

Tax Strategy and Governance

A responsible approach to tax

Landsec has published this tax strategy in accordance with section 16(2) of Schedule 19 of the United Kingdom's Finance Act 2016 for the financial year ending 31 March 2019.

Governance and strategy

The Board of Directors ensures our tax strategy aligns with the overall objectives and core values at Landsec. The Board have ultimate responsibility for tax, and the Landsec tax strategy is:

Be recognised as a responsible corporate citizen, who acts with integrity and excellence when dealing with taxes. Engage with Government for a fair taxation system to help Landsec, our customers, the UK Property Industry and our community to thrive.

Tax status of Landsec (UK REIT)

Landsec has been a Real Estate Investment Trust (REIT) since the UK introduced the status in 2007. REITs exist in many countries and are widely understood as a cost-efficient way to invest in property as it moves responsibility for the payment of tax from the REIT to its shareholders.

The UK REIT regime removed the previous double level of taxation and allows our shareholders to be taxed on Property Income Distributions (PID) from investment property according to their own tax status. This gives our shareholders a similar tax outcome to owning property directly, which in turn allows Landsec to have a wide investor base with differing tax positions which encourages inward investment into the UK.

Investment property income and gains in Landsec are exempt from corporation tax. Landsec must pay out 90% of underlying taxable profits to shareholders as dividends, subject to withholding tax at 20%, unless investors have informed Landsec about their qualification for gross payments. Tax is borne by our shareholders on these dividends ensuring ongoing tax payments to HMRC.

Landsec paid a conversion charge to HMRC of £316m on entering the REIT regime in 2007. Conversion charges have since been abolished.

Landsec is still subject to corporation tax on its residual income. This includes profits on trading activities, capital gains on the UK property assets sold within three years of completion of development and non-UK property assets.

Benefits of REITs to investors

- Professional management – investing in property directly requires time and resources. Landsec brings these skills to its shareholders.
- Access to different assets or sectors
 - provides exposure to large high quality assets such as Bluewater or Cardinal Place which would not be available to small investors.
 - such as leisure, hotels, offices and shopping centres.
- Diversification of risk
 - spreads the risk over many properties rather than a single asset or occupier.
- Shares in listed REITs are more liquid than direct property ownership, with lower transaction costs.
- Tax position similar to direct property ownership.

Measurement and implementation of tax strategy

The Board reviews the tax position of the group annually, including a summary of changes in legislation and how the group has performed against its objectives. Monthly updates are given to the Board's Executive Committee.

The tax strategy is measured against the following operational objectives:

- Always act with integrity and transparency in all dealings with tax authorities.
- Structure decisions based on long-term commercial needs of the business.
- Do not engage in aggressive tax planning that is clearly counter to the intention of legislation.
- Maintenance of our REIT tax status.
- Fulfil our tax payment and compliance requirements on time.
- Have appropriate tax accounting policies to meet our Senior Accounting Officer obligations.

Level of risk in relation to tax

Landsec has a low tolerance for tax risk:

- Our approach is not to engage in tax planning activities which require an aggressive interpretation of tax law.
- We will structure Landsec in a tax efficient manner as intended in legislation (for example, maximising our claims for capital allowances and other government incentive schemes).
- The business only undertakes transactions where there is a bona fide commercial purpose.
- Where there is a choice on how to proceed with a transaction (for example, whether to purchase a corporate or a direct property interest), we will consider the tax implications, alongside other commercial requirements, to ensure we remain competitive.

Uncertain tax positions

The complexity of UK tax legislation and case law will mean there are always going to be areas which have uncertain tax treatment.

Items that could cause uncertainty include:

- Lack of clarity in tax law.
- Developments in case law, interpretation or HMRC policy.
- As we innovate in our commercial operations, tax legislation may not keep pace.

In most cases, we seek to agree any uncertainties in advance through engagement with our HMRC Customer Compliance Manager ("CCM"). Where there is significant uncertainty, we may seek advance clearance.

While Landsec aims to reach agreement with HMRC through dialogue, if there is a significant uncertain tax position, it may be necessary to litigate to clarify the interpretation of the law. This will only be undertaken after seeking external advice from a relevantly qualified person. The last time this happened was over 10 years ago.

Relationship with Tax Authorities

- Landsec has a transparent relationship with HMRC, adopting a constructive, pragmatic approach to agreeing our tax position.
- We are pleased that HMRC reviewed our business in 2016 and renewed our low tax risk rating. The next HMRC review of our risk rating is scheduled for 2020.
- We periodically meet with our HMRC CCM to discuss any significant transactions and explain the tax implications in advance of submitting tax returns.
- While we take care to ensure our tax is correct and accurate, if we do become aware of an error, we will voluntarily disclose, paying any additional tax, interest, and penalties that may be due. We would also revisit our procedures to ensure that such an error is not repeated.

Contribution to UK tax policy

We regularly contribute to government consultations, both directly and through trade bodies, and are members of the HMRC Large Corporates Forum. Our engagement with HMRC and HM Treasury is two way and we aim to explain the impact that particular tax proposals are likely to have on the UK property industry.

Attitude to tax structuring and planning

As a large UK REIT we believe it is our responsibility to lead the industry through our actions and experience.

UK properties held onshore

All our property assets are in the UK and, as such, we manage and control the vast majority of our properties from the UK. At 31 March 2018, we had eight wholly-owned subsidiaries that were incorporated outside the UK, all of which were UK tax resident.

In line with our business policy, properties bought via offshore structures in 2018 were immediately moved to UK tax resident companies. These offshore entities have now been closed down.

In order to acquire an interest in certain properties, Landsec is co-invested in an existing corporate structure which has five entities that are tax resident outside the UK. All of these entities are tax transparent for property rental income, so the income is included in the REIT income tests and forms part of our compulsory PID requirements.

Risk management

The Director of Taxation is responsible for the implementation of the tax strategy.

Our strategy to manage tax risks relies on having;

- the right people with the right qualifications, coupled with advice and support from external advisers when necessary.
- well understood, robust processes, minimal manual interventions and agreed review procedures.

Tax risk management and compliance is carried out by an internal team of qualified accounting and tax professionals. They combine this subject matter expertise with industry and business knowledge. Landsec is committed to supporting the continued development of its staff.

Landsec invests in modern IT systems to support its tax compliance and reporting.

Tax contribution of Landsec

At Landsec, we measure our Total Tax Contribution each year. Below is a summary for the year ended 31 March 2018. All taxes were paid in the UK. Taxes borne are those that represent a cost to Landsec. The business also collects and remits to HMRC significant other taxes.

Taxes borne

SDLT, property taxes and building levies

This includes SDLT on the acquisition of properties, and also contributions to public infrastructure such as s106 agreements and the community infrastructure levy. It also includes business rates on our owner occupied properties, inclusive lease deals and void space.

Employer payroll taxes

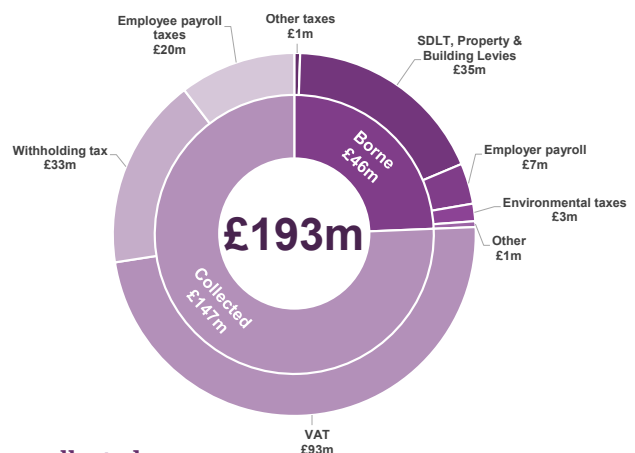
This is the employer's element of national insurance that Landsec pays.

Environmental taxes

This includes climate change levy, carbon reduction commitment and other charges.

Other taxes

This includes taxes such as insurance premium tax and irrecoverable VAT e.g. in relation to unopted properties, residential lettings and corporate transactions.



Taxes collected

VAT

Landsec collects VAT on the rent payable by tenants.

Withholding tax

20% of the Property Income Distribution paid to our shareholders unless they have informed Landsec of their entitlement to receive gross payments.

Employee payroll taxes

We deduct tax and national insurance and construction industry amounts.

Other taxes

Insurance premium tax charged to tenants as part of their service charge and construction industry scheme payments where we withhold part of our payments to our subcontractors.

Related taxes paid by others (not included above)

Business rates

During the year to 31 March 2018, our tenants paid business rates in our properties of over £300m.

Service partners

Construction activities and outsourced services in our buildings (such as cleaning or security) lead directly to additional payroll, VAT and corporation taxes.

Shareholders

Some shareholders have to pay additional tax on the PIDs as a result of their tax status and marginal tax rate.