

How does ABP deal with

...tax?

In recent years, there has been an increasing interest in taxation from politicians, the media and society. Taxes contribute to healthy public finances and a stable society, in which social facilities are available and through which people feel connected. By dealing responsibly with taxes, we can contribute to a livable world in which our participants can enjoy their pension. To this end, we have drawn up a tax policy.

In this paper, we discuss our new tax policy. We also provide insight into questions we receive about this topic and the importance of taxes for our participants. These and other position papers can be found at abp.nl. Here you can also find our fact sheets, in which we discuss environmental and social themes we encounter when investing in various sectors.

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Why a position paper on taxes?

Taxation is an important issue in today's society. Research shows that this theme can count on a lot of interest from participants. Preventing involvement in aggressive tax planning in particular is an important theme for ABP, according to our participants. When we talk about tax planning, we mean the actions of individuals or companies to arrange their tax payments as effectively as possible.

In recent years, there has been a lot of attention for companies that engage in aggressive tax planning. Aggressive tax planning is socially disapproved and does not contribute to a stable society. As one of the largest pension funds in the world, we believe that responsible tax behavior should not only be expected of us, but also of the companies in which we invest.

What can you expect?

In this position paper, we give our vision on taxation and explain how we deal with this in practice.

ABP is confronted with taxation in various ways. ABP is a tax payer itself, but is also a shareholder of companies that deal with taxes in various ways. This paper explains how ABP deals with taxes in these different roles.

In addition, we believe it is important to have insight into the sentiment participants have with regard to taxes. We include this in our annual participant survey. The results are included in this position paper.

A summary of our view

First and foremost, ABP wants to behave responsibly, also when it comes to taxes. As a starting point, we have drawn up [Tax Principles](#). These do not only relate to our own tax payments. We also want to encourage the companies we invest in to deal with taxes responsibly. We call this responsible tax behavior. For us, the most important principles of responsible tax behavior are:

1. To comply with laws and regulations
2. To be transparent about taxation towards our participants and society
3. To collaborate with international organizations that promote responsible tax behavior
4. To act on the principles of initiatives that combat aggressive tax planning

We have laid down our view in a tax policy, taking into account our important social function and obligation to our participants. We regularly review our tax policy so that it evolves in line with society's norms and views.

Questions to ABP about taxes

ABP receives questions from various angles, for example, from participants or the media. Below, we answer important questions about taxes for ABP.

What taxes does ABP pay and how does this affect my pension benefit?

ABP is liable to various taxes. For example, we pay VAT on products and services that are supplied to us and we pay wage tax on the salary that our employees receive.

ABP participants pay wage tax on the pension they receive from ABP. To prevent them from paying tax on this pension benefit multiple times, the pension contributions they pay while they are still working are tax-deductible. As ABP subsequently invests these pension contributions to realize the best possible return for the future, ABP as a pension fund is exempt from corporate income tax in the Netherlands. In other words: the investment returns are not also taxed at ABP. On balance, our participants in the Netherlands only pay tax once on the pension they receive; namely when their pension is paid.

ABP invests worldwide in listed and unlisted companies or investment funds. These investment activities are not always exempt from tax outside the Netherlands. In addition, there may be various reasons why ABP cannot become a direct shareholder of a company in which we want to invest, but must do so through other legal entities, such as a joint venture or holding company. To ABP it is important to ensure that these investment activities and legal structures do not lead to double taxation for our participants.

What does responsible tax behavior mean for ABP?

For us, responsible tax behavior means:

1. To comply with laws and regulations

We emphatically choose to avoid involvement in aggressive tax planning. That means that we not only adhere to the letter of the law, but also take into account the spirit of the law.

2. To be transparent about taxation towards our participants and society

We want to give our participants and stakeholders insight into how much tax we pay directly or indirectly and where. In addition, we attach great importance to an open and honest relationship with the (tax) authorities in the Netherlands and every other country in which we invest.

3. To collaborate with international organizations that promote responsible tax behavior

By cooperating with other major investors in the field of tax, we are putting the theme of responsible tax behavior on the agenda of companies and governments.

4. To act on the principles of initiatives that combat aggressive tax planning

Several organizations, such as the Organization for Economic Cooperation and Development (OECD) and the European Commission, aim to deal with aggressive tax planning through new regulations and initiatives. We subscribe to the fight against aggressive tax planning and act, among other things, in accordance with the principles formulated by the OECD.

What does ABP expect from the companies in which it invests?

We want to promote responsible tax behavior in the companies in which we invest. We discuss taxation with our listed investments. We will check, among other things, whether companies have established a tax policy and whether they act accordingly. For unlisted investments, we strive, as far as possible, to impose a best-efforts obligation to comply with our Tax Principles.

How does tax policy work in practice, will ABP invest in a responsible tax manner from now on?

ABP's tax policy applies to all our activities, including pension and asset management, our internal business operations and our investments.

We assess all our new investments against the tax policy. This is laid down in our investment processes for both listed and unlisted investments. Depending on the size of our holding, we will be able to influence the companies in which we invest to a greater or lesser extent. But even when we are a minority shareholder, we find it important to engage in a discussion about responsible tax behavior.

Some investments have been made by ABP in the past, making it difficult or impossible to adjust an investment structure to comply with our current Tax Principles. Another factor in this respect is that we often invest together with other investors and that there must, therefore, be joint agreement about adjusting the tax components. That is why we choose to apply our tax policy to new investments.

Does responsible tax behavior have a negative effect on the return and thus the pension of participants?

When introducing our tax policy, we looked carefully at possible negative effects on the return. We have investigated this by means of a sample exercise in our investment portfolio. Based on the results, we believe that we can operate in a

responsible tax manner without compromising on returns. This is because we have had a responsible investment policy for many years and already take changing tax laws and regulations into account.

Aggressive tax planning can actually lead to a higher financial risk. We want to mitigate this risk with our tax policy.

What do participants think of ABP's pursuit of responsible tax behavior? Do they agree?

ABP conducts an annual survey into what participants consider important. This survey shows that the majority of the participants want ABP to invest their pension money in a sustainable and responsible manner. ABP and APG have included the importance of taxation for participants in the most recent survey. The results show that participants find taxation very important and disapprove of tax avoidance (62% of participants disapprove of this). The top four companies that ABP should not invest in according to our participants are companies that use child labor, that operate in countries or companies where corruption is prevalent, in countries where human rights are under pressure and (51%) in companies that evade tax (illegal). Many participants (32%) also believe that ABP should not invest in companies that avoid tax (legal).

Our participants also consider it important that if ABP invests in companies that appear to be evading or avoiding tax, it should exert influence by engaging with them (31%) or by voting at the shareholders' meeting (22%).

ABP says that it is looking for cooperation with investors, companies and international organizations in order to realize its Tax Principles. How does this happen?

As a global investor, ABP is faced with various international and local laws that we must comply with. By entering into partnerships with other investors, we can put our conditions regarding taxation into practice more effectively.

Our investment portfolio is very diverse. Depending on the type of investment, we enter into various partnerships. We have partnerships with parties that enter into listed investments and partnerships for non-listed investments. In addition, we are in regular contact with NGOs and other interest groups that try to promote responsible tax behavior from various angles, for example, by setting transparency conditions.

We also regularly talk with governments and organizations such as the European Commission and the OECD. This allows us to contribute to the creation of new laws and regulations and to alert these organizations when legislation is potentially harmful to our participants.

ABP states that it wants to be transparent about taxation. What are you going to do then?

We want to provide our participants and stakeholders with insight into how much tax we pay directly or indirectly and where. This is not that simple. ABP itself is exempt from corporate income tax. However, this is not always the case outside the Netherlands and we pay local profit tax or withholding tax. Withholding tax may be levied on income that ABP receives from an investment. For example, dividend withholding tax or tax on interest payments. These withholding taxes are charged directly from ABP and can be disclosed. Taxes that are levied indirectly from ABP, for example, from another legal entity in the investment structure, are less easy for us to unravel. In the coming years, we will increase our transparency in this area.

On which topics does ABP want to engage the companies in which it invests?

Below are some examples of engagement topics and questions we can discuss with the companies we invest in.

- We want to talk to companies about their tax policy and who is responsible for it within the organization. We also want to assess whether they adhere to their tax policy in practice.
- For companies where the tax payment in a country is disproportionate to the economic activities in that country (companies with a low 'effective tax burden'), we want to understand what causes this low tax burden. For example, does the company make use of specific statutory provisions, or is the low tax burden a result of undesirable aggressive tax planning?
- We want to encourage companies to be more open about the taxes they pay, about tax risk management and how this is vested within the organization. We also want them to report on this in the annual financial reports. For example, openness about taxes paid can be provided through public country-by-country reporting. Through country-by-country reporting, a company indicates for each country in which it operates the turnover it achieves and how much tax it pays in relation to that turnover.