

Tax Incentives Encourage ESG Investments: Evidence from CSR Expenditure of Information Technology Firms

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Abstract: Corporate Social Responsibility, a crucial aspect of corporate strategy plays a significant role in enhancing stakeholder value and sustainable growth. Tax incentives exert an important influence on the CSR investment decisions of Indian firms. This study examines the impact of tax incentives on Corporate Social Responsibility (CSR) expenditure among Indian IT firms, by adopting CSR expenditure as a proxy for Environmental, Social, and Governance (ESG) investments due to the limited availability of structured ESG data in India. Utilizing a sample of the top five IT firms in India, the study investigates the extent to which tax incentives encourage firms to increase ESG related investments. To evaluate the moderating effects on CSR expenditure, the paper further incorporates firm-specific factors such as financial slack, profitability, and firm size. CSR expenditure is transformed into natural logarithms to ensure normality, while tax incentives are measured as the difference between statutory and effective tax rates, multiplied by profit before tax. The findings reveal that tax incentives have a positive influence on CSR spending, with larger and more profitable firms demonstrating a stronger response.

Keywords: Tax Incentives, ESG Investments, IT Firms, CSR Expenditure

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