

**When do high-income earners donate less?:
the role of mental budgeting and progressive taxation**

Yoon Jeong(Amber) Chang

Abstract

Even when expanded tax incentives make charitable giving more economically rational, donations by high-income earners exhibit only marginal increase or remain stagnant. Prior research has not fully explained this phenomenon. This paper investigates this issue through the lens of mental accounting and altruistic budgeting. If taxes and donations are perceived as altruistic expenditures within the same psychological account, individuals may be disinclined to increase donations even when tax incentives improve, if other tax burdens rise. An analysis of Korean National Tax Service income and comprehensive real estate tax sample data from 2018–2023 reveals declines in donation participation rate following income tax rate increases. Additionally, the previous year's increase in comprehensive real estate tax has a negative effect on current charitable giving. However, only about 10% of taxpayers report donations, and the combined share of donations and taxes as a proportion of income does not remain constant, contrary to the assumption of the altruistic budget hypothesis.

Key words: Mental accounting, charitable donations, tax incentives