

# THE IMPLEMENTATION OF THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY IN THE AREA OF INCOME TAX IN THE SLOVAK REPUBLIC

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## Introduction

The term socially responsible business has been frequently appearing in public and business life in the latest time. It represents an innovative approach to business and focuses on the impact of business activities on society and the environment. In our paper we apply the concept of corporate social responsibility to the area of income taxes in the Slovak Republic.

The issue of social responsibility has been raised by the question how to do business in order to bring profit from the business activities to as many people as possible. The idea of socially responsible business was brought to Slovakia mainly by multinational corporations in the 90s of the 20th century. At present the concept of social responsibility is an important part of corporate strategies. The awareness of corporate social responsibility is raised by a few non-government organizations that focus on particular areas of this concept. Slovak businesses have a tendency to see social responsibility through legislative measures, in other words they mean that businesses implement socially responsible activities within the framework determined by legislation. However, in the area of paying taxes there is still a certain aversion of businesses to behave responsibly to the state and society, which is to pay a full amount of tax in time and not to stint the state or other institutions representing the state of the income from taxes.

In the analysis of socially responsible behaviour of businesses we will focus on income tax, which has an important role in the process of fulfilling of the state budget of the Slovak

Republic. In 2005 the share of tax revenues on the total income of the state budget was 37 % and in 2009 it accounted for 47 %.

## 1. The Concept of Corporate Social Responsibility Applied to the Area of Income Tax

Recent discussions on social responsibility have been initiated by the book by Howard R. Bowen called *Social Responsibilities of the Businessman* (1953), in which he recommended that business people took into consideration social consequences of their decisions and did activities respecting the goals and values of our society [1]. This definition of corporate social responsibility did not contain any practical possibility to apply the concept in business. In the 80s of the 20th century the focus moved from general theory on social responsibility to empirical research of corporate social responsibility. This resulted in a few theories falling within the central concept of social responsibility. Their common features were general validity of obligations and voluntary acquisition of the concept of corporate social responsibility. The World Business Council for Sustainable Development [12] defines socially responsible business as a continuous commitment of organizations to behave ethically, contribute to sustainable economic development and improvement of the quality of the life of society as a whole. The main idea is transition of businesses from the level „profit only“ (focus solely on profit) to a view enabling to see business in a wider perspective of the system of social and ecological relations. At the same time businesses are moving from short-term

goals to long-term goals and preferring optimum to maximum [1].

One of the solutions that can improve socially responsible behaviour of businesses is the policy of social responsibility. The European Commission issued several documents on social responsibility of businesses in order to help businesses integrate the concept of social responsibility into everyday business life [4]. In the year 2001 the European Commission issued the Green Book, in which it published the first official definition of corporate social responsibility as the “voluntary integration in the social and environmental concerns on the company’s behalf for its commercial operations and its relationship with its stakeholders” [2]. This definition points to other aspects of socially responsible business: it focuses on active cooperation with stakeholders, expresses the commitment to contribute to the development of life quality, stresses the development and not only economic growth and classifies socially responsible business in three areas – economic, social and environmental. Socially responsible business in the economic area is tracing and improving processes that the business contributes to the development of the economic environment and the effort to minimize potential negative impact of the business’s activities in this area [1]. This area of responsibility to society covers above all code of conduct of the business and its code of ethics, transparency of business activities and principles of good corporate governance, fight against corruption, bribery and violation of laws, relationships with shareholders, consumers, suppliers, advertising, protection of intellectual property and other things.

The application of the concept of corporate social responsibility in the area of income tax concerns the relationship of the business with the state and institutions representing the state (tax offices) as well as the relationship with society as such as the tax income is distributed in wider society. The relationship between the business and the government exists on different levels: legal, institutional, social, commercial and individual. The basic norm between the business and the government is law enforcement. In a democratic and market economy environment businesspeople not only respect and accept the legitimacy of government laws and measures, but are also actively involved in

their creation. An optimum relationship between the business and the government is when both sides acknowledge their responsibility for the public welfare. The major responsibility of well-governed businesses is to obey the laws. In order to maintain a firm relationship with the government the business must above all „pay all taxes it is liable to pay and it owes, make deductions for insurance of their employees, obey all mandatory central and local government regulations, obtain all necessary government permissions, licences and approvals for business, not try to influence the government decisions by other than legal ways“ [1].

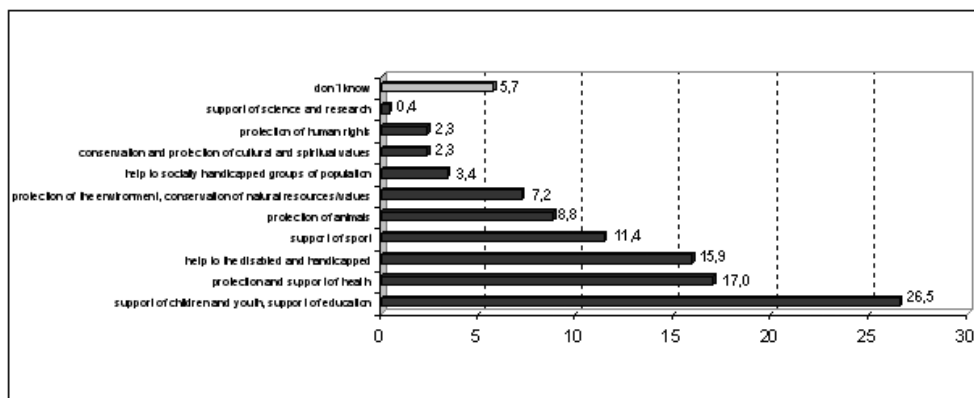
Beside other things taxes have a stimulation function, i.e. they serve to encourage business and employee activities and to support or reduce particular activities. Tax evasions are evidence that the tax system of the state does not fully perform the stimulating function. The effectiveness of the tax system and tax legislation of the state greatly depends on how the society /state perceives and influences tax discipline of individual taxpayers. This discipline is reflected by the amount of tax evasions and the ability of society to eliminate their extent to an economically and socially acceptable level [5]. Tax evasions are not only cutting the income of the state budget, but have a decisive role in applying the principle of voluntary payment of taxes by serious taxpayers. Because if a taxpayer who carries out their tax duty properly finds out that the businesses around conceal taxable incomes or overestimate expenditure and thus lower the tax base, he logically states tax inequity. Due to this a conscious taxpayer finds excuses and arguments to avoid their tax duty or to minimize it [8].

Another approach to (ir-)responsible behaviour of businesses in income tax is the possibility to assign 2 % of income tax for specific purposes, which is regulated by § 50 of Act no. 595/2003 Coll. on income tax as amended (paragraph 4 of the Act exactly identifies who can be given the share of the paid tax). This is to support the cooperation of the business and non-profit sectors, where the registered organizations can apply for an allocation of a 2 % share of the paid tax not only from individuals, but also from legal entities. As this is not a classic donation, but allocation of public funds, the assignment of tax by means of 2 % can be considered neither corporate

philanthropy nor a typical manifestation of corporate social responsibility. In providing funds, taxpayers have only the possibility to decide about their allocation. This is an indirect support of non-profit organizations by the state. In case the funds were not allocated, they would go to the state budget. On the other hand, if a business invests its own resources (time, work of their employees, promotion etc.) in the process of effective distribution of the funds among more applicants (in a competition of ideas, evaluation of projects submitted), this input can be considered a manifestation of corporate social responsibility. Most businesses have appreciated the chance to direct their tax payments to organizations they can choose as they believe that the 2 % is a more addressable, effective and transparent way of allocating

funds to non-profit organizations than through the state budget. Yet, since 1 January 2011 the mechanism of assigning 2 % of income tax has changed. The most significant change is in gradual lowering of 2 % of the paid tax to 0.5 % by the year 2018. Thus in tax assignment a taxpayer who is a legal entity will reduce the assignment of a share of the paid tax, and with the share of the paid tax they have to make a donation to the organization in the amount of the percentage of the assigned tax. If the taxpayer does not fulfill this condition, the share of the assigned tax will be subsequently lowered by 0.5 % by the tax administrator. The agency TNS SK makes a regular survey about the use the possibility to assign 2 % of income tax for special purposes. The results of the survey from March 2010 are presented in the following graph.

**Fig. 1: Purposes for which Businesses Plan to Provide 2 % of Income Tax (in %)**



Source: Survey of 2 % of tax carried out by TNS SK in March 2010.  
Available on the Internet: <<http://www.rozhodni.sk>>

The survey found out that only one third (35.7 %) of businesses in Slovakia plan to assign their 2 % for publicly beneficial activities of non-profit organizations, which is approximately the same amount as in 2009. Almost one half (46.7 %) of respondents do not intend to devote their 2 % to NGOs and almost one fifth (17.6 %) had not been decided whether they would assign the 2 % of income tax. The most respondents planned to support children, youth and education (26.5 %). Then the second most important thing was protection and

support of health (17.0 %), help to the disabled and handicapped, support of sport, protection of animals or protection of the environment and conservation of natural resources/values [14].

## 2. The Current State of Tax Evasion on Income Tax in the Slovak Republic

Compliance with standards and rules of behaviour or ethical principles is naturally required from all businesspeople. As Marková states [6], a prerequisite of ethical business is business based on

stable and clear legislation, motivating tax, depreciation and credit policy and on ethical competition. Non-existence of these conditions for business supports illegal activities of economic entities. A business has a social responsibility towards the state, which means among other things sharing the creation of social wealth mainly by means of taxing businesses by individual taxes deducted to the state budget and local budgets to finance the needs of society. However, in practice it is common when businesses behave unethically in deducting a proper amount of tax – instead they artificially lower the tax base, for example by issuing false invoices and registering them in files, concealing part of the income and property. Other forms of tax evasion are accounting manipulation (simple mistakes and evasions based on keeping two sets of accounting), balance offenses (tax evasions resulting for example from underestimating assets, depreciation, creation of reserves, fake accounting costs), paper transactions (fictitious trades to lower tax base), price transfer, tax holding and international business, i.e. possibility of using tax havens [3].

In the period of economic recession, i.e. the time of lower profits and incomes of individuals and businesses, the budgets are reviewed. The attention in individual states and state institutions is paid to the revenues that customs and tax offices are not able to capture, i.e. tax evasions and tax frauds [9]. Tax evasions represent one of more serious problems of taxation effectiveness. Orviská and Hudson [7] define tax evasion as a source of potential serious loss of government revenue that leads to a potential lack of funds for the public sector and an unfair burden on honest taxpayers. Failure to comply with tax laws and illegal activities in one area can motivate people to illegal activities in other areas and thus extend the borders of shadow economy.

The author Lesáková [5] sees the basic motif of tax evasion in a contradiction between the interest of the state to ensure income of the state budget by collecting taxes and natural resistance of taxpayers trying to minimize their tax obligation. Yet, minimizing tax obligation can be also understood as a manifestation of rational and effective activity of the businessperson in case he does so within the applicable legislation as taxes are part of non-productive

cost of the business. One of the ways how to increase effectiveness is to cut cost to a minimum level [10]. There is a question when such acting becomes immoral or irresponsible towards society.

However, the reasons for tax evasion are different. Among the most significant and in literature most frequently mentioned factors influencing tax evasion is social (socio-political) and economic environment together with the state of the legal system of society. Other so-called partial factors of tax evasion can be ever-changing legislation, contradictory laws, absence of binding interpretation of laws and high tax burden. E. Sopková [10] gives also further reasons for tax evasion such as technical factors of collecting taxes, psychological and socio-ethical factors. Lack of civic awareness in tax areas is also given as a cause of tax delinquency, which means that the taxpayer loses the sense of tax liability. Yet, several authors state that ideology, morale and economy are only factors contributing to the establishment of tax offenses in that way they create a favourable environment and act as catalysts of the main reasons, which must be looked for in the tax system itself. According to these authors the causes of tax evasion result above all from the concept and mechanism of the tax system that exposes the taxpayer to temptation and thus it almost automatically leads to fraud.

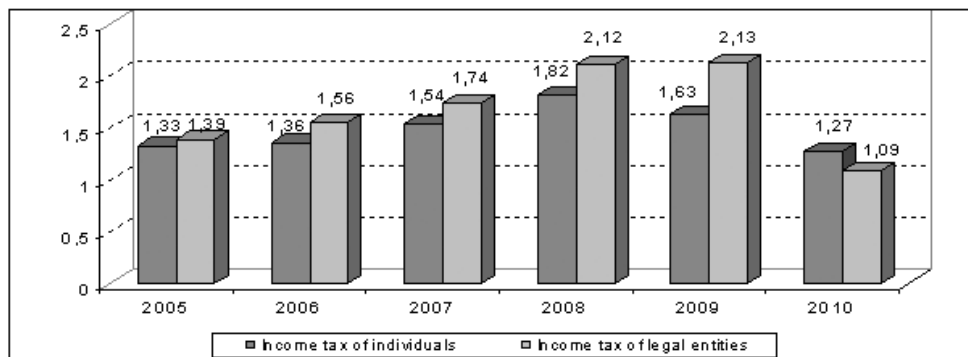
In our conditions the reason for tax evasion and backlogs is mainly the high tax burden or tax and financial burden of businesses, lack of finance and tax discipline of tax debtors, their general insolvency and the existing legislative environment [6]. We see also the deficiencies of our tax system as a reason for tax evasion in the Slovak Republic; they have a direct impact on the scope of tax evasion. The reasons hampering the reduction of tax evasion are mainly: inconsistent interpretation of the Criminal Code in the cases of reduction and non-payment of taxes and insurance; state monopoly to retail sale of alcohol; absence of a unified state information system linking database records of tax and customs offices, business register, land and trade register.

Within the tax system of the Slovak Republic income tax belongs to the group of direct taxes. Act no. 595/2003 Coll. on income tax as amended governs the taxation of individuals and entities. Immediate consequences

of acting (or non-acting) of taxpayers is the amount of revenues from these taxes paid into the Treasury of the Slovak Republic. At present these revenues account for about 33 % of all

tax revenues of the state budget. The following graph presents income tax revenues between 2005 and 2010, separately for income tax revenues of individuals and legal entities.

**Fig. 2: Income Tax Revenues in the Slovak Republic (in billion €)**



Source: Prepared on the basis of internal materials of Tax Directorate of the Slovak Republic

Revenues from income tax of individuals grew significantly in the period of 2006–2008, together for two years by 34 %, which was a result of a growing rate of employment on the one hand and a high growth of average wage on the other hand. A fall of performance of duty came in 2009, when the total revenue fell against 2008 by 10 %. To a high degree this was due to a drop of the rate of employment and an increase of non-taxable tax base. In 2010 the revenues from this tax – vital for financing self-government – were falling further to the level lower than in 2005. The reason was further drop of employment was accompanied by a little growth of the average wage. Year-to-year growth of corporate income tax did not drop between 2005 and 2008 below 10 % and still in 2008 it reached 21.9 %. In this period the revenues from the tax increased by 52 % in total. The economic recession and falling profits of businesses led to a lower collection of tax in 2010. Corporate income tax in 2010 was below the level of 2005. It is certain that the low cash collection of tax is a negative consequence of repayment of overpaid tax due to high advance payments.

Detection of tax evasion and fraud is a competence of tax control. The tax control is to detect or verify the tax base or other facts

having an influence on correct assessment of taxes and chargeability. In 2010 the control was carried out by 1 600 controllers of tax offices and the department of special controls. If we want to quantify the amount and structure of tax evasion in the Slovak Republic, it is necessary to estimate the effectiveness of tax controls on the basis of secondary data from quantified findings in tax controls. According to the Tax Directorate of the Slovak Republic a „finding of a tax control“ is an increase of positive tax liability or a decrease of the value of the returned value added tax (so-called excessive deduction). The development of these indicators is given in the following table.

The number of tax controls in Slovakia has been dropping since 2005. This fact has had no influence on the effectiveness of tax control, which has been rather stable in the recent years (approximately 59 %). In 2010 the effectiveness dropped to 53.6 %. It is necessary to say that tax administration considers an effective tax control every control with a finding.

Another indicator of tax evasion and fraud in Slovakia is register of tax crime. Criminal Code Act no. 300/2005 Coll. as amended) states that he who will cut tax, premium on different types of insurance in a small scale, will be imprisoned for one up to five years (§ 276

**Tab. 1: Development of Assessment Indicators of Tax Controls in the SR**

Tax Directorate of SR total	2004	2005	2006	2007	2008	2009	2010
Findings of tax controls (in thousand €)	278,686	261,865	289,523	278,815	380,868	435,549	556,278
Effectiveness of tax controls (in %)	51.7	57.8	62.1	59.5	59.4	59.5	53.6
Number of tax controls	33,747	35,333	31,243	24,711	21,357	19,820	18,400
Number of tax controllers	1,742	1,732	1,749	1,647	1,638	1,643	1,600
Average finding per 1 controller (in thousand €)	160	151	166	169	233	265	348
Average finding per 1 control (in thousand €)	8	7	9	11	18	22	30

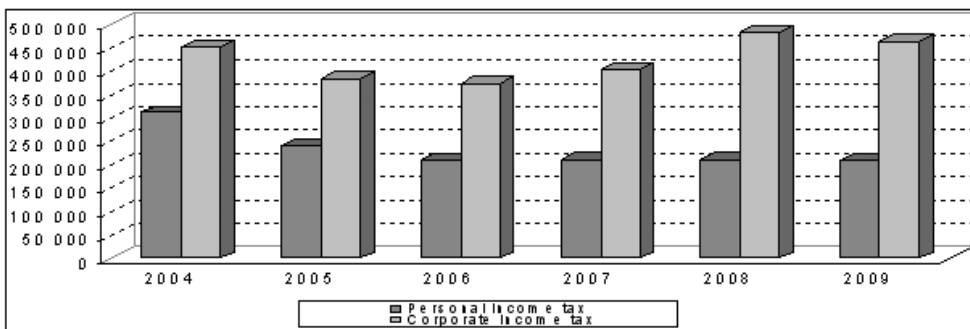
Source: Prepared on the basis of internal materials of Tax Directorate of the Slovak Republic

Reducing taxes and insurance premiums). The penalty for reducing tax and insurance premium is increased in case of repeated offense of the law and according to the amount of tax and insurance premium evasion. According to extent the penalty is graded into punishments for minor damage (over € 266), for higher damage (over € 2 660), substantial damage (over € 26 600) and punishments for major damage (over € 133 000). The highest penalty (imprisonment for 7–12 years) is applied when the offender reduces tax and premium in a large scale. The same penalties are given for failure to transfer taxes and

insurance premiums (§ 277 of Criminal Code). As of 30 June 2010 the tax administration recorded 11 001 notifications of suspicion of a crime in a total quantified amount of notified and recorded damage more than € 1 bn. for the period of 2004 – 1st half of 2010.

Tax arrears can be classified as quantified or detected form of tax evasion. In most cases this is a declared tax, but for different purposes it has not been paid, and in other cases it is an unpaid sanction. The following graph illustrates income tax arrears during 2004 – 2009 divided into personal income tax arrears and corporate income tax arrears.

**Fig. 3: Income Tax Arrears (in thousand €)**



Source: Prepared on the basis of internal materials of Tax Directorate of the Slovak Republic

The graph shows that the difference between personal income tax arrears and corporate income tax arrears is growing. Although in 2004 the arrears of corporate income tax were higher than those of personal income tax, in 2007 the difference doubled. From 2004 the amount of income tax arrears was falling, and the lowest amount of arrears (€ 584 147 thousand) was recorded in 2006. On the other hand, the maximum amount of arrears (€ 695 778 thousand) was recorded in 2008. Yet, since 2006 the amount of personal income tax arrears is rather stable while the amount of corporate income tax arrears had a tendency to rise till 2009. This is also confirmed by the Tax Directorate of the Slovak Republic in its annual report, where it states that the biggest growth was recorded with arrears of value added tax and corporate income tax. The biggest share of tax arrears belongs to limited companies, joint stock companies and individuals not recorded in the business register.

### 3. The Goal, Material and Methods of Research

The main goal of this paper is to assess the level of corporate social responsibility in the payment of income tax and formulate ideas and recommendations to improve the behaviour of businesses in the researched area. The research was done on a sample of businesspeople – income tax payers and on the basis of the current state of tax evasion in the area of income tax in Slovakia. In compliance with the main goal of the paper we have formulated the following partial goals:

- 1) To describe theoretically the issue of socially responsible behaviour of businesses in relation to fulfillment of income tax obligations of businesses and to identify their activities, areas and processes that can be labeled as socially responsible or irresponsible in the case of paying income tax.
- 2) To summarize the results of a research carried out by a questionnaire on a sample of businesses in the Slovak Republic and to assess the level of social responsibility of businesses in this area by means of tax evasion.
- 3) To formulate proposals to improve responsible behaviour of businesspeople in the area of income tax.

Hypotheses are an inseparable part of our paper, and they can have a different character,

origin and classification in research. In order to fulfill the goals set in our research we made a choice of hypotheses that will help us understand more deeply the issues of our research from the theoretical as well as practical point of view. The zero hypothesis (H<sub>0</sub>) was formulated as follows: More than half (more than 50 %) of the responded businesses know the term socially responsible business and can give a particular organization that applies this concept. Businesses understand the obligation to pay tax, but the system of paying taxes is a sort of necessary evil of business, i.e. their attitude to the fulfillment of tax obligations is negative. For this reason most businesses try to rationalize and simplify their tax obligations or to find a way how to circumvent the law. On the basis of the knowledge of the opinions and attitudes of taxpayers we have formulated the following research hypotheses:

H<sub>1</sub>: More than 80 % of the responded businesses behave responsibly in the area of income tax and fulfill their tax obligations in time, conscientiously and in compliance with law.

H<sub>2</sub>: Businesspeople – individuals behave more responsibly in the area of income tax than businesses.

In order to verify the hypotheses we used the program SPSS, which is used for making statistical analyses. For evaluating the hypotheses we chose a 10 % level of significance, where  $\epsilon = 0.10$ .

The material we have used to meet the goals of our paper is special literature by domestic and foreign authors dealing with tax issues and socially responsible business. An important source of information are statistical data, current legislative norms of the Slovak Republic and the European community, tax regulations, tax returns and forms valid within the European Union.

The main source of information for us is primary data obtained in our research. The exploratory method we used was the method of questionnaire. Compared to observation and experiment this technique is the most suitable here as it enables to acquire a number of data in a rather short time. We chose the questionnaire as a method of primary research also due to simple organizing the preparation of research, little time needed to carry out the research and easy processing of the results. At the same time questionnaire does not pressure respondents



and reduces the rate of subjectivity of the researcher. On the other hand, the method of questionnaire is connected with the risk of low return and the problem to verify the truth of the acquired data. We solved the problem of reliability of the acquired data by control questions verifying the truth of the provided data and statistic tests (binomial exact test).

The object of our research is responsible behaviour of Slovak businesses in the area of income tax. From the defined object of research we can imply that the basic set of our research covered all businesses in Slovakia. In order to specify the basic set of the questionnaire research more closely we take into account the real number of registered taxpayers. According to the Tax Directorate of the Slovak Republic as of 30 June 2010 there were 2 683 988 businesses registered for corporate income tax and 213 476 individuals registered for personal income tax. As the basic set is extended we made a choice of respondents from the basic set and generated a sample set. When choosing the respondents we made a random selection from the database of businesses. From the total number of 260 distributed questionnaires we received back 135 completed forms. We can state that the return of questionnaire was 52 %.

The questionnaire was created as a simple form, meeting the purpose and questions were full, clear and unambiguous. It consisted of 18 questions on four pages and they were divided into two content groups. In the introduction we provided information about the issue and anonymity of data provided by the respondents. The first group of questions focused on socially responsible business and the issue of personal and corporate income tax. The second group of questions contained identification questions that classified the respondents according to the area of business, legal form and size. The intention of placing this kind of questions right behind the research questions was to obtain the information as we expected that the businesses might not be willing to continue if the questions had been in the introduction. The conclusion contained thanking to the respondents for their time and willingness to participate in the research. The questions were open-ended and closed. With open-ended questions the respondents had a scale of possibilities and an open possibility „other“, where they could

express their opinion on the given issue. With each question where they could mark more options they were notified that more answers were possible. The questionnaire was distributed in electronic form as an online questionnaire. The selected businesses were delivered an e-mail asking for cooperation in research. After clicking on the attached electronic message the respondents could complete the questionnaire. The questionnaire was distributed during two weeks in late February and early March 2011. In the processing of the acquired data we used mathematical-statistic methods, especially the method of trend analysis using time series and indices, statistic methods (Mann-Whitney test) and graphic methods of data processing.

Beside primary we have done also secondary research based on the materials provided by the Tax Directorate of the Slovak Republic. These were data from 2004–2009 (or till 30 June 2010). We started from the year 2004 as in that year the tax system of the Slovak Republic went through several changes due to accession to the European Union. As a member of the EU the Slovak Republic committed to gradually harmonize selected taxes applicable in the Slovak Republic with those applicable in member states of the EU also officially – in legislation. In order to process secondary data and theoretical knowledge we used several theoretical research methods – content-causal analysis and historical-logical method, analysis and synthesis, induction and deduction, comparison and generalization.

## 4. Results and Discussion

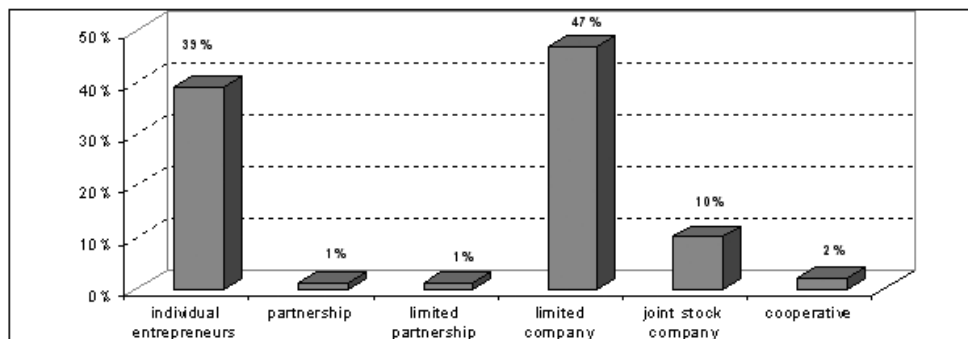
The identification questions at the end of the questionnaire serve to characterize the research set. We analyzed the respondents according to three basic criteria. The first criterion was the area of their business activity. The question had more possible answers in case the respondents do business in more areas. The most respondents marked the area of services (35 %). The second biggest category was trade (32 %). The respondents from businesses in construction accounted for 26 %. The other areas were transport 10 %, industry (8 %) and hotel industry and gastronomy (6 %).

The second criterion to characterize the respondents was legal form of business. The representation of individual forms is given in the following graph.



Fig. 4:

## Representation of Respondents in the Research Sample by Legal Form of Business



Source: own

From the point of view of legal form of business the biggest group is represented by limited companies. This result reflects the real state in the Slovak Republic as this is the most common form of business. The second biggest group is made by individual entrepreneurs, which was marked by 53 out of 135 respondents. Joint stock company was represented in the sample by 14 businesses. On the whole, it is possible to state that the sample of respondents consisted of 59 % of businesses, 39 % of individual entrepreneurs and 2 % of cooperatives.

As for size (number of employees) the dominant group were small businesses accounting for as much as 79 %. Middle-sized businesses were represented by 18 % of respondents and large companies 4 %. The structure of respondents by size corresponds to the real state in the Slovak Republic.

In the main part of the questionnaire we asked the respondents about corporate social responsibility – how they apply it in responsible behaviour in income tax. In the first question we asked which of the given possibilities they would choose as the most important roles of a business in society. We aimed to find out whether businesses perform also activities that do not bring them a direct economic benefit or they rather contribute to the development of society. The question had more possible answers. From the total number of 135 businesses 85 see their most important role in “creating profit”, a role which is a reflection of the economic

activity of the business. 81 respondents chose “law enforcement” as one of the most important roles of the business. The high occurrence of these answers is due to the importance of a stable and fair business environment for businesspeople. Another frequent answer was “creating job opportunities”, which was marked by 64 respondents. 54 respondents chose as one of the answers also “participate in the development of the region, of the community in which the business runs its activities”. We consider the choice of this answer a manifestation of social behaviour of the business, like with the answer “protection of the environment” (37 answers). We can thus conclude that less than half of the respondents consider the social aspect of business important. “Paying taxes” was chosen by 45 respondents, which points to a disturbed relationship between the state and businesses.

Another question was to find out if businesses can define the concept of socially responsible business. There was only one possible answer. We expected the answers “definitely yes” and “rather yes” from the respondents who had already met with this concept and can explain it. On the contrary, the answers “rather not” and “definitely not” should be chosen by businesses that did not know this concept. We can conclude that 88 % of respondents can define the concept of socially responsible business and only 12 % can't. We made a control question to verify the accuracy of responses. We asked if they can give an example of an organization that applies the

concept of socially responsible business in its activities. We assumed that the respondents that can define it answered “yes” and gave an example of a particular organization. The results showed that only 39 % of respondents were able to give such an organization. These two questions aimed to verify the zero hypothesis  $H_0$  of the research, where we assumed that more than half of the responded businesses know the concept of socially responsible business and at the same time can give an example of a business that applies this concept in their activities. First we transliterated the question asking about the definition of social

responsibility into another variable and we created two groups of businesses. In the first group were businesses that were able to define the concept and chose the answer “definitely yes” or “rather yes” in the questionnaire. In the second group were businesses that were not able to define this concept and thus chose the answer “rather not” and “definitely not”. The question asking about the definition of corporate social responsibility was first transliterated into another variable. After transliterating the question we tested it by means of binomial exact test. The testing is illustrated on the following outputs of the statistic software SPSS.

**Tab. 2: Binomial Exact Test in Verifying Hypothesis  $H_0$**

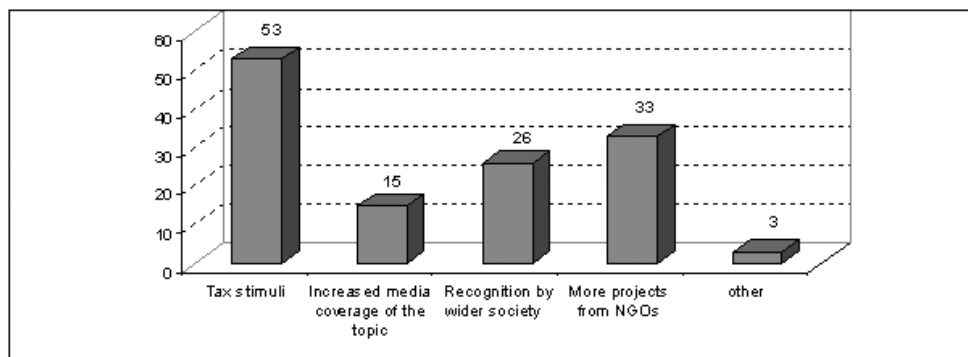
		Category	N	Observed Prop.	Test. Prop.	Asymp. Sig. (2-tailed)	Exact. Sig. (2-tailed)
<b>Defining corporate social responsibility</b>	Group 1	1.00	118	.87	0.50	.000a	.000
	Group 2	.00	17	.13			
	Total		135	1.00			
<b>An example of socially responsible business</b>	Group 1	1	52	.39	.50	.010a	.010
	Group 2	0	83	.61			
	Total		135	1.00			

Source: Own processing of results by means of program SPSS

The results from the question about the ability of businesses to define socially responsible business in the program SPSS reached p value 0/2, which is 0 and thus the level of significance was lower than  $\alpha = 0.10$ , which we assumed. Based on this fact we can conclude that the zero hypothesis  $H_0$  was proved. With the control question if businesses can give an example of socially responsible business p value was expressed as  $1 - 0.010/2$ , which is 0.995 and thus higher than the assumed  $\alpha = 0.10$ . This fact leads to a conclusion that the zero hypothesis  $H_0$  was rejected. The testing proved that more than half of the responded businesses know the concept of socially responsible business, but cannot give an example of an organization that applies this concept.

What motivated businesspeople to do socially responsible activities was asked about in another question, where the respondents could choose more answers. The results are shown in the following graph.

53 % of businesses chose tax stimuli as a factor motivating to behave responsibly to society. The research further showed that 33 respondents would be motivated to do socially beneficial activities by higher quality and more attractive projects from NGOs, despite the fact that the analysis of activities and initiatives supporting socially responsible business in Slovakia show that the most important players of social involvement come just from NGOs. These organizations carry out surveys in socially responsible business and cooperate with local businesses in order to help them realize socially beneficial activities. 26 respondents marked recognition from wider society as a motif leading to the support of social involvement of businesses and 15 respondents marked increased media coverage as such a stimulus. This need of businesses points to low awareness of the Slovak public in the area of socially responsible business.

**Fig. 5: Motifs of Social Involvement of Businesses**


Source: ow

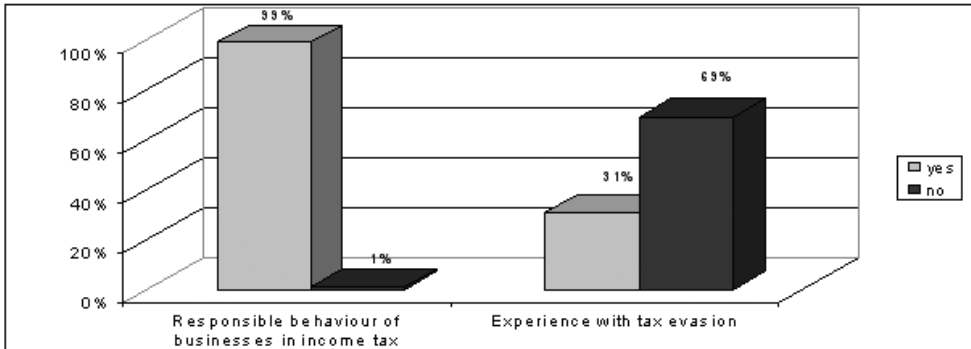
We were also interested which activities businesses consider socially responsible in the area of income tax and then we asked about irresponsible activities in paying income tax. These questions were aimed to find out whether businesses know how to properly fulfill tax obligations, whether they know their obligations imposed by law in the area of income tax. The questions had several possible answers. The research showed that for the most respondents socially responsible behaviour in this area is paying taxes within the statutory time (67 %) and in the right amount (58 %). As much as 46 % of respondents marked 2 % of the paid tax for special purposes a responsible activity in this area. In the question which activities in this area are irresponsible we wanted to find out whether businesses can identify activities breaking the law on income tax and thus which activities can be considered irresponsible behaviour. The research showed that the most respondents consider as socially irresponsible concealing part of income from business activity (62 %) and false accounting and tax cases (61 %). Misrepresentation in the area of income tax was reported as irresponsible activity by 47 % of respondents and artificial inflation of the cost of tax by 41 %. It is possible to state that the given activities are unlawful and in case such breaking of the law is disclosed by tax control, it is sanctioned.

The following question if the respondents behave responsibly in the area of income tax, i.e. if they fulfill their tax obligation in time,

conscientiously and in accordance with applicable law, 83 % of respondents answered that they behave responsibly in this area and chose the possibility "definitely yes". 16 % of respondents chose the possibility "rather yes" and only 1 % the possibility "rather not". None of the respondents answered "definitely not". This question was formulated directly, whereas the question whether the businesses had met with tax evasion was rather indirect. We supposed that if the businesses had ever met with tax evasion, it could concern themselves. A comparison of both questions is illustrated in the following graph.

99 % of respondents answered that they behave responsibly in paying income tax and only 69 % of businesses reported that they had not met with tax evasion. And on the other hand, 1 % of respondents answered that they do not behave responsibly in this area, whereas 31 % of businesses have experience with tax evasion. We can conclude that our assumption was fulfilled because almost all those who are responsible in paying income tax have no experience with tax evasion and vice versa. By means of these two related questions we tested hypothesis H1, which supposed that more than 80 % of respondents behave responsibly in paying income tax and fulfill their tax obligations in time, conscientiously and in accordance with applicable law. We had to transliterate the main question again into two groups of businesses, one with responsible businesses and the other with irresponsible

**Fig. 6: Comparison of Businesses' Responses to Questions about Their Social Responsibility in Paying Income Tax and about Their Experience with Tax Evasion**



Source: own

businesses in paying income tax. Subsequently we tested both questions by means of binomial exact test in program SPSS. In the question about responsible behaviour of businesses in paying income tax p value was expressed as 0/2, so it was equal to 0. P value was lower than our chosen level of significance  $\alpha = 0.10$ , which allows us to accept hypothesis H1 and claim that more than 80 % of respondents fulfill their tax obligations in time, conscientiously and in accordance with applicable law. On the basis of the control question, whose p value was set as

0/2, which is lower than our chosen level of significance, we can confirm the hypothesis.

Based on the question asking about responsible behaviour of businesses in paying income tax depending on legal form of business we assessed also hypothesis H2. This hypothesis contained an assumption that entrepreneurs – individuals behave more responsibly than companies. We tested the questions by means of Mann-Whitney test, which is intended for two independent choices. The results are given in the following table.

**Tab. 3: Mann-Whitney Test in Hypothesis H2**

Legal form		N	Mean Rank	Sum of Ranks
SRB in paying income tax	1.00	53	64.29	3407.50
	2.00	79	67.98	5370.50
	Total	132		

SRB in paying income tax			
Mann-Whitney U			1976.500
Wilcoxon W			3407.500
Z			-.825
Asymp. Sig. (2-tailed)			.409
Monte Carlo Sig. (2-tailed)	Sig.		.450 <sup>a</sup>
	99 % Confidence interval	Lower Bound	.437
		Upper Bound	.462
Monte Carlo Sig. (1-tailed)	Sig.		.243 <sup>a</sup>
	99 % Confidence interval	Lower Bound	.232
		Upper Bound	.254

Source: own

In such testing the difference between the tested groups is significant when p value is lower than the chosen level of significance. Our testing showed that p value is 0.243, which is more than  $\epsilon = 0.10$ . This leads us to a conclusion that there is no significant difference between individual legal forms in the responsibility of behaviour in paying income tax. Hypothesis H was not proved and we can state that entrepreneurs – individuals behave in this area in a similar way as companies. This statement has been supported also by the chart compiled on the basis of Kruskal-Wallis test, which is used for more than two independent choices. As p value in these cases was higher than  $\epsilon$ , we can state that both legal forms of business behave equally responsibly in paying income tax and the difference between them is negligible.

We were also interested what factors motivate businesses to tax evasion and vice versa, what motivates businesses to responsible behaviour in this area. The question has again more possible answers. The results showed that the most respondents behave responsibly in this area, which they are led to by their civic responsibility (61 %). We can thus say that most respondents feel naturally responsible towards their country and its needs and realize that tax revenues serve to satisfy the needs of society. Other factors motivating businesses to responsible behaviour in this area are high penalties (53 %). Justice and confidence in public institutions as a motif to behave responsibly was chosen by 20 % of respondents, which points to a low confidence of the citizens in the state and public institutions. Among factors motivating businesspeople to tax evasion were mostly reported answers “low-quality legislation” (53 % of respondents), “high tax rate” (46 % of respondents) and disagreement of businesses with political decisions and tax policy of the government (39 %). Low tax ethics as a reason for tax evasion was marked by 42 of 135 businesses, which supports the statement that Slovak businesses in general have a low level of tax morale.

## 5. Synthesis of the Results and Proposals and Recommendations

The research carried out by means of questionnaire was divided into two basic thematic groups. The first part dealt with the issues of socially responsible business whereas the second part

was more or less focused on analysis of businesses' behaviour in paying income tax. Based on the research we assessed the level of socially responsible business in Slovak businesses in paying income tax; we pointed to the factors motivating businesses to behave responsibly, but also to shortcomings and obstacles for businesses to behave responsibly. With the given shortcomings and obstacles we make recommendations to improve the current state. At first we make recommendations for the area of socially responsible business and then for the area of responsible behaviour of businesses in paying income tax.

The main obstacle to socially responsible business in Slovakia is lack of action of the government in this area. Our recommendation is systematic support to socially responsible business from the part of the state. In our opinion the state should play the main role in implementing a national program of corporate social responsibility. The key players in the implementation of the program should be, above all, the Ministry of the Economy of the Slovak Republic, Ministry of Justice of the Slovak Republic and the Ministry of Labour, Social Affairs and Family of the Slovak Republic. The Ministry of Justice should focus on creating quality legislation in corporate social responsibility, the Ministry of the Economy should create favourable conditions for performing socially beneficial activities and creating programs to motivate businesses to act socially responsibly. The Ministry of Labour, Social Affairs and Family should develop activities to help and support citizens in the social policy, which is part of socially beneficial activities. We suggest that the highest officials take responsibility for acting for the benefit of society on the governmental level and at the same time support the engagement of businesses in social issues. Within the governmental policy they should establish a particular section for the area of socially responsible business that should focus on: creating and updating a national strategy in corporate social responsibility; motivating businesses to engage responsibly in society and participate in the improvement of the environment and social environment; supporting activities of businesses that are engaged in social activities, for example by tax relieves or by favouring environmentally friendly businesses; preferring businesses that

apply the concept of corporate social responsibility to those not engaged in social activities within state tenders and government procurement; preparing and organizing rewards for businesses with developed social activities within socially responsible business.

Slovak media are another barrier in the development of socially responsible business; they do not pay enough attention to these issues. In their activities they should increase the awareness of the Slovak public of the concept of corporate social responsibility. At the same time they should focus their activities on creating an environment stimulating Slovak businesses to social engagement. In our opinion public television and radio stations should devote more time to socially responsible business and their representatives in order to inform about these issues and to introduce this concept in the activities of these institutions and thus to become an example of social engagement for the business sector.

Lack of quality and attractive projects from NGOs is also an obstacle to businesses to behave responsibly in social acting. NGOs should continue their cooperation with businesses and help them introduce the concept of corporate social responsibility. They should create conditions stimulating to engagement in social activities and provide businesses with information related to examples of best practice from Slovakia and thus initiate first of all small and medium-sized businesses as many of them are not engaged in social activities also because they do not know how.

A major obstacle for businesses in the area of corporate social responsibility is lack of funds. It is difficult to suggest a measure that could improve this particular problem. But there are certainly ways of social engagement, for instance friendly business behaviour to the environment and society, responsible treatment of employees, responsible action in the market to suppliers and customers, eliminating corruption; all of these, however, require huge funds.

The major shortcoming in the area of personal and corporate income tax is poor quality legislation with a number of exceptions and loopholes in laws, ever-changing tax policy of the government and disagreement of businesses

with the decisions of the government. On the whole it is possible to state that an obstacle to responsible fulfilling tax obligations by businesses is lack of action of the government. The questionnaire research showed that businesses consider the Slovak system of paying taxes corrupted and unnecessarily complicated. The authors Sujová and Sedláčiková [11] qualify just the tax system as a key factor influencing the performance of the economy of the Slovak Republic in future. Thus this means that quality legal norms are the basic prerequisite of decreasing tax evasion. The laws should have clear and unambiguous definitions of rights, obligations and sanctions. Based on the given facts we suggest to improve the cooperation between businesses and government, especially in the creation of new tax laws and formulation of the goals of tax policy.

## Conclusion

Tax frauds have serious consequences for state budgets, they lead to breaking the rule of fair taxation and in the end they can distort economic competition and functioning of the market. A long-term goal of tax policy not only of the Slovak Republic, but also other governments of EU member states is shift of tax burden from direct taxes to indirect taxes. However, the space for increasing value added tax has its limits as they consequently influence the consumption of the whole population. As of 1 January 2011 the government of the Slovak Republic increased the rate of value added tax from 19 % to 20 %. Due to lack of revenues of the state budget it is possible to expect that in future the following tax increase will apply to direct taxes.

Tax administrations in developed countries of the world are leaving from restrictive collection of taxes and try to create a so-called tax friendly environment, where taxpayers would consciously and voluntarily fulfill their tax obligations and it would not pay off to cheat the state on taxes. However, this is a long-term process. A condition to create positive tax-legal consciousness of economic entities and to improve their tax discipline is improvement of their tax discipline and rationality of the use of public funds on both sides – businesses and public administration.

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Doručeno redakci: 13. 7. 2011

Recenzováno: 2. 11. 2011, 11. 11. 2011

Schváleno k publikovaniu: 5. 4. 2012



## **THE IMPLEMENTATION OF THE CONCEPT OF CORPORATE SOCIAL RESPONSIBILITY IN THE AREA OF INCOME TAX IN THE SLOVAK REPUBLIC**

**Eva Sopková, Katarína Raškovská**

*The concept of corporate social responsibility is an answer to social and economic challenges that national economies are facing in the (post-)crisis period. There is a revaluation of the present principles of business based on achieving profit. Corporate social responsibility is a long-term sustainable solution in the form of engagement of the business sector in solving the problems of society. Responsible businesses make an economic profit and social benefit by their commitment to ethical conduct and social responsibility, whereas irresponsible businesses steal the resources of the state and society. This means that tax evasion can also be considered a manifestation of unethical conduct. In the long term income tax is a significant source of finance for public budgets of the Slovak Republic used for financing the needs of the state and society. This paper presents the results of primary research focused on analysis of tax evasion on income tax in the context of corporate social responsibility in the Slovak Republic. The realistically calculated (i.e. detected) consequences of socially irresponsible behaviour of businesses are analyzed on the basis of data obtained from secondary research in the area of criminal liability for evasion, incorrectly calculated or concealed tax obligations of businesses. The submitted paper contains the development, relationships and consequences of these activities in the Slovak Republic. The output of this paper is the implementation of the concept of corporate social responsibility into the area of income tax and recommendations to improve the identified state in this area in the Slovak Republic.*

**Key Words:** Corporate social responsibility. Income tax. Tax evasion. Tax arrears. Tax-related crime.

**JEL Classification:** H26, M14.