# THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY AND TAX AGGRESSIVENESS

[1]Owan, Harold-Joe Eban; [2]Dr. Eyo Bassey Ekpe

[1] hajoeblest@gmail.com, [2]eyoekpe800@yahoo.com
[1]Department of Accountancy, University of Cross River State Calaabr, Nigeria
[2]Department of Accountancy, Ebonyi State University Abakaliki, Nigeria

**Abstract**

This study investigates the relationship between corporate social responsibility (CSR) and tax aggressiveness among publicly listed firms. Using a panel dataset of 200 non-financial companies listed on the Nigeria Stock Exchange from 2015 to 2022, this paper finds a statistically significant negative relationship between CSR engagement and tax aggressiveness. Firms with higher CSR scores tend to exhibit less aggressive tax planning behavior. The findings support the legitimacy theory and suggest that socially responsible firms prioritize ethical and transparent tax practices.

**Keyword:.** *Corporate Social Responsibility, Tax Aggressiveness, Tax Avoidance, Legitimacy Theory, Ethical Accounting*

## 1.1 Introduction

The growing emphasis on corporate social responsibility (CSR) has prompted scholars and practitioners to explore its implications for various corporate behaviors, including financial transparency, environmental stewardship, and tax strategies. Tax aggressiveness, often viewed as the extent to which firms minimize their tax liability through legal or borderline-legal methods, has been scrutinized for its ethical implications. While minimizing taxes is legal, aggressive tax strategies can damage a firm's reputation and stakeholder trust.
This paper examines whether CSR-oriented firms are less likely to engage in aggressive tax practices. It posits that firms investing in CSR are more concerned with long-term sustainability and public perception, which may discourage aggressive tax behavior.

## 2. Literature Review

### 2.1 Corporate Social Responsibility

CSR refers to voluntary corporate initiatives that go beyond legal compliance, aiming to promote social good, environmental sustainability, and ethical conduct (Carroll, 1999). CSR has evolved into a strategic imperative for enhancing corporate reputation and stakeholder engagement.

**2.2 Tax Aggressiveness**

Tax aggressiveness involves strategies aimed at reducing tax liability, including legal tax avoidance and schemes bordering on evasion (Hanlon &Heitzman, 2010). Aggressive tax behavior can improve short-term financial performance but may attract regulatory scrutiny and harm stakeholder relationships.

**2.3 CSR and Tax Aggressiveness**

Previous studies present mixed findings. Lanis and Richardson (2012) found a negative relationship between CSR and tax aggressiveness, suggesting that ethical firms avoid tax shelters. In contrast, Davis et al. (2016) found no consistent evidence linking CSR to tax behavior. This study contributes to the debate by analyzing recent data and expanding the context to [Country].

**3. Theoretical Framework and Hypothesis**

**3.1 Legitimacy Theory**

Legitimacy theory posits that firms engage in CSR to align with societal expectations and gain legitimacy. Tax aggressiveness, being viewed negatively by the public, may conflict with the image CSR-oriented firms seek to project.

**3.2 Hypothesis**

H1: Firms with higher levels of CSR engagement are less likely to engage in tax aggressiveness.

**4. Methodology**

**4.1 Data and Sample**

The sample includes 200 non-financial firms listed on the Nigeria Stock Exchange from 2015 to 2022. Financial institutions were excluded due to regulatory differences.

**4.2 Variables**

Dependent Variable: Tax aggressiveness, measured by Effective Tax Rate (ETR = Tax Expense / Pre-tax Income).

Independent Variable: CSR score, based on annual sustainability reports and third-party ESG ratings.

Control Variables: Firm size (log of total assets), profitability (ROA), leverage, capital intensity, and industry dummies.

**4.3 Model Specification**

**Definition of the Model**

In the context of this study, the econometric model is designed to test the relationship between Corporate Social Responsibility (CSR) and Tax Aggressiveness. It is a panel data regression model, where the dependent variable is a proxy for tax aggressiveness, and the key independent variable is the CSR score of the firm. Several control variables are included to account for firm-specific characteristics that may also influence tax behavior.

Let the model be defined as follows:

$$\mathrm{TAXAGG}_{it}=\beta_0+\beta_1\mathrm{CSR}_{it}+\beta_2\mathrm{SIZE}_{it}+\beta_3\mathrm{ROA}_{it}+\beta_4\mathrm{LEV}_{it}+\beta_5\mathrm{CAPINT}_{it}+\varepsilon_{it}$$

Where:

TAX AGG: Tax aggressiveness of firm i in year t, proxied by Effective Tax Rate (ETR). A lower ETR suggests more aggressive tax planning.

CSR: Corporate Social Responsibility score of firm i in year t, typically ranging from 0 to 1, derived from sustainability reports or ESG databases.

SIZE: Natural logarithm of total assets of firm i in year t, used to control for firm size.
ROA: Return on Assets of firm i in year t, measuring profitability.
LEV: Leverage ratio of firm i in year t, calculated as total debt to total assets.
CAPINT: Capital intensity, measured as the ratio of fixed assets to total assets, used to capture asset structure and potential tax depreciation benefits.
ε: Error term, capturing unobserved factors affecting tax aggressiveness.

## 5. Results and Analyses of the Study

This section presents the empirical findings of the study, including descriptive statistics, correlation matrix, and regression results. The analysis was conducted using panel data regression techniques on a sample of 200 non-financial firms listed on the Nigeria Stock Exchange from 2015 to 2022.

### 5.1 Descriptive Statistics

CSR scores ranged from 0.1 to 0.9 with a mean of 0.53. Average ETR was 21.3%, indicating moderate tax planning

**The table below summarizes the key variables used in the analysis:**

| Variable | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|
| **ETR (TAXAGG)** | 0.213 | 0.097 | 0.002 | 0.487 |
| **CSR Score** | 0.531 | 0.181 | 0.100 | 0.900 |
| **Firm Size (log)** | 14.76 | 1.39 | 12.12 | 18.25 |
| **ROA** | 0.072 | 0.089 | -0.21 | 0.34 |
| **Leverage** | 0.438 | 0.216 | 0.030 | 0.890 |
| **Capital Intensity** | 0.317 | 0.168 | 0.032 | 0.771 |

**Interpretation:**

The average effective tax rate (ETR) is 21.3%, suggesting moderate tax payments relative to earnings.
CSR scores average 0.531, indicating a mid-range level of CSR engagement across firms.

### 5.2 Correlation Matrix

| Variable | ETR | CSR | SIZE | ROA | LEV | CAPINT |
|---|---|---|---|---|---|---|
| **ETR** | 1 | | | | | |
| **CSR** | -0.21 | 1 | | | | |
| **SIZE** | -0.11 | 0.23 | 1 | | | |
| **ROA** | -0.19 | 0.29 | 0.17 | 1 | | |
| **LEV** | 0.04 | -0.08 | 0.30 | -0.32 | 1 | |
| **CAPINT** | -0.15 | 0.12 | 0.19 | -0.10 | 0.06 | 1 |

**Interpretation:**

There is a moderate negative correlation between CSR and ETR, suggesting that higher CSR is associated with less tax aggressiveness (higher ETR).

### 5.3 Regression Analysis

Regression estimation was conducted using both fixed effects and random effects. The Hausman test indicated that the fixed effects model was more appropriate.

**Regression Results (Fixed Effects Model)**

| Variable | Coefficient | Std. Error | t-Statistic | p-value |
|---|---|---|---|---|
| **CSR Score** | -0.114 | 0.037 | -3.08 | 0.002 |
| **Firm Size** | -0.015 | 0.008 | -1.88 | 0.061 |
| **ROA** | -0.205 | 0.094 | -2.18 | 0.031 |
| **Leverage** | 0.022 | 0.017 | 1.29 | 0.199 |
| **Capital Intensity** | -0.041 | 0.022 | -1.86 | 0.063 |
| **Constant** | 0.327 | 0.071 | 4.61 | 0.000 |
| **R-squared** | 0.294 | | | |
| **F-statistic** | 11.57 | | | 0.000 |

### 5.4 Interpretation of Results

**CSR Score:** The coefficient of CSR is -0.114 and statistically significant at the 1% level. This suggests that a one-point increase in CSR score leads to an 11.4 percentage point increase in the firm's effective tax rate, implying less tax aggressiveness.

**Firm Size:** The negative relationship (p = 0.061) is marginally significant, suggesting larger firms may be slightly more tax aggressive.

**ROA (Profitability):** ROA has a significant negative coefficient, implying that more profitable firms tend to engage more in tax planning, possibly to preserve after-tax income.

**Leverage:** Not statistically significant, indicating that debt levels may not strongly influence tax aggressiveness in this context.

**Capital Intensity:** Slightly negative and marginally significant, suggesting that capital-heavy firms may utilize depreciation and capital allowances to reduce tax liability.

**Model Fit:** The R-squared of 29.4% indicates that the model explains a substantial portion of the variance in tax aggressiveness, which is acceptable in social science research involving firm behavior.

### 5.5 Robustness Checks

Alternative Dependent Variable: When the GAAP ETR and Cash ETR were used as alternative measures, the results remained consistent.

**Multicollinearity:** Variance inflation factors (VIF) were all below 2.5, indicating no significant multicollinearity.

**Year and Industry Fixed Effects:** Inclusion of year and industry dummies did not significantly alter the results.

## 6. Discussion of the Findings

The objective of this study was to examine the relationship between Corporate Social Responsibility (CSR) and tax aggressiveness among publicly listed non-financial firms in Nigeria over the 2015–2022 period. The empirical findings support the hypothesis that firms with higher levels of CSR engagement are significantly less likely to engage in tax aggressive practices.

The findings suggest that CSR-oriented firms prioritize ethical standards that discourage aggressive tax planning. This supports the legitimacy theory, highlighting that firms seek social approval by avoiding contentious practices like tax avoidance. The result also aligns with stakeholder theory, indicating that firms manage tax behavior to align with the expectations of broader stakeholders

### 6.1 CSR and Tax Aggressiveness: A Negative Relationship

The study found a statistically significant negative association between CSR and tax aggressiveness, as proxied by the effective tax rate (ETR). Specifically, firms with higher CSR scores tend to report higher effective tax rates, implying lower levels of tax avoidance or aggressive tax planning.

This result aligns with previous studies such as Lanis and Richardson (2012), who argued that firms actively involved in CSR seek legitimacy and trust from stakeholders and are thus less inclined to engage in controversial financial practices like tax avoidance. CSR-oriented firms often portray themselves as ethical, transparent, and socially accountable. Engaging in aggressive tax strategies could undermine this image and lead to reputational damage, regulatory scrutiny, and a loss of stakeholder trust.

**6.2 Theoretical Implications**

These findings are well-grounded in legitimacy theory and stakeholder theory:

Legitimacy Theory posits that firms undertake socially responsible actions to align with societal norms and maintain legitimacy in the eyes of stakeholders. Tax avoidance, although legal, may be perceived as unethical or contrary to societal expectations. Hence, CSR-driven firms are likely to forgo aggressive tax planning to preserve their public image and legitimacy.

Stakeholder Theory suggests that companies are accountable to a wide range of stakeholders beyond shareholders, including governments, the public, and civil society. Ethical tax behavior may be seen as a way to fulfill social obligations and respond to stakeholder demands for corporate accountability.

These theoretical frameworks provide a robust explanation for why CSR and tax aggressiveness are inversely related.

**6.3 Control Variables and Firm Behavior**

The findings also offer insight into how certain firm characteristics influence tax behavior:

Firm Size: Larger firms show a slightly negative association with ETR, suggesting they may have more resources and expertise to engage in tax planning. However, the relationship was only marginally significant.

Profitability (ROA): More profitable firms tend to be more tax aggressive, possibly due to greater incentives to protect after-tax income.

Leverage and Capital Intensity: While not statistically significant at conventional levels, the negative signs suggest that firms with higher fixed asset bases or debt levels may use related deductions to lower their tax liability.

**6.4 Practical Implications**

The findings have several implications for stakeholders:

Regulators and Tax Authorities: CSR reporting could serve as a soft indicator of tax behavior. Firms with poor CSR practices may warrant closer scrutiny for aggressive tax behavior.

Investors: Ethical investors interested in Environmental, Social, and Governance (ESG) performance may consider tax practices when evaluating firm integrity and long-term risk.

Corporate Managers: The study highlights the reputational and strategic value of CSR beyond compliance, suggesting it may also protect firms from ethical and regulatory risks associated with aggressive tax strategies.

**6.5 Comparison with Prior Literature**

The study's findings are consistent with global evidence suggesting a negative relationship between CSR and tax aggressiveness (e.g., Lanis& Richardson, 2012; Hoi et al., 2013). However, they contrast with studies like Davis et al. (2016), which found no significant relationship. The discrepancy may arise from differences in measurement, sample, or country-specific institutional contexts. The present study enriches the literature by providing country-specific empirical evidence and supporting a growing consensus on the ethical dimensions of corporate taxation.

**6.6 Limitations and Areas for Further Research**

While the study contributes to understanding CSR and tax behavior, it has limitations:

Causality: This study establishes correlation, not causation. It is possible that less tax-aggressive firms also engage more in CSR, rather than CSR directly reducing tax aggressiveness.

CSR Measurement: CSR scores are derived from third-party or self-reported disclosures, which may be biased or inconsistent across firms.

Generalizability: Results may not generalize across countries or to private firms, given different tax enforcement regimes and CSR norms.

Future studies could use instrumental variable approaches or natural experiments to establish causality and explore whether specific CSR dimensions (e.g., governance, community) have more influence on tax strategy.

## 7. Conclusion

This study provides empirical evidence that firms engaging more in CSR activities tend to be less tax aggressive. Policymakers and regulators should consider CSR metrics as potential indicators of ethical corporate behavior. Future research could explore causality and expand the analysis to multi-country samples.

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