Arguing about the tax saving and real sacrifice resulting from the hypothetical comparison of non-mandatory social expenditures: A theoretical study to enrich and develop disclosure of the corporate philanthropy and income tax law

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ABSTRACT

Interaction with community issues- as one of the areas of CSR (or what is known as corporate philanthropy\ corporate giving\ corporate donations), entails incurring expenditures; such expenditures are defined as non-mandatory social expenditures. Those expenditures incurred by the corporations contribute to achieving the tax savings (economic savings), as it is evidenced by the hypothetical comparison - when determining the value of the income tax to be paid to the internal revenue service (IRS) or tax department . As a result of this fact, the researcher raised two controversial views about how to treat tax saving to determine the value of social expenditures for the purpose of reporting about the social responsibility (SR). The first controversial view includes: Excluding the value of the tax saving from the value of the social expenditures. The second controversial view: Non-excluding the value of the tax saving from the value of the social expenditures. Absolutely, each viewpoint has compelling justifications. For the purposes of conciliation between the two controversial views, in addition to the comprehensive disclosure of the corporate social responsibility (CSR), this study proposed a logical approach that takes into account all points of view when determining the value of social expenditures for the purpose of reporting and disclosure of SR . Also, this study suggested the optimum value that must be used by IRS to give the exemptions and tax incentives "development of tax income law".

Key words: Corporate philanthropy, classification of the corporate social expenditures, the tax savings, arguing about the tax saving and real sacrifice.

JEL classification: M14

INTRODUCTION

Tax payments are an important part of corporations’ economic contribution to the countries in which they operate. Tax can help provide the funds for the development of essential public services sector in the state, such as healthcare and education, to alleviate poverty and disease, and for public investment in infrastructure. In one word, taxes help provide the basic building blocks for economic development . As it is well known, in the field of taxes, the value of all annual expenditures , whether economic or social expenditures must be excluded from the annual economic returns of corporation in order to determine the value of taxable income and calculate the income tax which must be paid by that corporation to the tax administration. In fact, that payment of taxes is part of the responsibilities of corporations towards society and the government and as such, most corporations are committed to pay the taxes. In the field of CSR, such responsibility is classified within the corporate legal responsibilities. That exact analysis of the relationship between the non-mandatory social expenditures and income tax will indicate
the hidden gains that can be deduced by comparison process. Those gains are tax savings generated by corporations as a result of incurring non-mandatory social expenditures (Tax saving is the difference, which is calculated by comparing the value of income tax in the case of incurring the non-mandatory social expenditures with the value of income tax under the assumption of, lack of incurring any non-mandatory social expenditures). For the purpose of reporting about the social responsibility and disclosure of the value of social expenditures, the researcher raises the debate about how to treat the tax saving resulting from non-mandatory social expenditures, by two controversial views. Every point of view has convincing justifications that cannot be ignored.

The problem for corporations, users of the financial statements and IRS

Users of financial statements and social performance evaluators may be fooled by figures published in reports and financial statements on corporate social spending, since the presentation of non-mandatory social expenditures without addressing tax savings resulting from such expenditures may show exaggerated figures. And if these tax savings were excluded from these expenditures, the value of those expenditures will appear less than what was actually paid. This may be undesirable for corporations that are looking for anything that strengthens their position in the society in which they operate, as corporations want to improve their image within their communities through the total figures of those expenditures without treatment or reduction. This may be inconsistent with the principle of transparency in the presentation of data and information. Thus this requirement may be problematic for corporations when disclosing their social performance. This study will discuss this issue and show how to address this problem in theory, in line with the comprehensive disclosure concept of the social performance of corporations. The problem for the IRS lies in determining the optimum value that should be used in granting tax incentives in the presence of corporate philanthropy.

Objective of the study

This theoretical study was carried out with several aims: (1) A Statement on how to treat the TSs resulting from non-mandatory social expenditures to determine the non-mandatory social expenditures value for the purpose of reporting and disclosing corporate social performance. In another meaning, to make a comprehensive disclosure of non-mandatory social expenditures in the presence of tax savings and real sacrifice concepts. (2) A Statement on how to reconcile conflicting views (excluding / not excluding) of tax savings. (3) As well as, a statement on the importance of real sacrifice concept when disclosing the CSR, especially in terms of non-mandatory social expenditures. (4) A statement on the optimum value that should be used in granting tax incentives- in the presence of corporate philanthropy- by internal revenue service (IRS).

Importance of the study

Importance of this study include: (1) Contributing to the development of disclosure of corporate social expenditures in the financial statements in order to grant a user full information about the financial statements, which in turn, contribute to the process of social performance evaluation. (2) Determination of optimum value that should be used in granting tax incentives- in the presence of corporate philanthropy- by internal revenue service (IRS). In another meaning, "determination of the social expenditures type and value that should be the focus of attention in the IRS to grant incentives and tax relief". This study is an initiative that may contribute to the development of tax laws in the field of granting the exemptions and incentives. (3) That the research in the field of CSR and accounting for CSR is still ongoing, therefore, this study is an attempt to enrich and develop the CSR idea and accounting thought in the field of relationship between taxes and CSR. Therefore, this study will represent the cornerstone of many studies in this area. Thus, for this reason, this the study can be considered as enriching and development of accounting thought in the field of CSR. This study will contribute to the completion of the theoretical framework of CSR thought and accounting for disclosing the corporations social performance. This will lead to many researches and studies being conducted.

Theoretical framework of the study

This side of the study includes taxes as part of the CSR. The Tax savings result from non-mandatory social expenditures. It includes arguing about how to treat tax saving to determine the value of social expenditures for the purpose of reporting and disclosing social responsibility. Lastly, description of the optimal method for the disclosure of social expenditures incurred by the corporations and how to reconcile the conflicting views. Thus, to achieve that, for a deep understanding of the subject of this study, this side of the study will include types of CSR, Areas of CSR, and classification of the social expenditures for the purpose of determining the tax savings.

METHODOLOGY OF THE STUDY

This theoretical study was conducted to enrich the accounting thought in the field of CSR, as well as CSR thought. Therefore, the methodology of the study will depend on some of the contained information in this thought, in books, researches and studies to support the formulating process of researcher's ideas. Ideas are always supported by rational justifications and written literature.
In this study, there is an idea in the researcher's mind with rational justifications that must be submitted to the people (the staff at IRS, legislative bodies in the country and users of financial statements) in order to take advantage of it in the development of CSR thought and accounting for it. Through rational justifications and written literature, the researcher will try to communicate his idea to the communities concerned.

**LITERATURE REVIEW**

**The corporate social responsibility (CSR)**

The idea of CSR is nothing new, nor an idea that corporations should act in a social responsible manner. However, today's corporations are operating in a more connected world, one that is improving their conception of their social responsibilities. Ethic codes which include guidelines on child labor, working conditions, wages and environmental issues stating their obligations is a good example. Globalization has brought many changes such as the increased number of MNC's and TNC's, as well as the issues of business ethics and scandals presented beneath (Gratzer and Tesfaye, 2006: 10). The charity provided by the employers to the poor and their employees in the past centuries has had a great impact on the emergence of CSR thought. Among the general public, there is still confusion between the concept of Philanthropic responsibility and CSR; the first is considered one of the components of the second, it contributed to its development. Development does not only include the concept of CSR, but also encompassed the concept of philanthropy - as one of its components - to transform from a mere practice into effective strategy.

From philanthropy to strategic philanthropy: This notion contends that organizations should find social needs that align with their particular expertise (or core competencies). For example, it would seem to make little sense for a computer manufacturer to spend funds on building homeless shelters. This is not to suggest that the computer manufacturer should not engage in philanthropy, but rather that when it does so, it should engage in an activity or issue closer to its area of expertise. Companies that focus on causes in their area of expertise will almost certainly be more efficient at addressing social needs (Wyk, 2011: 65).

"CSR is a collection of practices where a business fulfills its shareholder responsibilities while adhering to laws and regulations, demonstrates ethical behavior, and engages in discretionary activities such as philanthropy and other forms of community engagement. Corporate social responsibility is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders – Financial Times. Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families, the local community and society at large – World Business Council for Sustainable Development. Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations – Business for Social Responsibility (John et al., 2015: 133)."

**Corporate philanthropic responsibilities**

If a company is able to meet all of its other responsibilities (Economic, Legal and Ethical), it can begin meeting philanthropic responsibilities. Philanthropic responsibilities are responsibilities that go above and beyond what is simply required or what the company believes is right. They involve making an effort to benefit society -- for example, by donating services to community organizations, engaging in projects to aid the environment or donating money to charitable causes (Scilly, n.d.). The philanthropic responsibilities are the voluntary responsibilities of the enterprise. They reflect the current expectations of the public towards the enterprise. These volunteering activities are animated only by the desire of the enterprise to involve itself in community activities which are not imposed or requested by law and which generally are not to be expected from an enterprise, in an ethical way. The public expects that an enterprise should involve in philanthropic actions and thus this category becomes a part of the social agreement between the enterprise and the society. Such activities can include donations of goods and services, volunteering activity, the involvement of the enterprise or of its employees in the community or of the stakeholders. Philanthropy includes those corporate actions which answer to the society's expectations according to which the enterprises are good corporate citizens. This includes the efficient commitment in actions or programmes of promoting welfare or the human good will (Grigore, 2010: 170; Carroll, 2016: 4).

The researcher defines Philanthropic responsibility as a component of CSR as follows: are initiatives that include philanthropic "material and non-material donations" that contribute to improving the quality of life within the communities in which they operate, which are voluntarily provided by corporations without any legal coercion. This result in response to the aspirations of contemporary societies and their urgent desires to develop the role of companies to be the ideal partner who will bear part of their worries and problems due to the inability of governments - in most countries of the world - to meet all the needs of their contemporary societies and achieve all their aspirations.

**Corporate philanthropy\corporate giving**

Philanthropy is a term connected with American tradition of charitable giving. At first, it was associated with a
person-philanthropist, but today, the term corporate philanthropy is more developed, meaning business sector’s voluntary giving (Mihaljević and Takić, 2015: 804). Philanthropy stems from the Greek word which means love of humanity. Popular interpretations today refer to it as private initiatives for public good (J. W. Gardner) or initiatives directed at the improvement in the quality of human life (Robert Bremner). Colloquially, philanthropy is most commonly used interchangeably with charitable giving – WINGS (John et al., 2015: 136). Corporate philanthropy is the act of corporations donating a portion of their profits or resources to various non-profit organizations (Madrakhimova, 2013: 125). This definition may be consistent with the laws in some countries that require the payment of donations to non-profit organizations to prevent fraud and deception. This definition is limited, it excludes direct donations to poor people, completion of some public projects, such as building schools and hospitals… etc., as well as non-material help for the public good “volunteer work”, unless the laws of the State so require, where the public interest so requires. Here, nonprofits will play the role of mediator. Another definition is: The use of discretionary financial and human resources for primarily public benefit, while recognising that impact might also accrue for the company’s shareholders and employees (John et al., 2015: 133). The researcher defines corporate philanthropy as follows: It involves donation of all forms of material “money, assets and goods” and non-material “services”, which is provided to non-profit organizations or the poor and the needy or for the public good to improve the quality of life in the community. This may result in the achievement of benefits for corporations, such as exemptions and tax incentives, to enhance the competitive advantage. There is increasing interest by corporations in their philanthropic responsibility, especially in developed countries, where many studies have shown that corporate giving has been on the rise in recent years. For example, a study on corporate donations in the United States in 2005 has shown that 62 biggest companies in the U.S. gave $8.4 billion last year, an increase of 14% from 2004. Also, 87% of the companies surveyed indicated that they have an employee volunteer program, with 44% of them often pay time off to employees who are volunteers (Man, 2006:1; Perry, 2006). The global survey of CSR spending over the period of 2011 – 2013 by Dattani et al. (2015) revealed that the top 10 most generous companies worldwide gave US$ 17.7 trillion towards CSR spending annually. An estimated 28% of this sum (nearly US$5 trillion) was in the form of grants rather than in-kind donations or volunteering (John et al., 2015: 18).

**Income tax and CSR**

Income tax is a key source of funds that the government uses to fund its activities and serve the public. That funds for taxes are part of the revenues of the state government, without that funds the government cannot manage the state affairs. As it is well known, the government uses that funds to pay staff salaries in the public sector, constructing schools, hospitals, roads and bridges, parks, etc. Therefore, corporations must be committed to supply the values of taxes to the tax administration (IRS). That commitment comes from the reality of the legal responsibility of corporations to the community and its institutions. Also, non-compliance with tax laws and tax evasion by corporations means facing sanctions in accordance with the law of the State’s economic crimes.” Academics have advocated including the paying of taxes in CSR. For example, the American professor Avi-Yonah adamantly maintains that companies bear a social responsibility that includes loyalty paying taxes. He also argues in favor of companies refraining from business transactions whose sole objective is to minimize taxes” (Avi-Yonah, 2004; Svernlöv, 2016: 8). On the contrary, in previous years, calls for the development of tax laws in many countries of the world have emerged. This calls for the need to change Laws to conform to the strengthening requirements of idea practice of CSR by corporations through the creation of a system of incentives to achieve tax justice between the corporations and contributes to encourage corporations to adopt the idea of social responsibility. For example, Jordanian Al Rai newspaper published an article on 18 - 11 - 2014 under the title "The private sector calls for legislation to stimulate the adoption of the idea of CSR”. Also, there were some actual initiatives in many countries aimed at reforming tax systems, for example, tax reform in France in 2003 about incentives for corporate giving \ corporate philanthropy (Lordemus, 2013: 16).

**Corporate philanthropy being a rock for more than a bird **"political gains\ tax evasion \ tax incentives \ competitive advantage\ improving the quality of life ”

**Political gains:** Acquisition of the influence of the government and its administrative agencies and use that influence to pressure the government to make decisions in favor of the donor corporations. Philanthropy may be a way for political businessmen to gain power, where their charitable work will help to show them as good men who are good at managing their country’s affairs. Bertrand et al. (2018), in their empirical study in USA, showed that 8.8% of corporate charitable giving is politically motivated.

**Competitive advantage:** Increasingly, philanthropy is used as a form of public relations or advertisement to promote a company’s image or brand through cause related related marketing or other high-profile sponsorships- arguing that “social and economic goals are not inherently conflicting, but integrally connected (Porter and Kramer, 2002: 1). Whereas, philanthropy can be a source of competitive advantage (Porter and Kramer, 2002: 1; Henderson and Malani, 2008: 7).
Tax evasion: Philanthropy and giving of the corporations may be one of the tools of economic crimes such as tax evasion and smuggling of money etc... In Russia, the law was far imperfect, as stated by many educated people in issues of taxation. In the early 2000s, the government began to deal with this state of affairs as a result of the abolition of many benefits for donors. Before a period of directing up to 5% of their income to charity, this legislation establishes that donation by firms and organizations can only occur at the expense of net profit. The Ministry of Finance has decided that companies providing charitable activities through the provision of free services or delivery of goods are exempted from VAT, but payments to the state treasury is not reduced. In order to avoid the transfer of funds through bogus charities against government charity, double taxation was introduced. According to the Tax Code of the Russian Federation, donation recipients have to pay income tax, but people can avoid it if they obtain grant in the field of education, science, culture and art (Madakhimova, 2013: 128).

Tax incentives: "Charitable giving by individuals and businesses is an important source of funding for nonprofit organizations. These charitable donations are influenced by various factors. The more common reasons to give to nonprofits are to help others, to support an organization or cause they believe in, and felt it is morally obligatory to contribute. While these factors vary for each individual or business, research indicates that tax implications influence the size of the donation. Donors receive economic benefit from a reduction in the amount of paid taxes. The motivation to reduce taxes by contributing to a nonprofit is known in economic terms as a tax incentive. The most common tax incentives are either tax deductions or tax credits, as in USA "(Enders, n.d). In developed countries, governments have recognized the importance of donations to charities or nonprofit organizations in solving many social problems and also to encourage corporations to continue their noble activities. Many tax-related laws have been reformed and improved in those countries, while in other countries - especially in developing countries - claims are still increasing the need to amend the tax laws to be consistent with charity.

The United Kingdom, the United States, Canada and Australia, since the beginning of their income tax regimes, have all permitted a deduction or tax credit for gifts to certain public purpose organisations. In the last decade, all these countries have used policy measures, such as nonprofit fundraising capacity building, publicity campaigns and tax incentives to encourage philanthropy (Lyons and Passey, 2006; McGregor-Lowndes et al., 2006: 496).

Improving the quality of life: Corporate philanthropy is a key component of a corporation’s broader social responsibility, and includes cash gifts, product donations, and employee volunteerism. It serves as a major link between the corporation and its communities. Corporations support their communities in numerous ways—foundation giving, providing local volunteers, donating goods and services, and even pro bono assistance (without charge). Corporations work hard to help improve the quality of life in their communities and have a strong sense of responsibility to the people in their communities (IA Worldwide\online). Donations provided by corporations to non-profit organizations are often used to achieve the following goals: (1) Contributing to solving the social problems of certain categories of people within communities such as orphans, elders, alcoholics and drug abusers...etc. (2) Economic assistance to the poor and needy within communities. (3) Combating some negative phenomena within societies and correction of deviant behaviors. (4) Supporting public attitudes that are in the interest of society. (5) Supporting public awareness and educational programs on some issues within societies.(6) Combating all types of pollution "environmental/moral/ noise....... etc." resulting from economic and technical developments. (7) Completing some other projects such as construction, maintenance and development which are in the interest of the society. Certainly, these achievements will contribute to improving the quality of life within these communities.

TAX SAVING RESULTING FROM NON-MANDATORY SOCIAL EXPENDITURES

Social expenditures incurred by the corporations - which seek to achieve the profits- at the end of the accounting period are treated as other expenditures for the purpose of determining the value of the taxable income- in accordance with the traditional accounting approach - where social expenditures contribute to reducing the value of the income tax that will be paid to the fiscal administration according to the laws and tax regulations used in the State. Also, the non-mandatory social expenditures (in the field of corporate philanthropy) may contribute to achieving some tax reliefs (tax exemptions) for corporations. This incentive will lead to a reduction in the value of income tax- which must be paid to the IRS. As it’s known, social expenditures are financial amounts incurred by corporation for the purpose of contributing to the achievement of the social benefits for other parties in the society - within the framework of mutual benefits and corporation. Thus, these expenditures will not contribute to producing the income nor achieving any directly economic benefits to these corporations such as the contribution of other expenditures (general and administrative expenditures, distribution and sale expenditures, manufacturing expenditures, etc.). Although social expenditures differ from the other expenditures incurred by the corporations in terms of the goal of the spending process, however, the accounting
treatment of these expenditures in the income statement - for the purpose of determining taxable income - is not different from the treatment of other expenditures, according to the traditional accounting approach. As it is shown in the income statement, those expenditures are excluded from the value of revenues (income statement for the purpose of determining the taxable income and economic performance). Generally, this treatment lead to a reduction in the value of taxable income resulting from such expenditures incurred by the corporation during the accounting period, and then a decrease in the value of the income tax paid to the fiscal administration. If the corporation did not endure any non-mandatory social expenditures during the ended accounting period, the value of the taxable income and the value of the income tax paid to the fiscal administration would be higher than the value of the taxable income and the value of the income tax paid to the fiscal administration in case the corporation endured non-mandatory social expenditures during the ended accounting period. That is to say that, according to the hypothetical comparison, the corporation which endures non-mandatory social expenditures will pay an income tax less than what will be paid, if it does not endure non-mandatory social expenditures. As a result of this, the corporation achieves a tax saving as a result of decreasing in the value of the taxable income resulting from the value of the non-mandatory social expenditures.

**CLASSIFICATION OF THE CORPORATE SOCIAL EXPENDITURES**

The researcher used a legal compulsion and accountability criterion in the classification process (Are there legal accountability about them in the event of spending stopping? or not). Therefore, for the purposes of this study, the researcher classified the social expenditures into two types are:

**Mandatory social expenditures**

There are legal accountability about them in the event of spending stopping. There are some social expenditures incurred by corporations - in some areas of social activities - as a result of legal commitment to a prevailing law and regulations in the state. Therefore, all corporations will incur those expenditures, no option for rejecting. These expenditures cannot be avoided as a result of accountability and legal compulsion. Also, spending stopping will expose the corporation to penalties and fines and in many cases to stop activities, such as the contribution of Libyan corporations in the payment of subscriptions of the social security for employees (In Libya, corporations and staff contribute to the payment of those subscription, for the benefit of staff, according to the Libyan social Security Act.), salaries for families of missing people and dead in the wars, expenditures to treat work-related injuries and medical insurance and protection expenditures of the environment and consumer, security and safety of employees expenditures etc. Therefore, the researcher defines the mandatory social expenditures (MSEs) as follows: MSEs are mandatory, cannot be avoided, there are legal accountability about them in the event of spending stopping, can directly affect corporation economic performance through the penalties and fines or stop of the activity.

**Non-mandatory social expenditures (N-MSEs)**

This type can be classified into two types: (A) Non-Mandatory Social Expenditures; in areas unrelated to interaction with the community. This type may affect the loyalty of consumers and workers, and then on the economic performance of the corporation. There are some social expenditures incurred by the corporations - in areas of CSR (Workers, environment protection, consumer protection) - without any legal compulsion and accountability, these expenditures can be avoided. Also, spending stopping will not expose the corporation to penalties and fines or stopping of the activity, but they may affect the corporate economic performance - through a change in the level of consumer loyalty to the corporation's product - where consumer is one of important stakeholders of the corporation - and a loyalty of the workers and employees to the corporation - especially in developed countries and in the presence of competition in our modern age, such as expenditures of the improvement of the working environment, product development, transport means, training of workers and staff, child custody and free food and drinks for workers... etc. Therefore, the researcher defines the Non-Mandatory Social Expenditures (N-MSEs) in areas unrelated to interact with the community as follows: N-MSEs are necessary, not voluntary and not mandatory, can be avoided, there are no legal accountability about them in the event of spending stopping, may indirectly and directly affect the economic performance of the corporation in the presence of market competition (in the market of labor, goods and services) through a change in the level of consumer loyalty - at present, the consumer becomes more aware of issues of CSR and consumers’ decisions are becoming increasingly influenced by the extent of corporation’s commitment to its social responsibility - and a loyalty of the workers and employees to the corporation. According to Keeler, competition is the primary driver for corporations to be more socially responsible (Keeler, 2002; Kasipillai et al., 2012: 1). This is as a result of the competition in the labor market, goods and services. In the modern era - especially in developed countries - consumer loyalty depends largely on the extent of the corporation's commitment to its social
responsible. Where consumer has become more aware of the issues of social responsibility, such as boycotting the products that are not environmentally friendly, as well as the completion of the business has become dependent on skill and knowledge of the workers in order to earn their loyalty and maintain them as part of a work system, corporations incur social expenditures such as free food and drinks for workers... etc. (B ) Non-Mandatory Social Expenditures; in the areas of interaction with the community ( Corporate Philanthropy , Corporate Giving ): This type is voluntary and similar to government spending in the field of public services. Corporations incur this kind of expenditures in order to contribute to the improvement of the quality of life in the community and take the role of government in this area. This type is intended in this study. There are some social expenditures incurred by the corporations- in the area of interaction with the community- without any legal compulsion, these expenditures can be avoided. Also, spending stopping will not expose the corporation to penalties and fines or stopping of the activity, such as the expenditures of contribution in educating people in the area, contribution in cleaning public gardens and helping of poor families...etc. Therefore, the researcher defines the Non-Mandatory Social Expenditures (N-MSEs In This Area) as follows: N-MSEs are non-mandatory, can be avoided, there are no legal accountability about them in the event of spending stopping. Mostly, they affect the corporate economic performance through the acquisition of some incentives and tax benefits or other economic benefits- especially in the developed countries- through community satisfaction and loyalty of consumers there, where consumers and communities are aware of the importance of the social role of corporations. In developing and poor countries where there is high level of ignorance among people, spread of poverty and deterioration of living conditions, the researcher believes that the consumer will be interested in the quality and price of the goods without regard to the extent of the company's commitment to its social responsibility. While in developed countries, there may be interest by consumers in these matters, which may affect their loyalty to the corporation and its products. The impact of social responsibility on profitability remains the subject of debate among scientists until this moment. Absolutely, this depends on the environment in which the corporation operates and the extent of consumer understanding and awareness. Regardless of any other benefits (competitive advantage, tax incentives ... etc) which can be achieved and are difficult to measure and trace, the users of the financial statements and reports will care about the actual figures paid and not the positive effects that are difficult to track. Therefore, classification of social expenditures into two types - mandatory and non-mandatory - is a logical proposition for the purposes of this study. Tax savings are related to expenditures that do not result in legal sanctions against the corporation in the event of spending stopping regardless of their impact on economic performance. For example, the IRS does not pay special attention to the free meal expenditures of the corporation's employees, despite its importance to the employees and the positive effects of the corporation, although they are not mandatory, but they are not related to interaction with society issues. They may be more related to the economic performance of the corporation. While the IRS is interested in charity (corporate philanthropy), because it embodies the real interaction between corporation and society, when determining the tax incentives.

DEFINITION OF THE TAX SAVING RESULTING FROM NON-MANDATORY SOCIAL EXPENDITURES

The tax saving resulting from the N-MSEs can be defined as follows: It is the amount of decrease in the value of the income tax paid by the corporation to the fiscal administration on a definite financial period as a result of incurring N-MSEs during that period. Also, it can define it as the difference in value resulting from the comparison of the value of the income tax paid to the fiscal administration – under the assumption that the corporation did not incur any N-MSEs during the ended accounting period –to the value of the income tax paid to the fiscal administration in the case that the corporation incurred N-MSEs during the ended accounting period. An example to clarify the concept of the tax saving resulting from the N-MSEs: Suppose that the tax rate imposed on the income of the corporations in a country was 40% of the value of Taxable Income (TI), the value of revenue (R) achieved by one of the corporations during a financial period was $ 100000, and the value of expenditures (Es) incurred by that corporation during the same financial period was $ 60000 ($ 10000 of it was the value of N-MSEs) as follows: $ 4000 the value of the contribution in the educating people in the area, $ 3000 the value of contribution in the public gardens cleaning and $ 3000 the value of the contribution in the public hospitals maintenance. Also, suppose that: (1) Tax laws of that country do not give any tax relief to the corporations that incur N-MSEs. (2) Tax laws of that country gives a tax relief to the corporations that incur N-MSEs, is a decrease in the income tax paid to the fiscal administration at the rate of 10% of the value of the N-MSEs. Out of these data, we can determine the value of the tax saving achieved by corporation through the N-MSEs as in Table 1.

Hypothetical comparison method is used to indicate the amounts paid by the right hand and amounts taken by the left hand - used in the Table 1 and can be explained as follows:

To determine the value of the tax saving according to the first assumption - Tax laws in the country do not give any tax relief to the corporations that incur non-mandatory social expenditures - We followed the following steps. (1) Determining the income tax value as follows: Taxable
income = revenues - expenditures. $100000 - $60000 = $40000. The tax amount which must be paid to the fiscal administration is: Income tax value = Taxable income × Tax Rate.$40000 × 40% = $16000. (2) We must calculate the value of the tax which must be paid to the fiscal administration - under the assumption that the corporation did not incur any non-mandatory social expenditures as follows: Taxable income = revenues - expenditures. $100000 - $50000 = $50000. The tax amount which must be paid to the fiscal administration is: Income tax value = Taxable income × Tax Rate.$50000 × 40% = $20000. (3) Calculation of the tax saving is as follows: Tax saving = (The value of the tax which must be paid to the fiscal administration during the ended accounting period) - (The value of the tax which must be paid to the fiscal administration in the case that the corporation incurred non-mandatory social expenditures during the ended accounting period). Tax saving = $20000 - $16000 = $4000. (4) Calculation of the real sacrifice is as follows: Real sacrifice = the non-mandatory social expenditures × Tax Relief.$40000 × 40% = $16000. In another meaning, when the corporation paid $10,000, income tax decreased at value $4000, accordingly, the real sacrifice incurred by the corporation is $6000 depending on the hypothetical comparison method. To determine the value of the tax saving according to the second assumption - Tax laws in the country give a tax relief to the corporations which incur non-mandatory social expenditures. (The law allows a reduction in the income tax paid to the fiscal administration at the rate of 10% of the value of the non-mandatory social expenditures). The following steps were considered: (1) Determining the income tax value as follows: Taxable income = revenues - expenditures. $100000 - $60000 = $40000. The tax amount which must be paid to the fiscal administration is: Income tax value = (Taxable income × Tax Rate) - (The Non-Mandatory Social Expenditures × Tax Relief). ($40000 × 40%) - ($10000 × 10%) = $15000. (2) We must calculate the value of the tax which must be paid to the fiscal administration - under the assumption that the corporation did not incur any non-mandatory social expenditures as follows: Taxable income = revenues - expenditures. $100000 - $50000 = $50000. The tax amount which must be paid to the fiscal administration is: Income tax value = Taxable income × Tax Rate.$50000 × 40% = $20000. (3) Calculation of the tax saving is as follows: Tax saving = (The value of the tax which must be paid to the fiscal administration during the ended accounting period) - (The value of the tax which must be paid to the fiscal administration in the case that the corporation has incurred non-mandatory social expenditures during the ended accounting period). $20000 - $15000 = $5000. (4) Calculation of the real sacrifice as follows: Real sacrifice = the non-mandatory social expenditures × tax saving: $10000 × 5000 = $5000.

**TWO CONTROVERSIAL VIEWS**

To determine the value of the social expenditures for the
purpose of disclosure of the social responsibility and a statement of how to deal with the tax savings. The researcher introduces two controversial views to enrich the accounting thought in the field of accounting for the social responsibility: The First Controversial View: Excluding the value of the tax saving from the value of the social expenditures. To determine the value of the social expenditures for the purpose of disclosure of the social responsibility, the value of the tax saving must be subtracted or excluded from the value of the social expenditures in order to reach the amount of the real sacrifice incurred by the corporation in the area of interaction with the community. This is to accomplish the some social activities that attain benefits for that community regardless of the amount of the social benefits achieved by the society of those expenditures really incurred (according to this view, the real sacrifice incurred by corporation to produce the social benefits is the intended value for the purpose of evaluation and focus of attention). We can express what was mentioned above by using the following equation: (The value of the social expenditures for the purpose of disclosure of the social responsibility according to this view) = (The value of the real sacrifice incurred by the corporation) = (The social expenditures really paid during the ended accounting period - The tax saving). The above equation can be applied on the given data in the previous example to deduce the value of the real sacrifice incurred by the corporation as shown in Table 2.

According to this view, the value of the social expenditures - which must be used for the purpose of disclosure of the social responsibility for this corporation - is $6000. Argument of this view: Social benefits – achieved by community - should be attributed to the value of the real sacrifice incurred by the corporation to produce these benefits. Some users of financial statements and evaluators of social performance will be interested in the value of real sacrifice incurred by the corporation to produce a certain amount of social benefits. This is to prevent manipulation and deception and for purposes of transparency in the presentation of data. The Second Controversial View: Non-excluding the value of the tax saving from the value of the social expenditures to determine the value of the social expenditures for the purpose of disclosure of the social responsibility. According to this view, the social benefits achieved by the community should be attributed to these social expenditures actually paid, regardless of any benefits or economical savings achieved by the corporation of that expenditures really paid. Some users of financial statements and evaluators of social performance will be interested in the values that are really paid. In other words, the amount of social benefits realized by the community must be attributed to the financial amount really paid for the purpose of achieving that amount of benefits. What was mentioned above can be expressed using the following equation: (The value of the social expenditures for the purpose disclosure of the social responsibility) = (The social expenditures really paid during the ended accounting period). The above equation can be applied on the given data in the previous example to determine the value of the social expenditures for the purpose of disclosure of the social responsibility, as shown in Table 3.

According to this view, the value of the social expenditures that should be used for the purpose of disclosure of the social responsibility for this corporation is $10000. Argument of this view: Social benefits achieved by community should be attributed to the value of the social expenditures actually paid by the corporation to achieve these benefits. For the purposes of evaluation of social performance, users of financial statements and evaluators of social performance will be interested in the value of the social expenditures actually paid by the corporation to produce a certain amount of social benefits, regardless of the real sacrifice.

SUGGESTIONS

Through previous offer, the researcher offers two proposals in two different areas:

**First, in the area of disclosure:** This study presented two controversial views about the way to treat the tax savings achieved by the corporations as a result of incurring N-MESs, for the purpose of disclosure of the social responsibility. The first view calls for necessity of excluding the value of the tax saving from the value of the social expenditures in order to reach the amount of the real sacrifice incurred by the corporation to achieve social benefits to the community. Whereas the social benefits achieved by the society must be attributed to the amount of the real sacrifice incurred by the corporation to achieve these benefits. The second view calls for the necessity of non-excluding the value of the tax saving from the value of the social expenditures, whereas the social benefits achieved by the society must be attributed to the amount of the social expenditures really paid to achieve these benefits. For both controversial views, a strong proof and argument cannot be ignored and the process of choosing or supporting one of them is a hard. For the purpose of comprehensive disclosure of social expenditures, the researcher suggests the need to take into account both the views, in order to grant a user of financial statements a clear vision about the social expenditures. Table 4 shows the optimal way for comprehensive disclosure of social expenditures.

The relationship between tax savings and N-MESs (Corporate Philanthropy, Corporate Giving) must be clear during the disclosure of social responsibility. Through previous offer, a user of financial statements can determine the following: (1) Value of non-mandatory social
Table 2: Excluding the value of the tax saving from the value of the social expenditures.

<table>
<thead>
<tr>
<th>Social transactions</th>
<th>The social expenditures really paid during the accounting period</th>
<th>The tax saving</th>
<th>The value of the social expenditures (the amount of the real sacrifice incurred by the corporation)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution in educating people in the area</td>
<td>$4000</td>
<td>$1600</td>
<td>$2400</td>
</tr>
<tr>
<td>Contribution in cleaning public gardens</td>
<td>$3000</td>
<td>$1200</td>
<td>$1800</td>
</tr>
<tr>
<td>Contribution in maintaining hospitals</td>
<td>$3000</td>
<td>1200</td>
<td>$1800</td>
</tr>
<tr>
<td>Total</td>
<td>$10000</td>
<td>$4000</td>
<td>$6000</td>
</tr>
</tbody>
</table>

Table 3: Non-excluding the value of the tax saving from the value of the social expenditures.

<table>
<thead>
<tr>
<th>Social transactions</th>
<th>The social expenditures really paid during the accounting period</th>
<th>The value of the social expenditures for the purpose of reporting about the social responsibility (value of the social expenditures actually paid)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contribution in educating people in the area</td>
<td>$4000</td>
<td>$4000</td>
</tr>
<tr>
<td>Contribution in cleaning public gardens</td>
<td>$3000</td>
<td>$3000</td>
</tr>
<tr>
<td>Contribution in maintaining hospitals</td>
<td>$3000</td>
<td>$3000</td>
</tr>
<tr>
<td>Total</td>
<td>$10000</td>
<td>$10000</td>
</tr>
</tbody>
</table>

Table 4: How to reconcile the conflicting views.

<table>
<thead>
<tr>
<th>Area of CSR</th>
<th>Value</th>
<th>Classification of social expenditures</th>
<th>TSs</th>
<th>RS</th>
<th>Social expenditures really paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regarding community</td>
<td></td>
<td>MSEs</td>
<td>N-MSEs</td>
<td></td>
<td>$4000</td>
</tr>
<tr>
<td>Contribution in educating people in the area</td>
<td></td>
<td>$4000</td>
<td>$4000</td>
<td></td>
<td>$1200</td>
</tr>
<tr>
<td>Contribution in cleaning public gardens</td>
<td></td>
<td>$3000</td>
<td>$3000</td>
<td></td>
<td>$1200</td>
</tr>
<tr>
<td>Contribution in maintaining public hospitals</td>
<td></td>
<td>$3000</td>
<td>$3000</td>
<td></td>
<td>$1200</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$10000</td>
<td>$10000</td>
<td></td>
<td>$4000</td>
</tr>
</tbody>
</table>

Second, in the area of tax legislation (tax incentives for CSR on the Basis of real sacrifice): According to the classification of the corporate social expenditures proposed by the researcher, MSEs and N-MSEs in areas unrelated to interact with the community must be excluded and not taken into account when determining the tax incentives and exemptions. Where the focus should be only on N-MSEs in the areas of interaction with the community (corporate philanthropy, corporate giving) due to the following justifications: MSEs are imposed on all corporations in the same field by law, thus they cannot be avoided, there are legal accountability about them in the event of spending stopping. N-MSEs in areas unrelated to interaction with the community: are necessary and neither voluntary nor mandatory, can be avoided, there are no legal accountability about them in the event of spending stopping, indirectly and directly affect the economic performance of the corporation in the presence of market competition (in the market of labor, goods and services) through a change in the level of consumer loyalty- at present, the consumer becomes more aware of issues of CSR and consumers’ decisions have become influenced by the extent of corporation’s commitment to social responsibility – and a loyalty of the workers and employees to the corporation. So corporations will be keen and forced to incur MSE and N-MSE- in areas unrelated to interaction with the community- without any tax incentives, while
N-MSEs- in the areas of interaction with the community (corporate philanthropy, corporate giving) - are non-mandatory, they are voluntary, can be avoided, there are no legal accountability about them in the event of spending stopping. Therefore, these expenditures are taken into account when the IRS decides to grant tax incentives for corporations that incurred N-MSEs, with the need to deal with the concept of real sacrifice, which is the basis for identifying those incentives.

CONCLUSION

Corporate social expenditures can be classified into two types: (1) MSEs and (2) N-MSE which can be classified into two types: (A) N-MSEs in areas unrelated to interaction with the community. (B) N-MSEs in the areas of interaction with the community (corporate philanthropy, corporate giving). Thus, this type is intended in this study. This classification will contribute to determining the value of tax savings achieved by the corporation and the real sacrifice incurred by the same corporation that seeks to maximize its social performance through its commitment to social responsibility towards the community in which it operates.

This classification has contributed to the emergence of what is known as tax savings and real sacrifice, that can be used in the area of disclosure and tax legislation (Tax Incentives). The disclosure of social expenditures in accordance with this method- by identifying tax savings and real sacrifice- will contribute to the achievement of comprehensive disclosure requirements and meets the needs of users of financial statements. Also, this method will achieve a kind of harmony between the conflicting views. The value of the real sacrifice can be used by the IRS to determine the tax incentives or as a basis to tax legislation in this area.

REFERENCES


