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"Unresponsive" Cisco latest target for shareholders seeking greater tax transparency

Greater Manchester Pension Fund, Etica Funds, and the Missionary Oblates have filed a shareholder proposal at Cisco Systems, Inc. calling for greater tax transparency. The proposal calls for the company to publish a Tax Transparency Report aligned with the GRI Tax Standard, including a tax strategy and a country-by-country breakdown of tax and financial information.

This filing follows the historic vote at Amazon.com, Inc. in May 2022, which saw a record 21% of independent shareholders in favour of a similar proposal. Microsoft shareholders recently filed a similar proposal.

Cisco's Global Tax Strategy document provides insufficient information on governance and risk management. The document is not fit for purpose, insofar as it does not provide investors with the information to undertake an appraisal of the company's tax risk appetite.

Currently, Cisco fails to provide disaggregated profits or tax payments in non-US markets, challenging investors' ability to evaluate the risks to the company of taxation reforms, or whether Cisco is engaged in responsible tax practices that ensure long term value creation for the company and the communities in which it operates. Cisco's approach to taxation has been repeatedly challenged by tax authorities globally.[1] In 2021, TaxWatch alleged that Cisco avoided £68 million UK taxes in 2019.[2]

In 2018, Cisco repatriated $67 billion in foreign cash holdings as a result of the US Tax Cuts and Jobs Act.[3] This was one of the largest repatriation plans amongst all American companies.[4] The magnitude of the amount repatriated raised questions about Cisco's tax planning strategy and its relationship to the company's business and sustainability approaches, and whether the company had been over-reliant on artificial vehicles to reduce tax obligations in countries around the world. Shareholders need greater transparency to evaluate the risks associated with the companies approach to tax, and the implications for their long-term investments.

PIRC is supporting the filing of this proposal, as part of a new initiative that is launching today in collaboration with the Centre for International Corporate Tax Accountability and Research (CICTAR). The initiative will facilitate active engagement with companies in sectors with a history of aggressive tax avoidance, as well as sectors with significant exposure to government contracts and dependent on healthy tax revenue for growth.

Dr Katie Hepworth, Responsible Tax Lead, PIRC:
"The gap between tax leaders and laggards is steadily increasing. Each month sees more companies commit to greater transparency of their tax and financial information. These commitments reflect changing investor and community expectations regarding responsible corporate tax practices. In light of historic reforms to the global taxation system to ensure that companies fairly contribute to the revenue of the countries in which they operate and earn profit, companies must, at a minimum, provide investors with the tools to assess the risks of company tax strategies. This proposal recognises that Cisco lags well behind these corporate leaders, leaving its investors unable to properly analyse the risks of the company's tax strategy and the governance frameworks that it has in place to monitor and mitigate these risks."

[1] https://www.reseller.co.nz/article/663741/cisco-nz-writes-4-6m-cheque-after-tax-investigation/.
[2] https://www.mirror.co.uk/money/city-news/eight-worlds-richest-tech-titans-24238557
[3] https://www.nytimes.com/2018/02/14/business/cisco-repatriation-tax-law.html
[4] https://democrats.org/news/trump-tax-still-not-trickling-down-to-workers/

Councillor Gerald Cooney, Chair, Greater Manchester Pension Fund (lead filer):
"Just days after co-filing at Microsoft, the decision was made to file at Cisco for depressingly reoccurring reasons. The current tax strategy is worryingly light on governance and risk management. It doesn't bode well for its approach to tax, and points to possible wider issues of financial materiality.
We back the calls for Cisco to publish tax reports in line with the GRI Tax Standard, the gold-standard for tax transparency. It is imperative that we as shareholders have relevant information to inform our investment choices. Country-by-country tax reporting would introduce some much-needed transparency to a company that has allegedly avoided paying millions of pounds worth of tax.
As a local authority ultimately responsible to our members and inhabitants, we are all too aware of the imperative for tax transparency. At a time of financial difficulty, it is imperative that investors can see if multinationals are contributing their fair share. It is in Cisco's long-term interest to provide such tax disclosures, improving company operations and financial prudency – as well as the lot of its staff, customers, and shareholders."

Aldo Bonati, Corporate Engagement and Networks Manager, Etica Funds:
"For investors, tax risk is material at both company and systemic level. At company level, with tightening regulations and shifting societal expectations, tax avoidance has triggered large fines and highlighted growing reputational, governance and earnings risks. At systemic level, tax, if not properly managed, can undermine market competition, economic growth and sustainable development and thus jeopardise overall portfolio returns. The pandemic crisis provides another opportunity for investors to consider how they can minimise harms from corporate tax practices and deliver on pressing social and environmental imperatives. Etica took part in the 'PRI collaborative engagement on corporate tax transparency', running from 2017 to 2019, in which Cisco was found to be unresponsive[5]. Since then, we have continued to engage the company on their tax practices with little success. We trust that this resolution will help us to gain more complete and meaningful fiscal information from the company. To this end, we encourage all long-term investors interested in getting more transparent and standardized data on tax to support the proposal."

Jason Ward, Principal Analyst, CICTAR:
"Cisco needs to be transparent and come clean on its global tax practices. Following the Trump tax cuts, Cisco used discounted tax rates to repatriate a stunning $67 billion in profits that were stashed offshore. It appears – through complex corporate structures using tax havens and exploiting dubious loopholes – very little tax had been paid on this anywhere in the world. Since then, preliminary research indicates major profit shifting on its growing global operations continues with a mismatch between high profit margins at the global level and low profit margins in many national level subsidiaries."

Seamus Finn, Chief of Faith Consistent Investing, OIP Trust:
"Multinational technology companies like CISCO have enjoyed a period of robust expansion and growth and produced spectacular returns for their founders and shareholders. This success would not have been achieved without the support of the community of stakeholders and the hospitality of the communities where they have operated. In light of the numerous social and environmental challenges that these same communities and regions face it is incumbent on our company to be transparent and accountable about how they are responsibly contributing to all efforts to address these challenges."

Vincent Kaufmann, CEO of Ethos Foundation:
The strong support for the shareholder resolution on tax transparency at Amazon has demonstrated that this is a key topic for asset owners. Thus, Ethos Foundation fully supports the resolutions calling on Cisco and Microsoft to improve their practices around tax transparency. By implementing the GRI (Global Reporting Initiative) Tax Standard, including public country-by-country tax reporting, the company would provide institutional investors with the necessary information to thoroughly assess their tax practices.

[5] https://www.unpri.org/download?ac=10142

Background

Pensions & Investment Research Consultants Ltd (PIRC) is Europe's largest independent corporate governance and shareholder advisory consultancy with over 25 years' experience in providing proxy research services to institutional investors on governance and other ESG issues. Our clients encompass major institutional shareholders, faith-based investors, trade unions and other responsible investors. www.pirc.co.uk

The **Greater Manchester Pension Fund** co-filed the Amazon and Microsoft shareholder proposals for tax transparency. The local authority pension fund was approved as a signatory to the Financial Reporting Council's UK Stewardship Code 2020, following a rigorous assessment of stewardship activities and the creation of long-term beneficiaries leading to sustainable benefits for the economy, the environment and society. The 2021 RAAI Leaders List ranks the GMPF as 35th of the most responsible investors out of the world's top 634 asset allocators.

Etica Funds is an Italian asset management company (part of the Banca Etica Group) which for over 20 years has offered only sustainable and responsible mutual funds. Etica's mission is to "represent the values of ethical finance in financial markets and promote socially responsible investment and corporate social responsibility" (art. 4 company bylaws). Etica's funds carefully select their investee companies, for example by excluding those involved in controversial activities or those not respecting internationally accepted norms and conventions on human and labour rights.

The **Missionary Oblates of Mary Immaculate-United States Province** was established by the Oblates of Mary Immaculate to manage the financial resources of more than 100 Roman Catholic organizations worldwide. The Trust is a professionally-managed, diversified investment fund that seeks to promote a more equitable and sustainable world through socially responsible, faith consistent, and impact investing. The Missionary Oblates were the lead filers on the Amazon proposal and co-filed the Microsoft proposal.

GRI Tax Standard are the world's most widely adopted global standards for sustainability reporting. Ninety-three percent of the world's largest 250 corporations now report on sustainability. GRI standards are used by over 4,000 organisations in over 90 countries and are often cited in non-financial disclosure legislation, such as the European Union's (EU) Guidelines on non-financial reporting. The Standard was developed by an expert multi-stakeholder technical committee. It was developed in response to investors' concerns that current reporting on taxation and other financial matters was insufficient for understanding a company's tax planning practices and assessing the risks associated with these practices. The GRI Tax Standard includes: public country-by-country reporting of business activities, including number of workers, payroll, related-party and third-party revenues, profit, and tax; and disclosures on tax strategy, governance and risk management that meet different stakeholder expectations of reporting.

For more information, please contact:

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