

CORPORATE SOCIAL RESPONSIBILITY AND LIMITS FOR CORPORATE TAX AVOIDANCE

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Abstract

This paper aims to test empirically whether corporate tax avoidance is associated with firms' level of corporate social responsibility (CSR). We used a sample containing 4,453 firm-year observations between 2002 and 2016 from 914 firms listed in the NYSE and in the NASDAQ. Overall, we do not find a statistical evidence of an association between corporate tax avoidance and CSR. However, through a quantile regression, corporate tax avoidance and CSR are associated for higher levels of corporate tax avoidance, which is consistent with risk management theory. Our results contribute to the literature by suggesting that firms more engaged in tax avoidant activities are more likely to implement mechanisms for enhancing CSR levels. The rationale is that CSR is a mechanism to mitigate the risk of being scrutinized and consequently getting regulatory actions, as well as to control for negative reputational events.