For a better world of energy

# PROUD TO PAY OUR PART

Talking Tax 2020

# ABOUT THIS REPORT

The events of 2020 have highlighted the importance of public spending and the tax revenue that supports it. SSE is committed to improving transparency around tax and recognises the increased interest by stakeholders regarding this issue.

SSE fully discloses its tax affairs in its Annual Report according to accounting standards and the enhanced disclosure requirements of the Fair Tax Mark. The purpose of this report is to complement these disclosures and provide additional transparency around the different types of taxes SSE pays in different jurisdictions, as well as SSE's strategy and approach to tax.

This report provides an accessible account of SSE's tax affairs for 2019/20, written in a way that is clear and understandable to non-tax specialists. However, it is sometimes necessary to use technical language and phrases. To help the reader understand these concepts, explanations for the main terms used in this booklet are provided on page 16. All figures in this booklet include the contribution of SSE Energy Services up to the date of its sale to OVO Energy in January 2020.

# CONTENTS



SSE welcomes and encourages feedback on this report and its approach to tax.
You can get in touch with feedback and comments by emailing sustainability@sse.com.

Disclaimer: The Adjusted Performance Measures SSE uses for financial reporting purposes are consistently applied and are explained and justified in the Annual Report 2020, pages 164 to 169.

# ABOUT SSE

SSE plc is a UK-listed energy company that operates throughout the UK and Ireland. It is involved principally in the generation, transmission and distribution of electricity; and also in the supply of energy and related services to customers.

SSE's purpose is to provide energy needed today while building a better world of energy for tomorrow and its vision is to be a leading energy company in a net-zero world. In order to achieve this, SSE's strategy is to create value for shareholders and society in a sustainable way through the successful development, efficient operation and responsible ownership of energy infrastructure and businesses.

SSE's core businesses of economically-regulated electricity networks and provision of electricity from renewable sources, complemented by provision of electricity from thermal sources, have crucial roles to play in the transition to net-zero emissions. SSE's investment in net zero drives climate action while contributing to the economy and creating skilled, sustainable jobs right across UK and Ireland. The nature of SSE's investments and operations means that the jobs it supports are often in some of the places that need them the most, such as rural areas of the UK and Ireland.

In 2018 SSE set four key business goals for 2030 which were aligned to the United Nations Sustainable Development Goals (SDGs) to which SSE's activites were most material. One of these goals, aligned to SDG 8 - Decent Work and Economic Growth shown below, epitomises the way in which SSE believes the transition to a net-zero society must take place.

8 DECENT WORK AND ECONOMIC GROWTH

**Champion Fair Tax and a real Living Wage**

Be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.

# SSE'S SOCIAL CONTRIBUTION 2019/20

## SSE's 2019/20 economic contribution

**£7.74bn**

**Contribution to UK GDP (of which £1.4bn was contributed to Scottish GDP)**

| Direct jobs | Wider jobs supported |
|---|---|
| 18,700 | 83,040 |

**€650m**

**Contribution to Irish GDP**

| Direct jobs | Wider jobs supported |
|---|---|
| 830 | 3,740 |

**£1.4bn**
Investment and capital expenditure (adjusted)

**£421m/€18m**
Taxes paid UK/Ireland

**£23.8m**
Total learning and development investment

**£2.2bn**
Total procurement spend

Foreword

# WHEN TIMES ARE TOUGH, **WE ALL RELY ON PUBLIC SERVICES**

**"In the context of increased public expenditure for vital health services and emergency support or people and businesses, the payment of tax has rarely been so important."**

Welcome to SSE's Talking Tax 2020 report. There is no doubt that this year has been dominated by the coronavirus pandemic and the social and economic consequences that have arisen. In the context of increased public expenditure for vital health services and emergency support or people and businesses, the payment of tax has rarely been so important.

The purpose of SSE's Talking Tax report is to outline, in detail and in an accessible way, the way in which SSE's business activities support wider society, through the payment of tax.

This report supplements our annual financial results with increased explanation, and with enhanced disclosure of our tax contributions, particularly breaking them down between the two jurisdictions in which we operate: the UK and Ireland.

We undertake detailed tax reporting every year, to support the enhanced transparency standards that the Fair Tax Mark require us to do. 2020 represents the seventh time SSE has been accredited by the Fair Tax Mark as paying the right amount of tax, in the right place and at the right time.

While we were the only FTSE100 company to achieve accreditation for five years, we are delighted to now be joined by three more. We continue to be committed to the principles of Fair Tax as we believe it to be a cornerstone of our relationship with consumers and communities across the countries we operate in and we believe there has never been a better time for more companies to join the movement.

During the current pandemic, it is even more important that the relationship between business and the people they serve is strengthened. When times are tough, we all rely on vital public services.

SSE is fortunate because we are in a sector less affected by the virus than some. While no business is unaffected by the pandemic, SSE continues to invest in people and low-carbon infrastructure and, as a result, we continue to be profitable and therefore, in a position, to pay corporation tax.

Finally, SSE has made the case, since the beginning of the pandemic, that the best way to recover the economy is to build back greener.

Accelerating the transition to a net-zero economy is a win-win proposition.

Economic activity is stimulated, creating jobs and tax revenues, and we speed up the response to the other great crisis: climate change.

That's precisely the long-term role SSE seeks to fulfill: providing the energy people need today whilst building a better world of energy tomorrow, creating simultaneous value for both society and our shareholders.

**Gregor Alexander,**
Finance Director, SSE

# TAX IS CORE TO **THE SOCIAL CONTRACT**

The Covid-19 (coronavirus) pandemic has highlighted the importance of quality public services in enabling governments to help people stay safe and support workers and businesses. Good public services and infrastructure must be paid for. SSE considers paying tax as one of the key ways in which profitable businesses contribute to the societies that enable business success in the first place.

## REBUILDING PUBLIC TRUST

SSE has long been vocal about the importance of rebuilding trust between big business and the public, and it believes open and transparent tax disclosures is one way through which this can be achieved.

In the Institute of Business Ethics' (IBE) annual survey, corporate tax avoidance has remained the number one public concern since 2013 - ahead of issues such as human rights and executive pay. In December 2019, 33% of respondents reported it as the issue that most needed addressed, the same as in 2018[1]. While it is promising that this is down from a peak of 43% in 2016, SSE is conscious it remains the top concern and will continue to monitor public attitudes to tax.

Although tax revenues are always vital to the public purse, this issue is highlighted in times of increased public spending such as in response to coronavirus.

## LARGE TAX PAYERS HAVE A ROLE TO PLAY

SSE is one of the largest tax payers in the UK and was ranked 16th in PwC's most recent Total Tax Contribution Survey of the 100 Group in terms of taxes paid[2]. As a large tax payer, it is important that SSE takes a responsible approach to tax to ensure that it makes a positive contribution to healthy economies. That is why SSE continues to uphold the principles of the Fair Tax Mark, and has now gained their independent accreditation for the seventh consecutive year. More information on SSE's responsible approach to tax and the Fair Tax Mark can be found on page 6.

## EMBEDDING TAX PRINCIPLES WITHIN KEY BUSINESS GOALS

The role of responsible tax practices in contributing to society and the economy is recognised as a key part of SSE's business strategy. SSE has four core 2030 business goals directly aligned to the UN's Sustainable Development Goals (SDGs) most material to its business, which represent the most meaningful way SSE can contribute to sustainable development for the societies in which it operates. To contribute to SDG 8 Decent Work and Economic Growth, SSE's 2030 Goal is to 'Be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.'

To demonstrate its commitment to its 2030 Goals, a proportion of executive remuneration has been aligned to progress against them. In terms of tax, this means that SSE's Executive Directors will be held accountable for efforts to implement and promote Fair Tax practices.

You can find more information on SSE's progress against this 2030 Goal on page 6 of this report and pages 58 and 84 of SSE's Sustainability Report 2020.

1 Institute of Business Ethics (2019) *Attitudes of the British Public to Business Ethics: 2019.* www.ibe.org.uk/resource/ibe-survey-attitudes-of-the-british-public-to-business-ethics-2019.html
2 PwC (2019) *2019 Total Tax Contribution Survey of the 100 Group.* www.pwc.co.uk/tax/assets/pdf/total-tax-contribution-100-group-2019.pdf

# A RESPONSIBLE **APPROACH TO TAX**

SSE recognises that its approach to tax impacts many of its stakeholders. SSE is committed to taking a responsible approach to paying its taxes and to demonstrate this, SSE has gained the independent Fair Tax Mark accredited for the past seven years.

### WHAT IS THE FAIR TAX MARK?

The Fair Tax Mark is an independent third-party accreditation which recognises organisations that pay the right amount of corporation tax, at the right time and in the right place. As tax affects everyone, the Fair Tax Mark believes that companies should report on their tax practices transparently so stakeholders can understand how they are contributing. This means that one of the fundamental principles of the Fair Tax Mark accreditation is open tax disclosures that go well beyond the current requirements of UK company law. More information about the Fair Tax Mark can be found at fairtaxmark.net.

## CHAMPIONING FAIR TAX IN 2019/20

Throughout 2019/20, SSE continued to adhere to its 2030 Goal to champion Fair Tax. It did this through active engagement with businesses, government and wider societal groups.

**These activities included:**

- SSE sponsored the Fair Tax conference which took place in July 2019 with the company's Head of Tax presenting on the importance of corporations "saying what you pay with pride".
- SSE supported the Fair Tax Parliamentary Reception, at which SSE's Finance Director publicly made the case for more companies becoming Fair Tax accredited.
- In December 2019 SSE published its fourth Talking Tax booklet which provided detailed disclosure of the taxes SSE paid in 2018/19, and in which jurisdictions they were paid.

## A STRATEGY FOR FAIR TAX

SSE is proud to pay its fair share of tax. SSE's tax strategy does not change significantly from year to year and is provided in detail on page 14, however it can be outlined through three key elements:

### PLAYING FAIR

Tax matters. It helps to fund vital public goods and services and when paid fairly, it ensures a level playing field for businesses large and small. SSE does not take an aggressive stance in its interpretation of tax legislation and will not use artificial tax avoidance schemes or tax havens to reduce its costs. SSE's profits are taxed in the locations where it has business substance.

### BEING ACCOUNTABLE AND TRANSPARENT

Clear and transparent disclosure is key for SSE's stakeholders to understand the taxes that it pays and its approach to tax practices. In linking its 2030 Goals with executive remuneration, SSE is demonstrating that its leadership takes direct accountability in achieving its 2030 Goal to 'Be the leading company in the UK and Ireland championing Fair Tax and a real Living Wage.'

### WORKING WITH STAKEHOLDERS

SSE's approach is to maintain and develop strong working relationships with the relevant tax authorities based on trust and cooperation. SSE will continue to work with all relevant stakeholders regarding its tax and social objectives in order to achieve this goal.

# TALKING TAX WITH **SSE'S HEAD OF TAX**

With the coronavirus pandemic dominating almost every aspect of public life globally, it is entirely understandable that reform in national and international tax systems might be taking a back seat. Here, SSE's Head of Tax, Martin McEwen gives his perspective on why the recovery from coronavirus provides an opportunity not just to build back greener, but to build back a better tax regime that's good for business and good for public services too.

**Martin McEwen,**
SSE's Head of Tax

Martin joined SSE in 2008 and is a regular speaker on tax transparency and responsible corporate tax behaviour. In addition to his role at SSE, Martin is a Board Member at Scotland's devolved taxes authority Revenue Scotland, and sits on their Audit and Risk Committee. Martin also chairs the Electricity Industry Tax Forum. He is a Chartered Accountant and Chartered Tax Advisor, and has sat on both the Scottish Taxes Committee and the Corporate Tax Committee at the Institute of Chartered Accountants of Scotland.

**With so much public spending on coronavirus support packages, do you think it is inevitable that tax rates across the board will have to rise?**

It is true that good governments seek to balance budgets over the long-term but that doesn't necessarily have to mean taxes rising across the board.

The coronavirus pandemic is unlike any disruption we have encountered as a modern society and governments have taken steps that, one year ago, would have been considered unthinkable. Protecting people from the worst economic effect of the virus is right, as is the focus to protect health services from being overwhelmed too.

This has led to unprecedented spending by governments. While it is a matter for governments and the voters who elect them, there are choices as to how they raise the funds to support public spending. Taxes are primarily levied based on income, wealth and consumption, and governments have some discretion as to how the burden should be spread across those areas, and for different types of taxpayer.

There is also the potential to use the tax system to change behaviours. For example, by taxing social 'bads', such as pollution and carbon, and through tax reliefs to encourage social 'goods' such as investment in people, research and infrastructure.

SSE is a long proponent of making sure carbon emissions have an appropriate 'price' to help support the economic case for low-carbon activity. This 'price' in the UK is a combination of a European market price and a UK carbon tax.

From SSE's business perspective we strongly believe that this carbon tax is very important – not just to support some of the low-carbon infrastructure investments we want to make, but to support climate action across the economy.

**Can a business ever truly have a 'constructive' relationship with tax revenue authorities?**

Yes, I firmly believe so. Constructive working relationships require trust and respect. While, at SSE, we work closely and constructively with the revenue bodies in the UK and Ireland, that doesn't mean we have to agree with them on every issue.

Where that is the case, we will make our case and – on very rare occasions – we might seek arbitration through the courts. If a spirit of mutual respect and trust is standard, then both parties can respect the outcome and we can all move on.

The question of what tax allowances were available to us when we built Glendoe Hydro Electric Station is a case in point here. When SSE and HMRC analysed the expenditure we incurred constructing the asset, and applied tax law to determine what tax allowances were available, we came to different answers. The amount of expenditure involved was significant, and the relevant tax law was not entirely clear, so we needed the courts to opine on the matter.

The fact we have had to rely on the courts to settle what is a genuine tax technical question has in no way damaged our relationship with HMRC, both parties having agreed that it was the appropriate course of action to take in those circumstances.

**Our economies have changed beyond recognition since the building blocks of tax systems were established. Are our national tax systems managing to keep up with the nature of business in the 21st century?**

This is an important question and something that governments across the world are grappling with.

In the 1950s and 60s, most 'assets' of big corporation were tangible. In other words, there were bricks, mortar, plant and machinery. In our modern

21st century economy, the 'assets' of some of the world's largest companies are 'intangible'. Things like intellectual property, goodwill, brand collateral and software.

This shift has not successfully been reflected in the way in which economic value is taxed globally. It is reasonably easy to tax a company like SSE – because you can touch and see the assets that create value. The problem is, and as time goes on, it means the tax burden is weighted disproportionally on tangible assets and insufficiently on intangible assets. Getting this balance right should be good for everyone: the public will gain trust in the tax system, public services will be supported, and balanced economies should result.

**With some companies having larger balance sheets than some nation states, what can be done to help ensure that economic activity is appropriately taxed in the right place and at the right time?**

Many businesses operate on a truly global basis, however tax regimes are driven by domestic law. It is only through cooperation and coordination that tax regimes can effectively tax multinational businesses.

The OECD – the intergovernmental organisation that seeks to bring about progressive co-operation between economies – recognises that taxing big corporations between countries is important and the requirement for 'country-by-country reporting' by multinational companies is a great start. It means a company's stakeholders and customers can see exactly what economic activity was undertaken in their country and can see the tax activity that results. The OECD is making some progress in establishing standards that countries can adopt.

But we shouldn't underestimate the importance of public opinion either. That's where the Fair Tax Mark comes in – the independent 'badge of honor' reassures the public of a company's intentions and their tax policies and practices.

The Fair Tax Mark's next important development is to create an international mark – so it's not just UK-listed companies with international activities that can demonstrate their tax credentials.

**With so many companies under enormous pressure and strain due to the coronavirus crisis, is there a role for ethics and values in tax systems?**

There is always a role for ethics and values in every aspect of the business world – and tax matters are no different.

A good starting point is for a business to be clear about its purpose – the reason it exists beyond simply any profit motive. In SSE's case our purpose is to provide people with the energy they need today at the same time as building a better world of energy for tomorrow.

We are accountable for doing this – not just to our owners – but to a multitude of stakeholders. The communities and society we provide energy for are a core stakeholder – and when we are successful and make a profit, the link back to that society is to contribute taxes to pay for the public services we all benefit from.

It isn't just a set of rules that connects business to the society they serve, it's ethics and values too.

**As a tax professional, and if you had a magic wand, what would be the most important reform you would make to business taxes in the UK that would bring about a better outcome for the UK as a whole?**

The coronavirus pandemic presents an opportunity to rebase the UK's business tax regime for the longer-term. Sustainable changes can be made, in conjunction with the OECD and other tax jurisdictions, to implement a tax regime that taxes all profits that are genuinely earned in the UK. That regime needs to be flexible enough to recognise what it is that generates those profits, be it physical assets, intangible assets, human capital or customers here.

With a tax regime that appropriately taxes UK activity we can then use that regime to incentivise the companies who invest in assets and jobs the UK needs to 'build back better', and disincentivise polluting or unsustainable activities.

**Does the UK tax regime have a role to play in encouraging investment in low-carbon infrastructure?**

Reaching the UK Government's target of 40GW of offshore wind by 2030 will require significant levels of investment.

Tax is a factor in any investment decision, especially for assets that are intended to operate for decades. There are three elements of the tax regime currently applying to offshore wind assets that can have a significant impact on investment decisions, being:

- the rate of tax allowances available on constructing the asset;
- the extent to which tax relief is available on borrowing costs to fund the construction; and
- tax relief available on the costs of safely decommissioning the asset at the end of its life.

These are all areas where more can be done to further incentivise investment in low-carbon infrastructure.

# SSE'S TAX **CONTRIBUTION 2019/20**

SSE is responsible for a number of different taxes that arise from its direct operations, as well as upstream and downstream activities. The below diagram outlines the most significant taxes that SSE paid to, or collected on behalf of, tax authorities in 2019/20. A breakdown of these taxes by jurisdiction is provided on pages 11 to 13.

**Taxes Paid** £437m + **Taxes Collected** £662m = **Total Tax Contribution** £1.1bn

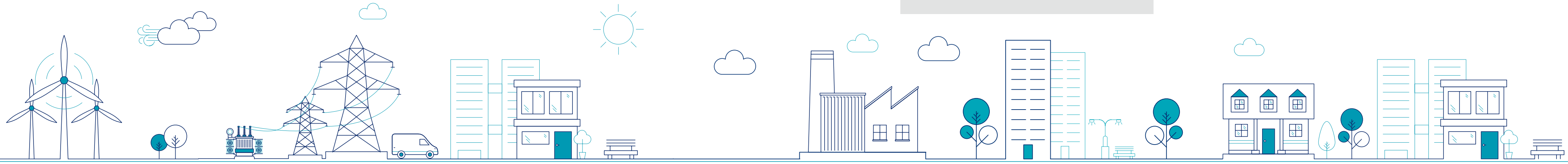
## SSE'S TAX VALUE CHAIN

**Profit tax**
£78m
Taxes on profits that SSE makes. Corporation tax is one example of a tax paid on profit.

**People tax**
£81m
Taxes paid on wages earned by employees, for example an employer's share of National Insurance contributions.

**Value added tax (VAT)**
£349m
VAT is charged on goods and services, which are bought from suppliers or sold to customers. SSE collects VAT on behalf of national tax authorities.

**Other taxes**
£5m
A variety of smaller taxes contribute to this figure which is collected by SSE on behalf of governments.



## SSE'S DIRECT OPERATIONS

**Environmental tax**
£73m
SSE pays environmental taxes in relation to its direct operations, the main one being the Climate Change Levy which is a tax it pays on fossil fuels used to generate electricity.

**Property tax**
£205m
Property taxes relate to owning or using properties and infrastructure. These include business rates paid to local councils, and taxes on transactions when properties are bought and sold.

## SOCIETY

**People tax**
£188m
Taxes collected from employee wages on behalf of governments, for example income tax.

**Environmental tax**
£120m
SSE collects environmental taxes from its customers on behalf of governments, including the Climate Change Levy which is an environmental tax charged on the energy that businesses use.

## COUNTRY-BY-COUNTRY REPORTING

SSE is primarily a UK energy company. As part of an expansion into the Irish energy sector, SSE acquired Airtricity in 2008, a renewable energy developer registered in Ireland. Airtricity had a pipeline of early stage wind farm development projects across Europe. SSE's strategy is focused on the core energy markets in the UK and Ireland, therefore it subsequently exited from all other European markets. All such projects have now been sold.

| Country | Tax paid (£m) | Revenue (£m) | Reported Profit Before Tax (£m) | Reported Current Tax (£m) | Number of employees at 31 March 2020 | Gross Employee Pay (£m) | Net Assets (£m) |
|---|---|---|---|---|---|---|---|
| UK | 421 | 8.536 | 81 | 46 | 10,850 | 903 | 3,716 |
| Ireland | 16 | 996 | 29 | 1 | 832 | 41 | 1,204 |
| Total as per accounts | 437 | 9,532 | 110 | 47 | 11,682 | 944 | 4,920 |

### WHY IS COUNTRY-BY-COUNTRY REPORTING IMPORTANT?

Rather than disclosing profits on a global basis, country-by-country reporting informs stakeholders in each jurisdiction of the economic impact a multinational company has within their communities. By reporting on a country-by-country basis, it helps tax authorities understand the materiality of the economic activity of a company. This is particularly useful for developing countries, with less treasury resources than others. Further information on the importance of country-by-country reporting can be found at fairtaxmark.net

SSE also has a captive insurance company which is registered in the Isle of Man. That company is treated as a 'controlled foreign company' for UK tax purposes as it is wholly owned by SSE, therefore UK corporation tax is paid on its profits by SSE.

In late November 2019, SSE incorporated a wholly-owned subsidiary in Switzerland to hold its investments in its energy networks businesses and to support long-term investment in SSE's core businesses. SSE firmly believes that tax should be paid in the jurisdiction where the economic activity occurs and this new subsidiary company changes nothing in that regard. While the company may be Swiss incorporated, it is UK tax resident with UK taxes being payable on any profits or gains made by the company.

## EFFECTIVE TAX RATES

**SSE's adjusted current tax rate**

**11.2%**

(2019: -0.9%)

In simple terms, SSE's effective tax rate (ETR) is the average percentage it pays in taxes on its taxable income. For many reasons, SSE's ETR may differ from the corporation tax rates of the countries in which its business activities are undertaken, the UK and Ireland, which have corporation tax rates of 19% and 12.5% respectively.

Due to significant annual investment by SSE in its businesses, its ETR is reduced by the impact of tax allowances on that investment and tax relief on funds borrowed to finance the expenditure. This meant that SSE's ETR for the year to 31 March 2020, at 11.2%, was lower than the standard corporation tax rate in the UK, where the majority of SSE's business activities take place.

SSE's ETR excludes taxes relating to SSE Energy Services (sold to OVO Energy Ltd in January 2020) so does not directly relate to the tax values outlined in the rest of this report. SSE provides a detailed explanation of its adjusted current tax rate and effective rate on page 251 of its Annual Report 2020.

### WHAT DOES AN EFFECTIVE TAX RATE SHOW?

A company's effective tax rate (ETR) is often used by stakeholders, rightly or wrongly, to assess whether a company appears to be paying the 'right' amount of tax. It can, however, be impacted by a number of factors and it is important to understand what those factors are. While a low ETR may cause stakeholders to question the position, it is not always the case that a high ETR is 'good' and a low ETR is 'bad'.

Tax rates differ quite significantly around the world, and the territories a company operates in may have a material impact on its ETR. By way of example, SSE's business activities are carried out in the UK (19% tax rate) and Ireland (12.5% tax rate). Certain jurisdictions including the UK also tax activities such as mineral extraction at higher rates than other commercial profits. The tax regime will often also be used to encourage investment by businesses, particularly in areas such as energy efficiency measures and research and development that governments want to encourage.

## TOTAL TAX CONTRIBUTION

Total tax contribution is calculated by adding the value of taxes paid to the value of taxes collected. SSE's total tax contribution across the UK and Ireland for the year ended 31 March 2020 was £1.1bn – broadly the same as in the previous financial year. The tax contributions that SSE has made to the UK and Ireland are shown in this section along with breakdowns of these taxes, with explanations provided for significant changes in 2019/20 compared to 2018/19.

### UK

**Total tax contribution 2019/20**

**£1bn**

(2018/19: £937m)

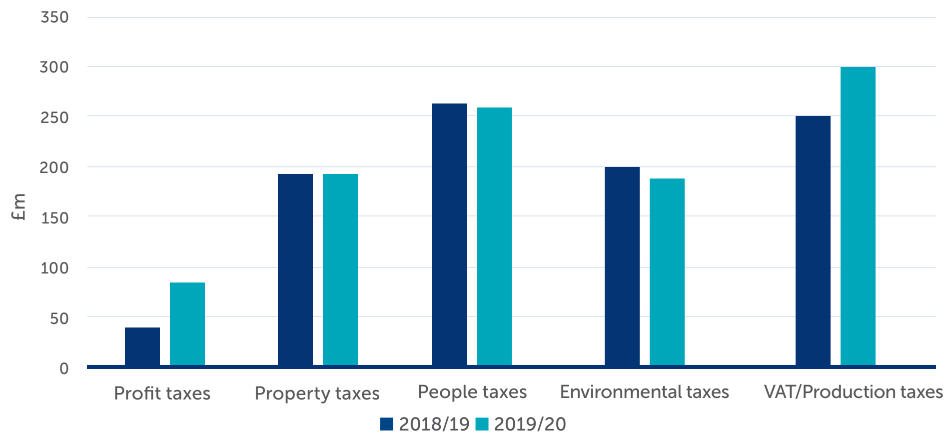
### Ireland

**Total tax contribution 2019/20**

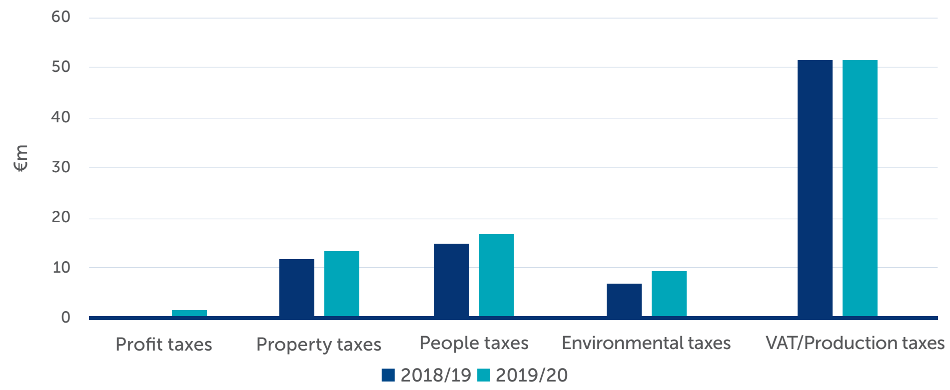
**€93m (£81m)**

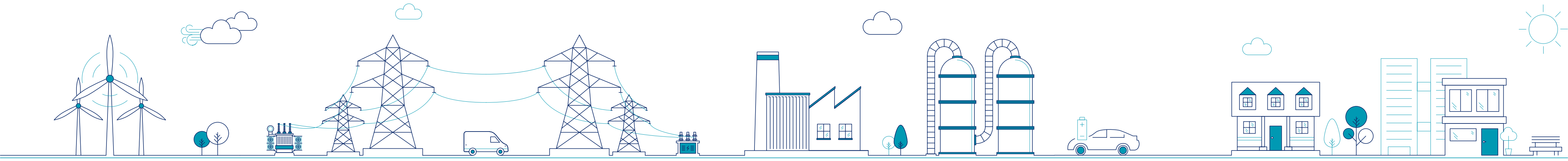
(2018/19: €86m (£76m))

### UK total contribution




### Ireland total contribution



# UK TAXES

## Taxes paid

**Total tax contribution 2019/20**

**£422m**

(2018/19: £404m)


### WHY DID SSE PAY HIGHER PROFIT TAXES?

During 2019/20 the UK changed the way in which large companies pay their quarterly instalments of corporation tax. As a result of that change, SSE was required to pay six quarterly instalments during that year, as opposed to four in 2018/19.

### WHY DID SSE PAY LOWER ENVIRONMENTAL TAXES?

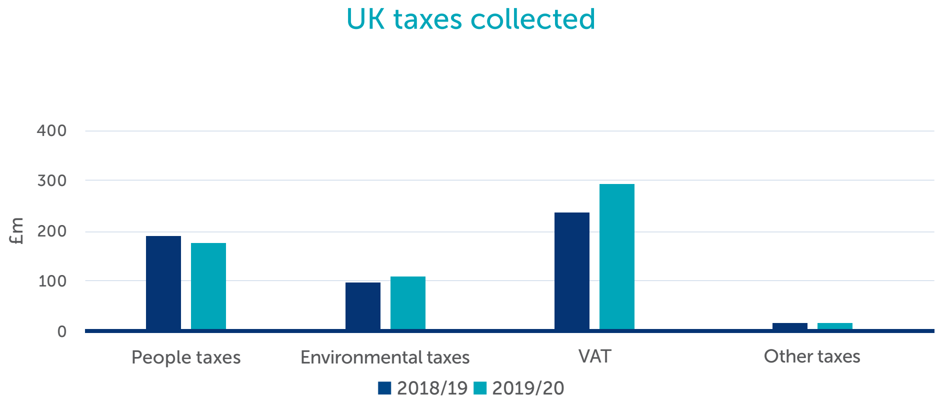
SSE paid less Climate Change Levy (CCL), which is a tax it pays on fossil fuels used to generate electricity. This was in part due to a reduction in the amount of total gas burned at SSE's gas-fired power stations resulting from a change in fuel mix and planned outages.

## Taxes Collected

**Total tax collected 2019/20**

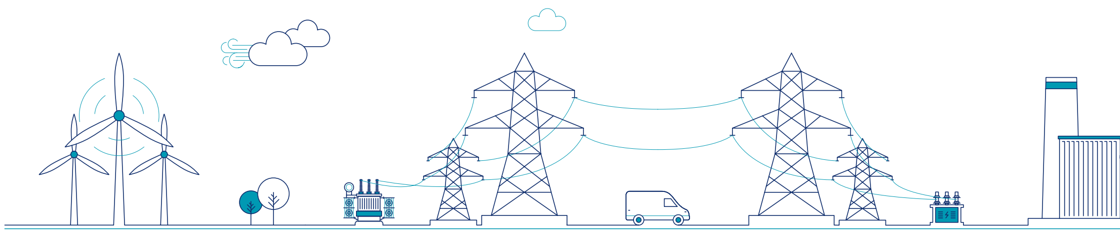
**£597m**

(2018/19: £533m)




### WHY DID SSE COLLECT MORE VAT?

SSE collects VAT on sales to its business customers on behalf of governments. In 2019/20 the amount of sales to business customers were higher when compared to the previous year, therefore VAT collected increased.



## IRELAND TAXES

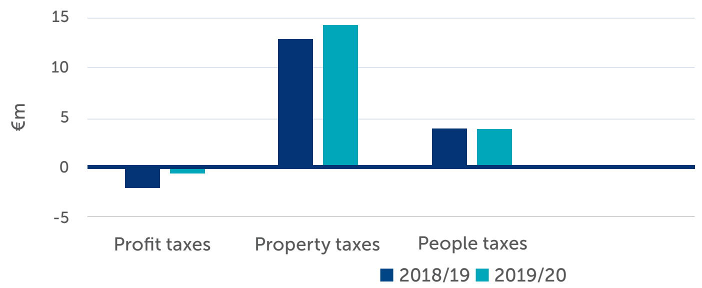
### Taxes Paid

**Total tax contribution 2019/20**

**€18m (£16m)**

(2018/19: €15m (£13m))

Ireland taxes paid




**WHY DID SSE'S PROFIT TAXES PAID CHANGE?**

This was mainly due to a fall in taxable profits for SSE Airtricity as a result of accounting revaluation gains being lower than the previous year.

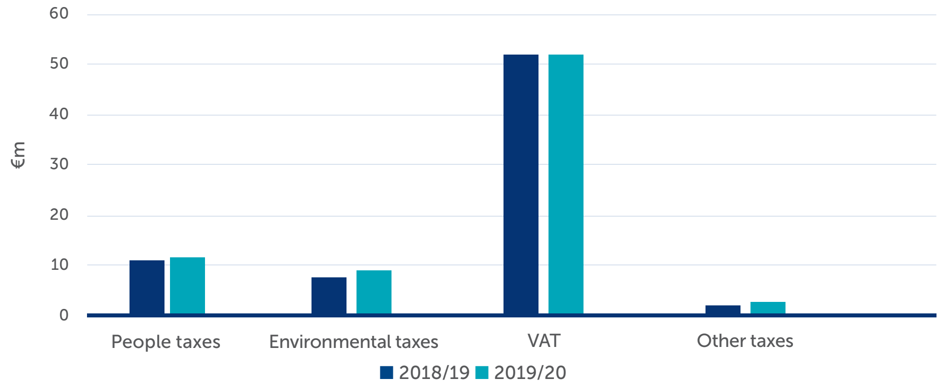
### Taxes Collected

**Total tax collected 2019/20**

**€75m (£65m)**

(2018/19: €71m (£63m))

Ireland taxes collected




**WHY DID SSE COLLECT HIGHER ENVIRONMENTAL TAX?**

The increase in environmental taxes collected in Ireland is due to the increase in carbon tax collected as a result of increased sales of electricity to customers in 2019/20.

Appendix A:

# SSE'S TAX STRATEGY

The 2016 Finance Act includes requirements for large businesses to publish their tax strategy. Under the requirement companies, partnerships, groups or sub-groups will need to publish a UK tax strategy.

SSE's tax strategy does not change significantly from year to year. There is a well understood approach to tax planning, risk management and governance, which is published below. 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.

## 1. TAX POLICY

### SSE GROUP TAX POLICY

SSE's Group Tax Policy specifies the principles by which SSE approaches its tax affairs. This policy is supported by a Tax Code of Conduct that outlines the responsibilities and conduct expected of SSE employees and associates when dealing with all tax matters for the Group. These principles are approved by the SSE Board. They apply across the Group and enforce SSE's approach to tax transparency, with the objective of being a low risk and responsible tax payer.

### SSE GROUP TAX POLICY

SSE is proud to pay its fair share of tax, and its policy is to operate within both the letter and spirit of the law at all times. The Group's primary objective from a tax perspective is to be compliant with all tax legislation requirements. This includes making timely and accurate returns which reflect SSE's fiscal obligation to Government whilst, at the same time, recognising all legislative concessions and reliefs.

SSE strives to minimise its total tax liability within the framework of legislative reliefs but does not take an aggressive stance in its interpretation of tax legislation.

SSE does not use artificial tax avoidance schemes or tax havens to reduce the Group's tax liabilities. Central to its Tax Policy is the maintenance and development of a strong working relationship with HMRC and other treasuries based on trust and cooperation. As a consequence SSE strives to be regarded as a low risk and responsible taxpayer.

## 2. GOVERNANCE AND ACCOUNTABILITY

SSE has a Group Risk Management and Internal Control Policy which is set by the Board. The policy consists of a clear set of principles and sets out roles and responsibilities which guide the risk management culture within SSE.

That policy, and the associated principles and culture, are embedded in the approach SSE takes to managing risk in relation to the Group's tax affairs.

The Board performs a review of the effectiveness of the system of internal control annually. This review is supported by a report from the Director of Group Risk, Audit and Insurance detailing the activity and operation of the system during the year. Internal Audit and Assurance reviews are undertaken across the business, including perceived areas of risk concerning SSE's tax affairs, the findings of which are included in the Director of Group Risk, Audit and Insurance's report. Gregor Alexander, SSE's Finance Director and Senior Accounting Officer, has ultimate responsibility for tax within SSE and for ensuring compliance with Group Tax Policy. Gregor Alexander has previously held the position of Tax Manager within SSE. SSE's Head of Tax, supported by a team of in-house specialists, has responsibility for managing all tax matters for the group and fulfilling compliance requirements.

A Tax and Treasury Steering Committee meets on a monthly basis to discuss key tax issues in order to manage tax risk. The tax implications of significant business transactions are evaluated, and areas where tax-related decisions are required to be taken are considered. A tax manual is maintained which outlines the Tax Department roles and structure, and the tax control environment and procedures. Regular risk reviews are undertaken to identify key tax risks and recommendations are made to allow improvements in processes and controls to be made. A tax risk register is maintained which documents key risks, details the potential impact on the business and identifies existing/proposed controls which can extinguish or minimise the tax risks. From that, a work plan is prepared annually, timetabling in the compliance review activity to be undertaken.

In particular, tax specialists in SSE are expected to:

- Apply diligent professional care and judgement when considering tax risks in line with the Group Risk Management and Internal Control Policy, and thoroughly assess tax risks in a consistent way;
- Ensure identified tax risks are supported with strong technical positions which are well documented and clearly explain the conclusion and position reached;
- Seek, where appropriate, advisory and technical support from external tax, accounting and legal advisors to resolve uncertainty or obtain assurance that a conclusion reached is reasonable;
- Maintain constructive relationships with stakeholders and ensure that tax decisions do not negatively impact on SSE's relationship with its customers, investors, regulators or other key stakeholders; and
- Ensure that non-tax specialist colleagues, who process transactions, etc., have adequate training and guidance on tax matters relevant to their role.

**3. CONSISTENCY AND ATTITUDE TO TAX PLANNING**

SSE has an obligation to keep energy prices for customers as low as possible, and to maximise shareholder returns, which includes efficiently managing the Group's total tax liability. Those considerations are consistent with SSE's duty to wider society to be a responsible corporate citizen. All tax decisions taken by SSE consider relevant laws, regulations and the commercial substance of any transaction. SSE collaborates with business units to provide appropriate input into all significant business transactions. The Tax Department provides an understanding of the tax consequences of key transactions from planning through to implementation to enable informed decisions. Where there are a number of options as to how a transaction may be undertaken, while still delivering the same commercial outcome, the most tax efficient approach will typically be considered, whilst having regard to all relevant laws, regulations and the commercial substance of any transaction, and ensuring that it is consistent with SSE's Group Tax Policy.

**4. COMPLIANCE**

SSE's primary objective in relation to tax is that the Group operates in accordance with all relevant laws, rules and regulations in all jurisdictions in which SSE operates, at all times:

- 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 also to ensure that SSE meets its Senior Accounting Officer obligations;
- The Tax Department works with the 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 is supported by adequate documentation, together with reasoned conclusions based on the legislation in force at the time of filing. Advice is sought from SSE's external tax advisers, where it is considered necessary. Explanatory notes are added to SSE's tax computations to assist HMRC's understanding of the position;
- Finally, when SSE's corporation tax computations are filed, a summary of areas HMRC may want to focus their review on is sent to HMRC, to facilitate proactive engagement between SSE and HMRC. SSE also contacts HMRC to advise them of the reason for any material movements in tax payments compared with what HMRC may have been expecting.

**5. CONCESSIONS AND RELIEF**

Tax incentives will be utilised where appropriate to minimise SSE's tax liability in accordance with all applicable laws, rules and regulations.

Where there is any element of judgement in applying available incentives, professional judgement is applied, but an aggressive interpretation of the legislation is not adopted. This is in line with SSE's Group Tax Policy, that the Group complies with both the letter and spirit of the law.

**6. TAX AUTHORITY AND REGULATOR RELATIONS**

The maintenance and development of a strong working relationship with HMRC and other tax authorities should be based on trust and cooperation. SSE is subject to an annual risk assessment by HMRC, and strives to achieve as low a risk rating as can be achieved by a group of SSE's size and complexity. The risks on which SSE is assessed are either 'Inherent', which SSE has minimal ability to change, and 'Behavioural', which SSE can influence through it's actions and policies. SSE makes every effort to keep the Behavioural Risks as low as possible.

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

**7. HMRC ENQUIRIES AND UNCERTAIN TAX POSITIONS**

As would be expected for a group of its size, SSE has a small number of tax enquiries ongoing with HMRC at any one time. In addition, under Corporate Tax Self Assessment, SSE adopts a filing position on matters in its tax returns that may be large or complex, with the position then being discussed with HMRC either in advance or after the tax returns have been filed. SSE engages proactively with HMRC on such matters with a view to resolving them as quickly as possible.

Where SSE considers there to be a risk that HMRC may disagree with its view, and that additional tax may become payable as a result, a provision is made in SSE's accounts for the potential tax liability, which is then released once the matter has been agreed with HMRC. SSE considers this to be in line with the overall prudent approach to its tax responsibilities.

**8. PEOPLE DEVELOPMENT**

Finally, it is vital to SSE's compliance with all relevant tax legislation, that the Tax Department monitor updates and changes to tax legislation to assess the impact on the Group. All necessary technical reading and training is undertaken to ensure all laws and regulations are applied correctly within both the letter and spirit of the law. In addition, training and guidance is provided to non-tax specialist colleagues on tax matters relevant to their roles.

Appendix B:
# USEFUL TAX TERMS

### BUSINESS RATES
Business rates are taxes paid on most non-domestic properties. These taxes contribute towards the cost of services provided to businesses by local councils.

### CAPITAL ALLOWANCES
Capital allowances are tax reliefs. When a company purchases or builds an item of plant or machinery that is kept for use in the business, it is allowed to deduct some or all of the value of the item from its taxable profits over a number of years, to reflect the fall in value of the asset resulting from its use.

### CLIMATE CHANGE LEVY (CCL)
CCL is an environmental tax which is charged on energy used by nondomestic customers in the UK. Its aim is to provide an incentive to increase energy efficiency and reduce carbon emissions.

### CONTROLLED FOREIGN COMPANY (CFC)
In the UK, a CFC is a foreign company which is not resident in the UK but which is controlled from the UK. The CFC tax rules aim to prevent UK profits being diverted to low tax jurisdictions. Consequently, if profits are earned through a CFC and do not meet any of the exemptions, those profits are apportioned and charged to a UK company which means the profits are subject to UK corporation tax.

### CORPORATION TAX
Corporation tax is the main tax a company pays on its profits. In the UK, the ‘headline’ rate is currently 19% and in Ireland it is 12.5%.

### EFFECTIVE TAX RATE
The different types of taxes SSE pays are set at different rates and can vary depending on specific circumstances. To calculate its effective tax rate, SSE takes its total taxes paid across all of these taxes and divides this by the value of its profits before tax. SSE’s effective tax rate will vary from year to year, depending on profits made and other elements.

### TAX PLANNING
Tax planning is a responsible way of organising tax affairs, understanding that modern tax regimes are highly complex and give the taxpayer options as to how to organise their business which in turn impacts on the duty to pay tax.

### TAX RELIEF
Tax reliefs are used by governments to encourage certain behaviours from companies, particularly to encourage them to do things that have a wider benefit to the economy. For example, there are tax reliefs for research and development and for capital investment.

### BASE EROSION AND PROFIT SHIFTING (BEPS)
BEPS refers to tax avoidance strategies of multinational companies that involves moving profits made in one country to a different country with lower-tax liabilities.

### CORPORATE INTEREST RESTRICTION RULES (UK)
UK Corporate Interest Restriction rules limit the tax relief that UK companies can claim on interest or interest-like expenses.

### UK FINANCE ACT
As part of the annual UK Budget, changes to tax and duty are outlined. Each year, these changes are passed as law through the Finance Act.

**To discuss the content of this report, please get in touch:**

Email: sustainability@sse.com

# sse.com

Follow the latest news from SSE
on Twitter at: www.twitter.com/sse

**@SSE**