



BT Group plc Tax Strategy 2019

This document is the group tax strategy for BT Group plc and all its subsidiaries in respect of its financial year ending 31 March 2019 for the purposes of paragraph 16(2) Schedule 19 Finance Act 2016. It was published on btplc.com on 7 March 2019, 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 271 onwards in BT Group plc's Annual Report and Form 20-F 2018, also published on btplc.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.

Introduction

“BT’s purpose is to use the power of communications to make a better world.

As one of the world’s leading communications companies and a successful business at the heart of the UK’s telecommunications past and digital future, we are focused on bringing the benefits of connectivity to everyone, as well as supporting the communities we operate in through our people and technology.”



Simon Lowth
Group Chief Financial Officer

Our tax strategy sits at the heart of our business responsibility agenda. It ensures that we pay our fair share of taxes back into the societies in which we operate, and that we conduct our tax affairs ethically and with integrity.

We are proud to be a major contributor of taxes in the UK. In our financial year 2017–18, we paid corporation tax of £374m. We paid £346m of employer’s national insurance contributions for our 82,500 people in the UK, and £273m of business rates in respect of our extensive UK fixed and mobile networks, and our presence on around 600 high streets across the UK.

The One Hundred Group 2018 Total Tax Contribution Survey ranked us as the fifth highest contributor in the UK for the third year running.

Our four brands



openreach



plusnet

Background

We are proud to be a major contributor of taxes to the UK economy. The One Hundred Group 2018 Total Tax Contribution Survey ranked us as the fifth highest contributor in the UK for the third year running.

UK taxes paid

	£m	%
Corporation tax	374	35%
Employer's NIC	346	32%
Rates	273	25%
Other	81	8%
Total	1,074	100%



UK taxes collected

	£m	%
VAT	2,114	71%
Payroll deductions	835	28%
Other	12	0%
Total	2,961	100%

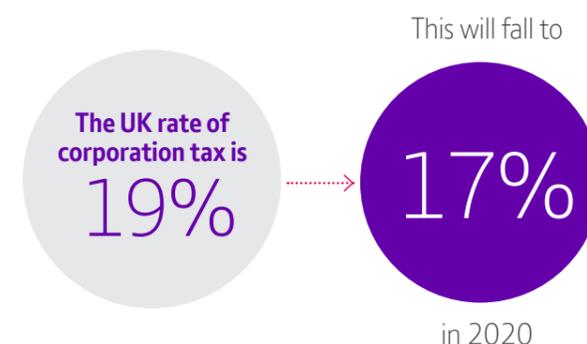
Total tax contribution is the total of UK taxes paid by us and UK taxes collected by us for the UK government.

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



Q Why is the tax you pay different from your tax charge?

- A** Our tax is paid over two years. This will change in 2019, when it will all be paid in the year in which our profits arise.
- A** EE has tax losses arising from investing in its mobile business. These reduced our tax payment by £111m.
- A** We make significant contributions to our people's pension and share schemes. These reduced our tax payment by £217m.
- A** Tax depreciation rates on our capital expenditure are not the same as our accounting depreciation rates.



In 2017–18, we reported a tax charge in our Income Statement of £584m on profits of £2,616m, representing an effective tax rate of 22%. In the same year, excluding specific items, we reported a tax charge of £671m on profits of £3,444m, representing an effective tax rate of 19%.

We expect our tax rate on our profits before specific items to be around the UK rate of corporation tax, as the majority of our business occurs in the UK.

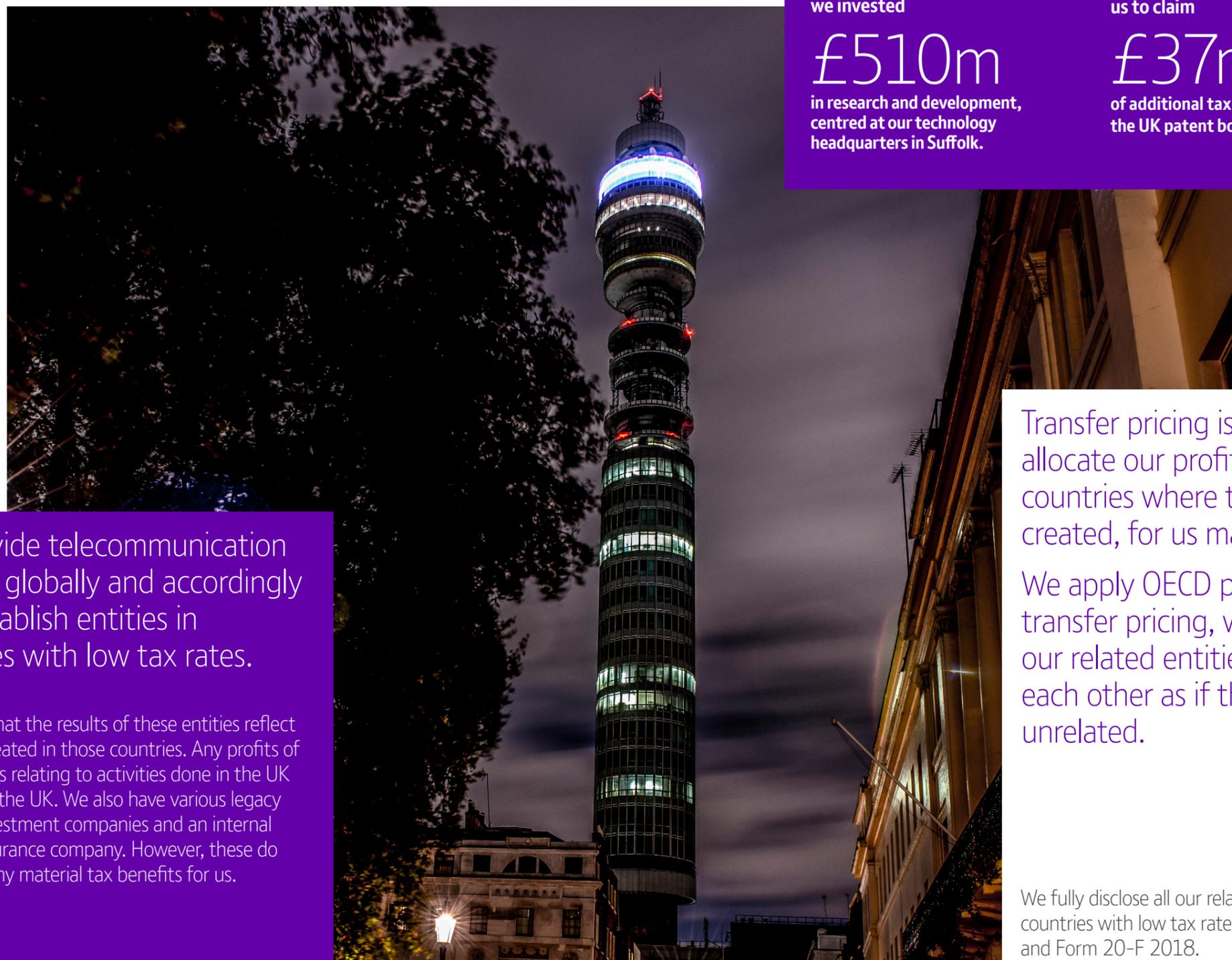
Most of our business is done in the UK and we pay UK corporation tax on the profits.

Our Global Services unit delivers services in 180 countries, but we expect most of our profits to arise in the UK, reflecting our extensive UK presence.

Tax planning

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 wholly artificial transactions.



We provide telecommunication 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 done 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.

We take the benefit of widely claimed tax incentives.

In 2017–18
we invested

£510m

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.

Transfer pricing is how we allocate our profits to the countries where they were created, for us mainly the UK.

We apply OECD principles to transfer pricing, which means our related entities trade with each other as if they were unrelated.

We fully disclose all our related entities in countries with low tax rates in our Annual Report and Form 20-F 2018.

Risk appetite

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.

Approach

We believe our approach results in an appropriate balance between our stakeholders.

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



Governance and management

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 RACI methodology to allocate ownership for different tax-related activities and different taxes globally. This ensures 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 we ensure that they act ethically and with integrity. We also ensure they comply with continuing professional development requirements of the professional bodies to which they belong, and our own learning and development policies.



Governance and management

Our approach to tax risk management and governance arrangements *continued*

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 & Pensions. Day-to-day responsibility is delegated to our Group Tax Director.

BT Group plc Board



Jan du Plessis
Non-executive
Chairman



Philip Jansen
Chief Executive



Simon Lowth
Group Chief Financial
Officer



Iain Conn
Independent
Non-executive
Director



Tim Höttges
Non-independent
Non-executive
Director



Nick Rose
Independent
Non-executive
Director



Isabel Hudson
Independent
Non-executive
Director



Mike Inglis
Independent
Non-executive
Director



Jasmine Whitbread
Independent
Non-executive
Director



Matthew Key
Independent
Non-executive
Director



Rachel Canham
Company Secretary
& General Counsel,
Governance

To find out more about our board
visit www.btplc.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.

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 agree an outcome with a tax authority or through litigation. We use our Tax Control Framework to ensure that we resolve these disputes ethically and with integrity.

Dealing with tax authorities

Our approach towards our dealings with tax authorities

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

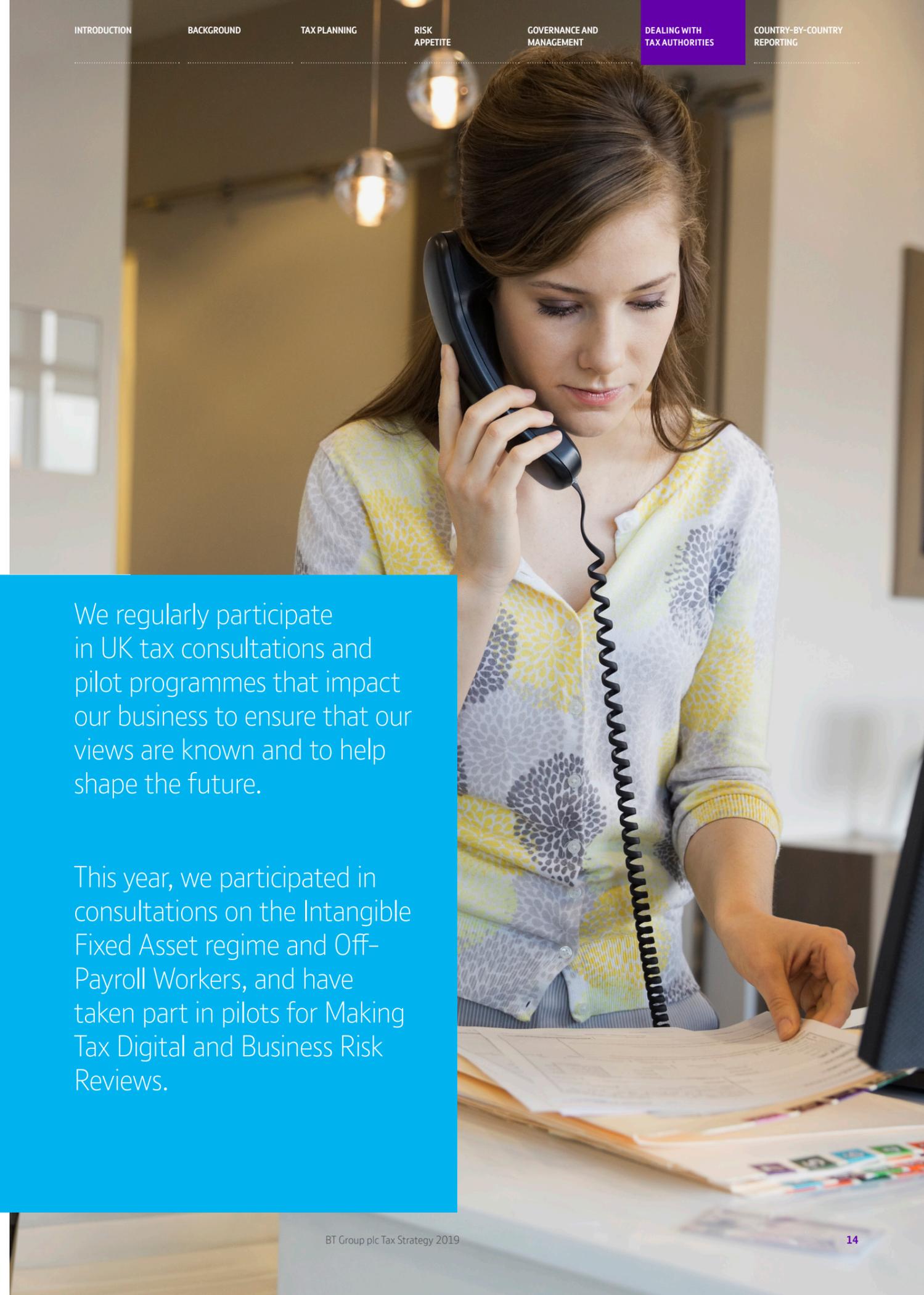
Given our major tax contribution in the UK, we have extensive dealings with HMRC. We are routinely subject to tax audit. We conduct tax audits, disputes and litigation ethically and with integrity.

We disclose to, and seek clearance from, HMRC on significant matters 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 the Intangible Fixed Asset regime and Off-Payroll Workers, and have taken part in pilots for Making Tax Digital and Business Risk Reviews.

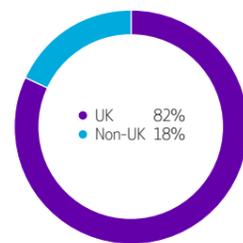


Country-by-Country Reporting

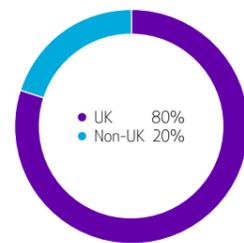
We realise 82% of our aggregated revenues in the UK and pay 80% of our tax in the UK.

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

Revenues

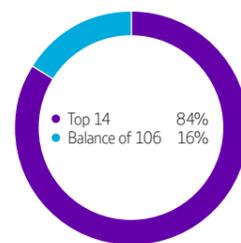


Tax paid



We have taxable presences in 120 countries outside the UK, but only 14 have aggregate revenues in excess of £100m.

Non-UK aggregated revenues



The data below for our top 14 countries is extracted from our Country-by-Country Report for the year ended 31 March 2018, which we file with HMRC.

Country	Revenues ¹ £m	Profit (Loss) before tax £m	Corporate income tax paid £m	Employees	Tangible assets £m
United States	1,054.3	56.5	13.3	1,732	205.9
Italy	601.0	(25.4) ²	11.8	1,089	73.0
Germany	552.1	35.1	9.8	953	63.7
Ireland	375.9	29.2	0.2	569	23.4
France	349.1	10.4	3.2	1,118	20.0
India	305.6	30.4	21.7	10,280	52.2
Spain	295.1	13.1	3.0	1,111	3.9
Switzerland	293.1	6.6	1.9	146	22.0
Brazil	186.8	58.6	10.9	708	45.2
Netherlands	185.7	(213.7) ³	2.1	477	5.7
Belgium	182.9	16.9	1.9	261	5.7
Singapore	162.4	3.0	4.3	314	4.6
Hong Kong	146.1	14.5	0.6	196	6.0
Australia	145.4	6.7	0.5	229	3.6

¹ External and related party revenues

² Loss reflects the unwind of inappropriate accounting transactions that have previously been disclosed

³ Loss includes investment write-down

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 functional activities they perform.

Notes

BT Group plc

Registered office: 81 Newgate Street,
London EC1A 7AJ

Registered in England and Wales No. 4190816

Produced by BT Group

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