ABSTRACT: Corporate social responsibility (CSR) (also called corporate responsibility, corporate citizenship, responsible business and corporate social opportunity) is a concept whereby companies consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, and the environment. This obligation is seen to extend beyond the statutory obligation to comply with laws and shows companies voluntarily taking further steps to improve the quality of life for employees and society at large. The article identifies major categories of CSR and traces the tax treatment/incentives for these categories of CSR in Commonwealth countries such as Australia, Canada, China (People’s Republic of China), New Zealand, Singapore, and United Kingdom. It will then trace the tax incentives that are provided by the Malaysian government to promote CSR over the last five years. Finally it will recommend initiatives that should be taken by the Malaysian government in terms of tax treatment/incentives to further encourage CSR activities in line with Malaysia’s push to attain middle-income as well as developed nation status in 2020?

Keywords: Tax incentives, Corporate Social responsibility.

1. Introduction: Corporate social responsibility (CSR) is a concept whereby companies consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, and the environment. CSR is also called corporate responsibility, corporate citizenship, responsible business and corporate social opportunity (Wood, 1991). This obligation is seen to extend beyond the statutory obligation to comply with laws and shows companies voluntarily taking further steps to improve the quality of life for employees and society at large.

CSR is really about companies operating in a manner that is sustainable, cognisant of their responsibility to the wider community in which they are located. CSR is more than simply acts of philanthropy or allocating a proportion of its earnings to worthy causes; it is strategic in nature, and is about how a business actually functions. CSR typically boils down to a set of policies within a company that seek to ensure that its actions and activities are beneficial, not only to itself and its shareholders, but also to other stakeholders, typically comprising: customers, employees, the wider community and the environment.

CSR is subject to much debate. Proponents argue that there is a strong business case for CSR, in that companies benefit in multiple ways by operating with a perspective broader and longer than their own immediate, short-term profits. Critics argue that CSR distracts from the fundamental economic role of businesses; others argue that it is an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations. The United States of America is one of the first countries where many corporations had acknowledged CSR as a legitimate business concern as early as in 1971. According to Keeler (2002), competition is the primary driver for corporations to be more socially responsible.

A corporation’s stakeholders include customers, suppliers, employees, shareholders, communities and more importantly the environment. This obligation is seen to extend beyond the statutory obligation to comply with laws and shows companies voluntarily taking further steps to improve the quality of life for employees and society at large. The stakeholder approach to CSR viewed the corporation as “a set of interrelated, explicit or implicit connections between individuals and or groups of individuals” (Rowley, 1997) that include anybody who “can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984). On the contrary, Lantos (2001) used the term Economic CSR to refer to profit-oriented CSR activities which absolve firms from social contribution as they incur taxes and pay salaries to employees rather than enslaving. In the US,
corporations such as ExxonMobil and Microsoft use the term corporate citizenship and tend use it synonymously with CSR.

The definition of CSR exercised within an organization can vary from the strict "stakeholder impacts" definition used by many CSR advocates and will often include charitable efforts and volunteering. The abbreviation CSR may be based within the human resources, business development or public relations departments of an organization, or may be given a separate unit reporting to the Chief Executive Officer or in some cases directly to the board (Gray, Owen, & Maunders, 1987).

The payment of corporate taxes can be associated with CSR if the sum incurred has community and society wide implications. According to Avi-Yonah (2008), if the payment of corporate taxes is merely perceived as a business transaction and a cost of operating the corporation like other business costs, the objective would then be to minimize the amount of corporate taxes so paid.

2. Research Objectives:
   (i) Identify major categories of CSR;
   (ii) What are the tax treatment/incentives for these categories of CSR in Commonwealth countries such as the United Kingdom, Australia, New Zealand, Singapore and Canada?
   (iii) What initiatives should be taken by the Malaysian government in terms of tax treatment/incentives to further encourage CSR activities in line with Malaysia’s push to attain middle-income as well as developed nation status in 2020?

Identifying Major Categories of CSR: The Bursa Malaysia CSR Framework\(^1\) has identified four main focal areas for CSR practice: the Environment, Community, Workplace and Marketplace, in no order of priority.

Bursa Malaysia CSR Framework states that when looking at the environment, CSR can focus on a variety of issues. As for energy usage, one can ascertain how to use it more efficiently and find ways to lower the way its emissions damage the climate. In Malaysia, the increased usage of bio-fuels has become a topical issue.

Companies depend on the community in many ways and the community, in turn, depends on them. Supporting employee involvement in community issues enriches the community and the company. Supporting education, such as adopting a school, is another possible activity.

Employees are drawn from society and so everything done with staff needs to be socially responsible, whether dealing with basic human rights or gender issues. A quality workplace and safety issues are obvious considerations.

The Marketplace is where there are important stakeholders —shareholders, suppliers, and customers. Companies can interact responsibly with this group in a number of ways, such as supporting green products or engaging in only ethical procurement practices.

3. Tax incentives for CSR in Commonwealth Countries: Numerous countries provide tax incentives for CSR activities initiated by businesses. This article reviews the CSR initiatives and the tax incentives provided by Commonwealth countries such as Australia, Canada, China (People’s Republic of China), New Zealand, Singapore and the United Kingdom.

Australia: In Australia, tax deductions are given purely for public policy reasons to encourage philanthropy through the making of donations to specific industries. For example, the Australian Income Tax Act 1997 (ITAA97) provides deductions for certain gifts of money and property valued at AUD$2 or more that are made to specified charities, “public institutions” and “other eligible entities”. Examples of “public institutions” are universities, museums as well as public and non-profit hospitals.

Canada: The Canadian Revenue Agency (CRA) has identified “Responsible Citizenship” as one element of a sustainable tax system. A sustainable tax system is one where taxpayers appreciate

that paying tax is a civic responsibility that enables them to enjoy all the rights that accompany being a Canadian resident or business.²

The CRA has considered the notion of CSR as a means of reinforcing responsible tax practices in Canadian corporations.

**China (People’s Republic of China):** The Asian Development Bank: ADB (2012) has urged the People’s Republic of China to be socially responsible and to initiate comprehensive fiscal, economic and legal measures to achieve ambitious targets for lowering pollution. Pollution from run-off of fertilizer, pesticides, and discharges from intensive animal production facilities pollute the country’s water supply. Seven of China’s biggest cities are among the 10 most polluted cities in the world, mostly due to vehicle emissions.

One of the approaches recommended by ADB is to reform the pricing of resources and introduce a green taxation system. The ADB has acknowledged that there were a number of notable environmental achievements in China, particularly during the five years ending 2011 and they include increased investment on environmental infrastructure, greater focus on achievable targets, and strengthened accountability and enforcement. China’s tax department has proposed a pollution levy to the cabinet and such a move would increase raw-material prices.

**New Zealand:** In New Zealand, making contributions in the form of donations are encouraged by the availability of a tax rebate for individuals and by a tax deduction for companies and Maori authorities.³

**Singapore:** Since the formation in 2005 of “Singapore Impact for CSR”, a national society committed to promote social responsible activities by corporations, there is greater awareness of its activities in this island nation. Gifts of shares listed on the Singapore Exchange (SGX) or of units in unit trusts that are ready to trade in Singapore, to approved IPCs are tax-deductible.

**United Kingdom:** In the UK, the government has an ambitious vision for CSR. The government advocates UK businesses to take account of their economic, social and environmental impacts, and acting to address the key sustainable development challenges based on their core competences wherever they operate – locally, regionally and internationally.

4. **Tracing CSR in Malaysia:** Rapid economic growth in Malaysia over the last few decades has caused environmental challenges like air and water pollution, solid waste management, long term water supply and energy efficiency. The abuse of the environment is a perpetual problem that needs to be addressed. When forging for greater economic development, we always need to be mindful of the environment. Global issues regarding deforestation, and connected challenges such as indigenous people’s rights, have received special attention, particularly from environmentalists. The EUs FLEGT (Forest Law Enforcement, Governance and Trade) initiative is bent to establish certification for Malaysian timber to be sold in the European market.

In November 2010, Bursa Malaysia launched its Business Sustainability Programme to urge Malaysian PLCs to integrate sustainability into their core business strategies. The program includes the publication of a sustainability guide for company directors and the introduction of a Sustainability Knowledge Portal on Bursa Malaysia’s website. In addition, they have announced that an Economic and Social Governance index should be ready by 2012.

The Malaysian Government indirectly provides tax incentives to businesses that implement broad CSR programs. In this regard, donations made to charities or non-trading institutions from income earned are usually non-deductible as they are not wholly incurred in the production of income. However, the amount that can be deducted in respect of such gifts of money made by corporations is limited to 10 percent of their aggregate income in the relevant year. Nevertheless, in cases where a donation, for instance made to an educational institution, would qualify for deduction if the taxpayer makes it for the specific aim of carrying their trade. In most situations, donations are made for purposes other than carrying out their business.

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² http://www.ic.gc.ca/eic/site/csr-rse.nsf/eng/home
The limit of seven per cent of the aggregate income remains applicable for taxpayers other than companies. Section 44(6) provides that a deduction will be made from a person’s income (be he/she resident or non – resident) for any gifts of money to the Government, a State Government, local authority or any institution or organization approved by the Director General.

The Malaysian government has over the last two decades introduced tax incentives to foster corporations to be socially responsible and encourage them to engage in environmental protection activities. The main objective is to foster conservation of energy; encourage waste recycling and propel the use of oil palm biomass & renewable energy.

5. Discussion: Is the Malaysian government doing enough through tax treatment/incentives to promote CSR, and if not what more can be done to advance it? While corporate social responsibility is by definition the task of companies, governments have a role to play in fostering a climate where companies are encouraged to meet this responsibility. A 2010 UN Report provide four reasons why governments should seek to promote CSR and sustainable and responsible business practices.

Social perspective: Governments are expected to play a key role in promoting the economic, social and environmental conditions that favour more inclusive and sustainable development. CSR is widely accepted as the business sector’s contribution to inclusive and sustainable development. Thus, governments can harness the CSR agenda in pursuit of this goal.

Economic perspective: The recent spate of financial crises has taken a heavy toll on government budgets and fiscal balances around the globe. This in turn is driving policy-makers to identify ways of sharing the burden of social and environmental advancement through collaborative initiatives with the corporate sector. This is not to suggest that a sustainable and responsible business agenda could ever serve as a substitute for public spending, but it can play a supporting role in a number of areas.

Governance perspective: Policy-makers have a responsibility to promote CSR practices by business, as part of their role to improve social, environmental and economic conditions for the populace. Left to its own devices, the business community will not always be good corporate citizens, and that is why laws, regulations and incentives need to be promulgated to ensure that their legitimate pursuit of profits does not come at the expense of society and the environment.

Market competition: CSR can play an important role in improving the long-term economic competitiveness of a country. Given the ardent desire of most policy-makers to improve the competitiveness of their home countries and in a bid to support domestic companies and attract foreign investment inflows, CSR promotion is seen as an important tool in achieving that aspiration.

In a tax system, a Government may promote CSR, amongst others, by the adoption of environmentally-friendly tax policies, such as taxes on consumption of fossil fuels or on polluting processes and reliefs for socially desirable expenditure.

6. Recommendations and Concluding Remarks: In response to research objective 3, we recommend a 3-pronged approach that the Malaysian Government could consider to further encourage CSR activities in line with Malaysia’s push to attain middle-income as well as developed income status by 2020.

Release of tax payment data: One could argue that to pay tax is to benefit the society and failing to do so (for whatever reason), is to disadvantage society. More often than not, Governments rely on taxes to make welfare payments and engage in social development. We therefore argue that the quantum of tax payments should be an important yardstick within the context of the “social responsibility” of corporations. Consequently, we call for the release of tax payment data by corporations and the Government can then index them. Audited net profits should be distinguished from taxable income and the variance could reflect the extent of tax avoidance among firms.

CSR and Provident Fund/Government-linked Companies: The researchers urge that the Malaysian Government take prudent steps to ensure socially responsible investments be made by the Employees Provident Funds as well as by Government-Linked Companies. The Government has greater control over these corporations and it should lead the way for the private sector to follow.

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4 Investors for Development Project (I4D), Trade and Investment Division, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) (2010)
**CSR Levy:** A CSR levy should be imposed on corporations that carry out business activities that are seen to be hazardous to the economy. Sectors that are prone to environmentally hazardous activities include the resource-based businesses (example oil and gas and other mineral-extraction industries); manufacturing (example rubber glove and plastic industries); the plantation sector as well as construction firms. A CSR levy could be imposed on these firms based on annual turnover of the corporation.

Governments can decide which CSR strategy to implement, but to our knowledge, none of the studies have engaged in significant impact assessments of policies promoting CSR. Governments too may have performed a cost-benefit analysis prior to their implementation, to assess the potential implications of CSR policies, but very few governments have evaluated the policies after they have been implemented. By researching and extracting tangible and quantitative results, the Malaysian Government could improve the choice of tangible tax-related CSR approaches.

**References:**