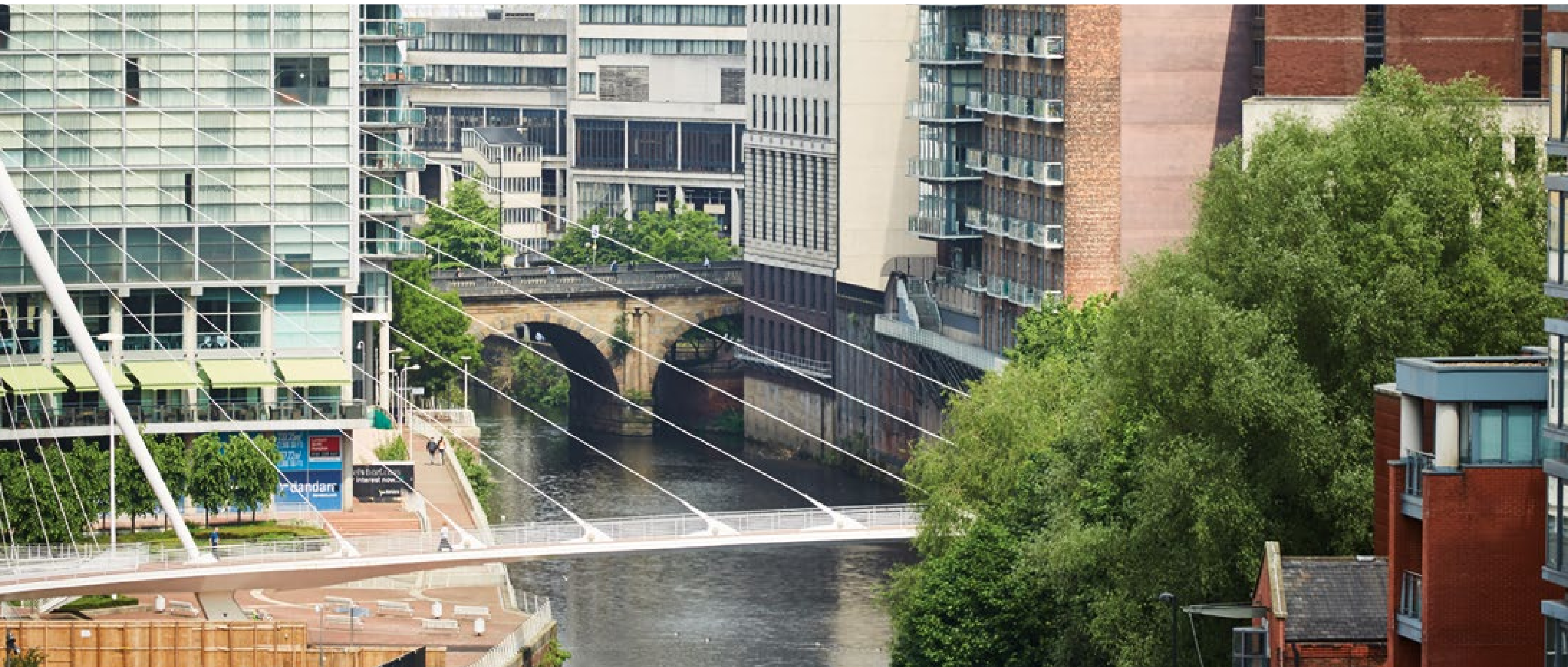
2017 group tax supplement

This supplement sets out our group tax strategy and how we manage our tax affairs in line with this strategy.



Legal & General

Tax strategy

Our tax strategy supports our group strategy and the way we do business. It is clear about what we will and will not do on tax.

We have a responsibility to deliver value for our shareholders and we recognise that paying taxes arising from our activities is an important part of how our businesses contribute to the societies in which they operate.

We aim for our tax affairs to be sustainable, well governed and transparent.

To achieve this we will:

- Meet all legal requirements, making all appropriate tax returns and tax payments accurately and on time in the territories in which we operate
- Always consider the group's reputation, brand and corporate and social responsibilities when considering tax
- Consider tax as part of every major business decision
- Not undertake transactions whose sole purpose is to create a tax benefit which is in excess of what is reasonably understood to be intended by relevant tax legislation, or which are outside of the group's risk appetite, or are not in line with our Group Code of Ethics
- Work with HMRC and other relevant tax authorities co-operatively, collaboratively and on a real time basis
- Operate appropriate tax risk governance processes, including Board oversight
- Contribute to the development of UK and international tax policy and legislation where appropriate

Our tax strategy applies to UK taxation and taxes of all other countries in which we operate, in respect of businesses we control. Where we have material interests in businesses but do not have control of them, we will, where possible, exercise our influence as shareholder to ensure that those businesses' tax strategies are aligned to ours.

Our tax strategy is regularly reviewed and approved by our Audit Committee. This tax strategy for the year ended 31 December 2018 was approved by the Audit Committee on 5 December 2017.

This document, published by Legal & General Group Plc on 8 March 2018, complies with its duty under Paragraph 16(2) of Schedule 19 of Finance Act 2016 to publish a group tax strategy for the year ended 31 December 2018.

Business model and attitude to tax planning

Business model

We are subject to various tax obligations in the jurisdictions in which we operate. Our tax obligations and where we have taxable profits are closely aligned with where we have real economic substance. This is primarily where we have capital and people to run our businesses.

The tax obligations we are subject to include:

Corporate income taxes	paid on the profits we earn
Employment taxes	both borne by us in our capacity as employer and collected by us from employee salaries
Taxes on annuity payments	collected by us on payments to annuity holders and paid to relevant tax authorities
Insurance premium taxes	collected on insurance premiums received and paid to relevant tax authorities
VAT	charged on services we provide, less VAT we can recover on the goods and services we buy
Property taxes	on properties we hold as investments and properties we use in our businesses
Transactional (stamp) taxes	on properties and shares we buy
Product related taxes	including income tax collected by us on pension business and annuities
Withholding taxes	suffered on our investment income

Our consolidated group includes approximately 300 taxable entities, including companies, branches, funds, trusts and partnerships, operating in ten jurisdictions: UK, US, Bermuda Netherlands, Ireland, Jersey, Luxembourg, Japan, Germany and Hong Kong. We also operate in India through a joint venture.

All of the jurisdictions in which we operate have international exchange of tax information agreements.

We operate in the following jurisdictions which have low, or nil, tax rates, for the following commercial reasons:

Bermuda

We have established our global reinsurance hub in Bermuda to meet our goal of expanding our Pension Risk Transfer business internationally. Bermuda is one of the largest reinsurance markets in the world with a robust, Solvency II equivalent, regulatory framework and a well-established regulator. Bermuda has a highly qualified and experienced local workforce.

Jersey and Luxembourg

We have established collective investment schemes ('CIS'), which are investment funds or entities, in Jersey and Luxembourg. These jurisdictions are widely recognised as a funds domicile for funds marketed on a global basis.

Whilst tax is generally not paid at fund level due to local tax rules, tax is paid at the level of the investor on their income from, and gains made on, their interests in the CISs. Where group companies invest in these funds, they pay corporation tax in their country of residence (typically the UK) on any investment return.

Attitude to tax planning

Our group's asset management, insurance and savings activities can be complex and involve significant transaction volumes and/or significant transaction values and/or cross-border transactions.

We work to ensure that existing and proposed transactions do not create unintended tax costs for our shareholders and policyholders, in excess of what is reasonably understood to be intended by relevant tax legislation.

We will plan to make beneficial claims and elections, or seek to benefit from exemptions or similar mechanisms available within relevant tax legislation but we will not undertake transactions whose sole purpose is to create a tax benefit which is in excess of what is reasonably understood to be intended by relevant tax legislation.

Where necessary we will engage appropriately qualified and experienced external tax advisors to discuss and validate our understanding of relevant tax legislation and to assist us in complying with the tax legislation of the jurisdictions in which we operate and our tax strategy.

Where possible and practical, we will discuss new and complex tax positions with relevant tax authorities in real-time. For material issues in the UK this is often in advance of the transaction, or for other matters in the UK this would generally be before submission of the relevant tax returns. We may request generally available statutory or non-statutory clearances from relevant tax authorities in respect of specific transactions where there is material uncertainty and/or whether the transaction is material to the group company involved.

Tax governance, tax risk management and tax risk appetite

Factors affecting tax risk

Our stated tax strategy is for our tax affairs to be sustainable, well governed and transparent. The key factors which could affect our tax affairs originate both externally and within our group. Our ability to control these factors varies, from no or very limited control over some external factors to a high degree of control for some internal factors.

Changes in tax legislation and other regulations	New tax legislation or changes in interpretation/application of existing tax legislation, including changes in tax rates and changes in accounting standards or other regulations, are significant tax risks. These changes may result in additional tax costs for the group and/or additional complexity in complying with new legislation/regulation. We actively monitor new or changing tax legislation and where appropriate participate in consultations over proposed legislation, either directly or through trade bodies. Where relevant we actively engage with our tax authority contacts to understand changes in their interpretation of existing tax legislation and seek tax authority clearances on our interpretation, if necessary and possible. When new or changed legislation is drafted, or we become aware of a change in interpretation of existing legislation, we assess material impact to the group, and ensure that we have fit-for-purpose processes in place to comply with any change.
Reputational risk	Our tax strategy aims to balance the needs of our key stakeholders. However our stakeholders' expectations on our tax behaviours and those of large corporates generally, are going through a period of unprecedented change. We need to understand these changes and where necessary adapt our tax behaviours to manage any impact on our reputation within our overall group risk appetite. We actively work to understand our stakeholders' expectations of us on tax, for example through constructive co-operative working with HMRC, our Investor Relations team's interaction with shareholders and our discussions with a range of NGOs, such as Responsible 100, for a wider civil society perspective on tax.
Compliance and reporting risk	Our ability to effectively manage our tax affairs relies on appropriately qualified and experienced people throughout our group, working within well designed and controlled processes, using fit-for-purpose systems. Ineffective management of our tax affairs may result the group incurring excessive tax costs out of line with our economic results. This could also result in errors, resulting in interest and penalty costs, as well as any back payments of tax. In addition to these direct costs we may be subject to additional costs related to increased audit activity from tax authorities. We actively manage tax risks associated with tax compliance and reporting processes.
Transactional risk	Any new product released, new transaction undertaken or new country, to which we provide products and services, or we operate from, has a potential tax impact, which must be understood and the resulting tax obligations managed. Failure to understand and effectively manage these obligations could result in additional tax related costs and / or reputational impact. As we expand our operations outside the UK the impact of the mix of the countries in which we earn profits increases. As the tax rate applicable to profits in each country may differ this may create variability on our effective tax rate. We aim to explain this impact in the tax note to our annual report. We actively manage tax risk associated with new transactions, products and jurisdictions and work in partnership with the relevant business areas to achieve this.

Tax governance

Responsibility for our group tax strategy, tax policies and management of tax risk ultimately rests with the Group Chief Financial Officer.

Our tax strategy is regularly reviewed and approved by our Audit Committee. This tax strategy for the year ended 31 December 2018 was approved by the Audit Committee on 5 December 2017.

Day to day responsibilities for the implementation of the group's tax strategy and supporting tax policies rest with the chief tax officer, the group tax team and operational teams with tax responsibilities within the business.

Tax risk management

We actively manage the tax risks affecting our businesses with the aim of minimising unexpected adverse reputational and financial impact. These risks can originate either internally (for example as a result of specific transactions or changes in the business) or externally (for example the impact of new legislation or regulatory requirements).

Tax risk is managed under group wide governance and risk management frameworks.

Tax risks can reside at both group strategic and business operational levels, and are identified and assessed with appropriate management actions undertaken to reduce residual risk to within the group's tax risk appetite.

A key element of how we manage tax risk is by employing appropriately qualified and experienced people in key tax related roles, with specific tax responsibilities and accountabilities included in their job descriptions.

Details of group strategic and business operational level tax risks are monitored within the group's risk management system with material issues reported to group risk committees on a regular basis.

Effective operation of mitigating controls over tax risks, control deficiencies and control failures are monitored within the group's risk management system with material issues reported to group risk committees on a regular basis.

Tax processes are periodically subject to internal audit.

The Chief Tax Officer regularly reports the group's tax position to the group's Audit Committee.

Tax risk appetite

Our tax strategy is aligned to our group policies. Whilst our policies are not prescriptive on levels of acceptable tax risk, we generally have low tolerance for accepted tax risk.

We may accept greater levels of tax risk, determined as acceptable as part of the overall commercial risk assessment of a proposed transaction. Considerations of financial and reputational impacts to the group are part of these commercial risk assessments. We have no appetite to undertake transactions whose sole purpose is to create a tax benefit which is in excess of what is reasonably understood to be intended by relevant tax legislation. Tax risks for material issues will usually only be accepted on the basis of full disclosure to the relevant tax authority where possible under local regulation. Tax clearances from HMRC or other relevant tax authorities may be sought where appropriate.

We may accept and manage tax risk where the group's interpretation of the application of specific tax legislation differs from a tax authority's. Again, these tax risks will usually only be accepted on the basis of full disclosure to the relevant tax authority, where possible under local regulation. For material UK issues this is often in advance of the transaction, and for other UK matters will usually be in advance of our submission of the relevant tax returns. For material technical/interpretation tax risks Group Tax will usually obtain pre-transaction validation of its technical position from relevant advisors.

We have low tolerance for tax risk for errors or omissions for routine and established tax compliance obligations.

All material accepted tax risks will be reported and monitored in the group's tax management system. Material accepted tax risks will be reported to relevant local risk and compliance committees, and as appropriate will feed up to the Audit Committee and Group Risk Committee in line with group procedures.

Tax stakeholders

Our tax strategy is informed by the different perspectives our key stakeholders have on our tax affairs. We aim to be transparent in explaining our tax affairs to our key stakeholders.

Shareholders	As making investments is a significant part of our group's activity we understand the importance to shareholders of a sustainable, transparent and well governed approach to tax. A sustainable and well governed approach to tax reduces the risk of adverse impact on after-tax profits as a result of unexpected tax costs either through lower profits before tax from higher non-corporate income taxes borne, or a higher corporate income tax expense. A sustainable and well governed approach to tax reduces the risk of an adverse impact on shareholder value from damage to the group's customer brand and reputation as a result of perceived inappropriate tax behaviour. We appreciate that shareholders want to understand the drivers of a group's tax position, and how the group manages them. We are transparent in our tax affairs and voluntarily disclose information on tax, in addition to that required by applicable legislation or regulation.
Tax authorities	All of our businesses interact with HMRC and/or the tax authorities of the jurisdictions in which they operate. We understand that tax authorities need to understand our businesses' existing and new transactions and how we manage the tax obligations arising from them, to assess whether we have fully complied with applicable tax laws. We aim to have an open and transparent approach with each tax authority to achieve this. Where tax authorities such as HMRC operate a cooperative compliance approach with taxpayers, we aim to build effective relationships with them on the basis of regular, real-time dialogue. We will openly discuss new and complex tax positions with tax authorities and we will be transparent about our tax risk management and governance procedures. Where tax authorities take a different approach we seek to respond to their queries in a timely, effective and appropriate manner. Occasionally HMRC's or another tax authority's interpretation of tax legislation affecting our businesses does not agree with ours. We aim to resolve these differences though constructive dialogue with the tax authority. Only if, exceptionally, we cannot reach agreement with a tax authority and our position is validated by external advice, or where it is an industry-wide issue, will we progress a matter to a relevant tax tribunal or court.
Customers	We understand that our customers' decisions to take out and hold insurance policies or investment products with us may be influenced by their perception of us as a socially responsible business, which pays tax where it is due.
Employees	We understand the importance of our employees' perception of us as a socially responsible business, which pays tax where it is due.
Wider society	We understand that other groups and individuals with no direct connection to our businesses have an interest in how we manage our tax affairs. We work with a range of non-governmental organisations, such as Responsible 100, who act as our 'critical friends' to discuss how our tax behaviour is perceived by the wider society. In addition to the tax disclosures in our annual report and this accompanying tax supplement we provide additional tax disclosures in our corporate and social responsibility report and on the Investors section of our group website.

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