

Responsible Taxation



December 2021



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Responsible business: responsible tax

At Capita, we seek to integrate environmental, social, ethical and governance considerations across our business operations, including our tax affairs. Being a purpose-led responsible business is at the heart of our strategy, helping us to prioritise our activities to respond to the needs of our people, clients, suppliers, investors and society.

Our purpose

Capita is a purpose-led organisation which exists to **create better outcomes** for all our stakeholders.



This edition of our Responsible Taxation report provides an overview of our ongoing commitment to making our tax affairs open and transparent. This publication further supports our statements in our responsible business strategy ([Capita Responsible Business Report 2020](#)), which treat our tax strategy as integral to the way we operate responsibly throughout our business.

Ensuring Capita is a responsible taxpayer; paying the right amount of tax at the right time, to the right parties; is fundamental to achieving our aspiration of being a progressive and purpose-led, responsible business. In this year's publication, we disclose additional information on our overseas employment tax and indirect tax contributions to provide a more comprehensive picture of our overall tax profile.

In our first and second Responsible Taxation publications, we noted that our work had received the Fair Tax Mark Accreditation. While we continue working towards maintaining this accreditation, we've also considered other initiatives that are important to our internal and external stakeholders.

We confirm that we:

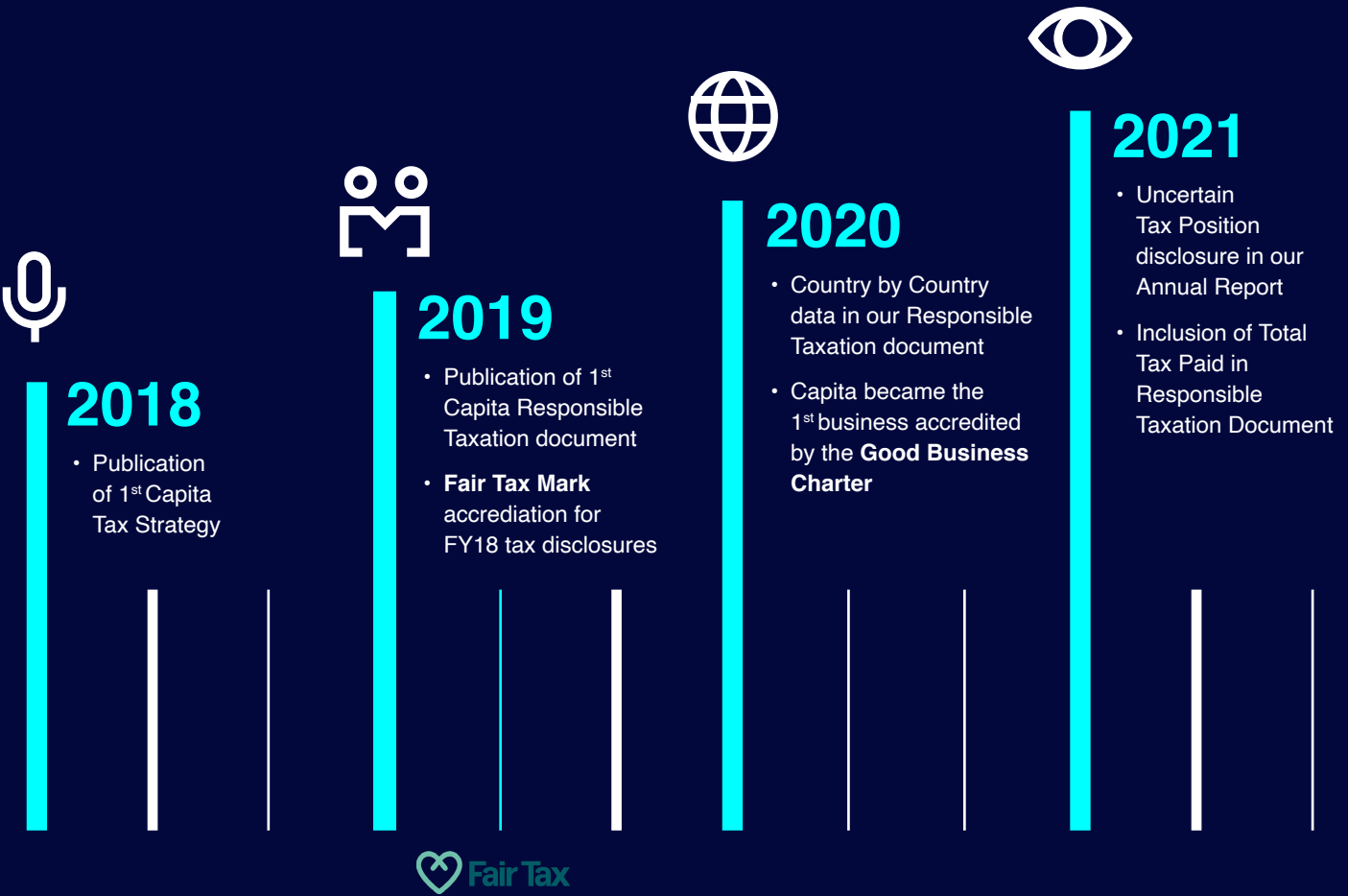
Adhere to Commitment 7 of the **Good Business Charter**: paying fair taxes.

Manage our tax affairs in a manner that aligns with the Tax Principles of the **Confederation of British Industry**.

Continue to seek and obtain annual accreditation under the **Fair Tax Foundation** – a set of corporate tax principles that align to fairness, ethics and transparency.

Meet the requirements for tax transparency under the **Business in the Community** Responsible Business tracker.

Our journey



Our values and behaviours

Underpinning our purpose, and helping us to create better outcomes, is a clear set of values and behaviours that define who we are and how we work. We believe that doing business responsibly for the long term requires acting according to these values and behaviours, and this sets us apart from our competitors. Our four **values** – being **open**, **ingenious**, **collaborative** and **effective** – make up the acronym “**VOICE**”.

Our values, our VOICE

Capita values and behaviours underpin our approach to taxation.



Capita's Values



Open

We are honest, transparent and respectful

We conduct all communications with stakeholders and tax authorities in a transparent and professional manner



Ingenious

We think about what's possible

We seek to implement more effective and efficient ways of working



Collaborative

We achieve more when we work together

We will ensure that tax decisions are made at the right level, with appropriate diligence and care, and that all material conclusions are documented



Effective

We care about doing the best job we can

We are committed to being a responsible taxpayer, by making tax filings before time and by paying the right level of taxes

Our responsible taxation strategy

To ensure that we operate responsibly while upholding our corporate VOICE, we've committed to a strategy of simplifying and strengthening – which will further enable us to succeed as a business with a responsible approach to taxation. In this Covid-19 climate of economic development and recovery, we are even more acutely aware that our tax contribution enables investment in society.

Our strategy

Our plan is to do fewer things, better.

We **simplify** our tax processes and controls to make our approach more sustainable:

- By reducing the number of subsidiary companies we have, we've simplified Capita's group structure and thus made our tax structure less complicated
- We've unwound financing structures and simplified overseas holding company structures. We're continually reviewing our business arrangements, looking for opportunities to simplify further
- We never pursue planning opportunities that are solely tax-motivated

We **strengthen** our tax strategy to make sure our tax affairs are accurate and complete:

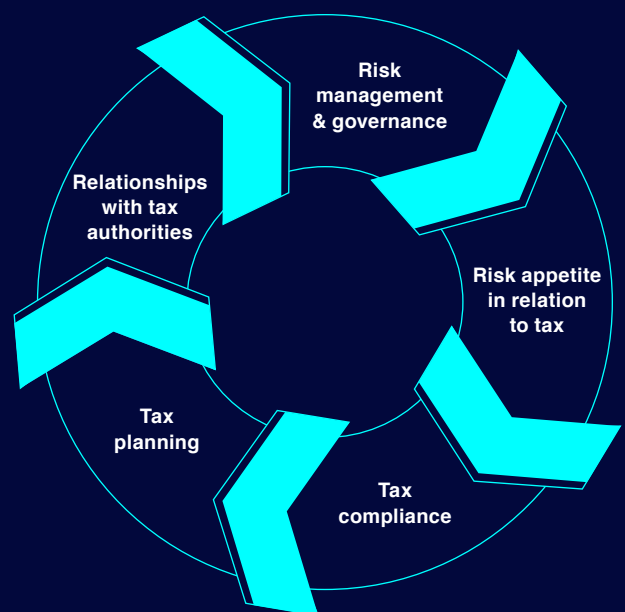
- We communicate with all of our stakeholders transparently and professionally, and share more of our tax information
- We invest in technology and automation to improve our processes and controls
- For our tax model to be sustainable, all stakeholders must know their role in it, and play their part. We communicate frequently and openly with all the functions within our business to make this clear

We succeed by operating a proactive tax function governed by a robust global tax risk controls framework which is regularly communicated, tested and updated.

While publishing our UK tax strategy is mandatory, our value of openness demands us to be more transparent. That's why our responsible tax strategy document covers our global approach.

We regularly review our tax strategy to ensure it delivers better outcomes for society and our stakeholders while maintaining transparency, fairness and ethical conduct.

Our detailed tax strategy can be found in the Appendix to this document. We complied with this strategy throughout 2020.



Our tax contribution

Capita remitted nearly £1bn of taxes to governments in 2020. This includes both taxes borne and taxes collected on governments' behalf – e.g. Pay As You Earn (PAYE) income tax, employees' National Insurance contributions, withholding taxes, sales and consumption taxes (VAT).

Our contribution

We believe we have a responsibility as a corporate to contribute our fair share to society.

Our total global tax contribution: £955m



Other key financial data¹

£3,325m

Reported third-party revenue

£49m

Reported loss before tax

£65m

Adjusted profit before tax

20.9%

Adjusted effective tax rate

£9m

Total corporate taxes paid

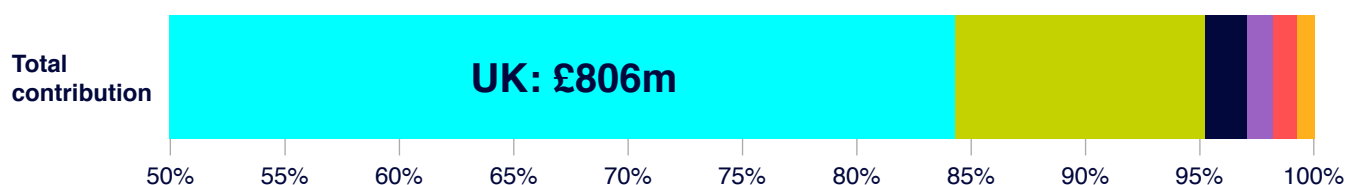
£542m

Total employment taxes

£385m

Total indirect taxes

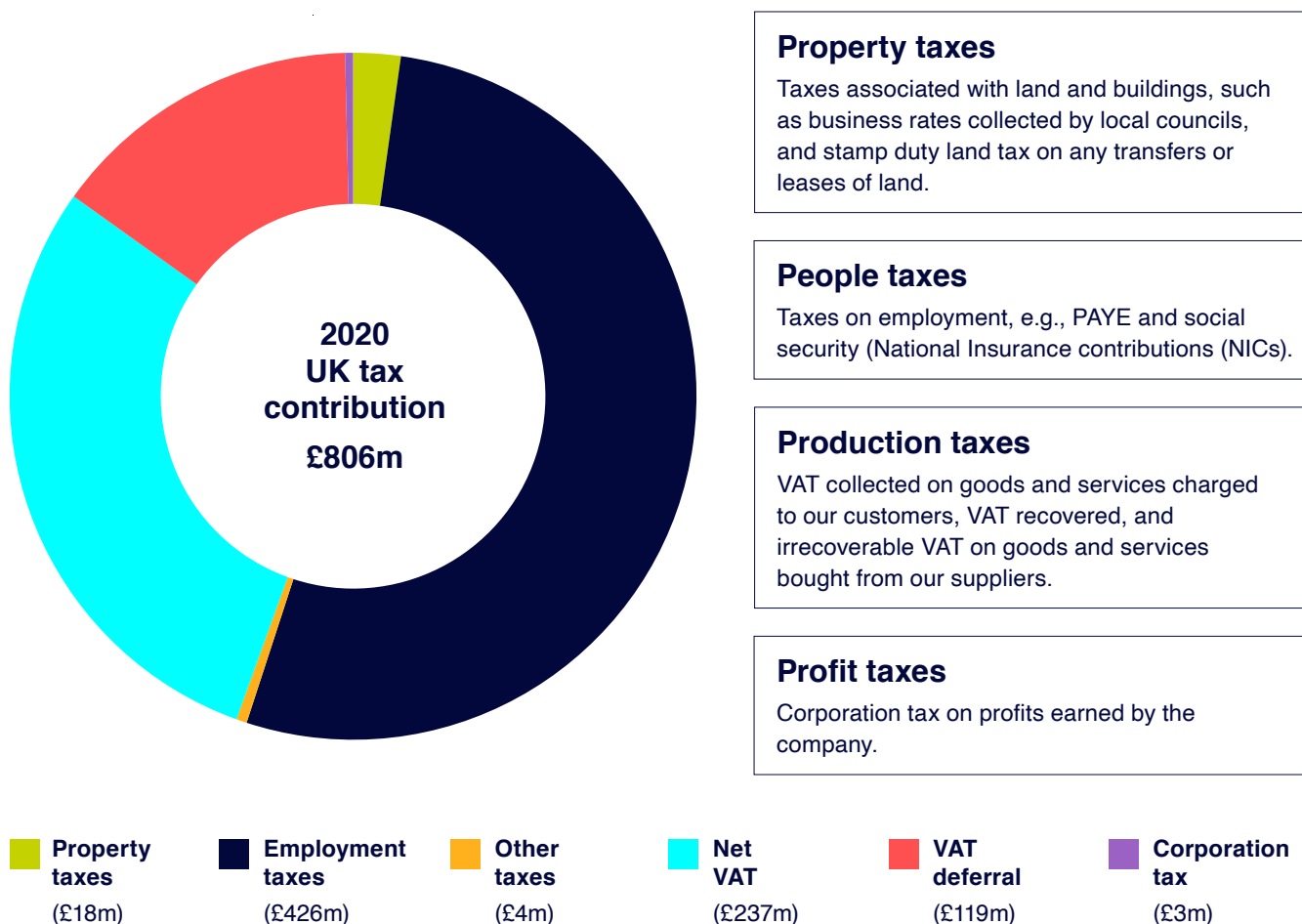
The UK component makes up 84% of our total global tax contribution



¹ 'Adjusted' financial data differs from 'reported' data as it excludes items that are disclosed separately in our Annual Report, considered to be outside the underlying operating results for the period under review and against which the Group's performance is assessed.

UK Tax Contribution

We voluntarily participate in PwC's Total Tax Contribution survey for the UK 100 Group, which analyses our tax contribution across four tax types: People, Property, Production and Profit.



Production taxes – Covid-19 and VAT deferral

While much of our revenue remained resilient, our transactional and face-to-face operations suffered in 2020. The Covid-19 pandemic has been net negative for Capita, resulting in reduced revenues and profits. Of the Covid support measures offered by the UK Government, we accepted assistance from the Job Retention Scheme and the VAT payment deferral scheme, which benefit the Group by £119m. This deferred VAT is included in the £806m above, as a contribution related to 2020 operating activities, but will be paid during 2021 and 2022.

Profit taxes – Corporation tax

In the past we have paid substantial amounts of corporation tax. In complying with accounting changes required by the new revenue recognition accounting standard IFRS 15, we bore significant tax losses in 2017 and 2018. Due to the 2021 disposal of Axelos, which is our main tax-paying company, we expect UK corporation taxes to reduce in the short term.

The £3m excludes £2m impact of R&D reflected in the £5m in the CBCR table on page 11.

The £806m taxes paid from our UK operations for 2020 comprised:

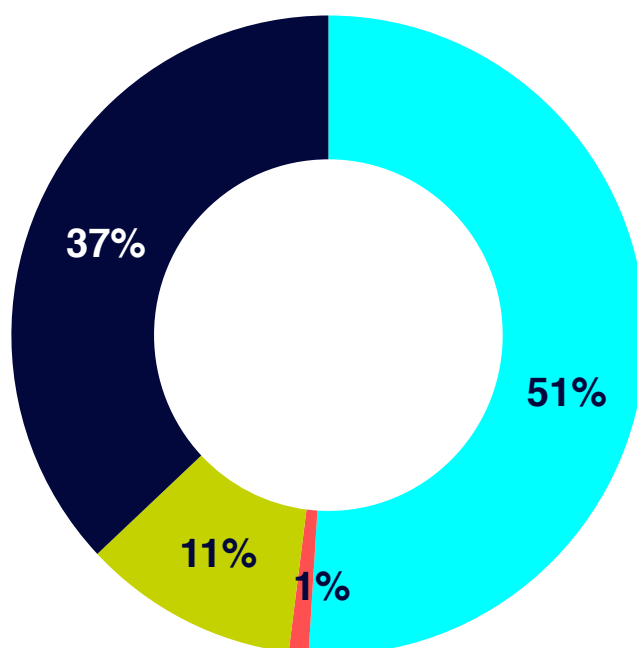
- **£181m of taxes borne**, paid to the UK Government funded from our profits, and included in our financial results as they represent a cost: e.g., irrecoverable VAT, corporation tax, employer NICs
- **£625m of taxes collected**, generated from business activity and collected on behalf of the UK Government. These are not a cost to the company, but generated by our commercial activity, e.g., PAYE and net VAT.



In 2020, 51% of UK value distributed by Capita was paid to employees (wages and salaries after adjusting for employment taxes collected), 48% was paid to the UK government in taxes and 1% was paid for financing (interest paid after adjusting for interest received). Capita did not pay a dividend to shareholders in 2020.

Capita's UK companies reported an overall loss of £62m, reflecting the loss of high-margin Covid-impacted transactional revenue and revenue from lost contracts. This was mitigated by a combination of planned transformation cost savings, and cost and cash preservation taken in response to the pandemic. Excluding transformation costs, the UK companies generated net profits.

2020 total UK value distributed to stakeholders



- Net wages and salaries after People taxes
- Net interest
- Taxes borne
- Taxes collected

Our global network

We are the UK's largest business processes outsourcing (BPO) provider with approximately 37,000 employees across the country in 2020. But we also deliver services, develop software and provide support through our global network of more than 18,000 of our people based outside the UK. We have over 7,000 colleagues in India; approximately 3,900 in South Africa and others in Germany, Ireland, Poland, Switzerland, the United Arab Emirates and the United States.



2020 Country by country reporting (“CBCR”)

This is the second year in which we’ve published our jurisdictional profit/(loss) and tax position across our 10 main countries:

Country	Intra-group revenue	Third-party revenue	Total revenue	PBT/ (LBT)	Current tax charge/ (credit)	Corporation income tax paid/ (received)	Indirect taxes paid/ received	Employment taxes paid/ received	Average no. of employees
	£m	£m	£m	£m	£m	£m	£m	£m	
United Kingdom	515	2 993	3 508	(83)	7	5	355	426	39 708
Germany	1	146	147	(7)	-	-	20	85	4 727
India	75	8	83	15	4	4	(1)	9	7 471
Ireland	11	80	91	6	-	(2)	7	4	1 157
Isle of Man	-	13	13	4	-	-	-	-	58
Poland	12	-	12	2	-	-	-	3	539
South Africa	39	-	39	5	1	1	(1)	2	3 961
Switzerland	-	81	81	8	1	-	5	12	1 008
United Arab Emirates	3	1	4	1	-	-	-	-	85
USA	1	3	4	-	-	-	-	1	15
Other	-	-	-	-	1	1	-	-	1
TOTAL	657	3 325	3 982	(49)	14	9	385	542	58 730

We want to be transparent about where we pay tax and how much we pay

- We now include our global indirect tax and employment tax information (borne and withheld globally)
- **Employment taxes:** difference in level of taxes driven by either higher/lower social security rates (Germany and Isle of Man) or salary totals (US, South Africa and India)
- **Indirect taxes:** net input and output taxes paid, including irrecoverable VAT. GDCs are in a VAT recoverable position due to offshore services being 0% VAT exports.

All information is taken from the Capita Group consolidated accounting numbers under IFRS, on an aggregated basis

- **Profit before tax (PBT)** excludes discontinued operations, but includes specific items such as impairments and significant restructuring costs
- **Corporate income taxes paid** include taxes withheld on cross-border trading receipts and R&D credits
- **Group consolidation adjustments** are generally included in the UK balances, as these adjustments are mainly for UK group reporting purposes.

Country specifics

- **UK:** this includes our UK-tax resident incorporated entity in Guernsey
- **Poland:** Our delivery centre in Poland benefits from being in a special economic zone in which some profits are exempt from corporation tax
- We’ve aggregated subsidiaries in **Cyprus, China, Nigeria, Hong Kong and Saudi Arabia** in ‘Other’ as we conduct very little activity in these jurisdictions (PBT of £0.3m aggregate).

Low-tax jurisdictions

Capita has limited trading activity in jurisdictions considered to be tax havens (according to their ranking in the Tax Justice Network's Corporate Tax Haven Index), but we include a list of all legal entities, in all countries, in our Annual Report. We don't enter into artificial arrangements which would divert profits to tax haven jurisdictions. Any presence Capita has in a low-tax jurisdiction is for commercial reasons.

Capita does not operate in any of the jurisdictions deemed to be 'non-cooperative' by the European Commission.

There is little activity in low-tax jurisdictions in our CBCR data.



Appendix I: Capita's tax strategy

Capita is the UK's leading provider of technology-enabled business process and customer management services and professional services. We combine our expertise with technology to make processes smarter, organisations more efficient and customer experiences better.

Capita's Chief Financial Officer and Senior Accounting Officer, Tim Weller², has ultimate responsibility for tax within Capita and for ensuring we comply with our tax strategy, which has been approved by the board of directors. The Group Tax team is responsible for setting and implementing the strategy. The same team reviews the strategy periodically. Any amendments they recommend to the strategy are considered and approved by the board of directors.

The Capita Tax Strategy document is published in respect of the financial year ended 31 December 2021 and is publicly available for the purposes of complying with paragraph 16(2) Schedule 19 of the Finance Act 2016.



Risk management and governance

We aim to set clear policies for our businesses to follow and to embed the right processes, reporting and culture across Capita

- Applying the appropriate controls across all 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 tax matters, 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 Group Audit and Risk committee. The Group also has a tax risk committee comprising senior leaders of Group Risk, Group Finance and Group Tax that meet 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'.

² Patrick Butcher stepped down as Capita CFO in November 2020. Gordon Boyd was appointed by the board as interim CFO and Executive Director, until replaced by the new permanent CFO, Tim Weller, in June 2021.



Risk appetite in relation to UK tax

Capita does not engage in high-risk or aggressive tax planning

- The Capita Board has, in their opinion, a low-risk appetite in respect of tax; a view which is supported by HMRC's low risk rating of the Group
- 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 tax policies
- Our tax policies focus on the key areas of risk.



Tax compliance

We are committed to complying with all applicable tax laws, rules and regulations and reporting and disclosure requirements

- It's important to Capita that we pay the correct amount of tax at the right time. We achieve this by submitting returns and paying tax liabilities in a timely manner, taking independent advice where appropriate
- Capita intends for profits to be declared in the place where their economic substance arises, and to comply with both the letter and the spirit of the law.



Tax planning

We do not have a complex tax structure – we take an appropriate and balanced approach to tax planning

- Tax outcomes are considered 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 UK's or other governments' intentions
- In respect of material transactions, or where Group Tax does not have the required expertise, tax advice may be sought from appropriate external advisers
- Where it is appropriate, the Group will claim available tax reliefs and incentives.



Relationships with tax authorities

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

- In the UK Capita proactively engages with its designated HMRC Customer Compliance Manager and is committed to prompt disclosure and transparency in all dealings with HMRC and other tax authorities.



Capita is the UK's leading provider of technology-enabled business process and customer management services and professional services. We combine our expertise with technology to make processes smarter, organisations more efficient and customer experiences better.

We believe 'good' can always be made 'better'.

