Journal of Economic & Financial Research
ISSN : 2352– 9822/ E-ISSN :2588-1574

Volume: 8 Issue: 2 / December -2021
P. 813-828

OEB Univ. Publish. Co.

Stakeholders' Opinion as a Moderating Factor for Tax Planning Activities – Analytical Study-

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Received: *01/09/2021* ***Accepted****: 29/11/2021* ***Published:*** *31/12/2021*

Abstract:

This study aims to explore the way in which the stakeholders' opinions mediate the tax planning activities carried out by companies, because when considering these opinions, it is important to note that they may differ according to different interests and expectations (shareholders, government, creditors, society..).

Based on the analysis of some of the positions raised in this context, the study concluded that the opinions of stakeholders are likely to mediate tax planning activities through their impact on tax planning valuations, approval considerations, and stakeholder needs., and therefore it is important for companies paying serious attention to the accuracy of the information available to stakeholders through financial reporting statements.

Keywords: Tax planning; stakeholders' opinion; corporate social responsibility.

Jel Classification Codes: H2, M14.

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1. Introduction

For many reasons, people and companies are increasingly operating in multiple locations and competing in global markets. All of these locations and markets have tax consequences that can be managed through proper planning.

Undeniably, tax planning is crucial for any corporation in trying to reduce costs, becoming an important part of strategic decisions, by building strategies and taking advantage of the various privileges and opportunities that arise from the continuous transformations in the tax and accounting systems.

However, while companies may have been able to operate strictly according to the letter of the law some years ago, these days firms are widely expected to act within the spirit of the relevant legislation to meet societal expectations, for example former US president Obama has been quoted as saying of firms that are relocating their headquarters overseas, “These firms are corporate deserters, guilty of gaming the system at the expense of ordinary citizens. I don’t care if it is legal. It’s wrong” (Rushton & Roland, 2014).

In recent years, critics have been quick to reproach corporate tax planning practices, as these practices have become a source of - often heated - debate. There has been much discussion regarding companies that are alleged to avoid paying taxes, and about what constitutes an acceptable level of corporate tax payment. However, much recent rhetoric on corporate misbehavior, little is known yet about the influence of different stakeholder opinion when it comes to corporate tax approaches.

With this line, stakeholder opinions on how companies should behave above and beyond legal frameworks are particularly interesting at a time when companies are seen to have the scope to

determine how much tax to pay within a certain tax system (Hasseldine & Morris, 2013) (Klassen & Laplante, 2012).

- **Research Question:**

As social sciences' theories allow a grasp on how people act and the world they live in, they form a constructive tool in rationalizing and foretelling managerial actions towards stakeholders. These theories are thus relevant for examining the socio-political nature and human elements in corporate tax planning, based on this proposition, we can pose the main question of the study as follows:

"How does stakeholders' opinion mediate tax planning activities?".

- **Research Objectives:**

The primary objective of this study is to explore the way in which the stakeholders' opinions mediate the tax planning activities carried out by companies. The specific objectives are as follows:

- Clarify the concept of tax planning practices and the levels that can be taken.
- Highlighting the importance of the contractual perspective for tax planning activities.
- Addressing what different stakeholders can expect from tax planning activities.
- Standing on the various intersections of tax planning activities with stakeholders' opinions and CSR requirements.

- **Research Hypothesis:**

Based on the problem identified and the objectives set, the following hypothesis were formulated:

- Stakeholders' opinions and expectations about how an economic enterprise would conduct tax planning activities is an important component of assessment and approval considerations.

- **Research Methodology:**

In order to verify the hypothesis and answer our problem, we opted for a methodological approach made up of two methods:

- The descriptive method based on consulting various books and theses in order to build a theoretical framework that will allow us to understand the basic concepts on which our work is based.

- The analytical method was used to reach the link between the variables of the study, then to identify how stakeholders' opinion mediate the tax planning activities in the economic enterprise.

- **Research Structure:**

In order to address the problem, and cover various aspects of the subject of the study, we have divided it according to the following axes:

- Key concepts of tax planning;
- Contractual perspective of tax planning;
- What do stakeholders expect?;
- Tax planning and CSR.

2. Tax Planning (Concepts and Levels)

2.1 Tax planning concept

For a better understanding, we begin by defining some key terminology – in particular, the terms tax evasion, tax avoidance and tax planning are sometimes used synonymously in general conversation but have important differences. To create a level playing field when discussing these issues, the following terms and definitions

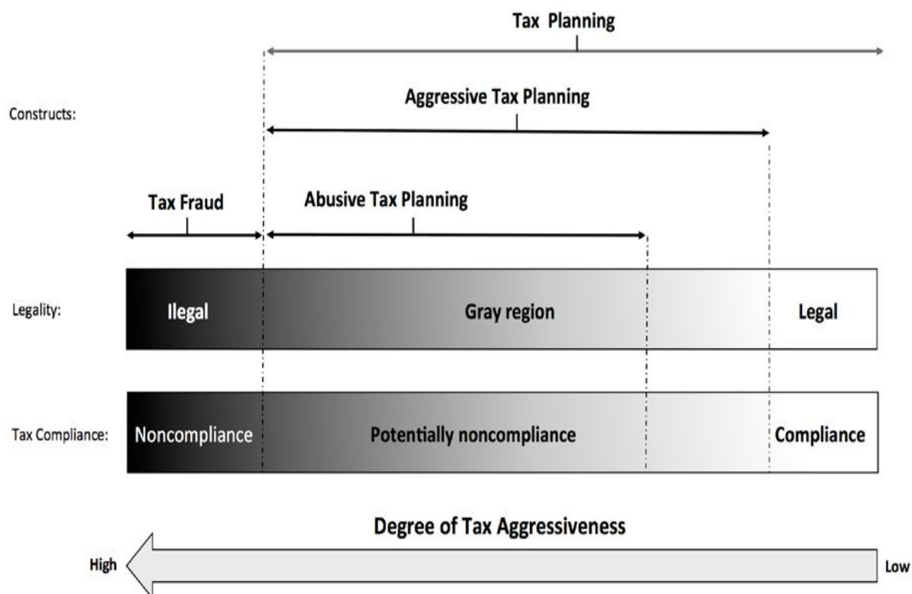
are helpful. Tax evasion refers to illegal activities where companies or individuals deliberately misreport their costs and revenues so as not to pay tax that should legitimately be due. Tax avoidance refers to actions that firms or individuals take within the law to reduce their tax bills, which may include the setting up of specific structures or the exploitation of loopholes in the legal framework. Tax avoidance is probably the most widely used term and covers a very broad range of strategies from accessing government-backed incentives through structuring commercial transactions in tax efficient ways to the use of third-party financial products that deliver a specific tax outcome with minimal other commercial rationale, some of which will be more or less acceptable among various stakeholders although may be within legal boundaries (Brooks, Hillenbarnd, & Money, 2015, p. 8).

2.2 Tax planning levels

Tax planning Levels is a very fertile topic, and it does not exclusively concern the tax authorities, but it interests a very broad audience, such as managers, investors, courts and other regulators. While taxpayers usually have the right to plan their financial movements in a way that leads to a minimum of tax liability, as long as they do so by legal means, just like other rights granted by law, the right to tax planning is not absolute but relative, and it must be balanced with other rights and interests. Therefore, even if tax planning is recognized as a right, there are many considerations that justify the limitation.

The following figure illustrates the potential classifications of tax planning activities, the arrangement of which is consistent along the dimensions of legality and compliance, where the legal dimension ranges from completely legal, followed by an increasingly gray scale and ending with an explicitly illegal with intent to fraud, while the dimension of compliance ranges from strict adherence to manifest non-compliance.

Fig.1. Tax planning Levels



Source: (Martinez, 2017, p. 107).

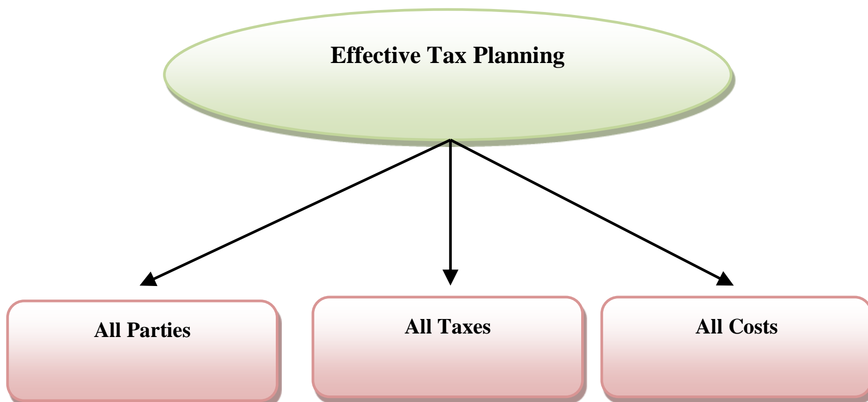
Conceptually, tax planning is thought of as a continuum of activities to reduce tax liability (Hanlon & Heitzman, 2010, p. 137) ranging from full tax compliance to tax sheltering and clearly illegal tax evasion. As the firm moves away from full tax compliance, the level of tax avoidance increases and becomes more aggressive. In this context, tax authorities are calling for a reduction in tax plans or business structures that they consider aggressive and off limits. Because these limits are difficult to discern, the recognition of tax planning has become controversial given the doubts about the applicability of an economic interpretation to tax facts, which makes taxpayers and their advisors always question: What can be done to reduce, defer or avoid taxes? And how aggressive is the planning for that? Most international research in this regard confirmed that the answer to this question is not easy.

3. Contractual perspective of tax planning

Morality issues aside, that to organize production to maximize after-tax return requires that the tax positions of all parties to the contract be considered, both at the time of contracting and in the future. To avoid operating at a competitive disadvantage, managers must understand how changes in tax rules influence the behavior of their customers, their employees, their suppliers, and their competitors. Among other things, this observation exposes the naiveté of distinguishing between business tax planning and personal tax planning, or of tax planning for one type of business in isolation from tax planning for all other types of business (Scholes, Wolfson, Erikson, Hanlon, Maydew, & Shevlin, 2015, p. 4).

This is aligned with the scholes–wolfson framework for effective tax planning, in which it is essential for managers to be aware of the influence of tax rules changes on the behavior of a company's stakeholders. This framework can be illustrated in the following figure:

Fig.2. Effective Tax Planning Framework



Source: Prepared by researcher based on (Scholes, Wolfson, Erikson, Hanlon, Maydew, & Shevlin, 2015, pp. 1-2).

This paradigm does not advance new theories or methodology. It focuses on neither detailed legal aspects nor policy recommendations. Rather it adopts a positive approach in an attempt to explain the role of taxes in companies. Drawing extensively from corporate finance and public economics, it merges two distinct bodies of knowledge: microeconomics and tax law. The paradigm is central to current empirical tax research in accounting, important in public economics, and somewhat influential in corporate finance.

Scholes & Wolfson also argue for a multilateral approach, with the idea that lowering one party's taxes in a transaction increases the expected, after-tax return, which in turn can be "sold" to the other parties to the transaction. In their view, the contracting process is not a zero sum game. Therefore it is important to recognize that effective tax planning and tax minimization are very different things. Effective tax planning involves considering the role of taxes when implementing the decision rule of maximizing after-tax returns. In a world of costly contracting, implementation of tax-minimization strategies can introduce significant costs along nontax dimensions.

4. What do stakeholders expect?

In considering stakeholders' opinions in tax planning activities, it is important to note that stakeholders' opinions may vary since different stakeholders may have different interests and information. In a research survey that investigates the factors that influence the accounting policy decisions of the 200 largest firms operating in Greece. Tzovas (2006) finds that firms' stakeholders' perceptions and decision-making could be influenced by accounting figures (Tzovas, 2006, p. 382).

With a similar line, Hillenbrand et al (2019) explores stakeholder expectations of corporate tax, by conducting a qualitative analysis of in-depth interviews with representatives of community groups (NGOs/think tanks and special interest groups), as well as

interviews with those representing business groups (business leaders and industry representatives). And after setting eight themes that together describe "what" companies need to do, "how" they need to do it, and "why" they need to do it, if they wish to appeal to a wide group of interested parties. Findings suggest that corporate tax approaches supported by stakeholders require companies to re-think not just their actions, but importantly, to be aware of how their motivations and intentions are perceived and whether credible and meaningful exchanges with stakeholders are being formed (Hillenbrand, Money, Brooks, & Toystiga, 2019, p. 423).

Likewise, Asay et al (2018) have examined consumer perceptions of corporate tax planning using two methodologies: first, we survey a large sample of consumers on their awareness of, and purchase decisions in response to, news of corporate tax planning. Second, we conduct an experiment in which we treat respondents with a news article about a company's aggressive tax planning activities and examine whether this treatment affects their stated and revealed preferences for that company. Where the survey results indicated, on average, consumers indicate a reduced willingness to purchase from companies with aggressive tax planning strategies. However, relative to other important purchase inputs (e.g., price, quality, employee compensation, environmental practices), the company's tax strategies rank last on the list of factors that affect the purchase decision. The survey participants also indicate low recall (about 20 percent) of ever having read an article about company tax practices and less than six percent recalled an instance where corporate tax practices affected an actual purchase decision. These results indicate that consumers exert a low penalty for tax-avoiding companies, but also indicate the potential for a much higher penalty if consumers become more aware of their tax practices (Asay, Hoppes, Thornock, & Wilde, 2018, p. 27).

Another theory commonly cited in this context is the theory of legitimacy. Under the theory of legitimacy, corporate values must be coordinated with social values to maintain the legitimacy of the

company's continued operations, because their existence and well-being are deeply governed by social concepts.

When stakeholders believe that tax planning is inconsistent with their expectations of appropriate corporate behavior, the long-term viability and survival of tax avoidance companies will be threatened. In consequence, companies hardly ever publicize their tax avoidance practices. This reveals their innate concept that tax planning violates expected social standards. Therefore, companies seeking to maintain their legitimacy are expected to reduce tax planning practices.

However, legitimacy theory can be more of a double-edged sword in explaining corporate tax planning. Cognizant on corporate ability to exploit the media, there are concerns that companies have been successfully exploiting their CSR performance as a whitewash tool to placate or distract the stakeholders from their tax planning practices (Sikka, 2010, p. 157). In researching this, Lanis and Richardson (2013) subsequently conclude that Australian listed companies accused as being tax-avoidant have significantly disclosed more CSR information to show their commitment to stakeholders as well as to appease and improve the public's perceptions of them (GATR, Mohanadas, Abdullah Salim, & Ramasamy, 2019, p. 85).

5. Tax planning and CSR

Controversy may arise over tax planning activities that stakeholders may consider illegal even if the law does not explicitly specify them. the blurred boundaries of corporate tax rules and behavior have started to move corporate tax payments, or the lack thereof, into corporate social responsibility (CSR) territory and discourse. But as is know, the concept of CSR is broader than simple compliance with law. Social history is littered with laws which permitted slavery, discrimination, abuse of women, children and workers, but their shortcomings have been contested on moral, ethical,

accountability, human rights and other grounds. In the same traditions CSR is frequently associated with promises of ethical and socially responsible conduct by businesses and its scope is increasingly being broadened (Sikka, 2010, p. 153).

In the tax context, Sustainability organization emphasizes the importance of stakeholder opinion and corporate responsibility in tax issues, as follows: "Tax is the latest issue to emerge as part of a more thorough review of the economic impacts that companies have. It has become the subject of greater attention with a variety of stakeholder groups actively reviewing the approach that companies take to their tax policies and planning ….With the growing involvement of governments, the media, non-governmental organisations (NGOs) and even religious groups, the issue is being transformed from a narrow technical discussion for specialists to one which is directly relevant to corporate responsibility" (Sustainability, 2006, p. 2).

However, it is often argued that the CSR literature itself is too fragmented with no widely accepted definition, and in the tax context we find that the description provided by Matten & Moon (2008) is particularly ambitious, who suggest that: "CSR is (and its synonyms) empirically consists of clearly articulated and communicated policies and practices of corporations that reflect business responsibility for some of the wider societal good. Yet the precise manifestation and direction of the responsibility lie at the discretion of the corporation." (Matten & Moon, 2008, p. 405).

According to this line, we find that the tax debate revolves around tax planning practices that may be perceived by the owners. Interests as illegal even if not explicitly defined by law. For example, in 2012, it was revealed that during the 14 years that Starbucks had operated in the U.K., it paid hardly any taxes. Public outrage led to a boycott of Starbucks shops, and the company responded by promising that it would voluntarily pay to the taxman about $16 million more than it was required to pay by law. Several months later, a U.S. Senate

committee investigating tax avoidance by U.S. technology firms reported that Apple had used a “highly questionable” web of offshore entities to avoid billions of dollars of U.S. taxes. Multinational companies, such as Starbucks and Apple, have reduced their tax bills using legal techniques with exotic names such as the “Dutch Sandwich,” “Double Irish,” and “Check-the-Box.” But the public outcry over these revelations suggested that many believed that their use, though legal, was unethical. If they were unethical, that leaves an awkward question: How do companies decide which tax schemes are ethical and which are not? (Brealey, Myers, & Allen, 2020, pp. 11-12).

From the point of view of Hoi et al (2013), stakeholders’ opinions, CSR activities and their relationship to tax planning practices can be viewed in two ways (Keung Hoi, Wu, & Zhang, 2013, pp. 2026-2027):

- **The Corporate Culture Perspective on CSR and Tax Planning:** one can treat CSR as a shared belief within a firm. In this context, CSR is the belief about the “right” course of actions that takes into account not only economic but also social, environmental and other externalized impacts of company actions; it follows that irresponsible CSR activities are inconsistent with CSR. Likewise, aggressive tax planning practices are costly to society (Weisbach 2002) and they are widely viewed as “unethical” and “irresponsible” by the public and the popular press; it follows that overly aggressive tax avoidance is also likely to be viewed as inconsistent with CSR. Accordingly, aggressive tax avoidance practices should be positively, or at least non-negatively, associated with irresponsible CSR activities.

- **The Risk Management Perspective on CSR and Tax Avoidance:** one can treat CSR activities as a risk management strategy that a firm uses to enhance its CSR reputation, which, in turn, protects the firm against the risk of adverse political, regulatory and social sanctions/penalties in the case of negative corporate events.

Aggressive tax planning practices may lead to severe negative sanctions such as loss of firm/executive reputation, increased political/ media pressure, potential IRS fines and penalties, and even consumer boycott. Accordingly, firms could manage their CSR reputation by reducing (increasing) irresponsible (responsible) CSR activities, so as to lessen the expected costs associated with aggressive tax planning practices. If participation in CSR activities is a risk management strategy, aggressive tax avoidance practices should be negatively related to irresponsible CSR activities.

6. Conclusion

Business groups and community groups are parts of society that are generally regarded as not directly communicating with each other. Therefore, these parts often do not operate in the same network, and may also gather their views based on different norms and expectations. Therefore, the stakeholder-supported corporate tax planning method requires companies not only to rethink their behavior, but more importantly, to be aware of how their motives and intentions are perceived, and whether they are forming credible and meaningful relationships with stakeholders. In general, it can be concluded that the opinions of stakeholders are likely to mediate tax planning activities through their impact on tax planning valuations, approval considerations, and stakeholder needs. This is aligned with the concept of "all parties" introduced by the scholes–wolfson framework in which it is essential for managers to be aware of the influence of tax rules changes on the behavior of a company's stakeholders, who may consist of customers, employees, suppliers and competitors.

In addition, the government may consider pressure from stakeholders when formulating tax-related rules and regulations. This, in turn, reflects the management's tax planning decisions in the form of responses to the relevant tax rules and regulations of stakeholders, that is, managers plan taxation according to the needs of stakeholders,

and the government will consider these needs when formulating rules and regulations, because the economic purpose of the company and its responsibilities to stakeholders are first of all the natural starting point for review responsibility.

In short, while empirical research on the subject is developing rapidly, the theoretical aspects of corporate tax planning should not be ignored. Ultimately, applying new theories to analyze corporate tax planning will lead to potential sources of constructive and universal discoveries. This is very useful for policy formulation and effective tax enforcement strategies, especially for countries that rely more on their corporate income tax revenue.

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