

# Taxation

This document summarises certain tax consequences of the Dividend distribution in shares for holders of Santander shares. It is based on current law and on what is understood to be current HM Revenue & Customs practice, in each case as at October 2020. It is not advice. It applies only to holders of Santander shares who are resident (and, in the case of individuals, domiciled) for tax purposes in the UK, who hold their Santander shares as an investment, and who are the absolute beneficial owners of their Santander shares. Special rules may apply to certain classes of shareholder, including insurance companies, collective investment schemes, individuals who are resident but not domiciled in the UK, and shareholders who have acquired (or are deemed for tax purposes to have acquired) their Santander shares by reason of an office or employment.

Shareholders who are in any doubt as to their tax position or who are resident or domiciled in, or subject to tax in, a jurisdiction other than the UK should consult their own professional advisers immediately. Remember that your tax position depends on your own particular circumstances and may be subject to change in the future.

## HOLD YOUR RIGHTS AND RECEIVE NEW SHARES

For UK tax purposes, your receipt of additional Santander shares should not give rise to taxable income or to a disposal for the purposes of taxation of chargeable gains. Spanish withholding tax will also not be deducted if you receive shares. Your new shares should be treated as part of the same asset as your existing holding of Santander shares for the purposes of taxation of chargeable gains, with any base cost in your existing Santander shares being apportioned between your existing shares and your new Santander shares.

If you receive any cash in respect of the sale of an entitlement to a fraction of a share, this receipt should be treated as a capital distribution for UK tax purposes. The amount of the capital distribution will be equal to the cash payment which you receive. The receipt of such an amount will also be treated as a disposal by you of a Spanish asset for Spanish tax purposes, giving rise to the Spanish tax reporting obligations discussed below.

The capital distribution may give rise to a liability to UK capital gains tax or (for companies) corporation tax; whether you are liable to tax will depend on your particular circumstances (including what you paid for your Santander shares), and on whether any exemptions or reliefs are available. For example, individuals are entitled to an annual exempt amount of up to £12,300 of chargeable gains in any tax year before becoming liable to pay capital gains tax.

If you purchased your Santander shares and the capital distribution is "small" for UK tax purposes, currently the capital distribution will not give rise to a chargeable gain or allowable loss, but will be deducted from the base cost of your Santander shares. HM Revenue & Customs treats a capital distribution as "small" if it amounts to £3,000 or less, or if it represents 5 per cent or less of the market value of your Santander shares at the time the capital distribution was made.

To the extent that the capital distribution exceeds any base cost in your Santander shares (as reduced by any previous "small" capital distributions), then the capital distribution will be treated as a part disposal of your Santander shares for UK tax purposes. As noted above, this may, depending on your particular circumstances, result in a liability to UK capital gains tax or (for companies) corporation tax.

Please note that the base cost of your Santander shares will be nil for UK tax purposes if they derive from an allocation that you received on the demutualisation of Abbey National plc or Alliance & Leicester plc.

Currently, for Spanish tax purposes, any cash which you receive in respect of a sale of an entitlement to a fraction of a share will be treated as a disposal of rights to Santander shares. As a result, Spanish withholding tax will not be deducted from the payment, but the amount obtained will be treated, for Spanish tax purposes, as a capital gain derived from a disposal of your Santander shares. In that scenario, you would be required to file a tax return with the Spanish tax authorities in order to claim, if applicable, an exemption either under the UK-Spain double tax treaty or under the Spanish Non Resident Income Tax Law from Spanish tax on the disposal, as the case may be. Further details are provided at [www.santandershareview.com](http://www.santandershareview.com) in the "Dividends" section.

### **SELL YOUR RIGHTS ON-MARKET AND RECEIVE CASH**

The cash payment you receive should be treated for UK tax purposes as a capital distribution rather than as dividend income. The amount of the capital distribution will be equal to the cash payment you receive. For more information on the taxation of capital distributions, please refer to paragraphs 3 and 4 of the tax summary for 'Hold your rights and receive new shares' above.

Spanish tax law currently treats a sale of rights as a disposal by you of rights to Santander shares and therefore Spanish withholding tax will not be deducted from your cash payment.

The Spanish tax consequences of a disposal of rights to Santander shares are included in the final paragraph of the tax summary for 'Hold your rights and receive new shares' above.