Guidelines for implementing responsible tax practice into the investment process

Responsible investments and tax
PFA contributes to society by doing business on the basis of accountable and fair principles. This also applies to the investment area and the tax area.

As a Danish investor and pension company, PFA pays corporation tax and pension yield tax in Denmark on the investment return. The underlying investment activities are taxed locally in accordance with the regulations of the country in which the activities take place. Additionally, PFA works on making sure that the same return will not be subject to multiple taxation, thereby reducing double taxation with a view to securing our pension customers a good return.

PFA distances itself from aggressive tax planning, and we presuppose that business partners and companies in which PFA invests comply with local as well as international rules and guidelines in the tax area. The same presupposition applies throughout the selection of, and dialogue with, external managers. We have unified our tax practice in a tax policy which applies to PFA as company, employer and investor.

When PFA as an investor invests in various listed and unlisted investments, there may be fiscal circumstances that need to be handled. Therefore, we also have a separate section in PFA's policy for responsible investments regarding responsible tax practice and investments. PFA's policy for responsible investments sets the framework for the manner in which PFA wishes to act as a responsible, active investor. In addition to a separate tax section in our policy for responsible investments, PFA has also prepared these guidelines for implementing responsible tax practice into the investment process.

PFA's tax policy, policy for responsible investments and guidelines for implementing responsible tax practice into the investment process have all been published at pfa.dk, and apply to all investments in PFA's portfolio.

PFA's objectives of complying with responsible tax practice in the investment process
The work on responsible investments in PFA has its starting point in the objective to create the highest returns possible for the individual customers, while investment dilemmas are handled in accordance with a fixed policy and established processes. Responsible tax practice is a vital feature in the work on responsible investments. Therefore, we work to secure that PFA does not contribute to aggressive tax planning through our investments.

PFA backs the OECD Base Erosion and Profit Shifting (BEPS) action plan. BEPS is based on a line of principles serving to close gaps in existing tax law, and avoid that multinational entities transfer profits from one country to another with the sole purpose of minimising tax payments. The BEPS project is a cooperation between countries that wish to prevent both double taxation and double non-taxation.

In our work with due diligence in relation to the OECD Guidelines for Multinational Entities and the UN Guiding Principles on Business and Human Rights, it is our objective to, over a period of time, embed some processes that bring the tax practice in PFA's investments into focus.

The purpose with linking the work on due diligence with responsible tax practice is to make sure that the investments and projects that we enter into incorporate tax in the risk assessment, and relate to a responsible tax practice. PFA's dialogue with companies, managers and business partners helps to create solutions that secure a responsible tax practice in the investment area.

Guidelines for PFA's efforts

The purpose of these guidelines is to set the overall frame for the priorities of PFA's tax practice, and to describe the dilemmas that are being dealt with, in order to ensure that PFA supports an efficient national as well as global tax system.

PFA works from a basic expectation that companies generally act responsibly and want to be transparent when it comes to their activities. PFA backs initiatives on transparency, such as country-by-country reporting, and also wishes to be transparent to the extent possible under competitive conditions.

PFA will work to make sure that we do not ourselves, or through shareholdings, make shares available for dividend arbitrage, or through investments in derivatives and similar financial instruments contribute to tax avoidance.

PFA will actively respond to whether a jurisdiction supports reporting standards such as the OECD Common Reporting Standard (OECD CRS) or Foreign Account Tax Compliance Act (FATCA) at the time of the investment. In addition to this, PFA will also respond actively to the EU's blacklist over non-cooperative countries and areas in connection with tax questions. Please observe that in that respect PFA regards "tax havens" as behaviour, and not as a jurisdiction.

Since 2016, PFA has been screening the listed company portfolio for compliance with BEPS, and conducted tax due diligence on the non-listed investments in cooperation with external advisers.

Guidelines for listed companies

In annual reports and similar, companies state their tax payments in the countries in which they operate, but apart from that, not many companies publish their complete tax accounts. Tax agreements are also made between countries and multinational entities, which may be exclusive, and thereby not publicly available. Therefore, as an investor, it can be difficult to gain a total overview of the potentially negative impact that a portfolio of several companies may have.

Since 2016, PFA has implemented the following processes:

- Cooperation with external supplier on screening of companies in relation to compliance with the principles in BEPS.
- Integration of expectations regarding responsible tax practice as part of the active ownership dialogue with companies and external managers.
- Considering exclusion in case it is concluded that tax-aggressive structures are applied.

Guidelines for unlisted investments

In the area of unlisted investments, it is relevant to seek an insight into the structure that lies behind the investment unit which is being invested in. In cases where PFA owns a great part of the investment, it will often be possible for PFA to influence the fiscal structure that is established.

Since 2016, PFA has, among other things, implemented the following processes in connection with unlisted investments:

- Conducting a fiscal due diligence in advance of making investments, and including BEPS and General Anti-Tax-Avoidance Rules.
- Assessing whether the structure is legally and fiscally responsible.
- Assessing the need for legal units in the structure.
- Displaying caution by the use of tax exemption agreements.
- Displaying caution by the use of shareholder loans in countries with immature tax systems.
- Displaying caution when choosing business partners, and taking the necessary precautions in relation to new business partners.

Evaluation and dynamic development

The work on responsible investments is dynamic and develops continuously. In that regard, PFA will continue to:

- Assess whether new tools are developed to improve data and indicators in order to assess the tax practice of the companies and the projects.
- Have a dialogue with institutional investors, managers and other business partners, with a view to reach a responsible tax management in the investment area.
- Update our internal processes in order to

secure that relevant data and expectations of a responsible tax practice are integrated across investment considerations, before deciding on an investment.
- Monitor development in international tax rules and practice within the investment area.
- Evaluate the effort and be transparent about any challenges and results of the work.

Communication

The guidelines will be published at pfa.dk, and will become a central part of the section on ‘responsible investments’.

In order to increase transparency of PFA’s work and investments, PFA will annually report about the work with the guidelines. The reporting will form part of the section on active ownership in the report about PFA’s corporate responsibility.

PFA will continue its dialogue on responsible tax practice, including dialogues with managers and NGOs as well as active ownership dialogues with both present and future companies in PFA’s portfolio. The dialogue is proactive, and takes a starting point in PRI’s guide for dialogues with companies about tax conditions. The purpose is to secure wide support for more responsible investment structures, which underpin responsible tax behaviour and global growth.

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