THE EFFECT OF TAX AVOIDANCE BEHAVIOR ON CSR PERFORMANCE IN JAPAN

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Abstract

This article investigates the causal relationship between corporate social responsibility (CSR) performance and tax avoidance behavior among listed Japanese companies from 2013 to 2022. We specifically focus on firms engaging in tax avoidance by establishing subsidiaries in tax havens. Using an exogenous shock—the implementation of Japan's Controlled Foreign Corporation (J-CFC) rules in April 2018—we employ a difference-in-differences (DID) methodology to examine how these regulatory changes impact CSR performance, as measured by Bloomberg ESG Disclosure scores. Our findings indicate that effective tax rates (ETR) of companies with tax haven subsidiaries significantly increased following the J-CFC implementation, confirming the restriction of tax avoidance behavior. Importantly, CSR performance did not decline after the implementation of the J-CFC rules, providing evidence in support of the Corporate Culture Theory. This theory suggests that companies committed to ethical corporate behavior maintain their CSR efforts even when their ability to engage in tax avoidance is curtailed. Our study contributes to the literature by offering a causal analysis of the interplay between CSR and tax avoidance, highlighting the role of corporate culture in sustaining CSR initiatives amidst tax regulatory changes.