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Cisco & Microsoft: More shareholder support for tax transparency

The vote on tax transparency at Amazon's AGM was historic. But similar votes at Cisco and Microsoft over the past two weeks show that it wasn't a one off, and that investor engagement on tax transparency will require a response from boards.

On Wednesday 7th December, 27% of shareholders voted for the PIRC-supported tax transparency shareholder resolution "to have Cisco's Board issue a tax transparency report in consideration of the Global Reporting Initiative's Tax Standard." On Tuesday 13th December, 23% supported a similar proposal at Microsoft.

These are up on the 21% of independent shareholders that voted in favour at Amazon back in May, setting a trajectory of increasing votes in favour of tax transparency. Whilst company- and sector-specific factors are definitely at play, even in the intervening six months the level of investor engagement on tax transparency has grown.

Investors that support tax transparency are alert to the fact that policies around the world are shifting in their favour, from Australia moving to mandate public country-by-country reporting (CbCR), to the OECD minimum corporation tax agreement, and the SEC's support for CbCR all demonstrate shifting regulatory mood music.

Companies that are not transparent and have previously relied on shifting profits to low-tax jurisdictions risk not only facing legal and reputational consequences, but having their business models undermined; shareholders deserve to have the data to judge for themselves how companies are positioned.

The manner in which the companies themselves approach this matter is changing too. The Amazon shareholder resolution on tax transparency was the first such proposal to have been successfully upheld by the US Securities and Exchange Commission (SEC). With a precedent set, neither Cisco nor Microsoft sought to have the proposal dismissed by the regulator.

Whilst both opposed the proposal, the Amazon vote showed that board opposition is no barrier to high levels of investor support. At the time, it was the highest ever vote on a tax proposal globally that did not have the support of management, since surpassed by the votes at Cisco and Microsoft.

Both companies had demonstrably worrying tax activities, with Cisco allegedly avoiding £68 million in UK taxes in 2019, as well as repatriating $67 billion in foreign cash holdings as a result of the US Tax Cuts and Jobs Act in 2018. Microsoft was the subject of a damning report by the Centre for International Corporate Tax Accountability and Research (CICTAR), with whom PIRC has collaborated on tax transparency for the past year. *Gaming Global Taxes, Winning Government Contracts* examined how Microsoft moves its finances through a complex web of shifting subsidiaries in low- or no-tax jurisdictions. For example, one Irish subsidiary, with zero employees and tax residency in Bermuda, recorded a profit of $315 billion in 2020.

The strong, international support reflects the global nature of this issue – it affects government around the world – and the concerted global action required to bring about much needed change. It demonstrates that tax is no longer a niche issue but a core part of investor due diligence and good corporate governance.

Tom Powdrill, Head of Stewardship, PIRC:

“These votes send a clear signal that investors expect to be provided with meaningful data on an issue of clear financial materiality. Tax transparency is becoming an increasing demand of governments, but shareholders are increasingly demanding that the companies in which they are investing in can demonstrate their business models do not rely on bending the rules in a way which may not be possible in the future.

How a company acts on tax can also be used as a proxy of how it deals with other stewardship issues. If a company is unwilling to be open with its own shareholders and outline compliance on tax transparency, shareholders have every right to be sceptical about how it conducts itself regarding governance as a whole.

PIRC will continue to collaborate with CICTAR and responsible investors worldwide to press companies on the need to align themselves with the GRI Tax Standard. We have consulted with governments and shared our experience, in the hope of bringing about a globally standardised tax framework, with the transparency that shareholders need and deserve.”

Cllr Gerald Cooney, Chair, Greater Manchester Pension Fund (co-filer) said:

“These votes herald a significant shift in investor thinking on tax transparency, confirming the role it plays in strong stewardship and good governance. Tax transparency is an issue that cannot be ignored by major companies; neither governments nor their own shareholders will let them off the hook.

We co-filed at Cisco and supported the resolution at Microsoft because of our fiduciary duties to ensure long-term sustainable returns, but also because we know the impact that tax avoidance can have. With less money flowing into government coffers, it is inevitably local authorities like ours that bear the brunt.

No company exists independently of the society in which it operates – there is a moral and fiduciary duty to ensure that the localities that profits are derived from have the basic resources required to produce the environment in which business can flourish.

The Greater Manchester Pension Fund is committed to 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.”

Jason Ward, Principal Analyst, CICTAR:

"Our research has found evidence of major profit shifting within the growing global operations of Microsoft, Amazon and many other multinationals, with a mismatch between high profit margins at the global level and low profit margins at the national level. There are similar concerns with Cisco. Country by country reporting would allow shareholders and other stakeholders to understand whether these discrepancies in profit margins are due to legitimate reasons, or not.

The tens of billions of dividends transferred between Microsoft's obscure and undisclosed subsidiaries are nearly double the total dividends returned to shareholders. Investors need greater transparency to ensure that corporate strategies are built on sustainable long-term models and not artificially boosted by the exploitation of current loopholes in global tax structures.

The risks to shareholders of aggressive tax avoidance schemes are increasing as national and global tax reforms continue to evolve. Following the global pandemic, governments around the globe are on the move to raise revenues to adequately fund public health and other essential services by closing loopholes that have allowed multinational profit shifting. These recent shareholder votes show that investors are becoming increasingly uneasy at the current state of corporate tax affairs and are demanding greater transparency."