Arguments favouring Tax Deductions against Corporate Social Responsibility expenditure incurred by Multinational Enterprises

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Abstract:

Why are the local taxation laws prevalent in the Host Country viewed as not being harmoniously constructed in support of the Corporate Social Responsibility (CSR) policies by the Managers of Multinational Enterprises (MNES)? Could it postulated that the Governments functioning the host country by allowing deductions against CSR expenditures could invoke an impetus towards the strategic alignment towards International Taxation Laws by Multinational Enterprises (MNES) while demonstrating a heightened degree of transparency which would qualify as industry best practices in declaring the CSR expenditures incurred as a function of the tax avoidance endeavour by the MNE. This kind of amalgamation of transparent practices in the realm of seeking tax deductions for an MNE's CSR expenditure could also help minimise conflicts of perception before the proponents who interchangeably refer to Tax Evasion. Therefore, it could be estimated that global CSR laws could be harmoniously constructed vis-à-vis local taxation laws in their interpretation by MNEs if encouraged by the governments of the host country.

Key Words:

Corporate Taxation; Tax Deductions; Comparative Taxation Laws; Multinational Enterprises (MNEs).

Introduction:

Bender and Broekhuijsen (2015) opine that tax burdens of MNEs may be minimised within the limits that have been set by the law. Payment of taxes have long been considered a business expense eligible for reducing, just like other business expenses (taxation as 'taking from').

More recently, however, MNEs have come to realise that paying taxes may also be seen as an element of being a socially responsible participant in society (taxation as 'contributing to'), and that this may mean that just paying all legally obliged taxes is not enough. In other words, CSR requires MNEs to go beyond legal obligations.

Non-Governmental Organisations (NGOs) have helped to highlight and scrutinise the tax strategies employed by MNEs on the political and social agenda.

Tax avoidance is increasingly believed to be detrimental to society because it signals a reduction of revenues generated for the respective governments which thus result in a shifting of the tax burden to individuals and enterprises operating domestically.

Moreover, in many countries the government's contribution to the widespread existence of evasion of tax by MNEs has been included in the debate and the Organization for Economic Co-operation and Development (OECD) and the European Union (EU) are taking an increasingly active role in improving the legal framework. (Bender & Broekhuijsen, 2015)

The rest of this paper has been organised to as follows: foremost a justification for initiating the study has been cited, thereafter the past literature has been perused to substantiate the primary focus of the study, next the research questions which would potentially arise have been drawn up, thereafter a brief discussion of the prevalent laws have been undertaken which would invariably give rise to the points of contention, while the conclusion has been imparted as an open ended inference that would have to imperatively concede to the future lines of research.

Justification:

The contextual factors that support the main objective of studying literature in relation to existing laws and managerial accounting practices regarding CSR expenditure and Tax Deductions can be accurately identified in the research conducted by Knuutinen (2014), who argues that attitudes towards taxes are frequently inconsistent (Knuutinen, 2014).

Literature Review:

Scarpa and Signori (2023) in their literature review have enunciated that thinking of tax as an area of corporate discretion would challenges the assumption that governments were the only actors responsible for achieving a fair tax system and extends this responsibility to companies (Scarpa & Signori, 2023).

Scarpa and Signori (2023) found that an interaction pertaining to expenditure towards CSR activities and corporate taxation has been receiving increased attention. Accordingly, 63.25% articles were published in the period 2017–2020. This growth was probably attributed to the increased attention to corporate tax strategies and their effects on society from the media, NGOs, public opinion and national and international institutions (Scarpa & Signori, 2023).

Scarpa and Signori (2023) concluded that contradictory results emerged confirming that corporations perceived the duty to pay tax differently and these varying perceptions shape different moral obligations and, consequently, different behaviours (Scarpa & Signori, 2023).

Avi-Yonah (2009) argues that although some managers see CSR expenditure as an unfair burden on shareholders, the government can nevertheless ethically promote CSR by offering tax incentives to firms (Avi-Yonah, 2009).

Avi-Yonhah (2009) posited that certain corporate CSR initiatives are more effectively carried out by the private sector rather than the government. In light of this, it is seen as acceptable for the government to forgo collecting specific tax amounts as a means to encourage private sector involvement in these activities. This is equally valid to the government imposing taxes and to make use of its purchasing power (funded by taxes) to incentivize firms to participate in corporate social responsibility, a practice that many governments have adopted in recent times. (Avi-Yonah, 2009).

According to Avi-Yonhah (2009), differentiating between the CSR functions that can directly contribute to increased shareholder profits and the CSR activities that the state can encourage corporations to engage in. (Avi-Yonah, 2009).

From this aggregate perspective, it becomes clear that the state's utilization of tax as a regulatory tool aims to align its interests with those of the shareholders. This alignment is achieved by offering increased profits to shareholders through lower taxes for corporations that engage in CSR activities. (Avi-Yonah, 2009).

According to the study conducted by Song et al. (2024), their mediation analysis has suggested that a reduction in profitability influenced the firms' decision to disclose CSR. Moreover, Song et al. (2024) detected a reduction of economic benefits for corruption-related firms due to the loss of political connections.

The results from the study conducted by Song et al. (2024) would imply that non State Owned Enterprises (nonSOEs) voluntarily chose to declare in their CSR reports in lieu of building political legitimacy (Song et al., 2024).

According to Muller and Kolk (2012), MNEs in developing countries use their multinational status to evade taxes owed to host governments. (Muller & Kolk, 2012).

In their study, Muller and Kolk (2012) found that in India MNEs paid higher effective tax rates compared to local firms. Additionally, MNE subsidiaries that were recognized for their CSR initiatives paid more taxes than those that were less known for CSR. (Muller & Kolk, 2012).

According to Muller and Kolk (2012), a significant concern for MNEs which function in the countries which are developing remains in the effect they have on the local economy.

Surprisingly, Song et al. (2024) had observed that despite substantial research on the motivations for establishing political connections and the consequences of losing them, little attention has been paid to how a firm reacted after losing its political connections to mitigate adverse impacts.

To fill this gap in the literature, Song et al. (2024) in their study examined whether the CSR disclosure was a strategic action that could serve a firms' political agenda.

Specifically, basing upon the previous literature Song et al. (2024) were expecting to detect that firms would strategically disclose CSR reports after losing connections with government officials in order to build political legitimacy.

Hence, it was proposed by Song et al. (2024) that if firms were intent upon building political legitimacy, that by merely disclosing in their reports which was a far less costly endeavour and it proved to be more than efficient.

Considering the significant influence that multinational corporations have over taxation in developing countries, especially in places with limited enforcement, it becomes evident that this issue is closely tied to corporate social responsibility. This is because taxes play a crucial

role in enabling governments of developing countries to offer essential public services and resources. (Muller & Kolk, 2012, p. 3).

Interestingly, Song et al. (2024, p. 3) in their study instead of examining an alternative strategy for maintaining market competitiveness by increasing investments, chose to focus on the efforts of firms towards the building of political legitimacy by strategically responding to government signals. Secondly, the study by Song et al. (2024, p. 4) has contributed towards the growing research being conducted on corporate political strategies.

According to Muller and Kolk (2012), the existence of varying norms and regulations in different countries has created a dearth of clarity regarding which laws ought to be applicable under specific circumstances.

In their analysis, Muller and Kolk (2012) posed two important questions: Firstly, did multinational enterprise (MNE) subsidiaries in India possess a considerable enhancement in their Effective Tax Rate (ETR) as compared to local firms? If that is the case, it is possible that they are not utilising their multinational status as a means to avoid paying taxes.

Comparatively, Song et al. (2024, p. 16) explored the channels through which the loss of connections of a political nature affected CSR disclosure decisions.

Do multinational enterprises (MNEs) with a reputation for CSR have higher effective tax rates in India compared to MNEs with a lesser-known CSR record? If this is the case, multinational enterprises (MNEs) may view taxation as an expansion of their comprehensive CSR strategy. The reference for this information is Muller and Kolk (2012), page 4.

In their study, Muller and Kolk (2012) found that there was variation in the implementation and enforcement of legal frameworks. Developing economies faced larger challenges compared to developed countries due to weaker institutional structures and administrative capabilities. Therefore, the mere presence of laws did not guarantee their enforcement or adherence. (Muller & Kolk, 2012, p. 7).

Recently, the study by Song et al. (2024, p. 16) showed that firms were inclined to comply with the governmental signals and build political legitimacy to continually enjoy their preferred treatment and associated resources.

In their analysis of the limitations and potential areas for future research, Muller and Kolk (2012) acknowledged that India, despite its significance, may not fit the mould of a typical

developing country. Factors such as its size, institutional development, and relative skill levels set it apart. (Muller & Kolk, 2012).

Furthermore, it was deemed essential to conduct more comprehensive analyses at both the subsidiary and sector levels in order to delve deeper into the effects being examined and to explore alternative explanations for the observed results. (Muller & Kolk, 2012).

Jenkins and Newell (2013) found that there was a notable lack of focus on tax evasion as a corporate social responsibility issue for transnational corporations operating in the South, despite the budding recognition of taxation's significance in helping to fund the state and to address poverty. This is surprising, especially considering that some of these companies consider themselves leaders in CSR. (Jenkins & Newell, 2013).

In their research, Jenkins and Newell (2013) found that the increase in CSR was driven by a compulsion to address concerns about the potential exploitation by multinational corporations in developing countries. This led to a rise in the number of codes of corporate conduct and CSR reports (Jenkins & Newell, 2013).

The paper by Jenkins and Newell (2013) examines an aspect that has received little attention in the CSR agenda: the tax payments and tax avoidance practices of companies. This is in spite of a series of recent scandals that have affected prominent corporations that position themselves as champions of CSR matters. (Jenkins & Newell, 2013).

Jenkins and Newell (2013), when examining past practices and contrasting it to the present decade, they noted that the challenges of obtaining tax revenues have increased due to globalization. (Jenkins & Newell, 2013).

The enhanced mobility of capital and expansion of global operations of major companies has created fresh opportunities for tax avoidance as well as evasion. (Jenkins & Newell, 2013).

In their study, Jenkins and Newell (2013) highlighted the challenge of generating sufficient tax revenues. They pointed out that the informal sector influences this issue, which is inherently difficult to tax, as well as the deliberate tax evasion and avoidance practices employed by corporations and wealthy individuals who can manipulate profits and maintain assets abroad. (Jenkins & Newell, 2013).

In their study, Jenkins and Newell (2013) emphasised taxation as a crucial component between citizens and the state's interrelationship. They highlighted the obligation of citizens to

contribute to the functioning of society through taxes. Claiming 'corporate citizenship' implies a responsibility to fulfil tax obligations in the jurisdiction where the company operates. (Jenkins & Newell, 2013, p. 387).

Jenkins and Newell (2013), have often argued by those who support tax avoidance (as opposed to illegal tax evasion) that companies and individuals are not obligated to pay more than the minimum tax required by law. They believe that it is a legitimate business practice to organise financial matters in a way that minimises tax payments within legal boundaries. It is true that a corporation may be seen as acting irresponsibly if it pays more tax than legally required, considering its obligations to shareholders. (Jenkins & Newell, 2013).

Accordingly Jenkins and Newell (2013), in developing countries with weak laws and low standards, simply complying with regulations is not enough to demonstrate a firm commitment towards CSR. (Jenkins & Newell, 2013).

In their study, Jenkins and Newell (2013) delve into the question of what constitutes a responsible tax strategy. Concluded that "the utilisation of transfer pricing has been a significant method for multinational corporations to decrease their tax expenses." (Jenkins & Newell, 2013).

As stated by Jenkins and Newell (2013), it is important to adopt arm's length pricing to govern all transactions amongst related parties, as advised by the OECD Guidelines on Multinational Enterprises. (Jenkins & Newell, 2013).

Jenkins and Newell (2013) noted that determining arm's length prices for all transactions may be challenging, but the OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations would periodically provide updated guidelines to guide this process. (Jenkins & Newell, 2013).

In a study conducted by Jenkins and Newell (2013), they highlighted the existence of a method that allows companies to circumvent taxes. This method involves the establishment of intricate corporate structures and the strategic allocation of assets within these structures. (Jenkins & Newell, 2013).

Jenkins and Newell (2013) believed that it is crucial to refrain from creating artificial structures that have no connection to actual business transactions and are primarily designed to minimize the corporation's tax obligations. (Jenkins & Newell, 2013)

Therefore, Jenkins and Newell (2013) concluded that refraining from utilizing tax havens in their operations would demonstrate a responsible tax policy. (Jenkins & Newell, 2013).

In their insightful analysis, Jenkins and Newell (2013) emphasised the importance of a responsible tax strategy. They highlighted the need for companies to not only avoid tax avoidance but also prioritise transparency (Jenkins & Newell, 2013).

Jenkins and Newell (2013) observed that companies which emphasised social responsibility should take the initiative in implementing country-by-country reporting, eliminating transfer price manipulation, and avoiding the use of tax havens. They argue that waiting for governments and international organisations to act is not enough. (Jenkins & Newell, 2013).

Quite recently, Xu et al. (2022) have postulated that paying taxes to support the societies in which they operate was both a legal and ethical responsibility of business.

The results obtained from the study conducted by Xu et al. (2022) are consistent with the notion that CSR reporting represents an attempt to overcome legitimacy concerns arising from tax avoidance.

Their findings indicated that tax avoidance and CSR reporting were alternative means of establishing legitimacy, rather than complementary reflections of an organisational culture that valued (or devalued) CSR (Xu et al., 2022).

Xu et al. (2022) felt that an alternative perspective (‘corporate culture’) could suggest that companies committed to CSR might pay their fair share of taxes and present transparent CSR reporting owing to their commitment to CSR (Xu et al., 2022).

Hence, Xu et al. (2022) were prone to believe that the legitimacy gap perspective was consistent with the use of CSR to close a legitimacy gap that may have arisen when a company was perceived as not paying its fair share of taxes, thus suggesting a positive relationship between corporate tax avoidance and transparency of CSR reporting (Xu et al., 2022).

The key takeaways from the study by Xu et al. (2022) and the consequent results had indicated that companies engaged in tax avoidance might be inclined to view tax avoidance more through an economic lens, as they appeared to be aware of the potential effects of tax avoidance on public perceptions. Therefore, if CSR reporting were more common and standardised, the opportunity to distract stakeholders would be lessened, and companies might be more likely to

pay their fair share of taxes as the opportunity to otherwise overcome legitimacy concerns would become reduced (Xu et al., 2022).

In Narotzki's (2016) thought-provoking analysis, a vivid depiction is presented of a hypothetical scenario in which a company like Microsoft fulfills its tax obligations. This imaginative exploration highlights the significant consequences such a responsible action would have on the state's capacity to allocate more resources towards education, healthcare, and public transportation. In a comparison made by Narotzki (2016), an alternative reality is explored where Microsoft achieves great success and subsequently fills the gap through corporate social responsibility activities. As a result, not only does Microsoft thrive, but the State also has more funds to invest in its residents and infrastructure.

In examining potential methods of "Creating the Standard," Narotzki's (2016) paper proposed that addressing the matter and building upon the organic progression required the establishment of a fresh standard. To achieve this goal, corporations would be required to obtain certifications at various levels of CSR activity, with a strong emphasis on taxation as the primary, if not the sole, focus.

In a forward-looking perspective, Narotzki (2016) has expressed the view that in the global economy, companies are engaged in constant competition to maximize returns for their shareholders and achieve success. In a paper by Narotzki (2016), a suggestion was made to establish a new standard of CSR that includes responsible tax practices, in response to an emergent trend within CSR.

This implementation of a new standard, as proposed by Narotzki (2016), reflects a growing trend among corporations to prioritize the betterment of society as a means to boost their revenues. Given the importance of taxes for corporations' societal contributions, it is only fair to consider those who employ aggressive tax strategies to avoid paying their fair share as lacking social responsibility. Once the public becomes aware that Congress does not possess the legal mandate to completely close loopholes, corporations are left to address the issue themselves. This would create a need for multinational corporations to step up and contribute their proportionally justified share of taxes.

By combining the CSR principles with efforts to minimise harmful tax competition, we can establish a new global business standard. The individual would experience a reduction in taxation, while corporations' wealth would be redistributed to support local economies. (Narotzki, 2016)

In close pursuit, the findings by Gillette and Stinson (2022) observed that while tax minimization activities were important to financial performance of a firm, they were inherently secondary towards the firm's core competencies. As such, Gillette and Stinson (2022) proposed that by encompassing the primary operations of the firm and its established track record of behaviour, evaluated from a high-level, societal perspective (Gillette & Stinson, 2022).

The findings by Gillette and Stinson (2022) have offered suggestions for practice whereby the nature of a company's activities would alter how their tax behavior was interpreted. Additionally, the findings by Gillette and Stinson (2022) offered psychological evidence as to why companies should act in anticipation of investor reactions (Gillette & Stinson, 2022).

In recent times, Skibetto (2023) has highlighted the dual benefits of CSR. While the main objective is to impact society and the environment positively, companies can also take advantage of significant tax benefits. (Skibetto. 2023).

In a Case Study, Skibetto (2023) highlighted the concept by examining an Indian conglomerate, which effectively utilises CSR to both achieve tax savings and make a substantial societal impact." (Skibetto. 2023).

According to Skibetto (2023), the CSR initiatives of the Indian conglomerate encompasses a wide range of projects, such as healthcare, education, and sanitation. The company qualifies for tax deductions and benefits under Section 80G due to its significant contributions to charitable organisations. Through strategic allocation of their CSR initiatives, companies shall be able to meet their social responsibility criteria while also benefiting from tax savings. (Skibetto. 2023).

According to Skibetto (2023), CSR activities provide a mutually beneficial situation for enterprises that want to make a constructive contribution to society and also receive tax advantages. (Skibetto. 2023).

Skibetto (2023) suggests that firms can maximise their tax savings and have a significant global impact by matching their CSR programs within the regulations prevailing locally. The Tata Group story exemplifies that deliberate and planned CSR investments can result in significant financial advantages, thereby bolstering the idea that CSR would not just be a moral obligation but also a shrewd economic choice. (Skibetto. 2023).

Research Questions:

From the focused literature review carried out in the previous section, the following questions arise upon which the theme of research would invariably need to be directed towards:

Q1. Whether International Taxation Laws should recognize and allow deductions and tax rebates to Multinational Enterprises (MNEs) against their expenditures on CSR contributions?

Q2. Whether global (CSR) Laws can be harmoniously constructed vis-à-vis local taxation laws in their interpretation by Managers of MNEs?

Discussion:

From the context of Indian Taxation Laws, Singh (2019) has expressed that:

“The provisions of Section 135 of the Companies Act, 2013 mandates that: Every company having net worth of rupees five hundred crores or more or turnover of rupees one thousand crores or more or a net profit of five crore or more during any financial year shall ensure that the Company spends, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years.” Singh (2019)

According to Singh (2019), it is commonly understood that corporate expenditures on CSR efforts cannot be deducted from a company's profits. The allocation of funds towards CSR was to be regarded as the appropriation of profits as per Singh's study in 2019

In his 2019 publication, Singh clearly states that the Central Government has added an Explanation 2 to Section 37(1) of the Income Tax Act, 1961. This explanation declares that any expenses incurred by a taxpayer on activities related to corporate social responsibility, as defined in Section 135 of the Companies Act, 2013, will not be considered as business or professional expenses.

Singh (2019) found that according to the Budget Memorandum, CSR expenditure is not considered to be solely and imperatively towards the aim of conducting business. Allowing these expenses to be tax deductible would result in the government subsidising approximately one third of these expenses through tax expenditure.

Estimation to the Research Questions posited:

Scarpa and Signori (2023) in their literature review, which dealing with the aspect of "Interconnections between the instrumental dimension and the components of corporate tax responsibility (CTR), have commented that while a growing number of managers are concerned about the reputational consequences of their firms' tax behaviour, it seemed that tax practices deemed irresponsible by companies did not pose any reputational threats. Hence, a deeper analysis was still required. For example, scholars could explore under what conditions media, NGOs and other stakeholders' coverage and criticism over firms' tax practices negatively influence their reputation, as well as whether and how being a socially responsible taxpayer (e.g. being transparent about tax) could enhance a firm's reputation (Scarpa & Signori, 2023).

According to Scarpa and Signori (2023), corporate tax payments were not always conceived as a relevant component of companies' evaluation, or that evaluators exhibited different tax preferences, or that they lacked access to enough information to judge firms' tax affairs (Scarpa & Signori, 2023).
In leading up the charge to garnering legitimacy signals, five of the leading MNEs have made the following declarations in their respective Annual Reports which clearly express the need to reinforce their legitimacy signals in light of the newly implemented model rules on global minimum taxation (Pillar Two) published by the OECD. The relevant excerpts from the Annual Reports have been reproduced verbatim for the sake of brevity and transparency.

According to the Volkswagen Financial Services AG (2023), the MNE in their Annual Report have declared the following:

"The model rules on global minimum taxation (Pillar Two) published by the OECD have been enacted or substantively enacted in certain countries where Volkswagen Financial Services AG operates. In Germany, the legislation enters into force for the fiscal year of Volkswagen Financial Services AG beginning on January 1, 2024. Volkswagen Financial Services AG falls within the scope of the legislation that has been enacted or substantively enacted and has begun to assess the potential risk to which Volkswagen Financial Services AG is exposed in relation to the global minimum tax rate. The assessment of the potential risk from the minimum tax rate is based on the latest available country-by-country reporting and annual financial statements for the business entities of Volkswagen Financial Services AG. Based on the assessment, the effective Pillar Two tax rates are higher than 15% in most of the countries in which Volkswagen

Financial Services AG operates. There is, however, a small number of countries where the transitional safe harbor exemption does not apply and the effective Pillar Two tax rate is below 15%. Volkswagen Financial Services AG does not expect any material Pillar Two income tax risk in these countries." (Volkswagen Financial Services AG, 2023)

According to the United States Securities And Exchange Commission (2023), the MNE Alphabet Inc. in their Annual Report have declared the following:

"The OECD is coordinating negotiations among more than 140 countries with the goal of achieving consensus around substantial changes to international tax policies, including the implementation of a minimum global effective tax rate of 15%. While various countries have implemented the legislation as of January 1, 2024, we do not expect a resulting material change to our income tax provision for the 2024 fiscal year. As additional jurisdictions enact such legislation, we expect our effective tax rate and cash tax payments could increase in future years." (United States Securities And Exchange Commission, 2023)

According to Källenius (2024), the MNE Mercedes-Benz Group in their Annual Report have declared the following:

"In December 2021, the OECD published guidelines for a new global minimum tax framework aimed at curbing base erosion and profit shifting (BEPS) by multinational corporations. EU member states unanimously agreed in December 2022 to implement these rules in the form of a directive (BEPS Pillar 2 regulations). As at the balance sheet date, this directive was transposed into German law with the Act to Ensure Global Minimum Taxation for Groups of Companies (Minimum Tax Act - MinStG) and is applicable to the Mercedes-Benz Group from 1 January 2024. As part of an analysis of possible effects on the Group, no countries were identified as at the reporting date from which significant effects are to be expected with regard to the possible payment of a minimum tax." Källenius (2024)

According to Ricard (2023), the MNE Pernod Ricard in their Annual Report have declared the following:

"OECD Pillar Two rules providing for a 15% minimum tax per jurisdiction for multinational corporations have been adopted by the EU and should therefore apply as from 1 January 2024; the European directive has been transposed into the French law in December 2023. Pernod Ricard has applied the exception under IAS 12 amendment in relation to the accounting and disclosure of deferred taxes related to Pillar Two, no deferred tax was booked in the interim

consolidated financial statements at 31 December 2023 with respect to additional future income tax." (Ricard, 2023)

According to BMW Finance N.V. (2024), the MNE BMW Finance N.V. in their Annual Report have declared the following:

"In May 2023, the IASB published International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12) which sets out a mandatory exemption to the accounting for deferred taxes in conjunction with the global minimum taxation (Pillar Two). The amendments provide for a temporary exemption from recognising deferred taxes resulting from the implementation of the Pillar Two rules. The amendments also include disclosures in the notes to explain the impact of the introduction of minimum taxation on affected entities. The exemption has accordingly been applied by the Company. The introduction of the Pillar Two regulations is not expected to have any significant impact on the Company." (BMW Finance N.V, 2024).

Hence, the **Research Question 1** can be answered in the affirmative with respect to the Indian scenario in light of Indian legislation and thereby how the MNEs are treated in India.

However, with regards to **Research Question 2**, a harmonious construction of local Taxation Laws in consonance with the signals of Legitimacy that would be imposed by industry best practices prevalent among CSR leaders can be efficiently achieved by negotiating with the proponents of tax authority functioning in the host state of the MNE.

Points of Contention:

In furtherance to the above referred estimation, the following grounds of contention therefore need to be raised at a level that could transcend mere academic discourse and would thereby placate the debate towards an authoritative discussion aimed at implementing positive change in the field of Tax Deductions of qualifying CSR expenditure:

- Deductions allowed against the CSR expenditures at present are not strategically aligned towards International Taxation Laws by Multinational Enterprises (MNES);

- Whether Multinational Enterprises (MNEs) should benefit from the deductions and tax rebates available to them in off-setting their expenditures on CSR? ;

- Why are the local taxation laws prevalent in the Host Country viewed as not being harmoniously constructed in support of the CSR policies by the Managers of Multinational Enterprises (MNES)?

Conclusion:

The arguments presented in this paper align with the reasoning put forth by Gribnau (2015) that corporate social responsibility (CSR) companies should go beyond a limited and rigid interpretation of (tax) law. Instead, they should embrace a broader perspective that recognizes tax as a set of rules based on principles that form the inherent moral framework of the legal system. Hence, it is imperative for them to treat these principles with utmost seriousness. By acknowledging ethical responsibilities that traverse further than the requirements of the law, they should unquestionably acknowledge ethical responsibilities that are inherent in the law, which should not be perceived merely as a set of regulations. Not paying significant business taxes directly contradicts these principles. The question at hand is whether the legal system has explicit standards for ethical behaviour that extend beyond the literal interpretation of the law (Gribnau, 2015).

Future Research Lines:

Therefore, after having evaluated the Annual Reports of the leading Multinational Enterprises (MNEs) wherein they have expressed that the recent implementation of the OECD model rules on global minimum taxation (Pillar Two) could not be estimated in their most recent annual reports.

While the leading MNES have clearly made statements which demonstrate that their firms perceive a negative exposure to the newly implemented OECD model rules on global minimum taxation which need to be read together with the Accounting Standards, the main criteria for detecting the exposure remains the effective Pillar Two tax rates which are higher than 15% in most of the countries in which these MNEs operate and while there could exist a small number of countries where the transitional safe harbour exemption does not apply and the effective

Pillar Two tax rate would be below 15%, this observation would clearly present as a prospective line of future research wherein it could be explored as to how the signals of legitimacy are being perceived in the practices of these MNEs while paying taxes.

Consequently, the CSR expenditure and its eventual disclosure by these MNEs would garner the approval of the stakeholders in favour of building firm legitimacy signals and hence another line of future research could involve exploring the impact of CSR expenditure by MNEs that would enable better participation in policy building and the subsequent interpretation of tax regulations that could favour leveraging CSR expenditure as deductions upon the applicable corporate tax rate in countries where the rate of corporate taxes exceeded the newly implemented global minimum tax rate of 15% without having to jeopardise any legitimacy signals even though the respective MNE may be aggressively engaged in strategies of tax planning.

Resultantly, the new data which would be presented in the upcoming Annual Reports and the Sustainability Reports of the MNEs would in fact stand to demonstrate the desirability of permitting CSR expenditure as a deductible upon the tax payable by the MNEs in order to harmonise the global minimum taxation standards of 15% without losing any reputation that could harm firm legitimacy signals.

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