



BT Group plc

# Tax strategy 2020

# Introduction



Simon Lowth  
Chief Financial Officer

“Our 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.”

## Our strategy

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 2018–19, we paid corporation tax of £317m. We paid £359m of employer’s National Insurance contributions for our 84,300 people in the UK, and £296m 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 2019 Total Tax Contribution Survey ranked us as the sixth 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 2019 Total Tax Contribution Survey ranked us as the sixth highest contributor in the UK.

## UK taxes paid

	£m	%
Corporation tax	317	30%
Employer's NIC	359	35%
Rates	296	28%
Other	74	7%
<b>Total</b>	<b>1,046</b>	<b>100%</b>

## UK taxes collected

	£m	%
VAT	2,011	70%
Payroll deductions	878	30%
Other	12	0%
<b>Total</b>	<b>2,901</b>	<b>100%</b>

## 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

**In 2018–19, we reported a tax charge in our Income Statement of £507m on profits of £2,666m. We also reported a loss of £1,534m in Other Comprehensive Income, in respect of which we recognised a tax credit of £343m.**

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.

### 2018-19

	Pre-tax £m	Tax £m	After tax £m
Income statement	2,666	(507)	2,159
Other comprehensive income	(1,877)	343	(1,534)
<b>Total</b>	<b>789</b>	<b>(164)</b>	<b>625</b>

UK corporation  
tax rate  
**19%**

**In 2018-19 we paid tax of £431m including £317m in the UK.**

**Why did you pay £431m rather than your £164m tax charge?**

- 1 Employee pension schemes. We obtain tax deductions when we make payments, not when we account for the liability.
- 2 EE has tax losses arising from investing in its mobile business. These are tax deductible in the current period, even though they arose in prior periods.
- 3 Employee share schemes. We obtain tax deductions when our employees receive the shares, not when we account for the liability.
- 4 Tax depreciation rates on our capital expenditure are not the same as our accounting depreciation rates.
- 5 Tax is not always payable in the period to which it relates. Most of the tax we paid in 2018-19 related to that due in respect of 2017-18.

# 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.**

In 2018-19 we invested

## £643m

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

This allowed us to claim

## £39m

of additional tax relief under the UK patent box regime.

We have a portfolio of

## 5,000+

patents and applications.

In 2018/19 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 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.

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 2019.

# 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 will 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 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.



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

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.

To find out more about our Board visit [www.btplc.com](http://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.

## Our Board



**Jan du Plessis**  
Chairman



**Philip Jansen**  
Chief Executive



**Simon Lowth**  
Chief Financial Officer



**Sir Ian Cheshire**  
Independent non-executive  
Director



**Iain Conn**  
Independent non-executive  
Director



**Tim Höttges**  
Non-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



**Nick Rose**  
Senior Independent  
Director and 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 VAT partial exemption methods, off-payroll workers and the Good Work Plan, and have contributed to HMRC's cooperative compliance initiative.



# Country-by-Country Reporting

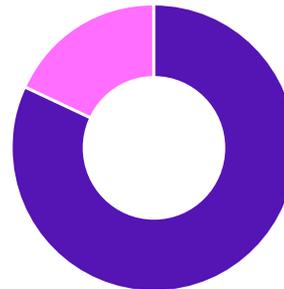
Our principal operations are in the UK, where the majority of our customers, people, functions and assets are located.

## UK

We realise 82% of our aggregated revenues in the UK and pay 78% of our tax in the UK.

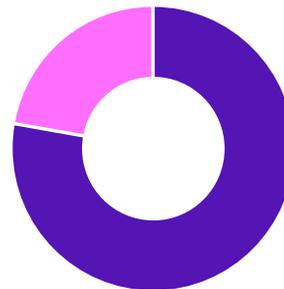
### Revenues

- UK  
82%
- Non-UK  
18%



### Tax paid

- UK  
78%
- Non-UK  
22%

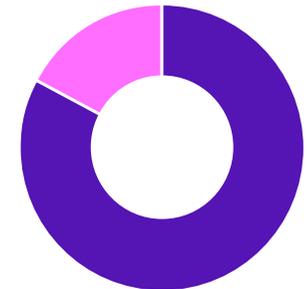


## Non-UK

We have taxable presences in 118 countries outside the UK, but only 14 have aggregate revenues in excess of £100m.

### Aggregated revenues

- Top 14  
83%
- Balance of 104  
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 14 countries is extracted from our Country-by-Country Report for the year ended 31 March 2019, which we file with HMRC.

Country	Revenues <sup>1</sup> £m	Profit (Loss) before tax £m	Corporate income tax paid £m	Employees	Tangible assets £m
United States	980.4	50.8	5.2	1,503	41.3
Italy	598.3	42.8	31.5	964	173.9
Ireland	370.4	41.4	0.0	656	57.1
Germany	358.3	22.1	6.2	713	61.0
France	323.5	10.3	2.9	1,040	19.6
India	298.0	42.7	11.1	10,348	12.0
Spain	288.8	10.6	3.0	1,095	42.6
Switzerland	270.0	12.6	4.4	142	3.7
Singapore	160.8	1.4	1.2	260	4.7
Netherlands <sup>2</sup>	154.5	277.1	3.1	345	41.7
Belgium	153.8	4.3	0.3	274	9.5
Hong Kong	136.9	2.4	1.9	144	4.7
Australia	130.3	5.3	2.1	221	4.7
Brazil	106.4	6.3	1.5	660	16.6

<sup>1</sup> External and related party revenues

<sup>2</sup> Profit before tax includes dividend income which is non-taxable. This dividend income would be non-taxable if received in the UK.



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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 2020 for the purposes of paragraph 16(2) Schedule 19 Finance Act 2016. It was published on [btplc.com](http://btplc.com) on 19 March 2020, 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 177 onwards in BT Group plc's Annual Report 2019, also published on [btplc.com](http://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.