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Does charity donation lead to tax cheating?

Abstract: In this paper, we consider how charity donations influence tax cheating decisions. Paying taxes is a legal requirement, and some taxpayers are reluctant to pay and search for actions aimed at reducing the amount of tax they pay. Donating money to charity not only allows benefit from the legal tax relief but can also lead to violation of moral and law standards. Engagement in moral acts might enhance individuals' propensity to engage in subsequent immoral behavior by providing them with moral credits. Two experiments were conducted in which people donated to charity, and then decided whether to cheat on tax. Study 1 was based on an imaginary situation, while in Study 2 real-life monetary payments were introduced. The vast majority of the respondents in both studies (N=218) were taxpayers. Research demonstrated that donating to charity increased the tendency to underreport income (Study 1) and enhanced the tendency to apply for undue tax relief (Study 2). Therefore, within the context of taxation, donating to charity may be a double-edged sword in that it provides people with moral credits, making them feel entitled to cheat when paying taxes.

Keywords: *charity; tax cheating; moral licensing*

INTRODUCTION

Paying taxes is a legal requirement, and, regardless of how they are collected, their payment depletes a person's monetary resources. Hence, some taxpayers are reluctant to pay, expressing this in actions aimed at reducing the amount of tax they pay. Therefore, introducing the necessity to pay tax results in one of two possible reactions: paying or not paying. It has been noted that, where people opt to pay taxes, this may be the result of a conscious and voluntary decision made by an individual on the basis of their personal beliefs, e.g., a belief that one should be civically involved. Also, given that the payment of taxes may be enforced by law, a person's decision to pay can be the result of their fear as to the penalty they may incur if their failure to pay the amount due is detected by their tax authority (Kirchler, 2009). Behaviors aimed at reducing tax payments may take the form of avoidance or evasion. The former involves lawful efforts to reduce one's tax liabilities and the latter involves engaging in actions that are outside the law, but the line between tax avoidance and tax evasion is subtle and imprecise. Therefore, actions to reduce one's tax liabilities that are initially lawfully implemented can lead to tax fraud. Research on factors influencing people's tax payment decisions has shown

self-interest to be one of the main motivators of people's actions (Cohen, 1986; Blanthorne and Kaplan, 2008; Niesiołędzka and Kołodziej, 2020). One of the modes to minimize the amount of taxes paid within the bracket of law may be donating money to charity. Data demonstrated that in the United States, the world's second most generous country in terms of the number of people donating money, one in ten instances of annual giving occurs on the last three days of the tax year (Firch, 2019). This apparent increase in generosity becomes understandable when one realizes that charitable donations are tax-deductible under American tax law. In these circumstances, giving money to charity both helps the needy and benefits donors by reducing the amount of tax they pay.

Donating money to charity not only allows benefit from the legal tax relief but can also lead to violation of moral and law standards and encourage tax cheating in subsequent situations. It could happen because one potential outcome of making donations is the gaining of moral credit, whereby a prior good deed provides a "license" for one to engage in future morally questionable behaviors. This moral licensing effect can be viewed as part of a larger moral self-regulation framework (Efron and Conway, 2015; Merritt et al., 2010), a meta-analysis by Blanken et al., (2015) showing that, in addition to

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making charity donations, the effect touches on other everyday behaviors related to welfare, job hiring, ambiguous racial attitudes, consumer purchases, and green consumption. As a consequence of recalling a good deed (e.g., helping others, donating money to charity, or volunteering) people feel entitled to behave selfishly, anti-socially, and immorally. Thus, both experimentally and in real life, it has been observed that people often make decisions that break socially established norms when they have accumulated moral credits. While most of the positive consequences that people enjoy as a result of their giving behaviors are difficult to measure, the tax relief linked to charitable donations can be precisely calculated. Some authors have suggested that charitable donations are used as part of aggressive tax planning strategies (Gelles, 2018; Jones, 2018; Cooper, 2020).

THE MORAL LICENSING EFFECT

Research on moral behavior suggests that it is not necessary to act entirely morally on all occasions to maintain one's moral self-image because one's behavior is perceived within the context of previous and future behaviors (Effron and Conway, 2015; Merritt et al., 2010). Previous moral acts might enhance a person's propensity to engage in immoral acts by providing them with moral credits or moral credentials that boost their global sense of self-worth. Two models describe possible mechanisms underlying this licensing effect. The moral credits model suggests that previous good deeds operate as moral credits that balance present immoral behavior in a moral bank account, and an accumulated surplus of moral currency makes people feel free to act immorally in subsequent contexts. In the second model, previous good deeds change the meaning of the behavior being licensed. Previous moral behavior operates as a lens through which current morally ambiguous behavior is perceived as non-transgressive: previous good deeds serve as the moral credentials for subsequent behavior (Monin and Miller, 2001; Merritt et al., 2010).

Copious amounts of research have demonstrated licensing effects in a variety of domains. Sachdeva et al. (2009) demonstrated that writing a self-relevant story using words expressing morally positive traits reduces people's intentions to donate money to charity and make them less likely to engage in environmentally friendly actions, but that writing a self-relevant story using words expressing morally negative traits stimulates subsequent moral intentions. Jordan et al. (2011) found that recalling moral behaviors diminishes the likelihood of donating blood, giving to charity, and volunteering, and also leads to cheating. Participants recalling helping other people not only cheated more frequently than those recalling immoral behavior, but also cheated sooner. Moreover, the number of participants' cheating behaviors was positively related to the number of good deeds they recalled. Likewise, Khan and Dhar (2006) demonstrated that commitment to helping a foreign student reduced willingness to donate to charity. Also, Clot et al. (2013) examined the impact of imaginary

engagement in unpaid and paid good deeds on subsequent charity donations, and found that good deeds performed for free induced the licensing effect to a greater extent than those performed for payment. Furthermore, performing an imaginary unpaid good deed increased people's propensity to act selfishly and donate nothing to charity, but had little impact on the number of subsequent donations made by people making donations. Other research shows that smaller donations to charity are given when people refrain from cheating for high stakes (Rahwan et al., 2018), and that donating money to charity leads to less moral behavior in domains such as environmental conservation: Meijers et al. (2015) found that donating to an annual nationwide charitable event (the Serious Request event in The Netherlands) made people less environmentally friendly. For example, it diminished their willingness to sign a petition to support an environmental cause, join an environmental organization devoted to the environment, and cease buying products from companies guilty of polluting the environment.

Donating to charity might not only result in less subsequent prosocial behavior, but it might also increase people's propensity to violate moral rules. Thus, donating to charity may be a double-edged sword in that it provides people with moral credits, making them feel entitled to behave immorally in a subsequent situation. The making of financial donations and the minimization of tax payments suggests that an act apparently driven by charitable intentions can sometimes make people feel they have a moral license to cheat.

In this paper, we consider how the moral licensing effect influences tax cheating decisions. Many researchers have observed how good deeds in the form of making charitable donations can lead to negative changes in people's morality-related behaviors (see the meta-analysis of Blanken et al., 2015). At the same time, donations often are linked to taxes as they invite tax relief. In other words, making charity donations is an action that can be assumed to be a source of moral credit, but it is also bound up with people's self-interests. Previous studies have shown that the favorability of tax decisions has a greater impact on their acceptance than their fairness (Niesiobędzka and Kołodziej, 2020). Putting all this together, and since there are no previous studies applying the moral licensing framework to the domain of taxation, in the present studies we focused on the impact of previous good deeds on the likelihood of tax cheating. It should be noted that tax cheating violates not only moral norms but also legal norms and that therefore, when tax fraud is detected, one may be exposed to both moral censure and financial consequences.

THE CURRENT RESEARCH

Despite the rich set of research studies devoted to the moral licensing effect, there is no literature relating to the licensing effect in the tax domain. The main goal of our present studies was to establish whether people are more likely to cheat when paying taxes after recalling previous

moral acts. In line with previous research examining the licensing effect, we assumed that people donating to charity would be more prone to cheat when paying tax than those not donating to charity. We used sequential behavioral designs in which people's current behaviors were considered in the context of relevant previous behaviors: people's current behaviors (cheating when paying tax) were assessed after donating to charity. Baseline, neutral, and control conditions were included to allow pairwise comparisons to be made between these conditions and experimental conditions. As noted by Mullen and Monin (2016), the use of neutral control conditions in examinations of the licensing effect is a neglected, but highly recommended practice. Study 1 took the form of an imaginary situation, while in Study 2 the respondents were put in a real situation related to paying the tax. Therefore, in both studies, the vast majority of respondents were active taxpayers, obligated to submit an annual tax return in the year preceding the study in order to ensure that the experimental situation would be coinciding with their life experience.

Protocol for the studies was approved by the Kozminski University Human Research Ethics Committee. Participation in the studies was voluntary and written consent to take part in the research was obtained prior to the commencement of each study. Study 1 did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors. Study 2 was financed by Kozminski University (Project Number: DS. 2018 nr 802.1.1.).

STUDY 1: DONATING TO CHARITY AND TAX CHEATING (UNDERREPORTING CASH AND RENTAL INCOME)

Manipulation of income-related financial records is one of the possible forms of tax cheating. Particularly, the possibility to underreport income occurs in the case of unregistered income, received in cash. According to Morse et al. (2009), underpayment of tax on business income is predominantly linked to the receipt of cash. In this case, unregistered cash income requires reporting to the tax office, otherwise, it will not be taxed. Similarly, obtaining private rental income requires the property owner to report this income to the tax office, which also creates the possibility of tax evasion. Therefore, the aim of Study 1 was to examine the moral licensing effect on the propensity to cheat on tax by underreporting cash and rental income. We expected that charity donation, as the source of moral credits, make participants feel free to underreport cash and rental income. Therefore, in Study 1 we hypothesized:

H1. The propensity to tax cheating by underreporting cash and rental income will be higher after donating money to charity than without charity donation.

Materials & Methods. A total of 162 people participated in the study: 66 women and 96 men; $M_{age} = 42.07$ years, $SD_{age} = 13.79$ years. The study was conducted on a sample recruited from an online panel. Respondents were awarded points for their participation, which they

could later exchange for rewards in a pool of several hundred products offered by the platform running the panel. Participants were randomly assigned to an experimental group and a control group. Initially, members of both groups answered socio-demographic questions about their gender, age, and occupation. They also indicated whether they completed their tax return themselves or employed an accountant to complete their return. Participants in the experimental and control groups did not differ by gender ($\chi^2[2] = .10, p = .76$, age ($t[2] = -.17, p = .86$), or in their obligation to complete an annual tax return in the year preceding the study ($\chi^2[4] = 6.13, p = .19$).

After completing questions on demographic data, participants from both groups were to imagine being an entrepreneur who earns revenue from various sources (e.g. running a business, renting a flat). One-year income list (78000 PLN – ca. 19500 \$,) was presented with taxable income including registered (bank transfers) and unregistered (cash, rent) incomes. After that, respondents in the experimental group read the part of the scenario devoted to charity donation.

Moral licensing: donating to charity. As previous research showed donating money to charity made people less likely to engage in moral behavior (Meijers et al., 2015), participants in the experimental group were asked to imagine having donated 5% of their last year's income to a local charity organization. According to the scenario, the decision to donate money to this organization was voluntary, made after talking to a representative of this organization about its activities. The charity organization thanked the donor with a special "Thank you" card which was displayed on the screen. The control group was not given information about charity donations.

Cheating on taxes. Next, both groups decided how much money they would report in their annual tax return. Tax cheating was measured by asking participants to indicate the amount of money they would refrain from reporting earnings in their annual tax return. The extent of tax cheating was calculated as the difference between total taxable income and declared income. At the end of the study, we thanked respondents for completing the questionnaire.

Results

We used the t-test to determine the propensity to tax cheating after donating money to charity. The analysis demonstrated the significant effect of charity donation ($t = 2.23, p = .01, d = .35$). In line with expectation, participants in the experimental group refrained from reporting earnings to more extent than participants in the control group. Those who donated to charity did not declare more amount of money, $M = 24182.24$ PLN (ca. 6045 \$), $SD = 32530.19$ PLN, than those who did not donate to charity, $M = 14154.56$ PLN (ca. 3535 \$), $SD = 24605.50$ PLN (Figure 1).

To summarize, Study 1 showed the moral licensing effect in the tax domain. Preceding the decision related to the tax settlement with information about the donation payment, made the respondents more likely to hide part of

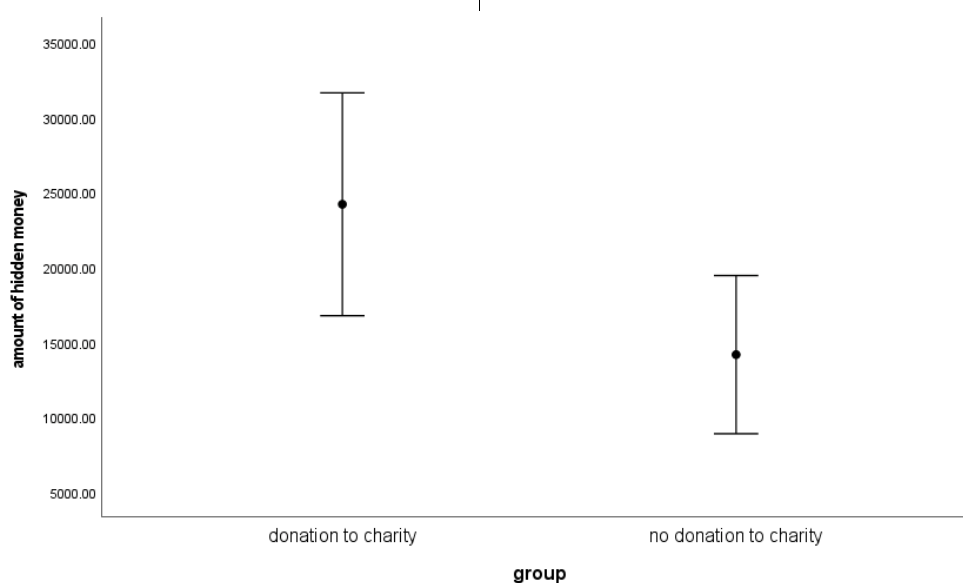


Figure 1. Propensity to tax cheating after donating/not donating to charity

their income in their tax returns. It is noteworthy that the moral licensing effect was rather more than small in study 1. As study 1 was questionnaire-based and referred to imaginary situations, we decided to conduct Study 2, in which real-life tax behaviors, rather than imaginary decisions, were considered.

STUDY2: DONATING TO CHARITY AND TAX CHEATING (CLAIMING UNDUE TAX RELIEF)

Tax relief is the right of the taxpayer, its use is not obligatory. However, taking the advantage of the tax relief in an annual tax return must be legally permissible. In practice, the taxpayer must be able to demonstrate appropriate documents confirming the right to tax relief. Verification of the right to tax relief in terms of formal and accounting correctness is carried out by the tax office. Therefore, it is possible that the taxpayer will take advantage of the undue tax relief, assuming that the probability of being audited is smaller than the benefit of the tax liability reduction. We use claiming undue tax relief as an example of tax cheating in Study 2.

Since the aim of Study 2 was to verify the moral licensing effect in the tax domain in a real-life situation, in the first part of the experiment we introduced the task being the basis of the subsequent payment. After calculating the amount of payment due, respondents were informed about the necessity to pay tax. In line with previous research, we assumed that the propensity to tax cheating will result from the moral licensing effect, not from the amount of the payment due. Therefore, in Study 2 we hypothesized:

H1. The propensity to tax cheating by applying for undue tax relief will be higher after donating money to charity than without charity donation.

Materials & Methods. Study 2 was conducted on a sample of 56 respondents: 36 women and 20 men,

$M_{age} = 26.75$ years, $SD_{age} = 7.90$ years. As in the previous study, the majority of the respondents (85.71%) were taxpayers obliged to complete an annual tax return for the year preceding the survey. The study took the form of a laboratory experiment with real monetary payments, in which respondents were randomly assigned to either an experimental group ($n = 28$) or a control group ($n = 28$) group. Participants in the experimental and control groups did not differ by gender ($\chi^2 [1] = .31, p = .577$), age ($t[54] = -.63, p = .530$), or their obligation to complete an annual tax return in the year preceding the study, $\chi^2 (3) = 4.76, p = .190$.

We introduced monetary payments to respondents in study 2. At the beginning of the study, we informed participants that 30% of them would be randomly selected, via a lottery conducted at the end of the study, to receive payments as described below. As a result of this lottery, we paid the remuneration to 17 respondents (30.36% of respondents).

In the first part of the study's procedure, participants performed an effortful mundane task for 15 minutes, and performance on this task determined their potential payment for the study. Thus, all respondents completed the Finding Letters on Pages (FLP) task developed by Azar (2019). In this task, people are asked to find specific letters in a large string of letters (several pages long), and their potential payments depend on the number of letters they correctly found. Thus, the number of correctly found letters was subject to statistical analysis. The maximum possible payout was 200 PLN (ca. \$53), and participants' actual remuneration ranged from 30 PLN (ca. \$8) to 130 PLN (ca. 35\$). Remuneration ($M = 90$ PLN, ca. 24\$) was paid to the 17 lottery winners at the end of the study.

Moral licensing: donating to charity. After being given information on the amount of money they had potentially earned, respondents in the experimental group were informed that the study's organizer would donate an extra amount equal to 10% of their remuneration to

charity, and respondents in the experimental group were given the possibility of nominating a specific charity organization to which the donation should go, by supplying the name of an organization. Otherwise, the study's organizer decided on where to send the donation. The control group was not given the possibility of being a party to a charity donation.

Cheating on taxes. In the next part of the study, participants read information saying that under tax regulations it was necessary for them to pay a 10% tax on their remuneration. However, it was possible for them to obtain tax relief by undertaking an additional task. The nature of this task was similar to the one determining respondents' potential payment for the study and based on the perceptive material. In this task, all participants were presented with a picture in which two bears were said to be hidden. Participants were told to look at the picture and select the answer "yes" if they could identify the two bears. They were told that people who identified the two bears would be eligible for the tax relief and that this would allow the organizer to remunerate them in full, without deducting tax. However, there was only one bear hidden in the picture, and therefore participants who indicated that they had identified two were claiming undue tax relief: this constituted the dependent variable measure. The procedure of applying for a tax relief used in the study was based on solutions functioning in tax systems, where the relief is granted after a given action of the taxpayer (e.g. notification of legal action).

Results

Logistic regression was used to predict tax cheating in terms of applying for undue tax relief. We included two independent variables in the model: donating to charity (yes or no) and the amount of money earned at the first stage. Hosmer- Lemeshow test demonstrated that the model fit the dataset well: $\chi^2(8) = 6.98, p = .54$. The analysis revealed that the likelihood of tax cheating was significantly and positively related to charity donation. The actual remuneration in the first stage was not significantly associated with the probability of applying for undue tax relief (Table 1).

1 asked participants to imagine a situation, while Study 2 involved actual tax payment decisions connected with real-life monetary payments. Participants in both studies were taxpayers and taxation scenarios involved personal taxation to ensure the compatibility of scenarios with respondents' life experiences.

The results demonstrated that donating money to charity increased the propensity to tax cheating and reducing tax liabilities by underreporting cash and rental income (Study 1) or claiming undue tax relief (Study 1). Unlike in many previous studies, the moral licensing manipulation used in the present research was based on donating money and therefore concerned the same financial domain as the following decision. To summarize, it was shown that donating to charity provided participants with the moral credits that made them feel entitled to behave immorally in a similar domain, enabling them to self-justify underreporting income and the acquisition of undue tax relief. These results are consistent with earlier research, and demonstrate that donating to charity can subsequently lead people to violate moral rules (Clot et al., 2013, 2014; Jordan et al., 2011).

In our experiments, participants made decisions regarding tax cheating after donating to charity. Two models describe possible mechanisms underlying the licensing effect: moral credits and moral credentials. The former suggests that previous moral behavior accumulates moral credits that balance present immoral behavior: previous good deeds make people feel free to act immorally in subsequent contexts. In the latter, previous moral behavior operates as a lens through which current morally ambiguous behavior is perceived as non-transgressive: previous good deeds serve as moral credentials for subsequent behavior (Merritt et al., 2010). In the credit model, people know that what they intend to do is bad, but they feel that their previous behavior gives them the right to transgress moral boundaries. In the credentials model, previous moral behavior changes the meaning of subsequent behavior so that it is not viewed as morally transgressive.

Our studies demonstrated moral licensing of tax cheating in terms of moral credits since reducing one's tax

Table 1. Predictors of the probability of applying for undue tax relief

Parameter	Estimate (B)	Std. Err	Wald Chi Sq	df	Sig.	Exp (B)
Charity donation	.759	.293	6.732	1	.009	2.137
Remuneration in the first stage	.085	.062	1.861	1	.173	1.089
Constant	-3.368	1.554	4.699	1	.030	.034

DISCUSSION

The present research aimed to examine how charity donations influence tax cheating decisions. We conducted two experiments in which participants donated to charity, and then decided whether to cheat on tax payments. Study

liabilities by underreporting income and applying for undue tax relief both unambiguously transgress the law. Behaviors aimed at reducing the tax one pays may occur in the forms of both tax evasion and tax avoidance. The latter entails making lawful efforts to reduce the tax one pays by creatively exploiting tax regulations without transgressing them, e.g., taking advantage of tax loopholes and tax-

shielding opportunities. Some forms of tax avoidance are considered to be morally dubious, and therefore, in line with the credentials model, previous moral acts can allow people to change their perception of the meaning of such forms of avoidance, allowing people to construe them as morally acceptable behavior. Along these lines, it would be interesting to explore the moral licensing of tax cheating in terms of the moral credentials model: whether donating to charity makes people more likely to avoid taxes. Moreover, it would be interesting to conduct future research investigating whether donating to charity licenses only some attempts to reduce tax liabilities by legal means and conduct research considering the extent to which donations to charity license different forms of tax avoidance.

The significance of the results obtained in our experiments is particularly important due to the above-mentioned and observed in the behavior of many taxpayers' fact of making charitable donations to take advantage of the possibility to reduce tax liabilities later by a tax relief related to this payment. Our results suggest that the impact of the charitable donation may reach much further – not only does it allow a taxpayer to benefit from the legal tax relief but it can also make this person more likely to violate the law to further reduction of the tax paid. In other words, a socially desirable behavior can simultaneously lead people to breach moral and law standards, making tax evasion more probable. As the tax relief related to charity donations is present in many tax systems, the awareness of the possible consequences of the moral licensing effect in the tax domain seems essential.

Our contribution to the existing literature is twofold. First, we provided experimental evidence concerning the applicability of the moral licensing effect to the domain of taxation. In our experiments, we showed that, in addition to the previously established fact that making charitable donations can lead people to breach moral standards, moral licensing, by virtue of accumulating moral credits, can lead to illegal behavior in terms of people reducing their tax liabilities by underreporting their income and applying for undue tax relief. Second, in our experimental design, we used a neutral control condition, which is seldom done in the existing literature, although the value of doing this has been emphasized previously: the vast majority of research analyzing the moral licensing effect is based on manipulations of recall in which participants are asked to recall and write about a time they acted morally or immorally, but the results of studies which omit a baseline control condition are difficult to interpret because they do not include observations of unmanipulated natural behavior (Mullen and Monin, 2016).

However, it is crucial to indicate the limitations of the study. They begin with study 1 which was questionnaires-based, where respondents dealt with an imaginary situation. That is a frequently questioned approach as not permitting generalization of the results (Wojciszke, Bocian, 2018; Holleman et al., 2020). Furthermore, we demonstrated the charity donation effect on tax cheating within real-life tax behaviors in study 2, but in a relatively

small sample. In this study, participants should have indicated the charity organization that obtained the money. Otherwise, the study's organizer decided on where to donate. The choice of charity organization could be a difficult task for participants since most Poles had no direct contact with specific charity organizations (Gumkowska, 2018). Despite this issue, there is a consistent view in the literature about the importance of implementing performance-based payoffs when analyzing economic behavior (Hertwig and Ortmann, 2001; Croson, 2005). Furthermore, we did not make the priori power analysis for our experiments, therefore the results of the studies should be treated with caution.

CONCLUSION

To summarize, our experiments suggest that the moral licensing effect can occur in the domain of taxation and that it is important that this fact should not be neglected. We demonstrated that donating to charity can lead to the violation of law rules and cheating on tax payments. Within the context of taxation, it is useful to take cognizance of the fact that charitable intentions can make people feel they have a moral license to cheat: donating to charity may be a double-edged sword in that it provides people with moral credits, making them feel entitled to cheat when paying taxes.

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