TRANSPARENT CORPORATE TAX PAID BY COMPANIES IN THE CZECH REPUBLIC AS TOOL IN THEIR PUBLIC RELATIONS

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Abstract: *The goal of this article is to examine marketing strategy of sample of chosen big companies in the Czech Republic, whether they use information about its corporate tax payments in their public relations in order to get more customer favour. As the research tool was chosen case study consisting of twenty companies awarded as top contributors to public budget in form of corporate tax in the Czech Republic by the Ministry of Finance of the Czech Republic. Their official websites, press releases and social networks were explored to find out, if they used in any way this award in their public relations. Results show that companies don't consider this award beneficial for public relations. Possible reason for not publishing the tax award could be that large companies don't want any publicity connected with tax topic at all and don't see any advantages of publishing the award.*

Keywords: *Corporate tax, Public relations, Marketing, Marketing strategy, Taxparency.*

JEL Classification: *H25, M31, M37.*

Introduction

In fall 2015, two non-profit organizations, Transparency International Czech Republic and Lexperanto association, started a new joint project in the Czech Republic called Taxparency [21]. This project primary aims to contribute to solution of corporate tax evasion in the Czech Republic, secondarily to lower the level of corruption in public procurement and improve legal enforceability against companies with offshore structures. The worldwide corporate tax evasion, which is achieved through exploitation of domestic and international tax rules and extensive profit shifting to non-tax or low tax jurisdictions is according to OECD study [18] one of the major problems nowadays with estimated 1,9 trillion USD of profits being held offshore. This is also accompanied with various tactics of abusing tax relieves by multinational companies as a general strategy to lower effective corporate tax rate. According to another study [22], usage of tax heavens like Bermudas or Luxembourgh for shifting companies' profits is growing. Since 1980s the amount of profits shifted offshore by US companies has increased ten times. It's important to mention that this profit shifting is done within the law so it cannot be identified as tax crime.

Taxparency initiative is choosing approach to eliminate corporate tax avoidance by trying to positively motivate companies to pay its full tax duties. The whole idea is based on rewarding fair companies, which don't avoid paying corporate taxes by granting Taxparency brand, which clearly states real corporate tax rate paid from company profit. This brand can company put on its website to show its customers honest behaviour with hope of getting some competitive advantage.

The goal of this article is to examine marketing strategy of sample of chosen big companies in the Czech Republic, whether they already somehow use the information about its corporate tax payments in their public relations in order to get more customer favour.

1 Statement of a problem

An interesting study conducted in UK in 2014 [9] focused on finding out, whether the public pressure has any effect on corporate tax behaviour, specifically if public pressure can decrease corporate tax avoidance of companies and reduce the use of subsidiaries in tax haven countries. The study was connected with activity of a non-profit organization called ActionAid International, which levied public pressure on non-compliant companies listed in Financial Times Stock Exchange 100 to comply with law requiring UK companies to disclose location of all their subsidiaries. The study concluded that public pressure lead nearly to a hundred percent compliance with the disclosure requirement. Also companies, which were newly required to disclose all their subsidiaries, decreased their corporate tax avoidance and usage of tax heavens. This study shows that companies care about their public relations image related with corporate tax payment.

Study created by Hanlon and Slemrod [16] tested hypothesis whether reputation matters in tax planning of companies. They used sample of companies accused of tax sheltering and companies listed as poor corporate citizens for having low tax rates by the think-tank Citizens for Tax justice in the United States. Results suggest there is only limited evidence of tax planning being affected by reputational concerns.

Study made by Bankman [4] states that there might be link between aggressive tax avoidance and negative product market outcomes as the company using this tax strategy is labelled as “poor corporate citizen”.

Another study [2] focused on question, if the reputational costs are determinant of tax avoidance. Companies with greatest exposure to reputational damage among consumers (because of their valuable consumer reputation) identified by Harris Interactive’s EquiTrend survey were analysed, whether they have lower level of tax avoidance than a set of matched control companies. Study finds out, that companies with valuable brands have generally higher effective tax rates in comparison with control group. Companies with valuable brands will care more about reputational damage suffered from revealed tax avoidance. These firms are less likely to report their effective tax rates if it is bellow typical cutoff points. Interestingly, this study also examined usage of tax heavens by companies with valuable brands. The results suggest that these companies use tax heavens as much as companies in matched control group. Similar study was also done by authors Gallemore, Maydew and Thornock [13]. In series of tests, they found no evidence that companies aggressively using tax shelters would suffer from significant reputational costs from tax shelter involvement. There is only noticeable drop in stock price when usage of tax shelter is revealed, but the price returns back usually around thirty day mark.

The increasing importance of good tax image in front of public has been well documented by Ernst & Young’s Tax risk and controversy survey in 2014 [10]. Respondents were 830 tax and finance executives representing more than 20 sectors in 25 jurisdictions. According to the survey, 89% of largest companies are worried about the media coverage of companies that pay seemingly low effective tax rates. This is noticeable increase from 60% in same survey made in 2011. Also in 2011, 40% of companies were completely unconcerned about this issue, while in 2014 it was just 9%. There are more data from 2014 survey worth mentioning. Almost all surveyed companies (99%) said that for them is managing tax risks and controversy same or more important than it was two years ago. In another question regarding the way companies communicate tax-related information to external stakeholders, 42% of companies said they have made changes in communication approach and 65% of the largest companies developed a more structured approach of their public tax profile management. 65% of the largest companies in the survey said, that engaging with the press on tax issues is a not beneficial for business.

Similar results shows study by Graham et al. [15] which analyzed survey responses from nearly 600 corporate tax executives to investigate firms' incentives and disincentives for tax planning. The study finds out that for 69% of executives reputational concerns connected with taxes are important and the factor ranks second in in order of importance among all factors explaining why companies do not adopt potential tax planning strategy.

The previously mentioned studies show there is link between public relations and tax duties of companies. These studies suggest that companies care about public view on their tax payments, specifically companies that optimize its tax payments and pay lower effective tax rates try to not obtain negative image of tax avoider. But to the current date, as far se we know, there are no comprehensive studies about positive motivation for companies to pay properly its tax duties and use this information as competitive advantage on the market. There only are several studies, which examined effectiveness of positive tax motivation to tax compliance of individuals.

One study [5] for example examined in controlled laboratory experiment increase of tax compliance through positive rewards on individuals. Experiment compared response in tax compliance of single taxpayers to a deterrence or reward treatment in forms of giving taxpayer say in the spending purposes of their payments or giving taxpayer a highly unlikely chance to win a lottery. The results are interesting in way how reward treatments affect differently both genders. Female participants comply more with reward system, while men strongly react in the opposite way, they evade a much higher percentage of taxes then under deterrence treatment. One could argue if this finding is actually important for describing tax planning of big corporations where generally top management used to consist mostly of men and in big part of the world it still does.

Another interesting question is, whether is tax payment of company connected with corporate social responsibility and how. It is actually pretty difficult to answer this question as there is no conformity in both academic theory and practical scientific research. In corporate social responsibility theory, authors argue if paying taxes is actually social responsibility of the company. For example Friedman wrote in 1970 the article [12] stating that only social responsibility of company is to increase profits for its shareholders. From this theory we can assume, that company can try to increase its profits by tax optimization or avoidance done within legal frame. But on the other hand, if company comes to conclusion that properly paying taxes will increase profits in the future, it can do so. Other authors [6] [14] say, that social responsibility of company is beyond simply increasing its profits. Social responsible company will dedicate additional resources to increase social welfare. In that interpretation, social responsible companies will pay full taxes. There are also opinions [19] [17] [8] that paying taxes is against social welfare and social responsible companies should try to pay actually less taxes. Private sector is better in effective allocation and investment of money than public sector, so profits should be kept in company, not took away in form of taxes to public budgets where it will be spent ineffectively resulting in decreased wealth of society.

Practical research about corporate social responsibility and tax payments is also divided. According to study conducted by Richardson and Lanis [20], tax avoidance is connected with poor level of corporate social responsibility in company's culture. They state there is a negative and statistically significant association between corporate social responsibility disclosure and tax aggressiveness. The more social responsible companies are less likely to avoid taxation. Natural problem with corporate social responsibility is its difficult compatibility with maximization of profit of the company. Corporate social responsibility and willingness to pay taxes can be viewed as additional costs for company by its management. Every company therefore has to consider and measure potential benefits of high quality corporate social responsibility connected with full statutory taxation of its profits and additional costs due to refraining from tax optimization and ultimately tax avoidance [3]. Different study [7] about correlation between corporate social responsibility and tax payments conducted in the United States suggests that actually social responsible companies do not pay higher taxes. In fact the results show that there is negative relation between social responsibility and amount of taxes paid by companies. Furthermore social responsible companies engage in tax lobbying activities. The conclusion of this study is that corporate social responsibility and taxes act as substitutes rather than complements.

2 Methods

As a method for finding out, whether companies in the Czech Republic use information about its corporate tax paid as a tool in their public relations was selected case study. In the case study were explored marketing strategies of a sample of big companies operating in the Czech Republic with emphasis on their website, press release and social sites information in 2015. The official website information is the most important marketing area for this research, because whole idea of this research is inspired by the Taxparency project mentioned in the introduction. Taxparency group wants to reward companies that pay fair amount of corporate taxes with interactive brand that company can put on its website, which will display the basic tax information about company. This research tries to find answer, if companies already use some kind of information about its fair corporate tax paid as kind of competitive advantage against competition on market. And if they don't, could new tax brand from independent initiative Taxparency make the difference.

Two different variants were considered for choosing sample of companies in the case study. It is important to answer the question, what kind of company could benefit from revealing information about its corporate tax payments to the public. Naturally, companies that engage in aggressive tax strategy like using tax shelters or other kinds of tax avoidance don't want to share any information about their tax payments [2]. These companies get their competitive advantage from decreased tax costs [3]. It is the companies that pay fair taxes, therefore being in the competitive disadvantage due to increased tax costs, which should be motivated to display their social responsibility and willingness to pay full tax duties in order to get customers favour.

First variant for choosing companies in the sample was to include companies with high level of corporate social responsibility and corporate culture. But this approach is problematic because of disagreement in the scientific literature about connection between corporate social responsibility and tax avoidance. As mentioned in the previous chapter, some studies [20] [3] state that social responsible companies engage less in aggressive tax strategy and are more likely to pay its full tax duties. But other studies [7] [19] states the opposite. This approach was therefore discarded as not suitable.

Second variant for choosing companies was to include firms which either pay highest effective tax rate or firms that pay highest total amount of corporate tax in the Czech Republic. From these two options, the second was realized in the case study for a few reasons. First of all, from the perspective of the potential customer, that care about responsible companies, which contribute to society with tax payments into public budgets, who does he favour more. Does he favour more company that will pay higher effective tax rate but in absolute number it will be smaller amount of money or company with lower effective tax rate but in absolute number it will be huge amount of money. Our opinion is that the customers will more favour company that adds more money into public budgets, therefore contributing to society more, than company, which is just being taxed by higher effective tax rate but adding less money to the budget. Also to our knowledge, there is no official public list of companies which pay the highest effective tax rate in the Czech Republic, but there is the annual award of the Ministry of finance of the Czech Republic [11] that lists top twenty companies that contributed the most to public budget in form of corporate tax. These twenty companies could legitimately use this award in their public relations as competitive advantage. For these reasons, as the sample of companies for case study was chosen official list of top twenty companies, that paid the highest absolute corporate tax in 2014 (published May, 2015).

In the case study were explored several ways in which companies used the award in their public relations:

- Award being permanently displayed on the official website in form of the any logo, picture or in award section of the website.
- Announcement of the award acquirement thru news section or press release.
- Announcement of the award acquirement on social networks.
- No mention about the award in any form.

3 Problem solving

The results of the case study about top twenty companies that contributed the most to public budget in form of corporate tax and use of this award in their public relations is in the Table 1 below:

Tab. 1: Use of top contributor's award in public relations

Form of use of the award	**Number of companies which used this form (out of 20)**
Permanently displayed on the official website	2
Announcement thru news or press release	2
Announcement on social networks	0
No mention about award in any form	16

Source: own elaboration

The results are very interesting and intriguing. From twenty awarded companies, only four of them mentioned the award acquirement in any form. Two companies permanently displayed the award in award section of its website. Other two companies mentioned award in the press release. Sixteen companies did not mention award in any form including company on the first place in award list. However eighteen out of these twenty companies regularly publish other awards connected with their corporate social responsibility like top employee of the year, top company of the year and others. This fact could indicate that companies do not consider fair tax payment as the part of the corporate social responsibility. More discussion about this is in the next chapter.

Looking at the characteristics of the companies in the case study, there is no obvious connection between companies that mentioned the award and the ones which did not. In the sample is mix of national as well as multinational companies. Majority of them are privately owned with publicly traded shares. There are also two companies in the state property. Two thirds of companies in the sample are in industrial sector, one company in agricultural sector and the rest in tertiary sector, especially in banking sector. About half of the companies sell its products predominantly to final customers, other half is focusing on business to business market. Further description of companies that mentioned the award is in the following chapter.

4 Discussion

Results of this study could indicate that the companies don't find many benefits for public relations in revealing this award or perhaps don't even consider fair tax payment as the part of corporate social responsibility strategy. In order to try to explain these assumptions, further research was done, consisting of analysis of corporate social responsibility strategy public documents of the companies. The goal was to find out, if the fair tax payments are considered part of the corporate social responsibility strategy. We found out only two companies identify fair tax payments as the part of their corporate social responsibility, rest of the companies don't specifically mention tax issues in their corporate social responsibility public documents at all. Considering there is disagreement in the corporate social responsibility theory, whether are tax payments its part or not, results of this case study is consistent with previously mentioned studies [19] [17] [8], which claim that playing fair taxes is not part of corporate social responsibility. The companies in the case study pay attention to other areas of corporate social responsibility like fair trade, customer and employees care, environmental protection, human rights, sustainable development and transparency in public procurements.

Yet still, topic of paying taxes not being important part of corporate social responsibility of the companies in the case study does not explain, why they don't consider tax award, legitimately granted by official state authority, important for good public relations in their marketing strategy. Taking into account, there are no comprehensive studies about positive motivation for companies to pay properly its tax duties and use of this information as competitive advantage on the market, there is open space for speculations and further research. Thinking about possible reasons for not publishing the award, it is important to look at some characteristics of the companies in the case study. All of the companies in the survey are big companies. The survey [10] mentioned in the background research chapter shows, that significant percentage (65%) of the largest companies are worried about engaging with the press on tax issues in any form and don't see any benefits in it. This could be the reason, why 80% of the companies (16 out of 20) in the case study did not mention tax award at all. It is interesting that this tax publicity avoiding in the case study is not limited to only private shareholders wanting their companies to not attract any kind of attention on taxes issues. Looking at the ownership characteristics of the companies, not all of them are owned by private shareholders. The state is major shareholder of two included companies and both did not publish award acquirement in any form, even thou one ranked first place on the award list. There are no common characteristics of the four companies that displayed or mentioned the award besides the fact that they are all privately owned and are not publicly traded companies. Two companies are subsidiaries of multinational companies, other two are national companies. It is quite interesting that three companies focuses mainly on business to business market and only one predominantly sells its products to final customers. It could be expected that companies, which sells products to final customers want more to create good public relations connected with tax issues. Three companies are part of industrial sector, one is in tertiary sector. These are of course only some basic characteristics, which can't say much about why companies did or didn't display the award. A further research in this area, for example in form of guided interview with marketing executives could bring more light into this.

Finally it is important to mention that this award was awarded to companies that paid the biggest corporate tax to public budget in absolute number. It does not say anything about effective corporate tax rate. Returning back to taxparency project mentioned in the introduction, its new tax brand initiative wants to reward companies, which reach at least certain minimal effective tax rate (currently set to 10%), which shows that company do not avoid taxes and has fair tax strategy. The absolute amount of tax paid is less important; even thou the tax brand might show this information as well. Therefore the taxparency brand could be used and be beneficial rather than for big companies like the ones in the case study for small companies, which can´t create non-transparent tax structures and avoid taxes to lower its costs to gain competitive advantage assuming that consumer value fair tax strategy in their buying decisions.

Conclusion

The goal of this article was to examine marketing strategy of sample of chosen big companies in the Czech Republic and find out, if they use the information about its corporate tax payments in their public relations in order to get more favour from the customers. As the research tool was chosen case study consisting of twenty companies awarded as top contributors to public budget in form of corporate tax in the Czech Republic by the Ministry of Finance of the Czech Republic. Their official websites, press releases and social networks were explored to see, if they used in any form this award in their public relations.

Results show that only four out of twenty companies in the case study used acquirement of this award in any way in their public relations. Also exploration of corporate social responsibility public documents of the companies showed that majority of companies do not mention fair tax payments topic as part of their corporate social responsibility.

Possible reason for not publishing the tax award could be that large companies, like the ones in the case study don't want any publicity connected with tax topic at all and don't see any advantages of publishing the award. Interesting finding is that unwillingness to public the award applies both to private owned companies as well as state enterprise. A further research in this area, for example in form of guided interview with marketing executives could bring more light into this.

In Fall 2015 started project Taxparency, new tax brand initiative that wants to reward companies, which reach at least certain minimal effective tax rate (currently set to 10%), which shows that company do not avoid taxes and has fair tax strategy. Considering the results of this case study, the taxparency brand could be more useful and beneficial for small companies, which can´t create non-transparent tax structures and avoid taxes to lower its costs, to gain competitive advantage assuming that consumer value fair tax strategy in their buying decisions.

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