

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

Hiroki Kato ¹ Tsuyoshi Goto ² Yong-Rok Kim ³

¹Osaka University

²Chiba University

³Kobe University

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Our research 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 credit system.
 - The extant research 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 charitable giving irrespective of declarations.
- We take two approaches 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 declares 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.

- Tax deduction system (until 2013): $T(y_i, g_i) = \tau(y_i - R_i g_i)(y_i - R_i g_i)$
 - R_i is a dummy of declaration of tax relief, and $\tau(\cdot)$ is the income tax rate.
 - In 2012 and 2013, the system of $\tau(\cdot)$ is same.
- 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 ($m = 0.15$)

References

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