

Corporate social responsibility and tax avoidance



Tax payment and CSR: which relationship?

In CSR studies many scholars have wondered **whether a company that adopts aggressive tax behaviours can claim to be socially responsible.**

Two opposing perspectives can be identified, based on **two different views of company's objectives and taxes.**



First perspective

Try to lower the tax burden as much as possible is acceptable and not contrary to the principles of CSR.



Shareholder view of the firm

Companies' purpose is to **maximize profits for their shareholders.**

Taxes are simply considered a **cost of doing business.**

Good managers and directors should try to minimise the corporate tax burden.

It is consistent with this approach that **multinational companies choose** to pay taxes in **countries with the lowest tax rates.**

The **only limit** for directors and managers is the **respect of the law.** Actions contrary to the law (e.g. tax evasion, etc.) cannot be admitted.



Second perspective

Avoiding taxes while considering themselves socially responsible represents a **genuine form of hypocrisy**, especially if companies publicly declare to follow a socially responsible conduct in their periodic reports.

The risk is to **make the CSR nothing more than window-dressing.**



Stakeholder view of the firm

Companies are not only responsible to shareholders, but also to a wider audience of stakeholders in the jurisdiction where they operate and profits are generated.

Paying taxes is a fundamental example of **sense of citizenship and responsible behaviour towards society.**

Companies should pay the **due amount of taxes** in order to **contribute** to the **government's expenses for social services.**



Is obeying the letter of the tax law enough?

Some scholars also argue that for a socially responsible company obeying the **letter of the tax law** is not always sufficient, while it is necessary to obey the **spirit of the law**.

But it is often **very difficult to distinguish between legal and illegal tax behaviours** and identify tax avoidance practices, as companies can apply a number of **legal solutions to avoid to pay taxes**.



Tax avoidance practice

Tax avoidance means **putting into practice behaviours and actions, legal in themselves, but implemented with the only final aim of circumventing tax law in order to obtain undue benefits through the reduction in the tax burden.**

Therefore, in order to ascertain a tax avoidance practice, it is necessary to verify that **transactions without economic substance have been implemented, with the only purpose of obtaining tax advantages.**

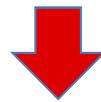
This is why very often these practices give rise to **different and contradictory interpretations**, which are often the subject of **heated debates and discussions in courtrooms.**



CSR reports and CSR behaviours

Another problem is about the relationship between **what companies write and claim in their social reports and how they actually behave in doing business.**

Many companies disclose CSR reports where they claim to respect CSR principles in their behaviours while they adopt tax avoidance practices (for example being based in tax heavens).



Risk to make CSR nothing more than window-dressing.



True social responsibility or hypocrisy?

Some companies also **exploit CSR activities to their advantage, completely misrepresenting its basic principles.**

For example many companies are very active in **earnings management practices** and at the same time they were also **very committed to managing their public image through CSR activities.**

Sometimes CSR activities are only implement to **avoid being criticized by other stakeholders (e.g. employees, local community), while maximizing shareholders' financial interests.**



Unanswered questions

Although the relationship between tax behaviours and CSR has recently been the subject of several research and analyses, **some questions still remain open:**

- ◆ **Should socially responsible companies avoid tax aggressive behaviours?**
- ◆ **Can a company claim to be socially responsible if it adopts tax avoidance practices?**
- ◆ **Paying taxes is a duty or just a cost for a company?**
- ◆ **What is the boundary between legality and ethics in tax behaviour?**