

Adopting Distributive and Compensatory Justice to Determine Optimal Tax Treatment for Corporate Donations

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ARTICLE INFO

Article History

Received: December 26, 2025

Revised: April 7, 2026

Accepted: April 28, 2026

Keywords

Corporate Philanthropy;

Corporate Social

Responsibility (CSR);

Distributive and

Compensatory Justice;

Tax Incentives

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ABSTRACT

This study aims to demonstrate how to determine the tax treatment of corporate donations in a scientifically correct manner that ensures the following: First, tax justice among donor companies. Second, justice and equality of rights among stakeholders. Third, avoiding the distortion of the thought of CSR. This study adopts the concepts of distributive and compensatory justice to determine optimal tax treatments for corporate donations. Evaluating corporate donations on the ground is essential to determine tax treatment under this approach. Based on the results of the evaluation, the following actions are taken: First, forming logical perceptions that reflect the explicit and implicit meanings of donations as they are in reality. Second, determining the type of justice (distributive or compensatory) that should be adopted as the basis for tax treatment. Using a distributive and compensatory justice approach that is based primarily on rational evaluation, this research article identified "seven possible scenarios" for the tax treatment of corporate donations. The central idea of using distributive and compensatory justice as a philosophical foundation for differentiating tax treatments is a significant and original contribution. It moves the debate beyond the simplistic "incentive or no incentive" question to a more nuanced inquiry: "what kind of tax treatment, for what kind of company, under what circumstances?". The proposed seven scenarios and the structured evaluation framework provide a powerful and justifiable foundation for policymakers to design more equitable and sophisticated tax systems. This approach could genuinely inform global tax reforms. Adopting a distributive and compensatory justice approach to determining optimal tax treatments for corporate donations can help protect the concept of CSR from distortion.

Introduction

There are three main methods used in the tax treatment of corporate donations: 1) Reducing taxable income by the value of the donations or part thereof (deducting the value of donations, or part thereof, from "pre-tax income"). 2) Reducing income tax by the value of the donations or part thereof (deducting the value of donations, or part thereof, from "income tax"). The first and second methods reduce the

amount of income tax that companies pay to the tax authorities.¹ This reduction can be considered a tax incentive for donor companies. 3) Ignoring the value of donations when calculating income tax. Tax treatment is the calculation process (addition, subtraction, multiplication, and division) related to determining income tax. It reflects tax policies. Tax treatment is the application of tax policies. Tax policies, such as granting or withholding tax incentives, reflect legislators' intentions and are enacted into law.

About three-quarters of the world's countries offer tax incentives to corporate donors. Corporate donors are businesses or corporations that voluntarily provide tangible and intangible support to those in need of assistance, such as non-profit organizations, charities, disaster victims, etc., without expecting any direct economic gain.² This giving can take various forms, including direct monetary donations, in-kind donations (like goods or services), and employee volunteer programs. The motivations behind corporate giving can include voluntary compliance with CSR requirements, brand recognition, tax gains, and employee morale."³ For other reasons, about a quarter of the world's countries do not adopt a policy of granting tax incentives to corporate donors. The questions that can be raised in this area are: Do these tax policies (granting or not granting tax incentives) align with the thought of CSR? Also, do these policies align with the principle of tax fairness as one of the principles of a good tax system? The justifications adopted by the supporters of the two policies are far removed from the concepts of justice and contradict the thought of CSR. Those justifications do not reflect the true meaning of tax justice. Therefore, the researcher believes that all tax laws related to corporate donations prevailing in all countries of the world (granting or not granting tax incentives to donor companies) are illogical. Tax laws that adopt a policy of "granting or not granting tax incentives in exchange for donations" do not achieve fairness among donor companies, or even among stakeholders. Furthermore, these laws are inconsistent with the thought of CSR.⁴

The problem lies in the flaws of both policies (granting or not granting tax incentives). First: Disadvantages of the Policy of Granting Tax Incentives to Donor Companies. The decrease in the value of the state's tax revenues, which in reality

¹ Salh Agrerah Ali Mohamed, Morni Hayati Jaafar Sidik, and Haslina Hassan, "How Political Instability Affects Tax Evasion Behavior Among Self-Employed Individuals: A Libyan Case Study," in *Transforming Business Systems for Strategic Success. Studies in Systems* (Cham: Springer, 2025), 47–54, https://doi.org/10.1007/978-3-031-95280-7_5.

² Andrea Sottini and Giacomo Ciambotti, "Social Entrepreneurship Toward a Sustainable Peacebuilding," in *Peace, Justice and Strong Institutions. Encyclopedia of the UN Sustainable Development Goals* (Cham: Springer Cham, 2021), 841–51, https://doi.org/10.1007/978-3-319-95960-3_128.

³ Zareh Asatryan and David Joulfaian, "Taxes and Business Philanthropy in Armenia," *Journal of Economic Behavior & Organization* 200 (August 2022): 914–30, <https://doi.org/10.1016/j.jebo.2022.06.008>.

⁴ Fareg Mustafa Abodher, Mohamed Elmagrhi, and Mohamed A. Shlof, "National Pride, Trust in Government and Tax Compliance: Evidence from an Environment of Severe Political Instability," *Journal of Applied Accounting Research* 26, no. 5 (October 31, 2025): 1086–1105, <https://doi.org/10.1108/JAAR-11-2023-0335>.

represents the value of the economic gains (tax savings) achieved by donor companies, is not the only drawback of this policy. The policy of granting tax incentives to donor companies contradicts the thought of CSR and does not achieve the principle of tax fairness. This can be explained as follows:⁵ 1) Distorting the thought of CSR: The policy of granting tax incentives to donor companies contributes to distorting the idea of CSR. This policy is inconsistent with many theories and concepts in CSR, such as the definition of corporate social costs, the social contract theory, the stakeholder theory, the concept of corporate tax responsibility, and the principles of CSR. 2) Failure to achieve tax justice among donor companies: This policy does not contribute to achieving tax justice between competitive donor companies and monopolistic donor companies. Also, this policy does not achieve tax justice between environmentally friendly companies and environmentally unfriendly companies. Corporate environmental responsibility is part of corporate social responsibility. It would be illogical to give tax incentives to companies that cause environmental damage to the communities in which they operate. Therefore, according to the social contract theory, the donations that companies make to their communities are in fact compensation for those damages. It is unfair to give tax incentives to all companies, whether polluting or non-polluting, in exchange for donations. To achieve tax fairness, a distinction must be made between them. This policy also fails to achieve fairness between the government (executive authority) and shareholders or owners.

Tax incentive policies lead to a decrease in government tax revenues and an increase in corporate profits. These policies lead to a conflict of interest between the government (executive authority) and shareholders. Second :Disadvantages of the Policy of Not Granting Tax Incentives to Donor Companies. Lawmakers may believe that adopting a policy of not granting tax incentives to donor companies is the perfect way to avoid the disadvantages of granting tax incentives, but the truth is quite the opposite. The policy of non-incentivization does not achieve justice between shareholders (owners) and the government (tax authority), nor between corporations that pollute the environment and those that do not, nor even between competitive corporations and monopolistic corporations. One of the most common types of tax incentives is the deduction of corporate donations, or a portion thereof, from taxable income. This treatment can be somewhat fair, especially if the donations have a positive impact on the donor companies' financial performance. In this case, donations can be considered as marketing costs. However, under a policy of not granting tax incentives to corporate donors, any tax treatment other

⁵ Younis A. Battal Saleh, "Advantages and Disadvantages of the Six Methods of Tax Treatment of Corporate Donations: A Theoretical Study of Intellectual Enrichment in the Fields of Taxation and CSR," *International Journal of Innovative Studies in Sociology and Humanities* 2, no. 1 (2020): 1–15, <https://doi.org/https://doi.org/10.20431/2456-4931.0501001>.

than the previous one may be unfair to corporate donors if their donations have an indirect positive effect on their financial performance.⁶

In this case, depriving donor companies of tax incentives is unfair. It does not achieve fairness between shareholders and tax authorities (an irrational decrease in profits and an irrational increase in taxes), especially if the donor companies are not harmful to the environment and society. Likewise, if donations exceed the annual budget allocations, as in emergency situations (epidemics, wars, and natural disasters), depriving donor companies of tax incentives is considered illogical and unfair. Also, the policy of depriving donor companies of tax incentives does not achieve tax justice between competitive companies and monopolistic companies. Monopolistic firms will not need the competitive advantage that competitive firms need, and this advantage can be enhanced by philanthropic initiatives. Likewise, the policy of depriving donor companies of tax incentives does not achieve tax justice between environmentally friendly companies and environmentally harmful companies.⁷ Donations made by environmentally harmful companies are, in fact, compensation to society for the damage they cause. It is unfair to deprive monopolies and environmentally friendly companies of tax incentives in exchange for donations.⁸ If legislative bodies decide to grant tax incentives to these companies, they will face the disadvantages of the policy of granting tax incentives to donor companies mentioned above. The principles of tax justice cannot be achieved, and the idea of CSR cannot be protected from distortion under both policies (granting and not granting tax incentives). Uniform tax laws that apply to all donor companies can be unfair.

This article aims to: 1) demonstrate the illogicality and defects of the tax treatment methods for corporate donations adopted by all countries worldwide; and 2) propose a method through which the tax treatment of corporate donations can be determined in a scientific and correct manner that ensures fairness for all parties and protects the idea of CSR from distortion.

Corporate donations are multifaceted, with numerous benefits, impacts, and beneficiaries. This characteristic can be one of the most significant challenges legislators face when developing tax policies and laws in this area. Utilitarian tax policies regarding corporate donations can lead to a clash of stakeholder interests. In other words, utilitarian tax policies may not achieve fairness among the stakeholders in question, such as the government, shareholders, and society. In the

⁶ Lewis Faulk et al., “Donors’ Responses to Profit Incentives in the Social Sector: The Entrepreneurial Orientation Reward and the Profit Penalty,” *Journal of Policy Analysis and Management* 39, no. 1 (January 7, 2020): 218–42, <https://doi.org/10.1002/pam.22179>.

⁷ Mohammed Asaduzzaman and Petri Virtanen, “Strong, Transparent Public Institutions and Meta-Governance,” in *Peace, Justice and Strong Institutions. Encyclopedia of the UN Sustainable Development Goals* (Cham: Springer, 2021), 889–900, https://doi.org/10.1007/978-3-319-95960-3_125.

⁸ Weibing Li, Siyuan Chen, and Kaixia Zhang, “Responsible Behavior of Irresponsible Companies: Air Pollution and Charitable Donations of Polluting Companies,” *China & World Economy* 31, no. 4 (July 7, 2023): 90–119, <https://doi.org/10.1111/cwe.12490>.

field of corporate donations, given their distinctive characteristics, tax justice among stakeholders is based primarily on the principles of fair compensation and equitable distribution of burdens among stakeholders, as will be explained later. From this standpoint, adopting the concepts of distributive and compensatory justice emerged as an approach to determining optimal tax treatments.

This article can be classified as a theoretical research article. In social science research, theoretical articles play a vital role. These are not studies that test hypotheses with data collected through surveys or experiments. Instead, they focus on the ideas behind the research. A theoretical article might build a new framework, extend a well-known theory, or offer a fresh perspective on existing knowledge. Theoretical research articles derive their content from a profound understanding of the existing literature, construct hypothetical scenarios, develop models, and engage in thought experiments.

Methods

This research article adopts a "distributive justice and compensatory justice" approach to determining optimal tax treatments of corporate donations. This approach will contribute to achieving justice among the three parties: "stakeholders, society, and the government (tax authority)" and among companies themselves. Adopting this approach to determining optimal tax treatment requires a rational evaluation of corporate donations as they actually are. The rational evaluation process: As a first step in determining appropriate tax treatments, a rational evaluation of the donations made should be carried out according to the following criteria: 1) the impact of donations on the company's financial performance (reputation and competitive advantage); 2) the damage caused by the company to the community in which it operates, whether resulting from the production process or the products it sells; 3) the nature of the donation (is it to support government spending, to support charitable institutions, or to overcome crises and natural disasters?); 4) nature of the market (there are four primary types of market structures: perfect competition, monopolistic competition, monopoly, and oligopoly. For simplicity, the article will discuss the ideas under the conditions of a competitive market and a monopoly market); and 5) the nature of the product, whether it is essential or luxury. When using specific evaluation criteria, the evaluation process can contribute to providing information and facts about the thing to be evaluated (product, project, procedure, policy, etc.).

Rational evaluation means assessing something based on logic, reason, and evidence, rather than emotions or subjective opinions. It involves using sound judgment and critical thinking to determine the value, quality, or importance of something. In essence, it's about making decisions or forming judgments that are well-reasoned and justifiable. In essence, rational evaluation is about making choices and forming judgments that are grounded in sound reasoning and evidence, leading to more effective and appropriate outcomes. In this article, rational evaluation aims to draw logical conclusions to justify adopting a tax treatment. Distributive justice

refers to the fair allocation of resources, benefits, and burdens within a society. It focuses on how goods, opportunities, and responsibilities are distributed among individuals or groups, ensuring that the distribution is considered just and equitable. Examples of distributive justice include workers receiving equal pay for equal work. Paying fair taxes to all parties. Fair distribution of corporate profits.

Compensatory justice is the principle that individuals or groups who have been harmed should be fairly compensated for their losses, aiming to restore them to their previous position or minimize the negative impact of the injustice. It focuses on making amends for past wrongs, rather than on future prevention or punishment. Examples of compensatory justice include compensating the community for damages caused by companies. In the researcher's view, determining the optimal tax treatment for corporate donations is a somewhat complex issue. Adopting tax treatments should be based on a rational and logical basis. According to the researcher's view, in order to establish the principle of fairness in tax laws relating to corporate donations, these laws should only be issued after the following two procedures have been completed: 1) evaluating donations, as they are on the ground, to form logical perceptions about them. These perceptions are either the result of evaluation findings that describe donations as they are on the ground, or they are a logical and rational point of view that does not exceed or ignore the results of the evaluation process; and 2) determining the type of fairness (distributive or compensatory) that should be adopted in establishing the tax treatments that align with those perceptions.

Discussion

The Seven Perceptions about what Corporate Donations Might Mean to Legislatures According to the Results of the Realistic Evaluation.

Legislative bodies' possible perceptions regarding the characterization of corporate donations (whether they result from a realistic evaluation of donations or reflect reasonable and rational viewpoints) may include the following seven scenarios: 1) Donations as if they are marketing costs, “unconditional tax incentive”. 2) Donations as if they are indirect taxes. 3) Donations as if they are joint costs. 4) Donations are considered compensation to society. 5) Donations as if they are shared responsibility. 6) Donations as if they are loans to the government. 7) Donations as if they were charities given by the owners. Adopting a particular scenario will depend on a rational, realistic evaluation of corporate donations, whether on the ground or based on sound judgment.

Legislative bodies cannot form logical perceptions that reflect a realistic description of the characteristics of corporate donations unless they evaluate those donations on the ground. The evaluation process can help determine the role that donations play and the effects they have in more than one direction, while also taking into account the potential negative impacts that companies can have on the

communities in which they operate, and the market conditions in which companies operate.

To conduct a rational evaluation supported by logical justifications for corporate donations, the following considerations must be taken into account:⁹ 1) the impact of donations on the company’s financial performance (reputation and competitive advantage); 2) the damage caused by the company to the community in which it operates, whether resulting from the production process or the products it sells; 3) the nature of the donation (is it to support government spending, to support charitable institutions, or to overcome crises and natural disasters?); 4) the nature of the market (there are four primary types of market structures: perfect competition, monopolistic competition, monopoly, and oligopoly. For simplicity, the article will discuss the ideas under the conditions of a competitive market and a monopoly market); and 5) the nature of the product, whether it is essential or luxury.

Taking into account the priority of these considerations according to their importance .The final step in the evaluation process is to select an accurate characterization of corporate donations that reflects the explicit and implicit facts of those donations as they are on the ground, or to choose other characterizations that do not conflict with the evaluation results. After describing the donations and identifying their characteristics, the tax treatment is determined according to the concepts of distributive justice or compensatory justice that are consistent with that description. The steps for determining the tax treatment of corporate donations are:¹⁰ The First Step: Evaluating corporate donations on the ground according to specific criteria. The Second Step: Forming a perception (scenario) about the meaning of donations that align with the evaluation results. The Third Step: Determining the appropriate type of tax justice (whether it is distributive or compensatory). The Fourth Step: Determining the tax treatment that aligns with the chosen perception (scenario) and the appropriate type of fairness. Figure No. 1 illustrates the steps for determining fair tax treatment for corporate donations.

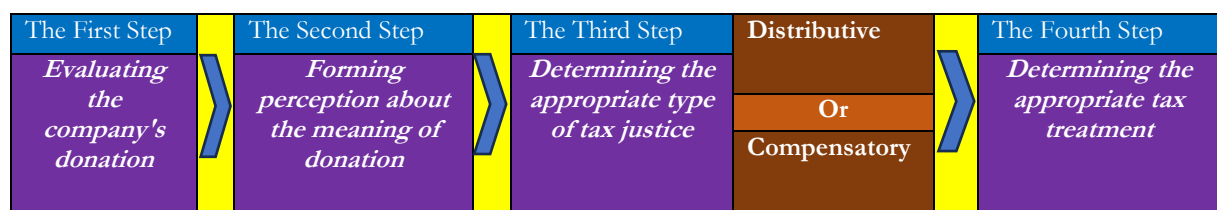


Figure 1: Steps to Determine the Tax Treatment of Corporate Donations

Source: Compiled by the author based on research findings

⁹ Matthew Lindauer et al., “Comparing the Effect of Rational and Emotional Appeals on Donation Behavior,” *Judgment and Decision Making* 15, no. 3 (May 1, 2020): 413–20, <https://doi.org/10.1017/S1930297500007208>.

¹⁰ José-Santiago Fernández-Vázquez and Roberto-Carlos Álvarez-Delgado, “The Interaction between Rational Arguments and Emotional Appeals in the Entrepreneurial Pitch,” *International Journal of Entrepreneurial Behavior & Research* 26, no. 3 (October 15, 2019): 503–20, <https://doi.org/10.1108/IJEBR-06-2019-0334>.

The following is a detailed explanation of the seven scenarios that legislative bodies can adopt to determine the fair tax treatment of corporate donations, including the requirements for each scenario, the corresponding tax treatments, and the consequences of those treatments. The scenario is outlined below:

1) *Donations as if They are Marketing Costs*

Although corporate donations are voluntary rather than mandatory, they have become necessary in modern, competitive markets in developed countries because they help build a good reputation and thus enhance competitive advantage, which is essential to the survival and continuity of companies in those markets. A good reputation can serve as a competitive advantage for donor companies, helping them improve their financial performance (increase revenues). Therefore, corporate donations can be considered marketing costs (operating expenses) because they motivate customers to continue purchasing the donor companies' products. For example, a technology company in a competitive, environmentally friendly market makes donations to community charities (there is an indirect positive impact of donations on financial performance). In such a case, donations can be considered marketing costs. In this scenario, the tax treatment is to reduce taxable income by the total value of donations made to beneficiaries. This treatment can be adopted if the following conditions are met:¹¹ 1) the donations contribute indirectly to enhancing the company's financial performance; 2) the company's economic activity does not cause any harm to society; 3) the donations do not fall within the scope of government spending activities; and 4) the donations are not paid in emergency circumstances (donations exceed the annual financial allocations for charitable activities) such as wars, natural disasters, and epidemics, etc.

The decrease in the amount of tax paid cannot be considered a tax saving. Donations are necessary expenses to accomplish marketing tasks. Also, there is no decrease in government tax revenues due to donations. Since donations increase corporate revenues, without donations, corporate revenues and thus government tax revenues would decrease. The tax treatment of this scenario is the same as the treatment for the policy of granting tax incentives in exchange for donations, but the difference between the two treatments lies in the reasons for adopting the tax treatment. The difference between the two treatments lies in the argument that gives rise to the tax treatment. One of the two arguments contributes to distorting the idea of CSR, and the other does not. According to this scenario, the concept of distributive justice can serve as the basis for determining the appropriate tax treatment. Corporate donations in such cases contribute to achieving benefits for several parties: society (enhancing welfare and improving quality of life), shareholders (enhancing financial performance and maximizing profits), and the government (ensuring continued receipt of a satisfactory share of taxes). Just as the benefits are shared, the burdens must be shared. A part of these burdens is borne by

¹¹ Marc Mazodier et al., "Can Donations Be Too Little or Too Much?," *European Journal of Marketing* 55, no. 1 (January 4, 2021): 271–96, <https://doi.org/10.1108/EJM-03-2019-0278>.

shareholders (lower profits), and the other part is borne by both the government and the tax authority and society (lower tax volume and thus lower general government spending). The tax treatment of this scenario is consistent with one of the accounting principles, namely the matching principle. The decrease in income tax is a natural consequence of adopting this principle.¹²

2) *Donations as if They are Indirect Taxes*

In most countries of the world, a large portion of government revenues comes from taxes. As is well known, these revenues are used to finance public sector expenditures (such as education, health, security, etc.), improve the infrastructure, and implement development plans in the country. Accordingly, corporate donations for public spending (government spending) can be viewed as indirect taxes (paid voluntarily, without government mediation in the process of receipt and re-spending).¹³ For example: A Contracting company in a competitive market, environmentally friendly, donates to build a public health clinic (a donation in the area of government spending). In such a case, donations can be considered indirect taxes. According to this perception, the tax treatment involves deducting the value of the donation from the tax invoice amount (income tax). In other words, reducing the income tax by the value of donations, even if the donations contribute to enhancing the company's financial performance. But if companies cause harm to the communities in which they operate, whether that harm is environmental, health-related, social, or economic, then the tax treatment will differ. If the damages can be treated and ended, the donations can be considered compensation. According to this view, the tax treatment is to deduct donations from after-tax income.

However, if the damage cannot be treated and ended for reasons beyond the company's control, such as the noise of trains and airplanes, science has not invented means to reduce that noise (the damage can only be stopped by stopping the company's economic activity), then the value of the donation can be considered as indirect taxes and compensation at the same time. According to this perception, the tax treatment is as follows: a portion of the donation value (indirect taxes) is deducted from the tax invoice value (income tax), and the remaining portion of the donation value (compensation) is deducted from the after-tax income. According to this scenario, the concept of compensatory justice can serve as the basis for determining the appropriate tax treatment. According to this concept, donations can be considered compensation to society for the damages it incurs as a result of companies' economic activities. Also, under this concept and in this scenario, the

¹² Kuangjie Zhang, Fengyan Cai, and Zhengyu Shi, "Do Promotions Make Consumers More Generous? The Impact of Price Promotions on Consumers' Donation Behavior," *Journal of Marketing* 85, no. 3 (May 4, 2021): 240–55, <https://doi.org/10.1177/0022242920988253>.

¹³ Burcin Col and Saurin Patel, "Going to Haven? Corporate Social Responsibility and Tax Avoidance," *Journal of Business Ethics* 154, no. 4 (February 9, 2019): 1033–50, <https://doi.org/10.1007/s10551-016-3393-2>.

government should compensate companies for their donations, which are treated as indirect taxes.¹⁴

3) *Donations as if They are Joint Cost*

Corporate donations can contribute to indirect financial gains for the donor companies as well as social benefits for the community in which they operate, in whole or in one of its segments. Therefore, donations can be considered joint costs (part can be treated as marketing costs and the other as compensation, if it is not possible to remedy or eliminate the harm the company causes to its communities). For example, an industrial company that causes unavoidable air pollution, operates in a competitive market, and produces a necessity good donates to charitable organizations. In such a case, donations can be considered as joint costs. According to this scenario, the tax treatment is as follows: A portion of the donation value (marketing costs) is deducted from the pre-tax income, and the other portion (compensation) is deducted from the post-tax income. However, **if** the damage caused by the company to its community can be remedied and ended, then, in this case, the full value of the donation can be treated as compensation and must be deducted from after-tax income, even if the donation is in the field of government spending activities. According to this scenario, the concept of distributive justice can serve as the basis for determining the appropriate tax treatment.¹⁵

The benefits of donations are numerous, including enhancing the company's financial performance, improving the community's well-being and quality of life, and ensuring tax revenue flows to the government. To determine appropriate tax treatment, all beneficiaries must bear and share the burden (the company, the government, and the community together). The company's donation, treated as a joint cost, may be divided into two parts (at the company's discretion): one portion may be considered a marketing cost. This part is deducted from pre-tax income, thus reducing the amount of income tax paid. This reduction represents the sacrifice incurred by society and the government together. The other part can be considered compensation to society for its contribution to generating profit and is deducted from income after taxes, reflecting the sacrifice incurred by the company (shareholders). Just as the benefits are shared, so too are the burdens.¹⁶

4) *Donations as if They are Compensation to Society*

If the donor companies' products are classified as harmful and directly affect customers' health, such as cigarettes and alcohol, then their donations can be

¹⁴ Mehrnaz Ashrafi et al., "Understanding the Conceptual Evolutionary Path and Theoretical Underpinnings of Corporate Social Responsibility and Corporate Sustainability," *Sustainability* 12, no. 3 (January 21, 2020): 760, <https://doi.org/10.3390/su12030760>.

¹⁵ Diya Abraham et al., "Coordinating Donations via an Intermediary: The Destructive Effect of a Sunk Overhead Cost," *Journal of Economic Behavior & Organization* 211 (July 2023): 287–304, <https://doi.org/10.1016/j.jebo.2023.05.006>.

¹⁶ Nur Ayyaz Çavdaroğlu, "Joint Pricing and Ordering Problem with Charitable Donations," *Sustainability* 12, no. 17 (August 26, 2020): 6950, <https://doi.org/10.3390/su12176950>.

considered compensation regardless of other considerations.¹⁷ For example, a monopolistic cigarette company (harmful product) donates to disaster relief. In such a case, donations can be considered compensation. According to this perception, the tax treatment involves deducting the value of the donations from the value of after-tax income. The same applies to companies that cause noise pollution, traffic congestion within cities and moral pollution within conservative societies.¹⁸ In this scenario, the concept of compensatory justice can serve as the basis for determining the appropriate tax treatment. Here, corporate donations can be viewed as compensation to society for the damages it has suffered. Assuming that: 1) the economic activities of companies contribute to the pollution of the components of the natural environment such as water, air, soil, forests, or residential complexes due to dust, fumes, toxic gases, and harmful chemicals accompanying production processes, with the inability of those companies to treat and stop those pollutants for reasons beyond their control (such as not inventing scientific means to prevent the production of those pollutants; and 2) the donations of those companies contribute to enhancing their financial performance. In this case, a portion of the donations can be considered as marketing costs (which must be deducted from income before taxes) and the other part as compensation (which must be deducted from income after taxes). However, if the company does not care about stopping its pollutants despite the availability of the capabilities to do so,¹⁹ whether by introducing modern technologies and methods or updating their old factories, then the donations can be considered as compensation (which must be deducted from income after taxes). If the results of the evaluation process are as follows:²⁰ 1) corporate donations are in the field of government spending activities; 2) corporate donations positively affect the financial performance of companies; 3) donor companies cause harm to their communities and this harm can only be stopped by stopping the activity of those companies. In this case, a part of corporate donations can be considered marketing costs and the other part as compensation. The other part of those donations cannot be considered indirect taxes because of the damages that the activities of those companies cause to their communities.

5) *Donations as if They are Shared Responsibility: Improving the Quality of Life and Well-Being in Society is a Shared Responsibility*

In light of the huge population explosions witnessed by most countries of the world, and the inability of governments in those countries to fulfill all their

¹⁷ G. Folléa, "Donor Compensation and Remuneration – Is There Really a Difference?," *ISBT Science Series* 11, no. S1 (January 29, 2016): 3–9, <https://doi.org/10.1111/voxs.12188>.

¹⁸ E.J. Gordon et al., "Does Financial Compensation for Living Kidney Donation Change Willingness to Donate?," *American Journal of Transplantation* 15, no. 1 (February 2015): 265–73, <https://doi.org/10.1111/ajt.13004>.

¹⁹ Pat Akey and Ian Appel, "The Limits of Limited Liability: Evidence from Industrial Pollution," *The Journal of Finance* 76, no. 1 (February 13, 2021): 5–55, <https://doi.org/10.1111/jofi.12978>.

²⁰ Roman Lanis and Grant Richardson, "Is Corporate Social Responsibility Performance Associated with Tax Avoidance?," *Journal of Business Ethics* 127, no. 2 (March 18, 2015): 439–57, <https://doi.org/10.1007/s10551-014-2052-8>.

obligations towards their societies, especially in the areas of humanitarian support in emergencies, improving the quality of life, and achieving well-being for citizens, the idea of CSR emerged, which calls for the necessity of companies participating in developing their societies and bearing part of the burdens of governments. The development of modern societies is a shared responsibility between governments and companies. From this perspective, legislative bodies may view corporate donations as funding what governments cannot fund and achieving what governments cannot achieve. To achieve justice for companies, and to establish the principle of shared responsibility, governments must bear a part of those donations. Therefore, half of the donations must be deducted from the tax bill (income tax) and the other half must be deducted from the income after taxes, provided that those donations are in the field of supporting charitable institutions that do not receive any financial support from governments. There is no doubt that charitable institutions have a positive role in developing societies (improving the quality of life and achieving well-being). Therefore, governments will not hesitate to support these institutions if they have sufficient economic resources.²¹

Within the framework of the shared responsibility concept, the above-mentioned tax treatment can also be adopted in the following two cases: 1) donor companies do not pollute the environment, and there is no indirect positive impact of donations on their financial performance; or 2) the donors are monopolistic companies that do not pollute the environment. According to the concept of distributive justice, the burdens are borne by donor companies and the government.

6) *Donations as if They are Loans to the Government*

Donations can be envisioned as if they are loans (interest-free loans) that governments repay to corporations in full or in installments from income taxes levied on the profits of donor companies. Companies usually allocate funds for charitable work in their budgets, and after those funds are distributed to beneficiaries (such as charities), natural disasters and wars occur. Here, for humanitarian reasons, companies may be forced to provide support and assistance to those affected, and this means exceeding the amount of their agreed-upon annual donations.²² Corporate donations can be viewed as loans to the government if they exceed the amounts budgeted. However, if those amounts included in the budgets were directed to support those affected by disasters and wars rather than to charities, they are not considered loans but donations. Funds raised by companies are donations, not loans, but are treated as loans for tax purposes. As is well known in cases of natural disasters, the spread of epidemics, and the outbreak of wars, governments will spare no effort in confronting these crises. They will use all their resources to alleviate

²¹ Britta Butz and Christine Harbring, "Donations as an Incentive for Cooperation in Public Good Games," *Journal of Behavioral and Experimental Economics* 85 (April 2020): 101510, <https://doi.org/10.1016/j.socec.2019.101510>.

²² Ronald W. Masulis and Syed Walid Reza, "Agency Problems of Corporate Philanthropy," *Review of Financial Studies* 28, no. 2 (February 2015): 592–636, <https://doi.org/10.1093/rfs/hhu082>.

people's suffering, and if their resources are insufficient, they will borrow from internal or external sources. On this basis, legislative bodies may consider corporate donations, such as loans to governments, in determining fair tax treatment.²³ According to the concept of compensatory justice, the government should return these donations to the donor companies by deducting them from their income tax (the tax treatment is as follows: Income tax - the value of the donation, which is considered a loan or - annual installment amount). The value of donations that exceed the annual allocations is the amount that can be considered a loan. For example: If a company in a given year makes a donation (donated all the financial allocations in the annual budget) to a charitable organization, and in the same year makes a donation to those affected by the earthquake (an unplanned donation), then the value given to those affected is what can be considered a loan.

7) *Donations as if They are Charities Given by the Owners*

Corporate funds are basically shareholders' funds managed by authorized persons (management by proxy). Therefore, any funds that companies provide as donations to the community can be considered as charity provided by shareholders if the following conditions are met: 1) the activities of those companies are not harmful to those communities; 2) the donations do not contribute to enhancing the financial performance of those companies; and 3) the donations do not fall within the scope of government spending activities, and are not provided to support those affected by natural disasters or wars (the funds provided do not exceed the annual allocations). This view can also be applied to monopolistic companies. According to this perception, the tax treatment is to deduct the value of donations from after-tax income. According to the concept of distributive justice, the company's profit is divided into three parts: taxes to the government, donations to the community, and the remaining profit for shareholders. Table No. 1 summarizes the implicit and explicit results of the previous scenarios.

Table 1. The Implicit and Explicit Results of the Seven Scenarios

Scenarios	Implicit and Explicit Results
Donations as if they are marketing costs	The decrease in the amount of tax paid cannot be considered a tax saving. Donations are necessary expenses to accomplish marketing tasks. Also, there is no decrease in government tax revenues due to donations. Donations can contribute to increasing the revenues of donor companies and thus governance revenues from taxes, and vice versa.
Donations as if they are indirect taxes.	There is no significant negative impact on the profits of the donor companies. Similarly, there is no real impact on government tax revenues. Taxes under this scenario consist of taxes paid and indirect taxes.
Donations as if they are joint costs.	All beneficiaries must bear\ share the burden (the company, and "the government and the community together"). Just as the benefits are shared, so too are the burdens.

²³ Sean McCarty and Jane L. Sumner, "The Political Consequences of Corporate Donations for Public Service Provision," *Business and Politics* 26, no. 1 (March 4, 2024): 27–46, <https://doi.org/10.1017/bap.2023.27>.

Scenarios	Implicit and Explicit Results
Donations are seen as compensation to society.	In this scenario, donor companies cannot be described as charitable. Although their donations contribute to social benefits, they implicitly reflect the true meaning of the term "compensation".
Donations as if they are shared responsibility.	The burdens (donations) are borne by donor companies and the government. The sacrifices made by corporate donors and governments (reductions in profits and taxes) reflect the value of the support they provide to charitable organizations.
Donations as if they are loans to the government	Corporate donations are a form of indirect support to the government. There is no impact on corporate profits from donations in emergency situations, but government tax revenue will decrease by the value of those donations.
Donations as if they are given by the owners	The company's profit is divided into three parts: taxes to the government, donations to the community, and the remaining profit for shareholders. The tax treatment involves deducting the value of donations from the after-tax income.

Source: Compiled by the author based on research findings

Evaluating corporate donations on the ground and determining the appropriate tax treatment in accordance with the concepts of distributive and compensatory justice is an innovative approach. This approach primarily aims to: 1) protect the thought of CSR from distortions caused by tax policies; and 2) achieve fairness among donor companies, as well as among stakeholders.

According to this article, the legislature in any country can adopt more than one perception to describe the meaning of corporate donations as they are on the ground. Therefore, the tax treatment of corporate donations may differ across industries (e.g., the aviation industry, the cement industry, the medical services industry) and across companies within the same industry (e.g., the cement industry).

Definition of the Term "Tax Savings" (According to the policy of granting tax incentives for donations). Tax saving is the amount of reduction in the value of income tax resulting from deducting the value of donations or part thereof from pre-tax income.²⁴ According to the traditional definition, any reduction in income tax resulting from the inclusion of donations in the tax treatment is a tax saving. This meaning is illogical and contradicts the progressive ideas presented in this research article.

The Exact Definition of the Term "Tax Savings" (According to the Orientation of this Article). Tax saving is the amount of reduction in the value of income tax resulting from deducting the value of donations or part thereof from the tax bill (income tax). According to the orientation of this article, not every reduction in income tax resulting from "tax treatments of corporate donations" is considered a tax saving, as is the case when corporate donations are viewed as marketing costs. If

²⁴ Ngoc Dao and J Michael Collins, "The Impact of State Income Tax Breaks on Savings and Income Security in Retirement," ed. Kevin Cahill, *Work, Aging and Retirement*, February 11, 2025, <https://doi.org/10.1093/workar/waaf001>.

corporate donations are treated as marketing costs, there will be no tax savings attributable to these donations. According to this view, donations are a part of marketing costs. Without these costs, corporate revenues and taxes paid to governments will decrease. In competitive markets, corporate donations positively impact consumer loyalty. This impact helps enhance the revenues of donor companies.

According to the meanings reflected in the seven scenarios, any tax treatment that requires deducting donations or part of them from pre-tax income cannot be considered a reduction in income tax as a tax saving, as in the following two scenarios: 1) Donations as if they are marketing costs. 2) Donations as if they are joint costs. In these two scenarios, donations, or a part thereof, are deductible from pre-tax income as they are considered marketing costs. Any decrease in the amount of tax paid to the tax authority resulting from deducting donations, or part thereof, from income tax (the tax bill) can be considered a tax saving, as in the following two scenarios: 1) Donations as if they are indirect taxes. It is the process of refunding the value of a tax previously paid through donations. 2) Donations as if they are shared responsibility (It is a process of sharing the burden between the government and companies). However, in scenario " Donations as if they are loans to the government", although donations are deductible from income tax (tax bill), the tax treatment does not result in any tax savings, as the donations are considered loans to the government.

How to Evaluate and Choose the Logical Tax Treatment

First, it must be determined whether the company contributes to environmental pollution, regardless of the type. There are two possibilities: either the company contributes to environmental pollution, or it does not. Regarding the first possibility, it is important to ensure that the donations are not within the scope of government spending, are not provided in emergency situations (i.e., when the additional value exceeds annual allocations), and contribute to strengthening the company's reputation, thereby improving its financial performance.²⁵ In this case, the value of the donations is deducted from taxable income (donations can be treated as marketing costs), provided that the company is not a monopoly.

However, if the donations are for government spending or provided in emergency situations (an additional value beyond the annual allocation). In this case, the value of the donations is deducted from income tax (tax invoice). Regarding the second possibility, environmental pollution can be classified into two categories: 1) Environmental pollution that can be treated and prevented. 2) Environmental pollution that cannot be treated or prevented. Environmental pollution can be treated and prevented. In this case, corporate donations can be considered

²⁵ Peter Dauvergne, "The Power of Environmental Norms: Marine Plastic Pollution and The Politics of Microbeads," *Environmental Politics* 27, no. 4 (July 4, 2018): 579–97, <https://doi.org/10.1080/09644016.2018.1449090>.

compensation to society incurred by the company (owners or shareholders). These donations are deducted from after-tax income. Environmental pollution that cannot be treated or prevented. To determine fair tax treatments, the nature of the product must be determined, whether it is essential or a luxury. If the product is a luxury rather than a necessity, then corporate donations should be considered compensation to society for the damages and deducted entirely from after-tax income.

However, if the product is a necessity, the tax treatment will be different. In this case, there are two possibilities: the first is that the donations are not within the scope of government spending, are not provided in emergency situations (i.e., additional value exceeding the annual allocations), and contribute to strengthening the company's reputation, thereby improving its financial performance. The tax treatment in such a case is as follows: A part of the donations is deducted from pre-tax income, and the other part is deducted from after-tax income (Distributive justice in bearing burdens). The second possibility is that the donations fall within the scope of government spending or are provided in emergency situations (with additional value exceeding the annual allocations) and thus strengthen the company's reputation, thereby improving its financial performance. The tax treatment in such a case is as follows: A part of the donations is deducted from income tax (tax invoice) and the other part is deducted from after-tax income: A part of the burden is borne by the government (donations as indirect taxes or loans) and the other part of the burden is borne by the owners (as compensation to society for the damages caused by their companies)).²⁶

It should be noted that when there is more than one description of the meaning of donations on the ground (such as considering donations as indirect taxes as well as marketing costs, or considering donations as loans as well as marketing costs), in this case compensatory justice prevails over distributive justice.

The importance of classifying donor companies by the market structure in which they operate lies in determining the extent to which donations affect these companies' financial performance. Market structures refer to the characteristics of an economic environment in which businesses operate, influencing how firms compete, set prices, and interact with consumers. Donations can enhance the financial performance of donor companies classified as competitive, compared with those classified as monopolistic.²⁷ The classification process can help determine whether donations have an indirect positive impact on donor companies' financial performance. If there is an indirect positive impact, donations are treated as marketing costs, with other considerations mentioned above taken into account.

²⁶ Ilona Szócs et al., "Linking Cause Assessment, Corporate Philanthropy, and Corporate Reputation," *Journal of the Academy of Marketing Science* 44, no. 3 (May 11, 2016): 376–96, <https://doi.org/10.1007/s11747-014-0417-2>.

²⁷ Angela K. Davis et al., "Do Socially Responsible Firms Pay More Taxes?," *The Accounting Review* 91, no. 1 (January 1, 2016): 47–68, <https://doi.org/10.2308/accr-51224>.

Classifying companies' products as essential or luxury is important for achieving tax fairness. Classifying products according to their importance to people into essential and luxury products can help determine the value of donations that can be considered compensation to society under the concept of "compensatory justice." Compensating society for damages caused by companies can depend on the product's importance, whether it is a necessity or a luxury item. The classification process can help determine whether donations constitute compensation and how much of that compensation should be borne by the owners (shareholders). Society can do without luxury products, but it cannot do without essential products.²⁸ It is known that all people in society buy the necessary products and bear the pollution produced by the companies that produce these products, while the wealthy people in society are the ones who can buy luxury products, and therefore, the rest of society (the non-wealthy) are the ones who bear a greater share of the pollution generated by the companies that produce these products.²⁹

Monopolistic companies, regardless of the type of product they produce, whether essential or luxury, that do not contribute to environmental pollution can consider their donations to fulfill their share of common responsibility (distributive justice).³⁰ The development of modern societies is a shared responsibility between governments and companies.³¹ These companies have no difficulty making a profit because they impose a specific commodity at a specific price. Donations of monopolistic companies must be fully deducted from after-tax income if they contribute to environmental pollution, regardless of the type of pollution (compensatory justice). Table No. 2 shows the evaluation criteria, their corresponding scenarios, the required conditions, the appropriate type of fairness, and the tax treatments.

Table 2. The Evaluation Criteria, Their Corresponding Scenarios, the Required Conditions, the Appropriate Type of Fairness, and the Tax Treatments

Evaluation Criteria	Appropriate Scenario	Type of Justice	Tax Treatment
Indirect contribution to enhancing the financial performance of donor companies.	Donations as if they are marketing costs	Distributive justice	Deducting donations from taxable income.

²⁸ Olasunkanmi Olawale Oke, R Adetola, and Abdulah Shuaib, "Corporate Social Responsibility Practice and Company Income Tax Payment in Deposit Money Banks in Nigeria," *Journal of Human Resources and Management Science*, June 19, 2025, <https://doi.org/10.70382/hujhrms.v8i7.022>.

²⁹ Caiping Wang, Honggang Xu, and Gang Li, "The Corporate Philanthropy and Legitimacy Strategy of Tourism Firms: A Community Perspective," *Journal of Sustainable Tourism* 26, no. 7 (July 3, 2018): 1124–41, <https://doi.org/10.1080/09669582.2018.1428334>.

³⁰ Hongfeng Sun et al., "Corporate Charitable Donations, Earnings Performance and Tax Avoidance," *Sustainability* 15, no. 4 (February 8, 2023): 3116, <https://doi.org/10.3390/su15043116>.

³¹ Fransisco Pandapotan, "The Influence of Corporate Social Responsibility on Tax Avoidance," *Journal of Applied Business, Taxation and Economics Research* 2, no. 3 (February 28, 2023): 258–65, <https://doi.org/10.54408/jabter.v2i3.158>.

Evaluation Criteria	Appropriate Scenario	Type of Justice	Tax Treatment
Required Conditions: Donations contribute to the donor company's financial performance. The donor company is environmentally friendly (there are no health or environmental damages). Donations are not within the scope of government spending activities. Donations are not provided in emergency situations or for humanitarian reasons, and they do not exceed the annual financial allocations in the budgets.			
Supporting government spending activities.	Donations as if they are indirect taxes	Compensatory justice	Deducting donations from the tax invoice amount (income tax).
Required Conditions: Donations are within the scope of government spending activities. The donor company is environmentally friendly (there are no health or environmental damages).			
Benefits for both donor and recipient. A logical and justified opinion, "subject to certain conditions. "	Donations as if they are joint cost	Distributive justice	A portion of the donation amount is deducted from pre-tax income, and the remainder is deducted from after-tax income.
Required Conditions: Donations benefit both the donating company and the recipients. The donor company is environmentally friendly (there are no health or environmental damages). Donations are not within the scope of government spending activities. Donations are not provided in emergency situations or for humanitarian reasons, and they do not exceed the annual financial allocations in the budgets.			
Health and environmental damage resulting from products and economic activities.	Donations as if they are compensation to society	Compensatory justice	Deducting donations from after-tax income.
Required Conditions: The donor company is not environmentally friendly (there are health or environmental damages).			
A logical and justified opinion, "subject to certain conditions. "	Donations as if they are shared responsibility	Distributive justice	Half of the donations must be deducted from the tax bill (income tax) and the other half must be deducted from the after-tax income.
Required Conditions: Donations do not contribute to improving the financial performance of the donor company. The donor company is environmentally friendly (there are no health or environmental damages). OR the doner company is a monopoly and is environmentally friendly (there are no health or environmental damages).			
Responding to emergencies and urgent humanitarian situations.	Donations as if they are loans to the government	Compensatory justice	Reducing the value of donations, or part thereof, from income tax (tax invoice).

Evaluation Criteria	Appropriate Scenario	Type of Justice	Tax Treatment
Required Conditions: Donations are made in emergencies and for humanitarian reasons, and they exceed annual budget allocations.			
A logical and justified opinion, "subject to certain conditions."	Donations, as if they were charities, are given by the owners	Distributive justice	Deducting the value of donations from after-tax income.
Required Conditions: The donor company is environmentally friendly (with no health or environmental harm). Donations do not improve the donor company's financial performance. Donations are not within the scope of government spending activities. Donations are not provided in emergency situations or for humanitarian reasons, and they do not exceed the annual financial allocations in the budgets. OR the donor company is a monopoly.			

Source: Compiled by the author based on research findings

To give tax treatment methods distinctive names, the word "taxes" will be replaced with the government's rights, and the word "donations" will be replaced with society's rights (donations are society's rights voluntarily given by corporations under the social contract theory). Table No. 3 shows the proposed designations for tax treatment methods (for simplicity, the seven scenarios are presented without delving into other probabilities and assumptions).

Table 3. Tax Treatments Naming

Perception	Tax Treatment	Tax Treatment Naming
Donations as if they are marketing costs	Deducting donations (society's rights) from taxable income.	Method of society's rights and then the government's rights (tax).
Donations are indirect taxes.	Deducting donations from the tax invoice amount (income tax). Reducing the income tax by the value of donations.	Method of government's rights and then society's rights from the government's rights.
Donations are treated as joint costs.	Part of the donation amount is deducted from pre-tax income, and the other part is deducted from after-tax income.	Method: part of society's rights, then the government's rights, then the other part of society's rights.
Donations are seen as compensation to society.	Deducting donations from after-tax income.	Method of government's rights and then society's rights.
Donations as if they are shared responsibility	Half of the donations must be deducted from the tax bill (income tax), and the other half must be deducted from the after-tax income	Method of government's rights and then half of society's rights from the government's rights
Donations as if they are loans to the government	Reducing the value of donations, or part thereof, from income tax (tax invoice).	Method of government's rights and then the corporation's rights in government's rights.
Donations as if they are charities, are given by the owners	Deducting the value of donations from after-tax income.	Method of government's rights and then society's rights.

Source: Compiled by the author based on research findings

The requirements for adopting a distributive and compensatory justice approach in the tax treatment of corporate donations in any country include the following: 1) classifying companies according to characteristics of the four types of market structures " in which the companies operate" (perfect competition, monopolistic competition, oligopoly, and monopoly); 2) classifying companies according to the nature of their products (essential or luxury products); 3) classifying companies according to their contribution to environmental pollution (polluting or non-polluting); 4) classifying polluting companies according to their ability to prevent pollution (able or unable); and 5) classifying companies according to the extent to which philanthropy affects their financial performance (indirect financial gains or no indirect financial gains).

Conclusion

Adopting a single tax treatment for all corporate donations "under a single tax policy" (granting incentives or not granting tax incentives) is unfair. Using a single tax treatment for all corporate donations does not ensure fairness to all parties involved and distorts the concept of CSR. The researcher believes that the optimal tax treatment is one that reflects the actual meaning of the company's donation on the ground. More precisely, the optimal tax treatment is one that is consistent with the logical and realistic interpretation that can be deduced by evaluating the company's donation on the ground, according to specific criteria. To achieve tax fairness among the parties involved and to avoid distorting the thought of CSR, the researcher suggests adopting "a distributive and compensatory justice approach " as a logical basis for determining the tax treatment of corporate donations. Adopting "a distributive justice and compensatory justice approach " will contribute to establishing the principle of tax fairness among all stakeholders and protecting the thought of CSR from distortion caused by flawed tax policies.

The central idea of using distributive justice and compensatory justice as a philosophical foundation for differentiating tax treatments is a new scientific contribution to enriching tax literature. It moves the debate beyond the simplistic "incentive or no incentive" question to a more nuanced inquiry: "what kind of tax treatment, for what kind of company, under what circumstances?". The proposed seven scenarios and the structured evaluation framework offer policymakers a novel conceptual perspective for designing more equitable and sophisticated tax systems. This approach could genuinely inform global tax reforms. Adopting a distributive-justice and compensatory-justice approach to determining optimal tax treatments for corporate donations can help protect the concept of CSR from distortion. The researcher's initiative can serve as a starting point for further research in this field.

Acknowledgement

This study is dedicated to establishing a rational and structured evaluation framework for identifying appropriate forms of tax treatment based on the

characteristics and objectives of corporate donations, thereby providing a fairer, more proportionate, and more practical basis for formulating global tax reform policies. We would therefore like to express our gratitude to all those who have assisted in the completion of this study and its publication.

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