14 Investments, Profits, and Tax

PolicyLink FSG REIMAGINING SOCIAL CHANGE JUST capital

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This is a living document intended to facilitate public feedback on draft business standards (the “draft standards”) developed by the Corporate Racial Equity Alliance (the “Alliance”), an initiative by PolicyLink, FSG, and JUST Capital. The primary goals of the draft standards are to promote and support the improved sustainability performance of U.S. businesses related to social issues, including advancing equity and inclusion, eliminating bias and discrimination, and ensuring equal opportunities for all, regardless of race, gender, ethnicity, socioeconomic status, or any other social category or characteristic protected by applicable law. The draft standards do not call for and should not be read as recommending or requiring businesses to make employment or other decisions based on any protected characteristic in violation of applicable law. Any such application constitutes a misuse of the draft standards.

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Learn more about the Alliance and the draft standards in our latest report, *Introducing the Business Standards for 21st Century Leadership: Public Consultation Report and Draft Standards* available at https://corporateracialequityalliance.org/corporate-standards.

Reviewing and Submitting Feedback

How to Navigate This Standard

Each draft standard begins with an overview, including:

- The outcome that the standard supports achieving
- The basic requirement of the standard
- A list of the currently proposed performance targets for the standard
- The value proposition of adopting the standard
- The most closely associated equity outcomes, showing how achievement of the standard contributes to positive societal impact
- A non-exhaustive list of related sustainability standards and frameworks

Following the overview is a glossary of key terms. Then, each performance target is presented with specific requirements, metrics, implementation guidelines, and resources. To support companies in getting started, suggested interim targets and metrics are included as well.

Navigation links are provided at the bottom of each page, beginning on page 5.

Submitting Feedback

This is a living document and your participation in strengthening this work is important to us. Alongside our ongoing research and testing with companies, we look forward to feedback on these questions:

- Is the standard clear and compelling?
- Do you agree that the performance targets for this standard cover critical ways for companies to address discrimination and exclusion, and advance socially responsible business practices within the given topic? If not, why not?
- Are there additional or alternative performance targets you recommend for this standard?
- What additional guidance, if any, would be helpful for a company to get started and/or make steady progress toward achieving this standard?

Submit your feedback by completing this survey (letter submissions will also be accepted) or attending one of our virtual roundtables. Find more information here on providing your feedback.

14 Investments, profit distributions, and tax practices are socially responsible and advance shared prosperity.

Requirement

Adopt policies and practices that integrate equity and social responsibility within investments, profit distributions, and tax management practices.

Performance Targets

P14.1 Investment policies and practices are aligned with the company's values and impact goals.

P14.2 Tax management approaches are socially responsible and there are minimal (or no) gaps between statutory and effective tax rates.

P14.3 Stock buybacks, dividends, and other capital distribution practices promote long term value creation and the equitable distribution of wealth.

Associated Equity Outcomes

- Equitable Governance and Leadership
- Accountability Through Transparency
- Wealth Generation and Economic and Social Mobility
- Thriving, Diverse Communities

Key Connections

- SDGs 10, 16, and 17
- ESRS 2, S1, and G1
- IFRS S1

Business and Societal Value Proposition

Businesses have a wide variety of options for managing their assets and revenue—from how they contribute to tax revenue to whether they reinvest profits back into the business, invest externally, or make distributions to their shareholders.

How businesses choose to manage their assets and revenue can have a significant impact on workers and the communities they live in as well as a meaningful impact on society-at-large.

Asset and revenue management practices that integrate equity, inclusion, and social responsibility are investments in healthy, long-term growth for the company and also support the well-being of workers and communities. On the other hand, asset and revenue management practices that prioritize short-term financial returns or otherwise overlook the impacts of such practices can increase reputational risk, hinder growth opportunities, and contribute to wealth inequalities.

Socially responsible companies will proactively consider the impacts of their asset and revenue management practices. This includes taking meaningful steps to ensure such practices deliver greater value to all stakeholders. Doing so promotes the equitable distribution of wealth alongside long-term value creation. It is also consistent with the interests of long-term shareholders: Seven of ten shares in US companies are owned by such investors and they overwhelmingly favor decisions that lead to long-term value creation even at the expense of short-term earnings shortfalls.

The performance targets for this Standard therefore focus on adopting asset and revenue management practices that promote the equitable distribution of wealth, support delivering greater value to all stakeholders, and mitigate risks to long-term value creation.

Glossary

Controversies

Lawsuits, arbitration demands, or other formal complaints against the company brought by one or more stakeholders (such as regulators, direct workers, indirect workers, customers, end users, suppliers, affected communities, or competent authorities). This includes, but is not limited to, tax disputes, labor disputes, discrimination claims, customer or end user complaints, and human rights or civil rights issues, whether reported to the company or to competent authorities.

Demographics or demographic groups

Characteristics of a specific human population, such as geographic location, socioeconomic status, race, ethnicity, gender, sexual orientation, disability, and age.

Direct workers

Individuals who are in an employment relationship with the company, such as full-time and part-time employees.

Disaggregate

To collect and separate compiled data into smaller units or sub-categories so that component parts can be isolated and examined for trends and patterns (e.g., data organized by specific racial and ethnic groups versus "people of color" as a single grouping).

Diversity

Of a group, possessing variation on the basis of social demographics, such as across race, ethnicity, gender, sexual orientation, disability, and age (e.g., a diverse workforce).

Effective tax rate

The ratio of taxes paid or tax liabilities accrued in a given year over the company's pretax book income earned that year (i.e., income reflected in the company's annual financial statements). This definition is intended to align with how the U.S. Government Accountability Office (GAO) measures effective tax rates of U.S. corporations. When in doubt, adopt the most conservative approach in calculating the company's effective tax rate.

Equity

Just and fair **inclusion** into a society in which all can participate, prosper, and reach their full potential. When everyone is treated fairly according to their needs and no group of people is given special treatment.

Gap analysis

A comparative analysis of the current state of a set of quantitative or qualitative factors against a given Performance Target, including the Guidelines. Conducting such an analysis is step one across every Performance Target.

Impact

The effect the company has or could have on its **stakeholders** over the short, medium, or long term through its activities, including its operations, products, services, and business relationships, whether positive or negative, intended or unintended. This term is intended to be equivalent to the defined term "impacts" in the European Sustainability Reporting Standards (ESRS).

Inclusion

The values, practices, and policies that ensure all people, across all social demographics, feel respected, safe, and valued, including and accommodating people who have historically been excluded such as due to their race, ethnicity, gender, sexual orientation, or disability. Inclusion values and leverages **diversity**, recognizing it as a source of strength for organizations.

Leaders or leadership

Senior leaders, as defined below, plus:

- Middle management, including people managers who have oversight of, but are not directly managing, **non-managerial workers**; and
- Any other internal leaders with decision-making power over **non-managerial workers**.

Material decision

A decision made by the company that has or could have a significant **impact** on profitability/shareholder value and/or one or more of its stakeholder groups, including **direct workers**, contingent workers, indirect workers, customers, end users, communities, and society at large. This includes, among other things, the health and safety of the company's and its suppliers' workplaces; the health, safety, accessibility, and pricing of products and services; the environmental impacts of the company's and its suppliers' operations; and any practices that could result in excluding marginalized or underinvested groups from fair opportunities.

Net income

Income (i) from business operations (total revenue, minus the costs of purchased goods, labor, interest, taxes, and other expenses) and (ii) in the form of interest, dividends, rent, royalties, and realized capital gains.

Non-managerial roles or workers

Independent contributors and other **direct workers** who do not oversee the company's operations or other workers, including but not limited to entry-level and frontline roles.

Senior leaders or senior leadership

- Officers as defined in the company's bylaws;
- Named executive officers as defined under U.S. Securities and Exchange Commission reporting rules;
- C-Suite or equivalent senior leaders; and
- Leaders with overall ownership and responsibility for department or divisional budgets.

Stakeholders

Individuals and groups who have an interest in the policies and practices of companies not only because they are affected by them, but also because they have rights to be respected and protected by companies, e.g., workers' rights to fair wages, consumers' rights to safe products, suppliers' rights to transparency, investors' rights to be informed of material facts, communities' rights to clean and safe neighborhoods, and society's rights to a healthy environment, among others.

Stakeholder-informed decision-making

The action or process of making decisions, especially **material decisions**, informed by the needs, expectations, and rights of the company's stakeholders—including **direct**, contingent, and indirect workers; customers; end users; suppliers; shareholders; communities; and society at large. Stakeholder-informed decision-making recognizes that each of the company's stakeholders is essential to its success and honors the company's fundamental commitment to deliver value to all of its stakeholders. This is the foundation of socially responsible business.

Sustainability

As defined by the 1987 United Nations Brundtland Commission, "meeting the needs of the present without compromising the ability of future generations to meet their own needs." In the business context, it means a company's delivery of long-term value in financial, social, environmental and ethical terms. This includes recognizing and adhering to social thresholds, such as paying living wages across the workforce, in recognition of the essential role living wages play in cultivating and maintaining a healthy labor force and a stable society. It also includes ecological thresholds, such as limiting emissions and natural resource use, in recognition of the natural limits of our planet to support all life.

Underrepresented groups

A **demographic group** whose representation in a given setting or context is disproportionately low relative to their numbers in the general population. Historically underrepresented demographic groups include people of color, women, LGBTQ+ people, and people with disabilities.

PERFORMANCE TARGET 14.1

Investment policies and practices are aligned with the company's values and impact goals.

Requirement

Codify and operationalize an investment policy statement (IPS) integrating equity, inclusion, and social responsibility and take concrete action over time to align all investments with the IPS.

Metrics

Policy metric: One or more formal written policies consistent with the guidelines.

Practice metrics: (i) Number of concrete actions taken annually consistent with the guidelines; and (ii) demographic composition of fund managers, disaggregated across at least race, ethnicity, gender, sexual orientation, disability, and age (as available).

Share Progress & Achievement

At least annual disclosure to the Board (or investment committee, as applicable) of (i) the demographic composition of investment fund managers, (ii) concrete actions taken consistent with the guidelines, and (iii) progress made toward aligning all investments with the IPS.

Rationale, Tips, and Guidelines

RATIONALE:

Investing is a powerful driver of innovation and prosperity in our society. However, where investments have historically been made and how they have been deployed have contributed to inequality across multiple dimensions in our society. All investors—not just impact investors—have a responsibility to ensure their investment activities promote greater fairness in our economy and do not further contribute to inequality and other social issues.

Accordingly, this Target focuses on ensuring all investment activities the company may be engaging in are consistent with the company's values and responsibilities toward stakeholders, including advancing equity, inclusion, and socially responsible business practices. This includes taking action across retirement plans, treasury practices, mergers and acquisitions, and minority investments (including impact investing).

IMPLEMENTATION TIPS:

1. This Target does not call for and should not be read as recommending or requiring businesses to make investment, hiring, promotion, or other decisions based on any protected status or characteristic in violation of any law.
2. Greenwashing and equity-washing are common issues in the ESG investing and rating space, which means that the company should not rely solely on fund names or ratings in making investment decisions. Conducting due diligence is key to ensuring the company's investment dollars are in fact aligned with its values and impact goals.
3. Adopting the following Standards and Targets will support success here:
    a. Standard 4 (workplace culture) will help ensure personnel in the investment function feel psychologically safe and incentivized to raise actual or potential risks in connection with investment activities without fear of retaliation.
    b. Standard 5 (building a diverse workforce) will help ensure the company is successful in building a diverse team within the investment function, including those who make investment decisions.
    c. Target 12.1 (inclusive and authentic communications) will help ensure communications about investment activities are inclusive and authentic.
4. If the company is also engaged in philanthropic giving, see Standard 11 on philanthropic practices.
5. A sample investment policy statement and due diligence questionnaire consistent with the guidelines below will be included with this Target upon the launch of the final Standards.

GUIDELINES:

1. This Target applies to (a) mergers and acquisitions (M&A) and all other investment activities and (b) financial assets in which the company holds, or seeks to hold, an ownership interest, including treasury accounts, retirement plans (e.g., 401(k) plans), investments in stocks and bonds, and minority

investments (including impact investing).

2. Adopt an investment policy statement (or equivalent governing document for all investment activities) integrating equity, inclusion, and social responsibility as integral to the company's investment goals, strategies, and processes, including the following clauses:

    a. A commitment to advance equity, inclusion, and socially responsible business in connection with investment activities.

    b. Acknowledgment that the above is core to the duties and responsibilities of investment decision makers and all others in the investment function.

    c. Adoption of [stakeholder-informed decision-making](#) for [material decisions](#) related to investments.

    d. Adoption of values-aligned screening for new investments made by the company (both positive and negative screening).

    e. The goal or aspiration to activate the above principles across all investments steadily over time.

    f. The expectation that all fund managers will adhere to the above principles, including regularly sharing how they go about doing so.

3. The IPS should be formally approved by the most senior leader(s) with oversight of investment activities (or the company's investment committee, as applicable), as reflected by their signature(s) on the policy.

4. On an annual basis, operationalize the IPS by taking at least two concrete steps to align investments with the IPS. Below is a non-exhaustive list of concrete steps the company can take over time. The list is not intended to be exhaustive. Engage team members in adapting and designing additional approaches suited to the company's unique context.

    a. Provide all personnel in the M&A, investment, and treasury functions with education and skill-building on the IPS and stakeholder-informed decision-making.

    b. Conduct an assessment of all or a subset of current investments to determine whether they align with the IPS and identify options to achieve greater alignment over time. This may require engaging with external fund managers.

    c. Review decision-making processes in fund manager selection and determine whether improvements can be made to ensure [underrepresented](#) fund managers are also being considered for the company's business.

    d. Begin applying positive and negative screens on new investments in line with the IPS and instruct fund managers to do the same.

    e. Steadily reduce investments in entities and initiatives that are not aligned with the IPS or have not demonstrated an intention to align with the IPS within a reasonable period (e.g., investments in fossil fuels).

    f. For retirement plans, concrete steps include the following:

        i. Proactively engage plan managers and consultants on the IPS and how the plan structure and investment options can be further aligned with the IPS.

        ii. Provide guidance to plan participants on how they can select investments that are well aligned with the IPS.

    g. For treasury accounts, concrete steps include:

        i. Make meaningful deposits with MDIs (minority depository institutions) and CDFIs (community development financial institutions).

        ii. Proactively engage with the company's existing banks on their adherence to equitable, inclusive, and socially responsible business practices (see Standard 8 on engaging with vendors).

    h. In M&A, concrete steps include the following:

        i. Review pipeline policies and practices for greater inclusion (e.g., the breadth of sourcing strategies for potential targets and whether consistent and transparent selection criteria are used).

        ii. Strive to build deal teams with expertise from a diversity of backgrounds (see Standard 5 for internal talent management practices and Target 8.2 for consultants and law firms).

        iii. Update due diligence questionnaires and checklists to include the target company's practices related to equity, inclusion, and social responsibility.

        iv. Closely review and update integration processes to ensure they are inclusive and M&A new hires are fully oriented and ready to contribute to the company's success in advancing equity, inclusion, and social responsibility.

    i. For minority investments, including impact investing, concrete steps include the following:

i. Review investment selection policies and practices for greater inclusion (e.g., whether underrepresented businesses are also considered for the investment pipeline and whether consistent and transparent selection criteria are used).

ii. Strive to build investment teams with expertise from a diversity of backgrounds (see Standard 5 for internal talent management practices and Target 8.2 for consultants and law firms).

iii. Update due diligence questionnaires and checklists to include the investee's practices related to equity, inclusion, and social responsibility.

iv. Provide resources and support to investees on adopting equitable, inclusive, and socially responsible business practices.

5. For any fund managers and other third-party firms the company engages, take the following concrete steps:

    a. Ensure the firm(s) can articulate and tangibly demonstrate how they advance equity and inclusion, combat bias and discrimination, and promote socially responsible business in their fund management or other work for the company.

    b. Strive for engagements to be led and staffed by seasoned and diverse teams with demonstrated expertise in achieving the objectives set out in the company's IPS.

Example Interim Targets

Note: these examples are not intended to be exhaustive. At launch, guidance on setting interim targets will be available.

➔ **Gap analysis** conducted of current investment policies and practices.

➔ New or updated IPS drafted and presented to applicable **senior leader(s)** (and investment committee, as applicable) for approval.

➔ Education and training on new policy for all personnel in investment functions (and external consultants, as applicable).

Example Interim Metrics

Note: some metrics may apply to more than one Example Interim Target; not necessarily one-to-one alignment.

➔ Record of gap analysis results shared with senior leadership (and investment committee, as applicable).

➔ Final draft of new or updated IPS.

➔ Documentation of communication and training materials for investment personnel (and external consultants, as applicable).

Relevance to Other Frameworks

Coming with the launch of the final standards: mapping to other standards and frameworks that address similar issues.

Resources

The Path to Inclusive Capitalism: An Asset Owner Guide for Investment Portfolios (Blair Smith, Bhakti Mirchandani, and Troy Duffie, Milken Institute, 2022)

Marguerite Casey Foundation Investment Policy Statement Prioritizes Race and Gender Diversity and Inclusion (Press Release, Marguerite Casey Foundation, March 2023)

Total Portfolio Activation: A Framework for Creating Social and Environmental Impact across Asset Classes (Joshua Humphreys, Ann Solomon, and Christi Electris, Tellus Institute, Tides, and Trillium Asset Management, August 2012)

A New Mandate for M&A: Diversity, Equity, and Inclusion (Danielle Feinblum, et al., Deloitte, 2021)

Want to Invest in Asset Managers Owned and Led by Women and Minorities? Here's How (Bhakti Mirchandani, Forbes, January 2022)

Asset Owners Need to Take Responsibility for System-Level Risks (Robert G. Eccles, Forbes, December 2021)

Narrowing the Gap (John T. Oxtoby and Leah Yablonka, Ariel Investments, March 2021)

Fiduciary Guide to Investing with Diverse Asset Managers and Firms (Jenna Weinberg and Simon Greer, Diverse Asset Managers Initiative, April 2017)

Knight Diversity of Asset Managers Research Series: Industry (Josh Lerner, et al., Knight Foundation, December 2021)

Institutional Allocators for Diversity Equity & Inclusion (website, accessed September 2024)

Inclusive Capitalism: Seven Strategies for Specific Action in Asset Management (Blair Smith, Troy Duffie, and Melanie Schwartz, Milken Institute, July 2024)

Capital at a Crossroads (Sharlene Brown and Athena Owirodu, Croatan Institute, October 2021)

Investor Blueprint for Racial and Economic Equity: What Investors Can Do to Advance Shared Prosperity, Combat Inequality, and Help Bring About an Equitable Economy for All (Mahlet Getachew and Tynesia Boyea-Robinson, PolicyLink, CapEQ, and FSG, March 2023)

PERFORMANCE TARGET 14.2

Tax management approaches are socially responsible and there are minimal (or no) gaps between statutory and effective tax rates.

Requirement

Codify and operationalize socially responsible tax management practices, including striving for minimal (or no) gaps between statutory and **effective tax rates** across all jurisdictions where the company operates and/or where revenue is generated.

Metrics

Policy metric: One or more formal written policies consistent with the guidelines.

Practice metrics: (i) Weighted average gap between statutory and effective tax rates, taking into account all jurisdictions where the company operates and/or where revenue is generated; and (ii) number of tax-related fines and **controversies** in the last three years.

Share Progress & Achievement

Annual disclosure to the public of the company's tax management practices in line with Principle 7 of The B Team Responsible Tax Principles including the company's overall effective tax rate and the weighted average gap between statutory and effective tax rates, either on the company's website or in an annual report (or other publicly available filing). Update disclosure annually.

Annual disclosure to the Board of the company's (i) overall effective tax rate; (ii) weighted average gap between statutory and effective tax rates; (iii) tax gap for each jurisdiction in which the company operates; (iv) tax fines and controversies (if any); and (v) any **material decisions** that are under consideration related to tax management.

(Disclosures related to this Target are not intended to require disclosure of any information under attorney client privilege or attorney work product protections.)

Rationale, Tips, and Guidelines

RATIONALE:

Responsible tax practices are a key aspect of socially responsible business. Yet, it is not unusual for companies to pay very low and at times negative effective tax rates after the use of various tax credits, exemptions, tax-advantageous transactions, complex corporate structures, and other tax minimization and avoidance strategies.

Not only do many stakeholders, including investors, view such tax practices negatively, but such practices also minimize revenue for governments, in turn impacting essential services that benefit all people. Tax revenue enables governments at all levels to invest in public services and infrastructure, such as health, education, transportation, and large-scale economic development initiatives—all of which support a stable business operating environment and long-term value creation.

It is therefore critical for all companies to proactively adopt socially responsible tax management practices. This includes refraining from overly aggressive tax practices that impact the availability and breadth of public resources that benefit all of society. Companies that engage in practices to avoid or aggressively minimize their tax liability—such as using tax havens to avoid taxes on activities that take place elsewhere and exerting undue influence over tax authorities to obtain preferential treatment—are at risk of damaging their reputation, undermining the credibility of their social responsibility efforts, and weakening the potential for long-term economic growth in the very jurisdictions in which they operate.

IMPLEMENTATION TIPS:

1. This Target aligns with many of the propositions for responsible tax behavior noted in The B Team Responsible Tax Principles and Getting to Good: Towards Responsible Corporate Tax Behaviour.
2. This Target will be reviewed and revised in the event the Global Minimum Tax (imposing a 15% effective minimum tax rate on large multinational enterprises wherever they operate) is ultimately adopted in the U.S.
3. Adopting Standard 4 (workplace culture) will support success here by helping to ensure personnel in the tax function feel psychologically safe and incentivized to raise actual or potential risks in tax management strategies without fear of retaliation.
4. Adopting Standard 13 (responsible civic and political activity) will also support success here by ensuring there are appropriate guardrails around lobbying

activities (including tax lobbying).

5. The guidelines below may be incorporated into an existing policy and/or combined with other compliance topics, such as on anti-bribery and anti-corruption compliance.
6. A sample tax management policy consistent with the guidelines below will be included with this Target upon the launch of the final Standards.

GUIDELINES:

1. This Target applies to the company and each entity in which it holds over 50% ownership.
2. Adopt tax management practices that are socially responsible by taking the concrete steps outlined below and formalizing the company's practices in a written policy.
3. The policy should be formally approved by the most senior leader(s) with oversight of tax management practices, as reflected by their signature(s) on the policy.
4. The policy should adopt an enterprise-wide tax management philosophy in line with The B Team Responsible Tax Principles and expressly include the following commitments:
    a. Being a socially responsible taxpayer.
    b. Being transparent about tax management practices with all stakeholders, including the general public.
    c. Adopting **stakeholder-informed decision-making** in tax management.
    d. Aligning tax planning with the substance of the economic and commercial activity of the business, including:
        i. Paying relevant taxes on profits according to where value is created.
        ii. Ensuring all income, profits, and gains allocated to jurisdictions with low or no tax are related to activities conducted in such jurisdictions.
        iii. Avoiding creating a nominal presence in any jurisdiction solely to take advantage of low tax rates.
        iv. Avoiding creating fragmented or complex corporate structures and/or contracts to circumvent taxable presence in any jurisdiction.
    e. Limiting the use of tax incentives and reliefs to those that are also available to competitors on the same terms, approved by competent authorities, and disclosed to the public.
    f. Striving for no more than a 5% weighted average gap between statutory and effective tax rates, taking into account all jurisdictions where value is created (to start, at least in the top three revenue generating jurisdictions).
    g. Avoiding a negative effective tax rate, in particular in times of profitability.
    h. Respecting the role and independence of tax authorities, including avoiding negotiating for preferential or extra-statutory treatment in tax rulings or settlements.
    i. Disclosing all material decisions related to tax management approaches to the Board (or the designated standing committee).
5. Operationalize the tax management policy by taking the following concrete steps:
    a. Annually provide personnel in the tax function with education and skill-building on:
        i. The responsible tax management policy.
        ii. Stakeholder-informed decision-making.
        iii. Appropriate arm's length engagement with, and avoiding undue influence of, tax authorities.
    b. Annually assess compliance with the company's tax management policy and the impact of tax practices, which may include one or more of the following concrete actions:
        i. Soliciting feedback on the company's approaches from external stakeholders in line with Target 10.1 (community engagement) and taking one or more actions based on such feedback.
        ii. Engaging an independent third party to evaluate the social impact of the company's corporate tax structure and any tax-advantageous transactions.
        iii. Determining whether any additional internal controls are needed to avoid tax positions with a high risk of negative **impacts**.
        iv. Evaluating relationships with tax authorities to ensure clear boundaries are respected, especially in tax negotiations and dispute resolution.
6. To meet this Target, there should be zero tax-related fines or ongoing controversies in the last three years and the weighted average gap between statutory and effective tax rates should be (i) no more than [5]% or (ii) steadily decreasing compared against the last

three years. For purposes of the tax gap calculation:

a. Include all jurisdictions where the company operates and/or where revenue is generated.

b. For statutory tax rates, take into consideration each relevant jurisdiction's tax rates (not a global average or median).

c. Calculate the tax gap for each such jurisdiction (i.e., the difference between the statutory tax rate and effective tax rate in each jurisdiction) using U.S. GAAP (generally accepted accounting principles).

d. Then calculate the weighted average gap applying weighting based on the proportion of the company's operations or revenue for each jurisdiction.

e. Apply zero weighting to jurisdictions where there are limited or no operations or revenue generating activities, notwithstanding any taxes the company may pay in such jurisdictions.

f. Adopt the most conservative approach when there is any doubt about (i) the weight to apply to a given jurisdiction or (ii) the tax liability or income to include in the calculation.

Note to reviewers*: Guideline 6 above is undergoing further research and testing, including the calculation of the tax gap. The tax gap threshold of "no more than 5%" is based on the United Nations Research Institute for Social Development's (UNRISD) Sustainable Development Performance Indicators (SDPIs; see II.B.2. Tax gap), which are formally endorsed by the European Financial Reporting Advisory Group (EFRAG), as a key tool for ESG measurement aligned with ESRS.*

Example Interim Targets

Note: these examples are not intended to be exhaustive. At launch, guidance on setting interim targets will be available.

➔ **Gap analysis** conducted of current tax management policies and practices.

➔ New or updated tax management policy drafted and presented to applicable **senior leader(s)** for approval.

➔ Education and training on new policy for all personnel in the tax function and external consultants, as applicable.

Example Interim Metrics

Note: some metrics may apply to more than one Example Interim Target; not necessarily one-to-one alignment.

➔ Record of gap analysis results shared with senior leadership and the Board.

➔ Final draft of new or updated tax management policy.

➔ Documentation of communication and training materials for tax personnel and external consultants, as applicable.

Relevance to Other Frameworks

Coming with the launch of the final standards: mapping to other standards and frameworks that address similar issues.

Resources

Getting to Good: Towards Responsible Corporate tax Behaviour (ActionAid, Christian Aid, and Oxfam, November 2015)

A New Bar for Responsible Tax: The B Team Responsible Tax Principles (The B Team, accessed July 2024)

Corporate Tax Haven Index - 2021 Results (Tax Justice Network, accessed July 2024)

A Blueprint for Responsible and Transparent Tax Behaviour (CSR Europe and PwC Netherlands, March 2019)

"Who's Left to Tax? US Taxation of Corporations and Their Shareholders." (New York University School of Law, Fall 2020)

Global Multinational Business Standard: Guidance Notes (Fair Tax Foundation, 2021)

Engagement Guidance On Corporate Tax Responsibility: Why And How To Engage With Your Investee Companies (Principles for Responsible Investment, accessed July 2024)

Corporate Social Responsibility And Taxation: A Chance To Develop The Theory (Doron Narotzki, Western New England Law Review, 2017)

Corporate Social Responsibility and Strategic Tax Behavior (Reuven S. Avi-Yonah, University of Michigan Law School, 2006)

Do Socially Responsible Firms Pay More Taxes? (Angela K. Davis, et al., Lundquist College of Business, accessed July 2024)

Corporate Social Responsibility and Tax Management: The Moderating Effect of Beliefs about Corporate Tax Duty (Ann Boyd Davis, Rebekah D. Moore, and Timothy J. Rupert, 2022)

Fairer Shores: Tax Havens, Tax Avoidance, And Corporate Social Responsibility (Jasmine M. Fisher, Boston University School of Law, 2014)

Tackling Inequality: An Agenda for Business Action (The Business Commission to Tackle Inequality, World Business Council for Sustainable Development, May 2023)

The Tax Gap: Regulatory Responses And Implications For Institutional Investors (Ankit Sayani, MSCI ESG Research LLC, March 2017)

PERFORMANCE TARGET 14.3

Stock buybacks, dividends, and other capital distribution practices promote long-term value creation and the equitable distribution of wealth.

Requirement

Annually analyze all capital distribution practices, including **net income** distributions, and take concrete action to ensure the company is promoting long-term value creation and the equitable distribution of wealth.

Metrics

Policy metric: One or more formal written policies consistent with the guidelines.

Practice metrics: Percentage of net income and any other capital annually allocated to each of (i) non-employee shareholders, (ii) **leaders**, (iii) **direct workers** (excluding leaders), and (iv) business reinvestment consistent with the guidelines.

Share Progress & Achievement

Disclosure available to the public of the company's capital distribution practices, including its approaches to stock buybacks and dividends (as applicable), either on the company's website or in an annual report (or other publicly available filing). Update disclosure in the event of material changes.

Annual disclosure to the Board of any **material decisions** that are under consideration related to any capital distributions and the percentage of net income annually allocated to each of (i) non-employee shareholders, (ii) leaders, (iii) direct workers (excluding leaders), and (iv) reinvestments in the business consistent with the guidelines.

Rationale, Tips, and Guidelines

RATIONALE:

This Target promotes long-term value creation by raising the importance of reinvesting profits back in the business and in workers. The imperative to do so, especially among publicly listed companies, is critical. In January 2019, the 465 companies that had been in the S&P 500 Index from 2009 to 2018 spent $4.3 trillion on buybacks over that period, equal to 52% of net income. They also spent $3.3 trillion on dividends, adding an additional 39% of net income. Research shows that, at the aggregate level, payments to shareholders as a percent of corporate assets have doubled over the last 45 years while the wage bill has fallen from 21 percent of total corporate assets in 1972 to 11 percent in 2017.

Until recently, stock buybacks were rare and widely considered a form of market manipulation. The passage of the U.S. Securities and Exchange Commission's rule 10b-18 in 1982 changed that and today spending on stock buybacks and dividends soars. The massive increase in these practices has come at a cost to long-term value creation, moving money away from opportunities to reinvest profits in workers, physical capital, building reserves, and other business investment opportunities.

Research also shows that companies have conducted stock buybacks in the midst of layoffs and paying workers poverty wages, and at times funded buybacks using debt. Because buybacks, as well as dividends, only benefit those who hold company stock and the wealthiest 10 percent of U.S. households own 89 percent of corporate equities, excessive use of buybacks exacerbates wealth inequality.

Accordingly, advancing equity, inclusion, and socially responsible business practices includes an intentional focus on capital distribution practices, including whether current practices may be insufficiently focused on reinvesting in the business for the long term.

IMPLEMENTATION TIPS:

1. If any **leaders** exhibit aversion to this Target, share the Resources to help build greater understanding and invest more time in building buy-in.
2. Adopting Standard 4 (workplace culture) will support success here by helping to ensure personnel in the finance and legal functions feel psychologically safe and incentivized to raise actual or potential risks in capital distribution practices without fear of retaliation.
3. Adopting Target 6.4 (total compensation and rewards) will also contribute to the company's success here, including fair pay for workers at all levels, a reasonable CEO-to-median worker pay ratio, and providing workers at all levels meaningful ownership in the company.
4. The guidelines below may be incorporated into one or more existing policies, including combined with the policies referenced in Targets 14.1 and 14.2.

5. A sample policy consistent with the guidelines below will be included with this Target upon the launch of the final Standards.

GUIDELINES:

1. Adopt capital distribution practices that promote long-term value creation and the equitable distribution of wealth by taking the concrete steps outlined below and formalizing the company's practices in a written policy.
2. If the company does not (i) engage in stock buybacks, (ii) issue shareholder dividends, or (iii) carry out any other capital distribution practices aside from business reinvestments and workforce compensation practices, then take the following concrete actions:
    a. Adopt a policy explicitly stating that the company refrains from engaging in stock buybacks, dividends, and any other capital distribution practices that favor one or a minority of stakeholder groups, and that compliance with the policy will be reviewed and confirmed annually.
    b. Adopt Target 6.4 on fair and reasonable total compensation and rewards practices.
3. If the company (i) engages in stock buybacks, (ii) issues shareholder dividends, and/or (iii) carries out any other capital distribution practices aside from business reinvestments and workforce compensation practices, then adopt a policy expressly including the following commitments:
    a. Recognition that reinvesting profits in the business and workers at all levels is important to the company's long-term success and in the interest of shareholders who value long-term value creation.
    b. The company will strive to balance capital distribution decisions to ensure stock buybacks and shareholder dividends do not consume the overwhelming majority of the company's net income.
    c. Reinvestments in workers and the business will diligently be considered alongside any plans to conduct stock buybacks, issue dividends, or any other capital distribution that only favors one or a minority of stakeholder groups.
    d. Adoption of **stakeholder-informed decision-making** in connection with all capital distributions.
    e. Annual review of capital distribution practices to ensure compliance with the policy.
    f. The company will refrain from:
        i. Using debt to fund capital distributions (including stock buybacks) that benefit only one or a minority of stakeholder groups.
        ii. Conducting stock buybacks if broad-based layoffs occur within the preceding 12 months or the company has unfunded pension liabilities.
    g. **With respect to shareholder dividends:** direct workers at all levels must be among the company's shareholders who receive the benefits of such dividends, consistent with greater ownership opportunities in Target 6.4.
    h. **With respect to stock buybacks:**
        i. The recipients of repurchased equity must include direct workers at all levels, consistent with Target 6.4.
        ii. New or increased executive equity compensation packages must remain reasonable, consistent with Target 6.4.
        iii. If living wages are not yet paid to all workers, the company will prioritize achieving Target 6.1 (living wages for all) before engaging in stock buybacks.
        iv. Robust internal controls will be in place to prevent insider transactions and insider gain during buyback periods, including immediate disclosure of all buybacks.
        v. If there are public disclosures of weaknesses in the company's internal controls, the company will refrain from undertaking stock buybacks until the weaknesses have been remediated.
4. The policy (whether based on Guideline 2 or 3) should be formally approved by the most senior leader(s) with oversight of finance and regulatory compliance practices, as reflected by their signature(s) on the policy.
5. If Guideline 3 applies to the company, then on at least an annual basis, measure and analyze capital distribution practices including the following:
    a. The types of capital distribution practices adopted by the company.
    b. The percentage and type of net income allocated to each of (i) non-employee shareholders, (ii) leaders, (iii) direct workers (excluding leaders), and (iv) business reinvestment, compared against the last three years.
    c. Whether there are any opportunities to reinvest net income back into the business and/or toward workers at all levels, including

non-managerial workers, to promote more equitable distribution of wealth.

6. If Guideline 3 applies to the company, take concrete action to ensure capital distribution practices promote long-term value creation and the equitable distribution of wealth. The company should determine the most appropriate course of action based on its circumstances, which may include the following actions:
    a. Annually providing personnel in the relevant functions with education and skill-building on the policy and how to adopt stakeholder-informed decision-making.
    b. Annually assessing the impact of capital distribution practices, which may include one or more of the following actions:
        i. Soliciting feedback from direct workers, including their perceptions of total compensation and rewards practices, and taking one or more actions based on their feedback.
        ii. Engaging an independent third party to evaluate the social impact of the company's capital distribution practices.
    c. Annually exploring business and worker reinvestments such as investing in upskilling workers; offering more robust training; improving workforce pay and the breadth and quality of benefits; funding employee resources groups; and investing in building reserves, new lines of business, reaching new customers, or other long-term value-creating opportunities.

Example Interim Targets

Note: these examples are not intended to be exhaustive. At launch, guidance on setting interim targets will be available.

➔ **Gap analysis** conducted of current and last three years' capital distribution practices, including stock buybacks and dividends.

➔ New or updated policy drafted and presented to applicable **senior leader(s)** for approval.

➔ Increased percentage of net income annually allocated to reinvestment in the business and direct workers (not including leaders).

Example Interim Metrics

Note: some metrics may apply to more than one Example Interim Target; not necessarily one-to-one alignment.

➔ Record of gap analysis results shared with senior leadership.

➔ Final draft of new or updated policy.

➔ Percentage of net income annually allocated to reinvestment in the business and direct workers (not including leaders).

Relevance to Other Frameworks

Coming with the launch of the final standards: mapping to other standards and frameworks that address similar issues.

Resources

Profits Without Prosperity (William Lazonick, Harvard Business Review, September 2014)

Where Companies With a Long-Term View Outperform Their Peers (Dominic Barton, et al., McKinsey & Company, February 2017)

How Stock Buybacks Impact the Economy (Kolinkar Roy, Michigan Journal of Economics, May 2024)

Why Stock Buybacks Are Dangerous for the Economy (William Lazonick, Mustafa Erdem Sakinç, and Matt Hopkins, Harvard Business Review, January 2020)

Examining Corporate Priorities: The Impact of Stock Buybacks on Workers, Communities and Investors (Lenore Palladino, Harvard Law School Forum on Corporate Governance, October 2019)

The Dangers of Buybacks: Mitigating Common Pitfalls (Sarah Keohane Williamson, Ariel Fromer Babcock, and Allen He, Harvard Law School Forum on Corporate Governance, October 2020)

How Share Repurchases Boost Earnings Without Improving Returns (Obi Ezekoye, Tim Koller, and Ankit Mittal, McKinsey & Company, April 2016)

The Influence of Share Buybacks on Ill-Health and Health Inequity: An Exploratory Analysis Using a Socio-Ecological Determinants of Health Lens (Benjamin Wood and Gary Sacks, NIH National Library of Medicine, January 2023)

Global Dividend Payouts to Shareholders Rise 14 Times Faster Than Worker Pay Since 2020 (Oxfam, May 2024)

CORPORATE RACIAL EQUITY ALLIANCE

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