Responsible Taxation

Capita

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How our purpose and values shape our tax behaviours

Our purpose – we create better outcomes

We are a purpose-led organisation which exists to 'create better outcomes' for all our stakeholders – for our people, clients and customers, suppliers and partners, investors, and society.

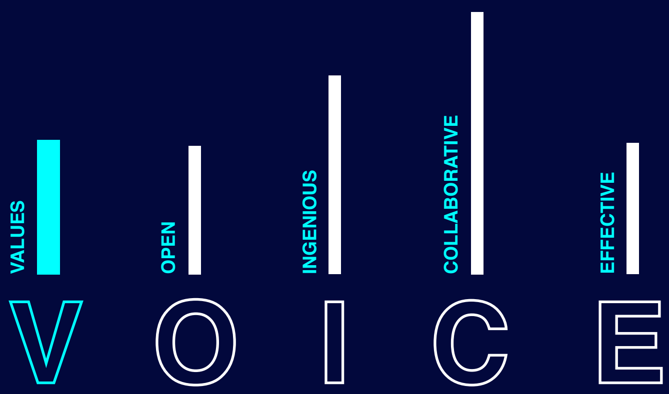
We are committed to being a progressive business – in how we operate, serve society, respect our people and the environment, and deliver attractive returns to our investors. We will conduct our business in an open, honest and transparent manner, embedding responsible and sustainable business practices into the way we work with clients, suppliers and the way we run our business.

Underpinning our purpose are a clear set of values and behaviours that define who we are, how we work and help us create better outcomes. We believe that acting according to these values and behaviours is the right way to do business responsibly for the long term and sets us apart from our competitors.

Our four values – Open, Ingenious, Collaborative and Effective – are easily remembered by the acronym VOICE. Behind each value is a description of what it means to us and the behaviours we expect to see that relate to each value in relation to taxation.

When we make a tax related decision, we always ask ourselves:

1. Does it adhere to our values and behaviours?
2. Does it comply with our policies and the standards and procedures which support them?
3. Is it fair?
4. Are we setting a good example?
5. Does it help create better outcomes?
6. Is it legal, could it harm our reputation?



Open We are honest, transparent and respectful	O	We conduct all communications with all stakeholders and tax authorities in a transparent and professional manner
Ingenious We think about what's possible	I	We seek to implement more effective and efficient ways of working
Collaborative We achieve more when we work together	C	We will ensure that tax decisions are made at the right level, with appropriate diligence and care, and material conclusions documented
Effective We care about doing the best job we can	E	We are committed to being a responsible taxpayer, and intend to make tax filings before time and pay the right level of taxes

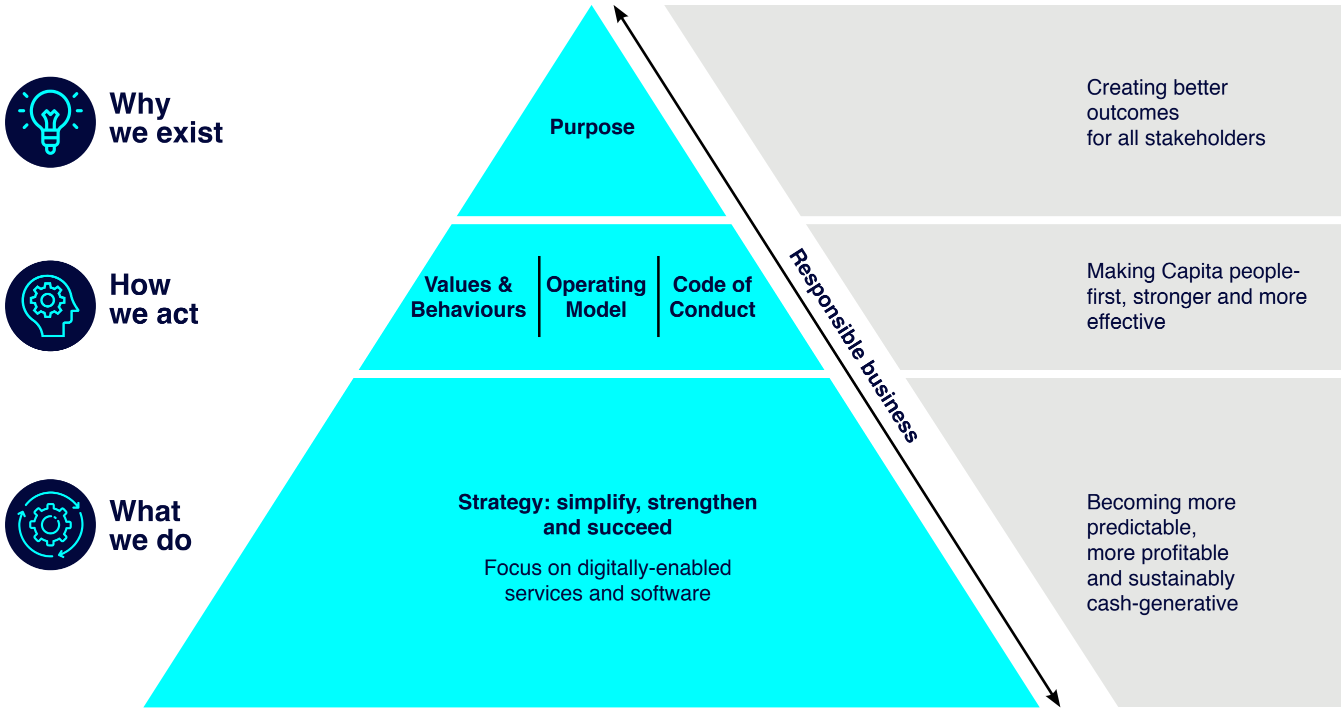
Our Responsible Taxation Strategy

We aspire to be a progressive and purpose-led responsible business. Fundamental to achieving this is ensuring we are responsible tax payers; paying tax at the right time, of the correct amount and in the right place.

To publicly demonstrate our ongoing commitment we will annually seek accreditation under the Fair Tax Mark scheme – a set of corporate tax principles that align to fairness, ethics and transparency.

We will regularly review our Responsible Tax Strategy to ensure it delivers better outcomes for society and our stakeholders while addressing the need to maintain transparency, fairness and ethical conduct.

How we deliver our business strategy



In order to deliver a Responsible Taxation Strategy, we will:

Simplify our taxation affairs focussing on our main purpose of creating better outcomes for all stakeholders. This means a diligent approach to compliance, and not pursuing arrangements where the sole purpose is to generate lower taxation for Capita.

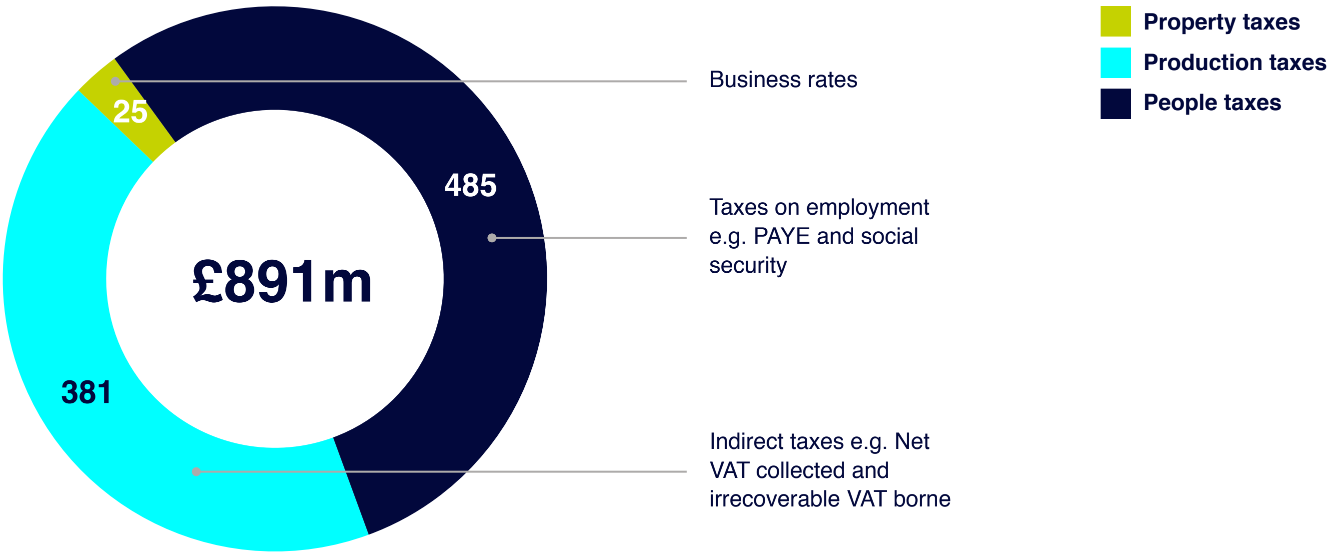
Strengthen our taxation approach by investing in our people, assets and technology.

Succeed by building on the basics and doing them well, led by the foundation of our tax values and behaviours. We will meet our compliance obligations and execute them responsibly, making us worthy recipients of the Fair Tax Mark accreditation.

See the Appendix for our detailed Tax Strategy. We were compliant with this Strategy in 2018.

What is our UK Tax Contribution[1]?

UK Total Tax Contribution

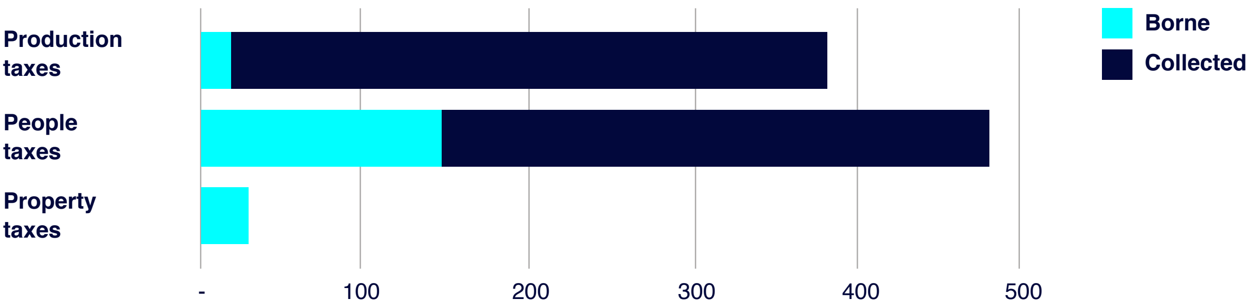


As part of our Responsible Taxation Strategy, we believe it is important to contribute to society and help tackle some of the challenges that exist in the communities which we operate in.

It is expected in the UK that businesses pay their fair share of taxes and with over 47,000 employees working in the UK, Capita recognises the responsibility that this represents.

Capita contributed **£891m** in taxes from its UK operations in 2018.

Tax Contribution in £m



Capita has in the past paid substantial amounts of Corporation Tax. In order to comply with accounting changes introduced in 2017, Capita didn't pay UK Corporation Tax in 2018.

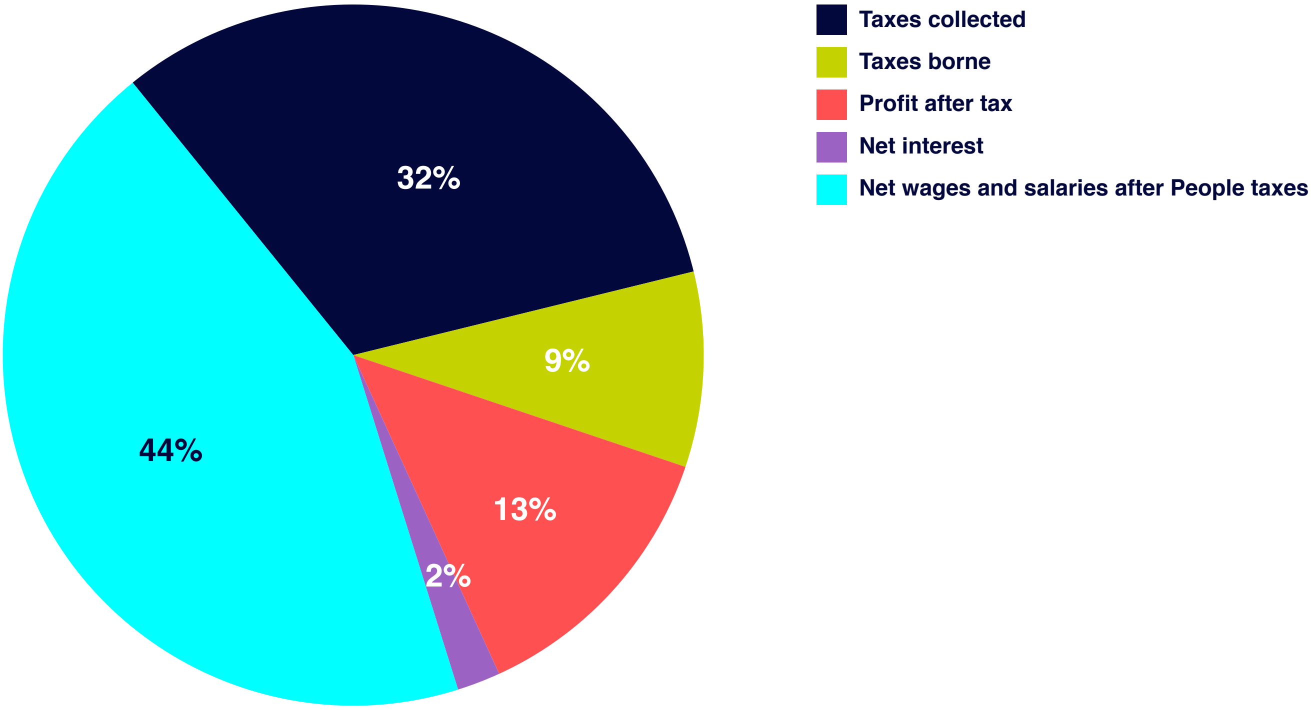
The total tax contribution represents the value paid to the UK Government funded from profits (taxes borne) plus taxes generated from the business activity and collected on behalf of the Government (taxes collected).

Taxes **borne** are those that are included in the financial results of the company, as they represent a cost eg irrecoverable VAT, corporation tax, employer NICs and business rates, etc.

Taxes **collected** are those that are not a cost of the company, but are generated by the commercial activity of the company eg income tax deducted under PAYE and VAT.

1 These numbers are for the year ended 31 December 2018. Our 2019 numbers will be contained within the 2019 Annual Report and in our next update of this Responsible Taxation document, expected to be released later in 2020.

Value Distributed



The value distributed to the Government in taxes borne and collected was 41% of our total value distributed of £2.2bn. Value is also distributed to employees in wages and salaries, to lenders in interest payments, and the remaining profit is retained in the business for reinvestment.

In the year ending 31 December 2018, the Government was the 2nd largest beneficiary of the value distributed by Capita plc, preceded by wages paid to employees, at 44%. Profits after tax (available to reinvest in the company or distribute to shareholders as dividends) account for 13% of the total value distributed.

What do our reported tax numbers mean?

This report includes additional disclosures to Note 10 of the 2018 Capita plc Annual Report, providing additional information on the reported tax numbers.

Current Tax

The table below[2] reconciles the differences that generate a current tax charge that is lower than the UK rate of tax applied to our profit before tax. The current tax charge of £4.1m for the year ended 31 December 2018 resulted in an effective current tax rate of 1.5% (4.1% if prior year adjustments are excluded). This is lower than the UK statutory rate of tax of 19% predominantly due to tax deductions arising on the adoption of the new revenue recognition accounting standard (IFRS15) and non-taxable income on the sale of certain businesses.

	Footnotes	£m
Profit before tax		**272.6**
Notional charge at UK corporation tax rate of 19%		**51.8**
Adjustments in respect of current income tax of prior years	a(i)	3.5
Release of provisions for uncertain tax positions	a(ii)	(10.5)
Non-deductible expenses	b(i)	7.5
Intangible asset impairment	b(ii)	11.0
Depreciation in excess of capital allowances	c	15.5
Transitional tax adjustment on adoption of IFRS 15	d	(38.3)
Profit on disposal	e	(36.4)
Foreign taxes	f	1.0
Movement in deferred tax unrecognised		3.6
Utilisation of losses in current period		(1.0)
Current tax impact on other timing differences		(3.6)
Current tax reported in the income statement		**4.1**

a. The prior year adjustments in the period relate to:

(i) a £3.5m increase following the finalisation of submitted tax returns.

(ii) a £10.5m decrease caused by resolving some of the Group's previously uncertain tax positions

b. Non deductible expenses include;

(i) £2.5m is in respect of non-deductible costs associated with share-based payments, depreciation on non-qualifying assets and other capital expenditure, £4.2m relates to capital costs associated with disposal of businesses, and £(1.0)m relates to contingent consideration movements

(ii) Intangible asset impairment: £11.0m relates to the non deductible write-off of intangible assets

c. Fixed assets: £15.5m mainly relates to accounting depreciation and amortisation in excess of tax relief in respect of fixed assets.

d. IFRS 15: £38.3m relates to the tax transitional adjustment that arises on adoption of the new revenue recognition accounting standard in the period by some of the Group entities.

e. Non-taxable gains: £36.4m relates to the application of the UK tax exemption on disposals of substantial shareholdings.

f. Foreign taxes: £1.0m relates to the write off of withholding taxes that are not recoverable. There is also an immaterial net difference between tax payable at higher rates in India and South Africa, and tax payable at lower rates in other trading jurisdictions (Poland, Isle of Man and UAE) and the Luxembourg financing structure which has been unwound.

Deferred Tax

Temporary differences which impact the total tax charge are treated as non-current as it is not expected that there will be a full unwind within the next year. It is expected that most deferred tax will unwind within 5 years.

2 These numbers are in relation to the accounting period to 31 December 2018. Our 2019 numbers will be contained within the 2019 Annual Report and in our next update to this Responsible Taxation document, expected to be released later in 2020.

What is our global tax footprint?

Capita has operations in the UK as well as in Ireland, Germany, Switzerland, US, UAE, Isle of Man, India, Poland and South Africa. As the table below[3] shows, Capita derives more than 90% of its revenue from the UK.

Jurisdiction	Revenue £000	PBT £000	Income tax paid £000	Income tax accrued £000	No. of employees	Tangible assets £000
UK	3,599,560	289,743	(29,903)	4,356	47,167	191,071
Overseas	318,862	(17,154)	4,575	6,776	18,735	22,555
Total per Annual Report 2018	**3,918,422**	**272,590**	**(25,328)**	**11,132**	**65,902**	**213,626**

- The information is all from the Capita Group consolidated accounting numbers under IFRS.
- Total income tax accrued differs from the £4.1m in the current tax table above because it excludes the £7.0m of prior year adjustments described in footnote a(i) and a(ii) of the preceding current tax reconciliation table.
- The majority of the overseas income tax accrued and paid (approx. £5m) relates to our operations in India where we employ more than 7,000 people.

UK vs Overseas

3 The table above is in respect of our 2018 financial data, and is the first step in our journey towards transparency of jurisdictional financial information. Our intention is to build on this in the next version of this Responsible Taxation document.

Global Economic Footprint

The Capita group has over 200 trading companies[4], which are mostly self-contained. Many of these companies have been acquired by Capita over recent years.

Trading entities generally employ their own staff and contract with customers and suppliers on their own account.

Predominantly a UK located group, with all main operations and trading in the UK

Non-UK trading operations mainly in Ireland, Germany, Switzerland, Isle of Man, US, UAE

Offshore delivery centres based in India, Poland and South Africa

Limited activity in **low tax jurisdictions**

Intra-group services with minimal third party trading

Services include IT-enabled services, customer management services, insurance administration services and routine back office services

Low Tax Jurisdictions

Capita has some trading operations in low tax jurisdictions and is also liquidating dormant companies where trading operations have ceased in these low tax jurisdictions, as part of the wider Group and UK entity rationalisation initiative.

Capita does not use tax havens[5] for tax avoidance purposes, with the exception of a legacy financing structure which was unwound recently and is in the process of being liquidated. We provide more guidance on the nature and/or duration of our presence in these low tax locations below:

Switzerland

Capita Customer Services AG

1,400 employees providing 3rd party Customer Management Services. Pays tax in full on trading profits with an effective rate of around 18%

UAE

Capita (Dubai FZ) Ltd

90 employees providing support to a Dubai based 3rd party customer

Capita Property and Infrastructure LLC

Placed into liquidation on 30 October 2018

Hong Kong

Symonds Travers Morgan (HK) Ltd

Dormant

Capita IB Solutions (HK) Ltd, Thirty Three APAC Ltd

Local trading companies, paying tax in full on profits

Saudi Arabia

Capita Symonds property and Infrastructure Consultants (KSA)

Dormant company, no activity

Jersey

Capita Symonds (CI) Limited

Symonds Group (Jersey) Limited

Placed into liquidation on 20 Dec 2018 and liquidated during 2019

Cyprus

Capita Cyprus Holdings Ltd

Holding company

Capita Cyprus Ltd

Dormant company, no activity

Luxembourg

Capita (Luxembourg) S.a.r.l

Former finance company – arrangements unwound and in the process of being liquidated

Isle of Man

Capita (Isle of Man) Ltd

Dormant

Capita Life & Pensions Services (Isle of Man) Ltd & Capita Services (Isle of Man) Ltd

80 Isle of Man based employees delivering insurance related services to third parties

4 Note 18 of the Capita plc company only financial disclosures in the Annual Report provides a full list of all subsidiaries of Capita plc. The stated address relates to the place of incorporation of the entity, which is the same as its tax residence in all cases other than Capita Group Insurance PCC Limited which is incorporated in Guernsey, but which is tax resident in the UK.

5 We have used the Tax Justice Network's Corporate Tax Haven index to define jurisdictions that are considered tax havens (https://corporatetaxhavenindex.org/) with a score of over 64, in line with the Fair Tax Mark guidelines.

Appendix: Capita Tax Strategy

Capita's Chief Financial Officer and Senior Accounting Officer, Patrick Butcher, has ultimate responsibility for tax within Capita and for ensuring compliance with the Tax Strategy. This tax strategy has been approved by the Board of Directors. The Group Tax team is responsible for the setting of the strategy and is accountable for its implementation. The strategy will be periodically reviewed by the Group Tax team and any recommended amendments to the strategy will be considered and approved by the Board of Directors.

Tax Values and Behaviours

Relationships with tax authorities
We have and seek to maintain open, honest and positive working relationships with HMRC and tax authorities around the world.

Risk Management and Governance
We seek to set clear policies for our businesses to follow and to embed the right processes, reporting and culture across Capita.

Tax Compliance
We are committed to complying with all applicable tax regulations and reporting and disclosure requirements.

Risk appetite in relation to UK tax
We do not engage in high risk or aggressive tax planning

Tax Planning
We do not have a complex tax structure and take an appropriate and balanced approach to tax planning.

Risk Management and Governance

- The application of appropriate controls across all of the Capita businesses is a core part of managing growth.
- The Group Risk Management Framework and governance arrangements apply in respect of the management of all taxes, both in the UK and overseas.
- Financial, operations and key risk reporting is built into the monthly reporting reviews which report upwards from each business unit, ultimately to the Board of Directors.
- Processes are in place for identifying tax risks and these are reported, where appropriate, to the Audit and Risk Committee. The Group also has a Tax Risk Committee comprising senior leaders of Group Risk, Group Finance and Group Tax, that meets on a regular basis to discuss the group's tax risk register and tax controls framework.
- The Group Tax function reports to the Chief Financial Officer via the Director of Tax and Treasury.
- The tax strategy is subject to regular review by Capita's Head of Tax and the Director of Tax and Treasury and any material changes are discussed with Group Finance leadership and the Board, as appropriate.
- In addition, Capita has a policy for the "Prevention of criminal facilitation of tax avoidance".

Tax Compliance

- It is important to Capita that the correct amount of tax is paid at the right time and in the right place. This is achieved through the timely submission of returns and payment of tax liabilities taking independent advice where appropriate.
- Capita intends for profits to be declared in the place where their economic substance arises.

Tax Planning

- Tax outcomes are considered as part of the overall evaluation and structuring of commercial transactions but the group does not undertake aggressive tax planning or planning which is inconsistent with the intentions of the UK or of other Governments.
- In respect of material transactions or where the Capita tax department do not have the required expertise, tax advice may be obtained from appropriate external advisers.
- Where appropriate to do so, the group will claim available tax reliefs and incentives.

Risk appetite in relation to tax

- The Capita Board has a low risk appetite in respect of tax, which is supported by HMRC's low risk rating of the Group.
- We conduct our affairs outside the UK in a way that is consistent with this low risk appetite and training.
- The complexity of tax laws in Capita's operating jurisdictions creates inherent risks. The Group manages this complexity through its approach to compliance, planning and risk management.
- Tax risks are assessed and decisions taken in line with the Group's overarching Risk Management policy and the tax policies.
- The tax policies focus on the key areas of risk.

Relationships with Tax Authorities

- In the UK Capita proactively engages with their designated customer compliance manager and is committed to prompt disclosure and transparency in all dealings with HMRC.

Capita is a consulting, digital services and software business. We deliver innovative solutions to simplify the connections between businesses and customers, and between governments and citizens. We partner with clients to transform their businesses and services. We do complex and difficult things so clients don't have to. Part of the fabric of UK society, we help millions of people every day.

Capita