New Microsoft Report Raises Red Flags for Investors

A new investigation into Microsoft's corporate structure raises significant red flags regarding aggressive tax avoidance. *Gaming Local Taxes, Winning Government Contracts*, authored by the Centre for International Corporate Tax Accountability and Research (CICTAR), examines how Microsoft moves its finances through a web of subsidiaries, many with no or few employees, located in low- or no-tax jurisdictions.

In light of this report, PIRC welcomes Microsoft's decision to put PIRC's tax transparency proposal to a vote of shareholders at their AGM later this year. The shareholder proposal requested that the company produce a tax transparency report in line with the GRI Tax Standard. However, Microsoft's opposition statement still shows a company that is increasingly out-of-step with investor expectations regarding greater tax transparency.

Currently, Microsoft does not disclose revenues or profits in non-US markets, and foreign tax payments are not disaggregated. This lack of disaggregated data leaves investors in the dark about where the company is earning profits and paying taxes. CICTAR's report identifies significant discrepancies between Microsoft's reported profit margins at a global level and those reported at national levels, with the global operating profit margin reported to be over 30%. In the UK, Australia and New Zealand, profit margins are reported to be just 3 – 5%.

This raises questions about whether the company is continuing to do business in jurisdictions with unusually low profit margins, or they are artificially structuring their operations to move profits into lower tax jurisdictions.

Dr Katie Hepworth, Responsible Tax Lead, PIRC:

CICTAR's report identifies a complex, and previously undisclosed, corporate structure that allows Microsoft to shift profits via low- and no-tax jurisdictions. The identification of numerous subsidiaries booking significant revenues despite having few or no employees, raises significant questions for investors. Globally, governments are stepping up investigations and enforcement actions against companies that fail to pay their fair share of tax. Microsoft is already subject to one of the US tax authority's largest investigations relating to its Puerto Rican operations. Investors must start asking questions about other enforcement risks that the company is running, and the implications for its overall business as global tax reforms come into play, limiting the company's ability to move their money to jurisdictions of choice.

Jason Ward, Principal Analyst, CICTAR:

This report identifies large discrepancies between reported global profits and those recorded at a national level. This is a huge red flag for tax avoidance. A deeper analysis of the situation shows why: Microsoft is booking profits through subsidiaries with no employees in low-tax jurisdictions. Microsoft Global Finance, for example, is an Irish subsidiary but tax resident in Bermuda. Despite having over $100 billion in total investments and booking an operating profit of $2.35 billion it paid no tax in 2020."

Ian Gary, Executive Director, FACT Coalition:

In the United States, investors worth trillions in assets under management support Congressional action to require public country-by-country tax reporting through the Disclosure of Tax Havens and Offshoring Act. Our FACT Coalition research has shown the clear material investor interests have in gaining more insights into company tax practices and related tax risks. We encourage shareholders to vote in favour of greater Microsoft tax disclosures.

For more information, please contact:

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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.

PIRC supported the filing of a shareholder proposal at Microsoft.com, Inc. calling on the company to produce a tax transparency report in line with the GRI Tax Standard.

The **Global Reporting Index (GRI)** produces the world's most widely adopted global standards for sustainability reporting. 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 *Tax Standard* was developed by an expert multi-stakeholder technical committee in response to investors' concerns that current reporting on taxation and other financial matters was insufficient for understanding companies' 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. The Tax Standard came into force on the 1 January 2021.

The **Centre for International Corporate Tax Accountability and Research (CICTAR)** is an international research centre that conducts targeted research on corporate tax avoidance to build pressure for necessary national and global reforms and change corporate behaviour. It authored the *Gaming Local Taxes, Winning Government Contracts* report.

The **FACT Coalition** is a nonpartisan alliance of over 100 state, national, and global groups working toward a fair tax system that addresses the challenges of a global economy and promoting policies to combat the harmful impact of corrupt financial practices. More than $2.4tr is currently stashed offshore by Fortune 500 companies, costing taxpayers nearly $700bn. The FACT Coalition seeks a larger conversation about how certain interests manipulate the tax system and undermine our ability to act collectively to solve problems.