

Responsible Taxation



February 2021

 **Capita**



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What does it mean to be “responsible”?

At Capita, we’re committed to being a purpose-led, responsible business, creating better outcomes for our people, clients and customers, suppliers and partners, investors, and society.

The Covid-19 pandemic has brought significant challenges to the way we all live and work at Capita, from a highly variable demand for our services, to a rapid move to home working for the majority of our people. But our response has been guided throughout by our purpose – we create better outcomes – ensuring we put the health, safety and wellbeing of our colleagues first, while maintaining our services to clients, and responding to their additional needs as quickly as possible.

Underpinning our purpose, our responsible business strategy, which defines how we are addressing the global challenges of importance to our business and society, has served us well during the pandemic.

During 2020, our actions focused on the challenges thrown into sharp relief because of the pandemic: the wellbeing of our colleagues; inequalities in society, and specifically how young people have been disproportionately impacted; and continuing to ensure we operate responsibly with our clients, our suppliers and throughout our business.

As we have flexibly and efficiently met the needs of our clients to help them respond to the Covid-19 pandemic, we have maintained our focus on operating responsibly throughout our business - integrating environmental, social and ethical considerations into our strategies and decision-making processes.



In 2019, we laid the foundations of our commitment to responsible taxation and our efforts were recognised with the Fair Tax Mark accreditation in February 2020. Being committed to retaining this accreditation, we’ve developed and increased our tax reporting and transparency during 2020.

We’ve prepared this, our second Responsible Taxation report, to be open and transparent in our corporate tax profile. It supports the published tax disclosures in our Annual Report for the year to 31 December 2019 and explains the approach that underpins our tax behaviours.

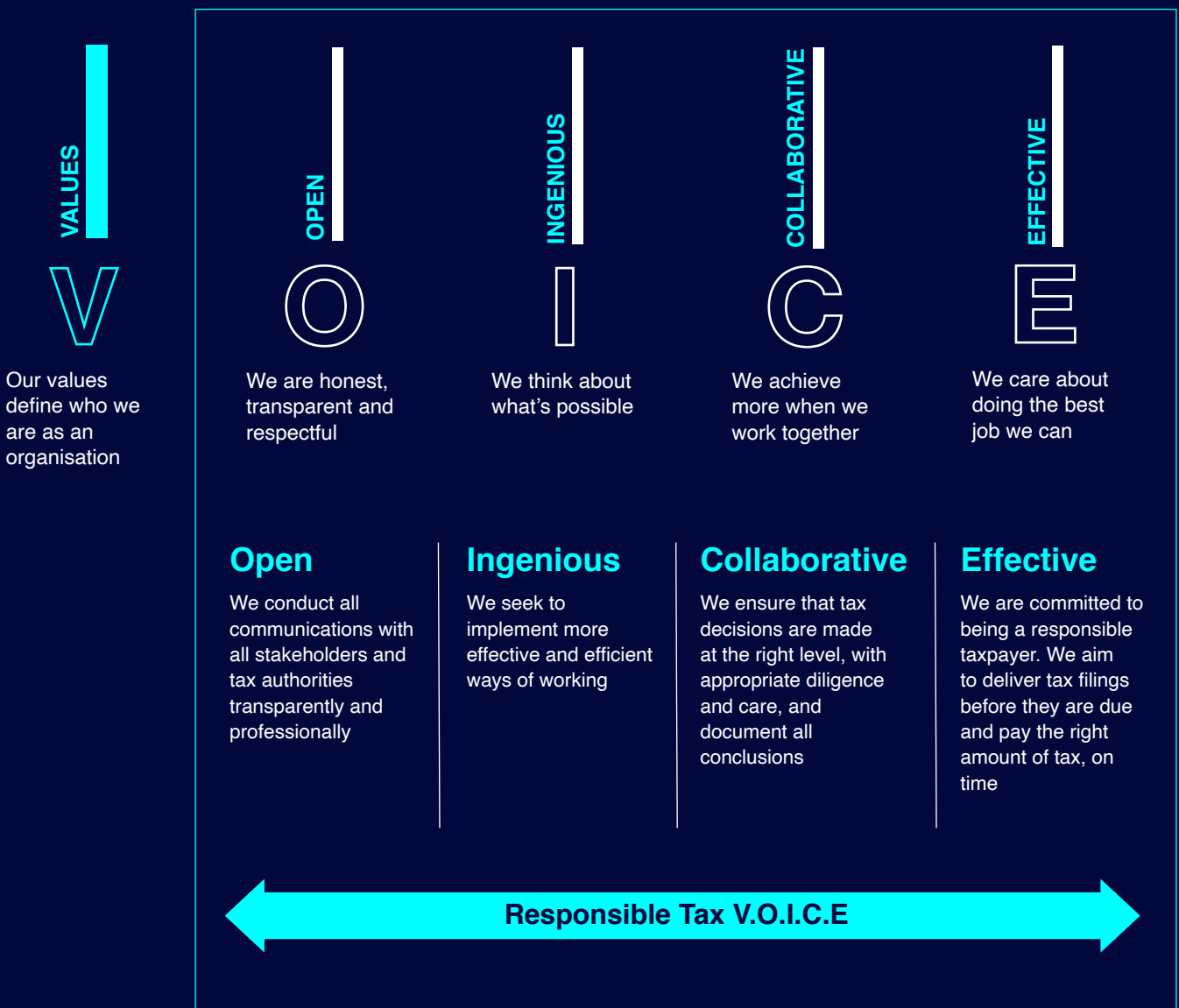
Our values and behaviours

Our values - our VOICE

Our values and behaviours continue informing who we are and how we work, while helping us create better outcomes. We believe that acting according to our values is the right way to do business responsibly for the long term, and that this sets us apart from our competitors.

We bring these values to life through our day-to-day behaviours and actions. When it comes to taxation, each value represents a facet of who we want to be as a company and underpins the behaviours we expect of ourselves and our partners.

Our four values – being **open**, **ingenious**, **collaborative** and **effective** – make up the acronym “VOICE”.



Our responsible taxation strategy

Our taxation strategy, defined by our responsible approach to taxation, is what makes us a responsible taxpayer – paying the correct amount of tax, at the right time, in the right place.

Our responsible taxation strategy mirrors our overarching corporate strategy in that we:

<p>01</p> <p>Simplify our tax affairs and legal entity structure, emphasising the creation of better outcomes and simplified compliance</p>	<p>02</p> <p>Strengthen our taxation approach by developing our people, processes and systems, and employing automation</p>	<p>03</p> <p>Succeed by being purpose-led and executing our main purpose better, ensuring that our values guide our behaviours and actions</p>
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Capita’s tax strategy



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 & governance

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



Tax compliance

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



Risk appetite in relation to tax

We do not engage in high-risk or aggressive tax planning anywhere in the world.



Tax planning

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

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

See the Appendix for our detailed tax strategy. This is also on our [website](#).

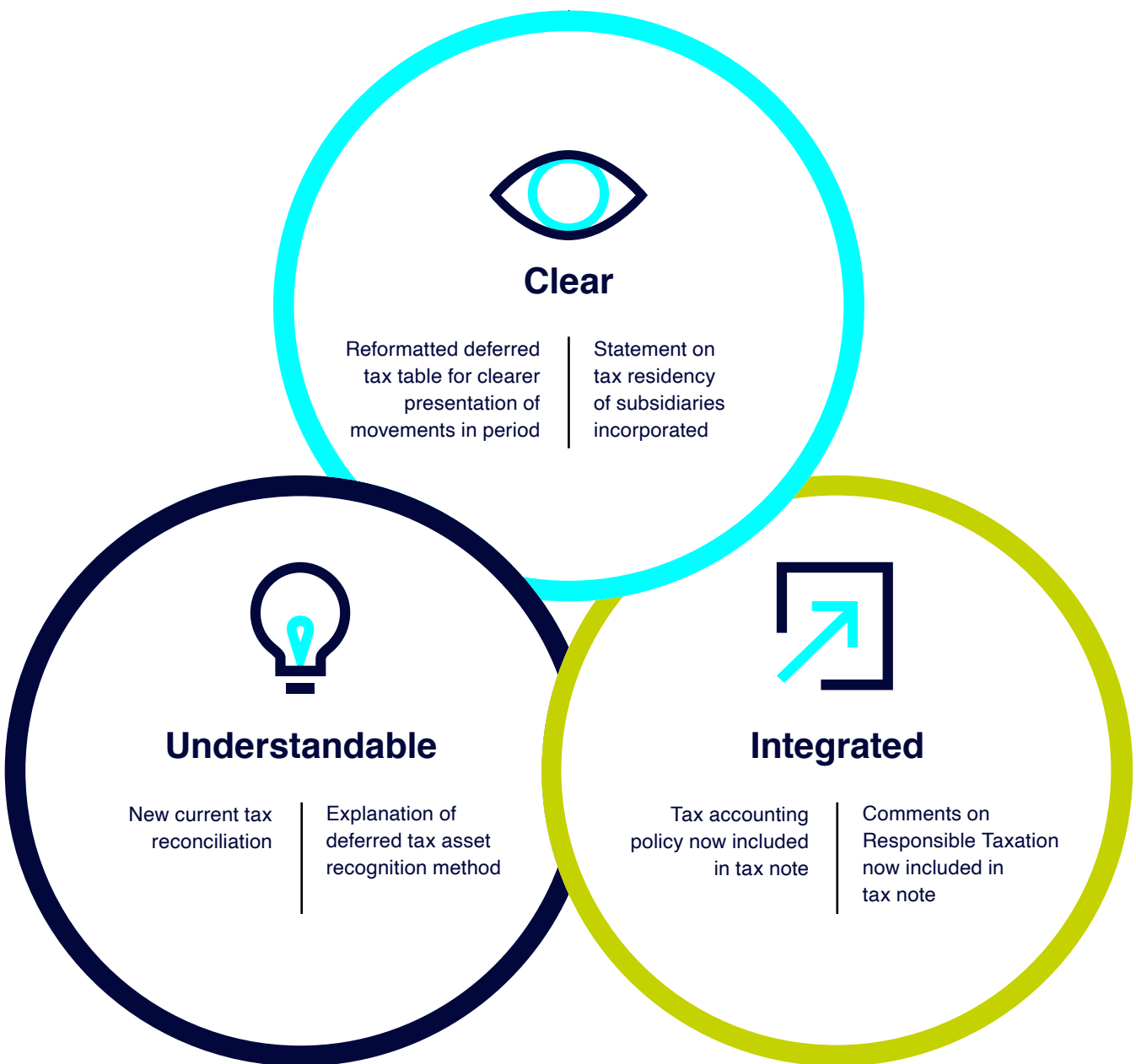
We were compliant with this strategy for 2019.

Improved tax disclosures

In our first Responsible Taxation report, in line with our overall strategy and commitment to be clear and transparent when communicating our tax profile, we included details regarding our 2018 tax disclosures. These details for 2019, are now included in the 2019 Capita plc Annual Report (Note 2.6). We continue reviewing the appropriateness of disclosures in the Annual Report and updating them when

needed to meet the demands of our stakeholders and legislation, and to maintain best practice.

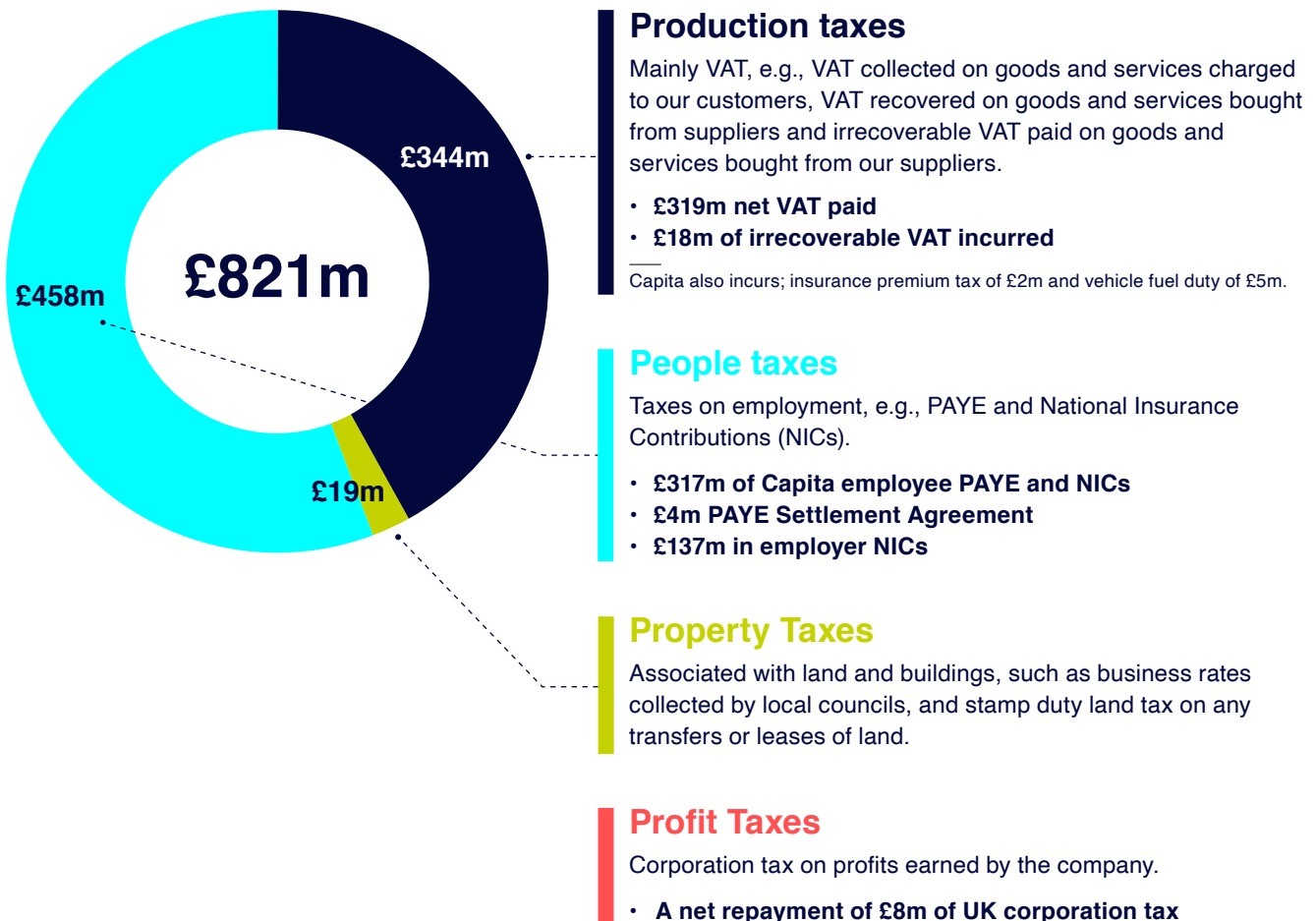
In our second Responsible Taxation report, improvements made our 2019 disclosures **clear, understandable** and **integrated**.



What is our UK tax contribution?

We believe we have a responsibility as a corporation to contribute our fair share to society. Capita contributed **£821m¹** (2018: £891m) in taxes from its UK operations in 2019. The year-on-year reduction is mostly due to transformation activities, which reduced UK payroll costs, and business exits in 2018, which led to reduced production activity in 2019.

UK Total Tax Contribution



In the past Capita has paid substantial amounts of corporation tax. In complying with accounting changes that arose on adoption of the new revenue recognition

accounting standard, Capita suffered significant tax losses in 2017 and 2018. We received a net refund due to R&D claims in respect of previous years.

¹ We voluntarily take part in PwC's total tax contribution survey for the UK 100 Group. We believe that this collaborative tax transparency initiative has the broader benefit of providing information to the public, tax authorities and policy makers, while also informing discussions for internal stakeholders.

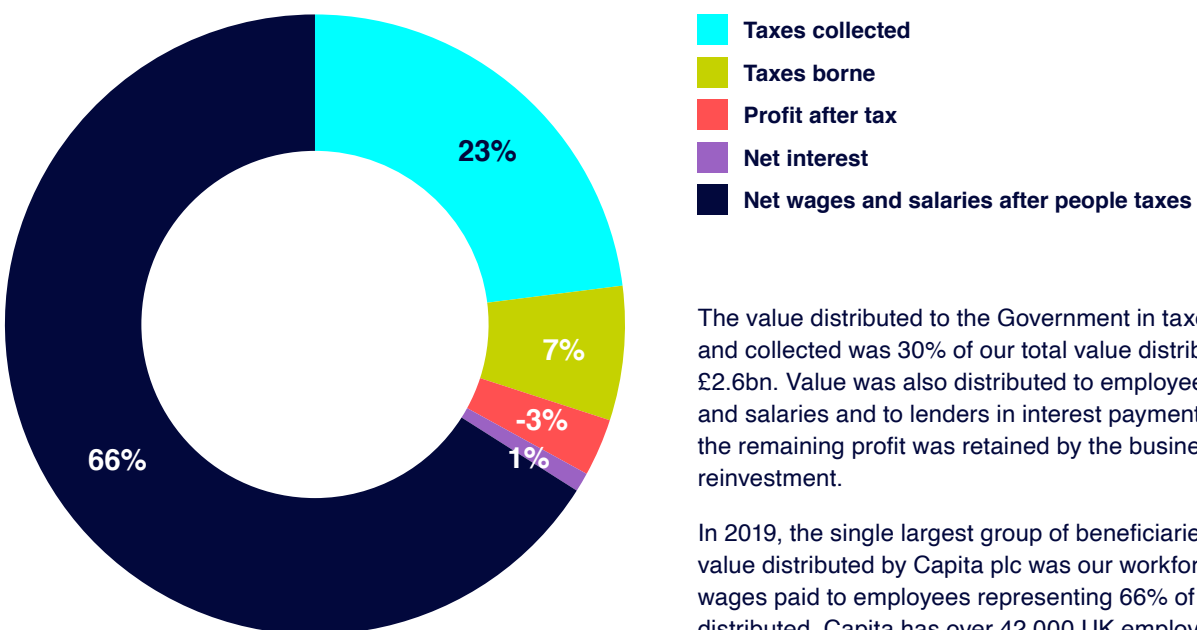
Tax contribution in £ms



Another way of viewing our total tax contribution is that it represents the value:

1. paid to the UK Government funded from Capita's profits – **taxes borne** – included in the financial results of the company, as they represent a cost, e.g., irrecoverable VAT, corporation tax, employer NICs and business rates, etc
2. generated from the business activity and collected on behalf of the Government – **taxes collected** – not a cost of the company, but generated by the commercial activity of the company, e.g., income tax deducted under PAYE and net VAT.

Value distributed



The value distributed to the Government in taxes borne and collected was 30% of our total value distributed – £2.6bn. Value was also distributed to employees in wages and salaries and to lenders in interest payments, while the remaining profit was retained by the business for reinvestment.

In 2019, the single largest group of beneficiaries of the value distributed by Capita plc was our workforce, with wages paid to employees representing 66% of the value distributed. Capita has over 42,000 UK employees.

COVID-19 Impact in 2020

The ongoing COVID-19 pandemic has brought macroeconomic uncertainty to the markets in which our businesses operate. We continue pursuing the Group’s current strategy to ‘simplify, strengthen and succeed’, and will continue to build a more focused, sustainable business for the long term and target growing free cashflow. Measures taken to tackle the impact of COVID-19 have had

an impact on our cash tax management, and fluctuations in cash tax flow will be reflected in the total UK tax contributions for 2020, 2021 and 2022.

Our focus on our colleagues’ wellbeing and client service delivery helps us deliver a resilient performance across most of our operations.

COVID impact

Disposals

The sale of ESS strengthened the balance sheet as will other planned disposals. We will look to reduce the number of underperforming contracts.

01

Government support

We have utilised the VAT payment-deferral scheme which benefitted the Group by around £119m. This VAT will be paid during 2021 and 2022. We also used the Job Retention Scheme.

02

Transformation

We are partway through a multi-year transformation which has enabled us to deliver a strong, decisive operational response to the COVID-19 crisis.

03

Service delivery

The hard work and professionalism of our colleagues has enabled the vast majority to continue to deliver services for our clients.

04

Revenue

Growth expectations have been adjusted but revenue has remained resilient.

05

Supporting local government

We continue assisting communities in their COVID response efforts by processing grants, providing IT equipment to disadvantaged students, supporting screening of retired nurses and doctors and delivering assessments to help students with disabilities.

06

What is our global tax footprint?

Capita has over 200 trading² companies, most of which are self-contained. Capita is evolving as a consulting, digital services and software business with an international footprint, but the majority of our revenues are generated from UK companies.

<p>India</p> <p>Our Capita India business is the largest and most comprehensive offshore operation for the UK life and pensions industry. We also service clients from a diverse range of industries including financial services, retail, utilities, telecoms, media, logistics, the public sector and health.</p>	<p>South Africa</p> <p>Our delivery centre in Cape Town provides customer management services including customer service, sales, debt collection and technical support. The skills available in Cape Town also offer scope for a breadth of services including multilingual operations, HR, finance and accounting, and life and pensions outsourcing.</p>	<p>Poland</p> <p>Our delivery centre in Poland provides data processing and other IT-enabled customer management, administration and back office services.</p>
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Intra-group services with minimal third-party trading. Services include IT-enabled services, customer management services and routine back office services.

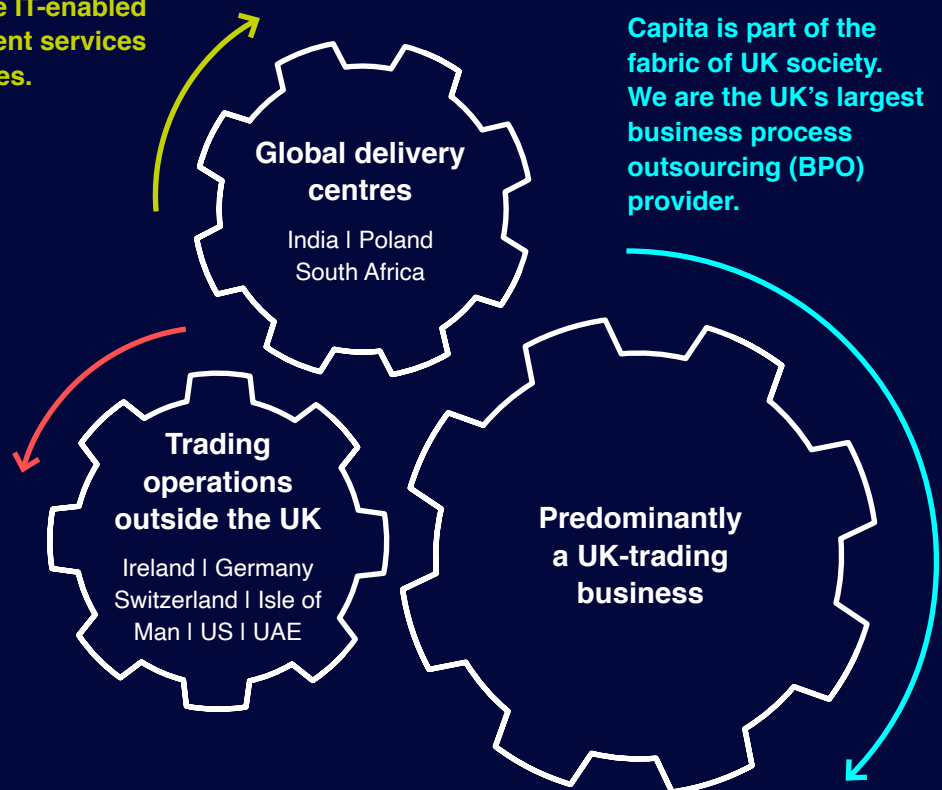
We have multiple capabilities within our global network.

Ireland

We currently employ over 1,000 people and are extending the services we deliver to our clients in the UK and Europe.

Northern Europe

With business centres in Germany, Switzerland and Poland, we're one of the leading European outsourcing companies for customer management and digitalisation.



² As well as these trading companies, Capita has several dormant companies. We continue to work on rationalising the group structure, with 56 UK and overseas companies put into liquidation, or dissolved, in 2019, and a further 80 in 2020.

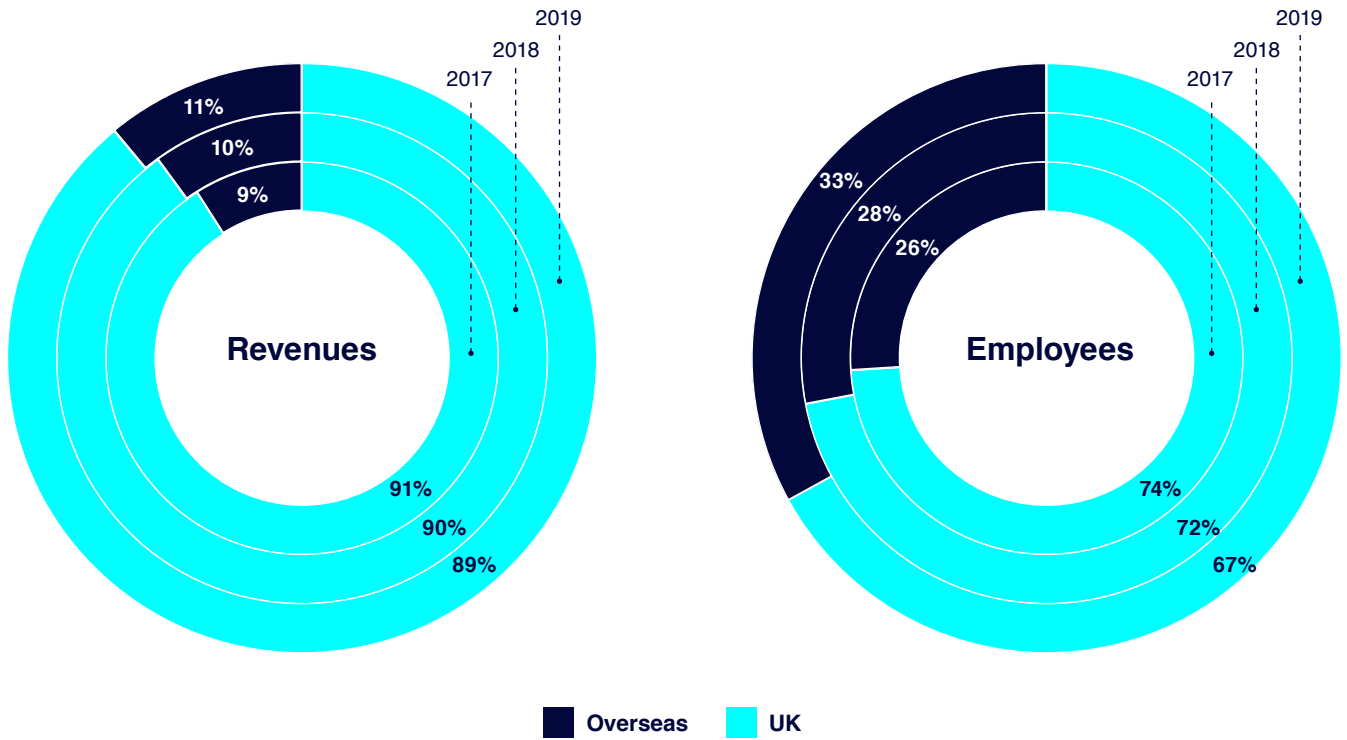
Country by country reporting

We want to be transparent about where we pay corporation tax and how much we pay, so this year we are including our country-by-country reporting data, based on the mandatory OECD CBCR disclosure we make to HMRC. This transparency provides improved information on where we have tax presence.

The table below shows our country-by-country data for the group, highlighting the material non-UK activity but illustrating the UK focus of the business. In 2019, Capita derived almost 90% of its revenue through UK trading companies, and 67% of our people were UK-based.

Tax jurisdiction	Intra-group revenue	Third party revenue	Total revenue	PBT/ (LBT)	Current tax charge/ (credit)	Corporation tax paid/ (received)	No. of employees
	£m	£m	£m	£m	£m	£m	
United Kingdom	591.8	3 344.2	3 936.0	(96.9)	3.2	(3.1)	42 392
Germany	0.9	158.1	159.0	(6.0)	0.2	(0.1)	5 294
India	91.8	7.4	99.2	17.9	4.5	4.3	9 046
Ireland	11.1	76.8	87.9	0.7	0.4	1.8	1 079
Isle of Man	0.0	12.7	12.7	3.2	0.0	0.0	67
Luxembourg	0.0	0.0	0.0	3.9	0.1	0.0	1
Poland	15.0	0.0	15.0	1.9	0.1	0.1	635
South Africa	37.6	0.4	38.0	3.7	1.4	1.4	3 374
Switzerland	(0.8)	73.1	72.3	7.0	0.4	0.6	1 288
United Arab Emirates	5.1	0.3	5.4	0.8	0.0	0.0	89
USA	3.9	5.4	9.3	1.3	0.2	0.4	20
TOTAL	756.3	3 678.5	4 434.8	(62.6)	10.5	5.4	63 285
Per annual report	Income statement		Income statement		Note 2.6.2	Cash flow	Note 5.3

- Capita (Luxembourg) S.a.r.l. was part of a financing structure which was unwound in January 2020. The company is now liquidated.
- The average number of employees above reflects continuing operations. It excludes those employees relating to discontinued operations.
- All information is taken from the Capita Group consolidated accounting numbers under IFRS, on an aggregated basis.
- Profit/(loss) before tax excludes discounted operations, but includes specific items such as impairment charges and significant restructuring expenditure.
- A special economic zone exemption applies in Poland to exempt part of the profits from corporation tax, partially due to employment levels in Poland.
- As in the previous year, the majority of the overseas income tax accrued and paid relates to our operations in India where we now employ more than 9,000 people.
- Isle of Man and UAE operations are mentioned in the 'low tax jurisdiction' summary on page 9, as they are subject to a 0% rate of corporation tax.
- We have not included Capita subsidiaries in Cyprus, China, Nigeria, Hong Kong and Saudi Arabia as activity was minimal in these jurisdictions (only LBT of £0.1m aggregate).
- Our Guernsey incorporated entity is included in the 'UK' row, as it is a UK tax resident company.



UK activity

The UK companies incurred an overall reported loss of £96.9m in 2019. Capita is partway through a multi-year transformation which was launched by the Board in 2018. The plan includes property rationalisation, procurement centralisation, transformation of support functions, including investment in growth, an organisation-wide customer relationship management system, a new human resources system (Workday) and investment in automation. We made good progress in 2019 despite some external impediments,

including political uncertainty and testing trading conditions in our core UK market. Excluding the costs of this transformation plan (including redundancy costs), the UK companies generate net profits.

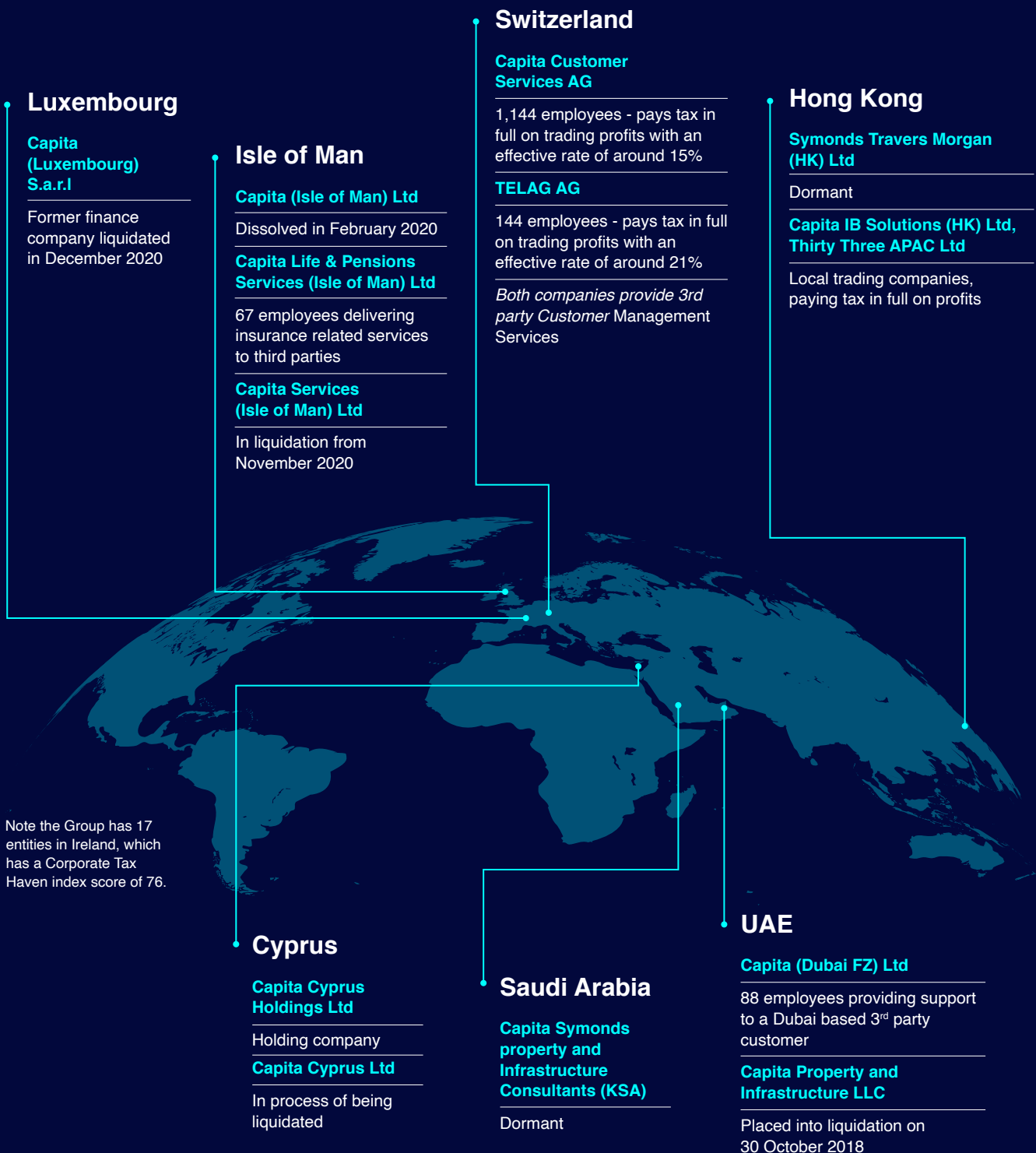
A UK current tax charge of £3.2m arose, despite UK losses, due to profits arising in UK companies (joint ventures) which are not part of the wider 75% group for loss-relief purposes.



Low-tax jurisdictions

Capita has limited trading activity in jurisdictions which may be considered 'tax havens' (according to their ranking in the Corporate Tax Haven Index³). We continue to engage in an entity rationalisation exercise which involves liquidating

dormant companies in these low-tax jurisdictions where trading operations have ceased. We do not use tax havens for tax avoidance purposes.



³ We have used the Tax Justice Network's Corporate Tax Haven index (<https://corporatetaxhavenindex.org/>) to define jurisdictions that are considered tax havens with a score of over 64.

Appendix: Capita 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, Gordon Boyd⁴, 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.

The Capita Tax Strategy document is publicly available in accordance with paragraph 16(2) Schedule 19 of the Finance Act 2016.



Risk management & governance

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

- 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 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".

⁴ Patrick Butcher stepped down as Capita CFO in November 2020. Gordon Boyd has been appointed by the board as interim CFO and Executive Director.



Risk appetite in relation to tax

We do not engage in high risk or aggressive tax planning anywhere in the world.

- The Capita Board has, in its opinion, a low risk appetite in respect of tax 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 the tax policies.
- The tax policies focus on the key areas of risk.



Tax compliance

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

- It is important to Capita that the correct amount of tax is paid at the right time. 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

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



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 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