M&G plc Tax Strategy

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Introduction

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M&G plc are a leading savings and investments business with the ambition to become the best-loved and most successful savings and investment business. We recognise that as part of this ambition there will be benefits for our internal and external stakeholders. In 2022 we made a total tax contribution of £1,299m.

Customers are at the heart of our business strategy and the business decisions we make. Responsible tax practices – in terms of providing tax-efficient products and investment returns, ensuring accurate reporting of customer information to tax authorities – are critical in meeting the needs of our customers and providing them with peace of mind. More than ever, responsible tax practices are a key driver in customers' decision-making, and in customers becoming advocates for our business. We have an obligation to act in the best interests of our investors by maximising the returns to the people and organisations that have invested with us, through managing the taxes we pay in a responsible and sustainable manner. We take a responsible approach with all our tax obligations, including paying the right amount of tax at the right time in the right place in which we operate and applying rigorous management over our tax uncertainties and risks.

Where possible, we seek to build constructive relationships with tax authorities and provide transparent disclosure to ensure that our stakeholders are well informed about our tax matters.

Our accountability and governance on tax matters is clear and strong. Our tax strategy applies to all our local businesses in all jurisdictions in which we operate. We report on our tax affairs on a regular basis to the Group Audit Committee and to the Board, which is accountable for the tax strategy. We have mechanisms in place to ensure awareness of and adherence to the principles outlined in this document, and we have clear procedures in relation to tax risk management. While the financial information within this report covers 2022, the strategy applies to 2023, clearly demonstrating our intentions for the year ahead. This publication was approved by our Audit Committee on 25 April 2023.

Our tax strategy is a key part of our contribution to the communities around the world in which we operate. We take a transparent and sustainable approach to all our tax matters, and we will continue to do so. I hope you find this report useful and informative.

Our tax strategy

This tax strategy applies to all companies within the M&G plc group, M&G managed funds and to our dealings with our clients. We regard the publication of this strategy as complying with our duty under paragraph 16(2) schedule 19 of the UK Finance Act 2016 to publish a tax strategy in each current financial year.

Our clear and consistent business strategy is to meet the long-term savings and protection needs of a growing middle class and ageing population.

Our trusted brands and strong distribution channels enable us to understand the growing needs of our customers for long-term savings and financial security, and to design innovative products that meet those needs. By helping to build better lives and stronger communities and to fuel the growth cycle, we create long-term value for both our customers and our shareholders.

We manage our tax affairs to provide responsible and sustainable support to our business strategy. In delivering this tax strategy through our day-to-day operations, we follow a set of guiding principles (see boxes).

Responsible and sustainable management of our tax affairs

Tax compliance

We act responsibly in all of our tax matters. We understand the importance to governments and societies of paying the right amount of tax at the right time in the right place.

Approach to tax

We take an objective view of the generally understood interpretation of the tax laws and regulations in each jurisdiction in which we operate.

Governance

We manage tax (including uncertainties and risks) in line with our governance framework and risk management procedures.

Transparency and engagement with stakeholders

We provide transparent disclosure of our tax affairs to better inform our stakeholders of how tax works in our business and our tax governance practices. We respect the tax authorities with which we interact. Where possible and following prevailing practice, we seek to build constructive relationships with tax authorities, discussing and resolving matters in real time.

It is also in our customers' and shareholders' interest for M&G plc to be a responsible business which invests in and has a positive and sustainable impact on our local communities, alongside the jobs, growth, and tax revenue we provide. More information on M&G plc's approach to sustainability can be found in our 2022 Annual Report and Accounts.

We place great importance on having an effective relationship with those who supervise us and our markets. Our customers' interests are best served when we work constructively with our regulators. Therefore, positive, and transparent engagement with tax authorities, which leads to the timely and accurate payment of taxes, helps the societies in which we operate, provide valuable public services, and build infrastructure for the benefit of the wider community and the economy. We do not tolerate tax evasion, nor do we tolerate the facilitation of tax evasion by any person(s) acting on M&G plc's behalf.

What do we mean by 'responsible and sustainable'?

By responsible, we mean that the tax decisions we make balance our responsibility to support our business strategy with our responsibility to the communities in which we operate, which need sustainable tax revenues.

By sustainable, we mean making tax decisions with a long-term rather than short-term perspective.

What do we mean by paying the 'right' amount of tax?

Tax is inherently complex, particularly when it involves financial services and international dimensions. Where the tax treatment of a particular transaction or activity is unclear, we will follow the generally understood interpretation of tax law.

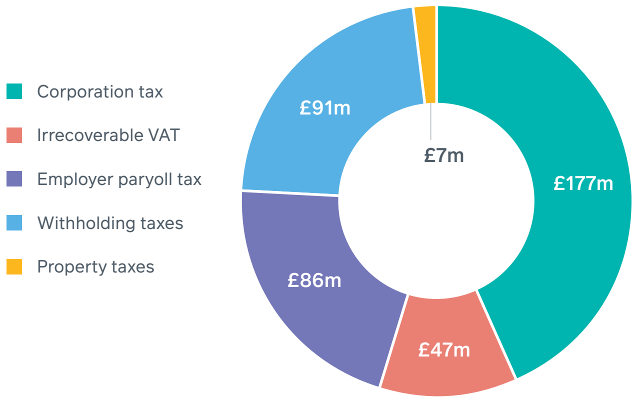
What do we mean by 'generally understood interpretation'?

Within each of the jurisdictions in which we operate there arises over time a common view across the informed tax community (comprising taxpayers, tax advisers and the prevailing practice followed by the tax authority) of how the tax laws and regulations are interpreted and applied. This forms a 'generally understood interpretation'.

Our tax contribution

We set out below the taxes that our businesses bore in 2022 – which represents a cost to M&G plc – and the taxes our businesses collected and remitted to tax authorities in 2022. Together these represent the total tax contribution of the Group (£1,299m) to the societies and economies in which our businesses operate and invest.

Figure 1: 2022 tax borne (£408m)



The Tax paid figure disclosed in our 2022 consolidated cash flow statement of £268m (M&G plc 2022 Annual Report and Accounts) comprises corporation tax of £177m and withholding taxes of £91m.

Corporation tax (£177m)

The business pays corporation tax on taxable profits as computed under the relevant tax laws of the jurisdictions in which we operate or have a taxable presence.

The corporate taxes of the Group include those on the income of consolidated with-profits and unit-linked funds that, through adjustments to benefits, are borne by policyholders. These amounts are required to be included in the tax charge of the Group in accordance with the International Accounting Standard 12 – Income Taxes; this prescribes the accounting treatment for income taxes on all taxable profits and losses of an entity.

The corporation tax paid of £177m includes £69m in relation to the income consolidated of the with-profits and unit-linked funds.

Irrecoverable VAT (£47m)

The business incurs VAT on goods and services that it purchases. Generally, life insurance products are exempt from VAT and our insurance businesses can usually only recover a small proportion of the VAT and sales tax incurred. The VAT incurred that we cannot recover results in a cost to the business.

Employer payroll taxes (£86m)

This represents the payroll tax such as national insurance and social security, that the business pays as an employer.

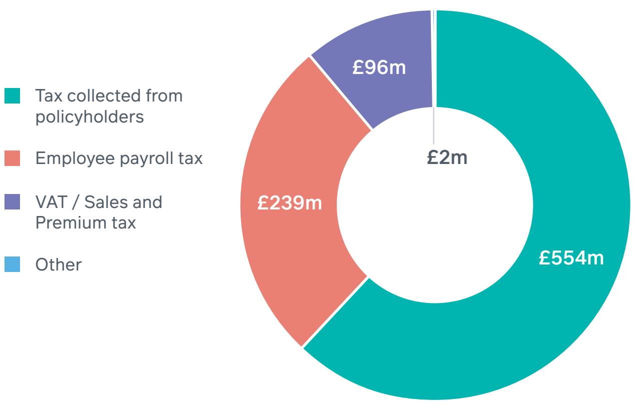
Withholding taxes (£91m)

As a large institutional investor, the business incurs withholding tax on investment income (eg, dividends and interest) received in certain jurisdictions. Where the withholding tax cannot be offset against corporation tax or otherwise recovered, it represents a cost to the business.

Property taxes (£7m)

This relates to stamp duty or transfer tax paid on properties we have bought.

Figure 2: 2022 tax collected (£891m)



Tax collected from policyholders (£554m)

In the UK, we are required to deduct tax from annuity payments made to customers and remit this to the relevant tax authority and collect taxes on investments made on their behalf.

Employee payroll taxes (£239m)

In many jurisdictions in which we operate, we are required to deduct tax and social security from payments made to our employees, and then remit this tax and social security to the local tax authority.

VAT / Sales and premium tax (£96m)

The business collects sales tax (eg, VAT) on some services it provides to third parties and its customers, and remits the tax collected to the relevant tax authority.

Other (£2m)

Primarily relates to withholding tax where we are required to deduct tax on interest payments and then remit this tax to the local tax authority.

Our approach to tax planning

The management of our tax affairs reflects the regulatory, legal, and commercial environment in which our businesses operate. All decisions are taken after careful consideration of all the issues and potential impacts. Governments often encourage businesses to invest and undertake certain activities to support environmental, economic, and societal policy objectives by offering tax incentives. As part of our tax planning, we may invest and participate in areas that attract these tax incentives, for example, research and development expenditure credits and capital allowances on energy saving plant. Where we have a choice on how to structure a particular business, transaction or investment, we will structure it in a tax efficient manner, where we have concluded that it is a responsible and sustainable choice, consistent with our business strategy, supported by genuine commercial activity and complies with the spirit, as well as the letter, of the law. We do not base our decisions on aggressive interpretations of the law.

Questions we consider when making tax decisions

- What is the overall business objective underpinning our approach?
- Does the idea reflect the business and economic reality?
- Is the tax position sustainable in the long term, or is it based on an area of tax law that is likely to change?
- What is the legal and regulatory framework that we need to respect?
- What is the potential reputational impact?

Managing and structuring investments

An important part of M&G plc's business is managing investments from our insurance companies and third parties through investment vehicles. Collective investment vehicles, such as funds, are designed to provide a cost-efficient, diversified pooling vehicle to facilitate investment and savings. Funds are widely accepted and used by a variety of investors for a number of reasons:

- **Professional management –** investing directly requires considerable time and research. Our asset managers have the expertise to keep on top of any market changes and make the decisions about when to buy or sell assets.
- **Spread the risk –** our funds help mitigate the risk associated with investing into individual stocks and bonds. If one of the fund's investments underperforms, its impact may be mitigated for the investor by the overall investment performance.
- **Convenience –** our asset management companies handle the buying and selling of the assets and the collection of dividends and income on behalf of the investors.
- **Reduced cost –** by pooling investors' money the cost of investing is reduced and shared.

It is common for funds to be established in jurisdictions that do not impose an additional layer of taxes on the fund itself. Instead, the investment return is taxed in the hands of the investor (commonly referred to as the 'look through tax treatment'). This ensures that as much as possible of the investment return from the underlying investments flows through to the investors. Most widely held fund vehicles seek to ensure the investors' tax position would be the same if they had the capacity to invest directly. Regardless of where the fund is established, investors will be subject to tax on investment returns in accordance with the tax rules of those jurisdictions where the investors are resident.

Our investments

Our insurance company holds a broad investment portfolio on behalf of our customers that will include investments in real estate, infrastructure, and other private assets. Such investments are typically made through a layered fund structure with special purpose vehicles that will hold the underlying assets.

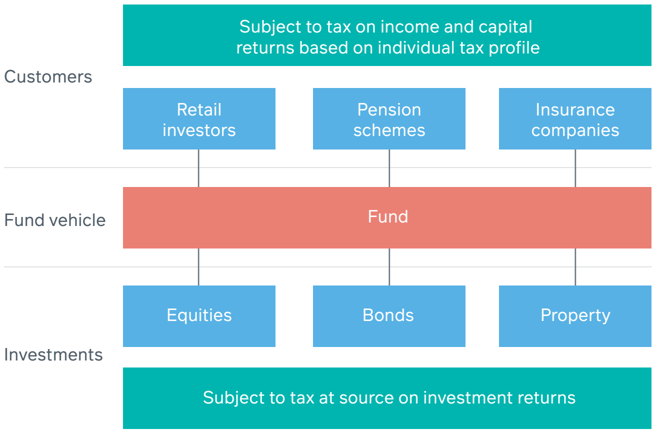
These funds will often be managed by one of our investment managers and widely held by both external investors and M&G plc's insurance companies.

Funds are often structured with various legal entities in different jurisdictions. There are a number of reasons for this, including commercial and regulatory factors, eg, to facilitate the segregation and limited liability of investments, to provide flexibility on the financing of, or the future disposal of, investments and to allow for joint venture investment with other parties.

In common with other investors, our insurance companies invest in funds as part of a diversified investment strategy and as part of managing liquidity. Real estate, infrastructure and other private asset funds in particular also provide a vital source of capital for investment to drive future economic growth. In many instances, our insurance companies will provide the start-up capital for such funds.

Fund look through tax treatment is recognised in many tax regimes throughout the world and our insurance companies do not invest in funds with the intention to reduce the tax that we pay. Our investing companies will be subject to tax on income and capital returns from the fund based on their individual tax profile. The consequence of our companies investing in these funds is that, in most instances, the tax paid is similar to what the tax would have been if our companies had invested directly in the underlying assets.

Illustrative example of simplified fund structure:



Low tax rate jurisdictions

In common with the asset management industry, our asset management businesses have fund-related entities in jurisdictions such as Luxembourg, Ireland, Guernsey, and the Cayman Islands. These jurisdictions are established centers for asset management businesses. Basing funds in these jurisdictions will, in many situations, ensure that our customers are only taxed once, where the customer is resident. We comply with all customer tax disclosure requirements for the funds that we manage.

Interaction with tax authorities

Our tax affairs are complex, reflecting a combination of specific or additional corporation tax rules for our life insurance company, the range of taxes that apply to our businesses and the cross-border dimensions that come from being an international group. We deal with tax authorities in an open and constructive manner aimed at bringing matters to a timely conclusion. In the UK, we are committed to discussing all significant matters in real time with HMRC.

The complexity of the tax laws and regulations that relate to our businesses means that from time to time we may disagree with tax authorities on the technical interpretation of a particular area of tax law. Generally, this is due to:

- ambiguity in the law and its intent;
- changes that occur over time in tax authority interpretation;
- case law developments; and
- tax law not keeping pace with product or wider commercial/regulatory developments.

Most of the time, these disagreements can be resolved through discussion. Sometimes, however, it is necessary for the matter to proceed to litigation to clarify the interpretation of the law.

Tax policy work

We believe that more informed and sustainable outcomes are achieved where governments openly consult with industry and other affected stakeholders. We work with governments, both directly and through industry trade bodies, to explain the wider impact that tax proposals will have on the industry, the regulatory environment, and our customers. We seek to provide pragmatic, proportionate and constructive comments to help meet the objectives of new initiatives in the interests of all our stakeholders.

Use of tax specialists

Our tax team is comprised of individuals with a mix of industry and business knowledge and subject matter expertise. From time to time, we will engage tax advisers to provide specialist expertise, to provide second opinions on significant transactions, to help us understand new legislation or to provide us with insight on industry practice. Our third-party clients, including managed funds, receive advice from third party advisors. M&G plc tax function does not provide tax advice to these funds or segregated mandates. In addition, we engage tax advisers (and others) to undertake tax compliance work on our behalf in various jurisdictions where it is more cost-efficient or operationally sensible to do so.

Governance and management of tax risk

Governance over tax

Ownership of our tax strategy, as with the wider business strategy, rests with the Board. The day-to-day responsibility for tax rests with the Director of Tax and the Senior Tax Management team, as taxes by their nature are levied on legal entities, and sometimes groups of entities, rather than on the business as a whole. The Director of Tax will report the key tax risks to the Chief Financial Officer on a monthly basis. The Chief Financial Officer provides updates on material tax matters as part of the regular updates to the Board.

Managing tax risk

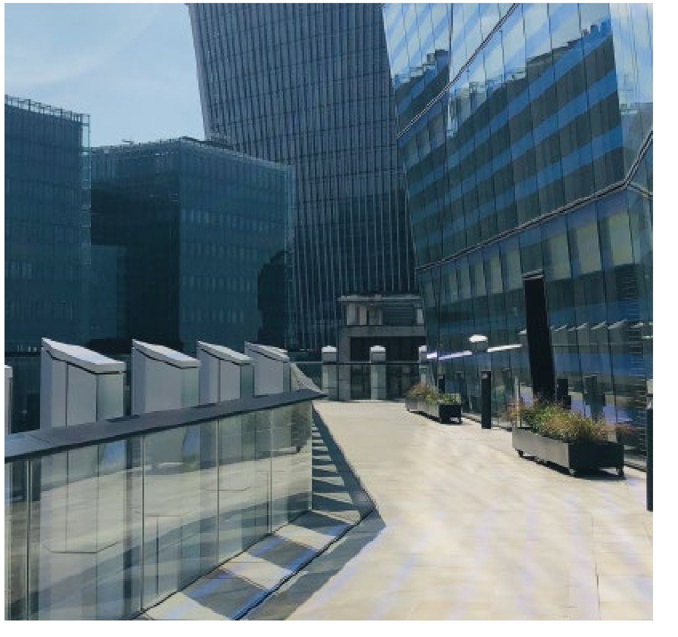
Tax risk is managed in a manner consistent with the management of all other risks. We recognise that we are implicitly committing to customers that we will maintain a healthy company and are there to meet our long-term commitments to them. We define 'risk' as the uncertainty that we face in implementing our strategies and objectives successfully.

We have a comprehensive approach to identifying, measuring, managing, monitoring, and reporting current and emerging risks ('the Risk Management Cycle'), supported by an embedded risk culture and strong risk governance. This is set out in the Group Risk Management Framework ('GRMF'), which is designed to manage risk within agreed appetite levels which are aligned to delivering our strategy for customers and shareholders. Our GRMF requires the Director of Tax and the Senior Tax Management team to establish processes for identifying, assessing, managing and reporting the key risks faced by the business. More information on the GRMF can be found in our 2022 Annual Report and Accounts.

Our Tax Risk Policy comprises processes to identify, assess, manage, and report on our tax risks within this framework.

We define tax risk as:

Any uncertainty from either, the interpretation of tax law to a particular situation, or the practical implementation of tax law in an operational or tax compliance sense, which has the potential to have an adverse financial or reputational outcome.



Tax risk categories

Tax risk can broadly be grouped into four categories as set out in the table below.

	Technical judgment tax risk	Operational tax risk	Regulatory tax risk	Reputational tax risk
Definition	This is the uncertainty arising where a transaction or investment is structured, or a tax return is filed based on an interpretation of the tax law where it possible that: 1. the tax authority may take a differing interpretation, or 2. the tax authority disputes the interpretation, or 3. the tax law may change in a manner that affects the tax treatment of the transaction or investment.	Risk of loss (or unintended gain or profit) arising from inadequate or failed internal processes, personnel, and systems, or from external events, which result in the filing of inaccurate or late tax returns or incorrect tax payments.	This is risk that relates to compliance with changing tax and regulatory requirements. The high rate of global tax change, in an already complex tax and wider regulatory landscape, increases the risk of non-compliance due to a failure to identify, correctly interpret, implement and/or monitor regulations.	Risk that, as a result of actions or decisions we take or as a result of an external event, the perception of our business, from the perspective of key stakeholders, is damaged, leading to financial and/or non-financial impacts.
Risk appetite	We have no appetite for adopting a technical judgment which is based on an aggressive interpretation of the relevant tax law, nor do we have any appetite for adopting a technical judgment where external advice has been obtained and has indicated a 'less likely than not' chance of success.	We have no appetite for material losses (direct or indirect) suffered as a result of failing to develop, implement and monitor appropriate controls to manage operational tax risks.	We have no appetite for material losses (direct or indirect) suffered as a result of failing to monitor and respond to tax changes.	We have no appetite for suffering reputational damage, which destroys shareholder value, adversely impacts revenues or results in significant costs to rectify, as a result of failing to develop, implement and monitor appropriate controls to manage reputational risk.
Management of risk	We take an objective view of the generally understood interpretation of the tax laws that exist. Where alternative rules or positions are available, we will only look for responsible and sustainable tax outcomes in the context of seeking to deliver long-term value for our customers and our shareholders.	We look to manage these risks by the way we operate on a day-to-day basis when meeting all our tax filing and financial reporting disclosure requirements and our interactions with tax authorities.	We actively monitor emerging tax changes and input, where appropriate, into the tax policy process.	We expect our employees to exercise reasonable care and operate in a way that preserves our reputation and to consider reputational consequences in their decision-making processes.