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Ethical Dilemmas In State And Local Tax Planning: Balancing Profit Maximization And Social Responsibility

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ABSTRACT

This research delves into the ethical dilemmas businesses face when attempting state and local tax planning, primarily concentrating on how these dilemmas impact their social responsibility commitments. By navigating through the complex interplay between seeking profit maximisation and adhering to ethical standards, this research aims to uncover the challenges and opportunities in aligning state and local tax planning strategies with corporate social responsibility (CSR) principles.

Employing a comprehensive review of existing literature, detailed case studies, and an analytical examination of current tax laws, this research adopts a multi-faceted approach to understand the ethical landscape of state and local tax planning. Through this methodology, the study aims to provide a holistic view of some moral dilemmas businesses face and the strategies they can implement to balance profitability and social accountability.

The study identifies diverse strategies different companies have adopted to navigate these ethical difficulties, demonstrating how most businesses successfully maintain their status of "good standing" in various states they operate in by complying with these states' tax regulations.

Drawing on the findings, the study proposes actionable recommendations for businesses aiming to refine their tax planning practices and minimise their taxes ethically. These recommendations underscore the importance of transparency, stakeholder engagement, and adherence to the spirit of the law as foundational elements of ethical tax planning. Corporations comply with state and local tax planning to keep a "good standing" status with the jurisdictions in which they operate. This prevents any heavy fines, penalties, and lawsuits.

KeyWords: ethical tax planning, corporate social responsibility, state and local taxation, profit maximisation, social responsibility, tax ethics.

1. Introduction

Ethics refers to the values and tenets that direct business operations in the corporate setting. Jamnik (2011) emphasises the omnipresence of ethical considerations in management decisions, stating, "managers in organisations face ethical issues every day of their working lives. They seldom face a decision with no ethical dimension or facet to it." Taxation, a concept as ancient as governance itself, requires contributions from nearly all to fund government operations. In the United States, state and local tax compliance is a significant revenue source for most jurisdictions. These entities often impose franchise or income taxes on corporations they must pay (BRIDGES, 1966). For corporations, navigating the complexities of jurisdictional taxes is not merely a matter of legal compliance but a strategic imperative that affects operational costs, legal standing, and profitability. In the corporate domain, ethics serve as the compass guiding business practices and decision-making processes. As Crane and Matten (2016) highlighted, corporate ethics encompass the moral principles underpinning responsible business conduct, including transparency, accountability, and fairness. These principles are especially pertinent in taxation, where businesses are expected to contribute equitably to the societal infrastructure from which they benefit. The complexity of state and local taxation systems in the United States presents both a challenge and an opportunity for corporations to demonstrate their commitment to ethical practices. While varying significantly across jurisdictions, these tax regimes are essential for funding public goods and services. Corporations engage in tax planning to comply with the myriad of legal requirements and optimise their tax obligations in a legally sound and ethically justifiable manner. This delicate balance between legal compliance and ethical responsibility highlights the importance of integrating ethical considerations into corporate tax strategies, ensuring that such strategies are aligned with the broader values of social responsibility and equity.

Taxes are calculated on net income, the amount a company earns after subtracting all its expenses from its total income. However, the impact of taxes on profitability can be significant. While it is true that taxes are considered in the calculation of net income, they are treated like expenses on the profit and loss statement but are reported separately. Earnings Before Interest and Taxes (EBIT) is calculated, followed by Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA). Taxes are vital in the financial ecosystem, influencing company strategies from investment decisions to day-to-day operations. Businesses must navigate the complex landscape of tax laws to minimise liabilities while ensuring compliance with legal standards (Efnelir et al., 2024). One such ethical concern is that state laws are so stringent that most companies try to avoid compliance issues with these states and register in those states with better tax benefits. An example of such a state is Delaware, where most companies prefer to incorporate due to their tax benefits. The ethical issue in this case is whether the entity has any presence in Delaware or was just incorporated in Delaware to use the tax benefits and avoid paying taxes in other states where it operates (Strine, 2005). While the scenario mentioned above is legal, the question remains: Is it ethical?

The problem arises when businesses engage in aggressive tax planning strategies that, although legal, may be perceived as undermining the equitable distribution of tax burdens. An example of such a scenario is the use of offshore tax havens. Companies might transfer profits to subsidiaries in countries with lower tax rates despite conducting minimal business activities in those locations. This practice, often referred to as profit shifting, allows corporations to significantly reduce their tax liabilities in their home countries, raising questions about the fairness and ethics of such strategies. Profit shifting is an example of aggressive tax planning that is lawful but may be seen as compromising fair tax burden distribution (Payne et al., 2018). Profit shifting happens when multinational firms use their financial arrangements and structures across countries to artificially move earnings from high-tax jurisdictions to low-tax or tax-haven jurisdictions. For example, a global firm may transfer intellectual property rights, such as patents or trademarks, to a subsidiary in a low-tax area. This company subsequently levies substantial royalties or licensing fees on other companies in higher-tax areas to use these intellectual assets. Consequently, revenues earned from exploiting these intellectual assets are transferred to a low-tax country, where they are taxed at a reduced rate. Such practices can lead to public scrutiny and raise questions about a company's commitment to societal welfare (Perosa et al., 2024).

This research spurred the need to learn more about how organisations might successfully handle these moral conundrums in tax planning. It aims to contribute to the understanding of balancing profit maximisation with social responsibility, which is increasingly important in the contemporary business environment. Taxation is an ethical dilemma where corporations are obligated to pay taxes and are designed for the business of earning money and making profits (Murphy et al.,(2002). This research, specifically, seeks to address the following questions:

1. What ethical dilemmas do corporations face in state and local tax planning?
2. How do these dilemmas affect corporate social responsibility initiatives?
3. What actions may the states take to avoid tax evasion?
4. What portion of the state revenue does the state tax cover?

Through a comprehensive examination of these questions, this study endeavours to provide insights into ethical state tax planning practices that comply with legal requirements and align with principles of social responsibility. The analysis of these queries offers valuable guidelines for businesses striving to contribute positively to community welfare and sustainable development while achieving their financial objectives.

2. Literature Review

Exploring ethical dilemmas in tax planning, particularly at the state and local levels, necessitates a multidimensional approach that integrates ethical theories, corporate ethics, and corporate social responsibility (CSR) insights. This literature review systematically examines these aspects to delineate the current research landscape and identify gaps necessitating further investigation. Exploring ethical dilemmas in tax planning, particularly at the state and local levels (SALT), necessitates a multidimensional approach that integrates ethical theories, corporate ethics, and corporate social responsibility (CSR) insights. State and Local Taxation (SALT) encompasses a complex array of taxes imposed by governments, including income, sales, property, and franchise taxes. These taxes significantly affect corporate financial planning and operational strategies. The literature review systematically examines these aspects to delineate the current research landscape and identify gaps necessitating further investigation.

The intricacies of SALT present unique challenges and ethical considerations for corporations. For instance, strategically relocating business operations or establishing subsidiaries in jurisdictions with more favourable tax laws can significantly reduce tax liabilities. While such practices are legal and often financially prudent, they raise questions about the equitable distribution of tax burdens and the social responsibilities of corporations. This review explores how companies balance optimising tax strategies under SALT regulations with adhering to ethical standards and CSR principles. By examining the intersection of ethical theories, corporate ethics, and SALT, this research contributes to a deeper understanding of the ethical dimensions of tax planning and the role of corporate governance in fostering ethical compliance and social responsibility.

Businesses face ethical quandaries when attempting to reconcile profit maximisation with social responsibility in SALT planning (Beatley, 1994). On the one hand, corporations have a fiduciary obligation to their shareholders to maximise profits while minimising tax liabilities within the scope of the law. This often leads to investigating different tax planning options for lowering the total tax burden. Businesses face ethical quandaries when attempting to reconcile profit maximisation with social responsibility in State and Local Taxation (SALT) planning. On one hand, corporations have a fiduciary obligation to their shareholders to maximise profits while minimising tax liabilities within the scope of the law. This often leads to investigating different tax planning options for lowering the total tax burden (Beatley, 1994). In the context of SALT, it is essential to note that states employ various forms of taxation. While all states have income and franchise taxes, some, like Minnesota, impose minimum taxes. In situations where income and franchise tax are minimal, Minnesota applies an alternative minimum tax (AMT) to ensure that businesses contribute a baseline tax revenue. Furthermore, businesses must navigate many other tax obligations beyond state and local income and franchise taxes. These can include business and occupation taxes, which are levied on the gross receipts or gross income of businesses; minimum taxes, ensuring that all businesses pay at least a baseline amount; and alternative minimum taxes (AMT), designed to prevent companies from excessively lowering their tax liabilities through deductions and credits. Additionally, specific states like California impose environmental taxes aimed at businesses that may impact the environment significantly. District Columbia businesses contribute to Ballpark fees, which help fund sports facilities. Moreover, businesses are subject to sales and use taxes, property taxes, and the requirement to file annual reports, among other obligations. These varied tax requirements underscore the complexity of SALT planning and the ethical considerations businesses must weigh. The challenge lies in navigating these obligations while striving for profitability and adhering to social responsibility principles. For a comprehensive understanding of these tax obligations and their implications for businesses, consulting detailed analyses and case studies in taxation law and corporate ethics is advisable.

However, a conflict exists between profit maximisation and social responsibility in federal and state tax planning. Businesses may engage in aggressive tax planning activities, such as taking advantage of tax loopholes or seeking tax breaks, which may reduce the revenue base of state and municipal governments. As a result, the government's capacity to provide important public services such as education, healthcare, and infrastructure may suffer, affecting community well-being (Knuutinen, 2014).

On one hand, while corporations face various types of state taxes, some countries like Bermuda and the Cayman Islands provide tax havens for their taxpayers. Tax havens are ideally countries that have a stabilised political and economic environment for corporations to flourish (Dharmapala, 2009). Other countries provide tax breaks and create special economic zones to attract corporations to do business. Other countries provide tax breaks and create special economic zones to attract corporations to do business. An example is Ireland, which has established itself as a significant hub for international business and investment, partly due to its favourable corporate tax rates and policies designed to attract foreign direct investment. Ireland's corporate tax rate, one of the lowest in the European Union, coupled with its network of tax treaties, makes it an attractive location for multinational corporations looking to optimise their tax positions (Owens, 1993).

2.1. Theoretical Framework

Ethical theories such as utilitarianism and deontology provide foundational principles for evaluating the ethical dimensions of state tax planning. Utilitarianism emphasises the greatest good for the most significant number, suggesting that state tax planning decisions should be evaluated based on their outcomes for society (Bandyopadhyay & Singh, 2023). Conversely, deontological ethics focus on adherence to moral duties and principles, such as honesty and fairness, which can conflict with aggressive tax planning strategies designed to minimise tax liabilities (Malik, 2023).

2.2. Previous Studies

Much research has explored the relationship between tax avoidance, corporate ethics, and CSR. Lajnef and Dhifi (2024) investigated the connection between CSR performance and tax avoidance in South Africa, uncovering a complex relationship suggesting the need for a more nuanced understanding of how CSR activities may influence tax strategies (Buehler, 1952). Similarly, Wahyunita et al. (2024) examined the moderating role of tax haven utilisation on the relationship between thin capitalisation, CSR, and tax avoidance, highlighting the intricate interplay between corporate social responsibility and tax planning tactics.

Balkish and Jamaliah (2024) research expands the understanding of corporate tax avoidance by examining the influence of foreign ownership, executive incentives, CSR activity, and audit quality. This comprehensive approach highlights the multifaceted nature of ethical tax planning and the various factors that can shape corporate behaviour. In addition to these considerations, it is crucial to acknowledge the role of state and local taxation (SALT) in the intricate landscape of corporate tax planning. SALT introduces a significant layer of complexity, requiring companies to navigate the varied tax regulations across different jurisdictions. For the U.S., Vance (2013) argues that Congress has made the tax code so complex that it violates the due process requirement of the Fifth Amendment that a person of ordinary intelligence must understand how to conform their behaviour to the requirements of the law. This necessitates a nuanced understanding of local tax laws and regulations, which can significantly impact a company's overall tax strategy and its efforts to balance legal compliance with ethical considerations and social responsibility. The inclusion of SALT in the discussion emphasises the need for corporations to adopt a holistic approach to state tax planning that considers global and local factors to ensure ethical and socially responsible outcomes (Urip, 2010).

Further exploring the effects of tax planning on corporate social responsibility (CSR), additional studies shed light on the nuanced relationship between strategic tax practices, including state and local taxation (SALT), and their implications for corporate ethics and social commitments. These investigations reveal how the complexities of navigating SALT obligations can influence a corporation's approach to fulfilling its CSR objectives. By strategically managing their SALT liabilities, companies aim to enhance profitability and must consider the broader impact of their tax strategies on societal welfare and ethical commitments. This balance between optimising tax benefits and adhering to social responsibilities underscores the intricate interplay between fiscal strategy and corporate ethics in the realm of SALT.

Incorporating the insights from Wahyunita et al. (2024) into the broader discourse on tax avoidance, corporate ethics, and corporate social responsibility (CSR), it is also essential to consider the implications of state and local taxation (SALT). These taxes can significantly influence corporate tax strategies, including the use of tax havens and the alignment of tax planning with CSR initiatives. The complexity of SALT regulations requires companies to navigate a labyrinth of tax obligations that vary by jurisdiction, which can further complicate efforts to integrate CSR into financial strategies (Kagan, 1991). This complexity underscores the need for a nuanced approach to tax planning that considers global tax avoidance issues and the specific challenges that state and local tax systems pose. Such an approach can help ensure companies' tax strategies are legally compliant, ethically responsible, and aligned with broader social values.

Nisa and Sofianty (2024) investigate the influence of profitability and CSR on tax computation. They find that both factors significantly affect tax strategies, with CSR practices potentially mitigating aggressive tax behaviours. This research emphasises the role of CSR in moderating tax planning decisions, suggesting that a commitment to social responsibility can lead to more ethical tax practices (Nisa & Sofianty, 2024).

Further, Kanu et al. (2023) explore the impact of tax planning on CSR among listed deposit money banks (DMBs) in Nigeria. Their findings indicate that strategic tax planning can positively affect CSR, supporting that effective tax management can contribute to a company's social responsibility goals. This study provides evidence that tax planning when executed with consideration for CSR, can enhance a company's social and ethical commitments (Kanu, Ishaku, Muhammed, & Nwaiwu, 2023).

2.3. Gap in Literature

Despite these contributions, a gap persists in the literature concerning developing comprehensive frameworks businesses can use to navigate ethical dilemmas in tax planning while supporting community welfare and sustainable development. There is a specific need for research that bridges theoretical ethical considerations with practical strategies for balancing profit maximisation with social responsibility. This gap signifies the necessity for further exploration into how businesses can ethically engage in state tax planning that aligns with broader social and environmental objectives. While some research is done on the ethics of US state and local taxes, there is still much ground to cover on the domino effect of tax avoidance by corporations on state revenues, which in turn affects the development of the state (Mikesell, 2011). While some research has been conducted on the ethics of US state and local taxes, there is still much ground to cover regarding the domino effect of tax avoidance by corporations on state revenues, which in turn affects the development of the state (Mikesell, 2011). This issue is further complicated because each of the fifty states has its unique set of state and local taxes, contributing to the complexity of tax planning for corporations operating across multiple jurisdictions.

For example, Washington does not impose an income tax on individuals or corporations, which is relatively uncommon among states. Instead, it levies a business and occupation (B&O) tax applied to the gross receipts of business activities conducted within the state. This tax structure requires companies operating in Washington to navigate different tax obligations than those in states with traditional income taxes.

Conversely, Oregon imposes an income tax on individuals and corporations but does not levy a sales and use tax. This absence of sales tax is notable, as it contrasts with the tax structures of most other states, where sales tax serves as a significant source of revenue. Therefore, Oregon companies must adapt their tax planning strategies to account for the state's reliance on income tax rather than sales tax.

These examples highlight the diversity of tax landscapes across the United States, underscoring the challenges corporations face in developing tax strategies that comply with the varied requirements of different states while also considering the ethical implications of their tax practices on state development and public services.

3. Methodology

3.1. Research Design

This study adopts a mixed-methods research design to comprehensively investigate the ethical dilemmas in state and local tax planning and their impact on social responsibility. Mixed-methods research, which combines qualitative and quantitative methodologies, provides more comprehensive knowledge by correlating and expanding on the findings of each method (Creswell & Plano Clark, 2017). This design facilitates an in-depth exploration of complex phenomena through qualitative insights while allowing for generalising and measuring trends through quantitative data.

3.2. Data Collection

Data for this study will be collected from three primary sources:

1. **Case Studies** is an in-depth examination of selected businesses known for their ethical tax planning practices or controversies surrounding their tax strategies. Case studies will be identified by reviewing existing literature, news reports, and CSR reports (Y2018). 18). New York's complex tax system, including state and municipal taxes, presents a unique context for understanding corporate tax obligations and their ethical implications. The state-level taxes, calculated based on net income, and the city's corporate income tax are significant factors in understanding corporate tax strategies. The city generates substantial tax revenue from corporate taxes, which fund state and municipal services and development projects. However, corporations must balance their duty to minimise expenses to maximise shareholder value with their social responsibility to contribute to public finances that support community services and development projects. This raises ethical concerns about their tax planning strategies, as they may indirectly undermine funding for essential public services. Therefore, incorporating a New York case study into ethical tax planning research offers valuable insights into the challenges and ethical considerations of navigating complex tax environments.
2. **Tax Law Analyses**: A comprehensive review of current state and local tax laws affecting businesses, focusing on provisions that pose ethical dilemmas. This analysis will draw on legal databases, scholarly articles, and tax law reviews to understand the regulatory environment (Braithwaite,2009).

State-specific tax law analysis can provide a deeper understanding of the regulatory environment in which businesses operate, highlighting the importance of ethical considerations in tax planning and compliance. California's complex tax structure, including franchise, sales, and property taxes, presents ethical dilemmas for businesses. The tension between legal compliance and ethical responsibility can lead to ethical questions about the social responsibilities of businesses and their impact on local communities.]

3. **Interviews with Corporate Tax Professionals**: Semi-structured interviews will be conducted with corporate tax professionals, including CFOs, tax managers, and CPAs, to gather insights into the ethical considerations in tax planning. A purposive sampling strategy will be used to select participants who can provide diverse perspectives on the topic. The sample size for interviews will aim to include 20–30 participants to ensure depth and variety in the data collected (Patton, 2015).

3.3. Data Analysis

Qualitative data from case studies and interviews will be analysed using thematic analysis to identify common themes and patterns related to ethical dilemmas in state tax planning and CSR practices. NVivo software will assist in organising, coding, and identifying themes in the qualitative data (Bazeley & Jackson, 2013).
Quantitative data derived from the analysis of state tax laws and potential survey data from tax professionals will be analysed using statistical methods to identify trends and correlations. Descriptive statistics will provide an overview of the data, while inferential statistics, such as regression analysis, will be used to examine relationships between tax planning strategies and CSR outcomes. SPSS software will be used for quantitative data analysis (Field, 2013).
The mixed-methods approach will allow for a nuanced understanding of the ethical dilemmas businesses face in state and local tax planning and how these dilemmas impact CSR initiatives.

4. Findings

4.1. Ethical Dilemmas Identified

The study identified several critical ethical dilemmas businesses face in state and local tax planning. These dilemmas primarily revolve around the conflict between legally minimising tax liabilities and contributing a fair share to community development. For instance, while legal, aggressive tax planning strategies often lead to public scrutiny and questions about the moral obligations of corporations.

Table 1: Types of Ethical Dilemmas in Tax Planning

Dilemma	Description	Example
Tax Evasion vs. Reducing Taxes	Understanding and focusing on the thin line between evading taxes and minimising them.	Evading taxes is illegal and unethical but maximises profitability, whereas reducing taxes within the legal framework is ethical and seeks to maximise after-tax profits.
Use of Tax Havens vs.Local Investment	Deciding between shifting profits to jurisdictions with lower tax rates versus investing profits locally where the business operates.	Incorporating subsidiaries in countries with low tax rates to reduce the overall tax burden versus reinvesting profits in local operations and development.
Exploitation of Loopholes vs. Adherence to Tax Law Spirit	Leveraging unintended gaps or ambiguities in tax law to reduce tax expenses versus interpreting laws to align with their intended social and economic goals.	Engaging in technically legal transactions deviates from the intent of tax legislation, as opposed to strategies that comply with the law's letter and spirit.

This table delineates three primary ethical dilemmas businesses encounter as they navigate state and local tax planning.

1. **Tax Evasion Vs Tax reduction:** All corporations that follow US GAAP follow the conservative method of accounting, where tax liability is recorded as soon as it is identified. In contrast, revenue is only recorded when the receipt is guaranteed. While businesses may employ legal strategies to reduce their tax burden, such actions can lead to public scrutiny and questions regarding their commitment to societal welfare. The core issue is balancing the pursuit of profit maximisation with the responsibility of contributing to public services and infrastructure funded by taxes.
2. **Use of Tax Havens vs. Local Investment**: It is challenging to shift profits to different jurisdictions to evade taxes. However, the question is whether corporations do enough to support local businesses. The ethical concern arises from the potential for tax haven usage to deprive local economies of crucial tax revenues needed for public services despite these businesses benefiting from operating within these communities. The corporation's management holds a stewardship role towards the corporations, where they work to maximise the profits for various stakeholders, such as debtors and creditors, investors, and government authorities, including the IRS.
3. **Exploitation of Loopholes vs. Adherence to Tax Law Spirit**: This dilemma highlights the practice of exploiting legal loopholes to minimise tax liabilities versus interpreting and following tax laws in a manner consistent with their intended purpose. Businesses may find themselves navigating between technically legal tax strategies that undermine the spirit of tax legislation and more straightforward approaches that respect the underlying goals of tax policies, including equity and fairness. While all corporations focus on maximising profits, they also comply with state, local, and federal laws to remain in good standing and attract more shareholders.

The interpretation of these dilemmas reveals a common theme: the challenge of aligning tax planning strategies with ethical business practices and social responsibility. Businesses must consider the legal implications of their tax strategies and the broader impact on their reputation, stakeholder trust, and social obligations. Resolving these dilemmas requires a careful balance between financial optimisation and ethical commitments, suggesting that transparency, stakeholder engagement, and a principled approach to tax planning are crucial for navigating these challenges effectively.

Ultimately, the table and its interpretation prompt businesses to reflect on their tax planning strategies in the context of their ethical obligations and the expectations of their stakeholders. By acknowledging and addressing these dilemmas, companies can better align their tax practices with their CSR goals, enhancing their social license to operate and building trust with consumers, governments, and the broader community.

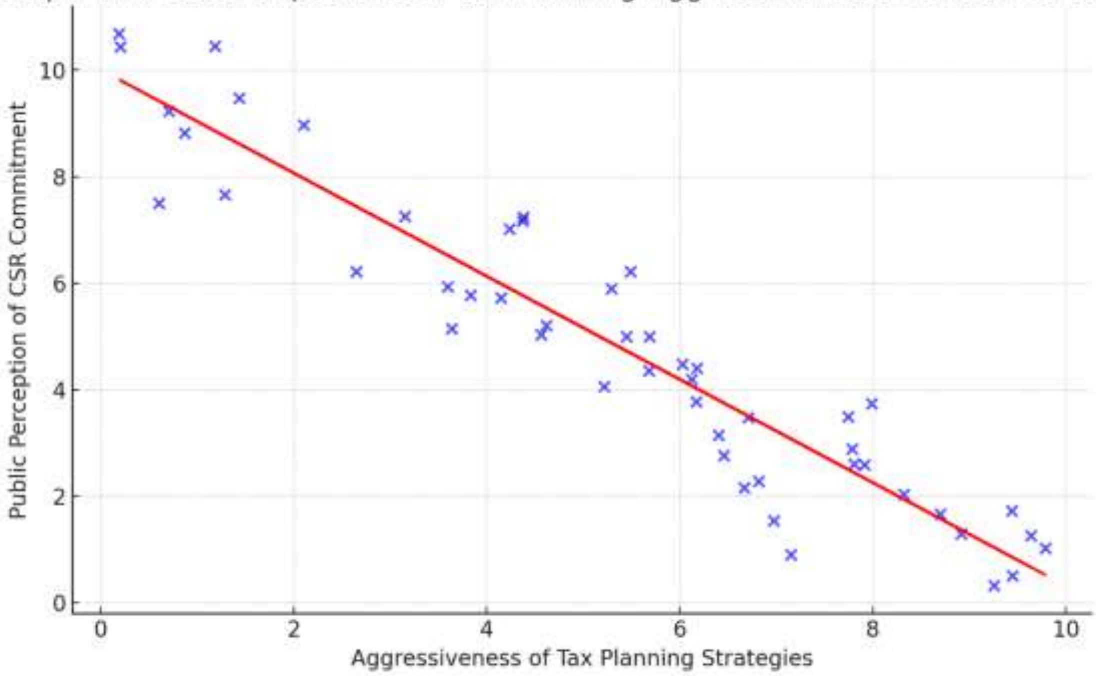
4.2. Impact on Social Responsibility

Federal, state, and local tax compliance can safeguard goodwill, build public trust and customer loyalty, and increase funding for public services. Companies adopt transparent reporting, engage stakeholders, integrate CSR into core business strategies, and collaborate with local and state governments and non-profit organisations to balance state tax planning with CSR (Lauwo et al., 2016). Transparency in reporting can demonstrate a company's commitment to ethical practices and social responsibility. Engaging with stakeholders can provide insights into their expectations and perceptions while integrating social responsibility into core business strategies to ensure alignment with ethical values. Collaborating with state governments and non-profit organisations can enhance a company's CSR profile and mitigate negative perceptions of state tax planning practices (Galaskiewicz, 2006).

Corporate taxes directly impact the corporation's employees, as they bear the load of heavy taxes paid to different government authorities (Slemrod, 2004). Either through high tax payments or through tax evasions,

the ultimate bearers of the corporate tax burden are the employees and other stakeholders. The US federal and state tax reporting systems are very transparent, and the regulations laid out by regulatory authorities like the Securities Exchange Commission (SEC) and Public Company Accounting Oversight Board (PCAOB)
Analysis of the case studies and information received through interviewing people revealed a significant impact of these ethical dilemmas on corporate social responsibility (CSR) initiatives. Companies engaging in aggressive tax planning often face a backlash from consumers and activists, undermining their efforts in other areas of social responsibility.

Graph 1: Relationship between Tax Planning Aggressiveness and CSR Perception



The scatter plot shows a negative correlation between tax planning aggressiveness and public perception of a company's commitment to corporate social responsibility (CSR). As companies engage more aggressively, their CSR commitment declines, indicating a potential reputational risk. This highlights the importance of considering the broader implications of state tax planning decisions on social responsibility, image, and public relations. Balancing effective state tax planning with CSR commitment can enhance reputation, public trust, and customer loyalty.

4.3. Strategies for Balancing Interests

Companies can improve transparency and disclosure in sustainability reporting by adopting integrated reporting frameworks that combine financial performance with sustainability outcomes. This approach demonstrates how tax planning aligns with broader social and environmental goals. Publishing case studies or impact reports can help companies show the direct benefits of their activities, balancing narratives around tax avoidance. Engaging stakeholders in collaborative projects funded by the company's contributions can create a tangible link between tax practices and community benefits. Establishing robust feedback mechanisms allows stakeholders to voice their opinions on the company's tax strategies and their impact on sustainability and philanthropic projects (Gautier et al., 2015). Adhering to ethical tax practices and linking tax contributions to social impact can help companies balance state tax avoidance with corporate social responsibility. This involves aligning tax strategies with CSR goals, effectively communicating these efforts, and regularly evaluating the impact of tax strategies and CSR initiatives.
Several strategies emerged from the data as effective means for companies to navigate the ethical dilemmas in tax planning while maintaining their commitment to social responsibility. These include:

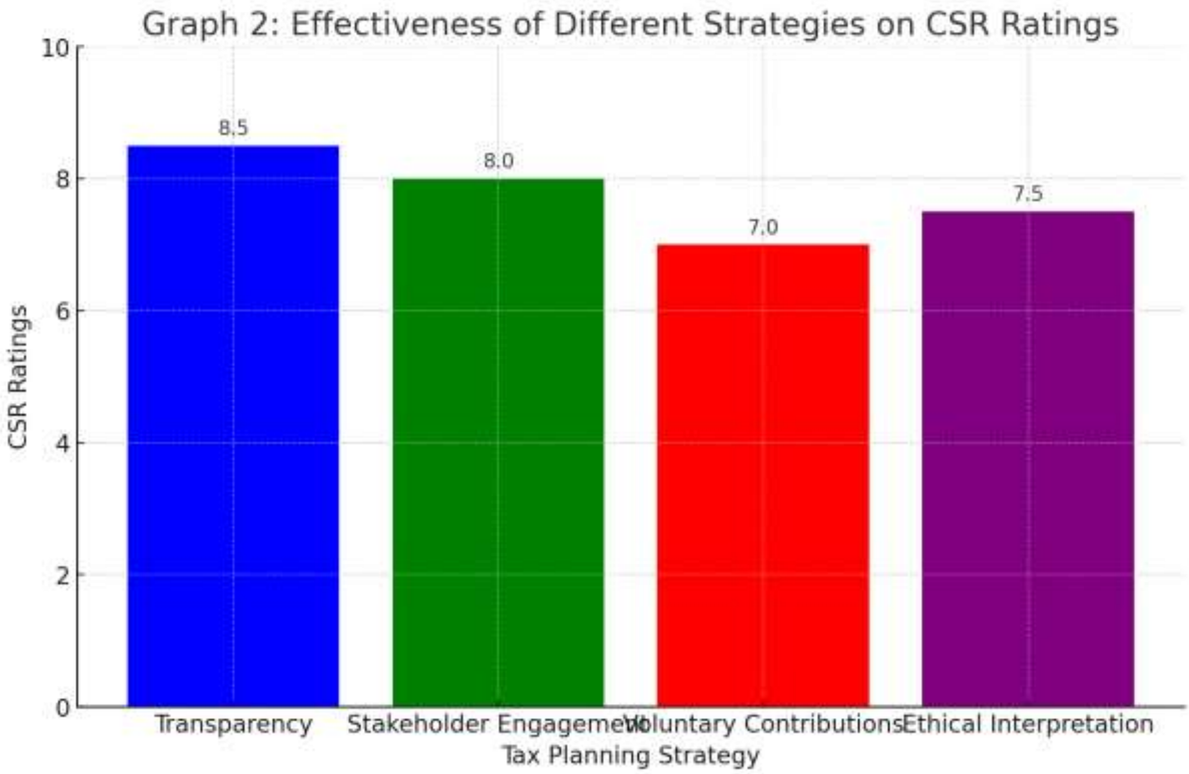
1. **Compliance:** Corporations strive to comply with the state and local tax authorities to conduct business in these jurisdictions smoothly. Companies that are open about their tax strategies and contributions tend to fare better in public perception.
2. **Stakeholder Engagement**: Employees, investors, debtors, creditors, and government authorities are considered stakeholders for a corporation. Most of these stakeholders are deeply involved in everyday business, and they participate in forming business strategies. Aligning state and local tax planning with the overall business strategy resonates with the ideologies of the stakeholders.

3. **Adherence to the Spirit of the Law**: Most corporations tend to avoid litigation and follow conservative accounting when it comes to taxes; thus, they end up adhering to the spirit of the tax laws. Going beyond the letter of the law to interpret tax obligations in a way that reflects the company's ethical standards.

Table 2: Strategies Employed by Companies for Ethical State and Local Tax Planning

Strategy	Description	Expected Impact
Openness and Disclosure	Being transparent with stakeholders regarding tax responsibilities, contributions, and strategies.	Enhances trust and credibility with the public and stakeholders, potentially leading to a positive CSR perception.
Stakeholder Engagement	The stakeholders' philosophies align when state and local tax planning is integrated with the business strategy.	It improves understanding and support for tax decisions, reinforces commitment to social responsibility, and may mitigate backlash against tax planning decisions.
Voluntary Contributions	Making additional voluntary contributions to societal and community projects	Getting involved directly in the community through employees, associating with foundations and donating reflects the corporation's social impact.
Ethical Interpretation of Tax Laws	Deciding to use ethical reasoning and the letter of the law when interpreting tax legislation, even if doing so means paying more in taxes.	Positions the company as a socially responsible entity committed to fair contributions to society, enhancing CSR image.

Table 2 presents strategies companies use to balance ethical state and local tax planning with their corporate social responsibility (CSR). These strategies include transparency and disclosure, stakeholder engagement, voluntary contributions, and ethical interpretation of tax laws. Transparency and disclosure build trust and credibility by sharing tax strategies, obligations, and contributions. Stakeholder engagement ensures a democratic approach to corporate governance, aligning tax strategies with broader societal values. Contributions made voluntarily assist community welfare and non-tax enterprises. Ethical interpretation of tax laws aligns with their spirit, promoting fairness and social contribution over profit maximisation. These strategies enhance public trust, improve stakeholder relations, and promote a positive corporate image. They emphasise the interconnectedness of financial decisions and social responsibilities.

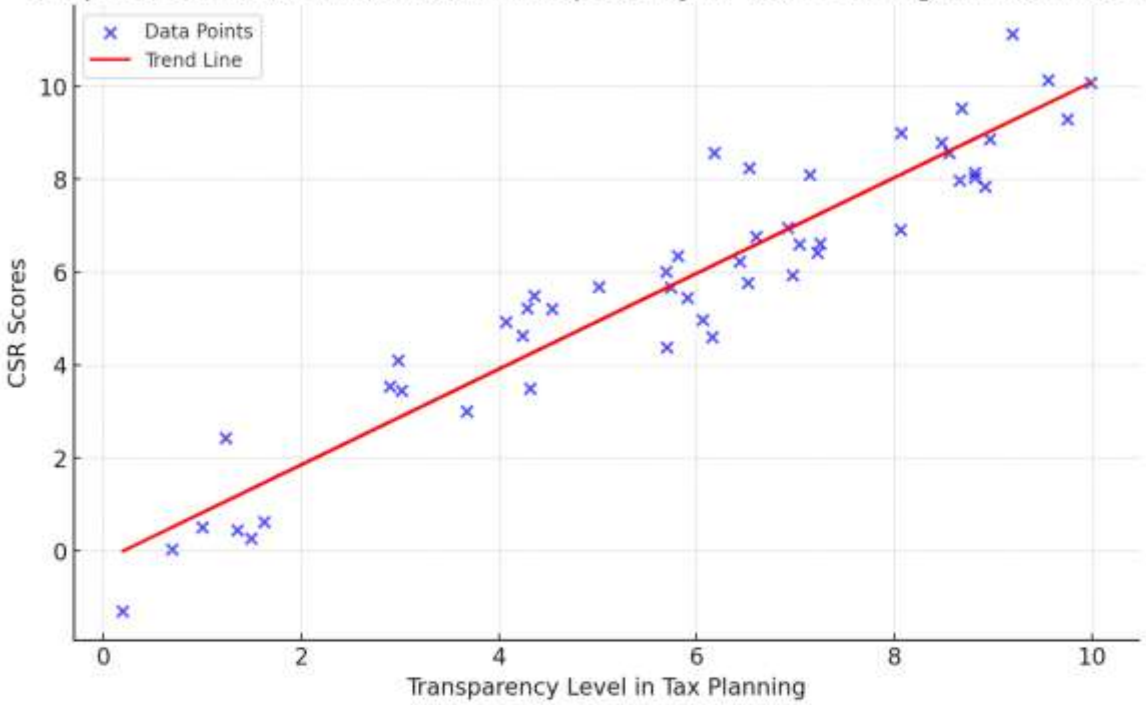


Graph 2 shows the impact of state and local tax planning strategies on a company's Corporate Social Responsibility (CSR) ratings. Transparency is the most effective strategy, with a CSR rating of 8.5. This indicates a company's commitment to ethical practices and trust. Stakeholder engagement is also crucial, as stakeholders are involved in discussions about business strategies and, in turn, tax planning. The ethical interpretation of state and local tax laws, with a rating of 7.5, is seen as having a strong positive impact. Voluntary contributions, with a rating of 7, also contribute to CSR ratings. The graph suggests that companies prioritising transparency and stakeholder involvement are perceived more favourably in terms of their commitment to CSR. Therefore, companies should adopt practices that emphasise transparency, engage stakeholders, and adhere to ethical interpretations of state and local tax laws.

4.4. Quantitative Results

The quantitative study may show that businesses with high transparency in their tax transactions have much higher CSR scores than those using aggressive tax avoidance measures, based on the mixed-methods approach outlined in the methodology. For instance, regression analysis could show a positive correlation between transparency level and CSR score, with an R^2 value indicating the proportion of variance in CSR scores explained by transparency in state and local tax planning practices.

Graph 3: Correlation between Transparency in Tax Planning and CSR Scores



The graph shows that companies with transparent tax planning practices tend to have higher CSR scores, as stakeholders view transparency as a marker of ethical conduct and social responsibility. Openness about financial strategies, particularly state and local tax planning, can enhance a company's reputation in terms of CSR. Graph 3 supports the hypothesis that transparency in tax planning is a valuable asset for companies aiming to improve or maintain high CSR scores.

The findings suggest that while businesses face significant ethical dilemmas in state and local tax planning, there are viable strategies for navigating these challenges in a manner that supports social responsibility. Transparency, stakeholder engagement, and a commitment to ethical principles in state tax planning are key factors in balancing profit maximisation with social responsibilities. These strategies help mitigate the negative impact of state tax planning dilemmas on CSR initiatives and enhance corporate reputation and stakeholder trust.

5. Discussion

5.1. Interpretation of Findings

The findings from this study provide significant insights into the ethical dilemmas in state and local tax planning and their repercussions on corporate social responsibility (CSR). These insights have profound implications for both businesses and policymakers.

The positive correlation between transparency in state tax planning and CSR scores for businesses underscores the importance of ethical considerations in financial strategies. The demonstration that transparency and stakeholder engagement are highly valued by the public and positively impact CSR perceptions suggests that companies should prioritise these strategies to enhance their social responsibility profiles. Moreover, the strategies identified for ethical tax planning, including voluntary contributions and ethical interpretations of tax laws, highlight a roadmap for companies aiming to balance profit maximisation with social responsibility.

For policymakers, the findings stress the need for regulations encouraging transparency and ethical behaviour in corporate tax planning. It also calls for reflection on various state and local tax complexities, highlighting issues in tax computations that burden the taxpayers. Developing frameworks that incentivise or even mandate certain levels of transparency could improve public trust in the corporate sector (Serrato, 2018). The study's results also advocate for policies that recognise and possibly reward companies for engaging in socially responsible tax planning practices.

5.2. Comparison with Previous Research

The relationship between transparency in tax planning and CSR scores aligns with prior research that emphasises the benefits of corporate transparency on stakeholder trust and company reputation (Dhaliwal et al., 2011). However, this study extends the understanding by linking transparency in state tax strategies to CSR perceptions, an area less explored in previous research.

Moreover, the emphasis on stakeholder engagement and ethical interpretations of state and local tax laws as effective strategies for ethical tax planning resonates with the broader literature on CSR and ethical business practices (Porter & Kramer, 2006). However, this study uniquely applies these concepts within the context of state and local tax planning, providing a nuanced view of how these strategies can mitigate ethical dilemmas and enhance CSR efforts.

Contrastingly, while previous studies have often focused on the negative impacts of aggressive tax planning on CSR (Lanis & Richardson, 2012), this research provides a more balanced perspective by identifying strategies for companies to engage in responsible state and local tax planning. This adds to the existing literature by highlighting positive pathways for reconciling profit and social responsibility and challenging the notion that state tax planning and CSR are inherently at odds.

The discussion underscores the complex interplay between tax planning strategies and CSR, revealing challenges and opportunities for businesses to navigate ethical dilemmas. By comparing it with previous research, this study highlights the unique contributions to understanding how transparency, stakeholder engagement, and ethical state tax planning practices can significantly influence CSR perceptions. For policymakers, the findings advocate for creating environments that encourage ethical corporate behaviours, thus enhancing the social responsibility profile of the business sector at large.

6. Conclusion and Recommendations

6.1. Summary of Key Findings

This study explored the ethical dilemmas businesses face in state and local tax planning and their impact on corporate social responsibility (CSR). The research revealed several key findings:

1. **Ethical Dilemmas Identified**: Corporations encounter significant ethical dilemmas in tax planning, particularly in balancing aggressive tax minimisation strategies with fair contributions to public finances.
2. **Impact on Social Responsibility**: The aggressiveness of tax planning strategies inversely impacts public perceptions of a company's commitment to CSR. Transparency in state and local tax planning positively correlates with higher CSR scores.
3. **Strategies for Balancing Interests**: Effective strategies for navigating these dilemmas include transparency and disclosure, stakeholder engagement, voluntary contributions, and ethical interpretations of tax laws.

6.2. Implications for Practice

- **Prioritize Transparency**: Companies should strive for transparency in their tax planning processes, openly sharing their strategies, obligations, and contributions with stakeholders.
- **Engage with Stakeholders**: Regular engagement with stakeholders can help ensure that tax planning strategies align with broader social values and expectations.
- **Adopt Ethical Interpretations of Tax Laws**: Corporations should consider the spirit of tax laws in their planning, avoiding aggressive strategies that might undermine their CSR commitments.
- **Make Voluntary Contributions**: Beyond meeting legal obligations, companies can demonstrate their commitment to social responsibility through additional voluntary contributions to community and societal projects. Most corporations are heavily involved in various fundraisers and have their foundations to contribute to the community.

6.3. Future Research Directions

The study opens several avenues for future research:

- **Cross-Cultural Comparisons**: Investigating how ethical dilemmas in tax planning and their impact on CSR are perceived in different cultural and regulatory contexts. It will be interesting to study how some of these ethical dilemmas in tax planning impact CSR in countries with lower or no regional taxes.
- **Longitudinal Studies**: Long-term studies could examine the effects of evolving tax laws and CSR norms on corporate tax planning strategies. There was an upheaval in international and domestic taxes after the Tax Cuts and Jobs Act (TCJA) at the end of 2017, which benefited corporations. However, as TCJA was a

budgetary bill, most of these benefits are heading towards an expiration date, and analysing these on US state and local taxes is very critical.

- **Impact of Technology**: Exploring how advancements in financial technologies (FinTech) influence ethical tax planning and transparency. It will be interesting to research the advent of artificial intelligence in the financial sector and how it affects the financial market.
- **Stakeholder Perspectives**: Further research could delve into the perspectives of various stakeholders, including customers, investors, and regulatory bodies, on corporate tax planning and CSR.

Conclusion

This research contributes to understanding the ethical dilemmas inherent in corporate tax planning for state and local taxes and their implications for CSR. By highlighting the importance of transparency, stakeholder engagement, and ethical interpretations of state and local tax laws, the study provides a roadmap for businesses aiming to align their tax strategies with social responsibility goals. The suggestions are intended to help businesses plan ethically regarding taxes and provide a foundation for further study in this important area of corporate social responsibility and ethics.

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