



# TAX COMPLIANCE POLICY

## TABLE OF CONTENTS

### Contents

1. INTRODUCTION .....	3
2. SCOPE .....	3
3. IMPORTANCE OF RESPONSIBLE TAX PRACTICES .....	3
4. BANK'S APPROACH TO TAX .....	3
5. BANK'S APPROACH TO REGULATORY COMPLIANCE IN TAX .....	4
6. TAX CULTURE.....	5
7. TAX RISK MANAGEMENT FRAMEWORK OF BANK .....	6
8. TAX GOVERNANCE AND CONTROL FRAMEWORK .....	6
9. EVALUATION OF TAX GOVERNANCE AND CONTROL FRAMEWORK .....	6
10. DISPUTE/ LITIGATION WITH TAX AUTHORITIES .....	7
11. REDRESSAL MECHANISM.....	7
12. APPROVAL FRAMEWORK FOR TAX POLICY .....	7
13. REVIEW OF THE POLICY .....	7
14. DISCLOSURE.....	7
15. ASSURANCE .....	7

## **1. INTRODUCTION**

Taxes are important sources of government revenue and are central to the fiscal policy and macroeconomic stability of countries. They are acknowledged by the United Nations to play a vital role in achieving the Sustainable Development Goals. They are also a key mechanism by which organizations contribute to the economies of the countries in which they operate. Public reporting on tax increases transparency and promotes trust and credibility in the tax practices of organizations and in the tax systems.

Bank has holistically adopted policies and processes to understand and assess the financial and non-financial impacts of key environmental, social, and governance (ESG) issues on its business. The tax policy of the Bank is an essential aspect of the Bank's overall corporate social responsibility and it reflects the Bank's commitment to operate with integrity and accountability in all tax-related areas in its business.

## **2. SCOPE**

This policy shall be applicable all offices of the Bank in India, its unit located in International Financial Service Centre and its representative offices outside India. The scope of the tax policy shall be for Bank as an assessee and cover all tax matters related to the Bank. It shall highlight the Bank's commitment to transparency and responsible tax practices, including compliance with tax laws and regulations and managing tax-related risks.

## **3. IMPORTANCE OF RESPONSIBLE TAX PRACTICES**

- I. **Reputation and trust:** Responsible tax practices can help to build the Bank's reputation and trust with stakeholders, including customers, investors and civil society groups. This, in turn, can help to attract and retain customers, attract investment and build a positive brand image.
- II. **Risk management:** By adopting a responsible approach to tax, the Bank can manage its tax-related risks and minimize the possibility for negative impacts on its business operations and reputation.
- III. **Compliance and transparency:** A responsible approach to tax can help to ensure that the Bank is complying with relevant laws and regulations and promoting transparency in its operations. This, in turn, can help to build trust with regulators and other stakeholders which can be critical to the Bank's long-term sustainability.
- IV. **Sustainability reporting:** Many sustainability reporting frameworks require organizations to disclose their tax practices and payments and our responsible approach to tax is linked to the sustainable development strategy of the Bank.
- V. **Social responsibility:** Adopting a responsible approach to tax can help to promote the organization's social responsibility by ensuring that it is paying its fair share of taxes and contributing to the public good. This can be an important part of the Bank's sustainability strategy as it can help to build trust with stakeholders and contribute to a more equitable and sustainable society.

## **4. BANK'S APPROACH TO TAX**

Bank's approach to Tax shall include:

- i. **Commitment to transparency:** Bank shall disclose its tax strategy and policies in public documents such as annual report and website. Additionally, Bank shall strive to disclose its tax payments to stakeholders, including tax authorities and investors, to the extent permitted by law and as per contractual obligations. Although Bank is not currently subject to country-to-country reporting requirements, Bank shall maintain transparent communication with tax authorities and provide them with the information they request in a timely and accurate

manner. By fostering a culture of transparency and cooperation with tax authorities, Bank shall aim to build and maintain trust with all its stakeholders, while ensuring compliance with all applicable tax laws and regulations.

Bank's tax reporting commitments on KYC, FATCA and Income Tax Act requirements include establishing a robust reporting mechanism and hence the FATCA High Level Committee has been formed and vested with delegated authority to ensure the implementation of robust processes and controls for compliance.

The Bank shall not engage in practices aimed at transferring value created in one jurisdiction to another jurisdiction that offers a lower tax rate. Our tax planning efforts shall be driven by genuine commercial activities and not by opportunities for tax avoidance through jurisdictional arbitrage. The Bank shall not use secrecy jurisdictions, often referred to as "tax havens," for the purpose of tax avoidance. Bank's operations and tax strategies shall be transparent and align with the economic activities and value creation within the jurisdictions it operates in.

- ii. **Risk management:** Bank shall implement systems and process such as Internal Financial Control system to manage tax risks, which shall be reviewed and updated on a regular basis. The system shall include procedures for identifying, assessing, and mitigating tax risks, as well as processes for monitoring and reporting such risks.
- iii. **Compliance:** The Bank shall comply with all applicable tax laws and regulations, maintain transparency and fairness in all tax-related matters, and minimize tax risk and liabilities in an ethical, societal, and sustainable manner. The Bank shall implement suitable internal controls and processes to ensure compliance with tax laws and regulations enacted by statutory authorities in the geographies it operates. This shall include training for employees on tax compliance as well as regular monitoring and testing of internal controls.
- iv. **Ethical behaviour:** The Bank's Code of Conduct shall include ethical behaviour in tax matters, commitment not to engage in aggressive tax planning or tax evasion as well as a commitment to pay the correct amount of tax in the geographies it operates.

The Bank shall ensure that all tax structures employed have substantial commercial substance. Bank shall not utilize tax structures that are established solely or primarily for tax avoidance purposes. Each tax-related decision shall be backed by legitimate business rationale.

Bank shall ensure that all related party transactions entered during the financial year are conducted on an arm's length basis and in the ordinary course of the Bank's business. Bank shall not engage in any materially significant related party transactions with parties that could potentially conflict with the Bank's interests. All Related Party Transactions shall be subject to review and approval by the Audit Committee of the Board, including prior omnibus approval for transactions of a repetitive nature. The Audit Committee shall approve these transactions based on the applicable policy, and Bank shall provide required disclosures to the Committee on a quarterly basis as required.

- v. **Collaboration with tax authorities:** The Bank shall work collaboratively with relevant tax authorities. This shall include regular communication with tax authorities, participation in tax authority consultations and working groups and disclosure of information to tax authorities in a timely and accurate manner.

## **5. BANK'S APPROACH TO REGULATORY COMPLIANCE IN TAX**

- a) **Understanding the regulatory environment:** Bank shall comply with all applicable tax laws and regulations. To achieve this, Bank may work closely with tax professionals to keep up to date with changes to tax laws and regulations. Bank shall also conduct regular risk assessments to identify potential areas of non-compliance and take appropriate steps to

address any tax-related issues that may arise. Bank shall aim to meet or exceed all tax regulatory compliance while creating long-term value for its stakeholders.

- b) **Developing tax-related policies and procedures:** Bank shall develop tax-related policies and procedures that cover a range of areas, including tax compliance, tax reporting, tax payments, tax planning, and tax risk management. These policies and procedures shall be regularly reviewed and updated to ensure they remain consistent with changes in the tax regulatory environment.
- c) **Training and awareness:** The Bank shall provide training and awareness programs to employees on relevant tax laws and regulations and their obligations to comply with the same. This shall include providing regular training sessions and resources to help employees understand the tax-related policies and procedures that have been put in place to ensure compliance.
- d) **Monitoring and auditing:** The Bank shall conduct regular monitoring of its compliance with relevant tax laws and regulation to ensure compliance with applicable laws and regulations, with a focus on internal controls, financial reporting and other areas where non-compliance may arise. Furthermore, the Bank shall conduct annual audits of those areas to identify potential non-compliance.
- e) **Collaboration with tax regulators:** The Bank shall work collaboratively with tax regulators. This shall include maintaining open communication with tax regulators, participating in tax regulatory consultations and working groups and responding to tax inquiries and requests from tax regulators in a timely and transparent manner. Bank shall aim to build a strong relationship with tax regulators, promote tax compliance and minimise tax risks for the Bank and its stakeholders.

## **6. TAX CULTURE**

Bank's approach to tax should be embedded within its overall business strategy and operations. This may involve the following:

**A. Tax Transparency:** Bank shall priorities tax transparency as an essential component of our corporate social responsibility. Bank shall disclose all relevant facts and information to tax authorities, including the tax results it anticipates and potential points of discussion. Bank shall maintain open and honest communication with tax authorities to ensure compliance with all applicable tax laws and regulations. Our commitment to tax transparency shall reflect its dedication to ethical business practices and its role as a responsible corporate citizen.

**B. Tax Risk Management:** Tax risks are the risks associated with the Bank's tax practices that might lead to a negative effect on the goals of the Bank or to financial or reputational damage. These include compliance risks or risks such as those related to changes in legislation.

Bank has an obligation to pay taxes legally due in the county in accordance with the rules set out by the relevant Government/ revenue authorities. However, there may be instances where there are differences in interpretation between the Bank and tax authorities, which can result in disputes and tax risks. Bank shall strive to achieve certainty in its tax positions and in situations where the tax law is unclear or multiple interpretations are possible and may seek expert opinions to guide its decision-making process. The tax team shall evaluate these opinions thoroughly and make the final decision accordingly.

**C. Tax Compliance:** Bank shall always act in compliance with prevailing tax rules and regulations in letter and spirit and inform its clients about the tax aspects of banking

products. The Bank shall ensure that all taxes are correctly accounted for and that all the tax returns are filed accurately and within the regulatory timelines.

## **7. TAX RISK MANAGEMENT FRAMEWORK OF BANK**

Bank shall build its Tax Risk Management System which defines the framework in which the Bank will operate while managing its tax matters. This may involve the following:

- a) **Risk identification:** The Bank shall conduct an annual review of all tax-related activities, including tax planning, compliance and reporting in order to identify potential tax risks. This assessment shall also take into consideration external factors such as changes in tax laws and regulations that may impact the Bank's tax position.
- b) **Risk management:** The Bank shall implement a tax control framework to manage identified tax risks. The framework shall include controls such as segregation of duties, regular reviews of tax returns and financial statements and continuous monitoring of tax compliance.
- c) **Risk monitoring:** The Bank shall monitor its tax risks on an ongoing basis to ensure that the risk management plan is effective. The Bank shall track its tax compliance performance, review tax reports and filings, periodically review its tax control framework and also maintain regular communication with external tax advisors to identify emerging tax issues.

## **8. TAX GOVERNANCE AND CONTROL FRAMEWORK**

The tax policy shall cover effective tax governance and control framework to aid tax risk management and compliance with tax laws and regulations. The policy shall include tax planning, internal controls & procedures for managing tax risks, as well as Bank's approach to resolving tax disputes and handling audits. It is essential for the Bank to promote responsible tax behavior, transparency and accountability by disclosing its tax-related practices and policies.

## **9. EVALUATION OF TAX GOVERNANCE AND CONTROL FRAMEWORK**

Compliance with the tax governance and control framework shall be evaluated through a combination of internal and external assessments by Taxation department/ Internal Audit as given below.

**A)** Internal assessments by Internal Audit department which include:

- 1. Tax Risk Assessments:** Regular risk assessments shall be performed to identify any potential tax risks and ensure that the Bank has effective controls in place to mitigate those risks.
- 2. Internal Financial Control (IFC) Testing:** -Regular IFC testing shall be conducted to ensure that the Bank's tax activities and reporting are in line with relevant tax laws and regulations.
- 3. Internal Controls Assessments:** The effectiveness of the Bank's internal controls for tax shall be assessed to ensure that the controls are appropriate, effective and efficient in managing tax risks.

**B)** External assessments by Taxation department which include:

- a) Tax audits performed by Statutory auditors under the provisions of Income Tax Act.
- b) Assessment by Tax authorities as per the provisions of various applicable Acts.

## **10. DISPUTE/ LITIGATION WITH TAX AUTHORITIES**

Bank may resolve tax disputes with tax authorities through a combination of arbitration, settlement and litigation. The specific approach taken shall depend on the nature of the dispute, the amount of tax involved and the Bank's overall tax strategy.

## **11. REDRESSAL MECHANISM**

The Bank shall comply with all applicable tax laws and regulations and expects its employees to act with integrity in accordance with these laws. The Bank shall establish a whistle-blower reporting system that allows employees to report concerns related to tax compliance anonymously without fear of retaliation.

Bank shall address any generic concerns relating to tax in a transparent, timely and efficient manner. Bank shall ensure that such concerns are appropriately handled and if necessary, discuss/ seek guidance from bodies such as Indian Bank Association.

To ensure the effective implementation of our tax policy, stakeholders are encouraged to direct any inquiries related to its implementation to their respective tax team line managers. If queries are not resolved within a reasonable timeframe, stakeholders may escalate the matter to the Head of Taxation Department or the Chief Financial Officer of the Bank for further assistance.

## **12. APPROVAL FRAMEWORK FOR TAX POLICY**

The Tax Policy of the Bank shall be approved by the Board of Directors. Implementation of the Tax Policy may be monitored by Board of Directors or Audit Committee. In some cases, this responsibility may be delegated to Managing Director (MD). Managing Director may further delegate the responsibility to Chief Financial Officer (CFO) or the Head of Taxation Department based on merit.

## **13. REVIEW OF THE POLICY**

The Tax policy is developed and put into practice by Taxation Department of the Bank. Taxation Department is accountable for implementation of the same. The review of the tax policy should be conducted at least annually. If there are significant changes in the Bank's operations or tax laws, the same may also be reviewed. The review should consider the Bank's tax risks, how they are being managed and should ensure that the tax policy remains aligned with the Bank's overall business objectives.

## **14. DISCLOSURE**

The extracts of this Policy shall be uploaded on the website of the Bank [www.federalbank.co.in](http://www.federalbank.co.in).

## **15. ASSURANCE**

As a matter of policy, the Bank does not provide any comments or clarifications on personal tax matters of any stakeholders. Any information provided is of a general nature and should not be construed as a tax advice. It is the responsibility of the stakeholder to consult their own tax advisor before making any decisions based on such information.

Bank shall suitably disclose if any specific tax related matters are externally assured as part of its sustainability reporting.

\*\*\*\*\*