

Responsible Tax as Corporate Social Responsibility: The Case of Multinational Enterprises and Effective Tax in India
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The study is one of the recent pieces of work exploring the relationship between taxes and corporate social responsibility (CSR). The starting point for the study is the intriguing question of how multinationals behave in regulatory jurisdictions such as India, where they enjoy a 'moral free space' (437), as the authors define the discretionary corporate freedom in these societies. The question is not new, but they test it with respect to tax payments. Based on a relatively large sample and using statistical regressions, they find that subsidiaries of multinationals in India pay higher effective tax rates (ETR) than local firms and also that multinationals with higher CSR profiles pay more taxes than those with lower records of CSR activities. The authors conclude that multinationals prefer to contribute to the much needed development of the host country rather than elude taxes.

I have at least two reservations regarding the results of this article. First, I faced difficulties in understanding some technical choices and omissions made by the authors. For instance, one criterion to judge tax responsibility was to calculate the difference between ETR paid by local and multinational firms. In my view, a direct comparison of average ETR paid by multinationals with nominal tax rates in India would give a much clearer picture of how multinationals use their discretionary freedom in tax matters. Interestingly enough though, the authors were able to calculate the average ETR of the entire sample comprised of both, multinationals and local firms, and found it to be much lower (21.7%) than the nominal tax rates in India (35–40%). They also cautiously comment that 'the low overall ETRs do indicate that all firms exploit opportunities to reduce their tax burden below the nominal rate to some degree' (454). This detail aside, Müller and Kolk fail to sufficiently explore the reasons why ETR payments differ between local firms and multinationals and conveniently prefer to attribute it to a presumed CSR consciousness of multinationals. However, in the methodological section we learn that India has distinct tax rates for local and foreign firms and some percentages are provided for the year 1993. No clear picture of the tax regime in place at the time of the research inquiry (2000–2002) is offered, notwithstanding the great importance of these details for the results obtained. A more fine grained investigation is also needed to understand in which circumstances firms with better CSR reputation pay higher taxes than other firms. Second, the data collected for the study originates from the years 2000–2002, when societal awareness of tax-related issues was in its infancy. In mid-2000s, there were still calls for enlarging CSR agenda to include tax issues. Hence, the question is whether any tax-related CSR consciousness was present in the business world at the time of the inquiry. Despite the limitations of this study, the topic remains highly relevant and pertinent analyses are needed to understand whether and how multinationals can be mobilised to use 'moral free spaces' for societal betterment.

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