

July 2020

Taxation – our approach for investments

Tax transparency

Aberdeen Standard Investments supports greater transparency on tax from the companies in which it invests. Tax transparency illuminates material risks to profitability and reputation. It also provides insight into the contribution of sustainable value-generating business activities, as opposed to aggressive tax strategies aimed to support company profit. Multi-national enterprises (MNEs), tech companies, and consumer-facing businesses are more exposed to risks arising from legislative reform, and transparency enhances scope for analysis. Transparency can also influence corporate behaviour by discouraging practices that would be opposed by investors, tax authorities and wider society.

The issue

Corporate tax transparency has risen up the public agenda, driven by the trends of globalisation and transparency. Globalisation has facilitated the growth of MNEs and international flows of capital, goods and other assets. This has resulted in complex corporate tax planning. The rapidly rising value of corporate intangible assets, including intellectual property and brands, has led to the use of opaque corporate structures utilising cost sharing and royalty agreements to shift profits and tax liabilities. Meanwhile, the financial crisis, austerity policies and growing social injustice have led civil society to demand that tax administrations tackle corporate tax avoidance.¹ Digitisation has increased the urgency of reform by challenging the concept that the value and profits of a company can be attributed to the location where its assets are domiciled.

Corporate tax avoidance by multinationals undermines the integrity and fairness of tax systems. It also undermines the competitive environment by providing MNEs with an unfair advantage over domestic entities. The international tax system has not evolved to meet the requirements of globalisation and digitisation and is a target for reform.

Tax and corporate governance

Tax has traditionally been an opaque financial issue. However, there is growing momentum for including tax in governance analysis and engagement given the materiality of the risk and the oversight required. Themes of social licence to operate and stakeholder capitalism have made tax a significant reputational risk. Where companies seek to operate as sustainable businesses, their tax approaches must be aligned appropriately. Tax therefore becomes a question of strategy and a matter for the board. Disclosure frameworks such as *GRI 207: Tax and the OECD Guidelines for MNEs*² support this view.

“A company’s approach to tax should also be aligned with its sustainability strategy.”

A company’s overall business strategy and its approach to paying tax should be aligned. Pursuit of an aggressive tax strategy may indicate misalignment of risk appetite and controls as well as a misplaced focus on short-term profit at the expense of developing the drivers of long-term value. For the reasons that we have seen above, a company’s approach to tax should also be aligned with its sustainability strategy. By requiring alignment of these positions, investors can make tax a matter of policy and principles, tied to corporate values. This facilitates high-level discussion and necessitates the clear accountability of specified governance committees and executive positions.

Opportunities for investments

At Aberdeen Standard Investments, we believe the following:

- Companies with clear approaches to tax should have well-aligned business and sustainability strategies and a coherent approach to risk management.
- Transparent companies are likely to be better prepared for legislative change and less vulnerable to increased tax costs, audits, disputes and fines.
- By ensuring that low and middle-income countries benefit from a company’s business operations in those countries, responsible tax approaches contribute to the Sustainable Development Goals, creating a positive impact on the world around us.

Risks for investments

At Aberdeen Standard Investments, we believe the following

- Multinational enterprises, healthcare and digital/tech companies face the strongest regulatory headwinds. Tax reforms are likely to involve additional compliance costs and to put downward pressure on profitability.
- Tax audits and disputes are expensive, and the fines and tax clawbacks can be substantial.
- Breaching rules damages reputation and erodes trust and licence to operate from the perspective of all stakeholders: tax authorities, investors, customers and the wider public.
- Pursuit of unsustainable tax advantage may obscure the inadequate performance of core business activities and divert the company’s attention from finding a remedy.

¹ Oats, L. & Tuck, P., ‘Corporate tax avoidance: is tax transparency the solution?’ Accounting and Business Research (49:5, 2019), p. 574.

² Final Version of GRI 207: Tax 2019: https://www.globalreporting.org/standards/media/2369/item_04_-_final_version_of_gri_207_tax_2019.pdf

Engagement

Analysis and engagement on tax issues can provide additional insight and assurance on companies' strategic alignment, risk appetite and risk exposure. Engagement with our investments provides us with the opportunity to encourage companies to disclose consistent tax information that is relevant to investors. Tax reporting and disclosures are designed for multiple stakeholders, and we are able to ensure that our investments address this in their reporting strategies. It is our belief that adopting a strong engagement strategy around tax transparency will benefit our clients over the long term.

Voting to encourage responsible tax practices

As active asset managers, we place a strong emphasis on corporate engagement. However, where this engagement fails to drive the required change, we are well positioned to influence corporate tax transparency via voting and support of shareholder resolutions. We diligently exercise our voting rights on behalf of clients to address the issue of taxation.

Responsible investing at Aberdeen Standard Investments

As a leading global asset manager, we believe that investing responsibly can help generate long-term value for our clients. We offer an extensive and growing range of investment solutions, as well as the very highest levels of service and support.

When investing our clients' capital, ESG considerations are an integral part of our decision-making. By understanding how ESG factors affect our investments, we believe we can generate better outcomes for our clients, society and the wider world.

To help us achieve this, our dedicated, 20-strong ESG Investment team works closely with colleagues across all asset classes to support this work. A further 30 dedicated ESG asset-class analysts provide an additional layer of expertise.

For more detail, please visit our [website](#).

Important information

This content is available in the following countries/regions and issued by the respective entities detailed below:*

*(entities as at 25 May 2020)

Europe, Middle East and Africa

United Kingdom (UK): Aberdeen Asset Managers Limited, registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen, AB10 1XL. Standard Life Investments Limited registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Both companies are authorised and regulated in the UK by the Financial Conduct Authority. **Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Gibraltar, Greece, Iceland, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Portugal, Spain, and Sweden:** Aberdeen Asset Managers Limited, registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen, AB10 1XL. Standard Life Investments Limited registered in Scotland (SC123321) at 1 George Street, Edinburgh EH2 2LL. Both companies are authorised and regulated in the UK by the Financial Conduct Authority. **Switzerland:** Aberdeen Standard Investments (Switzerland) AG. Registered in Switzerland (CHE-114.943.983) at Schweizergasse 14, 8001 Zürich. **Abu Dhabi Global Market ("ADGM"):** Aberdeen Asset Middle East Limited, 6th floor, Al Khatem Tower, Abu Dhabi Global Market Square, Al Maryah Island, P.O. Box 764605, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. **South Africa:** Aberdeen Asset Managers Limited ("AAML"). Registered in Scotland (SC108419) at 10 Queen's Terrace, Aberdeen, AB10 1XL. AAML holds a Category I financial services provider (FSP) licence in terms of the Financial Advisory and Intermediary Services Act, 2002, (FAIS) under licence 43675.

Asia-Pacific

Australia and New Zealand: Aberdeen Standard Investments Australia Limited ABN 59 002 123 364, AFSL No. 240263. In New Zealand to wholesale investors only as defined in the Financial Markets Conduct Act 2013 (New Zealand). **Hong Kong:** Aberdeen Standard Investments (Hong Kong) Limited. This document has not been reviewed by the Securities and Futures Commission. **Indonesia:** PT Aberdeen Standard Investments Indonesia, an investment manager license holder registered and supervised by the Indonesia Financial Services Authority (OJK). **Japan:** Aberdeen Standard Investments (Japan) Limited. **Malaysia:** Aberdeen Standard Investments (Malaysia) Sdn Bhd, Company Number: 200501013266 (690313-D). This document has not been reviewed by the Securities Commission of Malaysia. **The People's Republic of China ("PRC"):** Aberdeen Standard Asset Management (Shanghai) Co., Ltd in the PRC only. **Taiwan:** Aberdeen Standard Investments Taiwan Limited, which is operated independently, 8F, No.101, Songren Rd., Taipei City, Taiwan Tel: +886 2 87224500. **Thailand:** Aberdeen Standard Asset Management (Thailand) Limited. **Singapore:** Aberdeen Standard Investments (Asia) Limited, Registration Number 199105448E.

Americas

Brazil: Aberdeen Standard Investments is the marketing name in Brazil for Aberdeen do Brasil Gestão de Recursos Ltda. Aberdeen do Brasil Gestão de Recursos Ltda. is an entity duly registered with the Comissão de Valores Mobiliários (CVM) as an investment manager. **Canada:** Aberdeen Standard Investments ("ASI") is the marketing name in Canada for Aberdeen Standard Investments (Canada) Limited, Aberdeen Standard Investments Luxembourg S.A., Standard Life Investments Private Capital Ltd, SL Capital Partners LLP, Standard Life Investments Limited, Standard Life Investments (Corporate Funds) Limited, and Aberdeen Capital Management LLC. Aberdeen Standard Investments (Canada) Limited, is registered as a Portfolio Manager and Exempt Market Dealer in all provinces and territories of Canada as well as an Investment Fund Manager in the provinces of Ontario, Quebec, and Newfoundland and Labrador. **United States:** Aberdeen Standard Investments is the marketing name for the following affiliated, registered investment advisers: Aberdeen Standard Investments Inc., Aberdeen Asset Managers Ltd., Aberdeen Standard Investments Australia Ltd., Aberdeen Standard Investments (Asia) Ltd., Aberdeen Capital Management LLC, Aberdeen Standard Investments ETFs Advisors LLC and Standard Life Investments (Corporate Funds) Ltd.

Visit us online

aberdeenstandard.com

121042600 08/20 | DH: GB-270720-122093-1