PHYS.ORG

Companies should take the lead in take tackling tax avoidance

June 5 2013

The study, published in the journal *Third World Quarterly*, highlights the fact that many of the companies actively engaged in tax avoidance also like to assert their credentials as responsible corporate citizens.

Rhys Jenkins, professor of development economics at UEA, and Peter Newell, professor of international relations at the University of Sussex, examined the connections between tax and development, and tax and corporate social responsibility (CSR). They argue that tax strategy should be addressed as an aspect of CSR, and that with growing public concern over tax avoidance failure to do so could potentially undermine corporate legitimacy.

They propose some key elements of a responsible tax strategy, which include: a commitment to avoid the use of tax havens in their operations; an agreement not to use artificial finance arrangements to reduce the company's tax burden; and greater transparency concerning profits and tax payments on a country-by-country basis. Contrary to current practices, corporate responsibility should also involve a company agreeing not to lobby or pressure host governments to provide it with more favourable tax treatment.

Up to now, there has been a surprising lack of attention given to tax avoidance as a CSR issue, even among those companies that pride themselves on being leaders in this area. The focus of their CSR efforts has been on environmental, labour and human rights issues.

Prof Jenkins said Starbucks, which was at the heart of the recent tax avoidance scandal in the UK, is an example of this with its commitment to using fair-trade coffee contrasting with its "ethically questionable" arrangements to minimize its corporation tax liabilities. Other companies which are usually ranked highly in terms of their CSR but have also been accused of avoiding tax include Apple, Google, and GlaxoSmithKline.

"This paper focuses on an issue that has largely been absent from the CSR agenda, despite a flurry of recent scandals engulfing major corporations that identify themselves as leaders on CSR issues," said Prof Jenkins.

"Our research shows that tax avoidance by transnational corporations is a major global issue, particularly for developing countries where the tax base is relatively weak and the capacity of the state to effectively control such practices is very limited. The fiscal crisis of both developed and developing countries has put tax avoidance more firmly on the agenda than ever before.

"We do not believe that the inclusion of commitments on tax will remove the problem of tax avoidance any more than environmental or labour rights' issues can be dealt with solely by voluntary corporate commitments. However, companies that claim a high level of social responsibility should not stand by and wait for governments and international organisations to take a lead, but should lead the way in terms of country-by-country reporting and abandoning the use of tax havens. Failure to do so could in future undermine their legitimacy in the same way that abuse of workers or environmental disasters have affected companies in the past."

Recent scandals about the widespread use of tax avoidance schemes, including the non-payment of corporation tax in the UK by Google, Starbucks and Amazon, have put the issue of taxation centre stage. The

UK's Prime Minister David Cameron and German Chancellor Angela Merkel have also put the issue on the agenda for this month's G8 summit in Northern Ireland. But the researchers say the problem of tax avoidance by corporations in developing countries has barely been touched upon in terms of corporate responsibility. The income lost by developing countries through corporate tax avoidance has been estimated at between $35bn and $160bn.

Prof Jenkins said: "Until now, the CSR agenda has tended to focus on environmental issues, labour and human rights. But many of the arguments that have been used to support CSR in these areas apply equally to paying a fair share of taxes, particularly in developing countries where the capacity to collect tax is very limited. No company is regarded as socially responsible on the basis that it complies with the minimum legal requirements in terms of environmental standards or labour rights so why should a responsible company feel that all it has to do is to pay the minimum level of tax that it can get away with without breaking the law."

As part of their study Prof Jenkins and Prof Newell analysed the CSR reports and codes of conduct of 35 major transnational corporations regarded as leaders in this area and listed on the FTSE4Good. They found that most do not regard tax as an aspect of CSR. Only in 13 cases was there any mention of tax in the CSR report, while just four of the companies - Diageo, WPP, Repsol-YPF and Telefónica - made an explicit statement related to the company's tax policies.

Even fewer companies referred to tax issues in their codes of conduct - nine in total. Most of these referred to the need to comply with the law and to pay a fair share of taxation. However, they also often mentioned the need to minimise taxation in the interest of shareholder value. Some codes, for example those of Vodafone and Unilever, also referred to steps to influence government tax policies.

The paper 'CSR, Tax and Development', by Rhys Jenkins and Peter Newell (2013) is published in *Third World Quarterly*, volume 34, issue 3, p378-396.

Provided by University of East Anglia