

# TALKING TAX 2019

SAYING WHAT WE PAY WITH PRIDE



## ABOUT SSE

SSE plc is one of the UK and Ireland's leading energy companies, involved in the generation, transportation and supply of electricity and in the extraction, storage, transportation and supply of gas. SSE's vision is to be a leading energy company in a low-carbon world. Its purpose is to provide the energy needed today while building a better world of energy for tomorrow. Its strategy is to create value for shareholders and society from developing, operating and owning energy and related infrastructure in a sustainable way.

## ABOUT THIS REPORT

Through recent public debates about the tax affairs of multi-national companies, it is clear SSE's stakeholders want to know more about its approach to paying tax.

SSE has improved transparency around its tax affairs considerably over recent years. It 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 further enhance transparency through providing an accessible account of SSE's tax affairs for 2018/19. The report has been 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.

Disclaimer: The definitions SSE uses for adjusted measures are consistently applied and are explained in its Annual Report 2019, page 144 to 147.

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## FOREWORD

Welcome to SSE's 2018/19 annual Talking Tax report. Contributing to the public purse is one of the most important social contributions a company can make. Tax is the very centre of the social contract and companies are just as important to that contract as individuals are.

Once again, in terms of SSE's economic contribution to the UK, we punch above our weight. While we are normally listed around 40 in the FTSE100, the PwC annual survey of the largest listed companies demonstrates that it ranks 16th out of the UK's 100 biggest businesses in terms of taxes paid. We also know, because of independent external analysis that our activities in 2018/19 contributed £8.9bn to UK GDP and a further €689m to GDP in the Republic of Ireland.

While it is true the tax affairs of large companies can be complicated, there is no reason why the explanation of the key elements of that contribution needs to be. In our annual tax report, our objective has always been to disclose the most important aspects of the tax contribution SSE makes in the places that it operates. We do this because we know that the people we serve expect companies to abide by, not just the letter of the tax rules, but the spirit too.

Tax avoidance continues to be the greatest concern of the British public in respect to company conduct but I am heartened to see that the level of concern is now falling. SSE is not, however, complacent. Companies

can only rebuild trust with our stakeholders if we are consistently trust-worthy on the important issues, and tax remains the most important public concern common to all companies in all sectors.

Finally, SSE's long-term commitment to the principles of Fair Tax have become a core element of our 2030 Business Goals. In aligning our business strategy to the United Nation Sustainable Development Goals, we have made a commitment to champion the Fair Tax Mark, alongside a real Living Wage. It is in all our interests that more companies here and abroad take pride in the contribution they make to the societies within which they operate.



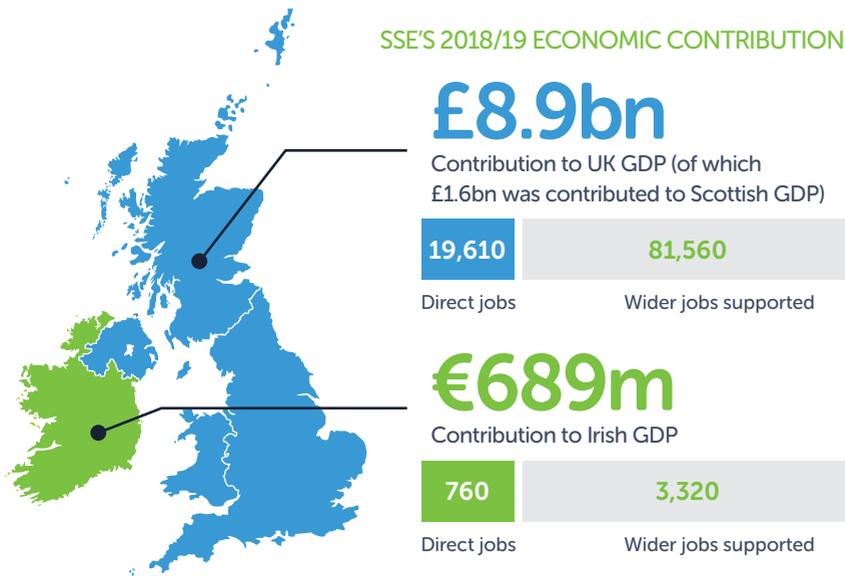
**Gregor Alexander,**  
Finance Director, SSE

# WHY TAX MATTERS

SSE firmly believes that tax is part of the ‘social contract’ between business and society, and contributes to a healthy economy. Taxes pay for the vital public services and infrastructure on which businesses depend to function and thrive. For example, SSE relies on emergency services, public infrastructure, and health and education services for its employees in order to fulfil its business objectives.

In return, SSE seeks to create value for society by: developing, operating and owning critical energy infrastructure; providing well-paid, highly-skilled jobs; supporting further employment in the economy through its supply chain and procurement; and supporting public services by paying its fair share of tax.

## SSE'S SOCIAL CONTRIBUTION 2018/19



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

**£404m/  
€15m**  
Taxes paid UK/Ireland

**£28.2m**  
Total learning and development investment

**c.£3.2bn**  
Total procurement spend

## TAKING A RESPONSIBLE APPROACH TO TAX

While SSE has an obligation to its customers and shareholders to efficiently manage its total tax liability, its tax policy is to always operate within both the letter and spirit of the law.

SSE does not - and will not - use artificial tax avoidance schemes or tax havens. SSE's profits are taxed in the locations where it has business substance. In other words, tax should be commensurate to the scale and success of the business activities undertaken in the places where SSE operates. SSE considers paying tax in the locations where profits arise as the fair and right thing to do.

The principles by which SSE approaches its tax affairs are outlined in its Tax Strategy, which details governance and accountability for tax within the business, as well as SSE's approach to ensure compliance with tax laws and maintaining relationships with tax authorities. SSE's tax strategy can be found in Appendix A (page 20).

## TRANSPARENCY IS KEY

SSE has been Fair Tax Mark accredited for the past six years. The Fair Tax Mark is an independent third-party accreditation that demonstrates SSE pays the right amount of corporation tax, in the right place, at the right time.

A fundamental principal of the Fair Tax Mark accreditation is transparent reporting on tax affairs, in a way that goes well beyond the current requirements of UK company law. Clear and transparent disclosure is key for SSE's stakeholders to understand the taxes that it pays and its approach to tax practices.

SSE recognises that its approach to tax ultimately impacts many of its stakeholders. For example, SSE's approach to pay its fair share of tax which can be used to support public services for the good of customers and society. In addition, its transparent approach to tax affairs limits the potential business impact of tightening global or national tax rules to tackle tax avoidance, which benefits its shareholders.



# PUTTING FAIR TAX AT THE CORE OF OUR STRATEGY

In March 2019, SSE launched its new 2030 Goals - four core business goals aligned to the UN's Sustainable Development Goals (SDGs) that underpin SSE's strategic focus on long-term, low-carbon and sustainable assets, and commit to delivering SSE's strategy in a way that creates value for shareholders and for society. These goals represent the most material contribution SSE can make to the sustainable development.

Three of the goals have addressing climate change at their core. In recognition that the way in which SSE does this matters, the fourth goal outlines SSE's ongoing commitment to champion Fair Tax and a real Living Wage.

Placing Fair Tax at the heart of its business goals, cements SSE's long-term commitment to fair and transparent tax practices, and entrenches values in the company that signal the sort of economy and society SSE believes in.

## ACCOUNTABILITY FOR THE GOALS

To demonstrate its commitment to SSE's approach to sustainability, the Remuneration Committee agreed to align a significant proportion of executive remuneration to progress against the achievement of SSE's 2030 Goals. In terms of tax, this means that SSE's Executive Directors will be held accountable for its efforts to implement and promote Fair Tax practices. You can find more information on page 55 of SSE's Sustainability Report 2019.



### Cut our carbon intensity by 50%

Reduce the carbon intensity of electricity generated by 50% by 2030, compared to 2018 levels, to around 150gCO<sub>2</sub>/kWh.



### Treble renewable energy output

Develop and build by 2030 enough renewable energy to treble renewable output to 30TWh a year.



### Help accommodate 10m electric vehicles

Build electricity network flexibility and infrastructure that helps accommodate 10 million electric vehicles in GB by 2030.



### 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.



# TALKING TAX IN 2018/19

Over 2018/19, SSE continued to follow the debates on tax practices and disclosure in the external environment. In line with its 2030 Goal to champion fair tax, SSE also undertook advocacy to promote a responsible approach to tax.

## PUBLIC OPINION ON THE MEND?

Corporate tax avoidance remained the number one issue of concern across all age groups for the British Public, for the sixth year running in 2018<sup>1</sup>. However, the percentage of people citing the issue as a concern fell to 33% from 38% compared to last year, and has fallen from its peak of 43% in 2016. SSE believes that companies paying their fair share of tax and reporting on their approach in an open and transparent way is key to helping to rebuild public trust in big business.

## CHAMPIONING FAIR TAX

SSE's advocacy for Fair Tax in 2018/19 included:

### Advocating a 'Fair Tax' criterion for regulated networks

SSE's networks business actively promoted the principles of Fair Tax to the energy regulator Ofgem, who determine the returns companies can make from investing in electricity networks. They proposed that there should be greater transparency of the corporation tax that regulated networks pay on profits and that using the criteria of the Fair Tax Mark would provide a powerful signal to consumers that networks companies are conducting themselves fairly and legitimately with regards to the tax they pay.

### Sponsoring Fair Tax Fortnight

In June 2018, the first ever Fair Tax Fortnight was held to celebrate companies and organisations proud to pay their fair share of corporation tax. The fortnight was preceded by a Fair Tax conference, sponsored by SSE, which welcomed leaders from business, academia, and politics to open up the discussion around responsible tax planning; tackling tax avoidance; and the case for Corporation Tax.

**£1.013bn**

SSE's total tax contribution

**6 years**

With the Fair Tax Mark accreditation

**16th**

SSE's 2019 ranking for value of taxes paid in the 100 Group<sup>2</sup>

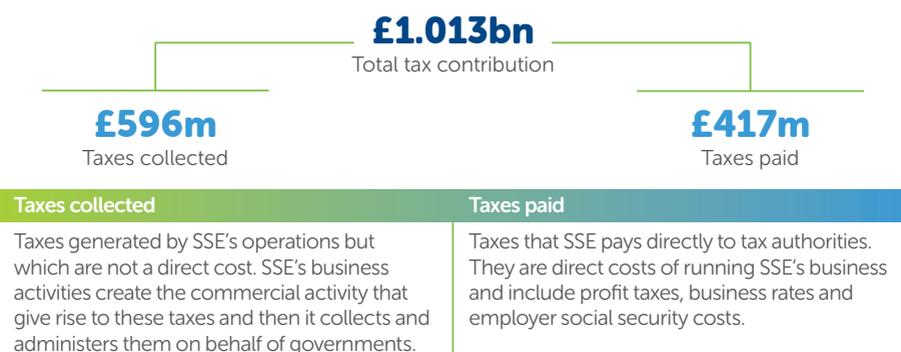
1. Institute of Business Ethics (2018) *Attitudes of the British Public to Business Ethics 2018* [https://www.ibe.org.uk/userassets/surveys/ibe\\_%20attitudes\\_survey\\_2018.pdf](https://www.ibe.org.uk/userassets/surveys/ibe_%20attitudes_survey_2018.pdf)

2. PwC (2019) 2019 Total Tax Contribution Survey of the 100 Group. <https://www.pwc.co.uk/tax/assets/pdf/total-tax-contribution-100-group-2019.pdf>

# SSE'S TAX CONTRIBUTION 2018/19

## HOW SSE CALCULATES ITS TAX CONTRIBUTION

SSE's total tax contribution is simply the total value of taxes that SSE has some responsibility for. It is the sum total of all the taxes paid and the taxes collected by SSE.



## SIGNIFICANT TAXES THAT IMPACT SSE



### Environmental taxes (paid & collected)

These taxes encourage businesses to operate in a more environmentally friendly manner. There are a number of environmental taxes and schemes for different types and sizes of business. An example of an environmental tax SSE pays is the Climate Change Levy.



### People taxes (paid & collected)

Taxes companies pay on wages earned by their employees and collect from employee wages on behalf of governments, for example income tax and National Insurance contributions.



### Profit taxes (paid only)

Taxes on profits that a company may make. Corporation tax is just one way that governments can tax companies. In the UK, SSE's profits are also subject to a supplementary charge which is paid on upstream oil and gas extraction profits.



### Property taxes (paid only)

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.



### Value Added Tax (VAT) (paid & collected)

VAT is a tax charged on goods and services, which are either bought from suppliers, or sold to customers. VAT is both collected on behalf of, and paid to, national tax authorities.

## 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, with only one dormant holding company remaining in Germany that is in the process of being liquidated.

| Country      | Tax paid (£m) | Revenue (£m)  | Reported profit before tax (£m) | Reported current tax (£m) | No. of Employees* | Gross employee pay (£m) | Net Assets (£m) |
|--------------|---------------|---------------|---------------------------------|---------------------------|-------------------|-------------------------|-----------------|
| UK           | 404           | 10,014        | 1,386                           | (54)                      | 19,609            | 965                     | 4,635           |
| Ireland      | 13            | 902           | 20                              | 0                         | 761               | 38                      | 1,206           |
| <b>Total</b> | <b>417</b>    | <b>10,916</b> | <b>1,406</b>                    | <b>(54)</b>               | <b>20,370</b>     | <b>1003</b>             | <b>5,841</b>    |

\*Headcount of full-time and part-time employees employed by the SSE Group at the 31 March 2019, broken down by country. The above figures represent the combined totals for SSE and SSE Energy Services companies. In SSE's Annual Report 2019, the results for SSE Energy Services are disclosed separately as discontinued operations on an after-tax basis.

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, SSE has applied to treat it as UK tax resident, with UK taxes then to be paid on any profits or gains made by the company.

In its 2020/21 Talking Tax disclosure SSE will report, as usual, a country by country report for each jurisdiction in which economic activity has occurred.

## EFFECTIVE TAX RATES

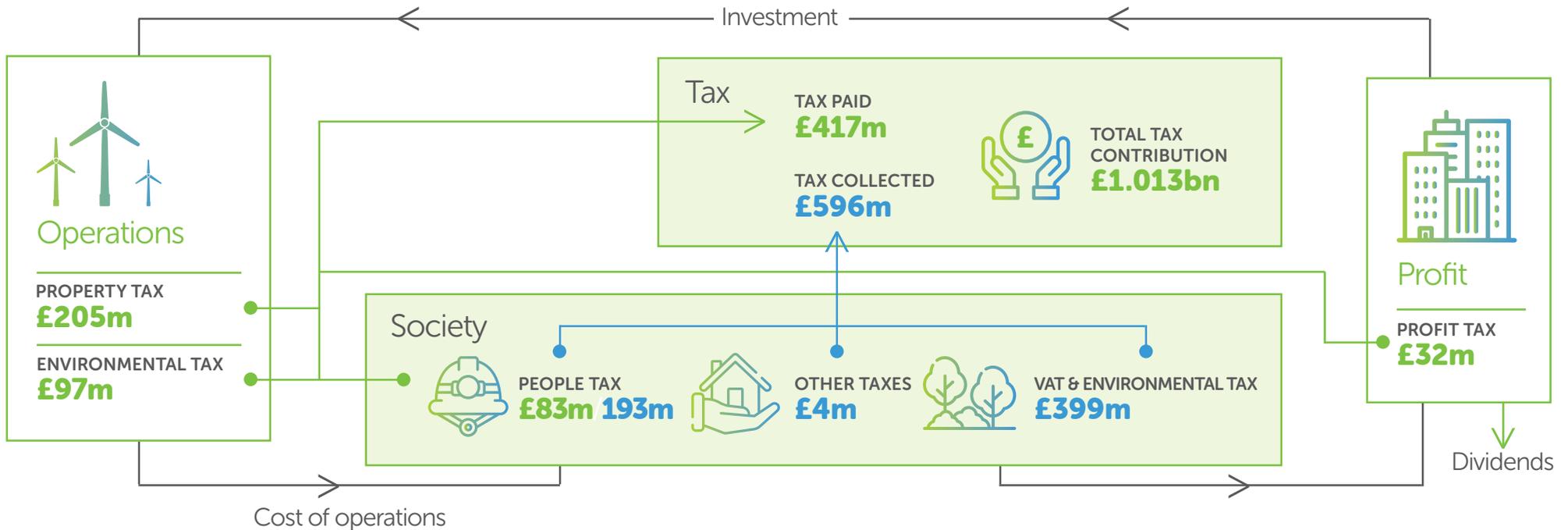
SSE's adjusted underlying current tax charge was (0.9%) for the year to 31 March 2019, compared to 7% the previous year. This is less than the standard UK corporation tax rate of 19%. It is important to note that these figures do not directly relate to the tax values outlined in this document as they exclude SSE's retail business, SSE Energy Service, which at 31 March 2019 was being held for disposal.

SSE's effective tax rate can differ from the

UK corporation tax rate for a number of reasons. As noted on page 16, SSE's profit in 2018/19 was significantly lower than the previous year while it continued to invest heavily in new assets. The associated capital allowances, tax relief for losses being carried back to earlier years, and adjustment to tax charges in respect of previous years, exceeded the tax charge on profits for 2018/19. SSE provides a detailed explanation of these elements on page 229 of its Annual Report 2019.

# SSE'S TAX VALUE CHAIN

SSE's tax value chain below shows some of the significant taxes which impacted the business across the UK and Ireland during 2018/19.



# 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 2019 was £1.013bn – broadly the same as in the previous financial year.

## UK

SSE's total tax contribution in the UK for the year ended 31 March 2019 was £937m, compared to £940m the previous year. The comparison of SSE's total tax contribution in the UK for the last two financial years is provided, with explanations for significant changes between years outlined on pages 16 to 17.

UK total tax contribution



## IRELAND

Ireland is the only country outside of the UK in which SSE has any trading operations. SSE's total tax contribution in Ireland for the year ended 31 March 2019 was €86m (£76m), compared to €80m (£60m) the previous year. The comparison of SSE's total tax contribution in Ireland for the last two financial years is provided, with explanations for significant changes between years outlined on pages 18 to 19.

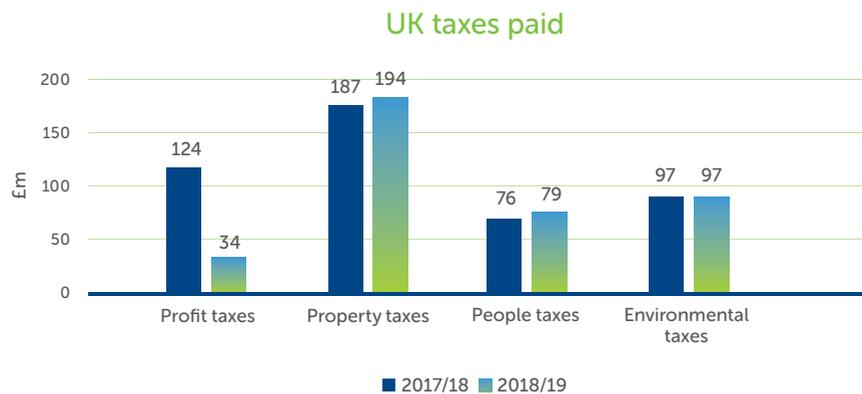
Ireland total tax contribution



# UK TAXES

## TAXES PAID

In the year to 31 March 2019, SSE paid £404m of taxes to the UK Government, compared with £484m in the previous year. The taxes SSE paid in 2018/19 compared to 2017/18 remained broadly consistent across the different types of taxes it pays in the UK, except for profit taxes.

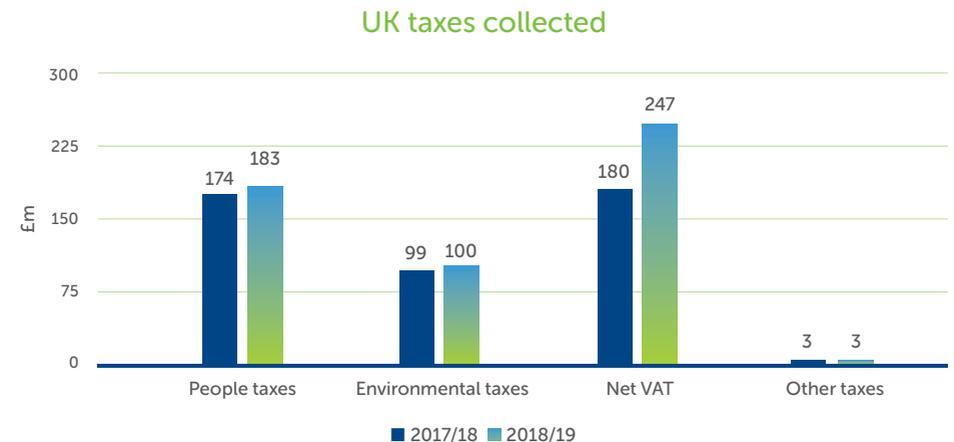


### Why did profit taxes paid change?

SSE's corporation tax payments fell significantly between 2017/18 and 2018/19 for two important reasons. Firstly, corporation tax is a tax on the profits companies make – this means that when companies do well, the public purse should grow too. After a challenging year for its business, SSE's profits were less in 2018/19 than in 2017/18. Secondly, the Government encourages companies to invest in capital projects because it is good for the economy and good for jobs. One way they do that is by way of capital allowances. SSE continued to invest significantly throughout 2018/19, with capital expenditure of £1.4bn in 2018/19, in line with its plans for investment and capital expenditure of around £6bn across the five years to March 2023.

## TAXES COLLECTED

SSE collects a number of different taxes on behalf of the UK Government, but they do not represent an actual cost to the company. For example, as a large employer in the UK, SSE collects a significant amount of tax on employee wages, such as income tax. In the year to 31 March 2019, SSE collected £533m in taxes on behalf of the UK Government, compared to £456m the previous year. The taxes SSE collected in 2018/19 compared to 2017/18 remained consistent the different types of taxes it collects in the UK, except for VAT.



### Why did VAT collected change?

The amount of VAT collected from customers, net of the VAT SSE reclaims on expenditure, has increased largely due to a higher proportion of the sales in SSE's Retail business being to non-domestic customers rather than domestic customers. Non-domestic customers are charged VAT at the standard rate of 20%, compared with 5% for domestic customers.

# IRELAND TAXES

## TAXES PAID

The taxes SSE pays to the Irish Government include property tax, taxes on profit and taxes related to employing people. Taxes paid to the Irish Government in the year to 31 March 2019 totalled €15m (£13m), compared to €23m (£17m) the previous year. The taxes SSE paid in 2018/19 compared to 2017/18 remained consistent across the different types of taxes it pays in Ireland, except for profit taxes.

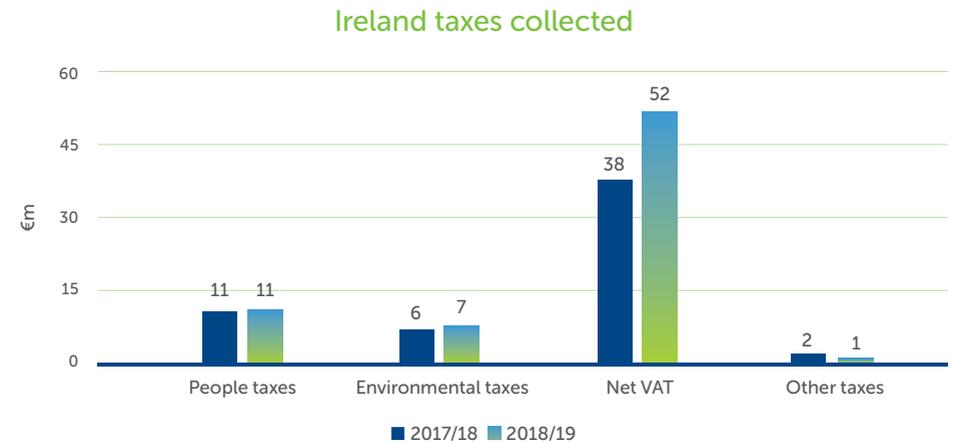


### Why did profit taxes paid change?

The value of profit taxes SSE paid in Ireland fell between 2017/18 and 2018/19. A refund of preliminary tax of €2m was received in 2018/19 as taxable profits for the period were lower than expected. 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

SSE collects a number of different taxes on behalf of the Irish Government, but they do not represent an actual cost to the company. SSE collected €71m (£63m) in taxes in the year to 31 March 2019, compared to €57m (£43m) the previous year. There was an increase in the value of VAT and environmental taxes collected by SSE in 2018/19 compared to 2017/18.



### Why did VAT collected change?

The increase in VAT collected increased significantly between 2017/18 and 2018/19, mainly due to an increase in the volume of gas and electricity supplied to SSE Airtricity's domestic and business customers.

## 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 2019.

### 1. 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 changes in tax payments compared with the historic trend.

## 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 its 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.

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### 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.

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### Climate Change Levy (CCL)

CCL is an environmental tax which is charged on energy used by non-domestic customers in the UK. Its aim is to provide an incentive to increase energy efficiency and reduce carbon emissions.

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### Construction Industry Scheme (CIS) tax

In the UK, the CIS tax applies to payments made to subcontractors who carry out construction work for contractors. Under this scheme, contractors deduct money from payments made to subcontractors and pass this on to the UK Government. The deductions represent advance payments towards the subcontractor's tax and National Insurance liabilities.

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### 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.

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### 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.

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### 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.

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### 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.

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### 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.

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### 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.

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### 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.



**SSE plc**

Registered Office and trading address:

Inveralmond House

200 Dunkeld Road

Perth PH1 3AQ

UK

Tel: +44 (0)1738 456000

Email: [info@sse.com](mailto:info@sse.com)

Registered in Scotland No. 117119