PIRC, together with lead-filer OMI-USA and co-filers Amundi Asset Management and Greater Manchester Pension Fund urge shareholders to vote FOR Proposal #11 at Amazon.com (‘Amazon’, ‘the company’), Inc.’s shareholder meeting on May 24, 2023.

This proposal requests that Amazon bring their reporting in line with other leading companies who are already reporting using the Global Reporting Initiative (GRI) Tax Standard. The GRI is the most widely used sustainability reporting standard globally. The GRI Tax Standard is the only comprehensive, global tax standard. Amazon submits country-by-country reporting (CbCR) to OECD tax authorities privately, so any increased reporting burden is negligible, while the benefit to investors will be significant.

Background
This proposal was submitted as part of a broader collaborative engagement coordinated by PIRC on tax transparency.

Aggressive tax avoidance may introduce significant risks that undermine investment returns in the medium and long-term. It is crucial that investors are given sufficient information to make informed assessments of a company’s tax strategy and governance procedures. A lack of transparency regarding corporate taxation impairs investment analysis and understanding of how a company is positioned in the short-, medium-, and long-term.

Currently, Amazon 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 Amazon is engaged in responsible tax practices that ensure long term value creation for the company and the communities in which it operates.

Microsoft was one of the companies engaged in the UNPRI’s collaborative engagement on corporate tax transparency, which ran between 2017 and 2019. Investors requested the publication of country-by-country reporting during that engagement.

Resolved Clause
Shareholders request that the Board of Directors issue a tax transparency report to shareholders, at reasonable expense and excluding confidential information, prepared in consideration of the indicators and guidelines set forth in the Global Reporting Initiative’s (GRI) Tax Standard.

Rationale
Aggressive Tax Planning & Investment Risks
A company’s tax practices are financially material. While aggressive tax avoidance may increase profits in the short-term, it may also introduce significant risks that undermine investment returns in the medium and long-term.

At an asset level, risks may include:

- Reputational damage and loss of social licence to operate.
- Reputational damage and heightened attention of tax authorities.
- Adjustment risk following successful investigation by tax authorities of whether a company’s tax planning is compliant with the law.
- Vulnerability to changes to tax regulation.
Aggressive tax avoidance can also introduce macro-economic distortions with subsequent portfolio and systemic level risks that undermine long-term performance of investments.

At a portfolio level, aggressive tax avoidance by one company may undermine fair competition between all companies in a sector. Aggressive tax avoidance may also have larger macro-economic impacts, by reducing money available for government spending on critical services and infrastructure, which enable long-term business and social sustainability.

Investors need to be provided with sufficient information to gauge a company’s tax position and governance approach and anticipate future impacts on and risks to their holdings. Currently, Amazon 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 it is engaged in responsible tax practices that ensure long term value creation for the company and the communities in which it operates.

**Risk: Increased Attention from Tax Authorities**

The OECD estimates that aggressive tax avoidance costs $100 - $200 billion in lost government revenue annually. With the COVID-19 pandemic resulting in large deficits for many governments, there has been increased government and community focus on whether corporations are paying a “fair share” of tax and contributing to societies where profits are earned. As a result, 90% of global companies (96% of U.S. headquartered companies) believe that the financial impacts of the pandemic may lead to more tax disputes.

In the US, the recently passed *Inflation Reduction Act*, included a $80 billion funding increase to the Internal Revenue Service (IRS), with $46 billion of this earmarked for enforcement. This could allow the agency to hire an additional 87,000 staff. Reports state that this additional government funding is expected to bring in an additional $204 billion in taxes through to 2031.

Globally, there is a shift in the approach that tax authorities are taking on tax auditing. Growing multilateralism between tax authorities is leading to audits that are increasingly "forensic, multi-sided and whole-of-group-focused", with information sharing between tax authorities allowing for the assessment of transactions from two or more country perspectives, and the undertaking of simultaneous audits by multiple tax authorities.

Even prior to the pandemic, Amazon’s tax practices have been repeatedly challenged by tax authorities, incurring significant settlements and/or adjustment costs. For example:

- In 2018 Amazon paid an undisclosed sum to settle a claim by the French Government for €200 million, as the Company was criticized for minimizing its tax bill in France and other European countries by channelling sales through Luxembourg, which offers tax breaks to foreign companies.
- According to Amazon’s own Form 10-K disclosures, the company in 2020 had $1.2 billion in financial settlements with global tax authorities, and in 2021, the Company had $60 million in settlements.
- Between 2010 and 2020, Amazon had cumulative tax settlements of $1.5 billion. This is equivalent to approximately 25% of the total value of income taxes paid between 2010 - 2020.
- In October 2014, the European Commission launched an investigation into whether certain determinations by the Luxembourg tax authorities complied with EU (European Union) rules on state aid. In October 2017, the European Commission ruled that it did constitute state aid, and announced a recovery amount of €250 million, plus interest. While Amazon won a subsequent appeal, the case is ongoing, with the European Commission electing to appeal that decision at the European Court of Justice.

Amazon had $3.2 billion in “tax contingencies” or “uncertain tax benefits” at 31 December 2021, up from $2.8 billion at 31 December 2020. Uncertain tax benefits are “an estimate of tax positions that a business has taken with tax authorities … that might suffer a better than even chance of being overturned if and when they are audited” and can be an indication of the “aggressiveness of a company’s tax practices.”
Currently, Amazon does not publish its approach to tax (GRI 207-1) or a “tax governance and control framework” (GRI 207-2). As such, investors have no insight into a company's tax risk appetite, or the systems that the company has in place to assess and monitor tax risks. As such, they are unable to assess the extent to which these settlements are indicative of risks associated with Amazon’s tax strategy.

**Risk: Vulnerability to Changes in Tax Regulation - Global Tax Reforms to “Address the Tax Challenges Arising Digitalization of the Economy”**

Significant policy concerns have arisen over the past decade about corporate practices that erode a country’s tax base by shifting profits from a company’s home country to a lower cost “tax haven”. The “digitalization of the economy” makes it easier for multinationals to hold intangible assets (e.g., patents, trademarks, and copyrights) in overseas affiliates in countries with a lower tax rate than the home country and earn significant revenues in countries where there is no physical presence and no ability to tax offshore income.

In October 2021, 137 countries agreed to the OECD framework for global tax reform to “address the tax challenges arising from the digitalisation of the economy”. This historic deal was described as the “first fundamental change to the system of cross-border taxation in a century”. The agreement adopted a two-pillar approach. Pillar One is expected to reallocate taxing rights on more than $125 billion to market jurisdictions each year. Pillar Two introduces a global minimum corporate tax rate set at 15% for companies with revenue exceeding €750 million. Germany, South Korea and the United Kingdom have already taken steps to draft implementing legislation for Pillar One and the introduction of a minimum corporate tax rate.

The Inflation Reduction Act (IRA) recently passed by the Biden Administration has created a new 15% corporate alternative minimum tax for the largest global multinationals – including Microsoft.

As part of reaching agreement on Pillar One, Austria, France, Italy, Spain, and the United Kingdom agreed to withdraw any unilateral tax measures on all companies (including digital services taxes), and refrain from imposing new unilateral measures.

Digital Services Taxes (DSTs) were introduced in several jurisdictions in response to domestic political pressure regarding the perception that big tech companies were not paying a fair share of tax.

At the time of the OECD agreement, approximately half of the European countries who are members of the OECD passed – or were planning to pass – a DST. These country-level DSTs were based on regional DST proposed by the EU which was not implemented. Several non-EU countries have proposed DSTs (e.g., Kenya).

Political commentary regarding these legislations shows that they are clearly aimed at big tech companies, including Microsoft. For example, the French DST was named the GAFAM or “Google, Apple, Facebook, Amazon and Microsoft” tax.

Should the US fail to pass the implementing legislation for Pillar One, there is a strong possibility that these countries will re-establish Digital Services Tax in the absence of other global tax reforms. As a company respondent to Deloitte’s 2022 Global Tax Survey comments:

> I also fear what will happen if the US does not implement Pillar One: we may be destined for more unilateral measures & double taxation.

Given these reforms, investors must be provided with sufficient information to assess the impacts on Amazon’s bottom line, if they can no longer transfer income to a jurisdiction of choice (according to its tax regime) and independently of the economic reality of actual business operations.

**Tax Transparency**

Given the material investment risks identified above, it is crucial that investors are given sufficient information to make informed assessments of Amazon’s tax strategy and governance procedures. A lack of transparency regarding corporate taxation impairs investment analysis and understanding of how Amazon is positioned in the short-, medium-, and long-term.
The GRI Tax Standard

This shareholder proposal requests that Amazon produce a tax transparency report prepared in consideration of the GRI Tax Standard.

The GRI Standards are the world’s most utilized reporting standard. The GRI Tax Standard was developed in response to investor concerns regarding the lack of corporate tax transparency and the impact of tax avoidance on governments’ ability to fund services and support sustainable development. The rigorous development process included input from companies. It is the first comprehensive, global standard for public tax disclosure and includes:

- Description of a company’s approach to tax
- Tax governance, control, and risk management
- Stakeholder engagement and management of concerns related to tax
- Public country-by-country reporting (CbCR) of business activities.

Several companies already report in line with the standard. A review of the DAX40 found over 70% of companies reviewed provided reporting that was compliant with at least one of the GRI indicators. A Dutch NGO found that 8% of the largest listed Dutch companies report against all or almost all GRI indicators.

Companies using the standard include Anglo American, Philips, Randstad, Vodafone, Royal Dutch Shell, NN Group, Ørsted and Newmont. These companies all publish country-by-country reports.

As Royal Dutch Shell explained in its 2020 tax report:

GRI 207 provides best practice reporting guidance and contains many measures that Shell had already adopted. Some elements, such as the country-by-country reporting requirement, concerned information that we published according to OECD guidelines. In our Sustainability Report, we report performance against the GRI standards, including on tax.

Country-by-Country Reporting (CbCR): Overview

Public CbCR is a key element of the GRI Tax Standard. The Standard requires companies to disclose a full list of subsidiaries, tax, and financial information (including third-party and intra-group revenues), and the number of workers for each of the tax jurisdictions where the company has operations.

Public CbCR enables investors to better assess task risks and opportunities in their portfolio; examine the economic scale of operations in different jurisdictions, validate companies’ commitments against tax avoidance, and to raise questions with companies to facilitate more responsible corporate behaviour.

Significantly, the GRI Tax Standard only came into effect on 1 January 2021. Before that date, much of the country-by-country-reporting occurred using OECD reporting standards and/or draft versions of the GRI Tax Standard. The OECD standards and the GRI standards are very closely aligned. If country-by-country reporting that aligns with either OECD BEPS or the GRI Tax Standard are included, there is a clear and observable global trend towards greater disclosure of corporate tax practices:

- 20% of the largest listed Dutch companies published CbCR in 2021, up from 13% in 2020.
- 7% of 1380 of the largest listed global companies published CbCR in 2020.

Public CbCR would bring Amazon in line with these leading companies.

These companies have not suffered adverse impacts from being amongst the first amongst competitors to disclose additional tax data. Amazon claims in its voting recommendation, that the company expects to be “required to report certain country-by-country tax information for European Union countries following the European Parliament’s recent vote to require such information, and for certain other countries (such as Australia), we believe the prescriptive granularity of reporting under
GRI Tax Standard 207-4 would potentially force disclosure of competitively sensitive information about our operations and cost structures and would hamper our ability to make operational decisions. However, the recently proposed tax reporting legislation in Australia, as noted by PWC, is predominantly adopted from GRI Standard 207.

Significantly, U.S. companies lag behind their global peers. According to a 2020 report, only 1% of US companies publish country-by-country reporting, compared to 24% of European companies. However, since the publication of that report, Newmont Mining and Hess have both published country-by-country reports. As Microsoft is a multinational entity, with global operations and exposure to multiple tax authorities, it is important to review its tax disclosures against global, not US-based comparators. As discussed above, Microsoft’s US tech peers have been repeatedly singled out by global governments for their aggressive approach to tax optimisation, and as such, should not be held up as exemplars of reasonable tax disclosure.

There has been extensive advocacy by investors for more detailed tax reporting:

- In response to the no action request filed by Amazon in response to a similar proposal filed at that company in 2021, investors with $3.6 trillion in assets under management (AUM) wrote to the U.S. SEC in support of the GRI Tax Standard and public CbCR.
- The UNPRI and investors with over $10 trillion AUM supported the implementation of the GRI Tax Standard.
- Investors representing $2.9 trillion in assets supported the introduction of mandatory, public CbCR via the Disclosure of Tax Havens and Offshoring Act.
- Investors representing over $5.6 trillion AUM supported the introduction of public CbCR in the EU.
- PIRC, the UNPRI and Ethical Partners each made a submission to Australian Treasury Consultation on the introduction of mandatory public country-by-country reporting. The submissions all supported using the GRI Tax Standard as the model for country-by-country reporting.
- In May 2021, 21% of independent shareholders voted in favour of a similar proposal filed at Amazon.com, Inc.

Public CbCR is included as a criterion in numerous ESG ratings and indexes. For example:

- Standard & Poor’s (S&P)’s sustainability assessment methodology includes criteria based on the GRI Tax Standard and includes public CbCR.
- FTSE Russell’s proprietary ESG Ratings and Data have tax transparency criteria, including public CbCR. These ratings input into range of FTSE’s sustainable investment indexes.
- MSCI ESG Research’s ESG Rating model across the MSCI All Country World Index (ACWI) includes and tax transparency issue that evaluates the extent to which a company’s estimated level of effective income tax rate may be misaligned with revenue-weighted statutory rates in its countries of operation.

During an appearance at the Senate Banking Committee in September, Chair Gensler of the Securities and Exchange Commission (SEC) stated that the SEC was considering increased public reporting of tax information and supported efforts by the Financial Accounting Standards Board (FASB) to introduce requirements for companies to provide disaggregated information in company financial statements.

Amazon is already required to report country-by-country information privately to tax authorities under OECD BEPS. As such, there would only be minimal additional costs in providing that information publicly, while conferring substantial benefits to investors by providing them with necessary information to understand a company’s tax practices.
Legislation to Mandate CbCR

Microsoft’s opposition statement contends that “the Tax Standard’s narrow focus on corporate income taxation also oversimplifies a complex system of fiscal and public policy determinations each country makes on revenue sources, including consumption taxes, individual taxes, business taxes, etc.” This ignores current government proposals to introduce mandatory PCbCR in various jurisdictions:

- Since 2015, European financial institutions have been required to publish CbCR.
- In June 2021, the US House passed the Disclosure of Tax Havens and Offshoring Act, which would require public corporations to publish CbCR.
- The Australian Labour Party included public country-by-country reporting in their policy platform prior to the May 2022 election. The Australian government has introduced the legislation in April 2023 and if passed as expected will implement CbCR applicable to the 2023-2024 income tax year.
- 2022, the Australian Treasury ran a consultation into Multinational Tax Integrity and Enhanced Tax Transparency, which included a section on the form that public country-by-country reporting should take in Australia. This included questions regarding alignment with the GRI Tax Standard. PIRC, the UNPRI, Ethical Partners and other investors all made submissions in support of aligning with the GRI Tax Standard.
- A key recommendation of the UN FACTI panel was to introduce requirements that all “multinational entities publish accounting and financial information on a country-by-country basis”.

On 21 December 2021, a new EU directive came into force which will require all multinationals with group revenue of over €750 million operating in the European Union to publish CbCR. As it stands, the EU legislation includes requirements for reporting on operations in the EU member states and in the EU list of uncooperative jurisdictions and aggregated information on all other countries of operation, for companies in scope. As such, it may limit visibility of high-risk transactions in non-EU countries and impair risk assessment for investors. Furthermore, it could create a perverse incentive for multinationals to undertake profit shifting in other jurisdictions, where investors and other stakeholders may not have full view of activities.

For this reason, PIRC and the filers of this shareholder proposal, argue that Amazon should report in line with GRI 207-4 rather than the limited reporting requested under the EU regime. As the GRI Tax Standard is closely aligned to reporting already required under OECD BEPS for large multinationals, we believe that the compliance burden for reporting under the GRI 207-4 is negligible.

Current Reporting by Amazon

Beyond an assessment of a company’s tax strategy, public CbCR allows investors to assess a company’s financial performance and provides oversight of the jurisdictions where it makes its profits and losses.

Currently, Amazon does not disclose revenues, profits or tax payments in non-US markets, challenging investors’ ability to evaluate the risks to our company of taxation reforms, or whether Amazon is engaged in responsible tax practices that ensure long term value creation for the company and the communities in which it operates.

Amazon’s Notice of Meeting contends it reports on total tax contributions in other countries, including the United Kingdom, Italy, Germany, France, and Spain. We note that Amazon references a blog post, and this information is not provided as part of the company’s standard reporting. Furthermore, while the company reports a total tax contribution, it fails to provide revenues or profits for these jurisdictions, making it impossible for investors to determine the company’s effective tax rate and how it compares to the statutory rate. Finally, these jurisdictions are only a fraction of the jurisdictions in which Amazon operates, and it is unclear how the total tax contributions in these countries reflect contributions elsewhere.

Recent reports have highlighted the difficulty of understanding Amazon’s tax strategies from current reporting, calling its disclosures “impenetrable” and even, as “engaging in deliberate obfuscation”. The
complexity of Amazon’s reporting limits investor oversight of Amazon’s business in each of its countries of operation and market segments. Analysis of Amazon subsidiary data registered in the Orbis database found that the majority of subsidiaries outside the EU were running operating losses:

Yearly reports from Australia and New Zealand subsidiaries, for instance, have a median observation of operating expenses at 102.6 percent of revenues. For Eastern Asia (i.e., China), while median level of operating expenses is 100 percent of revenues, the extent of the losses produced also exhibits a larger range (with operating expenses up to 150 percent of revenues observed). Excessive loss making seems to occur in Southern Asia (i.e., India) where median levels of 101.95 percent are overshadowed by a high number of incidents with reports well over 200 percent and indeed more extreme ends of the distribution reaching nearly 400 percent.

Conclusion

This proposal requests that Amazon bring their reporting in line with other leading companies, who are already reporting using the GRI Tax Standard. The GRI is the most widely used sustainability reporting standard, and the tax standard is the only comprehensive tax standard globally. Our company already reports CbCR information to OECD tax authorities privately, so any increased reporting burden is negligible, while the benefit to investors will be significant.

Vote “FOR” on Shareholder Proposal #11: Tax Transparency at the Amazon.com, Inc. annual general meeting on May 24, 2023.