The Association between Corporate Social Responsibility and Tax Aggressiveness

Prof. Dr. Ahmed Zaky Hussein Metwally
President of Suez Canal University

Introduction

Over recent years, corporate social responsibility (CSR) has become a priority for firms globally. A firm may engage in corporate social responsibility (CSR) to enhance its competitive position in order to enable the firm to enjoy better financial performance. However, tax aggressiveness is an unethical action. The act of tax aggressiveness is an effort to minimize the amount of tax to be paid, intend to not comply with existing tax regulations.

Key Words: corporate social responsibility, tax, tax aggressiveness.

This paper is classified through the following sections

Section One: Corporate Social Responsibility.

Section Two: Tax and Tax Aggressiveness.

Section Three: Corporate Social Responsibility and Tax Aggressiveness.
Section One: Corporate Social Responsibility

The issue of social responsibility stems from the development of public awareness of the importance of the role of companies in society (Santoso et al., 2019). Corporate social responsibility (CSR) is a way of promoting social trends in order to enhance society’s basic order. CSR is generally agreed to involve a “continuing commitment by businesses to behave ethically while improving the quality of life of the workforce, local community, and society at large” (Davis et al., 2016). CSR can help differentiate a firm from its competitor by building up reputation and obtaining support from diverse stakeholders, thus improving corporate financial performance (Kim et al., 2018).

Corporate social responsibility (CSR) is a comprehensive component of the firm’s operations that voluntarily contributes to the maintenance of the environment (Yan’t Ramadhan and Nuswantara, 2019). Disclosure of social responsibility also shifted from the original goal as a reflection of the ethical behavior of the firm to become a tool for the firm's strategy for profit (Sari and Prihandini, 2019).

Section Two: Tax and Tax Aggressiveness

The taxes are compulsory contributions paid by individual or corporate taxpayers to the nations that are coercive, without receiving direct replies or benefits based on the Laws. Tax is a
significant burden that affects the profits of the firm. Thus, the firm will always tend to reduce the burden through applying tax aggressiveness. Tax aggressiveness is an attempt by the firm to reduce the income tax payments to the state. Further, tax aggressiveness occurs because of the conflicting of interests between the government and the firm as taxpayers. The government aims to maximize tax revenue, but companies tend to reduce the tax burden to obtain large profits for the shareholders' wealth (Kristiadi et al., 2020). Moreover, Tax aggressiveness “enables companies to enjoy the benefits of corporate citizenship without accepting the costs” which are then transferred to other parties (Amidu et al., 2016).

According to Sari and Prihandini (2019) tax aggressiveness is an act of manipulation of taxable income through tax planning actions. The practice of tax aggressiveness tends to be widespread in developing countries because it has low investor protection and weak taxation infrastructure so that opportunistic managers become more able to take tax aggressiveness actions (Santoso et al., 2019). While Vacca et al. (2020) define tax aggressiveness as a tax planning strategy or tax aggressiveness is a managerial strategy adopted by a company to reduce its tax burdens and as a consequence to minimize its tax liability in compliance with the country framework.
Section Three: Corporate Social Responsibility and Tax Aggressiveness

CSR environmental dimension focuses on applying management to systematically manage the environmental impact of a firm's operations in creating a product. While tax aggressiveness causes damage to the firm's reputation because the taxes paid have reduced the people's right to prosperity (Nusantari et al., 2015). Corporate social expenses are used in protecting the environment and supporting the welfare of the community. Therefore, managers try to minimize the tax burden to support the cost of environmental improvement (Hadjoh and Sukartha, 2013; Sari and Prihandini, 2019). While Kristiadi et al. (2020) support that the increase of CSR does not necessarily make lower corporate tax aggressiveness.

References

The Association between Corporate Social Responsibility and Tax Aggressiveness

Prof. Dr. Ahmed Zaky Hussein Metwally


