Charitable Giving, Tax Reform, and Self-selection of Tax Report: Evidence from South Korea

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Our reseach evaluate the effect of tax relief on charitable giving in South Korea

- We utilize the South Korean (Korea hereafter) tax reform in 2014 which has changed from tax deduction system to tax creit system.
  - The extant reseach mainly focuses on the tax reform within the regime of tax deduction (Almunia et al., 2020; Auten et al., 2002; Bakija and Heim, 2011; Randolph, 1995) or tax credit (Fack and Landais, 2010).
- We use the Korean panel survey data (NaSTaB).
  - We could consider the sample of low-income household.
  - Our data contains chariable giving irrespective of declarations.
- We take two approach to estimate the effect of tax relief
  1. ITT Approach: we assume that the donors can automatically enjoy tax relief.
  2. IV Approach: we use an "effective" giving price considering whether each tax payer declare tax relief or not (self-selection).

2014 Tax Reform in South Korea

Consider allocation b/w private consumption (x_i) and giving (g_i).

- The budget constraint is $x_i + g_i = y_i - T(y_i, g_i)$ where y_i is pre-tax total income, and $T(y_i, g_i)$ is tax amount.

In 2014, the Korean government reformed tax system $T(y_i, g_i)$, where the tax credit was introduced instead of tax deduction.

- R_i is a dummy of declaration of tax relief, and $\tau(\cdot)$ is the income tax rate.
- Tax deduction system (until 2013): $T(y_i, g_i) = \tau(y_i - R_i g_i)(y_i - R_i g_i)$
  - In 2012 and 2013, the system of $\tau(\cdot)$ is same.
  - The relative giving price is $p_i = 1 - \tau(y_i - R_i g_i)R_i$.
- Tax credit system (from 2014): $T(y_i, g_i) = \tau(y_i) \cdot y_i - R_i m g_i$
  - 15% of the total amount of charitable giving has been allowed as a tax credit ($m = 0.15$).
  - The relative giving price is $p_i = 1 - m R_i$.

About NaSTaB

An annual financial panel survey implemented by The Korea Institute of Taxation and Finance

- The subjects of this survey are general household and household members living in 15 cities and provinces nationwide.
- We use data from 2013 to 2019 to focus on the 2014 tax reform.
  - the giving price before 2014 was changed frequently and incorporating the data before 2012 captures the effects of another tax reform than the reform in 2014.
  - NaSTaB asks the amount of donation and the annual labor income last year.
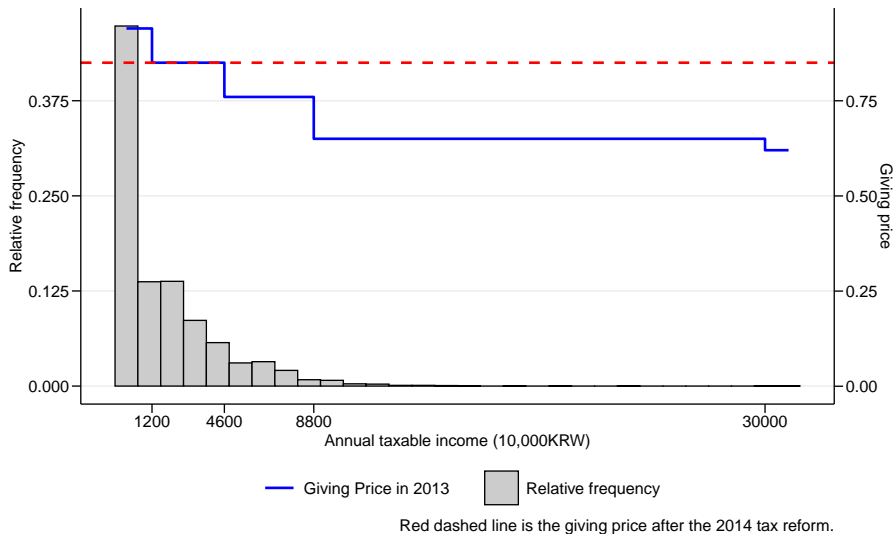
Income and Giving Price

Red dashed line is the giving price after the 2014 tax reform.

Figure 1: Income Distribution and Giving Price in 2013

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