RESEARCH NOTE 1

Current Status of Corporate Donation Tax Systems

in the US, UK, and Canada

June 7, 2026

1. Introduction

In Japan, tax reforms in fiscal year 2011 expanded the special tax deduction limits for donations to Specified Public Interest Promotion Corporations. However, the formula to calculate this limit still uses both "corporate capital" and "current net income", making the overall structure complicated (National Tax Agency, 2025).

Including "corporate capital" in the formula does not properly reflect a modern business's actual size or its true ability to pay taxes. As a result, tax incentives for corporate donations in Japan remain lower than those in Western countries. For donations to specified public interest promotion corporations, the effective tax deduction rate based on income is only 3.125% (6.25% × 1/2), and even lower for general donations at 0.625% (2.5% × 1/4). Furthermore, Japan currently does not allow companies to carry forward any unused donation deductions to future years.

On the other hand, the Corporate Governance Code set by the Tokyo Stock Exchange states that working well with various stakeholders—such as employees, customers, business partners, and local communities—is essential for companies to achieve sustainable growth and create mid-to-long-term value (Tokyo Stock Exchange, 2021). Corporate donations and social contribution activities are recognized as important ways to engage with these community members.

This paper provides an objective, data-based overview of corporate donation tax systems in major developed countries (the US, UK, and Canada) to compare them with Japan's current system.

2. International Comparison of Corporate Donation Tax Systems

Major countries provide simple and generous deduction frameworks based on corporate income to encourage companies to donate (Table 1).

Table 1: Comparison of Corporate Donation Deduction Systems in Four Countries

Country	Basis for Calculation	Deduction Limit (%)	Estimated Maximum Deduction	Carryforward of Unused Deductions
Japan	Both capital amount and current income (Special Deduction Limit)	Base rate of 6.25% × 1/2 = 3.125%. Combined using a complex formula (Lower than Western countries)	Approx. 3.13 million yen	None (for general donations)
US	Adjusted Taxable Income	10% in general	10% of profit = Up to 10 million yen	Allowed for up to 5 years
UK	Taxable Profits	None (100%; up to total profit)	100% of profit = Up to 100 million yen (Full amount)	None (Offset entirely in the current year)
Canada	Net Income	75% in general	75% of profit = Up to 75 million yen	Allowed for up to 5 years

Note： The column "Estimated Maximum Deduction" shows calculated sample values assuming a current net income of 100 million yen. For the Japan section, the calculation additionally assumes an ending capital amount of 10 million yen and is based on the formula for the special tax deduction limit for donations to Special Public Interest Promoting Corporations (see Footnote 1) . Because the actual numbers change depending on the starting levels of capital and income, these figures should be used simply as a helpful guide to show the relative levels of each country's tax system design.

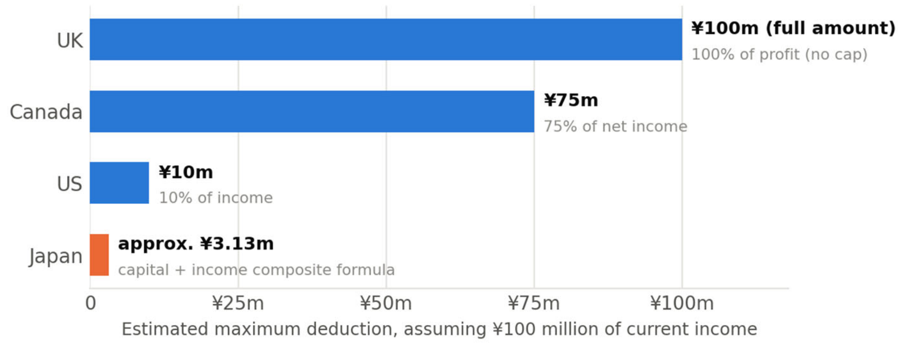

Figure 1: Estimated maximum deduction, assuming ¥100 million of current income
A chart of the sample values in Table 1. Japan's ceiling is roughly one thirty-second of the UK's, one twenty-fourth of Canada's, and one third of the US's.

3. Details of Major Countries

3.1 United States

Corporate charitable donations in the US are managed under Section 170 of the Internal Revenue Code (IRC), "Charitable, etc., contributions and gifts".

Current System: The tax deduction limit for corporate donations is unified under a simple rule: "10% of adjusted taxable income" (taxable income after making certain adjustments) (IRC §170(b)(2)(A)). The key feature of this system is that the limit is calculated based solely on current profit levels, regardless of the company's capital size. During emergencies such as major natural disasters, special temporary rules have been created in the past to raise this cap to anywhere between 25%[1] and 100%[2].

Carryforward System: If a company donates more than the annual income limit (10%), it is allowed to carry forward the remaining amount and deduct it over the next 5 years (Carryforward) (IRC §170(d)(2)(A) "Carryovers of excess contributions – Corporations: In general"). This creates an environment where companies can easily offer large-scale support without being overly affected by short-term changes in business performance.

> The US system uses a simple and logical design based on a "10% of income cap" regardless of capital size. On top of that, it provides a strong safety net: during emergencies like major disasters, the limit can be flexibly expanded to 25%–100%, and any unused donation amounts can be carried forward for 5 years.

3.2 United Kingdom

In the UK, corporate donations are handled mainly through a system called "Corporate Gift Aid".

Current System: Under the Corporation Tax Act 2010 (Part 6 Charitable Donations Relief, Chapter 1 Nature of Relief), there is no upper percentage limit (0%) on tax deductions for charitable donations. A company can deduct 100% of its donations from its taxable profits, reducing its taxable profit for the period all the way down to zero (Corporation Tax Act 2010 Section 189(1) and Section 189(3)[3]).

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[1] Section 2205(a) of the CARES Act (Coronavirus Aid, Relief, and Economic Security Act of 2020): To encourage corporate charitable giving during the global COVID-19 pandemic, the deduction limit for certain qualifying corporate donations made during the 2020 calendar year was raised from the usual 10% to 25%. A similar measure was extended into the 2021 calendar year under the Consolidated Appropriations Act, 2021, passed in December 2020.

[2] Section 304 of the Taxpayer Certainty and Disaster Tax Relief Act of 2020: For corporate cash donations aimed at relief and recovery efforts in officially designated "qualified disaster areas," a special rule temporarily raised the deduction cap to 100% of taxable income (effectively allowing the full amount to be deducted). This applied to cash contributions made within a specific timeframe (from January 1, 2020, to February 25, 2021; disaster declarations specifically for COVID-19 were excluded). A similar temporary measure was also put in place in 2005 during the aftermath of Hurricane Katrina under the Katrina Emergency Tax Relief Act of 2005.

[3] Section 189(3): This serves as the direct legal basis for the rule that "donations can be deducted up to the point where profits become zero (with no percentage cap)." Unlike Japan, which sets a cap at a few percent of income, if a company has 100 million yen in profit, it can deduct

Carryforward System: Because reducing current profit to zero is the practical maximum limit, there is no idea of "leftover deductions", and no carryforward deduction system exists for future years. While companies are not allowed to create an operating loss by donating more than their profits, they can donate up to the limit of their current profits completely tax-free (Corporation Tax Act 2010 Section 189(3) and Section 189(4))[4].

> UK tax law (CTA 2010, Section 189) is built on a simple and dynamic philosophy: "Allow companies to return up to 100% of their current profits back to society tax-free (reducing profits to zero)".

3.3 Canada

Corporate charitable donations in Canada are managed by the Canada Revenue Agency (CRA) and the Income Tax Act.

Current System: As a general rule, corporations can deduct donations up to 75% of their net income for that tax year (Income Tax Act Subsection 110.1(1)(a))[5]. Furthermore, for donations of national cultural property (Gifts of cultural property) or donations for environmental protection (Ecological gifts), special rules allow the upper limit to be raised to 100% (Income Tax Act Subsection 110.1(1)(c) and (d))[6].

Carryforward System: Any unused donations that exceed the 75% income cap can be carried forward and deducted over the next 5 years, just like in the US system (Income Tax Act Subsection 110.1(1)(a) through (d)).

> The main features of Canada's tax law (Section 110.1) are that it flexibly expands the limit up to 100% depending on policy priorities such as cultural items and environmental conservation, and it includes a 5-year carryforward rule similar to US IRC §170.

4. Summary of Tax Philosophies and Features across Countries

Looking at the systems of major developed nations, they share a common design: they view corporate donations as part of working together with stakeholders and use simple tax rules to support the flow of large-scale funds. The biggest feature of Western countries (US, UK, Canada) is that they do not use past financial traits like "capital" to calculate limits, but instead unify their metric around current "income (profit) ". This allows even new IT startups and local small-and-medium enterprises to easily make active donations according to their current ability to pay taxes. In addition, the "5-year carryforward rule" in the US and Canada and the "complete removal of limits" in the UK serve as reasonable safety nets so companies do not feel slowed down when making large social investments.

On the other hand, Japan's current tax system is unusual compared to international standards. It lacks a simple framework proportional to income, as well as a carryforward system for excess donations. Japan’s formula requires

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up to the full 100 million yen in donations as an expense.

[4]Section 189(4): This rule shows that the UK does not have a system to carry forward donation amounts themselves to future years, unlike the US (which allows a 5-year carryforward). Furthermore, under Section 189(3)'s rule that "reducing profit to zero is the limit," companies are not allowed to create a tax loss by donating too much. Therefore, the system is structured so that companies cannot turn excess donations into an operating loss (Trading Loss) to carry over into following years.

[5]Subsection 110.1(1)(a) [Charitable gifts]: For standard donations to public-benefit organizations, this section sets the basic limit at 75% of corporate income using the formula: $0.75A + 0.25(B + C + D)$.

A = Net corporate income for the current period

B = Total taxable capital gains from donating (disposing of) property

C = Recaptured depreciation expenses from donating depreciable assets

D = Other specific adjustments added to income related to disposing of donated property

When a company donates non-cash assets (such as stocks or real estate that have increased in value), it temporarily experiences a book gain, which would normally increase corporate income (A) and raise its tax burden. Through this formula, Canadian tax law adds 25% of those gains (B, C, and D) back into the donation limit. As a result, even in years when companies make non-cash donations, the tax system is designed so they can smoothly deduct donations up to 75%—and effectively close to 100%—of their income.

[6]Subsection 110.1(1)(c) [Gifts of cultural property] and Subsection 110.1(1)(d) [Ecological gifts]: Donations that fall under these specific categories are excluded from the 75% formula mentioned above. Instead, corporations are allowed to deduct these donations up to 100% (the full amount) of their income for that tax year.

a multi-step process: multiplying past "capital amounts" and current "income amounts" by different per-thousand or percentage rates, and then dividing them (halving or quartering). This rigid design is pointed out in business practice as being "complex and hard to understand", creating a mental barrier for companies when considering voluntary social contributions.

5. Conclusion

As seen in this paper, the US, UK, and Canada all use simple formulas based solely on "current income (profit)". In addition, through carryforward systems (US, Canada) or eliminating limits altogether (UK), their tax designs actively support flexible corporate social contributions. In contrast, Japan's current system relies on a complex formula combining "capital amounts" and "income amounts," and lacks a carryforward option for general donations, showing areas where it falls behind internationally.

However, this paper only gives an overview of each country's system, so the following points need further study:

1. Effective Tax Burden: This paper does not perform an international comparison of real tax burdens, which would include corporate tax rates and tax incentives other than tax deductions (such as tax credits).
2. Quantitative Impact: Empirical research is needed to measure the actual quantitative impact that simplifying calculation standards or introducing a carryforward system in Japan would have on tax revenue and corporate donation behavior.
3. Receiving Organizations: It would also be ideal to examine differences in how recipient organizations (such as public benefit corporations, NPOs, and certified NPOs) are structured to receive donations across the non-profit sector.

> Policy directions worth considering
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> Taking all of this into account, to encourage corporate social contributions in Japan, two policy directions are worth considering: simplifying the calculation formula by unifying the basis around income amount, and allowing general donations to be carried forward for a certain period.

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Yoshiharu Shiraishi (Director, Department of Research)