

UK tax strategy

2019/20



SGN

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1 Introduction

This document outlines the responsibilities and conduct expected of all our employees and associates when dealing with all tax matters for the Group. It's been formulated to support and help achieve the objectives of the Group Tax Policy and we regard its publication as complying with our duty under paragraph 16(2) of Schedule 19 of Finance Act 2016, for the year ended 31 March 2020.

2 SGN Group Tax Policy

We shall organise ourselves to ensure that we:

- Comply with all tax legislation requirements.
- Operate within the law.
- Maintain strong relationships with the tax authorities built on trust and cooperation.

2.1 Compliance

We are proud to pay our fair share of tax, and our primary objective from a tax perspective is to be compliant with all tax legislation requirements. This includes making timely and accurate returns which reflect our fiscal obligation to government whilst, at the same time, recognising all legislative concessions and reliefs.

2.2 Operate within the law

We strive to minimise our total tax liability within the framework of legislative reliefs but do not take an aggressive stance in our interpretation of tax legislation. Our policy is to operate within the law at all times, therefore we do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities.

2.3 Trust and Cooperation

Central to our Tax Policy is the maintenance and development of a strong working relationship with HMRC and other Treasury departments based on trust and cooperation. Therefore, we strive to be regarded as a low risk and responsible taxpayer.

3 Tax risk management and governance

The Chief Financial Officer (CFO) has ultimate responsibility for tax and ensuring compliance with Group Tax Policy. Under a Managed Services Agreement with SSE plc, the day-to-day activities of our tax affairs are carried out by SSE's tax department. It has responsibility for managing all tax matters for SGN and fulfilling the Group's tax compliance requirements.

Our CFO and SSE's Head of Tax have regular contact to discuss key tax issues and manage tax risk. The tax implications of significant business transactions are evaluated and consideration given to areas where tax-related decisions are required.

Regular risk reviews are undertaken to identify key tax risks and recommendations are made to allow improvements in processes and controls to be made. This proactive approach allows any risks to be identified and mitigated at an early stage. A work plan is prepared annually, which includes the compliance review activity due to be undertaken.

Diligent professional care and judgement is applied when considering tax risks in-line with the group risk management and internal control policy. Tax risks identified are supported by strong technical positions which are well documented and clearly explain the conclusion and position reached.

Where appropriate, advisory and technical support from external tax, accounting and legal advisors is taken to resolve uncertainty or obtain assurance that a conclusion reached is reasonable.

Our perceived reputation affects our relationship with investors, regulators, employees and other key stakeholders. Maintaining a good relationship with those stakeholder groups is critical and therefore tax decisions should not negatively impact our reputation or brand.

We consider being a responsible taxpayer to be a core element of being a responsible member of society.

4 Consistency and attitude to tax planning

We have an obligation to operate efficiently, and to maximise shareholder returns, through managing the group's total tax liability. Those considerations are, however, balanced out with our duty to wider society to be a responsible corporate citizen. All tax decisions we take consider relevant laws, regulations and the commercial substance of any transaction.

The SSE Tax Department collaborates with our wider business, to be kept fully informed and provide appropriate input into all significant business transactions. It also provides an understanding of the tax consequences of key transactions from planning through to implementation to enable informed decisions. The most tax efficient approach will typically be recommended, while having regard to all relevant laws, regulations and the commercial substance of any transaction and ensuring that it is consistent with our own Group Tax Policy.

All tax planning we undertake must have a sound and genuine commercial rationale and fully comply with the Group Tax Policy. All business planning must take tax considerations into account.

5 Compliance

Our primary objective in relation to tax is the Group always operates in accordance with all relevant laws, rules and regulations. Central to that is being open, honest and transparent in all correspondence with tax authorities and other regulatory bodies, ensuring full disclosure is provided.

Internal compliance procedures are followed to produce accurate and complete tax returns which are submitted on time, and to ensure we meet our Senior Accounting Officer obligations.

The SSE Tax Department works with our wider business finance teams to obtain the necessary financial information and background to significant transactions to ensure tax conclusions and returns are based on full, relevant information.

The filing position taken on any significant or contentious items are supported by adequate documentation, together with reasoned conclusions based on the legislation in force at the time of filing. Advice is sought from our external tax advisers, where it's considered necessary. Explanatory notes are added to our tax computations to assist HMRC's understanding.

6 Concessions and reliefs

Where appropriate, tax incentives will be utilised to minimise our tax liability in accordance with all applicable laws, rules and regulations.

Professional judgement is applied when there is uncertainty as to the availability of incentives. This is in line with our Group Tax Policy, which is we comply with the law.

7 Tax authority and regulator relations

The maintenance and development of a strong working relationship with HMRC should be based on trust and cooperation. We are subject to an annual risk assessment by HMRC and strive to achieve the lowest possible risk rating for a group of our size.

We approach that through proactively engaging with HMRC, to explain key business transactions, to minimise tax risk and provide understanding of the approach taken. We encourage open and collaborative relations with tax authorities through regular meetings, update calls and the provision of full information in a timely manner.

8 HMRC enquiries and uncertain tax positions

As would be expected for a group of our size, occasionally we are subject to tax audits and enquiries by HMRC. In addition, under Corporate Tax Self Assessment, we adopt a filing position on matters in our tax returns which may be large or complex, with the position then being discussed with HMRC after the tax returns have been filed.

We engage proactively with HMRC on such matters with a view to resolving them as quickly as possible.