



BT Group plc

Tax strategy 2021

Introduction



Simon Lowth
Chief Financial Officer

“We are one of the world’s leading communication companies, and a successful business at the heart of the UK’s telecommunications past and digital future.

Our purpose is to connect for good, and our ambition is to become the world’s most trusted connector of people, devices and machines.”

Our strategy

Our tax strategy sits at the heart of our business responsibility agenda, ensuring that we pay our fair share of taxes and that we conduct our tax affairs ethically and with integrity. The taxes we pay in the countries in which we operate contribute to the local economies and people’s lives.

We are proud to be a major contributor of taxes in the UK. In our financial year 2019–20, we paid corporation tax of £147m. We paid £365m of employer’s National Insurance contributions for our 82,800 people in the UK, and £400m of business rates in respect of our extensive UK fixed and mobile networks and our presence on around 620 high streets across the UK.

The One Hundred Group 2020 Total Tax Contribution Survey ranked us as the fifth highest contributor in the UK.

Our four brands



openreach



Background

We are proud to be a major contributor of taxes to the UK economy. The One Hundred Group 2020 Total Tax Contribution Survey ranked us as the fifth highest contributor in the UK.

UK taxes paid

	£m	%
Corporation tax	147	15%
Employer's NIC	365	37%
Rates	400	42%
Other	62	6%
Total	974	100%

UK taxes collected

	£m	%
VAT	1,953	68%
Payroll deductions	891	31%
Other	12	1%
Total	2,856	100%

Tax contribution

Total tax contribution is the total of UK taxes paid by us and UK taxes collected by us for the UK Government.

We collected nearly £3bn of UK taxes from our customers and our people on behalf of the UK Government.



Background continued

UK corporation
tax rate

19%

In 2019–20, we reported a tax charge in our Income Statement of £619m on profits of £2,353m. We also reported a profit of £5,360m in Other Comprehensive Income, in respect of which we recognised a tax charge of £892m.

Our Global customer facing unit delivers services in 180 countries. However, our extensive UK presence means that we expect most of our profits to arise in the UK, and we pay UK corporation tax on those profits. We therefore expect our tax rate on our profits before specific items to be around the UK rate of corporation tax.

Other comprehensive income comprises principally a gain on our pension obligations, caused by an increase in corporate bond spreads due to Covid-19, and which has subsequently reversed.

2019–20

	Pre-tax £m	Tax £m	After tax £m
Income statement	2,353	(619)	1,734
Other comprehensive income	5,360	(892)	4,468
Total	7,713	(1,511)	6,202

In 2019–20 we paid corporation tax of £210m including £147m in the UK.

Why did you pay £210m rather than your £1,511m tax charge?

- 1 Employee pension schemes. We obtain tax deductions for contributions we make. Gains and losses on our pension obligations are not taxable.
- 2 Employee share schemes. We obtain tax deductions when our employees receive the shares, not when we account for the obligation.
- 3 Tax depreciation rates on our capital expenditure are not the same as our accounting depreciation rates.

Our attitude towards tax planning

We seek to ensure that our business grows and develops in a tax-efficient manner, and in doing this we act responsibly. This means we don't undertake tax planning that is unconnected with our business. We also don't undertake transactions that are designed solely to create a tax benefit.

In 2019-20 we invested

£662m

in research and development, centred at our technology headquarters in Suffolk.

This allowed us to claim

£37m

of additional tax relief under the UK patent box regime.

We have a portfolio of

5,000+

patents and applications.

In 2019/20 we filed

103

patent applications for inventions.

We provide telecommunications services globally, and accordingly may establish entities in countries with low tax rates.

We ensure that the results of these entities reflect the value created in those countries. Any profits of these entities relating to activities performed in the UK are taxed in the UK. We also have various legacy offshore investment companies and an internal offshore insurance company. However, these do not create any material tax benefits for us.

Transfer pricing is how we allocate our profits to the countries where they were created, which is mainly the UK for us. We apply OECD principles to transfer pricing, which means our related entities trade with each other as if they were unrelated.

We fully disclosed all our related entities in countries with low tax rates in our Annual Report 2020.

The level of risk in relation to taxation that we are prepared to accept

We maintain

a limited appetite for tax risk by requiring a strong connection between tax planning and our business. We conduct our tax planning responsibly.

We seek

out opportunities that meet these requirements, where there is reasonable tax technical merit and we are confident that we can manage any organisational complexities.

We believe

our approach results in an appropriate balance between our stakeholders.

Where a tax position is particularly uncertain, we seek to agree it with the appropriate tax authority in real time. If this approach is not available, we take reputable independent advice.

Our approach to tax risk management and governance arrangements

We have a framework for managing taxes that forms part of our wider enterprise risk management. We call this our Tax Control Framework. It is set centrally and agreed by our Board of Directors. The framework comprises three key parts.

Management

This is how we seek to ensure that our Board's limited appetite for tax risk is applied globally.

We use a standard responsibility assignment matrix methodology to allocate ownership for different tax-related activities and different taxes globally. This ensures that any gaps are identified and closed, and appropriate individuals have direct accountability for tax matters. Our central tax team monitors this model and our internal audit function undertakes periodic reviews.

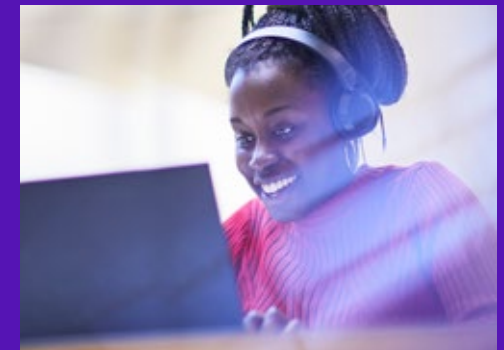


Operations

This is how we seek to ensure that we comply with the tax rules of all the countries in which we do business. We set a single quality standard for our tax compliance activities globally, which reflects our obligations to our stakeholders.

People & Organisation

This is how we seek to ensure that our tax matters are dealt with in a manner consistent with our wider corporate purpose. We hire suitably qualified professionals globally and ensure that they act ethically and with integrity. We also ensure they comply with the continuing professional development requirements of the professional bodies to which they belong, and our own learning and development policies.



Our approach to tax risk management and governance arrangements

Executive responsibility for tax matters is held by our Group Chief Financial Officer (who is also our Senior Accounting Officer for UK tax purposes) and our Director of Tax, Treasury, Insurance and Pensions. Day-to-day responsibility is delegated to our Group Tax Director.

The Group Tax Director manages our relationships with tax authorities globally, and escalates issues to the Director of Tax, Treasury, Insurance and Pensions, the Group Chief Financial Officer, or the Board if material concerns arise.

We seek to pay tax in accordance with the laws of the countries where we do business. However, in some areas these laws are unclear, and it can take many years to either agree an outcome with a tax authority or resolve through litigation.

We use our Tax Control Framework to ensure that we resolve these disputes ethically and with integrity.

To find out more about our Board visit www.bt.com

At an enterprise level, we monitor two key tax risks:

- 1 Failure to comply with the tax laws of the countries in which we operate, leading to financial loss and reputational damage.

We manage this risk by applying the Operations part of our Tax Control Framework.

- 2 Failure to reflect current and future tax consequences in our decision-making, leading to financial loss, financial misstatements and reputational damage.

We manage this risk by applying the Management part of our Tax Control Framework. This ensures that we understand the tax consequences when we make our material business decisions.

Our Board



Jan du Plessis
Chairman



Philip Jansen
Chief Executive



Simon Lowth
Chief Financial Officer



Adel Al-Saleh
Non-independent
non-executive Director



Sir Ian Cheshire
Independent non-executive
Director



Iain Conn
Independent non-executive
Director



Isabel Hudson
Independent non-executive
Director



Mike Inglis
Independent non-executive
Director



Matthew Key
Independent non-executive
Director



Allison Kirkby
Independent non-executive
Director



Leena Nair
Independent non-executive
Director



Sara Weller CBE
Independent non-executive
Director



Rachel Canham
Company secretary & general
counsel, governance

Our approach towards our dealings with tax authorities

We seek open and constructive working relationships with tax authorities worldwide.

Given our major tax contribution in the UK, we have extensive dealings with HMRC. We are routinely subject to tax audit. We conduct tax audits, disputes and litigation ethically and with integrity.

We disclose significant matters to HMRC and, where appropriate, seek clearance to ensure that tax implications are agreed upfront.

We regularly participate in UK tax consultations and pilot programmes that impact our business to ensure that our views are known and to help shape the future.

This year, we participated in consultations on uncertain tax treatments, research and development tax relief, business rates and making tax digital.



Country-by-Country Reporting

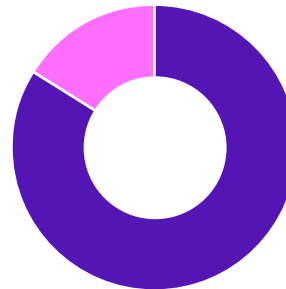
Our principal operations are in the UK, where the majority of our customers, people, functions and assets are located.

UK

We realise 85% of our aggregated revenues in the UK and pay 72% of our tax in the UK.

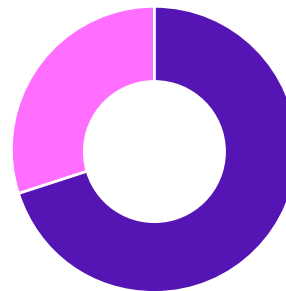
Revenues

- UK **85%**
- Non-UK **15%**



Tax paid

- UK **72%**
- Non-UK **28%**

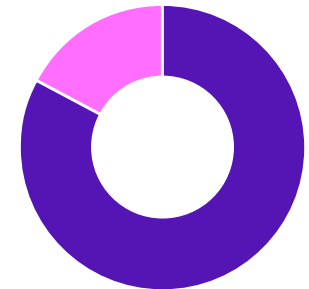


Non-UK

We have taxable presences in 112 countries outside the UK, but only 13 have aggregate revenues in excess of £100m.

Aggregate revenues

- Top 13 **83%**
- Balance of 99 **17%**



Country-by-Country Reporting continued

We expect our non-UK countries typically to realise low, stable operating margins, reflecting the significant activities we undertake in the UK.

The operating margins realised by our non-UK operations depend on the type of customers they serve and the functions they perform.

The data below for our top 13 countries is extracted from our Country-by-Country Report for the year ended 31 March 2020, which we file with HMRC.

Country	Revenues £m	Profit (Loss) before tax £m	Corporate income tax paid £m	Employees	Tangible assets £m
United States ¹	1,043.6	(2.4)	7.2	1,384	119.8
Italy	492.2	10.2	0.6	940	253.7
Ireland	327.9	118.5	0.3	677	82.0
India	324.6	49.7	9.4	11,077	46.5
Germany	303.8	23.4	(0.2)	706	117.5
Spain	279.4	13.2	9.1	1,112	69.6
Switzerland	264.9	10.1	2.9	135	9.9
France ¹	259.2	(94.5)	1.5	978	34.3
Belgium	158.8	9.1	3.0	268	19.7
Singapore ¹	141.8	(67.7)	1.2	237	15.1
Netherlands	134.8	10.9	(2.4)	335	84.7
Hong Kong	129.1	13.9	0.5	127	16.5
Australia	118.9	8.3	3.1	230	8.6

¹ Profits reduced by loss on investments



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Registered in England and Wales No. 4190816

Produced by BT Group plc

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This document is the group tax strategy for BT Group plc and all its subsidiaries in respect of its financial year ending 31 March 2021 for the purposes of paragraph 16(2) Schedule 19 Finance Act 2016. It was published on bt.com on 26 March 2021, and remains accessible and free of charge. A full list of our related undertakings, including place of incorporation, branches and business activity, is disclosed from page 197 onwards in BT Group plc's Annual Report 2020, also published on bt.com. We have a single global tax strategy and all references to our tax strategy in this document include a reference to our UK tax strategy. Further, all references to tax or taxation include a reference to UK tax or UK taxation.