Strengthened efforts towards companies' tax practices

At PKA, we have intensified our work on tax responsibility. The work consists of ensuring that the companies in which we invest display responsible tax behaviour in accordance with national and international legislation and tax principles.

We give high priority to taxation, because we recognise that tax payments constitute a central contribution towards financing society, and because, as an investor, we are responsible for ensuring that the activities in which we take part display responsible tax behaviour. For determining our approach to this field, we have developed a tax policy. Read the tax policy here. Based on our tax policy, we have formulated the five following, basic principles.

1) We are critical towards companies, whose effective taxation is below 15 %

At OECD level, it is politically agreed to introduce a global minimum taxation system with a minimum tax rate of 15 % from 2023. As a responsible investor, we must ensure already now that the companies in which we invest are moving in the right direction towards this goal – which includes companies too small to be comprised by statutory requirements.

2) We assess the tax responsibility of both our listed and unlisted investments

PKA's influence on a listed and an unlisted investment varies; however, the type of influence is not to decide whether we put tax responsibility on the agenda. Only if we focus on both types of investment can we increase the likelihood of a clear improvement of tax responsibility.

3) We prioritise our effects based on the 'biggest first' principle

We analyse the biggest investments and companies first. In this way, we get the best possible effect from our tax efforts. We believe that responsible tax practices in the world's biggest companies will spread to smaller companies. Over time, we will have analysed our entire portfolio.

4) We enter into a dialogue with companies showing signs of irresponsible tax behaviour

Taxation is complex, and irresponsible behaviour cannot necessarily be read from a single figure – the amount of tax paid. With dialogue, we obtain better knowledge of the causes of companies' behaviour and are able to bring our influence to bear to induce a more tax-responsible direction. When dialogue confirms irresponsible behaviour and does not lead to a change of such behaviour, we will at the end of the day exclude the company.

5) We work in favour of strengthened tax reporting from the companies in which we invest

Better information about tax is always a topic we take up with the companies in which we invest. A high level of transparency is behaviour-regulating in itself, and it means that, as an investor, we are quickly able to focus on whether a company has a responsible tax behaviour. Public country-by-country reporting is an essential tool for effective dialogue.

In recent years, tax responsibility has become an important topic in the public discourse. At PKA, we have had it on our agenda for many years – and with the increased focus on tax responsibility and new, strict legislation, we have enhanced the level of our efforts. The new legislation has been introduced gradually since 2015. Most recently, in the summer of 2021, international, political agreement has been reached which includes the introduction of an international, minimum taxation rate, intended to ensure that multinational companies pay at least 15% of their income in tax.

At PKA, we welcome both the debate and the statutory initiatives. As a large investor, we believe we can push tax responsibility in the right direction by putting this topic on the agenda. Consequently, we screen our investments actively; we enter into a dialogue with companies, and we participate in the public discourse. We believe that responsible tax practices in the world's largest companies will spread to smaller companies, so we prioritise our efforts by focusing first on the biggest companies in which we have invested.

Taxation is at three levels

The companies and activities in which we invest pay taxes in the country where the company is located or where the activity is carried out. PKA is subject to ongoing Danish taxation on the investment return. The pension paid to members is also taxed.

The Danish income tax which members pay is paid primarily by PKA paying the tax to the state on behalf of our members. We calculate and pay Danish tax on our investment return – the so-called investment return tax. As far as both these taxes are concerned, we have direct control with correct payment of tax payments.

When it comes to the companies and activities in which we invest, our influence on their tax behaviour is more indirect. This is because these companies and activities have their own board and management, which are responsible for tax payments.

We ensure tax responsibility at this level by carrying out ongoing monitoring of key figures about taxation from the companies' financial statements, and by entering into a dialogue with companies if there is something we do not understand or if we see signs of a tax behaviour which is too aggressive. Our goal is to influence the tax responsibility of companies in the right direction. If we do not succeed with these efforts, we may at the end of the day decide to divest the given investment.

Our work at PKA

At PKA, we want to take the lead by being the most prominent, more transparent Danish, tax-responsible investor. That is why we have a tax department which is responsible for compliance with our tax policy. Our ambition is to know the level of tax contribution from all our investments and to ensure that this contribution is at an acceptable level. We are subject to legislation which commits us to ensure that our members receive the best possible return, which will ultimately give members the highest possible pension.

Aggressive tax behaviour may reduce tax payments in the short run; however, it involves risks which have a negative impact on our investment return in the longer run.

As described above, our work is based on ongoing monitoring of key figures about taxes from the annual reports of companies, and on dialogue with companies showing signs of irresponsible behaviour.

This applies no matter if the investment is listed or not. We monitor tax responsibility for our investments in both shares and bonds.

In addition to ongoing monitoring, we analyse companies' tax profile in case of unlisted share investments, before we make an investment. If this is not possible, we carry out subsequent screenings by using key figures and through dialogue, as described above.

We carry out a tax analysis prior to making a given investment. This forms part of the decision-making basis as to whether we should make the investment. Unlisted companies with a tax profile not in line with our tax policy are thus decided against in advance.

Obtaining data about tax contributions

After we have invested in a company, we strive to address the tax contribution of the individual company on an ongoing basis. In this way, we ensure that all companies comply with our tax policy at any time. One of the challenges of this control work is to obtain the necessary data. For one thing, the data which companies publish about tax in their financial annual report are often not enough for an investor to form a full picture of the company's tax profile – and for another, we invest in so many companies that a manual process for collecting data would be too time-consuming.

This is why an external data supplier obtains the data which are published in financial annual reports about taxation on behalf of us at PKA. We work to bring about improvements of data quality by supporting legislative initiatives – especially public country-by-country publishing and via dialogue with selected companies. Companies present key figures about taxation in their financial annual reports.

We carry out ongoing screenings for tax responsibility, so that within a year we get through the total investment portfolio. At the end of 2021, we have screened 42% of our total investment portfolio – and at the end of 2022, it is our goal to screen at least 75% of our portfolio.