EOS Responsible Tax Principles

EOS at Federated Hermes Limited

August 2024

Federated Hermes

www.hermes-investment.com
For professional investors only

Introduction

In accordance with directors' fiduciary duties, companies should be financially efficient and avoid paying undue tax. Directors must balance the short-term benefits of lower tax payments with the risks of lower revenues and ultimately government sanctions (tax or otherwise), which will damage the company's long-term value. Tax demands could be sought retrospectively from companies, which disadvantages investors who invested in the interim period, unfairly impacting their investment. Long-term investors generally value stable and sustainable effective tax rates.

The payment of tax, in line with the intention of tax law and in proportion to the location of economic value generated, is an important pillar of a company's social licence to operate. On average, corporate income tax contributes around 9% of government tax revenue in Organisation for Economic Co-operation and Development (OECD) countries and often over 15% in developing markets.[1] Effective tax systems help create the conditions for responsible investment and sustainable growth, which are critical for meeting the UN's Sustainable Development Goals and for addressing wider societal impacts. We believe that companies that seek to aggressively minimise their tax payments may face increasing reputational, regulatory and financial risks, which may adversely affect their long-term value creation.

Summary of EOS's responsible tax principles

These responsible tax principles have been prepared by EOS at Federated Hermes Limited on behalf of its clients (see box on page 3). The principles are intended to provide high-level guidance to companies about our expectations regarding responsible tax practices and disclosures. The principles deliberately avoid prescribing any specific tax structures or measures; instead, we expect companies to articulate clearly to shareholders how their tax practices meet these principles in a manner that is most appropriate for their specific situation. We do however advocate for companies to disclose their taxation approach in line with the GRI Tax criteria 207.

Where relevant, these EOS responsible tax principles reference existing standards, including our EOS Global Corporate Governance Principles and regional voting policies,[2] the Global Reporting Initiative (GRI) tax standard released in 2020,[3] the PIRC briefing on expectations and voting policies for fair tax,[4] and the UN PRI's engagement guidance on corporate tax responsibility.[5]

Responsible tax practices are applicable across all sectors.

Engagement approach

Our long-term goal is for companies to pay responsible levels of tax, putting an end to tax arbitrage and aggressive tax avoidance.[6] Near term, we are seeking a policy commitment from companies to pay tax in each country in line with the spirit and intent of the law. EOS will continue to advocate for public policy at an international level and individual country levels to achieve greater tax transparency.

Responsible tax practices have been an ongoing area of engagement for EOS at Federated Hermes Limited. We aim to assess tax practices and disclosure by companies in our engagement research. Our engagement approach with companies focuses on four critical areas: tax policy, governance, stakeholder engagement and transparency.

We assess company tax practices and disclosure in our engagement research and look for tax transparency. We select watchlist companies for engagement based on third-party effective tax rate data, sector and geographic tax risk exposure, and significant tax-related controversies, benchmarking performance against the GRI's 207 tax criteria and compliance with these tax principles, where practicable. We will engage with watchlist companies in line with our responsible tax principles to encourage boards to:

1. Adopt and strengthen the company's global tax policies in alignment with these principles, particularly in relation to tax management, good governance, and transparency.
2. Adopt and implement good tax governance in line with these principles by taking ultimate responsibility for the company's tax policy, actions, and disclosure.
3. Continue to support the development of market best practices and advocate at international and local levels for the advancement of public policy in line with these principles.
4. Publish a global tax policy and approach to tax in line with these principles, in particular country-by-country reporting.
5. Consider escalation where expectations fall short.

Escalation

We will consider escalating our engagement through other channels, including the use of shareholder rights where a company's corporate tax management has not materially changed in line with these tax principles or if there has been an insufficient response to engagement. In extreme cases we may consider recommending a vote against the chair of the audit and risk committees if unresponsive to engagement.

We will generally support shareholder resolutions seeking improved tax disclosure in line with our principles on a case-by-case basis.

[1] http://www.oecd.org/tax/beps/corporate-tax-statistics-database.htm and https://taxfoundation.org/sources-of-government-revenue-oecd-2018/
[4] EOS library | Federated Hermes Limited (hermes-investment.com)
[5] gri-207-tax-2019.pdf (globalreporting.org)
[6] PIRC_TAX-BRIEF_FINAL.pdf (preview.uk.com)
[7] Evaluating and engaging on corporate tax transparency: An investor guide | Engagement guide | PRI (unpri.org)
[8] EOS at Federated Hermes Limited 2022-2024 Engagement Plan.

<table>
<tr><td>Policy</td><td>We expect companies to:

Comply with the legislative intention of tax laws and regulations in all countries of operation.
Pay taxes in line with where economic value is generated.
Adopt enterprise-wide tax policies describing their approach to tax risk, controls, and oversight, including any material variations across the entity. This should include policy on corporate structuring in low tax jurisdictions, intra-group transactions and the use of tax incentives from public authorities.
Avoid the use or promotion of aggressive tax avoidance strategies, including having design features that do not tackle base erosion and profit-shifting risks effectively, either for their corporate taxes or those of employees, contractors, or customers.
Take necessary measures to ensure their tax policies and practices do not damage their social licence to operate in all jurisdictions in which they have a presence.
Require relevant third parties, such as suppliers, to comply with the company's tax policy and code of conduct.
Subject tax policy to an annual fit for purpose review.
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<tr><td>Governance</td><td>We expect the board of a company to:

Hold ultimate responsibility for tax policy and strategy, material tax decisions, tax practices, compliance, and reporting.
Put in place measures to ensure it has sufficient oversight of tax policy, risk and controls in board and committee work.
Receive at least annually - and any relevant board committee, such as the audit and risk committee, more often - a report of tax risks, adherence to the tax policy and any complaints/concerns reported to ensure that the company has operated in line with the above policy principles.
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<tr><td>Stakeholder engagement</td><td>When engaging with stakeholders we expect companies to:

Avoid activities that undermine the development of responsible tax policies or the capacity, or independence, of tax raising authorities, such as lobbying for changes to tax laws misaligned with these principles.
Describe its approach to engagement and management of stakeholder tax-related concerns with tax authorities and other relevant stakeholders.
Use their influence both directly and indirectly (such as through trade associations) to support public policy developments that seek to enhance responsible tax practices and eliminate practices that run contrary to these principles.
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<tr><td>Transparency</td><td>We expect companies to:

Publish a global tax policy (and/or strategy[7] or approach) with reference to the GRI reporting standards on tax or equivalent standards.[8]
Have the tax policy signed off by the board and include a commitment to comply with the legislative intent of tax laws and regulations.
Discuss their tax approach within the company's annual reporting, code of conduct, and corporate responsibility reporting, and disclose at a minimum:

The company's approach to tax-related policy advocacy and lobbying, directly and through trade associations.
The board's expectation for the effective tax rate payable by the company and why that is or is not likely to be different to the weighted average tax rates of the countries in which it generates revenues.
The frequency that the responsible tax policy is reviewed by the board.
A description of the company's tax governance and risk oversight.
Provisions or tax uncertainties and how future developments might affect the business.
The full extent of taxes paid or collected by them in each country. Country-by-country reporting should include the purpose of the local corporate entity along with comparable corporate data such as the number of employees (in full-time equivalent), revenue, profit before tax, taxes paid, and any significant incentives received. The reporting should identify and explain any tax data excluded.

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[2] Publishing a tax strategy is already a requirement in some jurisdictions, such as the UK which requires a strategy covering UK operations.
[3] gri-207-tax-2019.pdf (globalreporting.org)

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Federated Hermes

Federated Hermes

Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns and, where possible, to contribute to positive outcomes that benefit the wider world.

Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by five decades of experience
- **Private markets:** private equity, private credit, real estate, infrastructure and natural capital
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

For more information, visit **www.hermes-investment.com** or connect with us on social media:

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