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CSR AND TAX AVOIDANCE: A REVIEW OF EMPIRICAL RESEARCH

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Abstract

This article is a literature review that covers quantitative empirical research on the association between corporate social responsibility (CSR) and corporate tax avoidance. We conduct a structured literature review and evaluate the empirical-quantitative results with regard to the CSR–tax avoidance link and vice versa. The association between CSR and tax avoidance is both theoretically and empirically ambiguous. However, the majority of studies finds a negative association between CSR and tax avoidance. Nevertheless, results are highly dependent on measurement of the respective constructs and other marginal conditions. Comparability of recent research on the issue is in particular limited due to heterogeneous CSR and tax avoidance metrics and due to a potentially bidirectional relationship. Results imply that there is not necessarily a stable association between CSR performance, as measured by CSR scores or ratings, CSR reporting, and a firm's tax practices. Thus, socially responsible investors have to make a decision about whether they are prepared to invest in firms that have high CSR scores and strong CSR performance while aggressively avoiding taxes. Investors who perceive tax payments as part of a firm's responsibility towards society, have to select their investments with great care, as CSR scores and CSR reporting are of only limited informative value with regard to tax avoidance.

Keywords: Tax Avoidance, Tax Planning, CSR, Stakeholder Theory, Agency Theory, Gender Diversity

Authors' individual contribution: Conceptualization – J.K. and P.V.; Investigation – J.K. and P.V.; Resources – J.K. and P.V.; Writing – Original Draft – J.K. and P.V.; Writing – Review & Editing – J.K. and P.V.

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1. INTRODUCTION

Corporate tax avoidance has gained increasing prominence as a subject of discussion in recent years (Hanlon & Heitzman, 2010; Dyreng, Hoopes, & Wilde, 2016; Wilde & Wilson, 2018; Beer, de Mooij, & Liu, 2020). Media coverage on the extremely low tax payments of a number of multinational firms caused a public outcry and various "leaks"-events provided insight into the sophisticated structures that these firms had created to avoid billions in taxes (Berrong, 2010; Sandell, 2012). While corporate tax avoidance had already been a major issue in political and academic debates in the USA as an aftermath of the corporate scandals in the early 2000s (Joint Committee on Taxation, 2003; McGill & Outslay, 2004), it took more time in other OECD countries to place tax avoidance on the political agenda. Meanwhile, the public became aware that well-known firms like Google, Apple or Facebook pay almost no taxes outside the U.S., where they earn substantial proportions of their income (Chew, 2016) and many empirical studies support the notion that multinational enterprises engage in tax avoidance to a substantial effect (for a recent overview, Beer et al., 2020). The wider public, however, strongly disapproves of these practices, as polls reveal (Christian Aid, 2017). This widely perceived injustice about firms making profits without paying a substantial amount of taxes while many states and public entities struggle to balance their budgets has become so pressing, that the OECD launched the "BEPS" (base erosion and profit shifting) project in order to combat aggressive tax avoidance and to secure pubic revenue. The European Union strives to implement the measures suggested in the final reports of the BEPS project by adopting the Anti-Tax Avoidance Directive (Council Directive 2016/1164) that is targeted at limiting the leeway for tax avoidance.

Despite all attempts to combat corporate tax avoidance, it is still a rampant phenomenon (Dyreng, Halon, Maydew, & Thornock, 2017; Thomsen & Watrin, 2018). Dyreng, Hanlon, and Maydew (2008) show that there is a subset of firms that achieve very low corporate tax rates over long periods of time. However, it should be noted that not all firms which have the opportunity to aggressively avoid taxes necessarily do so. Whereas some firms exploit the frictions of international tax law, others regularly report fairly high corporate effective tax rates. Why is there so much cross-sectional variation in corporate tax avoidance? Why do some firms aggressively avoid taxes, whereas many others do not? This question is commonly known as the "undersheltering puzzle" (Weisbach, 2002)[1]. Recent research reveals that the obvious benefits of tax avoidance may be set off by the cost of tax avoidance, which can either be tax-cost or have non-tax character (Hanlon & Slemrod, 2009; Austin & Wilson, 2017).

Costs and benefits of tax avoidance may accrue to different stakeholders in different ways. Whereas some stakeholders may benefit from tax avoidance, others may have to bear the cost. For instance, a shareholder may benefit from tax avoidance through higher dividends, while a debtholder might rather see his fixed claims put at risk (Ayers, Laplante, & McGuire, 2010). These features make it inevitable to include all relevant stakeholders in the discussion. The relevance of stakeholders is emphasized by most concepts of CSR (Dahlsrud, 2008), so it follows that CSR can be linked with the tax policies of the firm. With regard to taxation, CSR is a particularly important concept, because tax payments constitute a contribution to society, and thus tax payments, as a distribution of resources to non-shareholders (Huang & Watson, 2015), may be understood as an important aspect of CSR (Sikka, 2010). This is reflected by a growing number of studies investigating the association between CSR and tax avoidance (Lanis & Richardson, 2012; Davis, Guenther, Krull, & Williams, 2016). In line with increased research activity, (inter)national standard-setters initiated several reforms to strengthen CSR reporting. For instance, the EU CSR Directive 2014/95/EU and the Shareholder Rights Directive 2017/828/EU recommend the implementation of a sustainable management compensation system with non-financial key performance indicators and extends nonfinancial reporting.

In lieu of this background, we evaluate 47 recent empirical studies on the association of CSR and corporate tax avoidance. Specifically, our primary research question is: *How are CSR and tax avoidance associated with each other?* Our literature review adds to the contributions of former literature reviews (Whait, Christ, Ortas, & Burritt, 2018; Stephenson & Vracheva, 2015) in many ways. The recent review by Whait et al. (2018) does not focus on empirical-quantitative research, but also includes empirical-qualitative, normative, theoretical, and philosophical aspects and touches only briefly on quantitative empirical research. Thus, a detailed analysis on CSR and tax avoidance in prior archival research is missing. The working paper by Stephenson and Vracheva (2015) also includes corporate governance topics in their review and it is more focused on theoretical explanations. Thus, we see a useful contribution to recent literature as empirical research on CSR and tax avoidance increased during the last years.

This paper is organized as follows. In Section 2, tax avoidance is defined and a number of different theoretical perspectives on the association between CSR and tax avoidance are discussed. In Section 3, we describe the research framework, including the description of the key variables and data selection. Section 4 reviews empirical studies on the relationship between CSR, namely 1) CSR performance, 2) CSR reporting, and 3) stakeholder interests, and tax avoidance. Finally, in Section 5 we consider limitations in prior research, discuss open research questions, and give recommendations for future research. Section 6 concludes.

2. THEORETICAL FRAMEWORK

2.1. Defining tax avoidance

In the literature, no consistent terminology has yet developed with respect to the phenomenon that firms attempt to reduce taxes. Apart from "tax avoidance", other terms regularly encountered include "tax planning", "tax management", "tax sheltering", "tax aggressiveness" and "tax evasion", the meaning of each depending on the respective author's intentions and attitude. Tax avoidance, in the broadest of all terms, is regularly defined as "any activity that reduces the firm's tax relative to pretax income" (Dyreng et al., 2008). The term "tax avoidance" is the one most frequently used in the literature, thanks to its wide definition and eschewal of ethical or legal judgement. The definition by Dyreng et al. (2008) includes all measures taken by the firm to reduce its taxes; it includes both legal and illegal activities. Such a definition may be unsatisfactory from an ethical or legal standpoint, but it is helpful in the sense that statements can be made about "more" or "less" tax avoidance being pursued by a firm, without requiring further knowledge about the specifics of that firms' tax avoidance strategy. The term "tax avoidance" can hence be thought of as an umbrella term encompassing all of the above expressions and the types of behavior they refer to. It should further be noted, that "tax avoidance" as used by many authors does not imply any moral judgement, as opposed to terms like "tax planning" and "tax management", which frame the reduction of corporate taxes rather positively, or opposed to "tax

[1] According to Weisbach (2002), the "undersheltering puzzle" refers to the circumstance that many firms would not use all ways and means of avoiding ("sheltering") taxes which would be available to them, hence, firms would "undershelter".

sheltering" and the popular "tax aggressiveness" which express a rather negative view. It should be noted here, that the above terms are often used interchangeably in the literature and that many studies do not take much care regarding the terminology used.

According to the framework by Hanlon and Heitzman (2010), tax avoidance conceptually refers to a continuum. Moving along the continuum, tax avoidance becomes more "aggressive", from some point becoming illegal tax avoidance (i.e., tax evasion). Hanlon and Heitzman (2010) emphasize that "much like art the degree of aggressiveness (beauty) is in the eye of the beholder; different people will often have different opinions about the aggressiveness of a transaction" (p. 137). The idea of tax avoidance as a continuum may be schematic and lack conceptual rigor, as it is not entirely clear whether the continuum has ended and where on the continuum to set the point where "tax aggressiveness" begins, but it has nevertheless become widely received in the literature and it reinforces that tax avoidance is not a discrete variable (in the sense of legal versus illegal) but rather a continuous one.

In this literature review, we use the term "tax avoidance" as defined by Dyreng et al. (2008), in order to include all of the above described types of tax behavior and abstain from ethical or legal judgement. We believe that this is necessary because looking at a firm from the outside without having private inside information makes it almost impossible to say whether the respective firm's tax avoidance can be called aggressive or not (Donohoe, McGill, & Outslay, 2012). We therefore explicitly refrain from using the popular expression "tax aggressiveness" (though many studies covered in this review use it), but use the more general and more neutral term "tax avoidance".

2.2. Tax avoidance and CSR

In the literature, several perspectives can be found with regard to the relationship of tax avoidance and CSR. Whether the relationship between the two concepts is of positive or negative nature, mainly depends on the concept of CSR applied by the respective author and on the direction of the assumed causality. Whereas some studies conceive CSR as a determinant of tax avoidance (Lanis & Richardson, 2012; Hoi, Qiang, & Zhang, 2013; Zeng, 2019), others conceive tax avoidance as a determinant of CSR (Lanis & Richardson, 2013; Zeng, 2016; Col & Patel, 2019). At least three major theoretical perspectives can be identified, namely 1) CSR as an expression of stakeholder-orientedness, 2) CSR as a risk-management device, and 3) CSR as an expression of agency problems, which lead to different predictions on the association between CSR (tax avoidance) and tax avoidance (CSR) and which are discussed in the following sections.

2.2.1. CSR as stakeholder-orientedness

The literature on CSR is fraught with an overwhelming diversity of definitions (Devinney, 2009), but most definitions of CSR have in common that they emphasize the importance of stakeholders. For instance, Jones (1980) defines CSR as "the notion that corporations have an obligation to constituent groups in society other than stockholders [i.e., stakeholders] and beyond that prescribed by law or union contract" (p. 59), which grounds the position that stakeholders' interests should be taken into account by management decisions. Thus, CSR can be considered as an expression of a general orientedness from the side of the management towards stakeholders, which can either have its roots in shared (ethical) values, as the upper echelons theory (Hambrick & Mason, 1984) suggests, or it can be of a more instrumental character in the sense that the interests of pivotal stakeholders have to be taken into account in order to secure the survival of the firm (Hill & Jones, 1992). Since tax payments benefit a wide range of stakeholders, especially the upper-echelons-perspective would imply that CSR is negatively associated with tax avoidance.

However, instrumental stakeholder theories suggest otherwise. One can argue that tax payments as contributions to society would constitute CSR, and hence that a firm that socially responsible firms would not avoid taxes, but such a position may be rather naive. In fact, the direct beneficiary of tax payments is not the society "at large" but the state, and the question of whether the state constitutes such a stakeholder, has not yet been answered (Dowling, 2014). Furthermore, instrumental stakeholder theories emphasize that not all stakeholders are of equal importance to the firm (Hill & Jones, 1992; Donaldson & Preston, 1995; Shankman, 1999). Due to the differing specificity of asset investments of the stakeholders (e.g., in human capital), some stakeholders have more power vis-à-vis the management, whereas others have less (Hill & Jones, 1992). This requires the management to direct resources towards the more powerful stakeholders, in order to satisfy their expectations against the firm. CSR can then be considered as a means to direct resources to specific stakeholders. However, resources taken away from the firm in the form of taxation are not available anymore for CSR that could be aimed at specific stakeholders. Since CSR can be directly aimed at the more powerful and thus more important stakeholders, whereas tax payments cannot, management can be expected to prefer CSR overpaying taxes. This leads to the conclusion that CSR would be positively associated with tax avoidance, irrespective of causal direction: firms that pursue CSR recover the cost of CSR by avoiding taxes; firms that avoid taxes have more resources available for CSR.

2.2.2. CSR as risk management

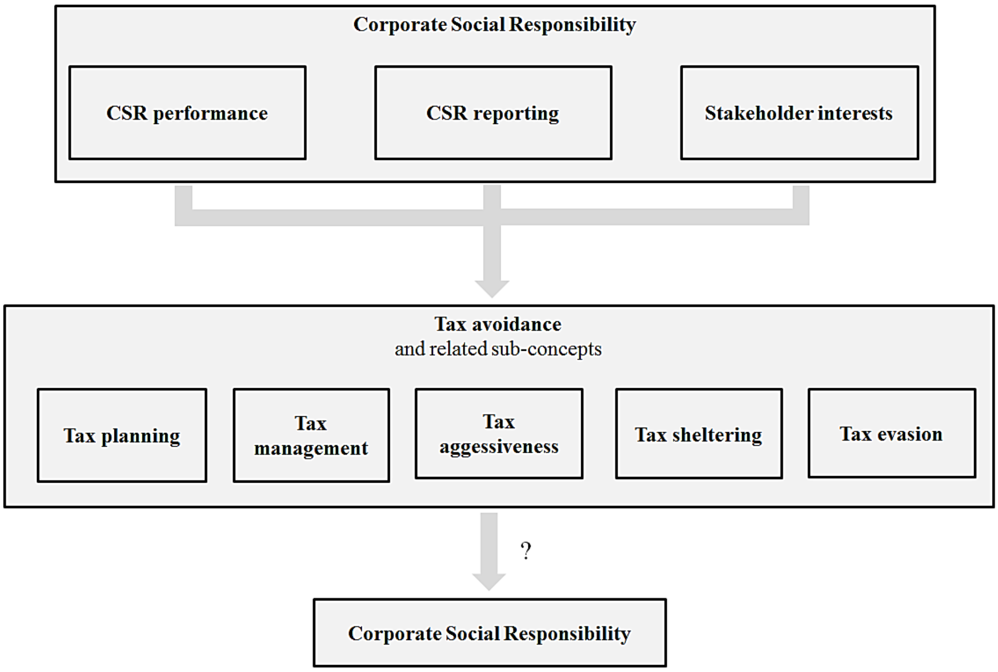
According to Godfrey (2005), CSR has the potential to build up "positive moral capital" among stakeholders which provides "'insurance-like' protection" against reputational risks to the firm and therefore contributes to shareholder wealth. When firms are faced with negative media reports, CSR protects the firm from adverse capital market reactions (Minor & Morgan, 2011) and can thus be considered a risk-management device. Tax avoidance creates reputational risk for firms; if revealed to the public, markets may react with a share-price decline (Hanlon & Slemrod, 2009, Brooks, Godfrey, Hillenbrand, & Money, 2016) and consumers may choose not to buy the products from the firm (Austin & Wilson, 2017). Therefore, tax avoidance and CSR would be expected to be positively associated: firms that avoid taxes will pursue CSR in order to protect themselves against negative reactions, and firms that already pursue CSR will have some leeway for increasing their tax avoidance. The resultant complementary relationship between CSR and tax avoidance would then increase shareholder value. However, the precondition would be that management acts in the interest of shareholders, i.e., that there are no serious agency-problems involved.

2.2.3. CSR as an agency-problem

In the presence of agency-problems, i.e., when the interests of management and shareholders are not sufficiently aligned and thus management does not act in the interest of shareholders but in its private interest (Demski & Feltham, 1978; Eisenhardt, 1989), CSR activities may reflect this conflict of interest, whereby managers use firm resources to support their private charity preferences, enhance their personal reputations and gain access to exclusive social networks (Masulis & Reza, 2015). According to this view, CSR would rather be a form of rent extraction by managers for their private benefit, possibly at the expense of shareholders. Tax avoidance increases the cashflow of the firm, which could either be used for investment, dividends, or CSR. In a firm that is characterized by agency-conflicts as outlined above, managers would rather use those funds for private utility-increasing CSR than for investment or dividends. Hence, the funds from tax avoidance would cause agency-cost, similar to the well-known free-cashflow-problem described by Jensen (1986). This leads to the prediction that tax avoidance and CSR would be positively associated: managers avoid taxes to increase the funds they can spend on CSR for gaining personal benefits.

As the above discussion shows, the relationship between CSR and tax avoidance is highly ambiguous and bidirectional. Predictions on their association are dependent on the theoretical point of view. Taking a stakeholder-perspective allows a positive or a negative relationship, as does the classical agency-perspective, which reinforces that it is ultimately an empirical question. Moreover, it should be noted that the stakeholder-perspective does not necessarily lead to the same outcomes when a specific group of stakeholders is considered, because stakeholders cannot be treated as a monolithic block; different stakeholders can have different interests with regard to tax avoidance.

Figure 1. Theoretical framework



3. RESEARCH FRAMEWORK

3.1. Measuring tax avoidance

Empirical research on tax avoidance requires a valid and reliable measurement of the phenomenon in question. Since tax related information is considered highly confidential in business practice, firms normally do not disclose more information on their tax matters than they are legally required to do. Researchers investigating tax avoidance, therefore have to rely on the information reported and disclosed in the annual corporate reports. Two groups of variables are widely used in tax avoidance research: effective tax rates (ETR) and book-tax differences (BTD).

The ETR is the ratio of tax expense over pre-tax income. The intuition here is, that the lower an ETR, the more intensively does the firm avoids taxes. Numerous varieties of ETR are regularly found in the literature. The most simple measure, referred to as GAAP ETR, is calculated as total tax expense divided by pretax income (Phillips, 2003; Gaertner, 2014). Hereby, tax avoidance reduces total tax expense, leading to a decrease in GAAP ETR. Tax expense, however, is an accruals-based measure and thus it is subject to management discretion. Several studies have shown that tax expense can be affected by earnings management (Dhaliwal, Gleason, & Mills, 2004; Cook, Huston, & Omer, 2008). Dyreng et al. (2008) therefore propose Cash ETR, which uses cash tax paid as the numerator, instead. Cash is often considered to be less prone to manipulation through earnings management and therefore expected to be a more reliable measure. On the other hand, cash tax payments can be highly volatile. To account for this, Dyreng et al. (2008) suggest averaging cash tax paid and pretax income over multiple years. The resulting long-run Cash ETR has become maybe the most popular measure for tax avoidance in subsequent research (Chen, Chen, Cheng, & Shevlin, 2010; McGuire, Wang, & Wilson, 2014).

BTD, as the second group of tax avoidance measures, is calculated as the difference between taxable income (i.e., income reported in tax filings to fiscal authorities) and book income (i.e., pretax income reported in financial statements to capital markets). To calculate BTD, book income and taxable income must be available. Whereas book income is readily available from financial statements, obtaining taxable income is problematic. Because tax filings are confidential in most countries, taxable income is not directly observable and accordingly must be estimated (Lennox, Lisowsky, & Pittman, 2013). Taxable income can be inferred by dividing the current tax expense by the applicable statutory tax rate (Manzon & Plesko, 2002). Subtracting book income from taxable income, in a second step, then gives the total BTD. To make BTD comparable across firms of different sizes, BTD is normally scaled by total assets (Guenther, Krull, & Williams, 2014).

BTD, however, can be temporary or permanent in nature, depending on whether they will eventually reverse in future periods, or not. Total BTD, as calculated above, are the sum of temporary and permanent BTD. Tax avoidance can either take the form of tax deferral, resulting in temporary BTD, or take the form of permanent tax savings, resulting in permanent BTD. Temporary BTD can be calculated by dividing deferred tax expense by the statutory tax rate (Hanlon, 2005). Permanent BTD, which are often considered to reflect more aggressive types of tax avoidance (Frank, Lynch, & Rego, 2009) can then be obtained by subtracting temporary BTD from total BTD (Goh, Lee, Lim, & Shevlin, 2016).

Although temporary, permanent, and total BTD are widely used in empirical studies, they are possibly affected by the same disadvantage as ETR, which is earnings management. This becomes most apparent with regard to total BTD: The total BTD becomes smaller (i.e., more negative) when taxable income decreases, which would be indicative of tax avoidance. However, total BTD also become smaller, when book income increases and taxable income remains unchanged, which would be indicative of earnings management. To account for this issue, Desai and Dharmapala (2006) propose discretionary total BTD, which isolates the component of total BTD that is attributable to tax avoidance from the component attributable to earnings management. Desai and Dharmapala (2006) regress the total BTD on discretionary accruals. The residuals from this regression then are the component of total BTD which is not explained by earnings management and must hence be the result of tax avoidance.

The measures described above are those which occur most frequently in the literature. There are, nevertheless, also other measures which are based on ETR or BTD, like discretionary permanent BTD (sometimes referred to as "DTAX") (Frank et al., 2009), the SHELTER score (Wilson, 2009), TSSCORE (Lisowsky, 2010) or Delta (Henry & Sansing, 2018), which cannot be discussed here in detail.

3.2. Data

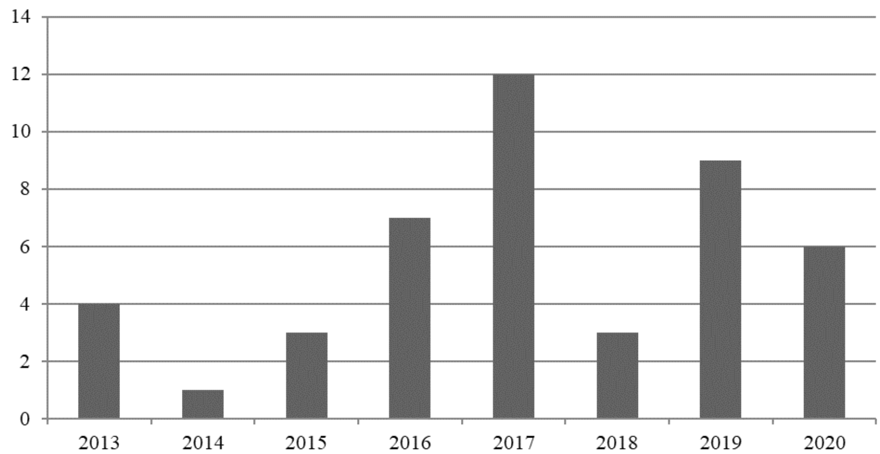
To obtain the sample for this literature review, we search international literature databases (EBSCO, Emerald, ScienceDirect, Web of Science, Wiley Online Journals) for keywords related to our research interest, such as "tax avoidance", "tax planning", "tax management", "tax aggressiveness", "tax sheltering" or "tax evasion" in conjunction with "CSR", "corporate social responsibility", "corporate citizenship", "stakeholder" and related items. The articles that resulted from this targeted search process were subsequently examined for 1) their appropriateness with regard to the research question, and 2) their appropriateness with regard to the methodology used. We first excluded all studies that did not explicitly investigate the association between tax avoidance (or a related concept) and corporate social responsibility (and related concepts, such as corporate citizenship). Depending on the respective definition, there may be overlaps between the concept of CSR and the concept of corporate governance (Jamali, 2008). Whereas classical definitions of corporate governance that follow a shareholder-oriented perspective, regard corporate governance primarily as an instrument of providers of capital (Shleifer & Vishny, 1997), recent stakeholder-oriented definitions emphasize that corporate governance may also take the interests of other stakeholders into account. Nevertheless, in this review, we focus on research that explicitly deals with CSR. Research on the association between tax avoidance corporate governance, in general, has already been the subject of prior literature reviews (Wilde & Wilson, 2018).

For ensuring comparability of the papers, we then excluded all studies that were either non-empirical or that did not have a quantitative analytical focus. Conceptual, theoretical, and empirical-qualitative papers, case studies, and articles containing only anecdotic evidence were excluded from the sample. For quality assurance and practical reasons, we only included articles published in English language journals with a double blind peer review process. Moreover, we explicitly excluded working papers from our sample. From the initial sample (68), we deducted theoretical papers (-7), qualitative papers, case studies, and other studies that do not apply multivariate methods (-8) and remaining unpublished working papers (-6). This process leads to a final sample of 47 studies. An overview of the studies included in this review is given in Table 1, depicting the studies per year of publication, the research strand, the countries examined and the journal the studies were published in. The high number of studies published in recent years shows how research in this field has accelerated, highlighting its relevance. Figure 2 shows the increasing numbers of publications per year.

Table 1. Count of included published papers

Panel A: by publication year		
Total: 47	• 2012: 2 • 2013: 4 • 2014: 1 • 2015: 3 • 2016: 7	• 2017: 12 • 2018: 3 • 2019: 9 • 2020: 6
Panel B: by country		
Total: 47	• Cross country: 10 • Australia: 3 • Canada: 1 • China: 5 • Egypt: 1 • France: 1 • Ghana: 1	• India: 1 • Indonesia: 3 • Korea: 1 • Nigeria: 1 • Norway: 1 • UK: 1: • USA: 17
Panel C: by journal		
Total: 47	• Accounting Perspectives: 1 • Accounting Research Journal: 1 • Accounting, Auditing and Accountability Journal: 2 • Asia-Pacific Journal of Accounting and Economics: 1 • Australian Tax Forum: 1 • Business and Society: 1 • Corporate Governance: 1 • Corporate Social Responsibility and Environmental Management: 2 • International Journal of Accounting: 1 • International Research Journal of Business Studies: 1 • Journal of Accounting and Financial Reporting: 1 • Journal of Accounting and Information Management: 1 • Journal of Accounting and Taxation: 2 • Journal of Accounting and Public Policy: 1 • Journal of Accounting Research: 2	• Journal of Accounting, Auditing and Finance: 1 • Journal of Business Ethics: 3 • Journal of Cleaner Production: 1 • Journal of Corporate Finance: 1 • Journal of Financial Economics: 2 • Journal of Financial Reporting and Accounting: 1 • Journal of International Accounting, Auditing and Taxation: 1 • Journal of Management Accounting Research: 1 • Quality and Quantity: 1 • Review of Integrative Business and Economics Research: 1 • Scandinavian Journal of Management: 1 • Social Responsibility Journal: 4 • Sustainability: 2 • The Accounting Review: 3 • The Journal of the American Taxation Association: 5
Panel D: by content		
Total: 47	• CSR performance: 25 • CSR reporting: 7 • Stakeholder interests: 15	

Figure 2. Studies per year of publication



Current research mainly investigates CSR performance and reporting as determinants of tax avoidance. Studies on specific stakeholders and stakeholder representation are lower in amount. Empirical research is dominated by studies on US-samples (USA: 16). However, in recent years, research on the determinants of tax avoidance also developed for emerging countries (e.g., Indonesia). The studies were partly published in journals with a clear focus on CSR (e.g., Journal of Business Ethics, Journal of Cleaner Production, Sustainability), but also in traditional accounting and finance journals, often highly ranked ones (e.g., Journal of Accounting Research, The Accounting Review, Journal of Financial Economics), which underlines the interdisciplinary nature and relevance of the issue.

4. EMPIRICAL EVIDENCE ON CSR AND TAX AVOIDANCE

4.1. CSR performance

CSR, like tax avoidance, is a concept that poses serious challenges to measurement (Moser & Martin, 2012). While some studies attempt to capture actual CSR performance based on external ratings, thereby often relying on indices or scores by analysts (Kim, Park, & Wier, 2012), such as the KLD database, others measure CSR via CSR reporting scores (Dhaliwal, Radhakrishnan, Tsang, & Yang, 2012). Whereas CSR performance is typically measured using a third-party assessment of a firm's impact on society and the environment, CSR reporting typically relies on data provided by the firm itself. Thus, a firm's CSR performance and its CSR reporting may differ dramatically. CSR performance is sometimes broken up into several subcomponents, such as a social and an environmental dimension. Furthermore, some studies differentiate between CSR strengths and CSR weaknesses (or "concerns"), whereas others measure CSR as an aggregate construct.

As outlined above, there are conflicting expectations regarding the association between CSR and tax avoidance. Whereas CSR is viewed as a form of stakeholder-orientedness, possibly rooted in shared values by the management, suggests a negative association. Other perspectives that view CSR as a form of risk management or even as an expression of agency-problems suggest the opposite. Building on the idea that tax avoidance happens at the expense of society and would thus contradict socially responsible behavior, Huseynov and Klamm (2012) were the first to investigate the relationship between CSR and tax avoidance. In sum, Huseynov and Klamm (2012) find that firms with CSR concerns (i.e., weak CSR) tend to avoid taxes more strongly than other firms, a result which is particularly strong among poorly governed firms. However, they also find that well-governed firms with community strengths (i.e., a form of strong CSR) also strongly engage in tax avoidance, which they interpret as an indication for well-governed firms using the funds from tax avoidance for CSR purposes. Findings by Laguir, Stagliano, and Elbaz (2015), however, seem to contradict the latter result, as they find that firms with greater activity in the social dimension of CSR show a lower level of tax avoidance. This is supported by Kiesewetter and Manthey (2017), who also find a negative association between the social dimension and tax avoidance, but no association with the environmental dimension. Focusing on CSR weaknesses, Hoi et al. (2013) find that firms with excessive CSR concerns, i.e., firms that engage in highly irresponsible behavior also engage in tax avoidance. Overall, the above findings suggest that there is an empirical relationship between CSR and tax avoidance, but that this relationship depends on the nature of the dimension of CSR and that there may be differences between CSR strengths and weaknesses with tax avoidance rather than being associated with CSR weaknesses. Nevertheless, a number of studies that measures CSR as an aggregate construct, e.g. by ratings or index inclusion, also find a negative association between CSR and tax avoidance (Muller & Kolk, 2015; Zeng, 2016; Jones, Baker, & Lay, 2017, Kim & Im, 2017; Mgbame, Chijoke-Mgbame, Yekini, & Kemi, 2017; Huang, Sun, & Yu, 2017; Mao & Wu, 2019).

Contrary to the above findings, however, Davis et al. (2016) produce evidence for a positive relationship between CSR performance and tax avoidance and interpret their result in the sense that tax payments and CSR activities act as substitutes, which means that firms face a trade-off between paying taxes and engaging in CSR. Thereby, CSR can be a more efficient means of enhancing relations with relevant stakeholders, because CSR can target specific stakeholders, which tax payments cannot. Supportive evidence is of a positive association between CSR and tax avoidance is presented by Gulzar et al. (2018), Zeng (2019) Mao (2019), Salhi, Riguen, Kachouri, and Jarboui (2019), and Alsaadi (2020). A recent study by Col and Patel (2019) shows that two years after setting up a subsidiary in a tax haven, firms increase their CSR, which also supports a positive relationship between the two. Gandullia and Piserà (2019) also find a negative association between average effective tax rates, but interpret their result as evidence for high taxation discouraging firms from engaging in CSR. A study by Amidu, Kwakye, Harvey, and Yorke (2016) fails to produce significant evidence of any association, at all.

As the above discussion shows, the findings presented by studies on the association between CSR performance and tax avoidance are not unambiguous. The heterogeneous results could indicate that the relationship is affected by other variables but only a few studies investigate possible moderators of the relationship. Results by Huseynov and Klamm (2012) suggest that the relationship is affected by the quality of corporate governance. Lanis and Richardson (2018) examine the effect of outside directors on the board on the association between CSR and tax avoidance and find that outside directors would increase a negative association. They interpret this as evidence for outside directors being concerned about external stakeholder interests, which would explain an interest in increasing CSR while simultaneously reducing tax avoidance. In a recent study, López-González, Martínez-Ferrero, and García-Meca (2019) investigate the effect of family ownership has an effect on CSR and tax avoidance. Overall, they find a negative association between CSR and tax avoidance, but that this relationship is weakened by family ownership. However, Watson (2015) emphasizes that strong CSR performance causes a high cost to firms. He hypothesizes that the association between CSR and tax avoidance will be affected by firms' earnings situation and finds that CSR is negatively associated with tax avoidance in firms with the current of future earnings performance but that this effect diminishes when earnings performance is high (Watson, 2015). This means that firms reduce CSR spending and increase tax avoidance in order to improve their bottom line, which is rather suggestive of a negative relationship. Liu and Lee (2019) investigate whether the association between tax avoidance and CSR is different for state-owned and non-state-owned Chinese firms. Consistent with the risk-management view of CSR, they find that for state-owned firms the association is negative, whereas it is positive for other firms.

A recent study by Ortas and Gallego-Álvarez (2020) offers a reconciliation for the apparently conflicting findings. Ortas and Gallego-Álvarez hypothesize that the relationship between CSR performance and tax avoidance is moderated by national culture. Analyzing a sample of firms from 30 countries of different national cultures, they find a negative association between CSR performance and tax avoidance to be stronger in more individualistic, long-term oriented, and indulgent cultures, which facilitate dialogue with stakeholders. For cultures that are characterized by high levels of power-difference, masculinity, and uncertainty avoidance – properties that do not promote stakeholder-dialogue – they find a less negative and much weaker association.

4.2. CSR reporting

Whereas the above studies use various third-party provided CSR performance measures and tend to confirm a negative association between CSR performance and tax avoidance, things may be different with regard to CSR reporting. The CSR reporting of major firms often follows the guidelines of the Global Reporting Initiative that apply a multi-stakeholder approach and aim to satisfy the informational needs of these stakeholders on social and environmental issues (Brown, de Jong, & Levy, 2009). However, the application of this framework is not compulsory, and firms are left with considerable discretion in their CSR reports. This reporting discretion enables firms to use CSR reporting to create a favorable veil in public over non-compliance in taxation (Sikka, 2010), mainly consistent with the risk-management perspective described above. Thus, a positive association between CSR reporting and tax avoidance seems reasonable. Practices such as "greenwashing," which can be defined as "selective disclosure of information about a company's environmental or social performance without full disclosure of negative information on these dimensions" (Lyon & Maxwell, 2011, p. 9), are possibly widespread. CSR research has not been able to convincingly establish a stable association between CSR performance and CSR reporting but instead has found a "performance-disclosure gap" (Font, Walmsley, Cogotti, McCombes, & Häusler, 2012). Furthermore, the existence and nature of an association between CSR reporting and tax avoidance may be affected by the model of corporate governance in different institutional contexts. Literature regularly contrasts the Anglo-Saxon common-law tradition and the Continental civil-law tradition. At the core of the differences between these two systems are different patterns of stakeholder involvement in corporate governance (Aguilera & Jackson, 2003). Firms from the more shareholder-oriented common-law countries have been found to put more emphasis on the visibility of their CSR (Jackson & Apostolakou, 2010), which makes CSR reporting a relatively more important instrument to them.

Lanis and Richardson (2012) measure CSR based on a disclosure index and find a negative association between CSR disclosure and tax avoidance, as measured by an ETR. Similar evidence is obtained by Sari and Tjen (2016). In a later study, however, Lanis and Richardson (2013) refine their measurement and find that firms with more intensive CSR disclosure (measured as the number of CSR-related sentences in annual reports) are more likely to be accused of a tax-related offense by the fiscal authority. Thus, Lanis and Richardson (2013) produce evidence of a positive relationship between CSR and tax avoidance and interpret their result as evidence for firms using CSR disclosure as a means to achieve organizational legitimacy, which would be consistent with the risk-management perspective. Studies by Pratiwi and Djakman (2017), Fallan and Fallan (2019) support a positive association, as well.

Lin, Cheng, and Zhang (2017) offer a possible explanation for the contradictory results. Examining a moderating effect of the institutional environment on the relation between CSR disclosure and tax avoidance, Lin et al. (2017) find that CSR disclosure is negatively related to tax avoidance when the institutional environment is strong, whereas CSR disclosure is positively related to tax avoidance when the institutional environment is weak. These findings suggest that firms operating in weak institutional environments use CSR disclosure as a means of window dressing and to veil their tax avoidance. In strong environments, on the contrary, CSR reporting is a more credible tool of communication. Supporting evidence is presented recently by Abdelfattah and Aboud (2020), who show that tax avoidance is positively associated with CSR disclosure in Egypt, a country that is characterized by rather weak formal institutions.

The above discussion of empirical results concerning CSR performance, CSR reporting, and tax avoidance shows that there is apparently no straightforward relationship between those constructs, but that the existence and direction of such a relationship depend on 1) the nature of CSR, such as differences between CSR strengths and weaknesses and sub-dimensions of CSR and 2) marginal conditions like the quality of corporate governance, characteristics of the institutional environment and the economic situation of the firm. Since most concepts of CSR underline the importance of stakeholders (Dahlsrud, 2008), the following section discusses empirical studies that examine tax avoidance as an outcome of stakeholder interests.

4.3. Stakeholder interests

4.3.1. Shareholders

As outlined above, CSR is strongly aligned with the conception of stakeholders, who may have differing interests with regard to tax avoidance. Hence, a discussion of the association between CSR and tax avoidance would be incomplete without taking a closer look at each group of stakeholders. Shareholders, although not typically in the focus of CSR, constitute an important stakeholder group as they are providers of capital. As residual claimants of the firm, after-tax profits increased by tax avoidance accrue to shareholders, either in the form of higher dividends, or higher share price (Armstrong, Blouin, & Larcker, 2012). This leads to the prediction that tax avoidance is inherently in the interest of shareholders. Nevertheless, tax avoidance does not come without risk (Rego & Wilson, 2012), because tax positions can be overturned by the fiscal authority, leading to additional tax payments, interest, fines, and potentially reputational damage. Whether tax avoidance is in the interest of shareholders will therefore depend on the respective shareholders' risk-aversion. Whereas highly diversified shareholders are expected to have a higher tolerance for risk (Demski & Feltham, 1978), less diversified shareholders and especially those which take a long-term interest in the firm behave more risk-averse and hence will prefer less tax avoidance. A plethora of studies investigates the impact of shareholder structure on tax avoidance (Chen et al., 2010; Cheng, Huang, Li, & Stanfield, 2012; Khurana & Moser, 2013; Chan, Mo, & Zhou, 2013; McGuire et al., 2014; Huseynov, Sardarli, & Zhang, 2017; Khan, Srinivasan, & Tan, 2017; Gaaya, Lakhal, & Lakhal, 2017). Generally, these studies indicate that long-term oriented shareholders, like institutional investors (Khurana & Moser, 2013) or the state (Chan et al., 2013), as well as non-diversified shareholders like in the case of family firms (Chen et al., 2010) cause tax avoidance of their firms to be lower, whereas short-term oriented shareholders like hedge funds (Cheng et al., 2012) cause increases in tax avoidance. A recent study by Inger and Vansant (2019) is the first one to investigate the shareholder perspective on CSR and tax avoidance. Inger and Vansant (2019) find negative market valuation consequences of avoiding taxes while simultaneously engaging in CSR, which they interpret as evidence of shareholders viewing CSR and tax avoidance as inconsistent activities. Similar results are obtained by Rudyanto and Pirzada (2020). Tasnia, Al Habshi, & Rosman (2020) investigate a simultaneous effect of tax avoidance and CSR performance on stock price volatility of banks but fail to produce significant results.

Apart from shareholders, however, various other groups of stakeholders may have an interest in a firm's taxation. Whereas banks and other creditors take a strong financial interest in the firm, other stakeholders like environmental groups, social activists, and NGOs take a purely non-financial interest. Nevertheless, most stakeholders like employees, customers, and suppliers will take an intermediate position that takes the financial goals of the firm into account to some extent but has primary goals other than the firm. Employees, for instance, will primarily be interested in good working conditions and higher payment, but also in the financial success of the firm since this ensures the firm's survival and may provide job security. This makes it an empirical question, whether such stakeholders have an effect on firm's tax avoidance. We identify nine studies on non-shareholding stakeholders and tax avoidance (Boone, Khurana, & Raman, 2013; Chyz, Leung, Li, & Rui, 2013; Dyreng et al., 2016; Austin & Wilson, 2017; Cen, Maydew, Liandong, & Luo, 2017; Hasan, Hoi, Wu, & Zhang, 2017; Chircop, Fabrizi, Ipino, & Parbonetti, 2018; Kanagaretnam, Lee, Lim, & Lobo, 2018) (see Table 2).

4.3.2. Employees

Employees, as a key group of stakeholders, can take a strong interest in the tax practices of the firm they are employed with. Hereby, two conflicting views are possible. On the one hand, firms can achieve a higher after-tax cash flow by avoiding taxes, which then would be available for the benefit not only of shareholders but also for the benefit of employees, e.g., for increasing wages and salaries or for pension schemes. One might argue that firms would not avoid taxes with the intention to share the resulting benefit with employees, but once increased after-tax profitability shows on the income statement, employees gain a stronger position in wage negotiations, whereas employers will have difficulty declining demands for wage increases (Chyz et al., 2013). On the other hand, employees may be aware that tax avoidance can imply a financial risk to the firm, possibly resulting in financial distress (Noga & Schnader, 2013), which then would put their jobs at risk. Moreover, employees are taxpayers, too. Therefore, employees might feel that it was simply not fair if the firm they work for pays relatively less tax than they themselves do. Furthermore, they might be aware that tax avoidance limits the resources available for financing public services, whose beneficiaries they are. Chyz et al. (2013) therefore investigate a possible association between organized labor and tax avoidance. Chyz et al. (2013) produce evidence that higher labor union power is associated with less tax avoidance. They interpret their result as labor unions reducing tax avoidance through monitoring, but also through decreasing returns to tax avoidance, which results from unions' rent-seeking behavior in wage negotiations.

Notwithstanding the significance of organized labor, individual employees can make a difference to a firm, as well. Especially, when an employee witnesses unethical or outright illegal activities within the firm, that employee might decide to turn to the public. Potential whistleblowing by employees therefore functions as a monitoring device. Wilde (2017) investigates tax avoidance in firms that have been subject to whistleblowing and finds that these firms reduce tax avoidance in the years after the whistleblowing incident, even when this incident had not been tax-related.

4.3.3. Consumers

Apart from shareholders and employees, consumers are regularly regarded as a highly relevant group of stakeholders because ultimately it will be the customers who have the final say on a firm's success. As consumers recently have become more aware of CSR-related issues such as firms' impact on the environment or working conditions in developing countries (Jamali, 2010), they may also take an increased interest in tax avoidance, too. Hanlon and Slemrod (2009) suggest that aggressive tax avoidance, once revealed, might result in consumer boycotts, which would give firms an economic incentive to refrain from tax avoidance for sustaining revenue.

In an experiment, Hardeck and Hertl (2014) produce evidence, that consumers are less willing to buy a product whose producer is linked to aggressive tax avoidance, giving support to a business case for tax compliance. This finding, however, may be limited to a specific subset of firms, as not all firms are equally visible in public and may have very different customer bases. Whereas firms that have only business customers but do no retail business to consumers and hence operate largely hidden from the public may be less concerned about their image with consumers. On the contrary, for firms that serve consumers, reputational concerns and consumer reactions may be more relevant. Austin and Wilson (2017) find that firms with valuable consumer brands have lower levels of tax avoidance, indicating that consumers do play an important role in monitoring. Cen et al. (2017) find that firms characterized by close relationships to a small number of customers, i.e., business customers, avoid more tax than firms with a more diverse customer base.

Taken together, the above findings imply that consumers have a containing effect on corporate tax avoidance, which may be the consequence of consumers perceiving tax avoidance as "unfair" or socially irresponsible. However, such consumer behavior might be irrational. Since taxes represent costs to firms, successful tax avoidance, as a means of cutting costs, might enable firms to offer lower prices to consumers, which would make tax avoidance beneficial to them. Taxes, as a rather "technical issue", may stir less emotion among consumers than other CSR concerns, such as human rights abuses or mistreatment of animals. Furthermore, as time passes, consumers may forget about revelations of tax avoidance and continue purchasing the goods and services provided by a firm. Hence, it may be interesting for future research to investigate the long-term effect of tax avoidance on consumer behavior and corporate revenue.

4.3.4. Civil society

Recently, civil society organizations like media and NGOs have discovered their interest in tax avoidance. As mentioned above, news coverage on Starbucks' tax strategy resulted in the firm finally increasing its tax payments in the United Kingdom. However, for civil society being able to have an effect on corporate activity, media need to be independent. Kanagaretnam et al. (2018) hypothesize and find that firms based in countries with more independent media show less tax avoidance. Similar to independent media, NGOs may also provide monitoring. Dyreng et al. (2016) show that being named on a "public shaming list" by a civil society organization for not disclosing tax-related information, effectively reduced tax avoidance by the affected firms in subsequent years.

4.3.5. Local communities

Local communities form an important stakeholder group, as they are directly affected by corporate actions in many ways, negatively, e.g., through toxic emissions or commuting traffic, but also positively through the employment of the local population and, depending on the tax system of the respective country, by payment of local taxes. Therefore, local communities could take an active interest in the tax behavior of firms that operate on their territory. Local communities, however, can vary to a great extent by many characteristics. Boone et al. (2013) argue that religiosity may have a deterring effect on tax avoidance since religion is associated with the fulfilment of social expectations. They find that firms that are headquartered in more religious U.S.-counties exhibit less tax avoidance. Extending this reasoning to a more general level, Hasan et al. (2017) hypothesize that social capital – shared common beliefs and dense associational networks – facilitates norm-consistent behavior and should hence have an effect on tax avoidance. Hasan et al. (2017) find that firms that are headquartered in counties with strong social capital avoid less tax, whereas firms from counties with weak social capital avoid taxes to a greater extent. These results are supported by Chircop et al. (2018).

Whereas characteristics of local communities like religiosity or social capital are rather time-invariant, public attention from media outlets or NGOs will be mostly temporary. For an NGO it is costly to monitor firms without getting any monetary reward. Public attention to media reports is also likely to fade away quickly, as media consumers have only limited time and information processing capacity to digest the news. Therefore, it seems questionable whether media and NGOs can have a lasting effect on corporate tax avoidance. Extant studies (Dyreng et al., 2016; Kanagaretnam et al. 2018) do not examine the long-term effect of being targeted by the press or NGOs, which therefore may be of interest to future research.

4.3.6. Gender diversity

According to Hill and Jones (1992), it depends on the relative power of each stakeholder group, to what extent it will be successful in pursuing its interests within the firm. Power, in turn, is assigned to stakeholders through the internal organization of the firm. Shareholders, usually considered the most powerful stakeholders, delegate decision making power to the board of directors (Fama & Jensen, 1983). Other stakeholders, however, may also have their interests represented on the board, which makes board composition an important aspect to all stakeholder-related issues such as CSR or tax avoidance.

Gender diversity on corporate boards has gained increasing prominence in both academic and public policy debates in recent years (Campbell & Mínquez-Vera, 2008; Sila, Gonzalez, & Hagendorff, 2016). In contrast to the huge relevance of gender diversity studies with regard to financial and nonfinancial accounting (Velte, 2017), however, only a few studies have examined the impact of gender diversity on tax avoidance (Francis, Hasan, Wu, & Yan, 2014; Lanis, Richardson, & Taylor, 2017; Richardson, Taylor, & Lanis, 2016) (see Table 2). Psychological studies, experimental ones, but also archival ones, consistently show that females tend to behave more risk-averse than males. Although psychological studies normally use samples drawn from the overall population and things could be different with regard to women in the board room. Nevertheless, studies from the fields of accounting and finance consistently link women on corporate boards with risk-reduction, reflected e.g. in lower levels of earnings management (Krishnan & Parsons, 2008; Liu, Wei, & Xie, 2016), lower stock-market beta (Lenard, Yu, York, & Wu, 2014; Bernile, Bhagwat, & Yonker, 2018) and lower cost of equity (Nguyen, 2020). As tax avoidance represents a risky activity (Armstrong, Blouin, Jagolinzer, & Larcker, 2015) the presence of women on the board of directors may have a limiting effect on tax avoidance. Francis et al. (2014) find that firms with female CFOs exhibit less tax avoidance than those with male CFOs. Lanis et al. (2017) and Richardson et al. (2016) also find a negative association between the presence of women on boards and tax avoidance. These findings indicate that gender diversity has a negative effect on tax avoidance in line with related research on the positive impact of gender diversity on (non)financial reporting quality (Velte, 2017).

Table 2 summarizes the included studies of our literature review and their main results.

Table 2. Empirical studies on the link between CSR and tax avoidance (Part 1)

Panel A: CSR performance								
Year	***Author(s)***	***Journal***	***State***	***Sample***	***Period***	***Independent variable(s)***	***Dependent variable(s)***	***Results***
2012	Huseynov and Klamm	Journal of Corporate Finance	USA	S&P 500 firms	2000-2008	CSR performance (KLD database), interacted with tax fees for tax services provided by the auditor	GAAP ETR and Cash ETR	Tax fees are associated with lower GAAP ETR. Tax fees are associated with lower Cash ETR when firms have strong CG or diversity. Tax fees are associated with higher GAAP and Cash ETR with a high number of community concerns.
2012	Lanis and Richardson	Journal of Accounting and Public Policy	Australia	408 firms	2008-2009	CSR disclosure (index)	ETR	The negative association between CSR disclosure and tax aggressiveness. The social investment commitment and corporate and CSR strategy of a firm are important elements of CSR activities that have a negative impact on tax aggressiveness.
2013	Hoi et al.	The Accounting Review	USA	11,006 firm-years	2003-2009	CSR performance (KLD database)	Tax-sheltering activities; discretionary and permanent BTD cash ETR	Firms with excessively irresponsible CSR activities have a higher likelihood of engaging in tax-sheltering activities and greater discretionary/permanent BTDs and a lower cash ETR.
2015	Laguir et al.	Journal of Cleaner Production	France	83 firm-years	2003-2011	CSR performance (Vigeo rating)	GAAP ETR, tax expense scaled by CFO, total BTD, discretionary total BTD	The social dimension of CSR is negatively associated with tax aggressiveness. No evidence could be found for an association between the environmental dimension and tax aggressiveness.
2015	Muller and Kolk	Business and Society	India	154 firm-years	2000-2002	CSR performance (listing in Dow Jones Sustainability Index)	Cash ETR	Indian subsidiaries of companies that have a reputation for CSR have higher effective tax rates than those who do not have a reputation for CSR.
2015	Watson	The Journal of the American Taxation Association	USA	7,297 firm-years	2001-2011	CSR performance (KLD database), profitability as moderator	Cash ETR	Low social responsibility is associated with tax avoidance in firms with low current or future earnings performance. The effect is diminished when current or future earnings performance is high.
2016	Amidu et al.	Journal of Accounting and Taxation	Ghana	119 firms	2010-2013	ETR	CSR performance (dummy for CSR activities)	No significant relationship.
2016	Davis et al.	The Accounting Review	USA	5,588 firm-years	2006-2011	CSR performance	Cash ETR, tax lobbying expenditure	CSR is negatively related to tax payments. Results are driven by high CSR-firms. CSR and tax payments act as substitutes.
2016	Zeng	Accounting Perspectives	Canada	53 firms	2005-2009	ETR	CSR performance (Corporate Knights Research Group ranking)	The higher the CSR ranking of the firm, the less likely a firm is to engage in tax aggressiveness.
2017	Huang et al.	The Journal of the American Taxation Association	USA	27,022 firm-years, thereof 205 inversions	1983-2015	ESG-Rating	Corporate Inversion (= 1)	Firms with higher CSR performance are less likely to expatriate.
2017	Jones et al.	Australian Tax Forum	Worldwide (30 countries)	1,428 firms	2014	CSR performance (EIRIS rating)	ETR, (long run) Cash ETR	Limited evidence of a negative link between CSR levels and tax aggressiveness; dependent on the region (significant on the Asian sub-sample, but not on the North American, European, and UK sample).
2017	Kiesewetter and Manthey	Corporate Governance	20 European countries	7,924 firm-years	2005-2014	CSR performance (Asset 4 database)	GAAP ETR, Tobin's Q	The negative association between social performance and tax avoidance. Environmental performance is not significantly related to tax avoidance. Tax avoidance has a negative impact on value creation only for firms with weak CSR scores.

Table 2. Empirical studies on the link between CSR and tax avoidance (Part 2)

Panel A: CSR performance								
Year	***Author(s)***	***Journal***	***State***	***Sample***	***Period***	***Independent variable(s)***	***Dependent variable(s)***	***Results***
2017	Kim and Im	Sustainability	Korea	491 firms	2005-2007	CSR performance (Korean Economic Justice Institute Index)	BTD	Active engagement in CSR deters tax avoidance, passive engagement does not have any impact.
2017	Mgbame et al.	Journal of Accounting and Taxation	Nigeria	50 firms	2007-2013	CSR performance (amount of donations)	ETR	CSR performance is negatively related to tax avoidance.
2018	Gulzar et al.	Sustainability	China	3,481 firm-years	2009-2015	CSR performance (Rankins CSR rating agency)	Current and cash ETR	CSR is positively related to tax avoidance.
2018	Lanis and Richardson	Journal of Accounting, Auditing and Finance	USA	5,007 firm-years	2003-2009	CSR performance (KLD database); outside director as interaction	Tax shelter, discretionary BTD, cash ETR	The negative association between the interaction effect of outside directors and CSR performance, and tax avoidance.
2019	Col and Patel	Journal of Business Ethics	USA	20,192 firm-years	1995-2012	CSR performance (KLD rating)	Opening of tax haven subsidiary	Two years after setting up a subsidiary in a tax haven, firms experience an increase in CSR performance.
2019	Liu and Lee	International Journal of Accounting & Information Management	China	1,315 firm-years	2010-2014	Discretionary total BTD (per Desai & Dharmapala, 2006), discretionary total BTD modified by discretionary accruals	CSR performance (RKS database)	The association between CSR and tax avoidance in Chinese listed firms is different for state-owned and non-state-owned firms. Whereas the association is negative for state-owned firms, it is positive for non-state-owned firms.
2019	López-González et al.	Corporate Social Responsibility and Environmental Management	1,013 firm-years	6,442 firm-years	2006-2014	CSR performance per EIRIS interacted with the family firm (= 1)	GAAP ETR, Cash ETR	CSR performance is negatively associated with tax avoidance; this effect is weaker for family firms.
2019	Mao	Qualitative and Quantitative	China	233 firm-years	2009-2016	CSR performance (dummy: CSR engagement by the CSR Blue Book)	Discretionary BTD, permanent BTD	CSR firms are more aggressive in their tax avoidance.
2019	Mao and Wu	Asia-Pacific Journal of Accounting and Economics	China	233 firm-years	2009-2016	CSR performance (Chinese Academy of Social Sciences rating) (firm performance as a mediator	Discretionary BTD, permanent BTD	CSR performance is negatively related to tax avoidance; there is an indirect effect of CSR on tax avoidance (firm performance represents a full mediator).
2019	Salhi et al.	Social Responsibility Journal	France & UK	6,500 firm-years	2005-2017	CSR performance (average of social and environmental score per Asset 4), corporate governance score (Asset 4)	GAAP ETR	CSR performance and corporate governance are positively associated with tax avoidance.
2019	Zeng	Social Responsibility Journal	Worldwide (40 countries)	9,945 firm-years	2011-2015	CSR performance (Asset 4)	ETR, BTD, residual BTD	CSR is positively related to tax avoidance; in countries with weak country-level governance, firms with higher CSR engage in less tax avoidance.
2020	Alsaadi	Journal of Financial Reporting and Accounting	15 European countries	3,205 firm-years	2008-2016	CSR performance (Asset 4 database)	ETR, Current ETR	CSR performance is negatively positively associated with tax avoidance. The association is more pronounced in countries with weak book-tax alignment than in countries with stronger book-tax alignment.
2020	Gandullia and Piserà	Corporate Social Responsibility and Environmental Management	15 European countries	1,434 firm-years	2006-2016	Lagged effective average tax rate (per Devereux & Griffith, 2003)	CSR performance (Asset 4 database)	Average effective tax rates are negatively associated with CSR ratings.

Table 2. Empirical studies on the link between CSR and tax avoidance (Part 3)

Panel B: CSR reporting								
Year	***Author(s)***	***Journal***	***State***	***Sample***	***Period***	***Independent variable(s)***	***Dependent variable(s)***	***Results***
2013	Lanis and Richardson	Accounting, Auditing and Accountability Journal	Australia	20 tax aggressive and 20 not tax aggressive firms	2001-2006	The company identified as tax aggressive by the Australian Tax Office	CSR disclosure, measured by the total number of CSR sentences disclosed in the annual report	The positive association between tax aggressiveness and CSR disclosure.
2016	Sari and Tjen	International Research Journal of Business Studies	Indonesia	54 firm-years	2009-2012	CSR reporting (score) (environmental performance as moderator)	ETR	The level of CSR disclosure has a significant negative effect on tax aggressiveness. Good environmental performance strengthens the negative effect.
2017	Lin et al.	International Journal of Accounting	China	1,438 firm-years	2008-2012	CSR disclosure (index), moderated by strength of institutions in Chinese provinces	GAAP ETR differential	CSR disclosure is negatively related to tax avoidance in provinces with strong institutions and positively related to tax avoidance in provinces with weak institutions.
2017	Pratiwi and Djakman	Review of Integrative Business and Economics Research	Indonesia	63 firms	2013-2015	ETR (political connections in the board as moderator)	CSR disclosure (score)	Firms that actively conduct tax avoidance conduct a higher level of CSR disclosure to maintain the legitimacy of their operational activities and cover up their opportunistic acts.
2019	Fallan and Fallan	Scandinavian Journal of Management	Norway	111 firms	2009-2012	Mandatory and voluntary environmental reporting	Cash ETR	The positive association between tax avoidance and voluntary environmental reporting.
2020	Abdelfattah and Aboud	Journal of International Accounting, Auditing and Taxation	Egypt	735 firm-years	2007-2016	ETR	CSR disclosure, measured by ESG score based on ratings by S&P	Tax avoidance is positively associated with CSR disclosure.
2020	Ortas and Gallego-Álvarez	Accounting, Auditing and Accountability Journal	30 countries	10,456 firm-years	2002-2014	Environmental performance, social performance, governance performance (Asset 4 Database), moderated by dimensions of national culture per Hofstede (1980)	Current ETR, current tax expense scaled by cash flow, the tax rate differential	Environmental, social, and governance performance are negatively associated with tax avoidance. The association is moderated by national culture in the following way: It is more negative and stronger in cultures that are characterized by individualism, long-term orientation, and indulgence; it is less negative and weaker in cultures that are characterized by power-distance, masculinity, and uncertainty avoidance.

Table 2. Empirical studies on the link between CSR and tax avoidance (Part 4)

Panel C: Stakeholder interests								
Year	***Author(s)***	***Journal***	***State***	***Sample***	***Period***	***Independent variable(s)***	***Dependent variable(s)***	***Results***
2013	Boone et al.	The Journal of the American Taxation Association	USA	33,380 firm-years	1992-2010	Religiosity in the county where the corporation is headquartered	Cash ETR, SHELTER, UTB	Religiosity is negatively related to tax avoidance.
2013	Chyz et al.	Journal of Financial Economics	USA	1,732 firm-years	1990-2007	Trade union coverage	GAAP ETR, Cash ETR, total BTD, discretionary total BTD	Unionization rates are negatively related to tax aggressiveness at the business level and industry level. Firms become less tax aggressive after a union wins elections.
2014	Francis et al.	The Journal of the American Taxation Association	USA	4,239 (421) firm-years	1988-2007	Male to female CFO turnover	DTAX, SHELTER; predicted UTB	Female CFOs are associated with less tax aggressiveness as compared to their male counterparts.
2016	Dyreng et al.	Journal of Accounting Research	UK	515 firm-years	1997-2012	Increased public pressure for compliance, measured by a firm being included in a "non-compliant" list by ActionAid	GAAP ETR, use of tax haven subsidiaries	Increased public pressure leads to higher compliance and a decrease in tax avoidance.
2016	Kanagaretnam et al.	Journal of Business Ethics	32 countries	85,135 firm-years	1995-2007	Media independence in the home country	Notational tax rate minus current taxes paid	Media independence is associated with lower tax aggressiveness.
2016	Richardson et al.	Accounting Research Journal	Australia	1,025 firm-years	2006-2010	Women on board	Disclosure of a formal tax dispute with the Australian Taxation Office (ATO)	Relative to there being one female board member, high (i.e., greater than one member) female presence on the board reduces the likelihood of tax aggressiveness
2017	Austin and Wilson	The Journal of the American Taxation Association	USA	1,013 firm-years	2006-2011	Consumer-based brand equity	GAAP ETR, Cash ETR, TSSCORE	Firms with valuable consumer brands avoid less tax than firms without valuable brands.
2017	Cen et al.	Journal of Financial Economics	USA	42,565 firm-years	1994-2009	Customer-supplier relationships (principal customer firm (=1), dependent supplier firm (=1))	ETR	Both principal customers and their dependent suppliers avoid more taxes than other firms.
2017	Hasan et al.	Journal of Accounting Research	USA	63,807 firm-years	1992-2012	Social capital in the county, where the firm is headquartered	GAAP ETR, Cash ETR, Discretionary permanent BTD	The negative association between social capital and corporate tax avoidance. Firms that are headquartered in counties with high social capital avoid fewer taxes.
2017	Lanis et al.	Journal of Business Ethics	USA	418 firms	2006-2009	Women on board	GAAP ETR, Cash ETR, total BTD, DTAX	The negative association between women on board and tax aggressiveness after controlling for endogeneity.
2017	Wilde	The Accounting Review	USA	26,890 firm-years	2003-2010	Employee whistleblowing allegations to OSHA	DTAX, SHELTER	Firms that are subject to whistleblowing allegations exhibit significant decreases in tax avoidance.
2018	Chircop et al.	Social Responsibility Journal	Worldwide	52,962 firm-years	1990-2014	Social capital in the region, where the firm is headquartered (social capital index by Northeast Regional Center for Rural Development)	Tax shelter	Firms headquartered in areas with high social capital engage less in tax avoidance
2019	Inger and Vansant	Journal of Management Accounting Research	USA	25,427 firm-years	2000-2013	Cash ETR and DTAX interacted with CSR performance	Firm value, measured by Tobin's Q	The interaction of tax avoidance and CSR has a negative effect on firm value.
2020	Rudyanto and Pirzada	Social Responsibility Journal	Indonesia	596 firm-years	2014-2017	Cash ETR and DTAX interacted with CSR performance	Firm value, measured by Tobin's Q	The interaction of tax avoidance and CSR has a negative effect on firm value.
2020	Tasnia et al.	Journal of Financial Reporting and Accounting	USA	144 bank-years	2013-2017	CSR (ESG performance score by Refinitiv) interacted with GAAP ETR	Stock price volatility	The interaction is not significant.

5. LIMITATIONS AND RECOMMENDATIONS

Recent years witnessed research on the association between CSR and tax avoidance become an issue of rising interest. Extant literature, however, still shows ambiguous patterns. Whereas many studies concluded that strong CSR activities tend to have a negative effect on tax avoidance (Lanis & Richardson, 2012), there is also evidence for the contrary (Davis et al., 2016). Apart from the question of whether the association is positive or negative, the causal direction, i.e., whether CSR has an effect on tax avoidance or vice versa, still is subject to debate.

Although research on CSR and tax avoidance shows the tendency that the association between the two seems to be negative, research suffers from methodological weaknesses. First of all, CSR and tax avoidance may be endogenous, i.e., it is unclear whether a clear direction of causality can be established. Secondly, since paying taxes can be regarded as a component of a firm's responsibility towards society (Sikka, 2010), examining CSR and tax avoidance as separate concepts can be thought of as putting the same variables on both sides of the equation. This is not only a theoretical consideration but can have very practical implications for research design. For instance, results that imply a negative association between tax avoidance and CSR performance might to some extent be driven by the metrics used to capture CSR. Many studies (Huseynov & Klamm, 2012; Hoi et al., 2013; Watson, 2015; Lanis & Richardson, 2018) use KLD scores, which themselves can be affected by the respective firm's tax practices. Tax disputes are explicitly included in the scores as a community-related concern (item COM-con-D). Finally, another issue may be the strong association between CSR and corporate governance (Jamali, 2008). A plethora of studies conceives tax avoidance as a function of corporate governance (for an overview, Hanlon & Heitzman, 2010; Wilde & Wilson, 2018), making it less clear, whether CSR and tax avoidance directly affect each other, or whether the two are actually both affected by corporate governance in a simultaneous way.

Though some research on CSR and corporate tax behavior has already been done, the effects of many specific variables are still underexplored. First, board composition needs further consideration, for example, the sustainability expertise of the board members and its committees. Board composition has only been investigated primarily with regard to the inclusion of outside directors (Lanis & Richardson, 2011) and gender diversity (Francis et al., 2014; Richardson et al., 2016; Lanis et al., 2017), but there remains space for research on other diversity dimensions such as age or ethnic diversity on boards as well as the inclusion of other stakeholders in decision processes. For instance, in some European countries like Germany, firms exceeding a certain size have to include employee representatives on supervisory boards as a strong social performance driver, which might have an effect on tax avoidance as well.

Another field that still offers research opportunities is shareholder structure. Classical agency theory treats shareholders as monolithic blocks and does not pay much attention to the differences between different kinds of shareholders. An increasing number of studies has begun to investigate the impact that different groups of corporate owners have on tax avoidance, like sustainable investors. This group of shareholders did not receive any attention yet in empirical tax avoidance research. Sustainable investors entered the stage of capital markets and claim to act more ethically. With regard to the new European shareholder rights directive 2017 and the EU action plan 2018 on sustainable finance, we encourage future researchers to focus on the impact of sustainable investors on tax avoidance.

Firms are placed in intense webs of relations with a broader range of internal and external stakeholders that can possibly affect firm decisions. The effects of non-shareholders on tax avoidance have already been the subject of a few studies (Chyz et al., 2013; Kanagaretnam et al., 2016), but these require much more attention in the future. In this stakeholder context, the relation between CSR measures and tax avoidance is of great importance. Evidence is somewhat contradictory and often does not make a proper distinction between CSR performance (Davis et al., 2016) and CSR disclosure (Lanis & Richardson, 2012), giving rise to the question of whether and how CSR is really linked to tax avoidance and whether there is a difference with regard to performance and disclosure. Furthermore, the concept of CSR needs to be broken up into its components. For instance, it is far from clear why a firm that strives for environmental sustainability and another one that is especially concerned with social issues (e.g., employee satisfaction), both scoring similarly on a CSR index, should also show similar behavior in matters of taxation. Indeed, one of the two could be tax aggressive, while the other one is highly compliant. Due to the difficulty of measuring CSR performance and its multi-facetted character, extant research could not find out much about the empirical relation to tax avoidance.

6. CONCLUSION

The past twenty years saw an enormous rise in empirical research on tax avoidance. Currently, academic research on tax avoidance is accompanied by the high public interest in the issue. This literature review summarizes recent findings on the impact of CSR on corporate tax avoidance behavior. We contribute to research on the relationship between CSR and tax avoidance by theoretically advancing the issue from the classical principal-agent perspective to a stakeholder-agency view, thereby showing the limitations of current research and identifying research recommendations.

This review article evaluates 47 empirical studies on the impact of CSR variables, namely 1) CSR performance and reporting, 2) stakeholder monitoring, and 3) stakeholder board representation on tax avoidance. The majority of the included studies focus on CSR performance and reporting measures and find a negative impact on tax avoidance. Our findings are most relevant to practitioners, regulators, and researchers alike. To practitioners, like socially responsible investors (SRIs), we show that there is not necessarily a stable association between CSR performance, as measured by CSR scores or ratings, CSR reporting, and a firm's tax practices. Socially responsible investors have to make a decision whether they are prepared to invest in firms that have high CSR scores and strong CSR performance on the one hand, but avoid taxes on the other one. Investors who perceive tax payments as part of a firm's responsibility towards society, have to select their investments with great care, as the contradictory results concerning the relationship between CSR and tax avoidance show that the empirical research is of not much help, yet, in making such decisions. To regulators, this reinforces the necessity to expand disclosure requirements on corporate taxes, to increase transparency, and to strengthen the reliability of CSR reporting. Results also imply that gender diversity on corporate boards has a deterring effect on tax avoidance, which is relevant to practitioners and regulators, alike. For sustainable investors, who intend to limit their investments' tax avoidance, increasing the share of women on corporate boards may be helpful in achieving this aim. To regulators, findings may lend an argument in favor of the introduction of mandatory quotas for corporate boards, which still is a widely disputed topic. Our results also contribute to the academic discourses surrounding corporate social responsibility and tax avoidance. We show that these two fields of research intersect with each other and thus require simultaneous consideration from researchers. Moreover, we raise open research questions that we believe would be valuable to explore.

Nevertheless, this literature suffers from the drawbacks that are common to most literature reviews. Despite including most of the studies that were found in the literature search, there can never be a guarantee that the selection of articles is comprehensive and unbiased (Massaro, Dumay, & Guthrie, 2016). Furthermore, the articles differ strongly with regard to quality and methodological rigor, whereby many articles have been published in lower-ranked journals. This also may have affected the results of this literature review, as articles of lower quality may have distorted the results. These weaknesses are owed to the circumstance, that the field is still young and developing. Once there is more research available, it will be possible to examine research on the association of tax avoidance and corporate social responsibility with more rigorous methods, such as meta-analysis, which allows controlling for effect strengths and the quality of the included studies.

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