



BT Group plc

Tax strategy 2022

Introduction



Simon Lowth
Chief Financial Officer

We're one of the world's leading communications services companies. The solutions we sell are integral to modern life. Our purpose is as simple as it is ambitious: we connect for good.

There are no limits to what people can do when they connect. And as technology changes our world, connections are becoming even more important to everyday life.

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 2020/21, we paid corporation tax of £229m. We paid £356m of employer's national insurance contributions for our 81,300 people in the UK, and £384m of business rates in respect of our extensive UK fixed and mobile networks and our presence on around 580 high streets across the UK.

The One Hundred Group 2021 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 2021 Total Tax Contribution survey ranked us as the sixth highest contributor in the UK.

UK taxes paid

	£m	%
Corporation tax	229	22%
Employer's NIC	356	35%
Rates	384	37%
Other	56	6%
Total	1,025	100%

UK taxes collected

	£m	%
VAT	1,864	68%
Payroll deductions	837	31%
Other	13	1%
Total	2,714	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 2020/21, we reported a tax charge in our Income Statement of £332m on profits of £1,804m. We also reported a loss of £5,663m in Other Comprehensive Income, in respect of which we recognised a tax credit of £1,051m.

We do most of our business in the UK, so we expect our underlying tax rate to be around the UK corporation tax rate.

Other comprehensive income comprises principally the annual revaluation of our defined benefit pension scheme obligations. We obtain tax deductions when we pay these obligations, so we book deferred tax on the revaluation.

2020/21

	Pre-tax £m	Tax £m	After tax £m
Income statement	1,804	(332)	1,472
Other comprehensive income	(5,663)	1,051	(4,612)
Total	(3,859)	719	(3,140)

In 2020/21 we paid corporation tax of £288m, including £229m in the UK.

Why did you pay £288m when you have a £719m tax credit?

- 1 Employee pension schemes. We obtain tax deductions for contributions we make, not on the accounting revaluation of our pension obligations. 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 2020/21 we invested

£720m

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

This allowed us to claim

£36m

of additional tax relief under the UK patent box regime.

We have a portfolio of

5,100+

patents and patent applications.

In 2020/21 we filed

109

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 2021.

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.

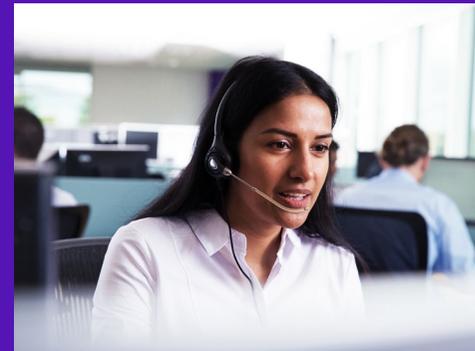
Our approach to tax management and governance arrangements

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 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 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 [bt.com](https://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



Adam Crozier
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



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



Sabine Chalmers
Group general counsel,
company secretary &
director of regulatory affairs

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 reliefs, business rates and plastic packaging tax.



Country-by-country reporting

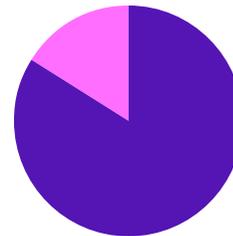
Our principal operations are in the UK, where the majority of our customers, people, functions and assets are located.

UK

We realise 84% of our aggregated revenues in the UK and pay 80% of our tax in the UK.

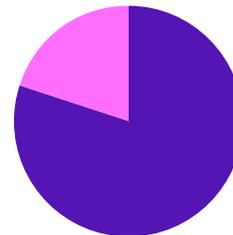
Revenues

UK	84%	●
Non-UK	16%	●



Tax paid

UK	80%	●
Non-UK	20%	●

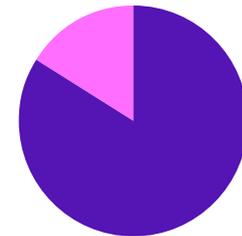


Non-UK

We have taxable presences in 113 countries outside the UK, but only 13 have aggregate revenues in excess of £100m.

Aggregate revenues

Top 13	84%	●
Balance of 100	16%	●



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 2021, 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	910.9	(118.1)	12.8	1,171	90.5
Italy	409.9	11.5	2.0	907	211.4
Germany	327.1	25.7	1.7	578	96.1
Ireland	312.3	33.9	0.1	655	73.1
India	274.1	40.6	7.4	11,105	43.7
Switzerland	274.0	13.9	2.2	110	8.6
France ¹	221.7	(45.5)	2.0	410	21.7
Belgium	170.6	9.9	1.3	38	16.1
Hong Kong	132.3	6.4	1.3	96	13.0
Netherlands ²	122.7	101.1	(1.3)	341	75.6
Spain ¹	117.8	(41.5)	9.0	203	4.2
Singapore	117.8	10.6	1.7	177	12.4
Australia	108.6	9.5	0.8	177	7.2

¹ Profit reduced by loss on investments

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

Country-by-country reporting continued

Extracted data for all our business in the EU is shown opposite:

Country	Revenues £m	Profit (Loss) before tax £m	Corporate income tax paid £m	Employees	Tangible assets £m
Austria	8.5	0.5	0.1	7	1.2
Belgium	170.6	9.9	1.3	38	16.1
Bulgaria	0.9	0.1	0.0	0	0.4
Croatia	0.4	0.0	0.0	0	0.1
Cyprus	1.6	0.4	0.0	0	0.3
Czech Republic	11.9	0.4	0.2	0	0.0
Denmark	4.3	0.3	0.1	0	1.2
Estonia	0.7	0.2	0.0	0	0.5
Finland	2.9	(0.1)	0.0	0	1.2
France ¹	221.7	(45.5)	2.0	410	21.7
Germany	327.1	25.7	1.7	578	96.1
Greece	5.0	0.9	0.3	0	0.9
Hungary	76.0	5.6	2.2	2,285	10.3
Ireland	312.3	33.9	0.1	655	73.1
Italy	409.9	11.5	2.0	907	211.4

¹ Profit reduced by loss on investments

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

Country-by-country reporting continued

Extracted data for all our business in the EU is shown opposite:

Country	Revenues £m	Profit (Loss) before tax £m	Corporate income tax paid £m	Employees	Tangible assets £m
Latvia	0.7	0.0	0.0	0	0.3
Lithuania	0.2	0.0	0.0	0	0.0
Luxembourg	19.7	0.9	0.0	7	1.5
Malta	1.2	0.1	0.0	0	0.3
Netherlands ²	122.7	101.1	(1.3)	341	75.6
Poland	10.3	0.0	0.0	15	2.1
Portugal	11.8	0.8	0.0	6	0.3
Romania	3.2	0.8	0.0	0	0.7
Slovakia	1.8	(0.1)	0.1	0	0.5
Slovenia	1.0	0.0	0.0	0	0.2
Spain ¹	117.8	(41.5)	9.0	203	4.2
Sweden ¹	29.8	(8.1)	0.0	28	4.9

¹ Profit reduced by loss on investments

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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 2022 for the purposes of paragraph 16(2) Schedule 19 Finance Act 2016. It was published on [bt.com](https://www.bt.com) on 28 March 2022, 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 191 onwards in BT Group plc's Annual Report 2021, also published on [bt.com](https://www.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.