Taxation and corporate social responsibility: Evidence from UK firms

by

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Paper prepared for the ESRC RESEARCH SEMINAR SERIES, Seminar Two
Is corporate taxation practice a CSR issue?

25 March 2009
The Auditorium, Alcuin Research Resource
To provide empirical evidence concerning the relationship of corporate tax to CSR with reference to UK companies.

Show the relevance of taxation considerations to CSR research.

The paper is structured as follows:

1. Introduction
2. Locating taxation within CSR – relevant literature considered, and derivation of basic research questions
3. Research methods
4. Findings
5. Conclusion
1. INTRODUCTION

- There is now considerable interest in role of taxation in regard to CSR.

- Taxation as a subject is interdisciplinary/multidisciplinary and crosses subject boundaries – in general makes study of a particular issue more difficult, as literature can be widely diffused throughout different subject areas.

- Academic literature on tax and CSR is mostly found in the area of law, public policy (e.g., Freeman, 2004), not in management, but has significant implications for management......

- ......As does taxation in general, the relevance of which to management is not acknowledged (Glaister and Frecknall Hughes, 2008).
2. LOCATING TAX WITHIN CSR

- A number of problems, e.g., defining CSR.
  - Responsibility to whom? For what?

- How widely to interpret ‘social’ – specific groups of people (e.g., employees, shareholders, suppliers, contractors), people living or working near company’s place of operations, all of the people in the country in question, the world at large? Are the people in a state (society) identified with the state, distinct from it or a surrogate for it? Tax paid to the state is not the same as benefit to society.

- Can affect people by omission – setting up business in one place rather than others may disadvantage those others (Williams, 2007, p. 7).

- Issue of not taking all opportunities offered (ibid. p.18) - law suits and bad reputation ‘bad for business’.

- Link to purpose of company – make a profit/money, provide goods/services/employment.
2. LOCATING TAX WITHIN CSR

Many definitions of CSR, e.g.,

“the firm goes beyond compliance and engages in ‘actions that appear to further some social good, beyond the interests of the firm and that which is required by law’…”


Voluntary (add-on), altruistic?

“…a manner of doing business that takes into account the economic, social and environmental impact of the company’s actions (the so-called ‘triple bottom line’). A company’s approach to this issue will reflect its chosen ethical stance; ie, the set of values or rules of conduct that govern its interactions with other parties.”

Williams (2007, p.1)

A way of carrying out business as a core activity. Does tax result from business activities or form part of them?
2. LOCATING TAX WITHIN CSR

- Issue as to whether CSR is a separate discipline or a field of study within another – management, accounting, law? Inevitable importation of ideas from different subject disciplines (Capaldi, 2005).

- Linked to issue of what CSR does or should include – business ethics, corporate philanthropy, corporate citizenship, corporate social performance, corporate governance, law (and the idea of something beyond compliance with law/regulations)?
2. LOCATING TAX WITHIN CSR (CONT.)

- Related to taxation:
  - Financial - Capaldi (2005, p. 414) “issues of CSR cannot be separated from issues of profit, and indeed must be identified with the bottom line”.

  - Law - tax is primarily governed by law, so how can a firm go beyond the law in any sense? May choose not to engage in certain practices or use available incentives/reliefs?

  - Corporate citizenship – duty of a citizen to pay tax – quantum, not quality - contradiction?

  - Corporate social performance – how to measure?

  - Corporate philanthropy: how can it apply? A matter of perspective? Corrupt/incompetent regime mitigates against tax payments?

  - Corporate governance – some conflict here – will return to this.

  - Business ethics – tax avoidance – will return to this.
Commentators do generally agree on certain concepts being relevant to CSR:

- Transparency/openness. Is there necessarily a problem if you disclose what you do, whatever that may be and don’t misrepresent it? What is the ‘right’ amount is what is arithmetically correct.

- Communication (at least) of information to stakeholders who have a right to know.

- Accountability – but Government must be accountable too – spending, means of attracting investment, etc., differences between developed and developing countries? Unpatriotic?

Confounded by:

- Lack of standard as to what companies should do in the context of CSR (NB ISO14001).
- Several possible models and standards for reporting CSR.
- No requirement of proof – i.e., no requirement for audit.
- Conflict.
The notion of conflict brings us back to:

1. Corporate governance –

- Requires directors to account to stakeholders (typically shareholders – internal stakeholders) for their management of the company. If their aim is to maximise profit, have a duty to minimise tax, as dividends are paid out of post-tax profits.

- Also, if company is funded from post-tax retained profits, then it is rational to make as much profit as possible to sustain company self-sufficiency and reduce dependence on future borrowings, etc. If do otherwise, usurp functions of government in taxing and spending (Friedman, 1962).
2. LOCATING TAX WITHIN CSR (CONT.)

- CSR also advocates accountability, but to external stakeholders – members of the wider society in which the company operates.

- From this perspective, tax would need to be calculated and paid in order to benefit those external stakeholders, which may conflict with attempts to minimise it as required by a corporate governance perspective.

- Stakeholders too do not fall into one exclusive category.
  - For example, a shareholder is an internal stakeholder, but is also a member of wider society.
  - ‘Balancing act’ required between conflicting perspectives.

- Companies Act 2006, s.172 – concept of ‘enlightened shareholder value’.
2. Conflict innate in the role of taxation in society –

- The state’s right to take compulsorily a portion of its citizens’ goods, profits, income or gains.

- The way a tax is levied and opinion about it may be heavily influenced by the purposes to which revenue collected is put (NB NICs, Poll Tax).

- Therefore not surprising that individuals and companies would seek to minimise tax – leads on to issue of tax avoidance and issues of tax ethics/morality.
2. LOCATING TAX WITHIN CSR (CONT.)


- Tax avoidance has always been – and still is – legal.
- Opinions about it have changed over time.
- It has always been difficult to draw a line between avoidance and evasion, and different individuals and companies would draw a line in different places.
2. LOCATING TAX WITHIN CSR (CONT.)

- Terminology has changed (arguably, deliberately - “unacceptable” or “abusive” avoidance” (see, e.g., Wyman, 1997, p. 3), paying one’s ‘fair share’, the ‘right amount’, etc.

- Often refers to specially developed schemes which either stretch the word of the law beyond its intention/spirit or manipulate events/facts so that the law applies (in a way not intended) to artificially created truths, events or circumstances.

- Government’s concern - such activities reduce overall tax take and thus funds available for societal purposes, also that those who avoid tax transfer a burden to other taxpayers.

- It’s seldom asked whether tax avoidance will always have an unfavourable economic impact: will the state use money more efficiently than the private sector (Williams, 2007, p. 19)?

- Christensen and Murphy (2004, p. 38) - MNEs adopt aggressive tax avoidance policies – unreported, as “directors do not regard tax payment as part of the CSR agenda”.
Remains a hotly debated topic, with differing views:

- It “comes down to a matter of personal judgment. One man’s idea of acceptable tax planning is undoubtedly another man’s idea of criminally subversive activity” (Gillett, 1999, p. 1).

- “[T]ax avoidance is a conceptual anomaly that exists in the mind of those whose sense of morality is violated by certain effective tax practices”, occurring “where legislative intention and policy miscarried and failed to anticipate and reach the transaction under consideration” (Orow, 2004, p. 415).

- Complexity and confusion added by unclear Government message, appearing to promote avoidance in some areas, e.g., TESSAs, but not others. State’s role is to promote welfare of society – the more tax the more responsible? Need more profits? What about incentives/reliefs (R&D)?
However, notion of what is unacceptable is spreading to activity not hitherto considered problematic:

HM Revenue & Customs’ (HMRC) approach now is to eschew ‘tax planning’ *per se*.

“…[F]ine distinctions between ‘tax planning’ and ‘tax avoidance’ are seen as being of less consequence than the overall effect on the yield to the Exchequer. This is particularly so where the apparent result is not in accordance with Parliament’s intentions or which would not have been had Parliament addressed itself to the particular issue.”


A result of DOTAS? Effect of tax planning on state the same as tax avoidance.
A better approach, perhaps, is that suggested in the report of a tax symposium organised in 2006 by KPMG.

“There are areas which overlap with the tax avoidance debate and, as there, what is needed is not the labelling of certain behaviours as ‘good’ or ‘bad’ but discussion of the criteria for determining what is, and what is not socially responsible behaviour. More thought [is] also needed on whether, and how, to distinguish obligations to the state from obligations to society.”

KPMG, 2006, p. 43

Approach needs to be objective. The language used is often emotive, and conveys the impression that avoidance always constitutes a scandalous outrage – a view at least challenged by Tesco’s action against the Guardian newspaper which described Tesco’s alleged use of schemes as “plundering the Treasury” (see Leigh, 2008).
2. LOCATING TAX WITHIN CSR (CONT.)

- Tax is a cost – accounting for “the disposal of a third of pre-tax profits” (McCormick, 2004, p. 10) – more if other taxes as well as CT are included. As a cost, needs to be managed, as other costs.

- Possible to see it as an appropriation of profits or a distribution to society, though this assumes “an identity of interest between state and society” (Williams, 2007, p. 11).

- Other costs don’t attract the same degree of scrutiny – because private or choice? No choice as regards taxation.

- Location of tax in income statement – encourages people to look at it as controllable in the same way as dividends, because of juxtaposition. Similarly can be viewed as a performance measure?
Consideration of the preceding issues led to the following basic research questions:

(a) How do companies reconcile or satisfy the conflicting needs or demands of different stakeholders in relation to taxation and CSR?

(b) Is there any obligation to do other than obey the law?

(c) In regard to taxation, is CSR about more than proving that a company does not use ‘unacceptable’ avoidance?

These questions have not been comprehensively explored in the prior literature.
3. RESEARCH METHODS

Questions addressed by examining two different types of data:

1. Qualitative analysis of a set of personal interviews with senior tax practitioners in seven UK based multinational enterprises. Choice governed by pragmatism.

   Open-ended, semi-structured questionnaire used, covering range of tax issues.

   Established (some) themes of analysis *a priori*.

   Interviews were taped, transcribed, checked with interviewees and analysed. Used as a pilot study to develop a postal, self-administered survey, as well as a rich source of data in their own right.

   Confidentiality and anonymity guaranteed.

   Data were coded using typical content analysis procedures (Taylor and Bogdan, 1984; Lincoln and Guba, 1985).
3. RESEARCH METHODS (CONT.)

Table 1. Characteristics of interview respondent firms

<table>
<thead>
<tr>
<th></th>
<th>Firm A</th>
<th>Firm B</th>
<th>Firm C</th>
<th>Firm D</th>
<th>Firm E</th>
<th>Firm F</th>
<th>Firm G</th>
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<tbody>
<tr>
<td>Size of tax department</td>
<td>50</td>
<td>7</td>
<td>29</td>
<td>30</td>
<td>50</td>
<td>10</td>
<td>200w/w</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>6 in HO</td>
</tr>
<tr>
<td>Use external tax advisers</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>International presence</td>
<td>Operates</td>
<td>Subsids w/w ops</td>
<td>Most 1000</td>
<td>Maj.</td>
<td>Operates</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>in over 80</td>
<td>in c. 30 40% EU</td>
<td>EU cos.</td>
<td>in</td>
<td>in 76</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>countries 40% US &amp; w/w</td>
<td>US 20% Asia</td>
<td>US</td>
<td>countries</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
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</tr>
</tbody>
</table>

2. Quantitative analysis of a self-administered postal questionnaire survey sent to senior personnel at 1,000 firms based in the UK, with international activities, using Hemscott Company Guru database as a sampling frame.

165 returns – 145 were usable = response rate of 16.5% - comparable with other taxation studies.

‘Tested’ ideas developed from interviews.

Analysed using SPSS.
### Table 2. Characteristics of questionnaire respondent firms

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Number</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational type</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public limited company</td>
<td>88</td>
<td>60.7</td>
</tr>
<tr>
<td>Other</td>
<td>57</td>
<td>39.3</td>
</tr>
<tr>
<td>Industry sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>84</td>
<td>57.9</td>
</tr>
<tr>
<td>Non-services</td>
<td>61</td>
<td>42.1</td>
</tr>
<tr>
<td>Engaged in FDI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>101</td>
<td>69.7</td>
</tr>
<tr>
<td>No</td>
<td>44</td>
<td>30.3</td>
</tr>
<tr>
<td>Uses external tax advisers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>143*</td>
<td>99.3</td>
</tr>
<tr>
<td>No</td>
<td>1</td>
<td>0.07</td>
</tr>
<tr>
<td>Number of employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>7120</td>
<td></td>
</tr>
</tbody>
</table>

*1 missing response*
4. FINDINGS – INTERVIEW DATA

- Companies in general are well aware of the difficulty in walking what might be aptly termed the tightrope of responsibilities.

*I think morality in companies is very difficult because companies’ directors, employees, have fiduciary duties towards their shareholders, and that’s the law, and they have a duty to maximise returns. So on a simple basis, no, there is no morality in business other than to operate within the law.*

_Firm C_

- Some transactions are regarded as necessary, because:
  - primarily motivated by *commercial drivers* (Firm G); or
  - permitted by the rules that apply, even if one has to *explain why you’ve done it* (Firm E), that is, tax does not necessarily drive the transaction, but is a consideration.
4. FINDINGS – INTERVIEW DATA (CONT.)

In some instances firms have to become involved in issues because they are industry-wide, and need resolution.

*Everyone else has done it, and if I was in that industry I would be there too because you couldn’t not be. Not because I think it particularly should work: I just think you would be disadvantaging your shareholders if it ended up working... but we don’t tend to push those sorts of things. I’m not interested in breaking any new... law but I do have to join in when the things are going on.*

*Firm G*
However, this is inextricably connected to the issue of reputation.

The perennial problem is valuing reputation, because actually sometimes some of these things that you could in theory do, can save a lot of money for the shareholder, and so by choosing not to do them... what do you actually (do)? How else do you benefit the shareholder (being the first question) and then perhaps broader stakeholders as a secondary question, by not doing those and, yes, I think everyone thinks there must be some value in a good reputation. You don’t want your name in the newspapers. You want to have a good relationship with your tax authorities because one day you might need a clearance for a real commercial transaction. You might make a mistake and want them to look leniently on it.

Firm D
4. FINDINGS – INTERVIEW DATA (CONT.)

- However, the issue of ‘getting one’s name in the newspapers’ has other facets. Journalists tend to focus on issues that are easily understood, not complex transactions which are more difficult.

  It’s difficult to write terribly sexy copy out of that sort of stuff. Some of the stuff is just so technical, detailed, harried, basically, that it almost doesn’t matter. There could be lots of money attached to it but it’s just not something that’s going to get the press excited. You do a sort of PAYE saving scheme for one director or something and they can get terribly excited. [Specific scheme]: that doesn’t get a mention anyway because no one understands them.

  Firm A
Sometimes mention in a reputable newspaper can be beneficial.

And people who...have a certain view of the role of corporates in the economy, i.e., to deliver returns to shareholder, so it might be that some people reading the [broadsheet newspaper] would be delighted and would say, “I must invest in that company, it’s going to deliver me a better post-tax return than a competitor”.

Firm D
The link between morality and law is difficult and complex.

You don’t have an obligation to pay the most amount of tax just so that the Government actually can build another hospital: it’s for the Government to set the tax rates and the policies and the legislation so it’s so you’ve got a framework to work within it - and I think if you say “Well this is the framework but actually there’s a morality issue here”, I think that just completely muddies the water and nobody knows where they stand - so I don’t think you can say that you should act differently to what the legal framework says, because otherwise I don’t know where you draw the line.

Firm B

Surely the law is the codification of…what society believes is the moral position on anything, and therefore if you follow the law, then how can you not have followed what the general consensus of moral view is?

Firm F
4. FINDINGS – INTERVIEW DATA (CONT.)

➢ One can only apply the law

*by what it says not by whatever was thought*  
Firm D

➢ However, the law is often unclear, ill-drafted and

*uncertain what it’s trying to do*  
Firm A

➢ Even when it is well drafted, it can have unintended outcomes.

*But sometimes [laws] are clearly defined. It’s just that when applied to a transaction that the Government, that the Revenue, hadn’t thought of, they give an answer that the Revenue wouldn’t have thought was the right answer but it is the answer.*  
Firm D
There is concern about the language now used to frame the debate on tax avoidance. Legitimate tax planning seems to be considered in the same way as unacceptable methods of avoiding tax, and there is a multiplicity of terms – abusive tax avoidance, paying one’s fair share, unacceptable tax avoidance, etc. (Firms D and G).

That’s fine, but of course the way they’re putting it includes what they think they should have got if you had not have done the planning you’ve done.

Firm A
The biggest problem I have with the way that things are going at the moment is this blurring of what is acceptable and so called unacceptable tax avoidance, in that it’s trying to put a moral code over and above what is the law, and I think the problem then encompasses that you do not have a set of rules that you can follow and evaluate, and I think the answer is if something is unacceptable it should be outside the law and it should be legislated against and Governments are the ones who have the power to legislate. And the trouble is also, there’s been a lot of use of the moral issue to taint and to make an emotive argument out of some of these issues, which I think is totally inappropriate and clouds the issue. For example, how do you apply some sort of moral position? Look at the position of cross border transactions. Do you have a moral obligation to pay more tax in the US or the UK? At the end of the day you have an obligation to comply with the laws of the countries and every major multinational will ensure that it complies with those laws.

Firm F
Despite these comments, firms are aware that there are tax schemes which are so *blindingly artificial* (Firm C) that they amount to lies, and no multinational would implement *anything that is close to evasion* (Firm F).

*When I see, sometimes, an Inland Revenue announcement that they’ve just moved against such and such avoidance scheme, and I’ve never even heard of the scheme, and you can’t help but think, “Ah well, there’s another one that’s passed me by”. But on the other hand if it’s the sort of thing that the Inland Revenue have decided to outlaw the minute they see it, that’s probably the sort of thing I wouldn’t want to have been doing in the first place.*

*Firm C*
Sometimes the avoidance issue is perceived as an (inadequate) attempt by Government to disguise its own inefficiencies by putting responsibility on other parties.

*I think the whole issue of morality is...very difficult. Basically, the Government wants to raise a certain amount of money, and that’s fine, we all elect them to do that, but they should be honest about what they’re raising, rather than going on about this gap in their finances. If a company said “Our performance isn’t very good this year because we’ve had a gap in revenues”, they’d be laughed out of court, and I think that the general view you would find amongst my peers is that the law’s the law and you follow the law, and if the law’s unclear you argue about it.*

*Firm E*
Companies are aware that it is the amount of corporation tax they pay which attracts attention, but this is but one element of their overall tax bill.

*If you can say, “We pay this much tax” and what you’re actually counting is employees’ PAYE, VAT collected from customers, well you can come up with some big numbers that other people might not view as your tax, as the tax on the company. It’s debatable.*

*Firm D*
4. FINDINGS – INTERVIEW DATA - SUMMARY

- Companies are aware of conflicting demands and viewpoints of different stakeholders.

- Directors have a clear fiduciary duty to shareholders – duty to Government and wider society less clear in legal terms.

- A clear obligation is acknowledged to obey the law – but the law is not always clear and may not actually be drafted so as to produce the outcome desired by Government and HMRC, thus giving rise to different opinions as to what is acceptable.

- Role of law is difficult to evaluate because of moral ‘tainting’ and emotive language.

- Cannot adopt a stance that is ‘beyond the law’ – anomalies would result. The same rules are needed for everyone to follow.
The tabloid press often plays a significant part in determining what may be acceptable, as does people’s general understanding (e.g., PAYE schemes for directors).

In the context of taxation, CSR is not clearly distinguishable from issues of tax avoidance.
4. FINDINGS – QUANTITATIVE DATA

Initially, respondents were asked to indicate on a Likert scale of 1 to 5 (where 1 = not important and 5 = very important) how important in general ethical issues were to their organisation’s tax decisions.

Of the 145 respondents, 143 responded to this question, and the mean response was 3.8, indicating some degree of importance.

There was no statistically significant difference in response between different types of organisations in terms of whether they were public or non-public companies, whether they were service or manufacturing entities or whether they were engaged or not in Foreign Direct Investment (FDI), as shown in Table 3.

There was, however, a statistically significant difference in the means in terms of the level at which decisions are taken within the organisation (p < 0.05), with the mean being higher for sub-Board level management than for Board level management.
4. FINDINGS – QUANTITATIVE DATA (CONT.)

Table 3. Importance of ethical decisions: sample characteristics

<table>
<thead>
<tr>
<th>Category</th>
<th>n</th>
<th>Mean</th>
<th>SD</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public limited company</td>
<td>86</td>
<td>3.7558</td>
<td>1.02826</td>
<td>-.671</td>
</tr>
<tr>
<td>Non Public limited company</td>
<td>57</td>
<td>3.8772</td>
<td>1.10308</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>84</td>
<td>3.8690</td>
<td>1.01530</td>
<td>.875</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>59</td>
<td>3.7119</td>
<td>1.11496</td>
<td></td>
</tr>
<tr>
<td>Engaged in FDI</td>
<td>99</td>
<td>3.8788</td>
<td>1.00278</td>
<td>1.269</td>
</tr>
<tr>
<td>Not engaged in FDI</td>
<td>44</td>
<td>3.6364</td>
<td>1.16321</td>
<td></td>
</tr>
<tr>
<td>Board Level Management</td>
<td>64</td>
<td>3.556</td>
<td>1.1327</td>
<td>-2.545**</td>
</tr>
<tr>
<td>Sub-Board Level Management</td>
<td>81</td>
<td>4.000</td>
<td>.9546</td>
<td></td>
</tr>
</tbody>
</table>

The mean is the average on a scale of 1 (not important) to 5 (very important).

** p < 0.05
Respondents were asked to indicate the importance of a series of statements in reference to their organisation’s tax decision making process, again using a Likert scale of 1 to 5 (where 1 = not important and 5 = very important). These factors were then ranked according to their means, as shown in Table 4.
### Table 4. Importance of ethical factors in the organisation’s tax decision making process

<table>
<thead>
<tr>
<th>Ethical factors</th>
<th>Rank</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obeying the law</td>
<td>1</td>
<td>4.821</td>
<td>0.385</td>
</tr>
<tr>
<td>Being able to defend publicly what the organisation has done</td>
<td>2</td>
<td>4.207</td>
<td>0.942</td>
</tr>
<tr>
<td>Not participating in tax avoidance schemes likely to be challenged</td>
<td>3</td>
<td>3.241</td>
<td>1.192</td>
</tr>
<tr>
<td>by HM Revenue &amp; Customs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Using loopholes in the law</td>
<td>4</td>
<td>2.979</td>
<td>0.982</td>
</tr>
<tr>
<td>Doing the same as other companies in the same industry</td>
<td>5</td>
<td>2.821</td>
<td>1.170</td>
</tr>
<tr>
<td>Stretching the law so as to obey its word but not its spirit</td>
<td>6</td>
<td>2.428</td>
<td>0.933</td>
</tr>
<tr>
<td>Voluntarily adhering to some higher moral standard than the law</td>
<td>7</td>
<td>2.386</td>
<td>1.048</td>
</tr>
<tr>
<td>Lobbying the Government for tax law changes</td>
<td>8</td>
<td>2.317</td>
<td>1.300</td>
</tr>
<tr>
<td>Employing aggressive tax advisers</td>
<td>9</td>
<td>2.028</td>
<td>0.942</td>
</tr>
<tr>
<td>Using corporate size/strength/reputation to obtain special deals</td>
<td>10</td>
<td>1.897</td>
<td>1.141</td>
</tr>
<tr>
<td>from UK/overseas Governments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actively participating in tax avoidance schemes to define better</td>
<td>11</td>
<td>1.731</td>
<td>0.876</td>
</tr>
<tr>
<td>ill-defined law</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

n = 145

Mean is measured on a scale of 1 (= not important) to 5 (= very important).
The first three ranked items, ‘obeying the law’, ‘being able to defend publicly what the organisation has done’ and ‘not participating in tax avoidance schemes likely to be challenged by HM Revenue & Customs’, support the comments made in the interviews.

These responses stress the importance of the law, reputation and taking a stance on tax avoidance.

It may be noted that the more aggressive and proactive activities are ranked lowest.
4. FINDINGS – QUANTITATIVE DATA (CONT.)

- Further analysis was undertaken to assess whether any statistical difference in means occurred according to different characteristics of the sample:
  - whether or not they engaged in FDI;
  - whether they were in the manufacturing or service sectors;
  - whether companies were public or private;
  - the level in the organisation where tax decisions were made;
  - and
  - the type of external tax adviser employed.
4. FINDINGS – QUANTITATIVE DATA (CONT.)

- **Whether or not they engaged in FDI:**

  - Engaged in FDI = 101; not engaged in FDI = 44
  
  - There was only one statistical difference in means, that for ‘using loopholes in the law’ (engaged in FDI = 2.82; not engaged in FDI = 3.34; t = -3.006; p < 0.01).
  
  - This suggests that firms which engage in FDI are less likely to employ such loopholes.
4. FINDINGS – QUANTITATIVE DATA (CONT.)

- **Whether they were in the manufacturing or service sectors:**

  - Two statistically significant differences in means:
    - ‘not participating in tax avoidance schemes likely to be challenged by HM Customs & Revenue’ (Services = 3.00; Manufacturing = 3.57; t = -2.937; p < 0.05);
    - ‘doing the same as other companies in the same industry’ (Services = 3.00; Manufacturing = 2.57; t = -2.937; p < 0.05).

  - Supports the comments made by the interviewees, esp. Firm G (a service provider), which particularly commented on getting involved in the same type of activities as other firms in the same sector, as there might be an industry-wide issue which needed resolution and not being involved might ultimately disadvantage shareholders.
4. FINDINGS – QUANTITATIVE DATA (CONT.)

- **Whether companies were public or private:**

  - There was only one statistically significant difference in means: ‘lobbying the Government for tax law changes’ (plc = 2.49; non-plc = 2.05; \( t = 1.993 \); \( p < 0.05 \)).

  - This may result from the more dominant position and greater economic power wielded by public companies compared with non-public companies. By implication non-public companies tend to be smaller firms with a lower economic profile.
4. FINDINGS – QUANTITATIVE DATA (CONT.)

- The level in the organisation where tax decisions were made:
  - Of the respondents, 64 companies made decisions on taxation at Board level, and 81 at sub-Board level.
  - There was only one statistically significant difference in means, again that of ‘lobbying the Government for tax law changes’ (Board = 1.92; sub-Board = 2.11; t = -3.227; p < 0.01).

Very little difference so far – BUT:
4. FINDINGS – QUANTITATIVE DATA (CONT.)

- **The type of external tax adviser employed:**
  - Of the 145 respondents:
    - 107 used a Big Four firm of accountants/tax advisers
    - 36 used a non-Big Four firm
    - 1 did not use any advisers
    - 1 did not answer this question

- Six statistically significant differences in means, as shown in Table 5:
  - **Higher** for respondents from companies that employed the Big Four:
    - ‘being able to defend publicly what the organisation has done’ (p < 0.10);
    - ‘doing the same as other companies in the same industry’ (p < 0.05)
    - ‘lobbying the Government for tax law changes’ (p < 0.01);
    - ‘employing aggressive tax advisers’ (p < 0.10);
    - ‘using corporate size/strength/reputation to obtain special deals from the UK/overseas Governments’ (p < 0.05).
  - **Lower** for respondents from companies that employed the Big Four:
    - ‘not participating in tax avoidance schemes likely to be challenged by HM Revenue & Customs’ (p < 0.05).
### Table 5. Differences in means: type of external adviser

<table>
<thead>
<tr>
<th>Type</th>
<th>Mean</th>
<th>S D</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obeying the law</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BF</td>
<td>4.7944</td>
<td>.40605</td>
<td>-1.27</td>
</tr>
<tr>
<td>NBF</td>
<td>4.8889</td>
<td>.31873</td>
<td></td>
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<tr>
<td>Being able to defend publicly what the</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>organisation has done</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BF</td>
<td>4.2897</td>
<td>.81274</td>
<td>1.75*</td>
</tr>
<tr>
<td>NBF</td>
<td>3.9722</td>
<td>1.25325</td>
<td></td>
</tr>
<tr>
<td>Not participating in tax avoidance schemes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>likely to be challenged by HMRC</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BF</td>
<td>3.1215</td>
<td>1.16320</td>
<td>-2.155**</td>
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<tr>
<td>NBF</td>
<td>3.6111</td>
<td>1.22539</td>
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</tr>
<tr>
<td>Using loopholes in the law</td>
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<td></td>
</tr>
<tr>
<td>BF</td>
<td>2.9533</td>
<td>.91511</td>
<td>-.39</td>
</tr>
<tr>
<td>NBF</td>
<td>3.0278</td>
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<tr>
<td>Doing the same as other companies in the same</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>industry</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>BF</td>
<td>2.9533</td>
<td>1.15238</td>
<td>2.402**</td>
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<td>NBF</td>
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<td>1.18019</td>
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<tr>
<td>Stretching the law so as to obey its word but</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>not its spirit</td>
<td></td>
<td></td>
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<tr>
<td>BF</td>
<td>2.4299</td>
<td>.90191</td>
<td>.228</td>
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<tr>
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<td>1.02198</td>
<td></td>
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<tr>
<td>Voluntarily adhering to some higher moral</td>
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<td>standard than the law</td>
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<td>1.00729</td>
<td>-.995</td>
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<td>NBF</td>
<td>2.5278</td>
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<tr>
<td>Lobbying the Government for tax law changes</td>
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<tr>
<td>BF</td>
<td>2.4860</td>
<td>1.29122</td>
<td>3.048***</td>
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<tr>
<td>NBF</td>
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<td>1.13074</td>
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<tr>
<td>Employing aggressive tax advisers</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>BF</td>
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<td>.90415</td>
<td>1.844*</td>
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<td>1.04502</td>
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</tbody>
</table>
### 4. FINDINGS – QUANTITATIVE DATA (CONT.)

**Table 5. Differences in means: type of external adviser (cont.)**

<table>
<thead>
<tr>
<th>Type</th>
<th>Mean</th>
<th>S D</th>
<th>t-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Using corporate size/strength/reputation to obtain special deals from UK/overseas Governments</td>
<td>BF</td>
<td>2.0000</td>
<td>1.18958</td>
</tr>
<tr>
<td></td>
<td>NBF</td>
<td>1.4722</td>
<td>.77408</td>
</tr>
<tr>
<td>Actively participating in tax avoidance schemes to define better ill-defined law</td>
<td>BF</td>
<td>1.7944</td>
<td>.87673</td>
</tr>
<tr>
<td></td>
<td>NBF</td>
<td>1.5278</td>
<td>.87786</td>
</tr>
</tbody>
</table>

BF = Big Four = 107  
NBF = Not Big Four = 36  
1 = Missing data  
1 = Did not use external advisers

*p < 0.10; ** p < 0.05; *** p < 0.01
4. FINDINGS – QUANTITATIVE DATA (CONT.)

➢ Re the use of Big Four advisers, sample firms:
  ➢ consider it less important not to participate in tax avoidance schemes likely to be challenged by HMRC;
  ➢ find it more important to employ aggressive tax advisers;
  ➢ more important to use corporate size/strength/reputation to obtain special deals from UK/overseas Governments;

BUT AT THE SAME TIME

➢ consider it more important to be able to defend publicly what the organisation has done;
➢ find it more important to do the same as other companies in the same industry; and
➢ find it more important to lobby the Government for tax law changes.
4. FINDINGS – QUANTITATIVE DATA (CONT.)

- Suggests a ‘balancing act’

- BUT

- in conjunction with the ranking in Table 4 of the more aggressive factors as the bottom six, does suggest that firms do not engage wholesale in adopting an aggressive avoidance stance, and constitutes a significant finding, which goes some way towards refuting the anecdotal evidence that they do.

- Supported by additional comments given on the postal self-administered survey.
In terms of the research questions originally posited, interview and questionnaire respondents were manifestly aware that:

- different stakeholders have very different requirements, dependent upon perspective;

- company directors/managers must do a ‘balancing act’ to satisfy their different needs;

- there is an obligation to obey the law, which is paramount – but the law does not always achieve what it sets out to do: it can have unintended effects and sometimes sends confused signals or messages. However, one can only obey the law: there is nothing higher. To attempt to obey a ‘higher calling’ could only lead to deep confusion and anomalies;
reputation for being seen to ‘do the right thing’ is also of the utmost importance, and is likely to be linked to not being involved in avoidance schemes which HMRC might challenge, though some firms may ‘get away’ with involvement in transactions which are so complex that only tax experts can understand them. However, most firms are keen to distance themselves from anything that may seem dubious; and

overall, it seems clear that CSR in tax terms is linked to tax avoidance and little else. A significant contribution of the paper is that there is empirical evidence to refute the allegation often made that large companies, aided and abetted by tax advisers from the Big Four, exploit legal loopholes and avoidance schemes to obtain tax benefits.
5. CONCLUSION (CONT.)

- Respondent 126 on the questionnaire perhaps best summarised the results:

  *We always take the moral high ground, but have an obligation to our stakeholders to maximise value/reduce tax liabilities. An interesting balancing act.*
QUESTIONS?