Opinion

Amazon's tax tussle raises broader questions for investors

COMPANIES

Helen Thomas

The "double Irish" has had its day. Wrangling over the tax affairs of US tech companies has not.

Amazon investors will next month vote on a shareholder proposal asking it to produce a tax transparency report, one aligned with global standards that include country-by-country reporting of taxes paid.

A repeat of the giant-killing exploits of the tiny Engine No. 1 fund, which last year took on Exxon over its approach to climate change, looks unlikely. But it is significant that a vote on the proposal, led by a Catholic investment fund and the UK's Greater Manchester Pension Fund, is happening at all.

Given the history of aggressive tax planning by US multinationals, it is bizarre that this is thought to be the first time shareholders will opine on a tax-related proposal. And, of course, much of the most egregious avoidance is over.

For years US companies, legally and without huge controversy at home, shovelled global profits into low-tax jurisdictions, using wackily-named structures such as the double Irish, which channelled taxable profits through Ireland to tax havens. When shut down, they found others — all to avoid repatriating what grew to over $1tn in offshore cash and being hit with punitive US taxes.

The Trump administration's 2017 reforms cut that tax rate and made it easier to bring home foreign earnings. The result: a slow unwinding of the most convoluted attempts to keep profits from the taxman. Separately, last year's agreement by more than 130 countries to set a global minimum tax rate marked a shift in sentiment.

Amazon has been singled out as a high-profile name that resonates with consumers. True, its disclosure is limited and, like most tech peers, it has form in aggressive tax planning. But juggernaut proportions haven't always meant vast profits: the international consumer business made a loss last year.

There is an element of symbolism here. Both sides acknowledge that more disclosure is likely coming. European financial institutions already do country-by-country reporting, as will other large companies in EU markets from 2025. Companies such as Anglo American, Vodafone, Orsted and Philips publish country-by-country data. Similar measures have been mooted in the US.

> The vote could be a litmus test for those who profess to be champions of ESG

The result is that the common defence of a competitive disadvantage is becoming even less credible. "I struggle to see anything to do with tax disclosure or transparency that has any material impact on competitiveness," says one tax adviser.

The real win is that investors are being asked the question. US business culture with regards to tax has majored on staying within the rules, rather than notions of paying a fair share, good governance or (heaven forfend) anything ethical.

And, as Amazon argued to the Securities and Exchange Commission, observing the rules is a management task: in the jargon, it is "ordinary business" rather than the type of issue on which investors can usefully express a view.

That the SEC disagreed suggests this won't be the last vote of its kind. The regulator is taking an accommodating view of shareholder proposals and pushing disclosure on environmental, social and governance issues.

The vote could be a litmus test for how those who profess to be champions of ESG think about tax. It should be obvious that it is a major component of social impact. The OECD estimates that avoidance costs governments 4 to 10 per cent of global corporate tax revenues, money that could be spent on health, education or indeed infrastructure for the energy transition.

Yet "investors have historically not cared one jot about the tax position of the companies they invest in", says Dan Neidle, a senior tax lawyer. "The near silence from the ESG world on tax is something of a mystery."

Norges, the Norwegian investment fund, is clear that tax behaviour is key to corporate responsibility and backs country-by-country reporting. But at BlackRock, say, which doesn't appear atypical, tax doesn't merit a mention in its stewardship materials.

The mood is changing. Nearly 80 per cent of multinationals in Deloitte's global tax survey last year expected more scrutiny post-Covid; a third said they would increase voluntary disclosure. Proxy advisers backed several (softer) proposals in Denmark on transparency: Glass Lewis, in one case where the board opposed the move, concluded that more reporting would allow "additional important insights" for shareholders.

Whatever the Amazon outcome, the question to socially-minded investors should be whether tax features in their thinking. And if not, why not?

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Self-serving leaders block N Ireland's path

POLITICS

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Six years on from a Brexit which it voted decisively against, Northern Ireland remains trapped in its consequences, let down by both the UK government and the strategic blunders of its largest party, the Democratic Unionists. While next week's elections for the Stormont parliament could mark a significant new chapter, sadly the likelier outcome is more stasis.

While voters are mostly preoccupied with the cost of living and public services, the campaign is driven by two other issues: the demands for reform of the Northern Ireland protocol, which governs post-Brexit trade, and whether Sinn Féin, once the marginalised political wing of the IRA, might be the largest party in the Stormont parliament. Yet the most pressing question will be whether the DUP continues to boycott the power-sharing structures in protest over the protocol, a stance which prevents the creation of a fully-functioning government for the province.

Opinion polls predict a Sinn Féin win, though those closer to the contest are more cautious. (The focus on this may obscure the fact that both the biggest parties are likely to lose ground). Yet a Sinn Féin win is London's "central planning assumption". Victory would secure it the first minister post, the first time a party committed to Irish reunification will have claimed that role.

This is both momentous and largely symbolic. Polls show a clear majority for remaining part of the UK and Sinn Féin has not focused on the issue. Combined unionist parties should still outnumber nationalists and the first and deputy first ministers — divided between the largest party on each side — are actually joint heads. But if there is one place where symbolism matters it is Northern Ireland. Sinn Féin is leading in polls in Ireland too: the thought of it in power on both sides of the border alarms unionists. Showing it can lead a stable, pragmatic executive in the north would boost its standing in the Republic.

UK ministers have discussed renaming the jobs "joint first minister" but the DUP and Sinn Féin resist this, and other changes, to preserve the electoral benefit of campaigning to deny the other side the top job. And since the rules require the executive to be led by the two largest parties they also have the power to collapse it at will.

The DUP is threatening a boycott until the protocol is scrapped, a particularly dreadful stance for Northern Irish democracy if Sinn Féin were to win. Intransigence is almost its last electoral gambit after a litany of political errors which included supporting Brexit (while opposing every model of how it might work) and siding with Boris Johnson only to see him do a deal which sacrificed the union's integrity for the purity of Brexit on the mainland.

The deal placed Northern Ireland within the EU single market for goods, creating a trade barrier in the Irish Sea. This has led to often onerous customs checks on British goods. Some mainland retailers have decided it is no longer worth the trouble selling to the province. The problems were foreseen when the UK signed the protocol, but the EU's implementation has been inflexible, focused on theoretical rather than real threats to the single market. All parties in Northern Ireland agree the protocol's implementation needs reform, not least because it is still not fully in force.

Conservatives are now planning legislation to give the UK the right to unilaterally over-rule protocol provisions.

> Sinn Féin is leading in Irish polls too: the thought of it in power on both sides of the border alarms unionists

This plays to Johnson's instinct for shock tactics to reboot negotiations with Brussels, though it is a gamble that the EU will not retaliate.

Yet this gives the DUP an incentive to promote instability to pressure the EU — at times hardliners have come too close to condoning violence. UK ministers also know the protocol offers economic advantages and that a majority at Stormont favour fixing rather than trashing it. While they cannot ignore unionist anger, Tories need to find an achievable landing zone which eases GB/NI trade friction. Until the expectations of the maximalist anti-protocol forces are managed towards compromise, it will remain the faultline in Northern Irish politics.

This leads on to a broader point. The intricate Stormont structures, once essential for peace, are now loading the system against moderates and limiting space for compromise. The power to collapse the executive is being abused. Both UK and Irish ministers have discussed allowing another unionist or nationalist party to take the place of the two bigger parties if they refuse to participate. The rules also preclude non-aligned parties from taking the top jobs, though they do get other roles.

This all coincides with an upsurge in support for the cross-community Alliance party and a modest revival for the more pragmatic Ulster Unionist party. Tories know that a modern, less sectarian Northern Ireland is the best way to safeguard the Union, but the structures work against it. If both Sinn Féin and the DUP do lose vote share, the need to address a system unduly weighted in their favour becomes more pressing.

Both London and Dublin can see the case for reform but are understandably nervous of tampering with power-sharing rules. One Brit observes: "Is there an appetite for change? Emotionally, yes, but politically, absolutely not."

The protocol battles will dominate for now. But reforms are necessary if Northern Ireland is to chart a path beyond backward-looking rules which frustrate a tantalising but still too distant future.

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America needs fresh savings options to ward off its retirement funding crisis

Robert Merton

The financial independence and security of families lie at the heart of a functioning democracy. The US three-legged retirement system — social security, employer-provided pensions, and private savings and investments — is in the grip of a serious funding challenge, some would say crisis. The reality is that a dignified middle-class lifestyle continued into the retirement years is no longer secure.

To curb the fastest inflation in four decades, the Federal Reserve raised interest rates by a quarter percentage point and signalled six more increases this year. But this move only adds to the uncertainty faced by retirees, which stems from a broad misconception that there is no good way to inflation-proof your investment.

There are in fact numerous strategies for individual investors and countries to consider, including Tips (Treasury inflation-protected securities), I savings bonds and inflation swaps. One such pension-like bond innovation, which I helped to create, is known as Selfies (Standard-of-living indexed, forward-starting, income-only securities). These could be an excellent currency for retirement and particularly relevant for the inflation challenges at hand.

Central to the financial security of society is a retirement that maintains a comfortable standard of living, which is measured by the amount of sustainable lifetime income received, and not by the size of an accumulated "pot".

Since significant numbers of middle-class workers are now living longer and confronting rising inflation, many face future retirement without the reassurance of an adequate pension.

As we entered the 21st century, employers discovered that the cost and risk of funding their pension benefits were much greater than anticipated. Private sector employers largely abandoned the once-prominent defined benefit (DB) pensions of the past, replacing them with defined contribution (DC) plans with smaller contributions than in the past and employees taking on benefit risk.

As a largely unfunded pay-as-you-go system, US social security is facing numerous solvency and structural issues, raising concerns about the funding for future benefits. Moreover, it was never designed to be the full answer for retirement funding. DC plans have been the workhorse of accumulation for the past two decades and now represent 59 per cent of the $38tn total US retirement assets, which includes the social security trust fund. This percentage will continue to grow, raising the prospect that employees will not save enough for retirement.

> The reality is a dignified middle-class existence continued into life after work is no longer secure

Of the 58 per cent of US workers with access to employer-based DC retirement plans, fewer than half participate. At the same time, only 10 per cent of workers contribute to private savings plans. Changes in employment patterns such as the development of the gig economy, in which staff have no pension benefits, threaten to leave segments of the workforce with little security in retirement.

Around the world, individuals will increasingly be asked to take responsibility for their own retirement planning, including making decisions that few are equipped for, on issues such as compound interest and considering the impact of inflation. They are being burdened with three complex, interconnected decisions: how much to save, how to invest (with many additional decisions), and how to decumulate one's portfolio at retirement. There must be a better way.

Selfies are a government bond with a payout designed to match the pattern from a pension, with level payouts starting at a specified date (typically the retirement date) for a fixed period and indexed to per-capita consumption. This single, liquid, low-cost, low-risk instrument is easy to understand for even the least financially confident individual because they embed accumulation, decumulation and compounding with standard-of-living and inflation adjustments.

Insurance companies and pension funds can use these bonds to hedge their annuity and pension liabilities. Their tax treatment is the same as for other government bonds. They are also good for governments, as they lower the risk of individuals retiring poor and improve balance sheet management. They can be used by those without access to a pension system.

More such innovative instruments from academics, politicians and others are needed if we are to ensure more people can retire with resources that can withstand inflation and provide the security they need.

The writer is winner of the 1997 Nobel Prize in Economics, professor at the MIT Sloan School of Management and co-creator of Selfies

Vinyl, the music format that came back from the dead

Will Page

It is almost 20 years since the late David Bowie looked to a future of streaming and prophesied that "music itself is going to become like running water or electricity". There is an irony, therefore, in the fact that last year Bowie sold more vinyl records in the UK than any other artist — for the second year running.

Vinyl sales were worth more than $1bn to record companies in 2021 — its highest level in 30 years. And there is a lucrative second hand market, too. Log on to Discogs and you'll find a vinyl-trading community of tens of millions of buyers and sellers with more than 64mn vinyl releases on its virtual shelf.

So why, when we're already coughing up $10 a month to access 78.4mn songs on streaming services, are increasing numbers of us willing to fork out a further $25 per album to own just a handful of them? What is the allure of vinyl albums and why the resurgence?

There's a warmth to the sound of vinyl, which emanates from dropping a needle on to a piece of grooved plastic, that is missing with digital music. Then there is the desire to associate oneself with something tactile, creating a signal of one's identity and forging a more direct connection to the artist. Album buyers make a conscious emotional and financial commitment to artists' works which is very different from just adding songs to a digital playlist.

All this black plastic is fantastic for record label coffers, but it also has big advantages for the new wave of investors paying record-setting multiples for music copyrights. Their rush to acquire music catalogues has been driven by the growth of music streaming, a format that monetises only consumption. The resurgence of vinyl takes us back to a format in which only the upfront transaction is monetised. How many times a consumer listens to an album after buying it is unknown and uncompensated.

> Sales were worth more than $1bn to record companies in 2021 — its highest level in 30 years

In order to understand the economic difference between streaming and physical sales, investors in songwriters' catalogues need to understand two music industry terms: "killer" hit tracks that rise to the top in streaming and "filler" album tracks that get lost in the digital ether. A songwriter could pen seven "filler" songs on a 10-track hit album yet see no streaming money. Yet on a physical sale, that same songwriter walks away with 70 per cent of all the money.

Streaming, by contrast, is all killer, no filler. A quick glance at some high-profile catalogue sales shows how hit-heavy these portfolios are. Artists like Bob Dylan, Bruce Springsteen, David Bowie and Neil Young have hundreds (if not thousands) of songs on the digital shelf, yet their top 10 tracks will comprise between half and two-thirds of all their streaming income. Buying an entire catalogue in an age of streaming means foregoing a more targeted and lucrative approach of acquiring just a handful of killer tracks.

But vinyl turns this investment calculus on its head. The portfolio value swings away from the skew towards the killer to include the filler as well. For artists, too, this has huge ramifications. A band with 1mn fans, each streaming their new album 100 times in a single month, need only get 20,000 of them to buy the vinyl record to gross the same amount. For consumers, vinyl albums resuscitate a culture of gifting and compilations that used to drive a fifth of all transactions. Gifting, particularly during the holiday period, got lost in the streaming age — as did lucrative compilation and soundtrack albums, which were mostly tracks licensed from third parties.

All this puts wind in the sails of vinyl's resurgence. For some large labels it already accounts for more than 25 per cent of all income, while pressing plants are running at full capacity with big backlogs. We are watching the pendulum swing back to a format that streaming was supposed to have killed off. Just like a vinyl record album, what goes around comes around.

The writer is author of 'Tarzan Economics'. Fred Goldring, an entrepreneur and veteran music lawyer, co-authored this article