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RESEARCH ARTICLE

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Corporate social responsibility and labor tax avoidance: Evidence from Spain

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Abstract

This study expands on the scope of firms' social responsibility and analyzes the relationship between Environmental Social Governance (ESG) and a commonly neglected aspect of Corporate Social Responsibility (CSR), which is tax payment – specifically, the payment of labor taxes. To test the research hypothesis, this study utilizes ESG data from Refinitiv Eikon and consolidated accounting data collected from Sistemas de Análisis de Balances Ibéricos (SABI) and applies panel data estimation. The regression results indicate that CSR has a negative and significant relationship with Labor Tax Avoidance (LTAV). This negative relationship remains robust and significant across different estimation methods and measures of CSR and LTAV. Our research suggests that managerial and practical concerns regarding social responsibility awareness are related to firms' decisions, impacting both society and employees, particularly concerning the avoidance of labor taxes.

KEYWORDS

corporate social responsibility, labor, social security contributions, stakeholder theory, tax avoidance, tax avoidance

INTRODUCTION

This study analyzes the relationship between Corporate Social Responsibility (CSR) and Labor Tax Avoidance (LTAV). LTAV specifically refers to the avoidance of social security contributions (SSC), which are taxes enacted to provide social benefits to the population. These benefits encompass but are not limited to, unemployment insurance, accidents, injury and sickness benefits, old age, disability, and survivors' pensions, family allowances, and reimbursements for medical and hospital expenses (Argilés-Bosch, Ravenda, & Garcia-Blandón, 2021; OECD, 2022a).

According to conventional wisdom, tax avoidance is legal, although it may involve the use of strategies to reduce payable taxes that are not necessarily in line with the spirit of the law (Avi-Yonah, Sartori, & Marian, 2011). Tax evasion, however, is illegal and refers to the non-disclosure, deception, concealment, or destruction of tax revenue records from tax authorities (Fisher, 2014; Freedman, 2006). LTAV can be carried out legally by avoiding SSC, infringing certain labor market standards such as minimum wages, underreporting employee work hours, disregarding safety standards, and employing practices such as employee discounts and fringe benefits (Feld & Schneider, 2010). In some cases, employers resort to illegal means, such as paying salaries or wages through undeclared "black" payments or employing undeclared workers, in order to evade taxes and social security payments owed mostly by the employer but also by the employee (Ravenda et al., 2020). Previous research highlights the absence of universally accepted definitions of tax avoidance, as the concept may have different meanings for different individuals (Hanlon & Heitzman, 2010). However, this study did not consider the semantics of the concept. Instead, it aligns with Dyreng, Hanlon, & Maydew (2008) and Hanlon & Heitzman's (2010) definition of tax avoidance, defining it broadly as any strategy (whether legal or in the gray area) that firms employ to reduce labor taxes. This behavior easily permeates non-standard forms of employment (NSE), where employment is neither

full-time nor indefinite and there is no direct subordinate relationship between an employee and an employer. NSE can have a prejudicial effect on employees' social security coverage, as employees can be legally excluded due to a lack of continuity in employment or insufficient working hours (International Labour Organisation, 2016).

In the empirical study of tax avoidance, the researcher's measurement of tax avoidance is a key concern, as there are limitations to the inferences that can be made considering the measurement of proxies and attributes of the sample (Hanlon & Heitzman, 2010). Previous studies (Argilés-Bosch, Ravenda, & Garcia-Blandón, 2021; Ravenda et al., 2020, 2021; Ravenda, Argilés-Bosch, & Valencia-Silva, 2015) measured LTAV based on accounting information available in firms' financial statements. Accordingly, in this study, LTAV is represented by abnormal values of the ratio of SSC paid to employees. The use of residuals as a proxy for LTAV implies that firms (and managers) in our Spanish sample intentionally reduced labor taxes (e.g., Hanlon & Heitzman, 2010).

When corporations measure social benefits and losses through financial statements, costs tend to be overemphasized. This is often because they fail to consider the tax impact of government expenditures on providing social benefits (Crumbley, Epstein, & Bravenec, 1977). As a result, firms that include SSC in their financial statements are likely to overstate the significance of their labor costs. In fact, the motivations behind firms engaging in LTAV are similar to those for Income Tax avoidance (ITAV) (Ravenda, Argilés-Bosch, & Valencia-Silva, 2015), primarily the need to reduce costs. Consequently, some stakeholders perceive tax (or SSC) payments as irrelevant to CSR, and their decision to engage in either CSR or tax avoidance is likely to be influenced by how participation in one activity affects the costs and benefits of the other (Davis, Guenther, & Krull, 2016). Drawing from stakeholder theory, we argue that firms have a social responsibility to fulfill their fair share of SSC payments.

However, research on LTAV is limited. The first study on LTAV revealed significant unexplained variations in labor taxes, measured through abnormal SSC, within Italian mafia firms, which are inherently irresponsible (Ravenda, Argilés-Bosch, & Valencia-Silva, 2015). Meanwhile, research on CSR and tax avoidance has primarily focused on the relationship between CSR and corporate income tax avoidance (Lanis & Richardson, 2012, 2015; Watson, 2015; Zeng, 2019a). However, in many developed countries, SSC have greater economic significance than corporate income tax. In 2020, SSC accounted for 13.71% of Spain's GDP, 14.85% of France's GDP, and 15.20% of Germany's GDP. These percentages corresponded to €153,862 billion, €348,777 billion, and €512,122 billion, respectively. By contrast, corporate income taxes for the same countries were €22,055 billion, €53,611 billion, and €55,553 billion in 2020 (OECD, 2022a, 2022b). Therefore, when activities are undertaken to avoid taxes and social contributions that benefit employees or circumvent legal requirements related to minimum wages, working hours, and health and safety regulations, they diminish state revenues and distort the indicators of growth, unemployment, and income distribution (Dell'Anno, Gómez-Antonio, & Pardo, 2007). Thus, the economic significance of SSC and the substantial social loss attributed to LTAV, a key aspect of socially responsible behavior, both motivate this study and highlight the importance of researching LTAV. Furthermore, LTAV are often overlooked in the CSR agenda. Informal studies by Christensen & Murphy (2004) show that published CSR statements often omit tax payments as part of a firm's CSR agenda. Consequently, we may infer that LTAV is also neglected in firms' CSR agenda. Therefore, this study aimed to address this gap.

To analyze the relationship between ESG scores and a commonly neglected aspect of CSR, which is tax payment – specifically, the payment of labor taxes– we collected ESG data from Refinitiv Eikon and consolidated accounting data from the SABI for 33 Spanish-listed companies during the period 2008–2018. Our findings reveal a negative relationship between CSR and LTAV. Socially responsible firms tend to pay more SSC, as evidenced by the higher values of abnormal SSC per employee, indicating a lower inclination toward LTAV. These results hold across different model specifications and measures of CSR and LTAV.

This study contributes to the limited existing literature on LTAV. It specifically adds to the literature on CSR and LTAV by being, to the best of our knowledge, the first paper to explore this relationship. It also examines another dimension of firms' social responsibility, focusing on their commitment to the government and employees through SSC. Furthermore, research on CSR and tax avoidance has yielded mixed results. Therefore, our study contributes to the ongoing academic debate on CSR and tax avoidance.

The remainder of this paper is organized as follows. The next section details the Spanish legal context. Section 3 reviews the literature and presents the hypothesis. Section 4 presents the research design of the study. Section 5 describes the sample selection and provides descriptive statistics. The results are presented in Section 6, followed by discussion and conclusions in Section 7.

THE LEGAL CONTEXT OF SPAIN

In Spain, while small- and medium-sized firms can report aggregate data on payroll expenses, only large firms are required to disclose wage and SSC information separately in their financial statements (Argilés-Bosch, Ravenda, & Garcia-Blandón, 2021). These firms must meet at least

two of the following requirements[1] at the fiscal year-end: 1) their total assets should not exceed 11,400,000 euros; 2) their annual turnover should not exceed 22,800,000 euros; and 3) their average number of employees should not exceed 250.

The Spanish decree-law n° 2064/1995 of December 22, 1995 (RLD, 1995) established general regulations for SSC, including their computation and payment. According to this law, both employers and employees are legally required to pay SSC to the General Treasury of Social Security by deducting the prescribed rates from the gross salary or wage[2] set annually by the State Budget Law (Article 10, RLD, 1995). There are four categories of SSC imposed on employers: contributions to common contingencies (such as pension, disability, and health insurance), contributions to unemployment insurance, contributions to FOGASA (insurance against employer insolvency), and contributions to occupational training (Article 26, RLD, 1995).

In Spain, the social security tax base is regulated within a range that extends from the legal minimum wage to the legal maximum wage. The Spanish government determines the social security tax base on an annual basis. In 2022, the maximum rate in the common system (regimen general) was 29.9%. However, various specific circumstances can lead to variations in taxable wages and applicable rates. Any portion of the remuneration that exceeds certain thresholds is neither taxable nor is it subject to SSC. These thresholds depend on factors such as the nature of the activity, professional category, and specific characteristics such as the number of hours worked and the type of employment agreement, including cases involving multiple employment contracts. Under certain contracts, such as new occupational, training, temporary, or permanent contracts, firms may benefit from significant reductions in their SSC (Article 9, RLD, 1995).

This legal framework grants employers the flexibility to reduce the social security tax base below the reported gross salary of their employees while still conforming to labor tax laws. This allows for various discretionary measures, including NSE arrangements, replacement of older employees with younger or new hires, and changes in employment categories. Moreover, self-employment is a common strategy that facilitates SSC avoidance and may be adopted by companies in our sample. Employers can also avoid SSC by substituting a portion of the taxable gross salary with alternative remuneration elements, such as expense reimbursement, travel and transport allowances, or fringe benefits (Ravenda et al., 2020). Freedman (2006) refers to such schemes as 'salary sacrifice schemes,' which can be challenging to quantify. In a salary sacrifice scheme, employees agree to relinquish certain future salary rights in exchange for non-taxable benefits in kind. This allows employers to save on national insurance contributions and potentially reduce pension contributions paid on behalf of their employees when they retire. Salary sacrifice schemes, along with other forms of LTAV, result in costs to governments as they diminish available funds for public expenditures, reduce pension contributions, and can have negative consequences for workers in terms of reduced future benefits from the state and employers (Freedman, 2006; Ravenda, Argilés-Bosch, & Valencia-Silva, 2015).

[1]Real Decreto 602/2016 de 2 de Diciembre de 2016 (RLD, 2016).
[2]For simplicity, we use the term wage in the remaining of the paper.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Defining CSR has proven to be challenging for both the corporate and academic worlds (Dahlsrud, 2008). Indeed, some tax-avoidant firms increase their CSR reporting to project an image of ethical conduct and responsibility in line with societal expectations (Abdelfattah & Aboud, 2020). To define CSR, Carroll (1991) presents a stakeholder's perspective using a pyramid framework comprising four components – economic, legal, ethical, and discretionary (philanthropic) – that businesses incorporate into their decision-making processes to meet society's expectations. The economic component pertains to a company's primary role and responsibility to produce the goods and services that society requires and sells at a profit. Ethical responsibility encompasses ethical norms and behaviors that are not explicitly stated in the law but are expected of corporations as members of society. It involves a firm's obligation to act in a manner that is right and fair and to avoid or minimize harm to stakeholders while fulfilling its economic responsibility.

The stakeholder perspective enables us to consider the interests of various stakeholders such as fiscal authorities and employees in CSR research (Emshoff & Freeman, 1978; Freeman, 1984; Margolis & Walsh, 2003). This aligns with the views of Moser & Martin (2012), who encourage researchers to analyze CSR to adopt a broader perspective, being open to the possibility that CSR activities might be related to both shareholders and other stakeholders. Consequently, when we analyze CSR from a perspective that includes all stakeholders, it allows us to consider large social losses due to LTAV, which is arguably a component of CSR, albeit not often considered in CSR studies. Therefore, LTAV can be viewed as irresponsible, inconsistent with CSR activities and corporate ethics, and fundamentally damaging to society, employees, and public health (e.g., Hoi, Wu, & Zhang, 2013).

Considering that businesses and societies are interdependent on their existence, continuity, and growth, with society engaging with businesses through social demands

(integrative approach), businesses are expected to act ethically and align themselves with their societal obligations (ethical approach). Hence, to contribute to a better society, firms should identify, analyze, and respond to social demands to establish social legitimacy, gain greater social acceptance, and enhance their reputation (Garriga & Melé, 2004).

While the literature on LTAV is scarce, research analyzing the relationship between CSR and LTAV is non-existent. Therefore, our research on CSR and LTAV draws mainly from previous research on CSR and tax avoidance, which deals almost exclusively with ITAV (e.g., Abdelfattah & Aboud, 2020; Goerke, 2019; Hoi, Wu, & Zhang, 2013; Landry, Deslandes, & Fortin, 2013; Lanis & Richardson, 2015; Muller & Kolk, 2015). Many scholars (e.g., Avi-Yonah, 2014; Bird & Davis-Nozemack, 2018; Lanis & Richardson, 2012, 2015; Preuss, 2010; Watson, 2015) argue that tax avoidance is a sustainability and CSR problem, as it goes against corporations' societal obligations and society's expectations (Christensen & Murphy, 2004; Sikka, 2003). Although Hanlon & Heitzman (2010) neglected the role of CSR in taxes, they reviewed the role of corporate governance on taxes and that of taxes on business decisions. Given the evidence of a relationship between corporate governance and CSR (Jamali, Safieddine, & Rabbath, 2008) and the implications of CSR on firm decisions and performance (Orlitzky, Schmidt, & Rynes, 2003), CSR may also be related to a component of a broader dimension of socially responsible behavior, such as tax avoidance (Huseynov & Klamm, 2012), namely, labor tax payments.

However, some scholars argue that CSR and tax avoidance are unrelated, as CSR is seen as a means of increasing shareholder wealth (Friedman, 2007), whereas taxation is considered an avoidable cost rather than a contribution to society (Sikka & Willmott, 2010). Additionally, tax avoidance is discussed as an agency concern because it enables managers to create value and align their interests with those of shareholders through compensation incentives (Hanlon & Heitzman, 2010). However, the artificial view of the firm considers it an entity of the state with certain privileges and believes that corporations should fulfill their tax obligations like any other state entity, rather than employing shrewd accounting techniques to reduce their tax liabilities (Avi-Yonah, 2008). Research holds that the reasons behind ITAV also lead firms to engage in LTAV. From a cash flow perspective, reducing corporate taxes through special provisions can be significant for managers (Crumbley, Epstein, & Bravenec, 1977). Consequently, managerial decisions related to firm profitability, such as increasing stock prices (Lanis & Richardson, 2011, 2012), improving earnings performance (Watson, 2015), and optimizing the allocation of costs and revenues among corporate divisions (Sikka & Willmott, 2010), serve as motivations for ITAV. Similarly, the limited literature on labor taxes also reveals the presence of avoidance activities in the digital economy, where taxes are considered costs. E-commerce firms, driven by aggressive capitalist principles and profit maximization with little regard for ethics and social responsibility, use NSE agreements to exploit the expanding possibilities offered by the digital economy and avoid scrutiny by authorities (Argilés-Bosch, Ravenda, & Garcia-Blandón, 2021). Additionally, labor-intensive firms with substantial labor costs tend to engage in LTAV. For example, Ravenda et al. (2021) found a correlation between a high concentration of non-EU immigrant workers in the construction and agricultural sectors in certain Italian provinces and high levels of LTAV. In Spain, LTAV is prevalent in various industries, where tax-avoidant offending firms fraudulently underreport employees' work hours and fail to declare related salaries, resulting in abnormally low SSC (Ravenda et al., 2020).

Thus, in Spain, the labor reforms[3] implemented in 2010 and 2012 reduced employment protection, resulting in employees losing certain advantages previously gained through collective bargaining at both the industry and national levels. These reforms forced employees to accept less favorable working conditions and allowed companies to convert full-time contracts to part-time contracts, thereby promoting NSE and reducing firms' SSC for certain contracts, relieving firms of some of their social and working obligations in pursuit of their economic goals (Argilés-Bosch, Garcia-Blandón, & Ravenda, 2023). However, self-employment in its various forms (e.g., gig economy) exposes individuals to social risks and precarity, as the responsibilities typically associated with employment, such as wages, working conditions, and in-work benefits (e.g., paid leave), no longer rest with the state and employer, but solely with the employee. This situation is considered as a transfer of social risk from the unemployed to the individual through entrepreneurship. Moreover, many individuals may enter self-employment from poverty without policies that mitigate the risk of poverty through financial support and human capital development. Consequently, there is a risk that self-employment could lead to unsustainable business activities (Danson, Galloway, & Sherif, 2021). This situation reflects the negative consequences of firms' LTAV activities on individuals. Froud et al. (2000) argue that even in well-established companies, management focuses on finding financial strategies to achieve short-term targets, such as ending defined benefit pension schemes to save on labor costs or leasing assets to shift capital off the balance sheet. Labor taxes, including personal income tax and SSC, are direct costs that reduce the expected after-tax returns on firms' activities. From an economic perspective, it is rational

[3]Spanish laws 10/2010, 35/2010 and 3/2012 (*Ley* and *Real Decretos-Leyes*, respectively).

for companies to reduce costs and maximize profits (Argilés-Bosch, Ravenda, & Garcia-Blandón, 2021; Stenkula, 2012). Therefore, some companies appear unable or unwilling to align their CSR commitments with their tax planning. For them, investment in tax is feasible when the value of the marginal benefit to shareholders exceeds the marginal cost (Hanlon & Heitzman, 2010) and when slack resources are available (Waddock & Graves, 1997). In the case of LTAV, these firms avoid compliance with market standards and other administrative obligations, and employ deceptive practices, such as manipulating employee numbers and accounting profits, to minimize their labor tax liabilities. These avoidance actions hinder local governments' ability to finance public goods, including social security services, such as healthcare and retirement funds (Avi-Yonah, 2014; Desai & Dharmapala, 2006; Feld & Schneider, 2010; Fisher, 2014). However, Freeman (1984) argues that businesses exist to serve various stakeholders, including governments (i.e., tax authorities). Therefore, if corporate engagement in ITAV is considered a CSR problem, LTAV can also be seen as a CSR problem, as both types of avoidance are driven by cost reduction and profitability incentives and have negative effects on society.

Previous research has yielded mixed findings on the relationship between CSR and ITAV. Some scholars suggest that responsible firms exhibit lower tax aggression (Hoi, Wu, & Zhang, 2013; Lanis & Richardson, 2012, 2015; Muller & Kolk, 2015), whereas Mao (2019) finds that firms with high CSR are more tax-aggressive. Landry, Deslandes, & Fortin (2013) reveal that companies with either low or high CSR scores are more likely to engage in tax avoidance than those with moderate CSR scores. Furthermore, evidence suggests that CSR and tax avoidance activities act as substitutes, with aggressive tax-avoidant firms tending to increase their CSR activities (Davis, Guenther, & Krull, 2016; Goerke, 2019; Preuß & Preuß, 2017). These results suggest that while corporate tax payments enable governments to invest in social welfare, tax-avoidant firms that focus on after-tax profitability tend to allocate resources to social welfare through other means, such as job creation (Davis, Guenther, & Krull, 2016). Companies that deviate from societal expectations neglect their basic economic contribution to society. They assert their social responsibility by engaging in other, less costly CSR activities that aim to address community concerns regarding tax avoidance strategies (Davis, Guenther, & Krull, 2016; Lanis & Richardson, 2013; Preuss, 2010).

Based on previous studies on CSR and ITAV, we posit that socially concerned firms that are aware of the sustainability of the social security system and respect the interests of their main stakeholders (e.g., employees and fiscal authorities) would not avoid their SSC. Meanwhile, firms with few social commitments that are unsupportive and disrespectful of environmental and social issues are more prone to avoid taxes. Avoiding SSC puts the well-being of employees at risk in both the short and long term. This may produce a vulnerable population of retirees and unemployed young adults who struggle to meet their basic needs or cover essential healthcare costs. Danson, Galloway, & Sherif (2021) argue that firms should prioritize decision quality over economic performance, as any group of individuals can face public and social risks requiring government intervention. Given the current and future demographic challenges in many developed countries, including Spain, securing funding social security benefits for retirees and non-working individuals would become increasingly difficult without policy reforms (e.g., Kitao, 2014). Hence, it can also be argued that LTAV is unsustainable for both employees and tax authorities.

When firms engage in tax avoidance, they often concurrently increase their investment in CSR, a phenomenon that can be interpreted as mere window-dressing (Goerke, 2019; Preuss, 2010). This tactic has been used to mitigate potential public backlash (Hanlon & Slemrod, 2009; Mao, 2019). Therefore, window dressing may be evident in the case of ITAV because many studies have used effective tax rates to measure ITAV. However, in the context of LTAV, many countries do not require the disclosure of SSC in the consolidated financial statements of multinational companies. Even when SSC is reported, defining LTAV measures can still be challenging, unlike the effective tax rates used for ITAV. Consequently, companies may divert their tax avoidance strategies towards LTAV practices, which can be easily concealed. This tendency reduces the likelihood of firms making conspicuous CSR efforts to legitimize their LTAV practices. This shift may lead to a positive association between CSR and LTAV.

In Spain, large firms are legally required to disclose their SSC, and investors can access comprehensive SSC information from their records in the Spanish stock market. Theoretical analysis also suggests that direct taxes and social contributions are more visible than indirect taxes, which often suffer from fiscal opacity. Therefore, any discrepancies between national expenditure and income statistics, or discrepancies between the official and real labor force statistics, for example, would enable researchers to assess LTAV in Spain (Dell'Anno, Gómez-Antonio, & Pardo, 2007). Given our research focus on large firms, it is important to note that multinational corporations, in particular, face greater pressure to demonstrate social responsibility and transparency in tax management (Kolk, 2010). Therefore, firms' avoidance of SSC through schemes such as NSE contracts can be seen as avoiding fair tax contributions and hindering government financing of public goods (Freedman, 2003; Friese, Link, & Mayer, 2008; Ginesti, Ballestra, & Macchioni, 2020). Such behavior poses reputational risks, loss of corporate legitimacy, and harm to society

(Freedman, 2003; Lanis & Richardson, 2013; Slemrod, 2004). In this research, due to Spanish law's requirement for SSC disclosure, we can measure LTAV and anticipate that socially responsible firms will be less inclined to engage in avoidance. Therefore, we propose the following hypothesis:

> **Hypothesis 1.** The higher the CSR level of a firm, the lower the likelihood of LTAV.

RESEARCH DESIGN

Measurement of labor tax avoidance (dependent variables)

LTAV is estimated using two different measures: SSC per employee (*SSCE*) and abnormal *SSCE* (*ABNSSCE*). *SSCE* provides an indication of LTAV, as it considers the specific SSC that firms are required to pay for each employee. By contrast, *ABNSSCE* captures the social contributions that firms should pay based on their characteristics. To calculate *ABNSSCE*, we follow previous studies on LTAV (Argilés-Bosch, Ravenda, & Garcia-Blandón, 2021; Ravenda et al., 2020) and earnings management (Cohen, Dey, & Lys, 2008; Roychowdhury, 2006) and treat it as the residual of the following equation:

$$SSCE_{i,t} = \alpha_0 + \alpha_1 \frac{1}{TA_{i,t-1}} + \alpha_2 .WAGE\_EM_{i,t} + \alpha_3 .WAGE\_REV_{i,t} + \alpha_4 .REV\_TA_{i,t} + \alpha_5 .INCREV\_TA_{i,t-1} + \alpha_6 .FIRM_i + \varepsilon_{i,t} \quad (1)$$

where i is firm, α is the parameter to be estimated, *TA* is total assets in year t-1, *WAGE_EM* is wage per employee, *WAGE_REV* is the ratio of wages to revenues, *REV_TA* is the ratio of revenues to total assets, *INCREV_TA* is the increase in revenue to total assets in year t-1, *FIRM* is firm fixed effects, and ε is the error term.

High values of both *SSCE* and *ABNSSCE* indicate a low LTAV, whereas low values of these measures indicate a high LTAV.

Empirical model of LTAV depending on CSR and control variables

Based on previous empirical research on LTAV (Argilés-Bosch, Ravenda, & Garcia-Blandón, 2021; Ravenda, Argilés-Bosch, & Valencia-Silva, 2015) and ITAV (Mao, 2019; Zeng, 2019b), we formulate a model in which LTAV is dependent on CSR and other control variables (*CONTROLS*), as defined in the appendix and this subsection:

$$LTAV_{i,t} = \beta_0 + \beta_1 \cdot CSR_{i,t} + \sum_{k=1}^{K} \gamma_k \cdot CONTROLS_{i,t} + \beta_3 .FIRM_i + \varepsilon_{i,t} \quad (2)$$

where i = firms, t = year, β *and* γ are parameters to be estimated, *FIRM* is firm fixed effects, and ε is the error term.

To test the hypothesis outlined in Equation (2), we used two indicators: ESG score (*ESG*) and social pillar score (*SOCP*), both of which were obtained from Refinitiv EIKON. These indicators are explained in the next section. ESG refers to the incorporation of environmental, social, and governance considerations by firms and investors into business models. However, CSR typically refers to firms' efforts to be more socially responsible or better corporate citizens. One distinction between the two is that ESG expressly incorporates governance issues, whereas CSR includes governance issues indirectly through environmental and social factors. Consequently, ESG is a more general term than CSR (Gillan, Koch, & Starks, 2021) and is commonly used in accounting research as a reliable proxy for CSR activities.

Johnson & Greening (1999) argue against combining all dimensions of corporate social performance into a single construct, citing distinct dimensions such as the people dimension and product quality dimension. To comprehend CSR, it is essential to acknowledge that it encompasses social, environmental, and economic dimensions and that businesses have an impact on all these aspects (Dahlsrud, 2008). Hence, ESG data from Eikon Refinitiv provides a multi-category CSR proxy, distinguishing environmental, social, and governance scores, and offering an aggregated ESG score. Previous research indicates that a higher social dimension is associated with a lower likelihood of tax avoidance (Laguir, Staglianò, & Elbaz, 2015; Ortas & Gallego-Álvarez, 2020). Since SSC falls within the social dimension of ESG, the *SOCP* truly captures the social commitments of firms, as it includes metrics such as workforce, human rights, community, and product responsibility. Thus, *SOCP* is an important variable in our study, ensuring a more precise assessment of our hypothesis. Nevertheless, the overall ESG score was included because of its broad coverage of social aspects (albeit not exclusively) and its prevalent use in business research. The positive and significant coefficients for both *ESG* and *SOCP* support our hypothesis.

Equation (2) includes several control variables related to the dependent variable. *REVE* measures a company's workforce intensity. An increase in *REVE* is expected to lead to an increase in SSCE, indicating a positive relationship for this variable. We use the natural logarithm of revenue (*lnREV*) to account for size. However, the expected effect of size on SSC is uncertain. On the one hand, larger firms possess the skills and resources

to efficiently navigate labor contracts with different tax regimes, potentially allowing them to benefit from a more advantageous mix and reduce their *SSCE*. On the other hand, larger firms may be less motivated to reduce costs, including SSC, compared to smaller firms, as they can leverage cost advantages from economies of scale (Argilés-Bosch, Ravenda, & Garcia-Blandón, 2021). *ROA* measures a firm's profitability. Similar to size, its effect on LTAV is also uncertain. Firms with high profitability tend to have lower costs, including SSC; therefore, profitable firms may be less motivated to actively reduce their SSC. Capital-intensive firms (*PPETOTA*) may require highly skilled workers with higher wages, resulting in higher *SSCE*. Capital-intensive firms also generate depreciation costs, which may facilitate cost reduction through SSC and a higher LTAV. Therefore, the overall effect of *PPETOTA* on LTAV remains uncertain. Inventory intensity (*INVTOTA*) generates higher operating costs, which can incentivize cost reductions and subsequently lead to tax avoidance. We expect a negative sign for *INVTOTA* (Gupta & Newberry, 1997; Richardson & Lanis, 2007; Stickney & Mcgee, 1982; Zeng, 2019a). *TAtREV* typically involves high operating costs and is likely to be related to firms' engagement in tax avoidance. Thus, we anticipate a negative sign for *TAtREV*. *DEBTTA* can result in financial costs, prompting firms to reduce SSC. Therefore, we also expect a negative sign for *DEBTTA*. *WAGE_REV* represents personnel expenses in a firm's operations and determines the SSC that firms must pay. Firms with higher wages have stronger incentives to reduce costs through LTAV. Hence, we expect a negative sign for *WAGE_ REV*. We also include controls for *INTFATA* and *REVGROWTH* because both are commonly associated with opportunities for tax avoidance (Atwood et al., 2012; Hoi, Wu, & Zhang, 2013; Mao, 2019) and we anticipate negative signs for these variables. *LOSPRY* increases firms' incentives to reduce their SSC and is thus associated with LTAV. Additionally, we incorporated year dummies (*YEAR*) into the model to account for contextual factors that can be related to a firm's SSC. Consequently, an observation belonging to a specific year (*YEAR*) takes the value of 1 and 0 otherwise. *INDG* dummies are also included to control for industry characteristics, with a value of 1 assigned to observations belonging to a particular industry and 0 otherwise.

Data and sample selection

Refinitiv Eikon is the data source for our variables of interest, *ESG*, and *SOCP*. ESG scores from Refinitiv Eikon consist of three pillar scores — environmental, social, and corporate governance— that are normalized into percentages ranging from 0 to 100. These scores assess a company's ESG performance based on publicly available reported data such as corporate websites, annual reports, and ESG reports. The weightings for environmental and social categories may vary across industries, whereas governance weights remain consistent across all industries (REFINITIV, 2021). Scholars, such as Clarkson et al. (2008); Laguir, Staglianò, & Elbaz (2015), and Lanis & Richardson (2012) consider CSR disclosure as a reliable indicator of CSR activity. For

TABLE 1 Number of observations by year and industry groups.

Industry groups	Year											Total
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	
1. Manufacturing, Electricity, gas, steam and air conditioning supply, Water supply, sewerage, waste management, and remediation activities, Construction (C, D, E, and F NACE rev.2 industry sections)	2	3	5	6	6	6	8	7	6	7	15	71
2. Wholesale and retail trade, repair of motor vehicles and motorcycles, transportation and storage, accommodation, and food service activities (G, H and I NACE rev.2 industry sections)	1	1	1	3	2	2	3	3	4	5	4	29
3. Information and communication (J NACE rev.2 industry sections)	3	3	3	5	4	4	4	3	3	3	3	38
4. Professional, scientific, and technical activities, Administrative and support service activities (M and N NACE rev.2 industry sections)	0	0	1	3	4	1	1	2	2	2	2	18
Total	6	7	10	17	16	13	16	15	15	17	24	156
Percent.	3.85	4.49	6.41	10.9	10.26	8.33	10.26	9.62	9.62	10.9	15.38	100

instance, Lanis & Richardson (2012) used CSR disclosure items from corporate annual reports to construct proxy measures for CSR activities. Similarly, we also considered the ESG scores from Refinitiv Eikon as suitable proxies for CSR activities.

Refinitiv Eikon provides ESG score data for 72 Spanish firms listed on the Spanish stock market over a 17-year period (2002–2018). The selection of this timeframe and the limitation to 72 firms are due to the availability constraints of ESG scores during the data collection period. Consistent with standard practices in accounting research, we excluded eight financial institutions from the analysis due to their unique characteristics (Pucheta-Martínez, Bel-Oms, & Rodrigues, 2019). To conduct our study, we match the EIKON data with the necessary financial data from SABI (Sistemas de Análisis de Balances Ibéricos) for the same period (2002–2018). SABI is a financial database managed by Bureau Van Dijk that includes financial statements, stock data, and information about the legal structure of companies in Spain and Portugal. We match Refinitiv Eikon's codification symbols with SABI's NIF codes. The resulting sample consisted of 156 firm-year observations from 2008 to 2018. Due to the relatively small sample size, we aggregated the NACE Rev.2 industry sections into four industry groups, as shown in Table 1. The majority of the observations in the sample are from the manufacturing sector (Group 1), followed by information and communication (Group 2), wholesale (Group 3), and professional services (Group 4).

RESULTS

Descriptive statistics and univariate analysis

The presence of outliers can significantly affect the distribution of statistical measures. Therefore, all continuous variables in our analysis were winsorized at the 1st and 99th percentiles. Winsorization allowed us to limit the influence of extreme values in the dataset and mitigate the potential impact of outliers. Winsorized estimators are typically more robust to outliers than estimations using untransformed variables. This approach is commonly employed in accounting and tax avoidance research (e.g., Abdelfattah & Aboud, 2020; Cohen, Dey, & Lys, 2008).

Table 2 presents the descriptive statistics of the winsorized continuous variables included in Equation (2), excluding dummy variables for simplicity. We observe that the mean wages per employee (*WAGE_REV*) are 16.77% of revenue per employee, and the *SSCE* is 1.3% [(16,236.670/1,242,897.910) × 100] of revenues and 7.8% (1.3% /16.77%) of wages. The average revenue growth (*REVGROWTH*) was approximately 2% [(1.02–1) × 100] per year.

TABLE 2 Descriptive statistics of continuous variables in equation (2).

Variables	Mean	Min	Max
ABNSSCE	-2,773.364	−91,039.450	243,021.600
SSCE	16,236.670	4,821.847	86,854.730
ESG	57.382	0.500	91.630
SOCP	65.347	0.150	98.540
REVE	1,242,897.910	42,369.220	23,501,684.0
lnREV	20.508	17.153	22.730
ROA	7.421	−14.902	36.266
PPETOTA	9.560	0.076	89.363
INVTOTA	5.470	0.000	30.506
TAtREV	5.190	0.534	100.500
DEBTTA	19.433	0.192	75.734
WAGE_REV	16.765	1.593	130.487
INTFATA	9.372	0.001	62.462
REVGROWTH	1.024	0.624	1.456
N	156		

All continuous variables are winsorized at the 1st and 99th percentiles.

Table 3 presents the Pearson correlation and variance inflation factor (VIF) values for the winsorized continuous independent variables in Equation (2). The highest correlation is 0.652 (significant at $p < 0.01$), which is observed between *TAtREV* and *WAGE_REV*. Additionally, a correlation of 0.510 (significant at $p < 0.01$) is observed between ESG and *lnREV*. However, the VIF values indicate that the highest VIF (4.76) is associated with the dummy variable for 2018. This VIF is well below the threshold of 10, indicating the absence of serious collinearity.).

Multivariate results

Previous research on earnings management (Cohen, Dey, & Lys, 2008; Jeter & Shivakumar, 1999; Roychowdhury, 2006) and LTAV (Argilés-Bosch, Ravenda, & Garcia-Blandón, 2021; Ravenda, Argilés-Bosch, & Valencia-Silva, 2015) estimated the parameters of Equation (1) cross-sectionally for each industry-year. However, due to the limited number of observations in our sample, cross-sectionally estimating for each industry and year change would result in a lower number of observations (approximately 3.5) compared with the referenced research. Therefore, to estimate the *ABNSSCE*, we performed panel data estimations using Equation (1) with firm fixed effects at the industry level and observations for each year. This approach allows us to obtain the minimum number of observations required to account for industry variations. The estimation of Equation (1) (not displayed for simplicity) has an overall average

TABLE 3 Pearson correlation and variance inflation factor (VIF) values of the winsorized continuous independent variables of equation (2).

	ESG	SOCP	REVE	lnREV	ROA	PPETOTA	INVTOTA	TAtREV	DEBTTA	WAGE_REV	INTFATA	REVGROWTH	VIF VALUES
ESG	1												2.48
SOCP	0.933***	1											1.99
REVE	0.281***	0.239**	1										4.09
lnREV	0.510***	0.439***	0.185*	1									2.95
ROA	−0.013	−0.034	0.227**	0.305***	1								1.70
PPETOTA	−0.252**	−0.220**	−0.116	0.188*	0.043	1							1.39
INVTOTA	−0.096	−0.070	−0.038	0.030	0.227**	−0.090	1						1.24
TAtREV	0.136	0.138	0.026	−0.384***	−0.175*	−0.055	−0.236**	1					2.71
DEBTTA	0.005	0.091	0.106	0.015	−0.286***	0.005	−0.151	0.101	1				1.56
WAGE_REV	−0.021	0.042	−0.290***	−0.401***	−0.254**	−0.126	−0.203*	0.652***	0.307***	1			3.03
INTFATA	−0.331***	−0.271***	−0.093	−0.363***	−0.204*	−0.131	−0.058	−0.102	−0.090	0.065	1		1.45
REVGROWTH	0.015	0.008	0.082	0.106	0.216**	0.089	0.018	0.035	−0.036	−0.066	−0.058	1	1.17

***, **, and * denote significances level at 1%, 5%, and 10%, respectively.

R-squared of 0.265 across industry groups for the 156 firm-year observations.

Given the panel data structure and the results of the Hausman test, we performed firm fixed effects estimations of Equation (2). The Breusch-Pagan test (not displayed for simplicity) revealed the presence of heteroscedasticity in our model for all experimental variables at $p < 0.05$. Therefore, we performed panel data estimations with fixed effects and robust standard errors.

Table 4 presents the main results of Equation (2). All estimations have an *R*-squared overall value ranging from 0.137 to 0.186. The results consistently support H1, showing a positive and significant relationship at $p < 0.1$ between *ESG* and the dependent variables, *ABNSSCE* and *SSCE*. Additionally, there is a positive and significant relationship ($p < 0.05$) between the *SOCP* and both dependent variables. Since SSC falls within the social dimension of CSR, it explains why the results with *SOCP* show higher significance than those with *ESG*.

The results indicate that a 1% increase in *ESG* score leads to firms paying an additional amount of €172.883 of SSC per employee, as indicated by firm characteristics in column 1. Similarly, a 1% increase in the *ESG* score corresponds to an additional amount of €40.865 for the SSCE in column 3. In columns 2 and 4, a 1% increase in the *SOCP* score is associated with corresponding additional amounts of €154.089 and €35.574, respectively.

The *SSCE* depends on the level of wages on which SSC is computed. Therefore, a lower *SSCE* may be primarily attributed to lower wages rather than LTAV. However, in our computation of the *SSCE* in Equation (1), we consider that the *SSCE* is related to *WAGE_EM*. Consequently, *ABNSSCE*, which is the residual of Equation (1) also accounts for the possibility that lower wages could result in low SSC. Additionally, the estimation of Equation (2) also includes *REVE* as a control variable, and the correlation coefficient between *REVE* and *WAGE_EM* was very high (0.87). Therefore, the regression estimations in columns 3 and 4 of Table 4 account for lower wage levels, supporting the negative and significant relationship between CSR and LTAV.

The coefficient of *REVE* is consistently positive and significant at $p < 0.1$ in columns 1 and 2, and at $p < 0.05$, in columns 3 and 4, indicating that an increase in *REVE* should result in an increase in *ABNSSCE* and *SSCE*. The coefficient of *PPETOTA* is negative and significant at $p < 0.1$ in column 4, indicating that capital-intensive firms tend to pay less SSC. Similarly, the coefficient of *INVTOTA* is negative and significant ($p < 0.1$) in columns 3 and 4, indicating that inventory-intensive firms are inclined to pay lower SSC. However, contrary to our expectation, the coefficient of *INTFATA* is positive and significant at $p < 0.1$ in column 4.

We also conducted robust random effects estimations to account for industry and year effects, which are

TABLE 4 Robust fixed effects estimation of equation (2).

Variables	(1) ABNSSCE	(2) ABNSSCE	(3) SSCE	(4) SSCE
ESG	172.883*		40.865*	
	(88.952)		(22.853)	
SOCP		154.089**		35.574**
		(68.423)		(16.601)
REVE	0.000*	0.000*	0.000**	0.000**
	(0.000)	(0.000)	(0.000)	(0.000)
lnREV	2,366.947	2,648.239	−947.352	−871.347
	(3007.010)	(2914.650)	(900.759)	(874.887)
ROA	150.134	145.484	3.545	2.486
	(169.812)	(167.493)	(38.305)	(39.489)
PPETOTA	−58.024	−107.874	−21.869	−33.647*
	(69.182)	(66.5192)	(18.859)	(17.201)
INVTOTA	−225.310	−228.206	−72.586*	−73.256*
	(190.402)	(176.066)	(40.512)	(37.708)
TAtREV	38.478	−67.233	−24.500	−49.131
	(309.685)	(280.250)	(78.833)	(71.244)
DEBTTA	−130.928	−132.771	−17.239	−17.421
	(84.672)	(82.906)	(23.867)	(23.154)
WAGE_REV	−199.856	−104.522	−94.723	−72.505
	(265.644)	(243.797)	(67.771)	(60.252)
INTFATA	173.914	174.828	60.352	60.288*
	(142.724)	(126.290)	(37.549)	(33.757)
REVGROWTH	2,402.307	3,071.189	332.232	492.141
	(6082.583)	(5840.135)	(1569.112)	(1516.678)
LOSPRY	2,291.256	2,091.959	316.609	265.383
	(2250.845)	(2236.256)	(484.324)	(461.295)
Constant	−63,495.562	−69,012.310	34,192.072*	32,736.094*
	(6.00143e+04)	(5.74365e+04)	(1.77208e+04)	(1.70859e+04)
FIRM (dummies)	Yes	Yes	Yes	Yes
YEAR (dummies)	Yes	Yes	Yes	Yes
Observations	156	156	156	156
Number of firms	33	33	33	33
R-squared overall	0.145	0.137	0.186	0.178

Robust standard errors in parentheses.
***, **, and * denote significance level at 1%, 5%, and 10%, respectively.

presented in Table 5. All estimations have an *R*-squared overall ranging from 0.295 to 0.441. These results provide additional support for H1, as the coefficients of *ESG* and *SOCP* are consistently positive and significant at $p < 0.05$ in column 1 and at $p < 0.01$ in columns 2–4. The results also indicate that with a 1% increase in *ESG* score, firms pay additional amounts of €198.234 (column 1) and €48.089 (column 3) for *ABNSSCE* and *SSCE*, respectively. Similarly, with a 1% increase in *SOCP*, the corresponding additional SCC per employee amounts are €173.188 (column 2) and €41.204 (column 4).

Robustness analysis

According to Col & Patel (2019), the main challenge in examining the relationship between CSR and tax avoidance is endogeneity caused by omitted variables and simultaneity. Likewise, since important corporate decisions, including those related to CSR and tax avoidance, are made simultaneously, it may be difficult to draw causal interpretations. Undoubtedly, external instruments are preferable alternatives to deal with reverse causality. However, the literature stresses the

difficulties in finding appropriate exogenous instruments (Razzaq, An, & Delpachitra, 2021). Thus, to solve the endogeneity problem, we used one-year and second-year lagged values of *ESG* and *SOCP* as instruments (Moralles & Moreno, 2020; Wang et al., 2013). According to these authors, the use of lagged values of the explanatory variables provides robust findings, demonstrating that the procedure can treat or at least significantly mitigate the problem of endogeneity. Given the aforementioned framework, to verify the statistical consistency of the results, a fixed effects Limited Information Maximum Likelihood (LIML) instrumental variables model was estimated, as it tends to have better results with small samples and weak instruments (Baum, Schaffer, & Stillman, 2003; Schaffer, 2005).

For the *ESG* fixed effects instrumental variables model, the Hansen J statistic indicates potential instrument validity, with a p-value of 0.15. Additionally, the C-statistic (which infers from two Sargan-Hansen statistics) suggests that *ESG* is exogenous, as evidenced by a p-value of 0.164 when the dependent variable is *ABNSSCE*. When *SSCE* is the dependent variable, the

TABLE 5 Robust random effects estimations of equation (2).

Variables	(1) ABNSSCE	(2) ABNSSCE	(3) SSCE	(4) SSCE
ESG	198.234**		48.089***	
	(76.972)		(18.188)	
SOCP		173.188***		41.204***
		(60.347)		(13.994)
REVE	0.002***	0.002***	0.001***	0.001***
	(0.000)	(0.000)	(0.000)	(0.000)
lnREV	2,310.643	2,449.202	−1,226.069	−1,192.440
	(3211.763)	(3406.688)	(906.880)	(960.704)
ROA	125.304	115.999	−2.424	−4.782
	(165.302)	(171.024)	(39.802)	(43.961)
PPETOTA	−26.843	−72.855	−5.448	−15.995
	(58.835)	(56.735)	(16.032)	(15.742)
INVTOTA	−471.839*	−489.083*	−151.559**	−157.615**
	(262.603)	(268.198)	(66.436)	(69.154)
TAtREV	498.881	435.594	126.500	115.475
	(382.640)	(377.869)	(111.272)	(110.865)
DEBTTA	−134.709*	−139.895*	−21.045	−22.187
	(81.359)	(79.017)	(22.898)	(22.102)
WAGE_REV	−521.120*	−460.980	−207.260**	−196.142**
	(295.466)	(288.483)	(87.112)	(85.503)
INTFATA	164.949	162.653	57.583*	56.564*
	(120.559)	(105.913)	(33.423)	(31.490)
REVGROWTH	−2,324.902	−1,812.865	−1,181.588	−1,091.163
	(7911.867)	(7821.958)	(2042.190)	(2037.970)
LOSPRY	2,578.747	2,441.715	390.642	353.393
	(2267.050)	(2282.739)	(531.897)	(529.909)
Constant	−57,445.379	−59,106.043	42,979.500**	42,666.904**
	(6.84655e+04)	(7.11964e+04)	(1.89992e+04)	(1.99115e+04)
YEAR (dummies)	Yes	Yes	Yes	Yes
INDG (dummies)	Yes	Yes	Yes	Yes
Observations	156	156	156	156
Number of firms	33	33	33	33
R-squared overall	0.295	0.314	0.415	0.441

Robust standard errors in parentheses.
***, **, and * denote significance level at 1%, 5%, and 10%, respectively.

Hansen J statistic yields a p-value of 0.0364, while the C-statistic indicates *ESG* exogeneity with a p-value of 0.167.

Regarding the *SOCP* fixed effects instrumental variables model, the Hansen J statistic provides a p-value of 0.45, suggesting potential instrument validity. However, the C-statistic shows a p-value of 0.0802, indicating that the *SOCP* is not exogenous when *ABNSSCE* is the dependent variable. When considering *SSCE* as the dependent variable, the Hansen J statistic's p-value is 0.812, and the C-statistic points to the *SOCP*'s non-exogeneity with a p-value of 0.0936.

Therefore, in almost all cases, the instruments tended to be valid. Although the literature recommends testing the validity of instruments using the Hansen J test, it is important to stress that the Hansen J statistic only assesses whether different instruments identify different parameters (Orlic, Hashi, & Hisarciklilar, 2018). Consequently, instrument validity is not guaranteed. Overall, *ESG* was found to be exogenous for *SSCE* and *ABNSSCE*, while the C-statistic pointed towards endogeneity for *SOCP* in relation to both dependent variables.

Hence, Table 6 shows that the coefficients of *ESG* and *SOCP* are positive and significant at $p < 0.01$ for both dependent variables (columns 1–4), implying that even when endogeneity is addressed, signals and statistical significance remain consistent with the results presented in our baseline estimations. Table 7 presents the fixed effects estimation of Equation (2),

TABLE 6 Fixed effects limited information maximum likelihood (LIML) instrumental variables estimations of equation (2).

Variables	(1) ABNSSCE	(2) ABNSSCE	(3) SSCE	(4) SSCE
ESG	615.061***		151.070***	
	(179.698)		(45.280)	
SOCP		428.529***		99.233***
		(88.378)		(21.430)
REVE	−0.000	−0.000	0.000	0.000
	(0.001)	(0.001)	(0.000)	(0.000)
lnREV	2,383.524	2,630.421	−1,025.819	−848.928
	(3662.561)	(3085.166)	(905.583)	(749.727)
ROA	245.161	277.173*	29.445	34.819
	(150.299)	(142.708)	(36.649)	(34.705)
PPETOTA	−68.850	−207.751**	−22.261	−57.163**
	(120.964)	(102.763)	(29.650)	(24.995)
INVTOTA	−196.118	−255.825	−58.545	−70.808
	(328.925)	(315.121)	(79.999)	(76.648)
TAtREV	−127.171	−360.584	−69.566	−124.033*
	(306.628)	(296.232)	(74.551)	(72.052)
DEBTTA	−209.748**	−167.112**	−33.829*	−22.732
	(81.651)	(74.789)	(19.923)	(18.191)
WAGE_REV	−36.263	157.827	−50.943	−4.132
	(253.991)	(240.470)	(61.805)	(58.492)
INTFATA	327.445**	257.675**	94.289***	75.012***
	(132.946)	(115.375)	(32.607)	(28.058)
REVGROWTH	8,060.624	8,294.227*	1,553.813	1,590.192
	(5009.331)	(4789.377)	(1218.136)	(1164.964)
LOSPRY	6,742.883***	4,767.486**	1,227.482**	741.758
	(2497.175)	(2321.848)	(608.373)	(564.772)
Observations	134	134	134	134
Number of firms	19	19	19	19
R-squared	0.356	0.410	0.302	0.361

Robust standard errors in parentheses.
***, **, and * denote significance level at 1%, 5%, and 10%, respectively.

TABLE 7 Robust fixed effects estimation of equation (2) with one-year lagged variables of *ESG* and *SOCP* as independent variables.

Variables	(1) ABNSSCE	(2) ABNSSCE	(3) SSCE	(4) SSCE
L.ESG	134.774**		35.338**	
	(62.008)		(16.348)	
L.SOCP		125.422**		30.042**
		(48.392)		(11.794)
REVE	0.000	0.000	0.000**	0.000**
	(0.000)	(0.000)	(0.000)	(0.000)
lnREV	2,914.505	3,583.260	−804.470	−603.513
	(2638.787)	(2914.003)	(788.117)	(857.584)
ROA	224.470	187.673	18.336	9.100
	(176.896)	(171.700)	(38.898)	(39.144)
PPETOTA	−106.330	−137.266*	−31.941*	−39.779**
	(64.343)	(71.864)	(16.496)	(18.040)
INVTOTA	−240.653	−279.215	−69.987*	−79.394*
	(184.326)	(198.341)	(37.910)	(42.119)
TAtREV	−29.232	−119.602	−44.898	−66.099
	(318.740)	(316.167)	(79.373)	(80.462)
DEBTTA	−105.881	−116.800	−12.296	−14.270
	(84.090)	(84.830)	(23.004)	(22.842)
WAGE_REV	−143.806	−66.164	−76.536	−58.335
	(279.619)	(276.585)	(68.191)	(67.654)
INTFATA	170.942	160.002	59.659*	56.206*
	(137.375)	(124.201)	(33.967)	(31.171)
REVGROWTH	5,407.168	5,814.966	936.791	1,014.166
	(5586.009)	(5794.914)	(1495.214)	(1517.088)
LOSPRY	2,832.823	2,605.526	368.776	303.140
	(2323.915)	(2379.428)	(472.018)	(495.836)
Constant	−74,355.677	−87,621.891	31,175.316*	27,340.478
	(5.32481e+04)	(5.81407e+04)	(1.56867e+04)	(1.69451e+04)
FIRM (dummies)	Yes	Yes	Yes	Yes
YEAR (dummies)	Yes	Yes	Yes	Yes
Observations	141	141	141	141
Number of firms	22	22	22	22
R-squared overall	0.087***	0.075***	0.139***	0.127***

Robust standard errors in parentheses.
***, **, and * denote significance level at 1%, 5%, and 10%, respectively.

with robust standard errors and one-year lagged values of *ESG* and *SOCP* as independent variables. These results further support H1, and our conclusions remain unchanged.

DISCUSSION AND CONCLUSIONS

This study investigates the relationship between CSR and LTAV using a sample of Spanish firms. We measured CSR using *ESG* and *SCOP* scores obtained from Refinitiv Eikon. We also built a proxy for LTAV based on the SSC reported in the income statements obtained from SABI. The results indicate that CSR has a positive and significant relationship with SSC, thereby, a negative relationship with LTAV. This negative relationship between CSR and LTAV remains robust across different measures of CSR and LTAV as well as different estimation methods while controlling for industry effects. Furthermore, the estimations addressing endogeneity are consistent with our baseline results, indicating that CSR has a negative and significant relationship with LTAV. From the analysis, we may conclude that ESG scores are associated with CSR and good citizenship tax-paying

behavior. Although the CSR-LTAV relationship may depend on factors not included in our model, our results suggest that the model adequately explains this relationship.

This analysis provides a unique perspective on the relationship between CSR and LTAV, an area that has received limited attention despite being considered a social responsibility issue. Building on the existing literature on tax avoidance to include labor tax avoidance, this study provides valuable insights and holds practical and managerial implications for business research. Given that taxes are related to reporting decisions (e.g., Hanlon & Heitzman, 2010), we can argue that debates on labor tax policies can affect corporate decisions concerning types of employment contracts and reporting practices, especially since SSC is reported in Spain's income statement. As tax avoidance and CSR involve the legality and ethicality of business practices, this study may encourage managerial actions that come at a minimal cost to society (Bird & Davis-Nozemack, 2018; Ginesti, Ballestra, & Macchioni, 2020). This study examines the social implications of LTAV, addressing its impact on both employee's and the government's ability to provide public goods. Paying one's fair share of SSC is not just a legal and ethical responsibility, but also an economic and philanthropic responsibility. The research also highlights concerns regarding companies exploiting legal loopholes to violate their social contracts with society and manipulate social rents through LTAV in this globalized market economy. Firms cannot simply exploit these loopholes to reduce labor taxes, treating them as avoidable costs without considering the impact on their corporate legitimacy and CSR policies, because the field of accounting also holds ethical relevance (e.g., Ginesti, Ballestra, & Macchioni, 2020; Sikka & Willmott, 2010).

Our results should be used cautiously, with a full understanding of their limitations. Considering the sample size, the generalizability of the results is limited. However, the results increase confidence in the validity of the negative relationship found in contexts with legal and social characteristics similar to those in Spain. In fact, our results shed light on civil-law countries, where social responsibility behaviors are usually driven by laws and regulations, which differ from common-law countries, where such behaviors are entrusted to companies' discretion. Some studies report that civil-law countries perform better in the ESG domain (Castillo-Merino & Rodriguez-Perez, 2021) and that common-law countries are less likely to engage in CSR practices than civil-law countries (Demirbag et al., 2017). Similarly, Becchetti, Ciciretti, & Conzo (2020) found that the French legal tradition of civil law scores higher on human resource policies than in common-law countries. Thus, our findings may be explained in terms of what is expected in the civil law tradition, while a positive relationship (i.e., window dressing) or no relationship may be related to the common law tradition. Consequently, the negative relationship between CSR and LTAV may be attributed to civil law tradition, in which firms are legally compelled to pay SSC and be socially responsible.

Moreover, our measure of LTAV using *ABNSSCE* and *SSCE* depends on the reliability of the reported number of employees. It has been previously demonstrated that firms can exploit NSE to manipulate employee counts, thereby reducing the amount of SSC owed to the government (Argilés-Bosch, Ravenda, & Garcia-Blandón, 2021; International Labour Organisation, 2016). Hence, while our estimations are accurate, it is important to acknowledge that firms manipulating these figures can introduce endogeneity issues, potentially affecting the proper interpretation of our measures (Ravenda, Argilés-Bosch, & Valencia-Silva, 2015).

A future research agenda could conduct a comparative study on the relationship between CSR and LTAV by enlarging the sample size and including data from countries that share similar legal and social characteristics. This approach will enhance the generalizability of the findings. A qualitative assessment to address CSR concerns, which are not easily captured in archival ESG data, could help address the underlying reasons for LTAV. Additionally, alternative proxies for LTAV could be explored to improve the predictive power of normal and abnormal SSC estimations and enhance the reliability of the estimations. Furthermore, considering the types of employment contracts within a sample can provide valuable insights. Finally, a comprehensive empirical analysis could also study whether LTAV and ITAV are substitutes or complements and examine their relationship with CSR.

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CONFLICT OF INTEREST STATEMENT

There is no conflict of interest related to this paper.

DATA AVAILABILITY STATEMENT

Data are available upon request.

ETHICAL INFORMATION

We used secondary (archival) data for the analysis, therefore there is no bioethical concern. We confirm that all the research meets the ethical guidelines, including adherence to the legal requirements of the study country.

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APPENDIX

Variable definition and abbreviations

Variables	Expected signs for equation (2)	Name and definition of variables
LTAV		Labor tax avoidance: measure with *SSCE* and *ABNSSCE*.
ABNSSCE		Abnormal social security to number of employee (residual of Equation 1).
SSCE		Social security contribution in euros divided by number of employee.
ESG	+	Overall environmental, social, and governance performance score in percentage.
SOCP	+	Social dimension of ESG score in percentage: includes workforce, human rights, community, and product responsibility.
WAGE_EM		Wages in euros divided by number employee (Equation 1)
TA		Total assets of the previous year (Equation 1)
lnREV	?	Natural logarithm of net revenue. Measures size.
REV_TA		Revenue divided by total asset of previous year (Equation 1)
INCREV_TA		Increase in revenue. Measured as revenue of the current year less revenue of previous year divided by total assets of previous year (Equation 1).
REVE	+	Revenue in euros divided by number of employee.
ROA	?	Return on assets. Measured as a percentage of pre-tax income divided by total assets of the previous year.
PPETOTA	?	Percentage of property plant and equipment to total assets.
INVTOTA	-	Percentage of inventories to total assets.
TAtREV	-	Total assets divided by revenue.
DEBTTA	-	Indebtedness. Percentage of the sum of long-term and short-term debts divided by total assets.
WAGE_REV	-	Percentage of wages divided by revenue.
INTFATA	-	Percentage of net intangible fixed assets to total assets.
REVGROWTH	-	Revenue growth. Revenue of current year divided by revenue of previous year.
LOSPRY	-	Loss in the previous year: indicator variable equalling 1 for firms with loss in the prior year, and 0 otherwise.
YEAR		Set of dummy variables indicating with the value of 1 that a firm belongs to a given year, and 0 otherwise. The first year (2008) is the default variable.
INDG		Set of dummy variables indicating with the value of 1 that the firm belongs to a specific industry and 0 otherwise. There are four industries and INDG 1 is the default industry.
FIRM		FIRM fixed effects