



CLARION
HOUSING GROUP

Clarion Housing Group Tax Strategy

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1 Introduction

1.1 Overview of the Clarion Housing Group

Clarion is the largest housing group in the country, formed through the merger of Affinity Sutton Group Limited and Circle Anglia Limited on 29 November 2016. Our primary role is a social landlord. We build and manage affordable homes, primarily for people who cannot meet their housing needs in the market.

Clarion is made up of a number of commercial and charitable subsidiaries. We do not distribute profits to shareholders but invest everything back into our social purpose.

Refer to Appendix I for our group structure.

1.2 Purpose

The purpose of the Tax Strategy is to communicate the policy for the management of tax within the Clarion Housing Group and its subsidiary undertakings (“the Group”). It provides a framework to guide the identification, evaluation and management of tax risks whilst supporting the business’ primary objectives of maintaining long-term financial resilience in order to continue providing homes to those in housing need.

Tax can have a significant impact on the group’s reputation and financial results. It is therefore important to ensure that consistent and effective tax standards are maintained across the Group not only to manage tax risks but also to ensure the right amount of tax is reported HMRC. This Tax Strategy document sets out how we achieve this.

1.3 Overarching principles

The Group has established that the following principles will form the basis of the Tax Strategy of the Group:

- **Responsible** - Clarion is a charitable, regulated housing association that deploys responsible, commercial disciplines in the way we conduct our business.

- **Good governance** - The Group aims to apply and demonstrate compliance with high standards of corporate governance (including duties to prevent the facilitation of tax evasion) and aims to achieve this through robust controls, clear responsibilities and ownership of risk.
- **Risk management** - The Group's appetite for risk is a carefully calibrated part of the business model aligned to the strategic and corporate objectives. The aim is not to avoid or eliminate risk entirely, but to ensure all key risks are identified and effectively managed. This includes financial, commercial and reputational risk. The Group's tax risks are recorded in a tax risk register which forms part of the Group's risk management process.
- **Transaction planning** – The group ensures that transactions are structured within the approved parameters of the tax planning framework out in this policy. The Group will not wilfully engage in tax schemes or structure transactions in such a way that is believed to be contrary to the clear intentions of the tax legislation. .
- **Certainty and clarity** - We will strive for certainty and clarity on tax in the work we undertake and will only adopt filing positions if they represent an appropriate interpretation of prevailing tax legislation and practice. Where tax law or available guidance is unclear (e.g. due to the complexity of our legal structure), appropriate advice will be sought from external advisors or HMRC.
- **Transparency** - The Group is committed to engaging with HMRC on an open and collaborative basis. Wherever possible, we do so on a real-time basis in order to minimise tax risk and maximise certainty. We seek to resolve any disputed matters through active and transparent discussions and we do not take positions on tax matters that may create reputational risk or jeopardise our good standing with the tax authorities.

1.4 Scope

Reference to tax in this document includes corporation tax, indirect taxes (VAT, Withholding), property taxes (including Construction Industry Scheme obligations), and employment taxes.

1.5 Review and communication

This Tax Strategy will be owned by the Chief Financial Officer (“CFO”) in its authority delegated by the Clarion Housing Group Board (“the Board”). In identifying and agreeing the tax strategy for Clarion Housing Group, the CFO will retain responsibility for reviewing it on an annual basis and presenting any

proposed changes to the Group Executive Team and the Board as necessary on each anniversary following its approval.

1.6 Tax Objectives

Responsibility for tax sits primarily with the tax, finance and HR departments. Their objective with respect to tax matters is to support the group's strategy whilst ensuring compliance with tax laws and filing obligations. Tax performance of tax risk management will be measured in the following ways:

- A clearly defined tax strategy;
- A comprehensive tax risk register that is monitored on a regular basis;
- Implementing transactions undertaken by the housing association and its commercial subsidiaries without introducing additional tax costs as a consequence of the transaction steps;
- To plan ahead and seek advice where appropriate on transactions where tax can be sheltered and applied to charitable purposes;
- Ensuring the most effective tax elections, claims and options are made thereby ensuring the Group does not pay more tax than it is required by current tax legislation and practice;
- To the extent that Gift Aid payments are made from trading subsidiaries, to ensure that these are made in accordance with the legislation and HMRC requirements;
- Implementing and maintaining controls and procedures relating to all taxes to enable the correct tax to be paid (across all taxes) on a timely basis.
- To maintain the Group's reputation as a good tax citizen.

2 Governance of tax

2.1 The Board

Whilst the Board has ultimate responsibility for the Tax Strategy, it recognises that a high level of tax expertise is required to manage the technical tax issues that arise from being a large and complex Group, and it has therefore delegated this responsibility to the CFO, who reports to the Group Audit and Risk Committee and in turn, the Board as required.

The Tax Strategy will be reviewed annually by the Director of Financial Services (Senior Accounting Officer) for approval by the CFO and the Group Audit and Risk Committee. The Tax Strategy will then be communicated throughout the business appropriately.

The CFO's responsibilities include:

- Regular communications with the Audit Committee regarding management of material tax risks and opportunities;
- Approving external advisor appointments where material;
- Monitoring adherence to the Tax Strategy;
- Approval of tax disclosures for the Group's financial statements;
- Ensuring accounting systems and controls report accurate and timely information for tax reporting purposes, thereby enabling the SAO to provide the certification.

2.2 Policy oversight

The Director of Financial Services (SAO) has responsibility for tax and communicates with and advises the CFO who reports to the Group Audit and Risk Committee and in turn, the Board as required on the tax affairs and risks of the Group, to ensure:

- The proper control and management of tax risk;
- The tax position is optimised; and
- The tax charge is correctly stated in the statutory accounts and tax returns.

The Head of Taxation is responsible for the day-to-day management of the Tax Strategy and implementing it throughout the business.

2.3 Resource management

The CFO, Director of Financial Services and members of the Tax Department are fundamental to the successful implementation of the objectives of the Tax Strategy. The goal of the Group is to recruit and retain high calibre tax professionals and ensure that their skills are maintained and enhanced through appropriate training.

2.4 Roles and responsibilities

This Tax Strategy clearly defines roles and responsibilities to enable the effective operation of processes and delivery of the Group's tax strategy. The key areas of responsibility and processes are set out below.

2.5 Compliance with all taxation filing obligations

The Group believes it is essential to make all tax payments, fulfil all reporting obligations, and file all tax returns, including VAT returns, on time and on the basis of clear and full disclosure.

Additionally, in order to comply with its filing and reporting obligations, the Group will ensure that it has appropriate systems and robust controls in place to provide timely, complete and accurate information to HMRC and will maintain all records and documentation required by law.

This will include supporting finance staff responsible for calculating information and/or involved in the reporting of both direct and indirect taxes in obtaining appropriate training. Staff who enter data into the systems will also receive training to ensure that tax sensitive items are coded correctly.

The Group understands its responsibilities, where required, to self assess its taxation liability and seek to ensure that all relevant legislation and guidance is applied in calculating the tax due. In order to ensure this, the Group has created a Head of Taxation, Tax Manager and Tax Assistant roles. As outlined above, the Group also engages with external advisors and understands that it should seek specialist tax advice from external advisors in connection with non-routine transactions to ensure that these are compliant with tax legislation.

Statutory reporting of taxation

Operational Responsibility: Director of Financial Services

The Group will ensure that it has robust controls and processes in place for reporting and disclosing current and deferred taxes in its financial statements. The Group will incorporate the assistance of external specialists where appropriate to achieve this objective.

It will ensure that adequate provisions are made for all material tax exposures. This includes current and deferred taxes together with other relevant taxes.

The Group will comply with all relevant accounting standards in respect of the reporting and disclosure of taxes.

Employment taxes

Operational Responsibility: Head of Transactional Services

The Head of Transactional Services, working closely with the Head of Taxation has responsibility for managing the day to day aspects of the payroll function and reports to the Director of Financial Services.

Corporate and indirect taxes

Operational Responsibility: Head of Taxation

The Group will ensure it does not overpay tax by filing appropriate tax claims and elections and making claims for tax reliefs which are available to it. This will include claims for Gift Aid and group relief claims and other such beneficial elections in order to claim the Group's full entitlement to tax relief.

VAT returns are filed on a quarterly/monthly basis and in a timely fashion. Returns prepared by members of the tax team are reviewed by the Head of Taxation. The Group will ensure robust system, coding and process reviews are carried out routinely to ensure VAT returns are accurate.

The group will ensure that it complies with the Stamp Duty regulations and advice is taken where appropriate. The group will adhere to the filing requirements of relevant Stamp Duty Land Tax forms on a timely basis.

Construction Industry Scheme

Operational Responsibility: Head of Taxation

The Group parent is a registered charity and is therefore exempt from the CIS regulations. There are however a number of companies within the group that are not covered by this exemption. The Tax Assistants have responsibility for ensuring the relevant deduction is taken from payments made to subcontractors and will ensure that timely payments are made to HMRC following a review by the Head of Taxation.

3 Controls and processes

3.1 Risk register

The tax risk register is a subsection of the Group's wider risk register. Where material to the framework, tax risk will be included in this register. The tax risk register is designed to:

- Identify tax risks in a consistent and formal manner;
- Formalise the tax risk management framework;
- Assign responsibility and ownership of risk identification and management;
- Facilitate testing of mitigating controls i.e. monitoring;
- Provide an escalation framework to the main risk register; and
- Give visibility to the Group Audit and Risk Committee to facilitate appropriate oversight over the tax risk identification and monitoring framework.

The areas of tax risk managed by the business will be subject to on-going review by the Tax Department and Internal Audit and further documentation will be developed where deemed necessary.

3.2 Monitoring and escalation

Staff are expected to report tax sensitive queries to the Tax Department, and the Head of Taxation raises material tax related risks with the Director of Financial Services as necessary on a quarterly basis or sooner where required. The Director of Financial Services and the CFO will determine whether to escalate any queries to the Group Audit and Risk Committee and in turn the Board, HMRC.

4 Tax planning parameters

4.1 Controls over tax planning

The proactive and timely communication of business transactions is key to allowing effective tax management. Effective liaison at the planning stage of a transaction will ensure that tax risks and opportunities inherent in transactions are managed effectively. The Group with the assistance of its tax advisors has developed a list of the most common Tax Risk Trigger areas to be monitored and used by the business to help manage tax risks.

4.2 Assessment of tax planning

The Group's business model involves the growth of affordable housing units in the UK subsidised by the development, sale and rental of land and property in the private sector. In addition, the group is likely to undertake the usual types of corporate transactions (e.g. refinancing, corporate acquisitions and reorganisations).

All investment opportunities must have Investment Committee or Board level approval (depending on the size of the investment) before they can proceed, and all papers put forward to the Investment Committee (or Board) must be supported by an appropriate level of tax analysis to ensure that tax risks and planning opportunities are understood.

The general principles defined in section 2.1 will be adhered to for all tax planning. In addition, these principles are supplemented by the following parameters defined by the Group and should be used in the assessment of tax planning:

- **Reputation impact:** The planning should have limited adverse impact if details entered the public domain, and due consideration will be given to the Group's corporate and social responsibilities when considering tax initiatives.

- **Commercial purpose:** Tax planning must be used to support the business strategy and as such all decisions must have a sound commercial rationale.
- **Expert's opinion:** All investments and material transactions to be considered by the Head of Taxation with external tax advice sought where required on the tax implications of the transaction.
- **Financial Golden Rules:** The Group maintains a robust set of Financial Golden Rules which provide a framework for assessing investment opportunities. These rules also aim to protect our social housing assets from the risks associated with commercial activity. All transactions/tax planning must not breach these Financial Golden Rules.
- **Liaison with tax authorities:** The Group will liaise with HMRC to determine and agree the correct treatment of key items and its compliance requirements where appropriate. The Group will take a prudent approach to uncertainty and where tax law is unclear/open to interpretation, the Group will seek appropriate external advice and will request upfront clearance from HMRC where necessary.

The Group will use these parameters to determine whether the tax risks presented by any particular opportunity are acceptable or not. The Group will not undertake planning unless it has been properly approved through the above processes.

5 Latimer Developments Limited

5.1 Overview

Latimer Developments Limited (Latimer) and its group of subsidiary companies is the commercial arm of the Clarion Group with a defined strategy to grow substantially over the coming years aiming to becoming a stand-alone, sizeable commercial developer able to raise external financing without recourse to the wider Clarion Group.

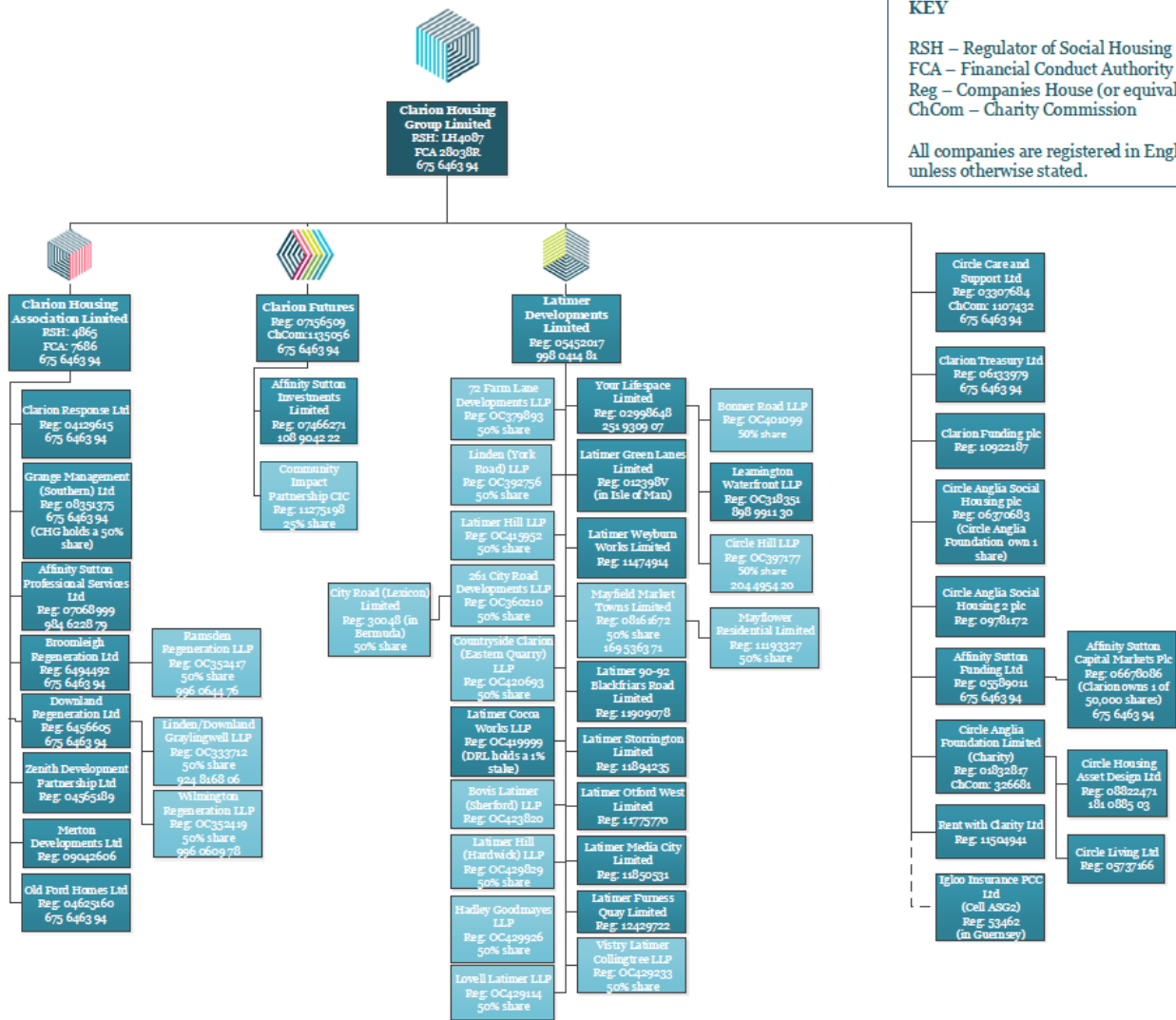
5.2 Tax planning

In setting up Latimer, the Group has sought to isolate the charitable housing associations from some of the riskier aspects of the Group's build for sale programme. Latimer is nevertheless bound by the tax planning framework outlined in sections 1.3 and 4.2 until such a time that it becomes sizeable enough to stand-alone.

Although Latimer's profits are intended to cross-subsidise Clarion Housing Association and its social housing activities, a proportion of profits will be retained and taxed to ensure that it builds up reserves and a performance track record to leverage in non-recourse capital at a corporate level from third party lenders. Each year the CFO and the Latimer Board will, based on the business plans of the company, determine the level of reserves to retain in the company.

Latimer's tax strategy may change as the company grows.

6 Appendix I: Group Structure



KEY

RSH – Regulator of Social Housing
FCA – Financial Conduct Authority
Reg – Companies House (or equivalent) number
ChCom – Charity Commission

All companies are registered in England and Wales unless otherwise stated.

7 Appendix II: Tax Department Structure

