

Charitable Giving, Tax Reform, and Government Efficiency^{*}

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Abstract

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1. Introduction

1.1. Charitable Giving and Taxation

In many countries, governments set a tax relief for charitable giving. This is because, if subsidizing charitable giving induces a large increase in donations, it is desirable. (Bursztyn and Jensen, 2017)

To evaluate the effect of tax relief, it is needed to know the elasticity of charitable donations with respect to their tax price.

1.2. Charitable Giving and Taxation

In addition to the tax price charitable donations, the donations may be affected by people's perception towards the government.

This is because the works and missions of private charity often mirror or overlap with one of governments, and the charity is not needed if the government adequately satisfies the needs of society.

Thus, the different perception towards the government may make the different behavior for charitable giving.

We investigate the relation between tax price elasticity of charitable donations and the different perception towards the government using the South Korean dataset.

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1.3. South Korean tax reform

We can utilize the effect of the 2014 tax reform in the South Korea.

- Before 2014, tax deduction was adopted to subsidize charitable donation behavior.
- After 2014, tax credit have been adopted.

The main difference is that tax credits reduce taxes directly, while tax deductions indirectly lower the tax burden by decreasing the marginal tax rate, which increases with gross income.

In addition, the dataset contains the information about perception towards the government.

1.4. Related Literature

This study mainly relates to the two strands of studies.

1. Research about tax price elasticity of charitable donations
2. Research about perception towards the government and donation/tax payment.

1.5. Research about tax price elasticity of charitable donations

Papers in this strand examines the price and income elasticity of charitable donations using the tax deduction applied for donation. The estimated price elasticities vary, but the typical one is said as -1 (Andreoni and Payne, 2013).

- Auten et al.(2002): -0.79~1.26 (the U.S.)
- Fack and Landais(2010): -0.15~0.57 (France)
- Bakija and Heim (2011): -0.61~1.1 (the U.S.)
- Duquette (2016): -2.15~5.01 (the U.S.)
- Almunia et al.(2020): -0.24~1.5 (the U.K.)

The study in non-Western country, where the culture of donation may be different, is few. Thus, we firstly examine the elasticity of giving in Korea.

1.6. Research about perception towards the government and donation/tax payment.

Experimental studies show that the giving behavior may be affected by perception towards the government.

- Li et al.(2011) suggest that governmental organizations collect less donation than private charities though they have the same mission and work.
- Sheremeta and Uler(2020) show that individuals provide public good reacting the wasteful spending of government.

This may be because people with distrust in government think that

1. the direct donation is more efficient than public service provision or
2. people can directly allocate and control their funds by donation, unlike public service provision.

Thus, people having the different trust in the government would have different elasticities of giving.

2. Data

Placeholder

- 2.1. National Survey of Tax and Benefit (NaSTaB)*
- 2.2. Time Series of Charitable Giving*
- 2.3. Summary Statistics of Covariates*
- 2.4. Summary Statistics of Covariates (Cont'd)*
- 2.5. What is Giving Price?*
- 2.6. Determination of Tax Amount*
- 2.7. Derive Giving Price*
- 2.8. Construct Giving Price*
- 2.9. Income Distribution and Giving Price*
- 2.10. Time Series of Average Donations By Benefit Group*
- 2.11. Time Series of Extensive Margin by Benefit Group*
- 2.12. Time Series of Intensive Margin by Benefit Group*
- 2.13. Empirical Strategy*
- 2.14. Intensive Margin and Extensive Margin*

3. Main Results

Placeholder

- 3.1. *Price and Income Elasticity*
- 3.2. *Baseline Regressions: Result*
- 3.3. *Intensive Margin and Extensive Margin: Result*
- 3.4. *Robustness Check*
- 3.5. *Robustness Check 1*
- 3.6. *Robustness Check 1: Result*
- 3.7. *Robustness Check 1: Intensive and Extensive Margin*
- 3.8. *Robust Check 2*
- 3.9. *Robustness Check 2: Result*
- 3.10. *Robustness Check 2: Intensive and Extensive Margin*

4. Gouvernement Efficient and Price Elasticity

Placeholder

- 4.1. *Government Efficiency*
- 4.2. *Construct Efficient Index*
- 4.3. *Histogram of Efficient Index*
- 4.4. *Heterogenous Price Elasticity by Gouvernement Efficiency*
- 4.5. *Efficient Groups: Descriptive Stats*
- 4.6. *Efficient Groups: Descriptive Statis (Extensive Margin)*
- 4.7. *Efficient Groups: Descriptive Stats (Intensive Margin)*
- 4.8. *Efficient Groups: Estimation Results*
- 4.9. *Robustness Check*
- 4.10. *Robustness Check 1*
- 4.11. *Robustness Check 1: Estimation Results*
- 4.12. *Robustness Check 2*
- 4.13. *Robustness Check 2: Result*
- 4.14. *Robustness Check 2: Result (Extensive Margin)*
- 4.15. *Robustness Check 2: Result (Intensive Margin)*

5. Conclusions

- 5.1. *Conclusions*

References

Bursztyn, L., Jensen, R., 2017. Social image and economic behavior in the field: Identifying, understanding, and shaping social pressure. *Annual Review of Economics* 9, 131–153. doi:10.1146/annurev-economics-063016-103625