paragon

Paragon Banking Group plc

TAX STRATEGY

Year ended 30 September 2018

Introduction

Paragon Banking Group plc is required to publish a tax strategy in accordance with paragraph 16(2) Schedule 19 Finance Act 2016. The strategy is required to cover the UK taxation matters of the group of companies of which it heads ('the Group')[1].

This document has been prepared to meet the above obligation.

Approach to Risk Management (including level of acceptable tax risk) and Governance Arrangements

The Group has a comprehensive risk strategy set out in section B6 of the 2017 Annual Report and Accounts ('the 2017 Accounts') and pages 10 – 29 of its 2017 Pillar III Disclosures. Risk in relation to tax matters sits mainly within operational risk within this framework and is subject to all operational risk governance and oversight policies.

The Group's approach to taxation matters is set out in a document entitled 'Tax Governance Policies and Tax Strategy' ('the Policy Document') which was approved by the Board in March 2018. This document replaced the version approved in February 2015, the update being necessary to reflect changes to the organisational structure of the Group. The Chief Financial Officer is responsible for monitoring the strategy and governance policies and is accountable to the audit committee in respect of this matter. The Chief Financial Officer makes a formal report to the audit committee each year.

The key elements of the Policy Document (other than matters specifically considered below) are:

- The Group is committed to complying with all its obligations under UK tax legislation and to ensure it has the systems and controls in place to enable it to meet these obligations with a high degree of confidence;
- Ensuring that tax positions adopted are supported by robust technical analysis;
- Ensuring the tax impacts of all significant business decisions are considered; and
- Consideration will be given to the reputational impact on the Group of all tax matters.

The level of tax risk is set by the Chief Financial Officer who is required to ensure it is consistent with the Group Risk appetite as set out in the Pillar III disclosures.

[1] Members of the Group are set out in note 65 of the Group Annual Report and Accounts for the year ended 30 September 2017.

Approach to dealing with HMRC

On 9 March 2015 the Group advised HMRC it was unconditionally committed to complying with The Code of Practice on Taxation for Banks ('the Tax Banking Code')[2] published by HMRC on 31 March 2013. Under this code the Group committed to having an open and transparent relationship with HMRC based on mutual trust.

The Policy Document reaffirms this commitment and requires dealings with HMRC to be undertaken in a professional business-like manner. The Group seeks to build good working relationships with its Customer Co-ordination Manager (CCM) and ensures they are aware of all material matters affecting the Group's tax position.

Where appropriate the Group will advise HMRC of matters where there may be technical uncertainty in respect of material items prior to submitting the relevant return and if possible resolve any potential uncertainties in real time.

Attitude to Tax Planning

The Group understands that in generating profits that can be distributed to its shareholders it benefits from resources provided by the government and that the payment of tax is a contribution towards the provision of those resources.

Under the Tax Banking Code the Group has committed that it will not engage in tax planning other than that which supports genuine commercial activity.

In addition, under the Tax Banking Code the Group has committed that it will not structure transactions in a way that will have tax results for the Group that are inconsistent with the underlying economic consequences (unless there exists specific legislation designed to give that result). Where this exception is relied upon the transaction will be structured in a way that gives a tax result for the Group which is not contrary to the intentions of Parliament.

Remuneration packages for the Group's employees, including senior executives, are so that the proper amounts of tax and national insurance contributions are paid on the rewards of employment.

[2] Available at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/417655/Code_of_Practice_on_Taxation_for_Banks.pdf

In addition to its commitments under the Tax Banking Code the Group's policy is not to offer any lending product or savings product that has been designed to facilitate tax avoidance by the customer. For example, where the Group offers tax free savings products it will only structure them to be used in a way that is consistent with the policy objective behind the relief given for such products.

In order to enhance shareholder value, whilst always complying with the above commitments, the Group will look to structure its affairs in a tax efficient manner, taking advantage of reliefs available to the Group and where more than one alternative is available to meet a commercial objective choosing the alternative with the lower tax liability. Where tax planning is undertaken, it must be supported by a full technical analysis involving where appropriate, external advisors, and will always be on the basis that full disclosure of all relevant facts will be made to HMRC when resolving any technical matters arising from the planning.

The Group's reputational risk will always be considered as part of the process as to whether to adopt a particular tax planning arrangement.

Published: September 2018