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See table of contents

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Article abstract

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ABSTRACT

Corporate social responsibility (CSR) is part of the larger debate on whether firms engage in CSR to promote social interests or strictly to achieve legitimacy and thus are implicitly involved in some form of greenwashing. This paper investigates the effect of CSR on tax avoidance. Based on a sample of French listed companies, the results show that firms engaging in CSR adopt tax avoidance practices. The results also show that the disciplinary roles of debt and corporate governance mitigate this positive effect. Additional evidence shows that family-owned firms overinvesting in CSR are unlikely to engage in tax avoidance for socioeconomic wealth purposes. The results are robust to alternative measures of tax avoidance and endogeneity concerns.

Keywords: CSR, tax avoidance, corporate governance, leverage, family ownership, risk management

Résumé

La responsabilité sociale des entreprises (RSE) fait partie du débat plus large sur la question de savoir si les entreprises s'engagent dans la RSE pour promouvoir des intérêts sociaux ou strictement pour atteindre la légitimité et sont donc implicitement impliquées dans une forme de « greenwashing ». En se basant sur un échantillon des entreprises françaises cotées, les résultats montrent que les entreprises engagées dans la RSE adoptent des pratiques d'évasion fiscale. Les résultats montrent également que les rôles disciplinaires de la dette et de la gouvernance d'entreprise atténuent cet effet positif. Des preuves supplémentaires montrent que les entreprises familiales qui investissent trop dans la RSE sont peu susceptibles de s'engager dans l'évasion fiscale à des fins de richesse socio-économique.

Mots-clés : RSE, évasion fiscale, gouvernance d'entreprise, effet de levier, actionnariat familial, gestion des risques

Resumen

La responsabilidad social de las empresas (RSE) es parte del debate más amplio sobre si las empresas se involucran en la RSE para promover intereses sociales o estrictamente para lograr la egitimidad y, por lo tanto, están implícitamente involucradas en alguna forma de "greenwashing". Basados en una muestra de empresas francesas que cotizaron en bolsa, los resultados muestran que aquellas que se dedican a la RSE adoptan prácticas de evasión fiscal. Los resultados también muestran que el rol disciplinario de la deuda y la gobernanza corporativa mitigan este efecto positivo. Evidencia adicional muestra que es poco probable que las empresas familiares que invierten en exceso en RSC se involucren en la elusión fiscal con fines de riqueza socioeconómica.

Palabras clave: RSC, evasión fiscal, governanza corporativo, apalancamiento, propiedad familiar, gestión de riesgos

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Widespread corporate tax avoidance became a serious matter for the global economy mainly because of a wave of tax scandals and the outbreak of the subprime crisis that followed. This dilemma encouraged policymakers and governments to develop new rules for the business community to exhibit ethical behaviors and take a stand against corporate misdeeds with the support of non-governmental organizations[1] (Preuss, 2012). Meanwhile, there was considerable pressure worldwide to combat international tax reduction practices and profit shifting.

There is a growing need to change the attitudes of many firms regarding corporate taxation as past corporate practices show a failure to prevent scandals, collapses, and corporate corruption (Mostovicz *et al.*, 2009). Those outflows are largely explained by the considerable use of corporate tax avoidance[2]. Most companies consider tax a major business cost because it represents practically one-third of a firm's pre-tax income (Chen *et al.*, 2010). In fact, firms have an increasing incentive to use artificial arrangements and loopholes in the tax rules to minimize their tax burden. This allows them to enjoy higher levels of tax savings, which increases the current after-tax cash flows and boosts shareholder value (Hanlon and Heitzman, 2010).

Traditionally, corporate tax avoidance has been considered the transfer of wealth from the state to firms and their shareholders (Desai and Dhrampala, 2009). This act contravenes the social concerns that are currently in vogue. Indeed, taxation is the backbone of government revenues, and such "aggressive practices" divert tax revenues from governments. Notably, and from a social standpoint, the public tends to view corporate tax avoidance as socially "irresponsible" and an "unethical" practice (Erle, 2008; Lanis and Richardson, 2012, 2015; Dowling, 2014), because the payment of taxes makes a key contribution to economic and social development.

Corporate tax avoidance activities create an obvious benefit for firms and shareholders. This argument is incomplete, however, since it does not recognize the risky nature of corporate tax avoidance and ignores the negative sanctions that firms may bear by participating in these tax-aggressive activities (Chen *et al.*, 2010; Hanlon and Heitzman, 2010). In other words, these firms are likely to face larger penalties and stock price declines following the revelation of their corporate tax avoidance.

Simultaneously, CSR performance issues have recently received increasing attention in the tax area and have been advanced as a significant factor that may lessen corporate tax avoidance practices, notably the most aggressive ones[3]. Keith (2011) claims that undertaking CSR activities may improve a firm's reputation. The firm may then be less likely to use corporate tax avoidance as a means of protecting its good reputation. Additionally, socially responsible firms are less tax avoidant since they consider the corporation the "real world," where CSR is a legitimate business activity (Avi-Yonah, 2008). Similarly, Landry *et al.* (2013) demonstrate that socially responsible firms are less likely to undertake corporate tax avoidance activities. However, Preuss (2012) suggests that firms may adopt ethical behavior while also using tax arrangements to evade taxes. This can be explained by organizational hypocrisy since these firms are adopting double talk and double standards to reconcile their behavior with diverse audiences (Sikka, 2010). In the same vein, drawing from legitimacy theory, Lanis and Richardson (2012) argue that tax aggressiveness increases CSR disclosures. Furthermore, Col and Patel (2019) investigate the effect on CSR when firms establish offshore entities in tax havens to avoid paying taxes. Their results show that firms adopting aggressive tax avoidance by setting up offshore entities have higher CSR ratings.

Building on prior literature and given the mixed results to date (Kovermann and Velte, 2021), we posit that CSR could relate to corporate tax avoidance in different ways. Taxation plays a leading role in the economic and social development of various countries. The payment of taxes and contribution to public expenditure together represent an ethical and moral duty for each taxpayer—namely, each firm, citizen, resident, etc. Tax liabilities can effectively help to build an equitable system that fosters potential output growth and promotes investment. Indeed, firms may engage in CSR with the aim to promote social interests or only to achieve legitimacy, and thus influence the perceptions of their stakeholders. In this regard, we extend previous literature that links CSR with tax avoidance by highlighting the dark side of CSR and the channels through which this relationship is mitigated.

We use a sample of French listed companies from 2005 to 2017 to empirically investigate the association between CSR and tax avoidance. Our results reveal that even firms with high overall CSR engage in corporate tax avoidance practices, supporting the risk management perspective. This suggests that firms undertake CSR activities as one means of hedging risky tax positions and to appear more environmentally friendly. The results also show that the disciplinary roles of debt and corporate governance mitigate this positive effect. We find additional evidence that family-owned firms mitigate the relationship between CSR and tax avoidance. According to the socioemotional wealth hypothesis, these firms are unlikely to engage in tax avoidance and are thus more likely to pay their taxes because they strive to preserve their family business for future generations.

Our paper makes several contributions to the literature. First, it contributes to the emerging strand of CSR literature investigating the impact of CSR on tax avoidance activities (Hoi *et al.*, 2013; Col and Patel, 2019). We extend Abid and Dammak's (2022) study on how high-quality audits accentuate the negative effect of CSR on tax avoidance practices in France by highlighting the dark side of CSR in the French context. Adopting the risk management perspective, we assume that firms engaging in CSR will participate

1. NGOs: examples include Greenpeace, the World Wildlife Federation, and Oxfam.
2. See Enron, Starbucks, Amazon, and others.
3. See, for example, the discussion paper "Getting to good – towards responsible corporate tax behavior." Christian Aid November 2015.

in tax avoidance activities to increase their legitimacy and mislead their stakeholders in response to their tax avoidance practices. That is, these firms will be implicitly involved in some form of greenwashing to legitimize their unethical practices. The second contribution of this paper is that it highlights new evidence on governance attributes and debt policy in the relation between CSR and tax avoidance. Indeed, in well-governed firms, the relationship between CSR and tax avoidance becomes non-significant, whereas in weakly governed firms, CSR adoption is more likely to involve tax avoidance practices. Third, and related to the previous assertion, we contribute to the literature on CSR and tax policies by controlling family ownership. We find that family firms engaging in CSR are unlikely to pursue tax avoidance and thus are more likely to pay their taxes because they strive to preserve their family business for future generations.

Finally, the French context is valuable to study owing to the governmental initiatives regarding CSR practices, such as Grenelle acts I and II in 2009 and 2010, respectively, and the Pacte law in 2019. These initiatives have constrained French managers to consider social and environmental issues. Companies are also encouraged to incorporate social objectives into their corporate objectives. In addition, family firms represent almost 30% of publicly traded companies in France (Bouzgarrou and Navette, 2014). These firms have specific characteristics that influence the CSR–tax avoidance relationship. Similarly, since 2005–2007, the statutory corporate tax rate has continued to increase, and this seems to be an intrinsic motive to adopt tax avoidance practices to reduce a firm's tax burden. According to Atwood *et al.* (2012), the benefits of engaging in tax avoidance are high when the statutory corporate tax rate increases.

The remainder of the paper is organized as follows. Section 2 presents the literature review and hypotheses on the link between tax avoidance and CSR. Section 3 presents the sample, data, and methodology. We discuss our empirical results in section 4. Section 5 concludes the paper.

Literature Review and Hypothesis Development

CSR and corporate tax avoidance

Over the past few decades, CSR has received increasing attention from academics and the public. Consistent with McWilliams and Siegel (2006), we consider CSR to be the voluntary effort companies make to undertake "actions that appear to further some social good, beyond the interests of the firm." This means that a business should include economic, legal, ethical, and philanthropic responsibilities in its operations as part of the plan to achieve its economic goals (Carroll, 1991). Firms engaging in CSR activities should scrutinize their corporate decisions, including paying taxes. Due to the considerable costs to corporations, managers are likely to avoid paying taxes to boost their after-tax cash flows (Dyreng *et al.*, 2008). Therefore, there is disagreement about the relationship between CSR and tax avoidance in the academic literature (Kovermann and Velte, 2021).

There are two opposing perspectives regarding the consequences of CSR. The first theoretical perspective is based on the risk-management view suggesting that firms engage in CSR activities as a way to hedge against the risk they bear from undertaking misconduct practices, including tax avoidance activities. This may cause them to adopt risky positions and expose them to the risk of detection by tax authorities (Richardson *et al.*, 2015). Firms engaging in tax avoidance will then be more inclined to use CSR as a means to hedge their risky positions. This risk management perspective aligns with the agency theory. Indeed, the presence of agency problems and information asymmetry issues may lead managers to behave opportunistically by undertaking aggressive tax activities. As CSR may be embedded with agency costs, managers will use these activities opportunistically to divert the attention of tax authorities and stakeholders (Richardson *et al.*, 2015), resulting in a positive effect of CSR on tax avoidance. In the empirical literature, Mao (2019) supports the risk management and agency theory perspectives in the Chinese context. The author examines the effect of CSR on corporate tax avoidance among Chinese listed firms during 2009–2016. The results show that firms engaging in CSR have high book-tax differences and therefore engage in tax avoidance practices. This indicates that firms engaging in CSR are more aggressive than others in their tax avoidance. Preuss and Preuss (2017) find in a sample of European companies that CSR is negatively associated with corporate tax payment (CTP). This finding is in line with the risk management view. Col and Patel (2019) show that firms affected by legislation aimed at controlled foreign corporations that advances offshore profit shifting promote their CSR practices in response. The authors argue that this legal change encouraging firms to establish entities in offshore tax havens is associated with an increase in CSR. Moreover, Davis *et al.* (2016) examine a sample of US companies from 2006 to 2011 and observe a negative relationship between CSR and corporate tax payment. This means that firms engage in CSR to insure themselves against tax avoidance risks. This argument is also in line with the legitimacy theory stipulating that firms may engage in CSR to offer a legitimate value to counteract their irresponsible acts and gain legitimacy in society. In other words, some firms adopt CSR activities with the sole aim of maintaining or increasing their likelihood of gaining legitimacy. Lanis and Richardson (2012) examine the association between CSR disclosure and tax aggressiveness within the legitimacy theory framework, and they find that firms that avoid paying taxes are likely to raise more public concerns than others, leading them to a higher level of CSR disclosure. Lin *et al.* (2010) also identify a positive relation and consider CSR to be nothing more than window-dressing, which lends support to the legitimacy view in the context of aggressive tax planning. These firms are implicitly involved in some form of greenwashing. Based on the above studies and facts, we expect firms engaging in tax avoidance activities to use CSR practices extensively to conceal that information from the public.

Conversely, according to the stakeholder theory, firms engaging in CSR activities are likely to reduce conflicts of interest between managers and other stakeholders. Indeed, they will commit to exhibiting ethical behavior and be less inclined to undertake tax-saving practices because the latter are considered unethical activities, especially the aggressive ones. This is in line with the conflict resolution view that managers pursue stakeholders' objectives more than their own objectives (Lanis and Richardson, 2012). A high level of CSR reflects managerial ethical concerns and is likely to prevent managers from exhibiting opportunistic behaviors. It may also curb their excessive risk taking. Hoi *et al.* (2013) in the US context find a negative relationship between tax avoidance and CSR. They show that firms with low scores on CSR are more likely than others to avoid paying taxes. According to Mao (2019), if firms view both CSR activities and tax payment as means of contributing to society, CSR and tax avoidance activities will exhibit a negative relationship. This means that good citizen firms committed to doing the right things are more inclined to pay their taxes, and thus avoid aggressive tax practices, and also engage in socially responsible activities. Both activities are coherent. Rivera *et al.* (2017) also argue that firms engaging in CSR project a positive image as responsible corporate citizens and create positive synergies with various stakeholders, including the government, by addressing their legitimate needs and concerns. Zeng (2019) examines the relationship between CSR and tax avoidance as well as how country-level governance affects the latter relationship in an international setting. The author finds strong evidence that CSR is positively related to tax avoidance and that this effect is less prevalent in strongly governed countries. Indeed, when CSR is well monitored, it is likely to reduce overinvesting in tax avoidance practices, because firms committed to CSR will avoid unethical activities. Lopez-Gonzalez *et al.* (2019) shed light on the effect of CSR performance on tax avoidance. They also examine whether family ownership affects tax avoidance practices via socially responsible performance. The authors use a cross-country design and show that social and environmental performance is negatively related to tax avoidance and that this relation is less prevalent in family-owned firms, since such firms are positively associated with tax avoidance practices. Lanis and Richardson (2015) investigate whether CSR performance is associated with tax avoidance. Their results based on logit regression show that the greater a firm's CSR performance is, the lower its likelihood of tax avoidance is. More specifically, the authors find that CSR categories, such as community relations and diversity, are the most important CSR dimensions that may reduce tax avoidance. Muller and Kolk (2015) investigate multinational firms in India and identify a negative relation between CSR and tax avoidance. Specifically, companies with a reputation for CSR pay higher effective tax rates. However, Wiratmoko (2018) shows that there is no relationship between CSR and tax avoidance in the Indonesian and Malaysian contexts. The relationship between CSR and tax avoidance has been studied mostly from an empirical perspective. We assume that when firms engage in tax reduction activities, they are likely to use CSR activities to hedge from increased risks related to firm reputation, supporting the risk management perspective. Conversely, according to the conflict resolution hypothesis and the stakeholder theory, firms engaging in CSR will be less inclined to engage in tax reduction practices because this latter is viewed as unethical and to protect the interests of all stakeholders. We then formulate the following hypothesis:

H_{1a}. Under the risk management perspective, CSR positively influences tax avoidance activities.

H_{1b}. Under the stakeholder theory perspective, adopting CSR negatively influences firms' tax avoidance activities.

Sample and Research Design

Data

Our initial sample includes French firms covered by the ASSET4 dataset and listed on the CAC_ALL tradable index between 2006 and 2017. ASSET4 features data on 135 companies' CSR scores. We obtain this sample after matching data from CSR ASSET4, extracted from the DataStream database, and financial data from the Compustat Global database. After applying restrictions on the sample (financial companies and data unavailability), the final sample includes 97 French firms—that is, 1,065 firm-year observations. The industry distribution of our sample is presented in Table 1. This table shows that the most represented companies are industrial (27.7%), followed by the consumer discretionary sector (16.9%) and communication services and information technology (13.62%). The least represented industry is utilities at 4.51%.

TABLE 1

The distribution of sample firms across industries

	Frequency	Percent	Cumul
Energy	65	6.10	6.10
Materials	54	5.07	11.17
Industrials	295	27.70	38.87
Consumer Discretionary	180	16.90	55.77
Consumer Staples	82	7.70	63.47
Health Care	51	4.79	68.26
Information Technology	145	13.62	81.88
Communication Services	145	13.62	95.49
Utilities	48	4.51	100
Total	**1065**	**100**	

This table shows the Global Industry Classification (GIC) distributions for our observations during the period 2006- 2017.

Measure of CSR

CSR is the sum of social and environmental scores extracted from ASSET4. Environ is the sum of the environmental scores extracted from ASSET4. Social is the sum of social scores extracted from ASSET4.

Measure of corporate tax avoidance

We choose book-tax differences (BTD) to measure corporate tax avoidance activities. Mills (1998) defines BTD as the amount of income reported by a corporation, which is caused by differences in the concepts and rules underlying each reporting system (Plesko, 2004). In the same vein, Mills (1998) suggests that greater BTD can ultimately be a warning and alarming signal, or "red flag," for the Internal Revenue Service (IRS) and thus attracts the attention of tax auditors. Computing BTD requires two steps. The first step is to isolate the taxable income from the financial income, scaled by the lagged total assets. The second step is to calculate the financial income—that is, the pretax book income—from the income statement, scaled by lagged total assets. More precisely, the estimated taxable income (TI) is computed as the accounting income tax expense divided by the statutory tax rate (STR).

Unlike the effective tax rate (ETR), the sample is not limited to firms with positive BTD, because firms that have TI higher than their accounting income (AI), can and do use carry-forward tax losses to lower the amount of corporate tax payable. BTD is scaled by total assets at the beginning of the year. Lin *et al.* (2010) suggest that BTD can be expanded by either (1) the opportunistic increase of financial income (earnings management) or (2) the intentional decrease of taxable income (tax avoidance). BTD are an appropriate indicator of tax avoidance activities that are used to minimize a firm's taxable income while preserving its financial accounting income. This metric is an inverse indicator of ETR: the more the firm engages in tax avoidance, the higher its BTD are.

$$\textit{Total BTD} = \textit{Pre-tax book income} - \frac{\textit{Current tax expense}}{\textit{Statutory Tax Rate (STR)}}$$

Control variables

The control variables include firm size (Size), measured by the natural logarithm of total assets; leverage (LEV), which is the ratio of total debt to total assets; loss, which is a dummy variable that equals 1 if the net income is negative and 0 otherwise; research and development (R&D), which is the ratio of R&D expenses to total assets; capital expenditures (Capex), which is the ratio of capital expenditures to total assets; and growth opportunities (Growth), measured by the market to book ratio.

Empirical methodology

We use panel data regression clustered at the firm level. We create the following base regression model using ordinary least squares to test the effect of CSR on tax avoidance:

$$\textbf{\textit{Tax\_avoidance}}_{it} = \alpha_0 + \alpha_1 CSR_{it} + \alpha_2 Controls_{it} + \alpha_3 YEAR\_FE_{it} + \alpha_4 Industry\_FE_{it} + \varepsilon_{it} \quad (3)$$

Results and Discussion

Descriptive analysis

Table 2 presents the descriptive statistics of our sample. The average CSR score is 12.18. It is the sum of environmental and social pillars, which are respectively 6.238 and 5.942, on average. In other words, French firms engage more in environmental activities than social activities. The mean BTD measure of tax avoidance equals 0.047, suggesting that financial income is 4.7% greater than taxable income. Table 2 also shows that French firms are highly leveraged with an average of 60.9%. However, R&D and capital expenditures display low levels at 2% and 3.9%, respectively.

Table 3 presents the Pearson correlation matrix. The CSR variables and the tax avoidance measure are positively and significantly correlated, which is in line with H1a. The correlations between independent variables are not high and do not exceed 0.8 (Gujarati, 2004). We validate the presence of a multicollinearity problem by calculating the variation inflation factors (VIFs) for each variable of our sample. We find that all the VIFs are far below 1.59, which is below the suggested level of 10 (Neter and Kutner, 1996).

TABLE 2

Summary statistics

	Mean	SD	P10	P25	Median	P75	P90
BTD	0.047	0.081	-0.019	0.000	0.023	0.086	0.152
CSR	12.184	2.516	8.900	10.400	12.350	14.010	15.480
Environ	6.238	0.960	5.074	5.591	6.280	6.821	7.328
Social	5.942	1.632	3.660	4.800	6.090	7.100	8.000
Size	9.758	1.312	7.986	8.536	9.969	10.642	11.517
LEV	0.609	0.150	0.401	0.507	0.606	0.726	0.796
Loss	0.068	0.253	0.000	0.000	0.000	0.000	0.000
RD	0.020	0.029	0.001	0.002	0.010	0.026	0.036
CAPEX	0.039	0.034	0.013	0.019	0.030	0.045	0.071
Growth	0.049	0.113	-0.046	-0.004	0.039	0.095	0.182

Table 2 presents the summary statistics of the full sample for all variables used in our main regression. The data were collected from the Compustat Global and Datastream (for financial data) from 2006 to 2017, with sufficient data to calculate the variables used in all the regressions.

TABLE 3

Correlation matrix

	BTD	CSR	Environ	Social	Size	LEV	Loss	RD	CAPEX	Growth	VIF
BTD	1.0000										
CSR	0.1336*	1.0000									
Environ	0.2177*	0.4879*	1.0000								
Social	0.1307*	0.7462*	0.1649*	1.0000							
Size	-0.1988*	0.1458*	0.1316*	0.0998*	1.0000						
LEV	-0.3669*	-0.0253	-0.2995*	0.0235	0.4798*	1.0000					
Loss	-0.3190*	-0.0786*	-0.2218*	-0.0629	-0.0202	0.0775*	1.0000				
RD	0.1494*	-0.0301	0.0893	-0.0976	-0.3515*	-0.1964*	-0.0406	1.0000			
CAPEX	-0.0016	-0.0926*	-0.0903	-0.1130*	-0.2118*	-0.1041*	0.1015*	-0.1508*	1.0000		
Growth	0.1220*	-0.0940*	-0.1566*	-0.0722	-0.0842*	-0.0503	-0.2626*	0.0672	0.0581	1.0000	1.59

Table 3 presents the Pearson correlation of all variables used in our main regression. The data were collected from the Compustat Global and Datastream (for financial data) from 2006 to 2017, with sufficient data to calculate the variables used in all the regressions. * Is statistical significance at the 5% level

Main analysis

Table 4 presents the results of our regressions on the effect of CSR on tax avoidance and its components. The results reveal a positive effect of CSR practices on BTD. This effect is statistically significant at the 1% level. This result supports the risk management theoretical perspective and suggests that French firms engage in CSR activities to hedge the risk positions they take in their tax strategies. This result is also in line with the legitimacy theory stipulating that firms may engage in CSR to offer a legitimate value to counteract their irresponsible acts and gain legitimacy in society. These tax-avoidant firms engage in CSR activities because they are convinced that doing so will enable them to gain a significant reputational advantage. The positive effect of CSR on tax avoidance practices is consistent with Lanis and Richardson (2012) and Rivera *et al.* (2017). This result is also similar to that of Zeng (2019) in an international setting.

We also test for the effects of the CSR components on tax avoidance. Column 2 of Table 4 shows that environmental activities do not seem to affect the propensity to avoid paying taxes. Only the social component (column 3) positively and significantly influences tax avoidance practices. This finding gives additional support to the legitimacy view because firms may engage in social activities specially to gain legitimacy in society as they do not fulfill their social role of paying taxes. They then divert stakeholders' attention.

As for the control variables, firm size positively affects tax avoidance, suggesting that larger firms are less likely to participate in corporate tax avoidance. This finding is in line with a study suggesting that larger companies may take steps to reduce potential political risks (Atwood *et al.*, 2012). There is a negative association between leverage and tax avoidance. This means that highly leveraged firms are less likely to engage in tax avoidance practices because of the disciplinary role of debt. Consistent with Dyreng *et al.* (2008), we find positive relations between capital expenditures and tax avoidance and between growth opportunities and tax avoidance, suggesting that firms with higher sales growth are more likely to engage in corporate tax avoidance.

We further test the variation in CSR performance across the sample and construct a dummy variable NEGCSR that equals 1 if the change in CSR performance is negative (i.e., the company's CSR performance and each component in year t is lower than the one recorded in year t–1) and 0 otherwise. Table 5 shows the results of CSR's negative variation on tax avoidance. The results show that when firms reduce their engagement in CSR activities, and particularly social ones, the effect on tax avoidance practices is negative. This means that the negative variation in CSR implies a decrease in tax avoidance practices. This finding lends additional support for our main findings, suggesting that CSR is embedded with agency costs and is used as a tool to hedge the risk positions taken by tax-avoiding firms. When CSR is reduced, this means that firms will be more likely to reduce their risky tax evasion strategies, supporting the risk management perspective.

Further evidence

Does leverage matter?

We now test the moderating effect of leverage on the relation between CSR performance and the BTD tax avoidance measure. Hernandez-Canovas (2016) suggest that leverage is considered as a corporate governance mechanism likely to reduce agency costs. We perform a subsample analysis by splitting our sample into two groups: the first group consists of firms with a leverage ratio greater than the median sample (Highly leveraged), and the second group consists of firms with a leverage ratio lower than the median (Less leveraged). The results in Table 6 show that the relationship between CSR and tax avoidance depends on a company's debt levels. Indeed, the effect of CSR on tax avoidance is positive for low-leveraged firms and negative for highly leveraged firms. These findings support the disciplinary role of debt that helps in monitoring managerial opportunistic behavior regarding tax avoidance practices. We also find that this moderating effect holds for both components of CSR: environmental and social components.

TABLE 4

CSR effects on Tax avoidance

	(1)	(2)	(3)
Variables	BTD	BTD	BTD
CSR	0.004***		
	(0.001)		
Environ		0.002	
		(0.002)	
Social			0.007***
			(0.002)
Size	0.005*	0.006**	0.005*
	(0.003)	(0.003)	(0.003)
LEV	-0.092***	-0.094***	-0.093***
	(0.024)	(0.025)	(0.024)
Loss	-0.114***	-0.114***	-0.115***
	(0.012)	(0.012)	(0.012)
RD	-0.023	-0.023	-0.018
	(0.046)	(0.047)	(0.046)
CAPEX	0.283**	0.305**	0.267**
	(0.135)	(0.135)	(0.134)
Growth	0.071***	0.066***	0.074***
	(0.020)	(0.020)	(0.020)
Constant	0.078**	0.089***	0.083**
	(0.033)	(0.034)	(0.033)
Observations	1065	1065	1065
R-Squared	0.447	0.439	0.452
Industry Effects	YES	YES	YES
Year Effects	YES	YES	YES

This table displays the panel regressions results of the association between CSR and tax avoidance by using different dimensions of CSR. See the Appendix for variables' definitions. Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

TABLE 5
CSR negative change effects on tax avoidance

Variables	(1) BTD	(2) BTD	(3) BTD
NEGCSR	**-0.012****		
	(0.006)		
NEGENVI		-0.001	
		(0.007)	
NEGSOCIAL			**-0.011***
			(0.007)
Size	0.017***	0.018***	0.018***
	(0.004)	(0.004)	(0.004)
	-0.268***	-0.265***	-0.270***
LEV	(0.040)	(0.040)	(0.034)
	-0.069***	-0.071***	-0.071***
Loss	(0.010)	(0.010)	(0.014)
	0.395***	0.402***	0.396***
RD	(0.140)	(0.141)	(0.148)
	0.723***	0.737***	0.737***
CAPEX	(0.146)	(0.141)	(0.171)
	0.032	0.029	0.033
Growth	(0.025)	(0.025)	(0.032)
	0.014	0.004	0.005
Constant	(0.062)	(0.063)	(0.054)
Observations	1065	1065	1065
R-Squared	0.473	0.468	0.472
Industry Effects	YES	YES	YES
Year Effects	YES	YES	

This table displays the CSR negative change effects of tax avoidance by using different dimensions of CSR. See the Appendix for variables' definitions. Robust standard errors in parentheses.

Hence, the effects of environmental and social practices both reduce tax avoidance when the firm incurs a high level of debt.

Does corporate governance matter?

We also investigate the moderating effect of corporate governance on the CSR–tax avoidance relationship. Indeed, corporate governance mechanisms are important in shaping management's decisions-making (Armstrong *et al.* 2015; Brinette *et al.*, 2021). We use a subsample analysis by splitting our sample into two groups: (1) firms with a governance score higher than the median sample (GOV = 1) and (2) firms with a governance score below the median (GOV = 0). Table 7 shows the results of the moderating effect of corporate governance. We find that the CSR effect on tax avoidance is only positive and statistically

TABLE 6
Moderating effect of Leverage on the corporate tax avoidance and CSR relationship

	Low Leveraged			High Leveraged		
Variables	BTD	BTD	BTD	BTD	BTD	BTD
CSR	0.005**			-0.004***		
	(0.002)			(0.002)		
Environ		0.002			-0.005**	
		(0.003)			(0.003)	
Social			0.009***			-0.004**
			(0.003)			(0.002)
Size	0.013**	0.015**	0.013**	0.014***	0.014***	0.015***
	(0.006)	(0.006)	(0.006)	(0.005)	(0.005)	(0.005)
LEV	-0.068*	-0.077**	-0.065*	-0.070***	-0.070***	-0.072***
	(0.036)	(0.036)	(0.036)	(0.009)	(0.009)	(0.009)
Loss	0.451**	0.453**	0.509**	-0.236	-0.293*	-0.238
	(0.208)	(0.212)	(0.207)	(0.175)	(0.176)	(0.179)
RD	0.697**	0.774**	0.535*	0.627***	0.683***	0.650***
	(0.314)	(0.320)	(0.320)	(0.192)	(0.192)	(0.195)
CAPEX	0.067	0.059	0.061	0.048*	0.039	0.049*
	(0.052)	(0.052)	(0.051)	(0.027)	(0.027)	(0.028)
Growth	-0.149**	-0.124	-0.139*	-0.223***	-0.209***	-0.199***
	(0.076)	(0.076)	(0.074)	(0.061)	(0.061)	(0.060)
Constant	642	642	642	423	423	423
	0.467	0.454	0.475	0.627	0.618	0.617
Observations	YES	YES	YES	YES	YES	YES
R-Squared	YES	YES	YES	YES	YES	YES
Industry Effect	YES	YES	YES	YES	YES	YES
Year Effect	YES	YES	YES	YES	YES	YES
Chow Test	p>chi2= 0.000			p>chi2= 0.000		

This table displays the panel regressions results of the moderating effects of leverage on the association between CSR and tax avoidance by using different dimensions of CSR. See the Appendix for variables' definitions. Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

significant for firms with weak governance scores. However, the effect becomes insignificant when firms are strongly governed. These results support the monitoring effect of corporate governance and the agency theory perspective stipulating that managers' discretionary power is likely to be reduced in the presence of strong corporate governance structures. The positive effect of CSR performance on tax avoidance practices is then mitigated in strongly governed firms. This result is consistent with Zeng (2019), who finds strong evidence that CSR is positively related to tax avoidance and that this effect is less prevalent in strongly governed countries. This suggests that when CSR is well monitored, it is likely to reduce overinvestment in tax avoidance practices.

TABLE 7
Moderation effects of governance on corporate tax avoidance and CSR relationship: Subsample regression

	GOV=0			GOV=1		
Variables	BTD	BTD	BTD	BTD	BTD	BTD
CSR	**0.004****			0.002		
	(0.002)			(0.004)		
Environ		-0.001			-0.006	
		(0.003)			(0.008)	
Social			**0.009*****			0.006
			(0.002)			(0.005)
Size	0.017***	0.019***	0.018***	0.013	0.006	0.013
	(0.005)	(0.005)	(0.004)	(0.016)	(0.016)	(0.015)
LEV	-0.238***	-0.255***	-0.240***	-0.448***	-0.445***	-0.439***
	(0.037)	(0.037)	(0.036)	(0.092)	(0.091)	(0.091)
Loss	-0.065***	-0.068***	-0.065***	-0.150**	-0.153**	-0.151**
	(0.015)	(0.015)	(0.014)	(0.058)	(0.057)	(0.057)
RD	0.347**	0.351**	0.399***	1.562*	1.455*	1.712**
	(0.151)	(0.153)	(0.149)	(0.788)	(0.764)	(0.784)
CAPEX	0.752***	0.782***	0.738***	-0.525	-0.848	-0.458
	(0.177)	(0.178)	(0.174)	(0.747)	(0.745)	(0.704)
Growth	0.042	0.029	0.045	0.179	0.219	0.177
	(0.033)	(0.033)	(0.033)	(0.134)	(0.135)	(0.130)
Constant	-0.052	-0.011	-0.056	0.171	0.306	0.135
	(0.058)	(0.058)	(0.056)	(0.226)	(0.221)	(0.203)
Observations	658	658	658	407	407	407
R-Squared	0.456	0.445	0.472	0.558	0.559	0.560
Industry Effect	YES	YES	YES	YES	YES	YES
Year Effect	YES	YES	YES	YES	YES	YES
Chow Test	p>chi2= 0.000			p>chi2= 0.000		

This table displays the panel regressions results of the moderating effects of governance on the association between CSR and tax avoidance by using different dimensions of CSR. See the Appendix for variables' definitions. Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Does family ownership matter?

We also test for the moderating effect of family business as the latter are likely to influence tax practices (Khelil and Khlif, 2022; Gaaya *et al.* 2017). We use a subsample analysis to examine if the effect of CSR on tax avoidance practices differs between family and non-family firms. Table 8 shows that the positive effect of CSR on tax avoidance is only prevalent for non-family firms. However, the effect is insignificant for family firms and is negative and significant when we consider the environmental performance of family firms. This result supports the socioemotional wealth hypothesis suggesting that families do not pursue financial objectives but rather social issues (Berrone *et al.*, 2010), and are then more likely to pay their taxes because they are willing to preserve their family business for future generations, because firms committed to CSR will avoid unethical activities.

TABLE 8
Moderating effects of family firms on corporate tax avoidance and CSR relationship: Subsample regression

	FAMILY=0			FAMILY=1		
Variables	BTD	BTD	BTD	BTD	BTD	BTD
CSR	**0.006*****			0.004		
	(0.002)			(0.003)		
Environ		**0.009*****			-0.007*	
		(0.003)			(0.004)	
Social			**0.007****			0.008
			(0.003)			(0.005)
Size	0.011*	0.012**	0.011*	0.027**	0.027***	0.040***
	(0.006)	(0.006)	(0.006)	(0.010)	(0.010)	(0.010)
LEV	-0.195***	-0.199***	-0.207***	-0.377***	-0.365***	-0.408***
	(0.041)	(0.041)	(0.041)	(0.065)	(0.064)	(0.061)
Loss	-0.077***	-0.076***	-0.081***	-0.047	-0.048	-0.055*
	(0.015)	(0.015)	(0.015)	(0.034)	(0.034)	(0.032)
RD	0.544*	0.459	0.491	0.329*	0.369*	0.326*
	(0.325)	(0.325)	(0.327)	(0.196)	(0.197)	(0.181)
CAPEX	0.379	0.458*	0.360	0.860**	0.991**	0.377
	(0.271)	(0.273)	(0.274)	(0.395)	(0.383)	(0.389)
Growth	0.049	0.040	0.053	0.025	-0.014	-0.041
	(0.038)	(0.039)	(0.039)	(0.061)	(0.060)	(0.066)
Constant	-0.016	-0.022	0.024	-0.042	0.023	-0.092
	(0.075)	(0.077)	(0.074)	(0.104)	(0.096)	(0.106)
Observations	736	736	736	329	329	329
R-Squared	0.421	0.411	0.410	0.563	0.567	0.683
Industry Effect	YES	YES	YES	YES	YES	YES
Year Effect	YES	YES	YES	YES	YES	YES
Chow Test	p>chi2= 0.000			p>chi2= 0.000		

This table reports the panel regressions results of the moderating effects of family ownership on the association between CSR and tax avoidance by using different dimensions of CSR. See the Appendix for variables' definitions. Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Robustness checks

Endogeneity issues

To alleviate the endogeneity problem, we run instrumental variable regressions using the two-stage instrumental variable method (2SLS). In the first stage, we estimate firm-level CSR in a given year using industry-median CSR as the instrument. In the second stage, we use the CSR instrumented variables (fitted values of CSR variable) and rerun the regressions. We also use the GMM approach developed by Arellano and Bond (1991), which helps in avoiding the endogeneity problem related to the omitted variables and reverse causality problems. The results reported in Table 9 show that when using the GMM estimation, the effect of CSR on tax avoidance remains positive.

TABLE 9
Endogeneity concerns

	2SLS	GMM	2SLS	GMM	2SLS	GMM
Variables	BTD	BTD	BTD	BTD	BTD	BTD
CSR_instrumented	**0.009****	**0.005***				
	(0.019)	**(0.05)**				
Environ_instrumented			-0.026	-0.005		
			(0.057)	(0.005)		
Social_instrumented					**0.013***	**0.004****
					(0.029)	**(0.012)**
Size	0.020***	0.002	0.022**	-0.001	0.020***	-0.002
	(0.007)	(0.004)	(0.010)	(0.004)	(0.005)	(0.003)
LEV	-0.294***	-0.201***	-0.315***	-0.194***	-0.284***	-0.180***
	(0.068)	(0.030)	(0.109)	(0.027)	(0.051)	(0.029)
Loss	-0.079***	-0.094***	-0.086**	-0.092***	-0.075***	-0.090***
	(0.020)	(0.014)	(0.035)	(0.013)	(0.014)	(0.012)
RD	0.390***	0.146	0.552	0.200	0.309	0.213
	(0.144)	(0.162)	(0.354)	(0.160)	(0.250)	(0.193)
CAPEX	0.776***	0.139	0.766***	0.196	0.781***	0.229
	(0.169)	(0.145)	(0.158)	(0.142)	(0.174)	(0.185)
Growth	0.004	-0.003***	-0.004	-0.003***	0.008	-0.002***
	(0.056)	(0.000)	(0.072)	(0.000)	(0.048)	(0.001)
Constant	0.092	0.254***	0.148	0.210***	0.064	0.150*
	(0.232)	(0.062)	(0.352)	(0.044)	(0.172)	(0.090)
Observations	1065	1065	1065	1065	1065	1065
R-Squared	0.468	0.195	0.468	0.244	0.468	0.282
Industry Effect	YES	YES	YES	YES	YES	YES
Year Effect	YES	YES	YES	YES	YES	YES
AR(1) test p.Value		0.004		0.002		0.000
AR(2) test p.value		0.259		0.325		0.489
Hansen test p.value		0.584		0.632		0.556

This table presents the results of estimations to correct for endogeneity by using 2SLS and GMM model. See the Appendix for variables' definitions. Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Change analysis
We rerun our model using the change analysis by estimating changes in CSR rather than the level of CSR scores, following Mande *et al.* (2012). This test addresses the concern that the causality might be in the opposite direction. The results reported in Table 10 show that changes in CSR positively influence corporate tax avoidance. This result is consistent with our hypothesis that CSR affects tax avoidance, rather than the other way around.

TABLE 10
Change Analysis: CSR changes and tax avoidance

Variables	BTD
CSR_CHANGE	0.003**
	(0.001)
Size	0.016***
	(0.005)
LEV	-0.276***
	(0.036)
Loss	-0.066***
	(0.015)
RD	0.404**
	(0.178)
CAPEX	0.643***
	(0.175)
Growth	0.025
	(0.034)
Constant	0.044
	(0.062)
Observations	958
R-Squared	0.506
Industry Effects	YES
Year Effects	YES

This table displays the panel regressions results of the association between tax avoidance and CSR. See the Appendix for variables' definitions. Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Alternative measures of tax avoidance
We use an alternative measure for tax avoidance—namely, the long-run effective tax rate calculated, developed by Dyreng *et al.* (2008). This measure investigates whether firms avoid paying taxes year after year or whether is a transitory phenomenon. Long-run ETR refers to the sum of taxes paid over n years (e.g., 5 or 10 years) divided by the sum of total pre-tax income excluding special items over the same period. Dyreng *et al.* (2008) state that this measure reflects both tax-reduction activities that are perfectly in compliance with the law and other activities resulting from gray-area interpretations. The results in Table 11 show that CSR has a negative effect on the ETR measure. Therefore, CSR increases tax avoidance practices, supporting our main findings.

TABLE 11
Alternative measures of corporate tax avoidance

Variables	(1)	(2)	(3)	(4)	(5)	(6)
	Dependent Variable = ETR5			Dependent Variable = ETR10		
CSR	**-0.020*** **			**-0.021*** **		
	(0.004)			(0.004)		
Environ		**-0.017** **			**-0.019*** **	
		(0.007)			(0.006)	
Social			**-0.025*** **			**-0.032*** **
			(0.006)			(0.006)
Size	-0.063***	-0.066***	-0.065***	-0.072***	-0.072***	-0.077***
	(0.014)	(0.015)	(0.015)	(0.012)	(0.013)	(0.012)
LEV	0.560***	0.592***	0.590***	0.790***	0.810***	0.820***
	(0.108)	(0.112)	(0.106)	(0.073)	(0.081)	(0.076)
Loss	0.092	0.099	0.101	-0.053	-0.049	-0.043
	(0.074)	(0.073)	(0.075)	(0.043)	(0.045)	(0.045)
RD	-0.121	0.004	-0.274	-0.304	-0.128	-0.525**
	(0.301)	(0.321)	(0.296)	(0.209)	(0.245)	(0.209)
CAPEX	-1.155*	-1.218**	-1.156*	-0.580	-0.718	-0.276
	(0.588)	(0.565)	(0.643)	(0.450)	(0.470)	(0.472)
Growth	0.087	0.121	0.103	0.104	0.167	0.095
	(0.094)	(0.095)	(0.095)	(0.108)	(0.116)	(0.108)
Constant	0.756***	0.652***	0.674***	0.753***	0.609***	0.733***
	(0.179)	(0.194)	(0.182)	(0.155)	(0.176)	(0.170)
Observations	1064	1064	1064	847	847	847
R-Squared	0.351	0.326	0.345	0.645	0.607	0.640
Industry Effect	YES	YES	YES	YES	YES	YES
Year Effect	YES	YES	YES	YES	YES	YES

This table presents the results of estimations trough alternative measures of corporate tax avoidance. See the Appendix for variables' definitions. Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Conclusion

This paper investigates the relationship between CSR and corporate tax avoidance by highlighting the dark side of CSR. It also sheds light on the channels through which CSR affects corporate tax avoidance. Using a sample of French listed companies from 2005 to 2017, the results show that firms engaged in CSR activities are involved in corporate tax avoidance practices, supporting the risk management perspective. This result suggests that CSR is one means companies use to hedge risky tax positions and improve their reputation. The results also show that when firms reduce their engagement in CSR activities, the effect on tax avoidance practices is negative. Moreover, the results indicate that debt level and corporate governance mitigate this positive effect, suggesting that well-monitored CSR activities reduce tax avoidance practices. There is additional evidence that the relationship between CSR and tax avoidance is not prevalent for family firms. This result supports the socioemotional wealth hypothesis, suggesting that family firms do not pursue financial objectives but rather social issues and are then more likely to pay their taxes, because they are willing to preserve their family business for future generations.

These results have practical implications for policymakers, managers, and investors. First, French regulators may use the results of our study in preparing future tax regimes and for better regulating the disclosure policy to build a fair tax system that can tackle tax evasion and aggressive tax avoidance. Second, these results are important for managers, who should be aware of engaging in tax-reduction activities even in the presence of CSR activities, because they will lose the trust of investors, tax authorities, and overall stakeholders. By paying their share of taxes, managers are able to improve their reputation and acquire economic benefits that are critical to the survival of their firm in the future. Third, investors may be more likely to increase the monitoring of managers by implementing a set of monitoring mechanisms that are proven to have an incremental effect in reducing corporate tax avoidance and also to monitor CSR activities for a better firm valuation.

Finally, this study had some limitations that should be considered. First, our results may not be generalized to other developed countries due to the specificity of the French context. Second, our measures of tax avoidance do not consider firms that have multinationals in tax havens. Given that corporate tax avoidance recently attracted increased attention from regulators, investors, and other bodies, future research may expand this design by exploiting an international sample and including firms that primarily operate in tax havens.

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APPENDIX 1
Variables and Definitions

Variable Name	Definition	Data Sources
CSR	the sum of social and environmental scores	*ASSET4*
Environ	the sum of the environmental scores	*ASSET4*
Social	the sum of social scores	*ASSET4*
BTD	pre-tax book income – *Current tax expense / Statutory Tax Rate (STR)*	*Compustat Global*
ETR 5	the sum of taxes paid over 5 years, divided by the sum of its total pre-tax income excluding special items over the same period	*Compustat Global*
ETR 10	refers to the sum of taxes paid over 10 years divided by the sum of its total pre-tax income excluding special items over the same period	*Compustat Global*
Size	natural logarithm of total assets	*Compustat Global*
LEV	the ratio of total debt on total assets	*Compustat Global*
Loss	a dummy variable that equals to 1 if the net income is negative and 0 otherwise	*Compustat Global*
RD	the ratio of R&D expenses on total assets	*Compustat Global*
CAPEX	the ratio of capital expenditures on total assets	*Compustat Global*
Growth	measured by the market to book ratio	*Compustat Global*
Gov	a dummy variable that equals to 1 if the governance score of the company is higher than the median sample and 0 otherwise	*ASSET4*
FAMILY	a dummy variable that equals to 1 if founding family ownership is >= 20%, zero otherwise	*Datastream*