northern ireland water

Delivering what matters

Our Tax Policies & Tax Strategy

March 2019

Northern Ireland Water Limited (NI Water) is wholly owned by Government, and is the sole provider of water and sewerage services across Northern Ireland. It operates within a strict regulatory environment and must comply with requirements imposed by Government. NI Water is also designated as a Non -Departmental Public Body (NDPB) and is subject to public sector spending rules. In November 2017, NI Water wholly purchased a group of companies which are contracted under a PPP arrangement to supply bulk drinking water. The NI Water Group is fully taxable in the UK.

1 Policy oversight

The Board has ultimate responsibility for risk management and control. The Director of Finance & Regulation, a Board Member, has responsibility for tax at Board level, and communicates with and advises the Board on the tax affairs and risks of the Group. He is also the appointed Senior Accounting Officer for tax reporting purposes. The Group adheres to the following tax policies:

- To adopt a conservative approach to the management of tax risk and apply a strong framework of tax governance;
- To comply with all relevant tax legislation;
- To maintain an open and fully transparent relationship with HMRC and seek to proactively resolve disputes in a timely manner;
- Not to engage in aggressive tax planning or tax avoidance schemes;
- To accept only a low level of tax risk.

2 Specific policy principles and how they are achieved

2.1 To adopt a conservative approach to the management of tax risk and apply a strong framework of tax governance

Principles

- Identify tax risks within our business
- Determine the level of acceptable risk
- Implement appropriate controls

The Group has identified that the following tax risks may arise:

- Business transaction risk- reorganisations, financing transactions, and disposals may give rise to a tax risk.
- Compliance risk- insufficient resources and changes to tax legislation may give rise to a tax risk.

Tax governance refers to the responsibility and oversight of the Group’s tax affairs, for example, the reporting framework and the seniority level within the Group at which tax is considered.

NI Water operates under a Code of Ethics and by the Seven Principles of Public Life, which include integrity, honesty, and openness.

How the Group achieves these principles

The Tax Manager is responsible for the day-to-day management of the Group’s tax affairs, which includes the maintenance of a Tax Risk Register, to identify potential areas of tax risk for the business, and the associated level of risk.

The Tax Manager meets with the Financial Controller on a weekly basis and both attend tax quarterly update meetings with the Director of Finance & Regulation. These meetings provide a clear escalation route to the Executive Committee (EC) and Board for tax matters requiring their attention.

The Tax Manager provides a tax briefing to the EC each year in November/ December, and also provides updates throughout the year as required.

The Group complies with the Senior Accounting Officer (SAO) reporting requirements and in doing so ensures that appropriate accounting arrangements and controls are in place so that tax liabilities can be accurately calculated.

2.2 To comply with all relevant tax legislation

Principles

- Submit all tax returns to HMRC on time and provide accurate information and full disclosure
- Pay all tax liabilities on time
- On areas of doubt NI Water takes a conservative view rather than an aggressive interpretation of tax legislation

How the Group achieves these principles

The Tax Manager is an experienced professional, who ensures all tax returns and payments are on time. Key deadlines are monitored using the tax timetable for submissions and payments to HMRC.

Prior to the submission of the corporation tax computations, the Tax Manager ensures that explanatory notes and full disclosures are included where considered necessary. Our external tax advisers, who have extensive knowledge and experience with the water industry, review the corporation tax computations. The deductions for capital allowances are agreed with external specialists.

The Tax Manager uses experience and judgement in situations where the tax treatment may be uncertain. Where this is the case, the appropriate tax legislation is applied and supporting evidence is retained on file. This supporting evidence may include HMRC guidance, leading tax commentaries or articles, or externally provided tax advice.

2.3 To maintain an open and fully transparent relationship with HMRC and seek to proactively resolve disputes in a timely manner

Principles

- Maintain the Group's low risk status with HMRC;
- Disclose fully any significant uncertainty in relation to current, future, and past tax matters, including interpretation of UK tax laws;
- Where appropriate, respond to queries, information and clearance requests in a timely manner and provide updates on how issues progress;
- Work proactively with HMRC, to agreed timescales, to resolve all disputes;
- Respond to public consultation documents on tax legislation where there could be a material impact on our business.

HMRC has a role to ensure that taxpayers comply with tax legislation, which is complex and often there can be areas of uncertainty. This uncertainty may lead to potential differences in opinion between the Group and HMRC, and where this is the case we are committed to liaising with HMRC in a timely manner to reach a resolution.

How the Group achieves these principles

The Tax Manager has regular communications with HMRC to explain particular transactions or issues in real time. Where relevant, HMRC's view is considered and timely responses to questions are provided.

If an error is identified, we open communications with HMRC, and provide proposed resolutions, as soon as information is available. Where it is considered appropriate, advice is sought from external advisers.

The Group holds an annual meeting, usually each summer, with HMRC to provide business updates, and to discuss relevant topics. There is also an annual call with HMRC in December to discuss any relevant matters.

2.4 Not to engage in tax avoidance schemes or aggressive tax planning

Principles

- No engagement in tax avoidance schemes
- No engagement in aggressive tax planning

'Tax avoidance' does not have a definition that can be applied universally, but it is HMRC's view that a transaction may indicate tax avoidance if, for example:

- it is artificial or contrived,
- it involves a tax haven, or
- it involves money going around in a circle.

Tax planning can mean avoidance but it can also mean planning to use available tax reliefs in the manner in which tax legislation intends. The Group views tax planning to be 'aggressive' when an artificial or contrived interpretation of tax legislation with no commercial substance is applied in order to achieve a favourable tax outcome. It is our view that a taxpayer who engages in aggressive tax planning will do so knowingly, rather than unknowingly.

In arranging our tax affairs we acknowledge our responsibility to our stakeholders which include employees, shareholders and customers.

How the Group achieves these principles

The Group does not engage in tax avoidance schemes, nor do we seek to take aggressive interpretations of tax legislation. We seek to apply tax legislation within the letter and the spirit of the law.

We plan our tax affairs to be efficient and use available tax reliefs only in the manner in which the tax legislation intends, for example, we claim capital allowances on capital assets including entitlement to enhanced capital allowances for energy efficient spend.

We seek external tax advice where the tax position of a transaction seems uncertain, and our tax advisers are aware that we take a conservative approach to tax risk.

We are not involved with any tax havens.

2.5 To accept only a low level of tax risk

Principles

- Identify and consider transactions where there is a tax risk
- Undertake the course of action to which a low level of risk is attached

'Level of risk' refers to the likelihood and impact of adverse tax consequences materialising. Adverse tax consequences could include unexpected tax liabilities, penalties, or interest, potential reputational damage, or an adverse change to our HMRC low-risk rating.

As a large business, HMRC carries out a Business Risk Review of our tax affairs, usually every three years, to determine where we sit on their risk spectrum. HMRC views us as a low-risk business, and have done since the commencement of their review process.

How the Group achieves these principles

The Tax Manager maintains a Tax Risk Register, which identifies potential risks to the Group and how these can be mitigated.

The Tax Manager considers the tax position and associated tax risk of new business transactions when they are brought to her attention, and will seek external tax advice where considered appropriate. There is a direct escalation procedure to the Director of Finance & Regulation, who is also the Group's SAO and a member of the Board.

The Tax Manager is an active participant in the Direct Tax, Indirect Tax, and Employment Tax Water UK Groups, helping to gain insight and maintain knowledge of the water industry.

This Tax Strategy has been prepared for the financial year 1 April 2018 to 31 March 2019. In publishing this document the Group regard this as satisfying the statutory obligation under para 16(2) and para 17(4), Schedule 19 of Finance Act 2016.