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The interrelationship between corporate income tax and corporate social responsibility

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Abstract

Purpose – The purpose of this paper is to discuss the interrelationship between corporate income tax (CIT) and corporate social responsibility (CSR) within the international framework of the European Union (EU).

Design/methodology/approach – The theoretical framework of the paper is based on taxation and social responsibility theories that evaluate the impact of economic, financial and social decisions taken by firms, in the area of accounting and tax harmonization in general, and of corporate income tax, in particular.

Findings – Through the connection of CIT and CSR frameworks, the paper urges for more accountability and shows that, as each EU Member State improves accounting and taxation harmonization, the result is more comparability of economic and financial information presented by the firm.

Practical implications – The paper attempts to provide an understanding of the adoption of the social responsibility posture of firms as a key factor that negatively and positively influences the tax regime of each EU Member State. In a social responsibility, accounting and taxation transnational framework, the increasing of a firm's activity and changes in its environment require new attitudes of sustainable development.

Originality/value – The paper is the first to discuss the interrelationship between CIT and CSR within the international framework of the EU. Corporate income tax can be seen as the mechanism by which governments encourage active civic duty, corporate sponsorship and CSR practices.

Keywords Taxation, Corporate image, Social responsibility, European Union

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1. Introduction

The theoretical framework of this research is based on taxation and social responsibility theories to evaluate the impact of economic, financial and social decisions taken. It is also based on the perspectives of accounting and tax harmonization, in general, and corporate income tax (CIT), in particular.

According to Tua (1983, p. 263):

> Market globalization and the parallel growth of the level of investment processes has generated a similar evolution in the needs information presented of economic institutions in such a way that reveals the existence of an international interest on the part of users in a single information source.

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Thus, one of the main concerns inside the European Union (EU) is to achieve accounting and taxation harmonization with the objective that the economic and financial information presented by firms of the Member States be comparable and, consequently, require more accountability.

Tay and Parker (1990) and Van der Tas (1988; 1992a; 1992b) consider that harmonization can be understood as "formal" or "material". "Formal harmonization" refers to harmony or uniformity of accounting regulations (which may be contained in the law and/or professional accounting standards) and "material harmonization" refers to the actual practices of firms. But, it is necessary that firms not only use the same models, but also that the information contained in these models has the same meaning and it has been elaborated following the same standards (Lucas, 1996). However, for Herrmann and Thomas (1995), this notion ignores the possibility that firms can be subject to different facts that justify the use of different accounting methods. For this reason, Archer *et al.* (1996) defend an alternative notion of "international harmony". A state of "international harmony" exists when, other things being equal, the odds of selecting a given accounting method are identical in each country.

"Harmonization" can be understood as the reconciliation of different point of view, with the objective of homogenizing the accounting practices of different countries to obtain comparability of financial statements. "Normalization" supposes uniformity in the standards of all the countries involved (Carvalho, 1990, Giner and Mora, 1999, 2001) within the activity sector and characterized by similar account nomenclatures, such that there is a precise definition of their content as well as a clear definition of financial statements models. In effect, harmonization and normalization do not mean the same thing. They can be understood as realities that are complemented in a transnational context.

In the accounting and tax transnational framework, new attitudes of sustainable development are required to increase a firm's activity and to cause changes in its environment. In effect, the reality of knowledge in the field of corporate income tax covered by regulation places a higher importance on decisions that are taken for the future, particularly in relation to the definition of accounting and taxation, as well as the definition of the value of the tax rate to pay annually (David *et al.*, 2003).

For example, Table I presents the tax rate in the EU Member States for firms that exercise their main activity as commercial, industrial or agricultural activity in the period 1996-2003. The differences between these countries are a result of the particularities of each national tax system due to the sub-national taxes included in their tax rates. Thus, the tax harmonization of the tax rate among the Member States is the objective.

Similarly, firms now try to create dynamics to develop their corporate social responsibility (CSR) practices, which is very different from the past, when firms generally believed that their responsibility was to obtain returns and comply with the law, especially in areas where penalties were usually applied. Thus, the aim of this research is to provide a European overview of the interrelationship between CIT and CSR.

The structure of the paper is organized as follows. The next section gives an overview of the European CIT system. The third section presents the general concept of CSR for the purposes of this research and discusses the legitimate concern of firms, focusing on the field of their tax framework. Next, the fourth section argues the

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Country	1996	1997	1998	Year 1999	2000	2001	2002	2003
Austria	34.0	34.0	34.0	34.0	34.0	34.0	34.0	34.0
Belgium	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2
Denmark	34.0	34.0	34.0	32.0	32.0	30.0	30.0	30.0
Finland	28.0	28.0	28.0	28.0	29.0	29.0	29.0	29.0
France	36.7	36.7	41.7	40.0	36.7	35.3	34.3	34.3
Germany	57.4	57.4	56.7	52.3	51.6	38.4	38.4	39.6
Greece	40.0	40.0	40.0	40.0	40.0	37.5	35.0	35.0
Ireland	38.0	36.0	32.0	28.0	24.0	20.0	16.0	12.5
Italy	53.2	53.2	41.3	41.3	41.3	40.3	40.3	38.3
Luxembourg	40.3	39.3	37.5	37.5	37.5	37.5	30.4	30.4
The Netherlands	35.0	35.0	35.0	35.0	35.0	35.0	34.5	34.5
Portugal	39.6	39.6	37.4	37.4	35.2	35.2	33.0	33.0
Spain	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
Sweden	28.0	28.0	28.0	28.0	28.0	28.0	28.0	28.0
United Kingdom	40.0	40.0	40.0	40.0	40.0	40.0	40.0	40.0
Average	*38.6*	*38.4*	*37.4*	*36.6*	*36.0*	*34.4*	*33.2*	*32.9*

Source: Edwards (2003, p. 2)

Table I.
Tax rate in the different Member States, 1996-2003

interrelationship between CSR and CIT inside the international framework of the EU. Finally, the fifth section makes some recommendations and draws conclusions.

2. Corporate income tax

The normative framework of financial accounting and taxation suggests that a significant improvement exists in the current European context, in relation to the international comparability of practices as well as in relation to a high level of purification of the concepts. However, the most serious practical barrier to accounting and tax harmonization is the widespread cultural differences that exist internationally. For example, these occur with respect to society in general, in differences in language, law and government priorities, and with respect to professional accounting practices, in particular, differences in amortization methods, fiscal incentives to promote investment in specific geographical areas, and treatment of capital revenues and expenses.

Riahi-Belkaoui (2000, p. 479) states that environmental conditions are likely to affect the determination of accounting standards, including:

> legal and tax relativism, whereby accounting concepts in any given country rest on the legal and base concept of that country.

The influence of legal and non-legal norms of corporate behaviour on the fate of corporate tax initiatives may have significant relevance for modern tax policy (Bank, 2004).

As for the coordination of European tax policies, tax harmonization has not generated interest as an independent area in itself, but rather as support or consequence of other community policies. The EU considers "tax harmonization" as approximating the tax laws of each country at the supranational level to achieve of specific objectives (Grau and Herrera, 2002).

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Nevertheless, "tax harmonization" finds support in several articles of the original treaty establishing the European Community. For example, for direct taxation, through article 93 the European Council adopted provisions for the harmonisation of legislation concerning turnover taxes, excise duties and other forms of indirect taxation to the extent that such harmonisation is necessary to ensure the establishment and the functioning of the internal market (EC, 2002b). In this sense, harmonisation of direct taxation has always been behind European politics, owing its scarce development to the fact that it constitutes an instrument for integration, and not an end in itself (Alonso-Gonzalez *et al.*, 1997).

Some Community directives already exist for stages of tax harmonization of CIT:

(1) Directive 77/799/EEC of 19 December 1977, concerning mutual assistance by the competent authorities of the Member States in the field of direct taxation (EEC, 1977).

(2) Directive 88/361/EEC of 24 June 1988, concerning full liberalisation of capital movements between Member States with effect from 1 July 1990 (EEC, 1988).

(3) Directive 90/434/EEC of 23 July 1990, concerning a common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States (EEC, 1990a).

(4) Directive 90/435/EEC of 23 July 1990, concerning a common system of taxation applicable in the case of parent companies and subsidiaries of different Member States (EEC, 1990b).

For politically acceptable tax harmonization results, it is also important to devise a way not to harm any Member States in the process (Izquierdo, 1997). In addition, a great probability exists that the tax differences among the Member States justify the displacement of shareholders for those countries with lower tax rates (Aparicio, 1996). However, we argue that tax cannot be a conditioning factor of the investment decision. Although the firm's structure may depend very heavily on the form of taxation, an open economy is interested in encouraging industrial growth, and imposing corporate income taxes with considerable care (Melvin, 1982).

Accordingly, the EU has decided to join efforts with those of the International Accounting Standards Board (IASB) to obtain a broader harmonization of accounting standards, intending to obtain a coherent core of standards that could be used internationally in the disclosure and presentation of financial statements of the listed firms. Consequently, the European Parliament and the Council approved the Regulation (EC) no. 1606/2002 of 19 July 2002 for adoption and use of international accounting standards (IAS) and of international financial reporting standards (IFRS) of IASB in the Community with a view to harmonising the financial information presented by the firms in order to ensure a high degree of transparency and comparability of financial statements and, hence, an efficient functioning of the Community capital market and of the internal market (EC, 2002a).

Thus, the IAS/IFRS can serve as a reference point for tax harmonization, through the common definition of a "taxable amount" (Bond *et al.*, 2002). However, each country maintains its CIT and establishes the annual tax rates. The harmonization of different types of tax rates could be obtained through the establishment of a tax rate or tax rate interval, as suggested by the Ruding Committee (Committee of Independent Experts on

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Company Taxation) in 1992 (EEC, 1992). In this sense, the harmonization of rates could create a cartel and eliminate the beneficial effects of tax competition (McLure, 2008). The harmonization of the "taxable amount" concept should follow four steps: harmonize deductible expenses; harmonize allowable deductions and gains and other add back items; define the treatment of the revenues obtained in other EU countries; and harmonize the tax law in the relations between the Member States (David and Abreu, 2005).

Another way to eliminate the divergences among the Member States could be the development of a common tax base, such as a new concept of "income" that forces to apply approaches that are different from the current ones to quantify benefits (Mallo and Pulido, 2004). While the current practice defines CIT as an expense (Hill, 1957), Barton (1970) states that income taxes do not have any of the above characteristics of expenses – they are not incurred by management in anticipation of future benefits and they are not costs of facilities used up to earn the period's revenue.

Although CIT as an expense is unanimously defended by the Member States with a greater tradition in accounting (Giner and Mora, 1991), Kissinger (1986, p. 91) defends that:

> If income taxes are an expense, then presumably the matching principle applies and the reported amount should follow pretax accounting income. If, however, income taxes are a distribution of income (e.g. similar to dividends), then the matching principle does not apply and the reported amount should follow taxable income.

Indeed, CIT is not defined in the same way in all the Member States; in spite of being calculated in agreement with generally accepted accounting principles, this affects what appears in financial reports. Effectively, several standards in accounting for income tax devoted attention to this area after the 1960s, in particular Levy (1981, p. 97), who argued that:

> One indication of the level of difficulty in accounting for income taxes is the number of authorities' pronouncements and other writings on the subject (. . .)

In the international framework, the objectives of accounting for income tax are to recognize the amount of taxes payable or refundable for the current year and to recognize the future tax consequences of temporary differences as well as net operating losses and unused tax credits (Schroeder and Clark, 1998). Underlying this is the principle of the true and fair view (Cooke *et al.*, 2001), which, in the European setting, is used as an "override", which means that it is intended to be the governing criterion by which financial statements are to be judged (Alexander, 1999).

Pais (2000) and Silva (2002) make reference to the discrepancy among accounting and taxation points of view in the recognition and measurement of business transactions that result from different objectives, specifically because the objective of accounting is that financial statements present a true and fair view of the firm while taxation is concerned with obtaining revenues and meeting political and economic objectives.

However, currently and in future, the aim is that accounting and tax harmonization should promote, in all Member States, freedom of establishment for firms by providing an equivalent level of protection for members (shareholders and employees) and other persons as creditors (Van Hulle and Van der Tas, 2001); trade as well as cross-border

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transactions should also be facilitated within the EU to help to bring about a European capital market.

3. Corporate social responsibility

The growth of a firm's operations, including the multinational phenomenon of firms that operate in very different social and environmental settings, requires that business activity must promote social rights, develop CSR practices, encourage active civic duty, and find ways to redistribute wealth, using taxes to promote social rights and sustainable development of society, in general, and of firms, in particular.

CSR may be defined, consistent with McWilliams and Siegel (2001) and McWilliams *et al.* (2006, p. 4), as:

> . . . actions on the part of a firm that appears to advance the promotion of some social good beyond the immediate interests of the firm/shareholders and beyond legal requirements.

According to Kok *et al.* (2001, p. 287), CSR is:

> the obligation of the firm to use its resources in ways to benefit society, through committed participation as a member of society, taking into account the society at large, and improving welfare of society at large independently of direct gains of the company.

There are a number of other definitions, all of which include taking into account the social and environmental impact of corporate activity when making decisions, as in this definition defended by Smith (2002, p. 42):

> the integration of business operations and values whereby the interests of all stakeholders, including customers, employees, investors, and the environment are reflected in the organization's policies and actions.

To summarize, the European Commission, in its *Green Paper – Promoting a European framework for corporate social responsibility* (EC, 2001, p. 8), understands CSR as:

> a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. Being socially responsible means not only fulfilling legal expectations, but also going beyond compliance and investing "more" into human capital, the environment and the relations with stakeholders.

Information on environment and social issues is commonly communicated by companies either as a section in their annual reports or in stand-alone reports; it is available in either hard copy only, Internet-based only or, most commonly, provided in hard copy format as well as being published on the Internet (Adams and Zutshi, 2004). CSR is much discussed by executives and often occupies a prominent position on corporate Internet sites (Baron, 2008).

Co-related with the subject of this research, the EC (2001) states that, among the factors that can justify CSR practices, these require social criteria that ensure a sustained level of investment decisions and transparency of business activities. Thus, in order to understand the rationale for environmental accounting and taxation, it is necessary to consider the principles upon which environmental accounting and taxation operates (Crowther and Rayman-Bacchus, 2004). For Schaltegger *et al.* (1996) there are three principles to justify these environments: sustainability; accountability; and transparency.

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Sustainability is, according to Crowther and Rayman-Bacchus (2004, p. 239):

> concerned with the effect which action taken in the present has upon the options available in the future. If resources are utilised in the present then they are no longer available for use in the future, and this is of particular concern if the resources are finite in quantity.

In agreement with the EU view, Robertson (2001) states that "economic sustainability" must refer to a future economy that will be sustainable; not only in certain narrow economic respects, but also socially and environmentally.

Accountability is defined by (Crowther and Rayman-Bacchus, 2004, p. 240) as:

> concerned with an organization recognising that its action affect the external environment, and therefore assuming responsibility for the effects of its actions.

While transparency (Crowther and Rayman-Bacchus, 2004, p. 241) is defined as:

> the external impact of the actions of the organization can be ascertained from that organization's report, pertinent facts are nor disguised within that report and can be seen to be a part of the process of recognition of responsibility.

In the accounting and tax harmonization framework, transparency and the obligation of diffusing the "true and fair view" are components of corporate social responsibility (Rivero, 2003). Although accounting standards are based on the same principles of common-base taxation, such that firms of the same activity sector, independent of the country in which the firms operate, should have equal treatment.

There are two fundamental conceptions of accounting normalization: the Anglo-Saxon and the Continental models (Nobes and Parker, 2002). The former (relating to Ireland, United Kingdom, USA, Canada, Australia and New Zealand) state that firms should prepare their financial statements without taking into account any possible divergence between accounting and taxation criteria, while the latter (Belgium, Denmark, France, Finland, Germany, Greece, Holland, Italy, Luxembourg, Portugal, Spain and Sweden) have allowed the influence of taxation on reporting financial information for many years; however, the situation has been changing, in recent years, to a new situation of autonomy and independence between tax and accounting rules (Gallego, 2004). Table II shows the principal distinguishing elements related with the accounting of Member States.

Schroeder *et al.* (2001) argue that this diversity in accounting is the result of environmental influence because the countries have different values, cultures, and political and economic systems, in addition to different levels of economic development. However, currently the international systems of accounting and taxation are very well developed with respect to standards harmonization, in agreement with recent European standards development.

On the other hand, Fortin *et al.* (2004, 2007) consider that the taxpayer is completely individualistic and amoral, such that his/her willingness to underreport income is not affected by social norms or by any form of social interaction. The international systems of accounting and taxation suppose that firms pay taxes to the State, in compliance with their code of conduct, which not only establishes the organization's values but also allows for directors to establish a policy or internal code of conduct governing relationships with the tax authorities, covering matters such as honesty, openness, courtesy and promptness (Williams, 2007).

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Elements	Topic Anglo-Saxon influence	Continental influence
Responsibility of the standards emission	The standards are elaborated by private associations of the accounting professionals	The standards have a governmental source and are based on Roman Law
Detail degree of the standards	The standards only indicate general accounting principles	The standards are more detailed
Obligatorily in the standards application	The standards-based application is of general acceptance	The standards-based application is legally imposed
	The standards are of voluntary application	The standards are of obligatory application
Corporate structure	Prevalence of capital firms	Prevalence of small and medium-sized companies
	Separation between the Board and property	No separation between the Board and property
Main shareholders of the firms	Capital markets more developed	Capital markets less developed
	Recourse to capital markets is frequent	Financing through the bank sector
Users of the accounting information	Mainly the shareholders	First the State and only then other creditors
Relationship between accounting and tax	Separation between accounting and fiscal standards	Influence of the fiscal standards on the accounting standards
	The accounting information prepared for the shareholders and for the State is different	The accounting information prepared for the shareholders and for the State is similar

Source: Adapted from Ferreira (1999, p. 792)

Table II. Distinguishing elements of the accounting Member States

The EU Council of Ministers introduced a "Code of Conduct" for business taxation in December 1997, as part of a package to tackle harmful tax competition (EC, 1998). This Code of Conduct (EC, 1998, p. 2) was apparently designed to curb:

> those business tax measures which affect, or may affect, in a significant way the location of business activity within the Community.

This Code states that only those tax measures that allow a significantly lower effective level of taxation (including paying no tax at all) than those levels that generally apply in the Member States should be regarded as harmful.

Tax compliance is a concern of governments around the world (Bobek *et al.*, 2007; Devereux *et al.*, 2002). As David and Abreu (2006, p. 6) identify, presently there exists an:

> increase of an ethic sense, that is to say that society and firms, as well citizens, recognize the importance and the value of ethical and socially responsible behaviours, as well as the risks and costs that the deviations as regards to ethics involve.

Therefore, the code of conduct aims to be an instrument that facilitates the recognition and the eventual resolution of ethical problems, and each firm adopts rules in agreement with its legal environment and own characteristics (activity, objectives and environment). Somers (2001, p. 194) argues that:

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> . . . there were clear differences between firms with and without ethical codes on three dimensions: a focus on profitability, use of discretionary funds for charitable contributions and the importance of behaving morally and ethically. In all three cases, employees of firms with ethical codes of conduct felt that these three value-based objectives were more important than did employees in firms without ethical codes.

Following this, it is necessary that the code of conduct presents an interactionist model that consists, according to Cleek and Leonard (1998, p. 620), of:

> . . . (1) individual factors, (2) ethical philosophy, (3) ethical decision ideologies, (4) external factors, and (5) organizational factors. When these sections are combined into an interactionist model they describe those factors that impact upon ethical decision-making behaviour in organizations.

"Individual factors" are defended by Ford and Richardson (1994), such as: nationality/culture, age, type of education, type of employment, years of employment, beliefs and values. These authors also defend "situational factors" that include the other four type of factors of definition above, such as: peer group influence, top management influence, rewards and sanctions, type of ethical decision, organization size, and industry type.

Following these practices, the social responsibility posture of firms can be a key factor that negatively or positively can be influenced by the tax regime of each Member State. Indeed, we agree with Williams (2007, p. 4), when argues that:

> The application of CSR to tax issues, however, is an area that has not as yet received a great deal of attention. This may reflect in part a general tendency by directors to give inadequate attention to tax matters but it may also reflect the fact that the payment of tax liabilities is, to a great extent, a non-discretionary matter. A company may decide for itself what business areas it will be involved in, the suppliers and customers it will deal with and the manner in which it will conduct its business, and it is restricted only by considerations of legality and commerciality. In the area of tax, by contrast, it can deal only with public authorities, and only on the terms laid down by them.

4. From corporate social responsibility to corporate income tax

As Cooper (2004, p. 27) defends:

> The social impact of organizations is very much influenced by the legal constraints on their activity. Incorporated organizations actually depend upon law for their very existence and all their dealings must take into account the laws . . . These laws and regulations are socially constructed (. . .).

In this social commitment and with respect to the tax business activity, double accounting and tax harmonization are called for, so that in the EU the markets work efficiently. In order to ensure a high degree of transparency and comparability of financial statements, firms should adopt the Regulation (EC) no. 1725/2003 of 29 September 2003 (EC, 2003), in accordance with Regulation (EC) no. 1606/2002 of 19 July 2002 (EC, 2002a), adopting international accounting standards. El-Gazzar *et al.* (1999), Street *et al.* (1999), and Taylor and Ann-Jones (1999) have carried out studies on the adoption of IAS in European multinationals firms, evaluating the execution of these standards.

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However, it is important that international accounting standards issued by the IASB do not conflict with the Directives issued by the EU (Fernandes, 1999). As Tua (1999) says, the strategy to be followed in the EU for development of accounting standards necessarily entails consideration of the rules of the IASB. Table III presents the main differences between the European directives and the IASB standards, given that the alliance between the two regulations is inevitable because the EU directives, including the applicable regulatory accounting framework, appear to have suffered obsolescence within a new socio-economic context, characterized by globalisation of markets and internationalisation of economic activity (Horno, 2003).

The existence of a unique standard directive in the EU will allow for the harmonization of financial information, assure the effective comparability of the same, facilitate the circulation of capitals and access to new markets, and contribute to its transparency (Cravo, 2002). As pointed out by Turner (1983), the comparability of international financial information eliminates the current misunderstandings about the reliability of "foreign" financial statements and removes one of the most important impediments to the free flow of international investment.

Governments develop and implement taxation policies as an efficient national instrument of societal solidarity with the main objective of economic growth but in a sustainable manner (David and Abreu, 2006). According to AECA (2005), the main objective of sustainability is that the same allows for evaluation of CSR behaviour and its effectiveness in the execution of economic, social, and environmental functions, as well as the capacity of the firms to generate social externalities that satisfy the needs of the different users. Thus, on one side, the tax policy is directly linked with social and economic development, technological changes and country-level growth. On the other

	Normative	
Topic	European directives	IASB standards
Source	Issued by a public organism and they are obligatory	Issued by a private organism of a professional nature and they are not obligatory
Legal force	Prevail after being transposed on the law of each Member State	They do not have legal force
Degree of detail of the rules	Include general principles, not trying to regulate all its potential practical applications	Related to specific accounting issues, for which guidelines have been developed
Addressed to users	Addressed to Member States Applied to all firms with a particular legal structure	Addressed mainly to companies Applied to all firms (although they are only applied to firms with stock values)
Basis of implementation	Included in European corporate law and they are obligatory	Implemented voluntarily and do not fall into a specific legislation
Settings that are influenced	Produced in an environment profoundly influenced by issues such as protection from creditors, distribution of benefits and taxation	These standards are unconnected to any particular national environment

Source: Adapted from García (2000, p. 46) and Pereira (2002, p. 11)

Table III. Differences between the European directives and the IASB standards

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hand, CSR activities limit the productive effects of technical change and scale economies (Paul and Siegel, 2006).

Just as corporate income tax is defined as an expense, and not a distribution of income, corporate social responsibility should also be treated as an investment, and not a cost. Peloza (2006) defends that, through CSR investment, firms can better justify their role in society from a position of enlightened self-interest.

Nevertheless, Ballet *et al.* (2006, p. 4) consider that:

> the firms invest in Corporate Social Responsibility with the aim of improving in time its economic returns. The firm therefore does not have an altruistic motivation in itself, even if it adopts an altruistic behaviour. It is, on the contrary, faithful to its objective of generating profits. Consequently, it awaits a return on investment.

In effect, we defend the CSR investment perspective in parallel with fulfilling CSR principles of sustainability, accountability and transparency. And, this is, for us, according to three forms of ethics evident in firms (Kok *et al.*, 2001), specifically:

(1) transaction ethics: in this type of ethics the focus is on your own rights;
(2) recognition ethics: this type of ethics shows the balance between rights and obligations; and
(3) change ethics: this type of ethics can be seen as the upper limit of ethics policy.

Without a doubt, the interrelationship between CIT and CSR depends on this latter type of ethics in organizational decision making, in general, and in accounting and tax practices, in particular, and is currently connected with the European harmonization process.

5. Conclusion

The international accounting system is very well developed with respect to standards harmonization in agreement with recent European standards development but some difficulties have resulted from the specifics of the taxation system of each country. Following this, to minimize some of these differences in the accounting and taxation bases of each Member State, the immediate solution is tax harmonization imposed by the Member States, as with accounting harmonization.

According to Regulation (EC) no. 1606/2002 of 19 July 2002, the Member States have already modified their understanding of the accounting system and, consequently, the tax system. This was done with the main objective of satisfying the users' needs rather than focus on preparation and presentation of annual accounts to show to the Tax Administration Board. However, tax harmonization, especially at a direct tax level, still has a long course to travel; as a result, the elevated number of reports and directives proposed are an obstacle, both at the European and international level.

Indeed, harmonization permits a common template among all those involved in financial reporting. However, for a correct delimitation of accounting and taxation functions, it is important that, on one hand, taxation standards do not make impositions that interfere in the essential function of financial information and, on the other hand, accounting standards do not make distortions of the equal treatment principle, which increase the risk level of normal competition among firms.

The increase of a firm's activity and changes in its environment require new attitudes of sustainable development in the taxation and social responsibility

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transnational framework. In this sense, governments must promote social rights and sustainable development through their taxation policy. These can be seen as CIT mechanisms by which governments encourage active civic duty, corporate sponsorship and CSR practices.

Effectively, the embracing of social responsibility practices by firms is a key factor that negatively and positively influences the tax regime of each Member State. For example, governments can approve measures, like accelerated depreciation of environmental investments and certain innovative, environmentally-friendly operating assets. These measures have positive effects on the environment and they contribute for the development and supply of environmental technologies. Similarly, the tax relief on investment in more ecological vehicles, the acceleration of depreciation allowances of vehicles and the reduction of the tax rate to encourage fleet renewal are other measures.

Thus, all EU Member States, in general, through legislation and policies, and all firms, in particular, through positive strategies and actions, promote the correct, fair and good behaviour that will converge into CSR initiatives in a global process of European tax harmonization.

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