

How Might Corporate Tax Rates Affect Corporate Environmental Social Responsibility?

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A growing literature has developed on the topic of enforcement crowding out altruism.¹ This literature may apply to the idea of corporate social responsibility. If the government requires social responsibility, by imposing a carbon price or by otherwise increasing tax liabilities to pay for social goods, does that reduce the corporate social response? Similarly, would reducing regulations and corporate tax liability increase the social response? The U.S. and Australia have significant differences in corporate taxation under 2017 law. Post-2017, the U.S. is moving closer to Australia in its corporate tax rate and also in its international tax system. Australia is also considering reducing its corporate tax rate. In both the U.S. and Australia, corporations use tax strategies to reduce their effective tax rates (ETRs). The U.S. and Australia both face environmental challenges and government response to those challenges may be lacking. Investors increasingly expect corporations to perform on environmental, social and governance metrics. Using a case study approach, we examine whether low corporate tax rates appear to encourage firms' investment in sustainability. We compare selected U.S. and Australian multinational corporations (MNCs) on ETR and CSR. As companies in different industries face different ETRs, we select companies in different industries. According to analysis by the New York University Stern School of Business, multinational corporations in the retail industry face a relatively high ETR (34%) while enterprises in the coal (5%) and information technologies sectors (16%) face lower ETRs. We will examine corporate sustainability reports and data on ETRs of selected companies and attempt to draw conclusions on characteristics of companies that score well on environmental CSR and how these companies are affected by the legal and tax systems under which they operate. We will compare the U.S. and Australian systems, identify best practices, and offer recommendations for reform.

¹ See, e.g., Roland Benabou and Jean Tirole, Incentives and Prosocial Behavior, 96 Am. Econ. Rev. 1652 – 1678 (2006). Daniel Ariely, Predictably Irrational (Publisher Date) (discussing the social contract vs. the market contract and the daycare situation).