THE MISSING LINK: TAX AVOIDANCE AND CORPORATE SOCIAL RESPONSIBILITY

feature

Stephen Littler

The accountancy firms make much of their commitment to corporate social responsibility. But though they are happy to talk about their charitable work among the poor, they are less forthcoming about their core business. Yet tax avoidance is one of the main reasons why charity is becoming so much more vital.

While researching my Ph.D. thesis, I interviewed two senior members of the UK Parliament. Neither was able to define what tax avoidance was, or to say exactly how much the government loses to it every year. They are far from unusual. Uncertainty surrounds the role of the state in fulfilling its core function of raising tax revenue in order to provide public services.

Meanwhile, the accountancy firms that are often responsible for promoting or facilitating tax avoidance produce elaborate corporate social responsibility (CSR) reports that do not adequately address the issue of taxation. I know this to be the case after reviewing the content of the CSR reports produced by the top four accountancy firms over a six-year period between 2005 and 2011. Not one of these reports clearly and systematically stated how much tax was paid, where it was paid, or whether the firms abstained from using artificial means to reduce their own or, more importantly, their clients' tax liability.

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Estimates of the amount lost to tax debt, avoidance and evasion have of course been made, and the current 'tax gap' in the UK – the difference between the amount of revenue expected if the system worked as intended and the amount actually collected – is thought to be in the region of £119.4 billion (Murphy, 2014[1]). Needless to say, across Europe and the US, the figure is much higher. The size of the problem is putting increasing pressure on those who facilitate tax avoidance (even if they have nothing to do with facilitating tax evasion).

In my recent research, I examined 124 CSR reports from the top four accounting firms in the UK. Only 23 (19%) of them gave any account at all of their approach to taxation. Only five of those 23 – 4% of the total – provided anything like a quantitative analysis. The rest gave only a vague assurance that the business was proactive in providing responsible tax planning, without including any facts or figures at all. Meanwhile, all the reports went into considerable detail about charitable work and links with the community. This is not to cast doubt on the value of charitable activities. But within accountancy firms' CSR reporting, tax remains a missing link.

Given the sheer size of the industry, and the ability for a partner in tax consultancy to earn £3 million per annum in fees,[2] the lack of disclosure of taxation information within accountancy firms' CSR reports raises serious questions. It is difficult to escape the conclusion that many businesses, including the top four accountancy firms within the UK, see CSR as little more than a tool for brand and reputation management, helping to legitimise their current practices.

The eighth circle of hell is reserved for fraudsters. Something that the Big Four might want to bear in mind.

1 http://www.taxresearch.org.uk/Blog/2014/09/22/new-report-the-tax-gap-is-119-4-billion-and-rising/?

2 http://www.icaew.com/~/media/Files/Products/sustainability/TECPLN9787%20CRS%20Briefing%2016%20Dec%20Final.pdf

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The Accounting Standards Board (ASB) notes that the section of company accounts that is most commonly full of 'immaterial clutter'[3] is the corporate social responsibility section. It also comments that many organisations, including accountancy firms, are not reporting on areas specific to their activities, in this case taxation service lines. In a recent survey by the ASB, nine organisations had a CSR section of their company accounts that was longer than the financials section, and yet only one in five companies gave an adequate explanation as to why CSR was important to that particular business.

If accountancy firms are offering and selling tax advice and products, should this not be part of their CSR disclosure? It may be less common practice to relate tax advice to CSR than the more 'traditional' CSR issues such as human rights and supply chain best practice, but CSR is increasingly about 'core business', and tax advice is indisputably a core business activity of accountancy firms. There are good commercial reasons for accountancy firms to make a more explicit link between tax advice and socially responsible behaviour. By helping companies to pay their fair share of taxes, accountancy firms will build a reputation for strong ethical values, attracting likeminded clients and employees.

No one is asking accountancy firms to encourage their clients to pay more tax than they need to. However, there are compelling reasons for accountancy firms to help their clients to pay the correct amount of tax in each country where they have an operational presence, and for accountancy firms to produce CSR reports that engage directly with their main business activities. At a minimum, CSR reports should describe how, where and when tax is paid by the accountancy firms themselves, provide information on their service lines, including the nature of tax advice provided to clients, and outline how their tax partners are trained in ethics. To repeat, tax is currently the missing link in accountancy firms' CSR reports. Given the level of scrutiny that tax avoidance is attracting, accountancy firms would be well advised to remedy this.

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[3] https://www.frc.org.uk/Our-Work/Publications/ASB/Rising-to-the-Challenge/Rising-to-the-challenge.aspx