cultural development of a country (ibidem, p. 15). Culture has a varied scope within a single society, including customs, religion, sports, and art. For the purposes of this paper, we have narrowed the concept of culture down to the part that pertains to art, and have carried out an analysis of investing in art institutions of national significance, opera houses in particular, which due to high maintenance fees require the highest investments.

## **Funding sources for culture**

There are three types of funding that are characteristic for culture. The first is state funding, through which the state provides all the necessary funds for each of the institutions that are part of the state budget system. The second is private funding, which is entirely reliant on sponsorships, donations, patronages, and institutional self-generated income, while the third is a mixed type which combines state funding with other sources.

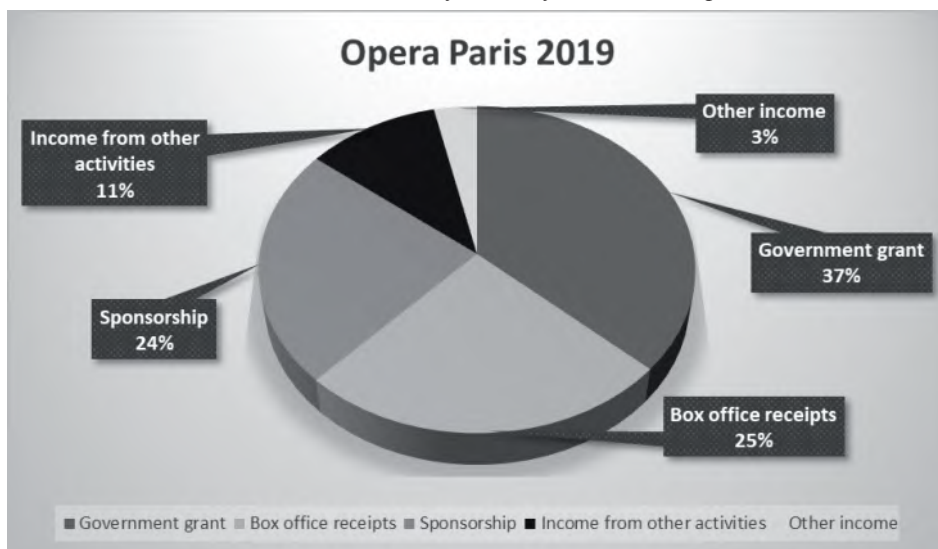
The first state system of sponsorship of cultural events dates back to Ancient Greece, to around 534 BC. (Berns 2009, p. 43). In Serbia, after World War II, funds for theater work were provided in full by the Ministry of Education, and it implemented its decisions regarding the development of theater activity via the Department of

Science, Culture, and Art. For the theater to survive at that time, whether or not it had an audience was not of key importance, nor was the size of the audience, nor whether a particular performance was considered successful by the public. (Prnjat 2019, p. 171). After the adoption of the Constitutional Law in 1953, this kind of centralized system slowly disappeared, and the financing of theaters passed into the jurisdiction of cities and municipalities. The exception were institutions of national significance. With the adoption of the first theater law, the General Law on Theater in 1956, it was expected that theaters would provide a part of the necessary funds themselves. This is how the mixed system of financing emerged. On the one hand, theaters continued to receive a part of their funding from the state budget, while on the other hand, as cultural institutions they had to generate a part of their revenue on the market to cover their costs. (Tausi 2012, p. 229-230).

In order for the cultural policy of the country to satisfy the real cultural needs of the people, the participation in culture of various actors from the public, private, and civil sectors is a prerequisite for building a better cultural environment (Kočović De Santo, Milovanović Rodić, Babović & Kuzma 2022). There are different forms of investment in culture promoted by governments so that they could reduce their influence. A government can intervene directly by allocating budget funds to fund culture, or it can do so indirectly by stimulating different forms of investment (fiscal policy, market development, movie theaters, employment incentives, etc.). In France, the proceeds from the production, distribution, and exhibition of pornographic content, as well as content that promotes violence, are used to finance film art. The money collected by the French Radio and Television Regulatory Authority (akin to our REM) is also deposited into this fund (Centre national du cinema et de l'image animee – CNC 2017, p. 200). The cultural policy of the Netherlands is based on the idea that the government should not be associated with the evaluation of art and science. That is why the development of culture is the result of the activities of citizens and a large number of foundations set up for cultural activities.

Over the years, the government has assumed the role of a moderator of cultural activities, instead of being the biggest patron of art and culture (Kaličanin 2011, p. 231). Regardless of the mixed source of funding, the state retains a role in financing culture when it comes to institutions of national significance. The percentage of these funds varies from country to country. The following graphs focus on the relationship between the funding sources for three large opera houses: the Paris Opera, the Royal Opera House, Covent Garden, London, and the National Theatre in Belgrade, which even though founded as a dramatic arts theatre, also houses a ballet and opera ensemble. For the purpose of this paper, we analyzed opera houses since the opera and the ballet are the most expensive forms of institutionalized arts. The graphs were prepared based on the latest available data for each institution, which for Covent Garden and the National Theatre are for the year 2020, while the last published data for the Paris Opera date from 2019.

Table 1. The structure of income for the Paris Opera



Source: Authors' based on data from the annual report available at: [https://res.cloudinary.com/opera-national-de-paris/image/upload/v1616573122/Rapport\\_de\\_saison\\_19-20\\_FR\\_2\\_cobvqo.pdf](https://res.cloudinary.com/opera-national-de-paris/image/upload/v1616573122/Rapport_de_saison_19-20_FR_2_cobvqo.pdf), p. 34

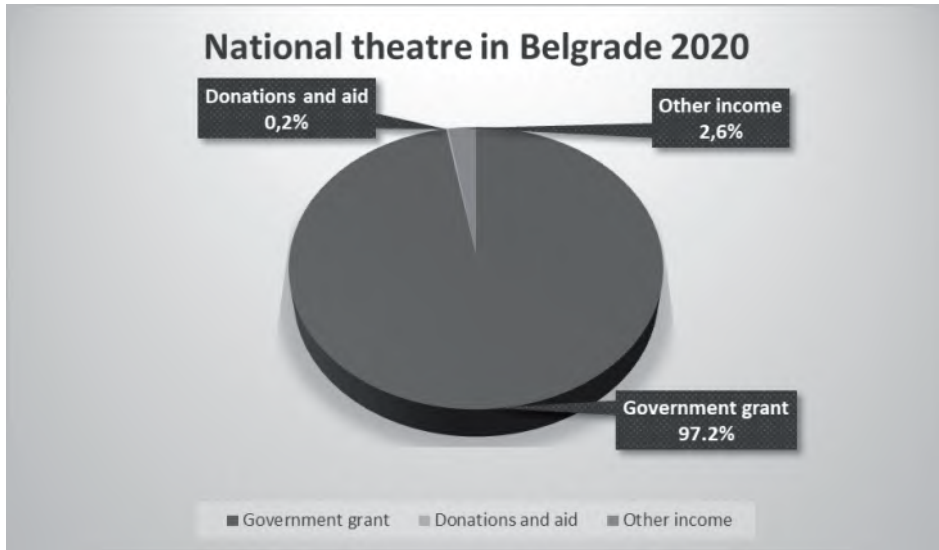
Table 2. The structure of income for the Royal Opera House, Covent Garden, London



Source: The annual report available Royal opera, available at: <https://static.roh.org.uk/for/pdfs/ROH-Annual-Report-20-21.pdf>, p. 3

Among the funding sources for the Royal Opera House, a frequently recurring source is the Arts Council of England (*ACE*) and a *bridge* organization. The Arts Council is a type of foundation which focuses on investment in the field of culture, while *bridge* organizations bring together education and culture in order to make art available for as many children and young people as possible.

Table 3. The structure of income of the National Theatre in Belgrade



Source: Authors' based on data from the document outlining the implementation of the financial plan of the Republic of Serbia available at: [https://www.narodnopoistorije.rs/media/documents/system/0/articles/5\\_2020.pdf](https://www.narodnopoistorije.rs/media/documents/system/0/articles/5_2020.pdf), p. 6

The balance sheets of the National Theatre in sum present the remaining income, which mostly consists of various forms of self-generated income such as funds obtained from ticket sales, renting space, income generated on investment, etc.

The data indicate that the National Theatre in Belgrade to the greatest extent relies on subventions from the state, that is, budget funding (as much as 97.2%), while for the remaining institutions the state subventions are smaller compared to other sources of funding (the Paris Opera 37%, the Royal Opera House 13%). This additionally emphasizes the need to include the economy as a source of funding for culture, in order to increase the overall budget of the cultural institutions and thus improve the quality of the programs they offer, as well as reduce their dependence on the generosity of the state when determining the budget for culture.

### Tax relief for investments in culture in Serbia and around the world

A system of tax relief is used to stimulate a particular type of behavior among the taxpayers. Taxes can be used to encourage residential construction, education, the work

of cultural institutions, etc., depending on the way in which the country encourages or sanctions taxpayers. This can most frequently be seen in lower tax rates for products which make up the basket of goods, a tax decrease on baby equipment with the aim of increasing the birth rate, and on the other hand in the introduction of a higher tax rate on luxury items as well as other merchandise, to destimulate their consumption (tobacco, alcohol).

In addition to goods, certain services have also been included in a series of tax reliefs, in order to encourage investment in these areas, and thus provide affordable services for a greater population. One of these reliefs is decreasing the income tax for a business entity if it sets aside a part of its income to fund culture.

Tax policy and regulations are a well-known instrument used to support the increase in consumption and competition and enable more favorable positions and engagements for artists. The VAT on cultural goods is lower than the regular rate of VAT, or these goods and services are exempt from taxation. These measures keep the prices of cultural products and services low, so that culture can be available to a greater segment of the population, and render the entire sector more competitive (Kisić 2011, p. 212). In Ancient Greece, the wealthier aristocrats financially supported sports and arts events (Brakus 2019, p. 197). Each year the head judge of Athens would choose one of the wealthier citizens to finance the City Dionysia festival. The financier of the festival would be known as the *choregos* (Gk. χορηγός / chorēgós), and the year he financed the festival he was exempt from taxation (Harvud 1998, p. 58).

In the field of culture, there is a frequent and at the same time incorrect opinion according to which the economy is viewed as something completely removed from artistic and creative activity. Quite the contrary, the economy extends much farther than the narrowly defined market and expands into segments with which it seems incompatible (Nestler & Malik 2016, p. 94-95). The importance of the economic aspect of society, and thus the economy of a country, through the prism of artistic creation is reflected precisely in the mixed type of funding where considerable emphasis is placed on sponsorship deals and donations, but also in the system of tax relief which a business entity is entitled to when investing in culture. This creates a strong bond between culture and economy in which the traditionally omnipresent opinion that culture and the economy, and culture and the market, must not be connected is lost. On the one hand, cultural institutions receive more funds which they invest in quality programs and thus fulfil their social role which refers to preserving tradition, as well as acting as a means of education for the population, while on the other hand, considering that these endeavors improve the level of social identity of a country, city, or municipality, this makes them a favorable basis for the demonstration of the “social responsibility” of a business entity which thus attains greater respect in society and attracts attention to itself and its business dealings (Dragičević Šešić, Mikić & Jovičić 2007, p. 277-318). This paper compares tax reliefs in Italy, England, and Serbia. Italy and England have been selected as examples because the websites of their most famous opera houses (the Royal Opera House, Covent Garden, London and the Teatro alla Scala in Milan) promote this type of investment and the stimulations offered by the state.



## Tax relief in Italy

The Italian tax law provides tax relief both for companies and for individuals. According to Article 15, paragraph 1, subsection i) of the Italian Law on Income Tax (available at <https://www.altalex.com/documents/leggi/2014/12/10/tuir-titolo-ii-capo-ii-base-imponibile-societa-enti-commerciali-residenti#61907>), charitable donations given by individuals which are meant for production purposes in various fields of activity, according to the IRPEF (personal income tax), can be deducted up to 19% for a sum which does not exceed 2% of the total reported income. The deduction can be used in the year in which payment has been made. When it comes to donations from foreign companies, Article 100, paragraph 2, subsections g) and m) of the Law on Income Tax in Italy states that for charitable financial donations of entities which are subject to corporate income tax, and which are given to institutions, foundations, and associations recognized by the law in the field of cultural heritage, in order for them to perform their institutional activities and realize their cultural programs, taxes are deducted in amounts not exceeding 2% of the reported company income (the information is available on the Scala website at: <https://www.teatroallascala.org/en/companies-and-the-theatre/support-the-theatre.html>)

## Tax relief in England

England has a special organization (*Charities Aid Foundation*) which cooperates with individuals and the economy, collects donations from them, and through which they receive tax relief for their donations. The website of one of the most important cultural institutions, the Royal Opera House, Covent Garden, provides information on tax deductions for donations as well as on the functioning of the system of donations. Thus, the Royal Opera House Covent Garden Foundation receives an additional 25 pence for every pound that is donated. For example: for a 10-pound donation this is an additional £2.50 for the Royal Opera House Covent Garden Foundation. As a donor, if you are paying taxes at one of the higher tax rates, 40% or more, you can request a return on your investment in this additional amount, which would mean that Covent Garden receives £12.50, while the expense for the taxpayer paying taxes at a tax rate of 40% and more is only £7.50. (available at: <https://www.roh.org.uk/support/making-the-most-of-your-donation>). Based on the current tax laws, companies with limited liability, for donations of up to £100 have a deductible of 25% of the donation, for donations from £100 to £1000, 25% for £100 plus 5% for the difference between £101 and £1000, and for donations in excess of £1001, the deductible is 5% of the maximum £2500 (available at <https://www.charitytaxgroup.org.uk/tax/donations/gift-aid/donor-benefits/>).

## Tax relief in Serbia

According to the Corporate Profit Tax Law, expenses for investments in the field of culture, including cinematography, are accepted as expenditure of up to 5% of the overall income (Corporate Profit Tax Law, Article 15, paragraph 3). According to Article 4 of the

Rulebook on investments in the field of culture, culture-related investments, made to cultural institutions, art associations, faculties, academies, art schools, and other local legal entities are expenses recognized as expenditures if they are aimed at the reconstruction of existing cultural establishments and the construction of new ones, as well as the conservation and restoration of cultural property, as well as the preservation of the non-material cultural heritage, programmed activities, or for the production and equipment which is used to perform cultural and art activities. (available at <http://www.pravno-informacioni-sistem.rs/SlGlasnikPortal/eli/rep/sgrs/ministarstva/pravilnik/2018/78/2/reg>). Based on this rulebook from 2002, the percentage was only 1.5%.

## Conclusion

Taxes, as one of the most important revenues of the budget, are imposed in the interest of the social community in order to finance the functions of the state available to the entire population. In addition to financing healthcare, education, public roads, national defense, etc. one of the important items that the state takes care of and finances is culture. Culture influences the development of an individual, and therefore society as a whole, and represents the framework of a country's identity. Culture represents a wide range of things within a society, such as amenities, religion, sports as well as art. For the purposes of this work, the concept of culture is narrowed down to the concept of art and artistic institutions of national importance, specifically to opera houses, which, due to the high cost of maintenance, require the largest investments. Tax relief represent stimulus, thus creating a certain behavior of taxpayers. Tax relief can be given directly to cultural institutions, but also to economic entities in order to encourage investment in culture and art. In the paper, we dealt with tax relief for business entities in different countries, but also analyzed the income structure of three large opera houses. Opera of Paris, National Opera Covent Garden in London and National Theater in Belgrade. Based on the aforementioned, Serbia is not lagging behind in terms of tax reliefs determined for providing funding in culture compared to the two analyzed European countries, Italy and England. On the other hand, the participation of the state in financing the National Theater in Belgrade is very high compared to the other two opera houses. Therefore, further research should be directed towards the behavior of business entities, the reasons for insufficient investment in the field of culture, as well as the additional promotion of tax relief offered by the state to business entities for investments in the field of culture and art. A good model of promotion can be found on the websites of the Italian Opera La Scala Milano and Royal opera Covent Garden London. Such a model should also be followed in Serbia if we want additional investments in cultural institutions, and therefore better and higher quality programs offered to viewers.

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