Managing our tax affairs responsibly and sustainably

Prudential plc

Contents

Introduction

At Prudential, our purpose is to help people de-risk their lives and deal with their biggest financial concerns, providing them with the freedom to face the future with confidence. At the same time, we invest our customers' savings in the real economy, helping to drive growth and strengthen the communities in which we work.

$2,168m

2019 global total tax contribution (2018: $1,829m)

A key part of how we support those communities is through the tax we pay. In 2019 we made a total tax contribution of $2,168 million, helping to develop public services throughout our markets and fostering growth and prosperity.

We have a strong commitment to making the right tax contribution and we are transparent in all our tax disclosures, to ensure that our stakeholders are fully informed about our tax matters. Within this report you will find a tax contribution analysis of all our major markets, showing the clear link between our business footprint and our tax footprint, and demonstrating our commitment to transparency.

In 2019 we made a significant change to our business when we completed the demerger of M&G plc from the Group. Following the demerger, Prudential's strategy is to capture the long-term structural opportunities for our markets and geographies. The types and amount of taxes we pay, and where, have changed to mirror our new business profile, and we continue to contribute to the communities in which we operate and recognise the importance of paying the right tax at the right time and by being fully transparent in our tax matters.

For reasons of clarity and comparison, this report covers only Prudential plc's continuing operations before and after the demerger, and does not include any tax paid by M&G plc during 2019. We have adopted the US dollar as our presentational currency, which better reflects the economic footprint of our business. Prior year comparatives, where restated, only refer to Prudential plc's continuing operations. In Appendix 2, we provide an overview of Prudential plc's continuing operations' tax contribution over the past four years.

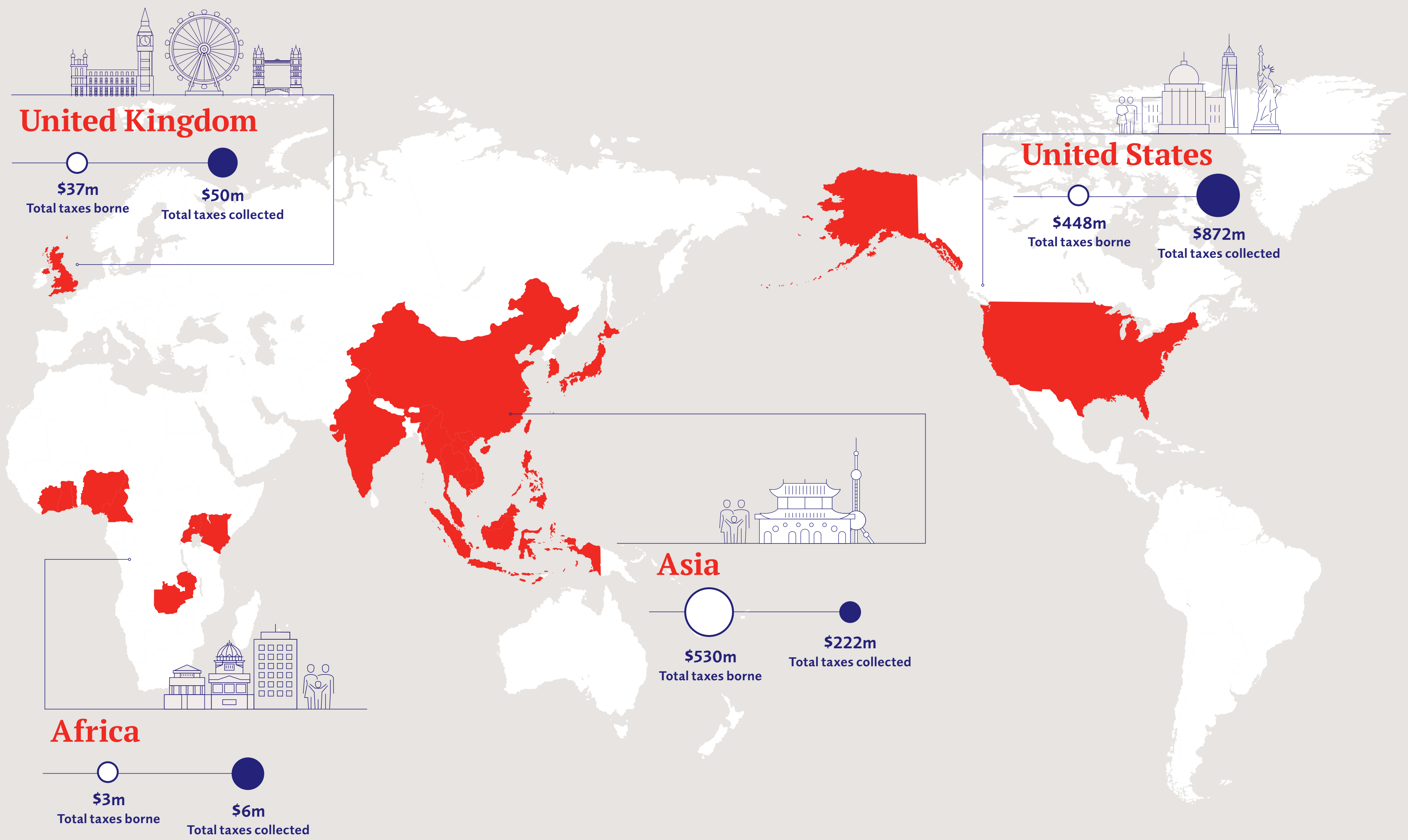
We closely monitor all areas of tax that may affect us and engage in discussions around those areas, including tax transparency. We have strong governance structures on tax matters and our tax strategy applies to all our local businesses worldwide. We report our tax affairs regularly to our Group Audit Committee and our Board, which is accountable for the tax strategy. We have mechanisms in place to ensure awareness of and adherence to the strategy, and clear procedures in relation to tax risk management.

This report has been prepared to meet the requirements of Paragraph 16(2) Schedule 19 of the UK Finance Act 2016 to publish a tax strategy annually. It also contains information on our responsible and sustainable tax practices worldwide, alongside additional tax disclosures, which complement the existing disclosures in our 2019 Annual Report. While the financial information within this report covers 2019, the strategy applies to 2020, demonstrating our intentions for the year ahead. This report was approved by Prudential plc's Group Audit Committee in May 2020.

I hope you find this report useful and informative.

Mark FitzPatrick
Group Chief Financial Officer
and Chief Operating Officer
Prudential plc

2019 total tax contribution by region



Our tax strategy

Our purpose is to help people de-risk their lives and deal with their biggest financial concerns. We provide our customers with the freedom to face the future with confidence. Our clear and consistent business strategy is to capture the long-term structural opportunities within our markets – Asia, the US and Africa – operating with discipline and enhancing capabilities through innovation to deliver high-quality resilient outcomes for our customers.

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 purpose and business strategy. In delivering this tax strategy through our day-to-day operations, we follow a set of guiding principles.

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 where required and paying the right amount of tax in each jurisdiction in which we operate – 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 seek to comply fully with all our tax obligations, including paying the right amount of tax in each jurisdiction in which we operate and applying rigorous management over our tax uncertainties and risks.

It is also in our customers' and shareholders' interest for Prudential 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 Prudential's approach to sustainability can be found in our [2019 Environmental, Social and Governance Report.]

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.

Guiding principles

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 on time, and so we take our tax compliance obligations seriously.

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 Group Governance Manual and risk management procedures.

Transparency and engagement with stakeholders

We provide transparent disclosure of our tax affairs, the amounts and types of taxes we pay and where we pay tax. We believe that transparency is key to the responsible and sustainable management of our tax affairs and better informs our stakeholders about how tax works in our Group 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.

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'.

What taxes do our businesses pay?

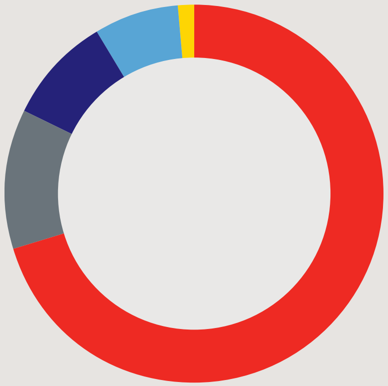
We set out below in Figure 1 the taxes that our businesses bore in 2019 – which represents a cost to the Group – and, in Figure 2, the taxes our businesses collected and remitted to tax authorities in 2019. Together these represent the total tax contribution of the Group ($2,168 million) to the societies and economies in which our businesses operate and invest.

In Appendix 1 we have provided a comparison and explanation of the differences between the 2019 and 2018 total tax contribution numbers.

Figure 1: 2019 total tax borne

$1,018m

(2018: $732m)



Corporation tax	$717m
Other withholding taxes	$122m
Property taxes	$92m
Employer payroll taxes	$74m
Irrecoverable VAT and sales tax	$13m

Corporation tax
The Group 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. Further details about what drives our taxable profit are set out in Appendix 3.

Other withholding taxes
The Group incurs withholding tax on intra-group dividends and other intra-group fees paid in certain jurisdictions. In addition, as a large institutional investor, the Group incurs withholding tax on investment income (eg dividends and interest) received in certain jurisdictions. Where these withholding taxes cannot be offset against corporation tax or otherwise recovered, they represent a cost to the Group.

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

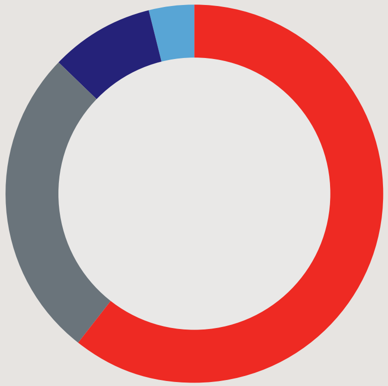
Employer payroll taxes
This represents the payroll tax, such as national insurance and social security, that the Group's businesses pay as an employer.

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

Figure 2: 2019 total tax collected

$1,150m

(2018: $1,097m)



Tax collected from policyholders	$698m
Employee payroll taxes	$308m
Sales and premium tax collected	$100m
Other withholding taxes	$44m

Tax collected from policyholders
In the US we are required to deduct tax from annuity payments made to customers and remit this to the Internal Revenue Service.

Employee payroll taxes
In the majority of 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.

Sales and premium tax
The Group collects sales tax (eg VAT/Goods and Services Tax) on some services it provides to third parties and its customers and in some jurisdictions in which we operate, we collect tax on insurance premiums paid. The tax collected is then remitted to the relevant tax authority.

Other withholding taxes
The withholding taxes collected represent tax deducted by our businesses on certain payments to third parties.

How much tax do we pay?

We continue to make significant tax contributions in the jurisdictions in which we operate. In 2019, our global total tax contribution was $2,168 million. Figure 3 breaks down corporation taxes paid, other taxes borne and taxes collected for each jurisdiction in which $5 million or more in total tax was paid to the local tax authority in 2019. Revenue, profit and employee numbers for these jurisdictions are also shown to give context for the tax disclosures. As can be seen from Figure 3, the Group's tax footprint (where we pay taxes) is consistent with the Group's economic footprint (where we earn revenues and profits).

The tax notes in our financial statements provide information on our effective tax rates and why these differ from the corporation tax rates applicable to the Group's businesses. These can be found on pages 233 to 236 of the Group's 2019 Annual Report.

Figure 3: 2019 Prudential plc's continuing operations total tax contribution by jurisdiction

	2019 ($m – other than employee numbers)							
	Total revenue net of reinsurance[1]	**Profit (loss) before tax**[2]	**Total current tax charge**[3]	**Corporation taxes paid**[4]	**Other taxes borne**[5]	**Taxes collected**[6]	**Total taxes remitted**	**Average employee numbers**
United States	55,527	(732)[7]	305	395	53	872	1,320	4,018
Indonesia	2,300	563	113	115	46	30	191	1,959
United Kingdom	14	(838)[8]	(96)	–[9]	37	50	87	408
Singapore	8,270	1,070	109	65	6	9	80	1,722
Malaysia	2,357	345	39	38	11	22	71	2,091
Hong Kong	19,432	900	65	–[10]	56	–	56	1,839
Philippines	778	131	9	7	19	17	43	758
Vietnam	1,707	210	25	23	4	14	41	3,861
Thailand	1,424	122	7	10	6	16	32	901
Taiwan	2,003	241	1	2	18	2	22	795
Japan	55	6	2	2	5	–	7	45
Rest of the world	288	14	7	5	6	11	22	607
Total subsidiaries	**94,155**	**2,032**	**586**	**662**	**267**	**1,043**	**1,972**	**19,004**
Joint ventures and associates[11]	–	398	–	50	34	107	191	–
Loss on disposal of businesses and corporate transactions	–	(142)	(25)	5	–	–	5	–
Intra-group revenue[12]	(419)	–	–	–	–	–	–	–
Group total 2019	**93,736**	**2,287**	**561**	**717**	**301**	**1,150**	**2,168**	**19,004**
Group total 2018	35,845	3,557	365	476	256	1,098	1,829	21,759

Notes

1 The revenue net of reinsurance numbers for 2019 were significantly higher in several jurisdictions than those for 2018, due to the positive investment returns in 2019 arising from favourable market movements, which contrasted with negative investment returns in 2018.

2 This measure is the formal profit before tax measure under IFRS. Profit before all taxes is determined after deducting the cost of policyholder benefits and movements in the liability for unallocated surplus of with-profits funds, after adjusting for taxes borne by policyholders.

3 The total current tax charge is the tax liability we expect to be due when the 2019 corporation tax returns are filed, together with adjustments for prior years. This differs from the corporation tax paid in the year principally due to the timing of when tax is paid, and also because the tax payments in 2019 include adjustments to tax payments made in previous years reflecting tax returns filed or adjusted in 2019. These differences between current tax charge and tax paid are explained further in the following section 'Why does the amount of corporation tax paid differ from the tax charge in the accounts?'.

4 Corporation taxes paid includes (i) corporation tax paid on taxable profits, and (ii) withholding tax on income in Indonesia and the Philippines where this withholding tax is a form of corporation tax. In addition, for certain jurisdictions such as Singapore, the corporation tax paid includes amounts paid on policyholder investment returns on certain life insurance products. The taxable profit on which corporation tax is calculated, will be based on local tax laws and regulations, typically using local generally accepted accounting principles (GAAP) profits as a starting point. As noted in Appendix 3, there are some jurisdictions where the taxable profit is based on something other than the local GAAP profits.

5 Other taxes borne include irrecoverable VAT, sales tax, employer payroll taxes, withholding taxes and property taxes. Withholding taxes are disclosed against the jurisdiction to which the withholding tax has been paid.

6 Taxes collected are taxes that Prudential is required to collect from employees, customers and third parties which are paid to tax authorities. See Figure 2 for more information.

7 The loss before tax of $732 million reflects the significant adverse movement for 2019 in short-term fluctuations in investment returns for US operations.

8 The loss before tax of $838 million reflects interest payable on core structural borrowings, corporate expenditure and restructuring costs, and includes interest payable on the debt transferred to M&G plc and demerger costs.

9 Consistent with previous years, Prudential plc paid no UK corporation tax in 2019 as it had a tax loss arising from external interest costs and head office costs. The M&G group paid UK corporation tax during 2019, prior to the demerger, but this has not been included, as explained in the 'Introduction' of this document.

10 In Hong Kong corporation tax due in 2019 of $93 million (which would normally have been paid around November) was not paid until January 2020 due to delays in passing certain legislation, which in turn delayed the issuing of tax assessments.

11 Includes our Insurance and Asset Management joint ventures and associates in China, India, Hong Kong and Malaysia. See Note D7(b) of our 2019 Annual Report for more detail.

12 The Group's asset management operations provide services to the Group's insurance operations. These intra-group fees are included within the revenue of the asset management operations and are eliminated on consolidation.

How much tax do we pay? continued

Why does the amount of corporation tax paid differ from the tax charge in the accounts?

The amount of corporation tax paid (sometimes referred to as the cash tax paid) will differ each year from the current tax charge shown in the Group's Annual Report. This is due to a number of factors. The principal factor is the timing of when payments are made in respect of a given financial period. Some payments will be due during the year in question and some will be due in the following year. A secondary factor is that adjustments made when the tax return is filed (or when the tax return is agreed with the tax authority) can lead to additional tax payments being made or refunds being received in a later year.

In 2019 our current tax charge was $561 million and our corporation tax payments were $717 million. Figure 4 provides a reconciliation between the expected tax charge and the current tax charge and Figure 5 reconciles the current tax charge to the corporation tax payments made during 2019.

Figure 4: 2019 reconciliation of expected tax to current tax charge

	Total $m	Shareholder $m	Policyholder[1] $m	2019 Annual Report reference
Profit (loss) before tax	**2,287**	**1,922**	**365**	Page 199
Tax charge (credit) at the expected rate[2]	758	393	365	–
Adverse recurring items[3]	173	173	–	–
Favourable recurring items[4]	(576)	(576)	–	–
Non-recurring items[5]	(21)	(21)	–	Page 235
Total tax charge (credit)	**334**	**(31)**	**365**	Page 234
Less: Deferred tax credit (charge)	227	462	(235)	Page 234
Current tax charge	561	**431**	**130**	Page 234

Notes

The following items affect the 2019 total current tax charge:

1 The total tax credit attributable to policyholders of $365 million is split between a current tax charge of $130 million and a deferred tax charge of $235 million and represents corporation tax charged on the investment returns of our insurance funds which are subject to tax at the policyholder rate. This differs from the 'tax collected from policyholders' outlined in Figure 2.

2 The total expected tax charge of $758 million reflects a $393 million charge (as per page 235 of the 2019 Annual Report) relating to the tax on profit before tax attributable to shareholders using the corporation tax rates that are expected to apply to the taxable profit of the relevant businesses and a $365 million charge (as per page 199 of the 2019 Annual Report) equal to the profit before tax attributable to policyholders of $365 million. This is the result of accounting for policyholder income after the deduction of expenses and movement on unallocated surpluses and on an after-tax basis.

3 Items that increase the current tax charge include: irrecoverable withholding taxes ($59 million); deductions not allowable for tax purposes ($55 million); losses arising in the UK where it is unlikely that tax relief will be available ($46 million); and other ($13 million).

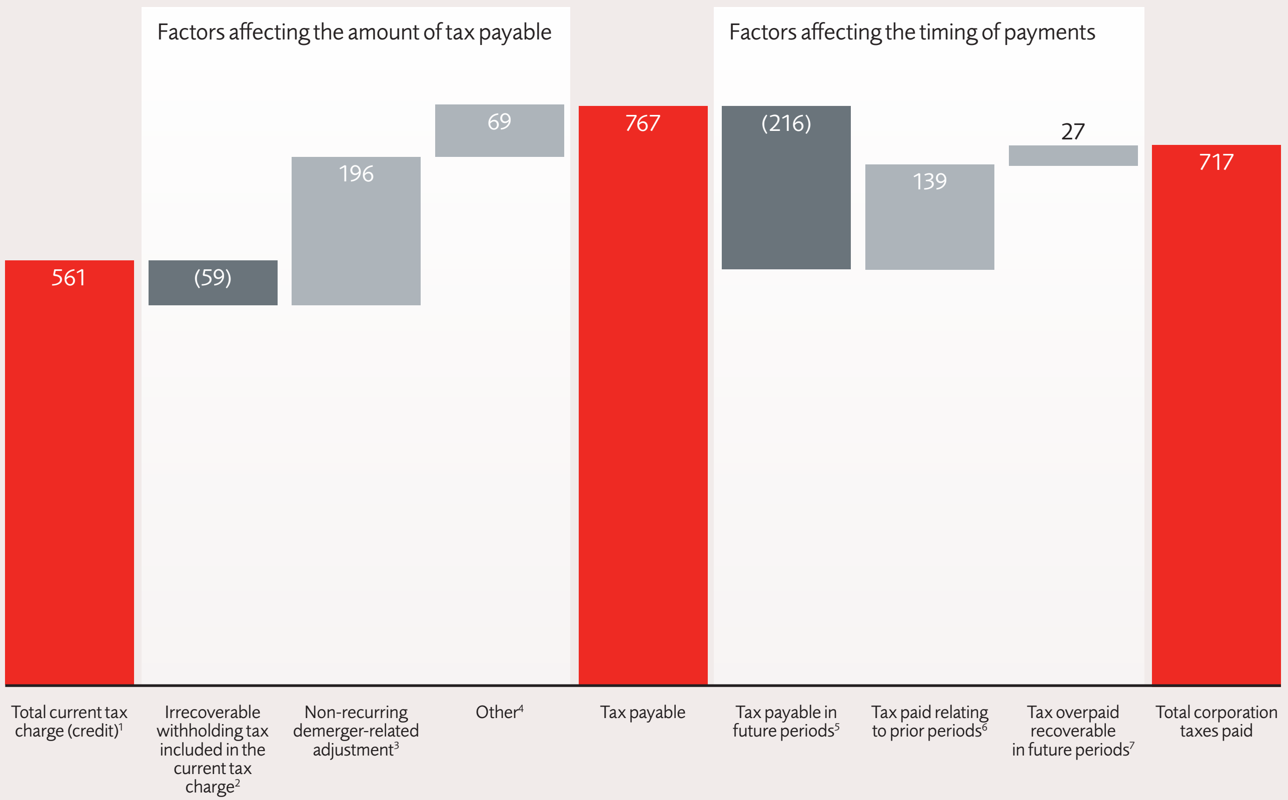
4 Items that decrease the current tax charge include: items relating to taxation of life insurance businesses ($317 million); income not taxable or taxable at concessional rates ($126 million); the effect of the post-tax results of joint ventures and associates being included in pre-tax profits ($100 million); and deferred tax adjustments ($33 million).

5 Items that are not expected to recur include: net favourable adjustments to current tax charge in relation to prior years ($(67) million); relating to business disposals ($(29) million); and relating to movements in provisions for open tax matters ($(1) million); partly offset by adverse adjustments relating to non-tax deductible costs incurred in the preparation for, or as a result of, the demerger of M&G plc ($76 million).

More detail on adjustments outlined in notes 3, 4 and 5 can be found on page 236 of the 2019 Annual Report.

How much tax do we pay? continued

Figure 5: 2019 reconciliation of current tax charge to corporation tax paid ($m)



Notes

The following items affect the total amount of tax payable and not the timing of payments:

1 Total current tax of $561 million is as per note B4 on pages 233 to 236 in the 2019 Annual Report and comprises the current tax charge in respect of 2019 together with adjustments for prior years. It does not include any deferred tax.

2 Reducing tax payable, this principally relates to irrecoverable withholding tax on dividends payable to the UK from certain non-UK subsidiaries. The withholding tax is included in the accounts tax charge but as it is not corporation tax as such, it is not included in the corporation tax paid. The $59 million withholding tax is included in the $123 million withholding tax in total taxes borne in Figure 1, with the remainder of the $123 million predominately relating to withholding taxes suffered which have been expensed in computing the profit before tax.

3 Increasing tax payable, this is a non-recurring adjustment to exclude from the $561 million current tax charge the tax credits relating to UK tax losses included in continuing operations, which for UK tax purposes have been offset against UK taxable profits of M&G plc, which for accounting purposes have been classified as discontinued operations.

4 Increasing tax payable, Other comprises $50 million in respect of Prudential's share of tax paid from joint ventures and $19 million from other adjustments.

The following items affect the timing of tax payments and not the total amount payable:

5 In most jurisdictions, corporation tax is payable in regular instalments, some of which fall into the current period, and some of which fall into the following period.

6 This is a combination of $202 million of payments, primarily in respect of instalment tax payments falling due in 2019 relating to 2018, offset by $(63) million of repayments relating to prior periods, primarily from the Internal Revenue Service.

7 Instalment tax payments are typically based on estimated taxable profits. The $27 million reflects overpaid tax following a downward revision of estimated taxable profits.

How we manage our tax affairs

Questions we consider when making tax decisions

- What is the overall business objective underpinning our approach?
- 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?
- Does the idea reflect the business and economic reality?
- What is the potential reputational impact?

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. 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. We do not base our decisions on aggressive interpretations of the tax law.

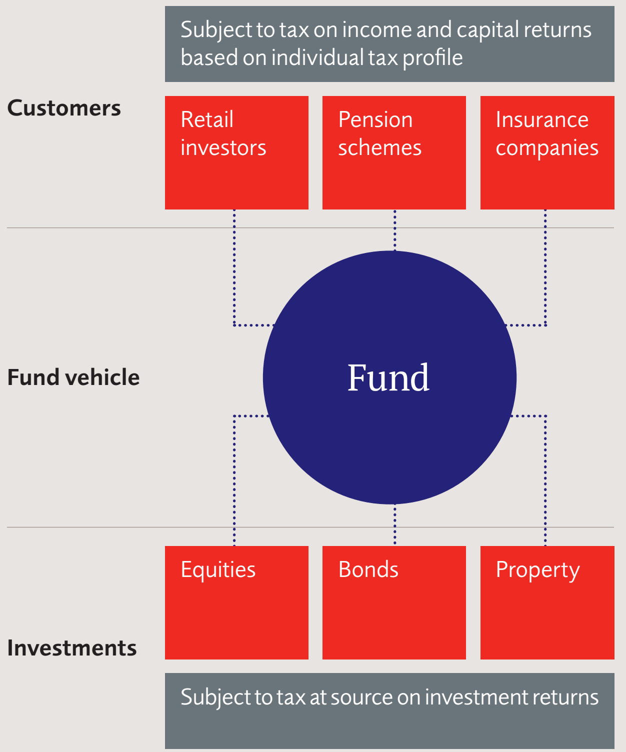
Managing and structuring investments

An important part of our 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. We comply with all customer tax disclosure requirements for the funds that we manage.

Illustrative example of simplified fund structure:



How we manage our tax affairs continued

Our investments

Our insurance companies hold a broad investment portfolio on behalf of our customers that will include investments in real estate and infrastructure. Such investments are typically made through a layered fund structure with special purpose vehicles that will hold the underlying assets. These may be supported by debt funds that provide a vital source of capital for companies that own real estate and infrastructure investments to enable future economic growth. These funds will often be managed by one of our investment managers – Eastspring Investments and PPM America – and widely held by both external investors and Prudential'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 future disposal of investments or, as is often the case with real estate, to address legal impediments of non-residents holding property.

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 and infrastructure 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 we 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.

Low tax rate jurisdictions

At the end of 2019, the Group had nine[1] entities (2018: 10 entities) tax resident in jurisdictions with a headline corporation tax rate of 10 per cent or lower. Figure 6 provides an analysis of these entities by location and activity.

Figure 6: 2019 analysis of entities tax resident in low tax rate jurisdictions

	Number of entities	
	2019	**2018**
Insurance and investment management entities:		
Bermuda	1	1
Cayman Islands	2	2
Guernsey	1	2
Total	**4**	**5**
Revenue for each entity	<$1m	<$1m
Investment entities:		
Cayman Islands	5	5
Total	**5**	**5**

In common with the asset management industry, our asset management businesses – Eastspring Investments and PPM America – manage fund-related entities in jurisdictions that are established centres for asset management businesses. This includes entities in the Cayman Islands (as noted in Figure 6), Luxembourg and Mauritius. As these jurisdictions typically have either low or zero corporation tax rates or special rules for asset management vehicles, basing funds in these jurisdictions will in most situations ensure that our customers are only taxed once, where the customer is resident. As mentioned in the 'Our investments' section, our own investment in these funds will be subject to tax on income and capital returns from the fund based on the investing company's tax profile.

The insurance companies and the investment management company in Figure 6, are not material for Group reporting purposes and each accounted for less than $1 million of total Group revenues and total Group profit.

We also have a number of business operations in jurisdictions that often feature on lists of low tax rate jurisdictions. For example, as evidenced in Figure 3, we have a significant presence in Hong Kong and Singapore, where we are one of the leading providers of life insurance and asset management services, offering savings and protection opportunities to local customers.

Interaction with tax authorities

Our tax affairs are complex, reflecting a combination of specific or additional corporation tax rules for life insurance companies, 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.

Note

1 Note D7(c) of the Group's 2019 Annual Report provides a full list of entities disclosed in accordance with Section 409 of the Companies Act 2006.

How we manage our tax affairs continued

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 of our stakeholders. We continue to engage and provide input into the OECD/G20 Inclusive Framework's two pillar approach to address the tax challenges arising from the digitalisation of the economy. Similarly, we have proactively engaged with civil society forums that are focused on building a sustainable and transparent global tax system.

Our tax teams and the use of tax advisers

Our specialist tax teams in the UK, Asia and the United States are 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, second opinions and advice on significant transactions, as was the case with the demerger of M&G. We also use tax advisers to help us understand new legislation or to provide us with insight on industry practice. In addition, we engage tax advisers 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

The Group's Tax governance focuses on the Group's strategic tax issues, our Group Tax Risk Policy, and the day-to-day operational processes and controls that are designed to ensure that tax risks are managed effectively and within risk appetite. Accountability for our tax strategy and management of tax risk ultimately rests with the Board. Responsibility for the implementation of our tax strategy rests with the Group Chief Financial Officer and Chief Operating Officer, who updates the Board on material tax matters, and is supported in fulfilling this role by the Group's Head of Tax and Group Tax department. The day-to-day operational management of tax lies within our businesses, as taxes by their nature are levied on legal entities and sometimes groups of entities, rather than on the Group as a whole. Therefore, our business CEOs and CFOs are responsible for managing tax risks within their jurisdiction. In line with the Group Tax Risk Policy, our business unit specialist tax teams provide regular tax risk reports to the Group Tax department. These are reviewed by the Group Head of Tax, and discussed in regular meetings between Group and business unit specialist tax teams. At Group level, the management of tax risk is overseen by the Audit and Risk committees. The Group Audit Committee receives regular updates from the Group's Head of Tax on material tax issues, tax disputes, tax policy developments, and on an annual basis assesses the effectiveness of the Group's system of risk management and internal control. The Group Risk Committee receives updates on material tax risks, operational incidents, and associated controls in line with the wider Group Risk Framework.

Managing tax risk

The Tax strategy is supported by the Group Tax Risk Policy which sets out the standards for managing and reporting a broad range of tax risks across the Group. Our approach to tax risk management also gives due regard to the commitments we have made to our customers, key stakeholders and our communities – in that we will maintain a healthy company, and meet our long-term commitments.

The Group Tax Risk Policy falls under the wider Group Risk framework where we define 'risk' as the uncertainty that is faced in successfully implementing our strategies and objectives. This includes all internal and external events, acts or omissions that have the potential to threaten the success and survival of the Group. As outlined in the section on 'Risk Governance' that can be found on pages 55 to 58 of the Group's 2019 Annual Report, we have well defined risk governance structures in place, made effective through individuals, Group-wide functions and committees involved in the management of risk, and through the implementation of risk policies and standards.

Our Group Risk Framework requires all of our businesses and functions to establish processes for identifying, measuring, managing and reporting the key risks faced by the Group. In particular, within the Group's Operational Risk Policy, the Risk and Control Self-Assessment (RCSA) is a key risk process which enables tax risks to be identified, business impacts (financial and non-financial) to be assessed, and controls implemented to mitigate those risks. As business processes change, or new risks identified, the RCSAs are adapted and controls reviewed and implemented. Additionally, within the Group's operational risk appetite framework, tax risk is also incorporated within broader risk appetite limits and triggers for the Group's finance processes. In line with these risk frameworks, our Group Tax Risk Policy incorporates processes to identify, measure, manage and report on our tax risks. Furthermore it details the processes and procedures followed in respect of each category of tax, to ensure risks are minimised and managed consistently across the Group.

Governance and management of tax risk continued

We define tax risk as:

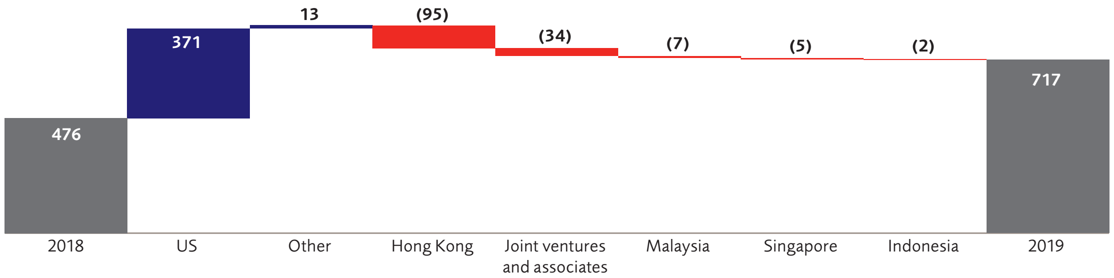
Any uncertainty from either the interpretation of tax law to a particular situation or the practical implementation of tax law in an operational or tax compliance sense, which has the potential to have an adverse financial or reputational outcome.

Categories of tax risk:

	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 (1) it is possible that the tax authority may take a differing interpretation, (2) the tax authority does dispute the interpretation, or (3) it is possible that 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 Group, from the perspective of key stakeholders, is damaged, leading to financial and 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 the Group's reputation and to consider reputational consequences in their decision-making processes.

Appendix 1 – Prudential plc's total tax contribution in 2019 compared to 2018

Corporation tax ($m)

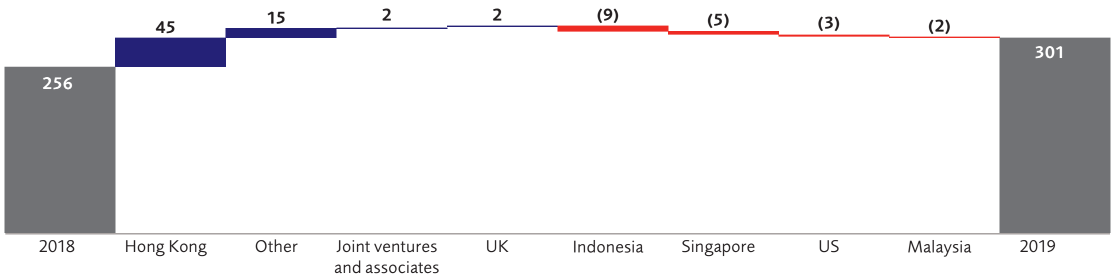


US corporation tax payments were higher reflecting the timing of a one-off additional payment made in early 2019 to take into consideration the acquisition of John Hancock's group payout annuity business in late 2018.

Hong Kong corporation tax payments were lower by $95 million as a result of the 2019 tax payment ($93 million) not being collected until January 2020, as explained in Note 10 of Figure 3.

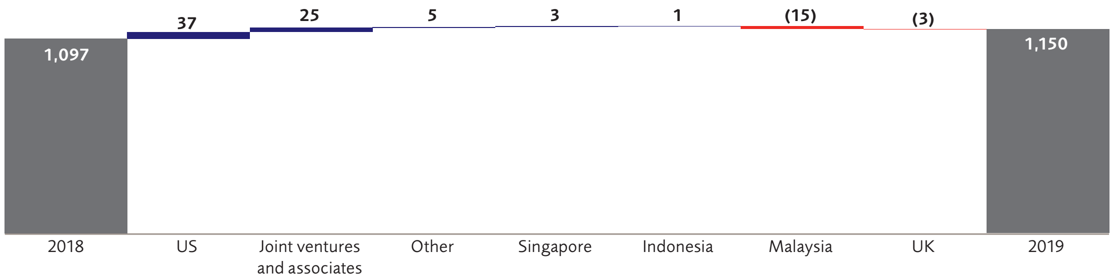
Corporation tax payments from **joint ventures and associates** were $34 million lower, reflecting a positive change in tax law on tax deductibility of commission payments in China, combined with a tax refund in India resulting from the closure of a prior year assessment.

Other taxes borne ($m)



The increase in **Hong Kong** payments is mainly attributable to increased investments in securities that distributed dividends, on which withholding tax is suffered.

Taxes collected ($m)



The increase in the taxes collected in the **US** principally relates to taxes withheld on annuity payments to customers. This is a continuing trend due to an increasing number of older annuity policies moving from accumulation to disbursement.

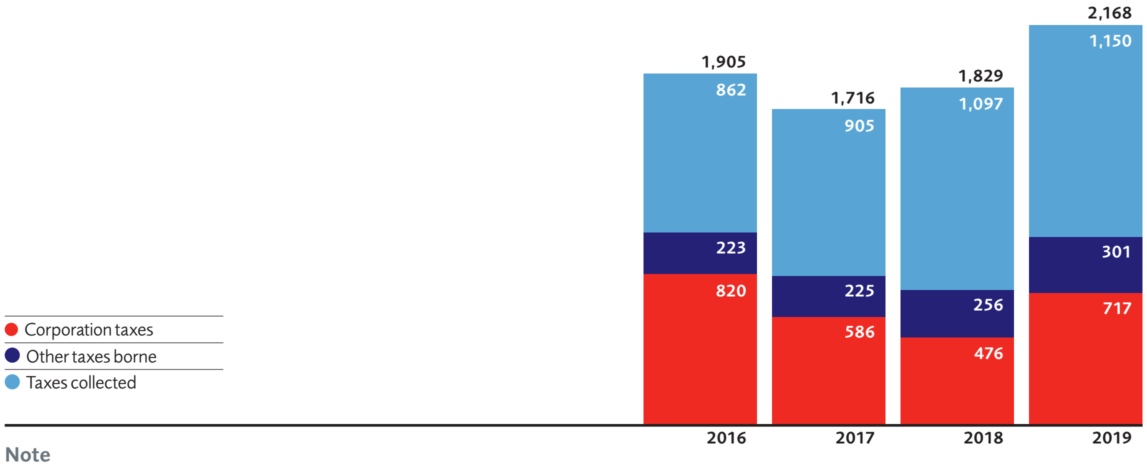
Taxes collected for **joint ventures and associates** were higher, reflecting higher Goods and Services Tax (GST) collected by our Indian JVs.

The decrease in taxes collected in **Malaysia** reflects the replacement of the GST regime with Sales and Services Tax (SST), where the scope of the tax is narrower than the former GST regime.

Appendix 2 – Prudential plc's historical tax remittances

Total taxes remitted[1] ($m)

	Total taxes remitted ($m)			
	2016	**2017**	**2018**	**2019**
United States	1,082	888	915	1,320
Indonesia	246	211	201	191
Hong Kong	58	91	106	56[2]
Malaysia	82	96	95	71
Singapore	61	94	87	80
United Kingdom	93	79	88	87
Africa	2	9	8	9
Other	148	106	131	163
Total subsidiaries	**1,772**	**1,574**	**1,631**	**1,977**
Joint ventures and associates	**133**	**142**	**198**	**191**
Total tax paid	**1,905**	**1,716**	**1,829**	**2,168**



Note

1 Excludes tax remitted by M&G plc entities.

2 See Figure 3 Note 10

Appendix 3 – Calculating our taxable profit

What is the taxable profit based on?

For most of our businesses, the taxable profit is based on the accounting profit before tax in the financial statements. However, there are some exceptions to this for some of our insurance businesses. For example:

— In the US, the taxable profit is based on the surplus for the period from the regulatory return.

— In Hong Kong, the taxable profit for most of the business is assessed as 5 per cent of the premium income (net of reinsurance).

— In Singapore and Malaysia, the taxable profit comprises both the shareholder profit and the investment return earned for policyholders within the insurance funds (policyholder profit). In such jurisdictions, differential corporation tax rates can apply to the shareholder and policyholder profits.

How do we approach cross-border transactions?

The international tax environment can be complex. In addition to applying the local tax laws of the jurisdiction in which we operate, we follow the OECD's principles on transfer pricing and other international tax matters to ensure we pay tax in the jurisdictions in which economic value is created.

How are investment income and capital gains taxed?

Most jurisdictions in which our insurance businesses operate have specific tax rules relating to investment income and capital gains, and these rules apply to all businesses and not just insurance companies. However, the rules can have a more noticeable effect on the tax position of insurance companies, given that investment income and capital gains are a major part of the revenues of an insurance company.

In many jurisdictions it is common for dividend income from portfolio investments to be exempt from tax. However, in the US, dividends received from portfolio investments are included in policyholders' taxable income, but a deduction (known as the dividend received deduction) removes 35 per cent of the dividends from the taxable profit of the company.

In most jurisdictions, capital gains are only taxed when they are realised and so unrealised gains recognised in the accounts will not be taxed (and equally unrealised losses will not be tax deductible).

Some jurisdictions have specific tax rules that only apply to insurance companies or that apply to certain financial companies, including insurers. In the US, unrealised gains and losses on certain derivatives of life insurers are amortised into the taxable profit over a number of years.

Are policyholder liabilities and expenses tax-deductible?

Technical reserves set up for policyholder liabilities are generally tax-deductible. There are some jurisdictions (eg the US, Indonesia and Thailand) where there are either restrictions on the quantum of technical reserves that can be deducted in any one year, or where specific types of technical reserve are not tax-deductible.

Whether or not expenses incurred by an insurance company are tax-deductible will generally follow the same rules as for other companies. Many jurisdictions have specific tax rules that require acquisition (or new business) expenses to be deducted for tax purposes over a number of years and not in the year in which they are incurred.

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