



Pensions & Investment
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MICROSOFT VOTE ANOTHER BREAKTHROUGH ON TAX TRANSPARENCY

Investors with \$400 billion in assets under management have filed a tax transparency resolution at Microsoft. Coordinated by PIRC, it calls for Microsoft to produce a tax transparency report in line with the Global Reporting Initiative (GRI) Tax Standard, including disclosing its tax and financial information on a country-by-country basis. The Microsoft proposal follows on from the historic vote at Amazon that PIRC organised, which saw 21% of independent shareholders voted in favour of greater tax transparency.

The proposal is part of PIRC's ongoing engagement on corporate taxation, launched in December 2021 in collaboration with the Centre for International Corporate Tax Accountability and Research (CICTAR). Amazon filers OIP Trust and the Greater Manchester Pension Fund are joined by lead-filer AkademikerPension, Nordea Bank and PenSam.

Currently, Microsoft does not disclose revenues or profits in non-US markets, and foreign tax payments are not disaggregated, challenging investors' ability to evaluate the risks to our company of taxation reforms, or whether Microsoft is engaged in responsible tax practices that ensure long term value creation for the company and the communities in which it operates. Microsoft's approach to taxation has been repeatedly challenged by tax authorities globally,¹ with numerous, egregious cases of minimising payments – such as an Irish subsidiary recorded profits of \$315 billion in 2020, despite having no employees.²

Microsoft's finances may be jeopardised not only by government action in retrieving tax payments, but also from governments that withdraw from and refuse to issue lucrative contracts. In recent years, Microsoft has signed a 'Whole of Government Agreement' with the state of Western Australia, a three year 'Memorandum of Understanding' with the UK government, and numerous deals with the Canadian government worth hundreds of millions of dollars over the previous years. All of these may be vulnerable, considering the juxtaposition of giving taxpayers' money to a company that refuses to publish its own country-by-country tax data.

The Amazon vote demonstrated that tax is no longer a niche sustainability issue, but a core part of investor due diligence and good corporate governance – one that investors are increasingly voiceful on. Investors and companies are increasingly appreciating the financial materiality of country-by-country tax reporting. Leading companies are already using the GRI Tax Standard and publishing country-by-country reporting – this proposal simply calls on Microsoft to improve their reporting by bringing it into line with these global leaders.

¹ <https://www.propublica.org/article/the-irs-decided-to-get-tough-against-microsoft-microsoft-got-tougher>;
<https://www.theguardian.com/australia-news/2015/apr/08/google-apple-and-microsoft-defend-tax-set-up-that-shifts-revenue-offshore>

² <https://www.theguardian.com/world/2021/jun/03/microsoft-irish-subsiidiary-paid-zero-corporate-tax-on-220bn-profit-last-year>

Dr Katie Hepworth, Responsible Tax Lead, PIRC:

“Following the seismic vote at Amazon, PIRC said that the Amazon vote put all companies on notice to disclose country-by-country tax and financial information, and Microsoft was the next logical company with which to file. Technology is a sector that has historically been characterised by tax avoidance, particularly for large multinationals like Microsoft.

If companies like Microsoft simply seek to maximise short-term profits at the expense of publishing transparent tax figures, then it can only expect shareholder discontent to grow – motivated by the threat of regulatory investigation and intervention, and the need for multinationals to contribute to the societies in which they draw their expertise and profit from. Investors need to be provided with tax disclosures that will allow them to assess the risks and understand the governance systems that Microsoft has in place to manage such risks.”

Anders Schelde, CIO, AkademikerPension:

“At AkademikerPension we are pleased to be the lead filer of the GRI tax transparency proposal for the upcoming Microsoft AGM together with a diverse group of co-filers. Tax practices can be a source of risk for companies and investors – and tax is a key revenue source for governments to be able to tackle the multiple crises facing our society and communities.

As long-term investors, we have been engaging companies throughout our portfolio on their tax practices for years, but with limited success in the tech industry to be frank. It’s time to take this issue to the AGM through shareholder proposal to catch the eye of top-management and hopefully begin to deliver some real world outcomes.

With the shareholder proposals at Microsoft and Amazon this year, tech companies must now be on notice that they cannot ignore the calls for tax transparency anymore. For too long the sector has had a less than positive reputation.

Investors and other stakeholders increasingly expect leading companies committed to sustainable development and corporate responsibility to lead the way on corporate tax transparency by producing public country-by-country reports on tax.

Governments are increasing cooperation, regulators are becoming more interventionist, and shareholders are using their financial clout to be heard. Failure to adequately disclose tax practices, in line with the GRI Tax Standard, will only attract further scrutiny into Microsoft’s tax practices.”

Torsten Fels, CEO, PenSam:

Seeing the political landmark agreements with regards to tax being made these years it is obvious that the clock is ticking for companies unwilling to commit to a wider degree of transparency on this important area. And as a responsible investor we are going to do all that we can to push the reluctant multinationals into the future.”

Eric Pedersen, Head of Responsible Investments, Nordea:

“Nordea has been actively engaging with companies on their tax disclosures, for example via the 2017-2019 UN PRI Collaborative Tax engagement. So it is natural for us to also support this resolution in the hope that Microsoft will embrace the prevailing mood for greater tax transparency around the world. Shareholders need to have vital and relevant information about the investee company’s financial affairs, and there is an onus on the global technology companies especially, to be able to substantiate their good corporate citizenship in this regard. Recent European Union regulations requiring such disclosure for its operations across the EU27 also mean that such information is needed so that investors can assess companies’ direct tax-related risks. We therefore feel that the request should be accommodated.”

Councillor Gerald Cooney, Chair, Greater Manchester Pension Fund:

“This filing is yet another breakthrough for stewardship and good governance. Just as with Amazon, this filing should make Microsoft heed the message from its investors and commit to real transparency in its tax practices. Tax is key to company’s sustainability approach, being of significant financial materiality and often acting as an indicator of wider governance practices.

We reiterate that no company exists independently of the society in which it operates. Microsoft has a duty to the wider society – in which they operate, draw workers and services from, and make profit in – to contribute their fair share. Microsoft must commit to transparency and paying taxes in full where profits are earned – local authorities like ours know the disastrous effects that spending limitations can have.

It is the duty of the board, to their shareholders, staff, customers, and wider society, to live up to high but expected standards of transparency when it comes to tax. GMPF will be using our voice to engage companies on their tax planning approach. It fits with our values and aims to ensure long-term sustainability for the company, in the interests of our beneficiaries and wider society.”

PIRC supported the filing of the tax transparency proposal as the first action in its collaboration with the Centre for International Tax Accountability and Research (CICTAR). For more information about the initiative, see: <https://cictar.org/cictar-pirc-collaboration/>. For more information contact:

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