Corporate Social Responsibility and Taxation: The Missing Link

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Corporate tax payments are the largest and most obvious contribution of firms to non-shareholders and non-employees. Surprisingly, taxation does not typically figure in the analysis of corporate social responsibility (CSR). How should corporations view their tax obligations, and should tax compliance be part of their social responsibility campaigns? Alternatively, why aren’t tax payments more frequently framed within the context of the social responsibility of corporations?

Given the magnitude of taxes relative to other contributions by firms, advocates of corporate social responsibility might usefully pay more attention to trends in corporate taxation. For example, IRS statistics on U.S. firms indicate that aggregate corporate tax payments in 2002 totaled $153.6 billion while the aggregate amount claimed for charitable deductions on corporate tax returns was $10.3 billion. Recent patterns in corporate tax payments also suggest that more attention to taxes by CSR advocates is warranted. Analyses of trends in corporate taxation – whether by the ratio of corporate tax receipts to GDP, the distinction between book income and tax income, or reported effective tax rates found in public financial documents – all indicate that tax avoidance has become a prominent feature of the corporate landscape. These trends prompt several questions – should corporations trumpet their tax payments? Should CSR advocates demand the release of tax information?

Understanding corporate tax avoidance

Traditionally, the difficulty in incorporating taxation into a social responsibility agenda has stemmed from the presumed tension between shareholders and tax collectors. Tax payments have historically been viewed as a transfer from shareholders to the state. Within such a framework, it is difficult for corporations to publicize their tax payments proudly. More recently, these difficulties have been accentuated by developments in financial engineering and globalization that make limiting tax payments cheaper and more efficient. Any effort by CSR advocates to highlight tax avoidance would seem to detract from the interests of shareholders.

Yet, this framework may not be an accurate way to think about corporate tax avoidance. An emerging body of evidence makes clear that shareholders and tax collectors share a common interest in containing opportunistic managers. This link stems from the realization that the corporate tax system makes the state the largest minority shareholder in corporations and that the technologies of tax avoidance may also assist managers in defrauding shareholders. In short, tax avoidance demands obfuscation and this obfuscation can become the shield for actions that are not in the interests of shareholders or tax authorities.
Indeed, anecdotal and systematic evidence (see box for details) shows that corporate tax avoidance is often linked to acts of managerial malfeasance. Moreover, corporate tax avoidance is not fully valued in the stock market by investors, presumably in light of its connection with possibly increased managerial malfeasance. Generally, research points to the benefits of tax enforcement as a means to further the shared interests of shareholders and tax collectors.

**Implications for the corporate social responsibility agenda**

This alternative view of taxation has several implications for advocates of corporate social responsibility. First, there is not necessarily a contradiction between pursuing a firm’s core objective of maximizing shareholder value and fulfilling its tax obligations. For instance, a high degree of tax compliance may signal to investors that managers are refraining from taking opportunities for value diversion that would arise were they to purchase tax shelter products. This suggests that CSR advocates could usefully focus more on tax compliance, going beyond more traditional concerns such as philanthropy and compliance with environmental and social norms and regulations.

In order to do so, CSR advocates could argue that corporations should be more forthcoming about the magnitude of their corporate tax payments. Currently, in the U.S., actual tax payments are hidden as tax and capital markets books are kept separately and as tax returns are confidential. The more transparent disclosure of tax return information is the subject of an ongoing debate. Placing more emphasis on this issue may induce firms to voluntarily disclose tax data and further the interests of shareholders, tax collectors and the broader set of stakeholders that benefit from their payment. Indeed, a recent effort by a large UK institutional investor, the Henderson Group, to have firms announce tax payments may usefully be joined by CSR advocates.

As with any part of the CSR agenda, there are a number of important caveats. The links between managerial malfeasance and tax avoidance highlighted in recent research are hardly grounds for calling for higher corporate tax rates. Indeed, higher rates only increase the incentive to shelter and divert value. More generally, corporate taxes are typically considered highly distortionary as they change optimal firm decisions about investment and financial policy. Pushing for disclosure of returns is valuable, but advocating changes in tax policy more generally seems ill-advised. Moreover, increasing governmental resources need not be a valued goal for many CSR advocates. Nonetheless, the alternative view of tax avoidance emerging from our research suggests that CSR advocates and managers might usefully reconsider how taxes can be understood within the larger debates over how corporations contribute to society.
BOX


On the way tax avoidance has been valued by financial markets in the United States, see: Mihir A. Desai and Dhammika Dharmapala, "Corporate Tax Avoidance and Firm Value," NBER Working Paper #11241.


Corporate Social responsibility CSR - Free download as Word Doc (.doc) or read online for free. Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. Of course, the system of taxation in most countries does ensure that basic services provided by government such as a system of law and order, provision of infrastructure that includes assets such as roads, transportation facilities, the benefits received from the apparatus of society for respecting and enforcing property rights, etc. are paid for through taxation on economic goods and services produced and. Corporate Social Responsibility and Political Activity Kathleen Rehbein, Frank den Hond and Frank G. A. Bakker. Chapter 10 What We Know about the Economic Payoffs of Corporate Ecological Sustainability Edeltraud Guenther, Timo Busch, Jan Endrikat, Thomas Guenther and Marc Orlitzy. 177 245 265 295. 325. The future evolution of corporate social responsibility. Chapter 11 Getting from Corporate Social Responsibility to Corporate System Responsibility: Toward a Dialogic Process for Network Governance. Jerry M. Calton. Corporate social responsibility (CSR) is a broad business concept. It usually describes a company's commitment to carry out their business in an ethical way. This means managing their business processes while taking account of their social, economic and environmental impact, and considering human rights. Examples of corporate social responsibility. Corporate responsibility can cut across almost everything your business does. It can involve a range of CSR activities, such as