11 Taxation and Social Accounting

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Introduction

Taxation is a central component in the operation of modern states and an important societal issue. The payment of taxes is a fundamental concern for individuals, organisations and governments, however, the relationship between taxation and society is complex. For some, taxation is “an essential element in the social contract between government and citizens” (Boden et al., 2010:541). For others, taxation is regarded as an unpleasant governmental intervention that should be minimised (Murphy, 2016). Whichever perspective is adopted, taxation involves transactions between taxpayers and the state and is interwoven into the very fabric of modern society. The centrality of taxation to the operation of modern societies has recently resulted in concern with accountability and transparency, with taxation becoming a high-profile issue for the general public in relation to the activities of several organisations and individuals. For example, as the result of campaigning by several charities and Civil Society Organisations (CSOs), the attention of the public has been drawn to an apparent lack of correlation between the economic success of private sector organisations and the amount of taxation that these organisations have paid (Murphy, 2016). The impact of these campaigns within the private sector has seen organisations and individuals voluntarily paying more taxation but, despite this, there remain several areas of concern regarding the fair payment of taxation and the role of organisations and governments in this regard. With this in mind, the aim of this chapter is to highlight social and ethical issues related to taxation and the responses to such issues. The chapter considers the responses to these issues from the perspective of private, public and third sector organisations to set tax within the context of social accounting and discuss the wider societal impact of taxation, with specific consideration of the social contract between individuals and the state.
To achieve this, the chapter begins by presenting a broad overview of the constituent elements of systems of taxation. It does this by first considering the objectives and scope of taxation before discussing both how taxation is computed and the common issues that arise because of this. Following this, the chapter discusses taxation within the context of social responsibility. It advances the notion of taxation and social responsibility, with a specific emphasis on entities other than private organisations, including NGOs, cooperatives and family businesses. The nature and extent of the activities of these organisations are presented to highlight the numerous initiatives that are in place to address inequality in the payment of taxation. Beyond this, the chapter presents a discussion of the future direction of taxation within the context of social responsibility.

### Taxation and tax systems

Before discussing the societal impact of taxation in greater detail, it is important to first understand what taxation is and to consider the key features of the taxation systems that operate within most modern societies. Doing so allows us to consider the wider role of taxation within society. Broadly speaking, taxes can be conceptualised as “a compulsory levy, imposed by the government or other tax raising body, on income, expenditure, wealth or people, for which the taxpayer receives nothing specific in return” (Lymer and Oats, 2015:3). This perspective suggests that taxation is an unavoidable consequence. However, others, such as Murphy (2016), adopt an alternative perspective which suggests that the emphasis on the compulsory nature of taxation is a false perspective as most taxation is paid voluntarily by individuals and organisations. This differentiation is important because the way individuals, organisations and governments view taxation will impact on their commitment to accountability, transparency and fair payment, areas which are covered in more detail later in this chapter.

To fully understand the role of taxation within society, it is important to consider what the overriding objectives of these taxes are. Taxation is often considered to be solely a means of raising revenue for the government. While this is true to a certain extent, there are other objectives that can benefit a wider range of stakeholders. Murphy (2016:77) identifies ‘Six Rs’ of taxation, which offer a wider view of the role of taxation within society:

- **Reclaiming money**, the government has spent into the economy for re-use;
- **Ratifying the value of money**;
- **Reorganising the economy**;
- **Redistributing income and wealth**;
- **Repricing goods and services considered to be incorrectly priced by the market such as tobacco, alcohol, carbon emissions, etc.**; and
- **Raising representation**.
Taxation therefore plays a much wider role within the operation of society. Taxes are set by governments through legislation and policy. Governments decide who and what to tax, the rate of taxation that is applicable, how this taxation will be collected and how compliance with taxation requirements can be enforced. Taxpayers include all types of entities: individuals, corporations, charities, cooperatives and public sector organisations. In the UK, the legal form determines to some extent which taxes are payable. For example, charities are not charged corporation tax on their profits whilst non-corporate entities may pay income tax on their profits, but not corporation tax.

Governments have many, often conflicting, interests to balance when setting tax policies, resulting in increasingly complex taxation systems. Indeed, the development of taxes within taxation systems is often a combination of budgetary requirements to encourage development and avoid austerity, plus anti-avoidance measures to encourage greater compliance or remove unfair advantages to a small section of taxpayers. Over many years, this may result in a system which has lost the underpinning conceptual framework or consistent overall strategy. Thus, the complexity of taxation systems increases the need for accountability and transparency in relation to amount of taxation that is paid and collected.

Taking the objectives together as a whole, the outcome is the creation and operation of a system of taxation. There are several theories concerning what constitutes an appropriate tax system. Famously, Adam Smith outlined four ‘canons’ of taxation in the Wealth of Nations (Mirrlees, 2011: 22). These are: proportional, certain – not arbitrary, convenient and efficient.

While these are widely accepted as good general principles, they do not help decide which objectives of taxation are most important, nor how much tax should be collected. More recently, the ICAEW have argued that taxes need to be properly targeted, regularly reviewed and competitive (ICAEW, n.d.: 4). They highlight the need to improve taxation systems by providing a system which is: statutory; certain; simple; easy to collect and calculate; properly targeted; constant; subject to proper consultation; regularly reviewed; fair and reasonable; and competitive. How systems of taxations are designed and what the purpose of taxation is, are therefore important issues in relation to the overall functioning of taxation within modern societies. This is something that is constantly changing and being updated as societies and governments strive to introduce systems that best reflect their aims and objectives. The aims and objectives of the government responsible for creation and amendment of systems of taxation will impact upon the behaviour of individuals and organisations operating within that system, this will be discussed in detail later in this chapter.