The Relationship between Corporate Social Responsibility and Tax Avoidance: With an Empirical Study

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Abstract:

This research aims to provide empirical evidence on the tax avoidance behavior of firms that engage in corporate social responsibility (CSR) activities. Based on a sample of ٤١ Egyptian non-financial companies listed in the Egyptian Stock Exchange (EGX١٠٠) during the period from ٢٠١٦ to ٢٠٢١, the research employs both generalized least squares (GLS) and panel-corrected standard errors (PCSE) regression analyses to examine the relationship between CSR and tax avoidance. The empirical results show that there is a significant inverted *U-shaped* relationship between CSR and tax avoidance, as measured by current ETR and GAAP ETR. This finding suggests that tax avoidance practices decrease with an increase in CSR performance. However, when the CSR index exceeds a certain threshold, tax avoidance practices increase as CSR performance increases.

Keywords: Egypt, Corporate Social Responsibility, Tax Avoidance.

١. Introduction

If taxes buy civilization, then many firms strive hard to evade the price. Taxes are the means according to which government can compulsorily obtain part of the public revenue needed for public expenditure. For firms, taxes represent a significant operating expense that affects their bottom line and financial conditions (Amri et al., ٢٠٢٣). This is why many business firms tend to minimize their tax obligations by engaging in tax avoidance activities. Tax avoidance is a problem for developing countries that rely on taxes. Not only because avoidance brings less revenue but also because it threatens the fundamental concept of taxation.

By the time diverse economies and various multilateral institutions had begun to raise concerns about corporate social responsibility (CSR), a critical question arose on how businesses should design their taxation policies in light of this increased demand for CSR. Taxation and CSR are both ways for a business to use its resources for social development, which has both organizational and social repercussions. As explained by Mohanadas et al. (٢٠٢٠), annual tax payments are the basis of corporate social engagement since they represent the willingness of businesses to share their wealth, and CSR is highly relevant to how businesses interpret and manage tax.

Despite the similar public benefits of corporate taxation and CSR, prior literature shows mixed and contradictory results in terms of the effect of CSR performance on tax avoidance activities (Davis et al., ٢٠١٦; Lin et al., ٢٠١٧; Abdelfattah & Aboud, ٢٠٢٠). The existing empirical literature suggests two contrasting theories that relate CSR to tax avoidance (Col & Patel, ٢٠١٩). First, the *corporate culture theory*, which states that the firm's decisions are dependent on its corporate convictions and beliefs, and firms that believe in ethical business practices are more engaged in CSR while also adopting less aggressive tax policies such as tax avoidance practices. Second, is the *risk management theory*, which states that firms will spend more on CSR activities in order to keep an immaculate reputation and offset any negative perceptions associated with tax avoidance behavior. Further, even with the abundance of literature cited in this review, recent research has gone so far as to suggest that no relationship exists between CSR and tax avoidance (Apriliyana & Suryarini, ٢٠١٩; Mayberry & Watson, ٢٠٢١).

As the above discussion shows, the relationship between CSR and tax avoidance is highly ambiguous and bidirectional. Whereas a substantial body of research has examined the relationship between CSR and tax avoidance in developed markets, little is known, and more research still needs to be conducted to assess the relationship between these two constructs in emerging markets. This research therefore attempts to fill the gap and extend prior literature addressing the relationship between CSR and tax avoidance by examining the relationship between these two constructs in an emerging market: Egypt, a developing country characterized by several economic and market advantages.

٢. Literature review and hypothesis development

CSR and tax avoidance are controversial topics that have sparked numerous arguments in both academia and the business community. In recent years, stakeholders have looked for more prominent transparency and straightforwardness from their organizations, and CSR has correspondingly become ubiquitous, reflecting its ethical and financial responsibilities to the surrounding society.

Tax avoidance is considered one of the significant, albeit debatable, dimensions of CSR (Davis et al., ٢٠١٦; Alsaadi, ٢٠٢٠). On the one hand, some stakeholders of public companies regard tax avoidance as a profit-maximizing activity that is economically required in a CSR context, while others regard it as a socially irresponsible behavior that adversely influences social development.

An enigmatic impression always arises whenever the relationship between CSR and tax avoidance is brought up for discussion since different researchers have documented varied and contradictory results. This wide spectrum of perspectives has served as inspiration for our research question: *Are CSR and tax avoidance related, and if so, positively or negatively?* To investigate this question, we need to examine the relationship between CSR and tax avoidance as follows:

Arguments suggesting a Positive Relationship between CSR and Tax Avoidance—Risk Management Theory

Several studies suggest the possibility of an existing positive relationship between CSR and tax avoidance (Davis et al., ٢٠١٦; Mao, ٢٠١٩; Alsaadi, ٢٠٢٠; Abdelfattah & Aboud, ٢٠٢٠). Their conclusions are based on two arguments: The first argument suggests that a corporation is viewed as a contract between two parties: shareholders and managers, with one objective function—maximizing shareholders' wealth. In this regard, CSR poses a constraint on managers to make a balance between the two most desirable features: societal concerns and shareholder wealth maximization.

According to Armstrong et al. (٢٠١٥), managers view the reduction of taxes or the use of tax avoidance schemes as beneficial for shareholders. Meanwhile, tax avoidance can have major negative consequences, including reputational damage, public pressure, tax authorities' penalties, and even customer boycotts. Therefore, managers tend to consider CSR as a risk management strategy that can improve the company's reputation and decrease the anticipated costs associated with the adoption of tax avoidance strategies (Mao, ٢٠١٩).

However, the second argument suggests that companies may consider tax payments to be detrimental to social welfare, as they harm innovation, job growth, and economic development (Davis et al., ٢٠١٦). Accordingly, managers and stakeholders of socially responsible firms may not consider paying corporate taxes the best way to achieve their social responsibility goals.

Arguments suggesting a Negative Relationship between CSR and Tax Avoidance—Corporate Culture Theory

Several studies suggest the possibility of an existing negative relationship between CSR and tax avoidance (Mgbame et al., ٢٠١٧; López-González et al., ٢٠١٩; Rahman & LI Leqi, ٢٠٢١). This direction is merely a reflection of their research findings that are consistent with stakeholder theory, which has identified the need to maintain a balance between business ethics, economic interests, and social responsibility, suggesting that businesses should avoid aggressive tax practices and pay their fair share of taxes.

Based on this stakeholder view, tax payment is a pivotal element of firms’ CSR activities and is regarded as a way to contribute to society’s welfare (Lin et al., ٢٠١٧). Accordingly, firms engage in CSR activities to satisfy ethical expectations rather than in response to opportunistic incentives (Davis et al., ٢٠١٦). In other words, firms engaging in CSR because of their corporate culture are more likely to consider the interests of all stakeholders, not only the interests of their own shareholders, and the impact of their business on the economy, society, and the environment as a whole.

Arguments suggesting No Relationship between CSR and Tax Avoidance

Few studies suggest the possibility of a non-existing relationship between CSR and tax avoidance (Amidu et al., ٢٠١٦; Apriliyana & Suryarini, ٢٠١٩; Mayberry & Watson, ٢٠٢١). Their research findings are based on the argument that firms will devote resources to CSR activities only when such activities meet the ultimate goal of maximizing shareholders' wealth. In line with the aforementioned views, CSR can help businesses improve their brand image and keep an immaculate reputation, and attract reputable clients, exceptional workers, and quality suppliers. As a result, CSR can be useful for enhancing firms' performance.

In addition, firms may also engage in tax avoidance activities for the same reason they engage in CSR—to maximize shareholders' wealth (Gras-Gil et al., ٢٠١٦). If tax avoidance and CSR both contribute to maximizing firm value and managers can engage in each activity independently of the other, then there will be no relationship between CSR and tax avoidance (Davis et al., ٢٠١٦).

Following the arguments presented above and weighing the different points of view, it is not completely clear whether CSR and tax avoidance are related and, if so, positively or negatively. Thus, we will formulate the non-directional hypothesis as follows:

H_0 ١: CSR performance has no significant impact on tax avoidance.

٣. Research design

٣,١ Sample and data

Two sets of data are gathered; financial data (tax avoidance), and non-financial data (CSR). Secondary data is obtained from the published financial statements of the companies listed in the Egyptian Stock Exchange (EGX), as well as the management's annual reports, CG reports, and CSR/sustainability reports from the EGX website, Egypt for Information Dissemination (EGID) and different companies' websites.

The initial sample of this research includes the ١٠٠ most active Egyptian firms listed in the EGX, as measured by the EGX ١٠٠ index in the financial year ending ٢٠٢١, covering six years. The sample begins in ٢٠١٦, concurrent with the Egyptian Pound's devaluation and COVID-١٩ pandemic, and ends in ٢٠٢١.

A purposive sampling method is used. To be included in the research sample, a firm should meet all of the following criteria:

١. It should have a positive pre-tax income.
٢. It should be listed at least four times in EGX ١٠٠ during the research period to have an environmental and social score.
٣. Financial institutions are excluded, as they have different accounting standards and regulations.
٤. Excluding any firm with missing values representing more than ١٠٪ of the total observations for any variable.

Accordingly, the final sample of this research consists of ٤١ Egyptian listed cross-sectional firms for the period ٢٠١٦–٢٠٢١, which corresponds to ١٥٧ firm-year observations.

٣,٢ *Description of variables*

٣,٢,١ *CSR Performance.* The independent variable of this research is CSR performance. The sampled firms' CSR performance is quantified by the Environmental, Social, and Governance (ESG) ratings. These annual ratings (and scores) aim to provide investors with objective benchmarks for managing their CSR investment portfolios, enhance transparency and disclosure, and improve reporting standards in Egypt (Abdelfattah & Aboud, ٢٠٢٠). According to this rating, firms are assigned a composite score each year based on publicly available data, including firms' websites, annual reports, CSR/sustainability reports, non-governmental organizations' websites, proxy fillings, and news of all major providers.

This composite score is obtained by summing the qualitative and quantitative scores of ten categories within three pillars, which are: environmental scores, social scores, and governance scores. In this research, the sampled firms' CSR performance is measured using the relative environmental and social scores based on the Standard and Poor's (S&P)/EGX ESG index rankings.

٣,٢,٢ *Tax Avoidance*. The dependent variable of this research is tax avoidance. The sampled firms' tax avoidance behavior is captured using two ETR-based measures, current ETR and GAAP ETR. Current ETR is calculated as current tax expense divided by pre-tax income for a given firm, and GAAP ETR is calculated as total tax expense divided by pre-tax income for a given firm (Aronmwan & Okafor, ٢٠١٩).

Our choice of ETR is encouraged by the fact that it captures a broad range of tax avoidance strategies (Salhi et al., ٢٠١٩). A higher ETR demonstrates that a firm has paid or accrued substantial taxes against its income, thus indicating lower tax avoidance.

٣,٢,٣ *Control Variables*. This research controls for a set of firm-level characteristics that are associated with CSR performance (Baldini et al., ٢٠١٨; Shen et al., ٢٠١٩) and tax avoidance (Davis et al., ٢٠١٦). Consistent with prior studies, this research controls for the firm size (SIZE), measured by the natural log of total assets; capital structure (LEV), measured by total liabilities over total assets; profitability (ROA), measured by net income over total assets; non-debt tax shield (NDTS), measured by depreciation over total assets; dividends per share (DPS), measured by total dividends paid over shares outstanding; asset structure (TANG), measured by property, plant, and equipment (PP&E) over total assets. **Table (١)** presents operational definitions of the variables used in this research.

٣,٣ *Empirical models*

To empirically examine the impact of CSR performance on tax avoidance practices, the following multiple linear regression models are used:

[Model ١]

$$\text{Current\_ETR}_{i,t} = \beta_{٠} + \beta_{١}\ \text{ES}_{i,t} + \beta_{٢}\ \text{SIZE}_{i,t} + \beta_{٣}\ \text{LEV}_{i,t} + \beta_{٤}\ \text{ROA}_{i,t} + \beta_{٥}\ \text{NDTS}_{i,t} + \beta_{٦}\ \text{DPS}_{i,t} + \beta_{٧}\ \text{TANG}_{i,t} + \varepsilon_{i,t}$$

[Model ٢]

$$GAAP\_ETR_{i,t} = \beta_{٠} + \beta_{١}\ ES_{i,t} + \beta_{٢}\ SIZE_{i,t} + \beta_{٣}\ LEV_{i,t} + \beta_{٤}\ ROA_{i,t} + \beta_{٥}\ NDTS_{i,t} + \beta_{٦}\ DPS_{i,t} + \beta_{٧}\ TANG_{i,t} + \varepsilon_{i,t}$$

Table ١. Variables Definition

Dimensions	**Variable**	**Acronym**	**Proxy employed**
Independent variable			
CSR	Social and Environmental scores	$ES_{i,t}$	The relative environmental and social score based on the ESG index ranking for firm *i* in year *t*
Dependent variable			
Tax Avoidance	A. Current ETR	$Current\_ETR_{i,t}$	Current tax expense for firm *i* in year *t* / Pre-tax income for firm *i* in year *t*
	B. GAAP ETR	$GAAP\_ETR_{i,t}$	Total tax expense for firm *i* in year *t* / Pre-tax income for firm *i* in year *t*
Control variables			
	A. Firm Size	$SIZE_{i,t}$	Natural logarithm of total assets for firm *i* in year *t*
	B. Leverage	$LEV_{i,t}$	Total liabilities / Total assets for firm *i* in year *t*
	C. Return on Assets (ROA)	$ROA_{i,t}$	Net income / Total assets for firm *i* in year *t*
	D. Non-debt Tax Shields	$NDTS_{i,t}$	Depreciation / Total assets for firm *i* in year *t*
	E. Dividends Per Share	$DPS_{i,t}$	Total dividends paid / Shares outstanding for firm *i* in year *t*
	F. Tangibility	$TANG_{i,t}$	Property, plant, and equipment (PP&E) / Total assets for firm *i* in year *t*

Source: **Prepared by the researcher.**

٤. Empirical results

٤,١ Descriptive Statistics

The importance of descriptive statistics stems from the simplicity of presenting the basic properties of a large set of observations. Also, the appropriate statistical techniques used to analyze the data are chosen based on the underlying characteristics of the data included in the research sample. The main statistical features of all the continuous variables used to examine the relationship between CSR and tax avoidance are shown in **Table (٢)**.

Table ٢. Descriptive Statistics

Variable		Mean	Std. Dev.	Min	Max	Observations
Current_ETR	overall	٠,١٩٠٨١١	٠,٠٨٤٧٨٩٤	٠,٠٣٧٠٤٤٢	٠,٣٦٥٩٣٦٧	N = ١٥٧
	between		٠,٠٧٣١٤٩	٠,٠٣٧٠٤٤٢	٠,٢٨٢٧٢٤١	n = ٤١
	within		٠,٠٤٣٠٢٤٤	٠,٠٢٤٢٧٤٤	٠,٣٣١٦٢٣١	T-bar = ٣,٨٢٩٢٧
GAAP_ETR	overall	٠,٢٠٣١٢٩	٠,١١٥٢١٦٥	٠	٠,٤٩٨٠٥١٤	N = ١٥٧
	between		٠,٠٩٨٧٦١٣	٠	٠,٣٧١٨٢٠٢	n = ٤١
	within		٠,٠٦٣٦٣٧٨	-٠,٠٩٢٧٢٥٣	٠,٤١٣٥٤٧٥	T-bar = ٣,٨٢٩٢٧
ES	overall	٨٩,٤٨٣٢٥	٨,٧٣٠٤٨٤	٧٥,٤٣	١١٠,٠٧	N = ١٥٧
	between		٧,٥٧٨٧١٣	٧٨,١٩	١٠٣,٦٥٦	n = ٤١
	within		٣,٩٩٨٣٩٣	٧٧,٦٢٥٧٥	١٠١,٩٤٥٧	T-bar = ٣,٨٢٩٢٧

SIZE	overall	٢١,٨٠١٧٢	١,٤٠٣٥٢٥	١٨,٧٤	٢٥,٠٣	N = ١٥٧
	between		١,٣٤٨١٤٩	١٩	٢٤,٨١٤	n = ٤١
	within		٠,١٦٧٣٨٤٢	٢١,٣١٥٠٥	٢٢,٤٢١٧٢	T-bar = ٣,٨٢٩٢٧
LEV	overall	٠,٤٦١٢٧٣٩	٠,١٩٦٢٩١٧	٠,٠٩	٠,٩٣	N = ١٥٧
	between		٠,١٩٢٦٨٠٣	٠,١٠٨	٠,٩١	n = ٤١
	within		٠,٠٥٧٧٢٦٥	٠,٢٦٥٢٧٣٩	٠,٧٢١٢٧٣٩	T-bar = ٣,٨٢٩٢٧
ROA	overall	٠,٠٩٩٠٤٤٦	٠,٠٧٤٣٠٦٩	٠,٠١	٠,٢٥	N = ١٥٧
	between		٠,٠٦٤٥٤٦٢	٠,٠١	٠,٢٥	n = ٤١
	within		٠,٠٣٤١٩٠٩	-٠,٠٣٤٢٨٨٧	٠,١٨٢٣٧٧٩	T-bar = ٣,٨٢٩٢٧
NDTS	overall	٠,٠٢٤٩٠٤٥	٠,٠٢٠٣٣٧٥	٠	٠,٠٧	N = ١٥٧
	between		٠,٠٢٠٣٩٦٥	٠	٠,٠٧	n = ٤١
	within		٠,٠٠٥٥٩٦٩	٠,٠٠٦٩٠٤٥	٠,٠٤٦٩٠٤٥	T-bar = ٣,٨٢٩٢٧
DPS	overall	٠,٥٥٤٩٠٤٥	٠,٦٩٤٩٤١١	٠	٢,٢٤	N = ١٥٧
	between		٠,٧٠٣٣٩٤٢	٠	٢,٢٤	n = ٤١
	within		٠,٢٢٧٠١٤٦	-٠,١٩٣٤٢٨٩	١,٤٠٦٥٧١	T-bar = ٣,٨٢٩٢٧
TANG	overall	٠,٣٤٠١٢٧٤	٠,٢٢٨٠٨	٠,٠١	٠,٨٨	N = ١٥٧
	between		٠,٢٣٢٤٢٤٩	٠,٠١٥	٠,٨٨	n = ٤١
	within		٠,٠٥٢٠١٥٤	٠,٠٥٦٧٩٤١	٠,٥١٦٧٩٤١	T-bar = ٣,٨٢٩٢٧

<u>The above table (٢) shows that:</u>

- Current ETR as a measure of tax avoidance (Current_ETR) has an overall mean of ١٩,١٪ and a low dispersion around the mean (overall, between, and within), reflecting high homogeneity in the tax avoidance practices of EGX-listed firms.
- GAAP ETR as a measure of tax avoidance (GAAP_ETR) has an overall mean of ٢٠,٣٪ and a low dispersion around the mean (overall, between, and within), reflecting high homogeneity in the tax avoidance practices of EGX-listed firms.
- CSR (ES) has an overall mean of ٨٩,٥ and a low dispersion around the mean (overall, between, and within), reflecting high homogeneity in the CSR activities of EGX-listed firms.
- The firm size (SIZE) shows an overall mean of ٢١,٨ and a low dispersion around the mean (overall, between, and within), reflecting high homogeneity in the firm size of EGX-listed firms.
- The capital structure, as measured by leverage (LEV), shows an overall mean of ٠,٤٦١ and a low dispersion around the mean (overall, between, and within), reflecting high homogeneity in the capital structure of EGX-listed firms.

- The profitability, as measured by return on assets (ROA), shows an overall mean of ٠,٠٩٩ and a high dispersion around the mean (overall, between, and within), reflecting high heterogeneity in the profitability of EGX-listed firms.
- The non-debt tax shield (NDTS) has an overall mean of ٠,٠٢٥ and a high dispersion around the mean (overall, between, and within), reflecting high heterogeneity in the non-debt tax shield of EGX-listed firms.
- The dividends per share (DPS) have an overall mean of ٠,٥٥٥ and a high dispersion around the mean (overall, between, and within), reflecting high heterogeneity in the dividend policy of EGX-listed firms.
- The asset structure, as measured by tangibility (TANG), has an overall mean of ٠,٣٤٠ and a high dispersion around the mean (overall, between, and within), reflecting high heterogeneity in the asset structure of EGX-listed firms.

٤,٢ Empirical evidence from static panel data analysis

Table ٣ presents the results of the panel data regression analysis. Among the three models, i.e. the ordinary least square (OLS) model, the fixed effects model (FEM) and the random effects model (REM), the best fit model has been selected.

Table ٣. Final Fitted Model of the Impact of CSR on Tax Avoidance

Tax Avoidance	ES → Current_ETR		ES → GAAP_ETR	
	GLS	PCSE	GLS	PCSE
ES	.٠٣٠١٨٧٦٧**	.٠٢٤٩٣٧٠٣**	.٠٤٢٨٦٨٩٩**	.٠٣٨٢٦٠٢٦**
ES٢	-.٠٠٠١٤٦٤٩**	-.٠٠٠١٢١٥٧*	-.٠٠٠٢٠٧٩٢**	-.٠٠٠١٨٦٢٢**
SIZE	.٢٢٦٤٤٤٢٦**	.٢١٨٧٣٤٦٧*	-٠,٠٠٢	-٠,٠٢٢
SIZE٢	-.٠٠٥٣٢٩٩١**	-.٠٠٥٠٨١٧٨*	-٠,٠٠٠	٠,٠٠٠
LEV	.٤٠٥٣٣٠٤٩***	.٣٤١٨٢٨٤٤***	.٦٦٠٥٩١٥٤***	.٥٨٨٨٠٠٥٣***
LEV٢	-.٢٧٣٤٢٩٦٦**	-.٢٢١٢٦٧٨٦*	-.٤٦٦٦٢٤٤٤**	-.٣٩٨٦٦٤١٥**
ROA	-.١٧١٥٦٧١٤*	-.٢٠٢٩٤٨٩٨**	-٠,١٦٣	-٠,١٦٧
NDTS	١,٠٤٤٢٨٩١***	١,١٣٦٦٩١٥***	٠,٥١٨	٠,٤٧٠
DPS	.٠٢٢٥٧٣٧٨**	.٠٢٢٥٩٢٩٢**	٠,٠٢٠	٠,٠١٩
TANG	-.٠٩٧٢٧٨٣***	-.٠٩٥٣٠٥٦٣**	-٠,٠٣٥	-٠,٠٢٥
_cons	- ٣,٨٢٦١٩٥٧***	-٣,٤٩٢٨٨٦**	-٢,٠١٢	-١,٥٩١
Obs.	١٥٧	١٥٧	١٥٧	١٥٧
R-Square	٠,٣٤٢	٠,٣٥٨	٠,٢٩٩	٠,٣١٠
Legend: * p<.١; ** p<.٠٥; *** p<.٠١				

The above table (٣) shows that:

- The overall models can be accepted as reliable models of tax avoidance (current ETR and GAAP ETR) because the Prob > chi٢ and Prob > F are less than ٥٪.
- The results of GLS and PCSE are the same for all variables in each model.
- The first model can explain (٠,٣٤٢ to ٠,٣٥٨) by using GLS and PCSE, respectively, implying that tax avoidance, as measured by the current ETR, is driven by CSR. Meanwhile, the second model can explain (٠,٢٩٩ to ٠,٣١٠) by using GLS and PCSE, respectively, implying that tax avoidance, as measured by the GAAP ETR, is driven by CSR.
- This research reveals a *curvilinear relationship* between CSR and tax avoidance, as measured by current ETR and GAAP ETR, indicating an optimal level of CSR index (ES) to maximize ETR and minimize tax avoidance. Any deviation will lead to a negative impact on ETR and a positive impact on tax avoidance; there is an inverted *U-shaped* relationship between them, where the ES parameter is positive (>٠) and significant, and the ES٢ squared parameter is negative (<٠) and significant, so the optimal level of the ES is:

Optimal ES in association with current ETR = ٠,٠٢٤٩٣٧٠٣/(2*٠,٠٠٠١٢١٥٧) = 102.56

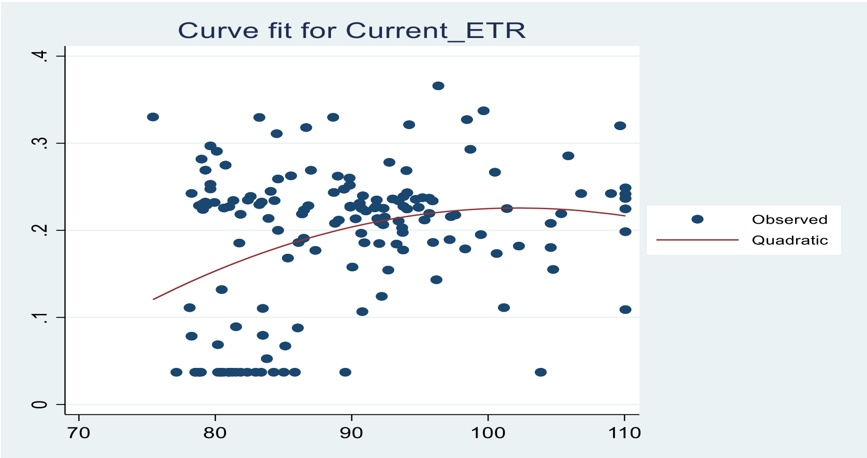

Figure ١. Relationship between ES and Current_ETR.

Optimal ES in association with GAAP ETR = ٠,٠٣٨٢٦٠٢٦/(2*٠,٠٠٠١٨٦٢٢) = 102.72

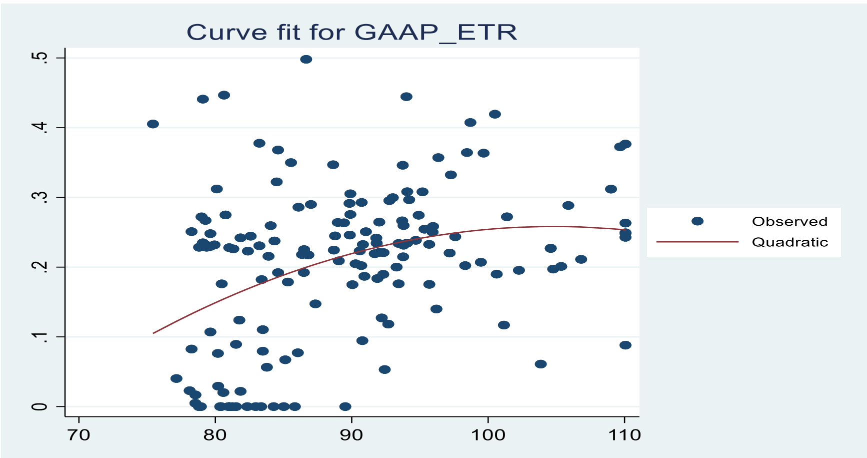

Figure ٢. Relationship between ES and GAAP_ETR.

The result is in line with corporate culture theory, which states that the firm's decisions are dependent on its corporate convictions and beliefs. Firms with a strong belief in "right" corporate behavior are more engaged in CSR activities while also adopting less aggressive tax policies such as tax avoidance practices.

٥. Conclusion

Recent years have witnessed a growing research interest in the tax avoidance behavior of firms that engage in CSR activities. Extant literature, however, still shows inconsistent results. Whereas many studies concluded that strong CSR performance tends to have a negative impact on tax avoidance practices (López-González et al., ٢٠١٩; Rahman & LI Leqi, ٢٠٢١), there is also evidence for the contrary (Davis et al., ٢٠١٦; Alsaadi, ٢٠٢٠). Further, even with the abundance of literature cited in this review, recent research has gone so far as to suggest that no relationship exists between CSR and tax avoidance (Mayberry & Watson, ٢٠٢١). It therefore remains questionable whether CSR and tax avoidance are related, and if so, positively or negatively.

To fill in the gaps left out by past studies, we thus provide empirical evidence regarding the tax avoidance behavior of firms that undertake CSR activities in the Egyptian context. More specifically, based on a sample of ٤١ Egyptian listed cross-sectional firms during the period from ٢٠١٦ to ٢٠٢١, we employ GLS and PCSE regression analyses to test the impact of CSR performance on tax avoidance practices. Our results find that there is an inverted *U-shaped* relationship between CSR and tax avoidance, as measured by current ETR and GAAP ETR. This finding indicates that tax avoidance practices decrease with an increase in CSR performance, whereas above a certain CSR level, tax avoidance practices increase with an increase in CSR performance.

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