BT Group

Tax Strategy 2024

BT Group plc

Introduction

Simon Lowth
Chief Financial Officer

We connect for good

Our purpose
This drives everything we do. We believe in the value of connections – in our personal lives, at work and increasingly between machines and devices. We help individuals, organisations, emergency services and governments harness the power of these connections and use technology to improve their lives, solve challenges, and deliver for their stakeholders.

>32m
Premises can be served by our fixed access network

>450
Retail stores

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 ended 31 March 2023 (FY23), we paid £394m of employer's national insurance contributions for our 79,700 people in the UK and £411m of business rates in respect of our extensive UK fixed and mobile networks and our significant retail footprint.

The 100 Group 2023 Total Tax Contribution survey ranked us as the seventh highest contributor in the UK.

68%
Of the UK population covered by our 5G network

Background

We are proud to be a major contributor of taxes to the UK economy. The 100 Group 2023 Total Tax Contribution survey ranked us as the seventh highest contributor in the UK.

UK taxes paid

	£m	%
Rates	**411**	62%
Employer's NIC	**394**	60%
Other	**63**	10%
Corporation tax	**(211)**	(32%)
Total	**657**	100%

We received a corporation tax refund of £211m from earlier years.

UK taxes collected

	£m	%
VAT	**1,793**	67%
Payroll deductions	**878**	33%
Other	**12**	<1%
Total	**2,683**	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 £2.7bn of UK taxes from our customers and our people on behalf of the UK Government.

UK taxes paid **£657m** + UK taxes collected **£2,683m** = Total tax contribution **£3,340m**

Background continued

In FY23 we recognised a total tax credit of £818m on a net loss of £722m. The tax credit is higher than would be expected due to the BT Sport transactions.

FY23

	Pre-tax £m	Tax £m	After tax £m
Income statement	**1,729**	**176**	1,905
Other comprehensive income (OCI)	**(2,451)**	**642**	(1,809)
Total	**(722)**	**818**	96

OCI comprises principally the revaluation of our pension scheme obligations.

UK corporation tax rate

19% / 25%

We do most of our business in the UK, so we expect our underlying tax rate to be around the UK rate of corporation tax. In FY23 current tax was charged at 19% but deferred tax was charged at 25%.

In FY23 we paid corporation tax globally of £75m. We paid UK corporation tax of £nil.

Why do you have a tax credit of £176m on pre-tax profits of £1,729m in the income statement?

1. BT Sport disposal. During FY23 we recognised gains on the sale and revaluation of the BT Sport business. These gains are not taxable in the UK due to the substantial shareholding exemption.

2. Tax depreciation rates on our capital expenditure are not the same as our accounting depreciation rates. The Government's super-deduction regime applied for FY23, which gave us additional and accelerated tax depreciation on our capital expenditure. This meant we realised a loss for UK tax purposes.

3. Employee pension schemes. We obtain tax deductions for contributions we make, not on the accounting revaluations of our pension obligations. We book deferred tax on these revaluations to reflect the expected future tax deductions.

4. Employee share schemes. We obtain tax deductions when our employees receive the shares, not when we account for the obligation.

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 transactions that are designed solely to create a tax benefit.

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 for us is 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 disclosed all our related entities in countries with low tax rates in our Annual Report 2023.

Tax planning continued

Super-deduction

In FY23 our capital expenditure was £5.1bn, relating largely to our fibre infrastructure and mobile networks.

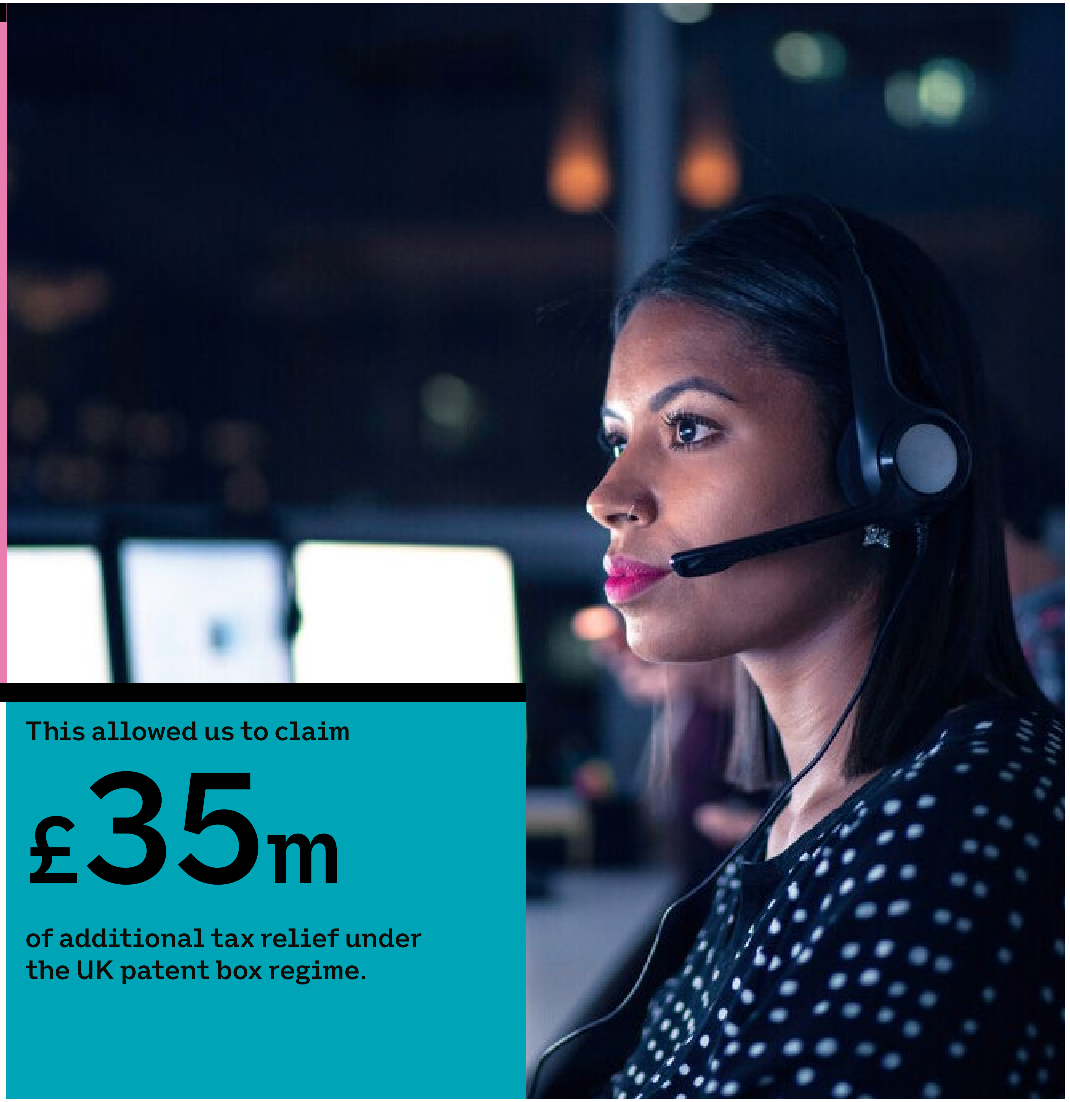
A large portion of this spend is eligible for the Government's super-deduction regime which provides for tax relief at 130% on qualifying plant and machinery spend.

The super-deduction regime has allowed us to claim an additional tax deduction of around

£290m

and an acceleration of normal tax depreciation.

These enhanced and accelerated deductions contributed to around £8bn of carried forward UK tax losses at the end of FY23.



Patent Box

In FY23 we invested nearly £683m in research and development, centred at our technology headquarters in Suffolk.

We have a portfolio of 5,400+ patents and patent applications and in FY23 we filed 94 patent applications for inventions.

This allowed us to claim

£35m

of additional tax relief under the UK patent box regime.

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.

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.

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 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.

Governance and management continued

Executive responsibility for tax matters is held by our Chief Financial Officer (who is also our senior accounting officer for UK tax purposes) and our Director of Group Corporate Finance. 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 Group Corporate Finance, 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

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

Allison Kirkby
Chief Executive

Simon Lowth
Chief Financial Officer

Ruth Cairnie
Senior Independent Non-Executive Director

Maggie Chan Jones
Independent Non-Executive Director

Steven Guggenheimer
Independent Non-Executive Director

Isabel Hudson
Independent Non-Executive Director

Matthew Key
Independent Non-Executive Director

Raphael Kübler
Non-Independent Non-Executive Director

Sara Weller
Independent Non-Executive Director

Sabine Chalmers
General Counsel, Company Secretary & Director of Regulatory Affairs

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

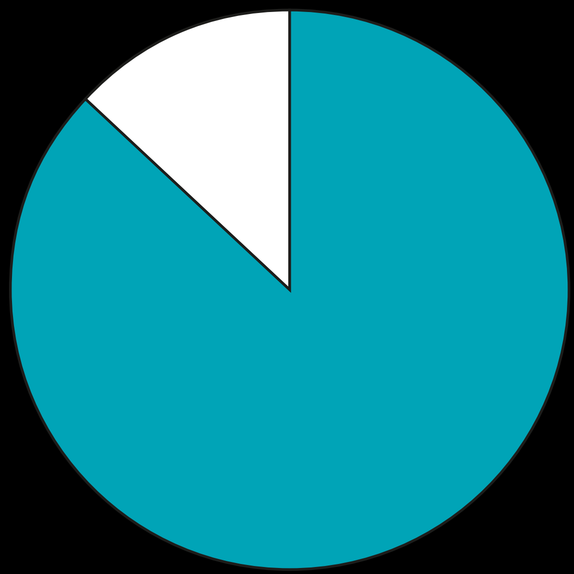
We regularly participate in UK tax consultations and pilot programmes that impact our business to ensure that our views are known and to help shape the future.

Country-by-country reporting

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

UK

In FY23 we realised 87% of our aggregated revenues in the UK and all our corporation tax was paid outside the UK.

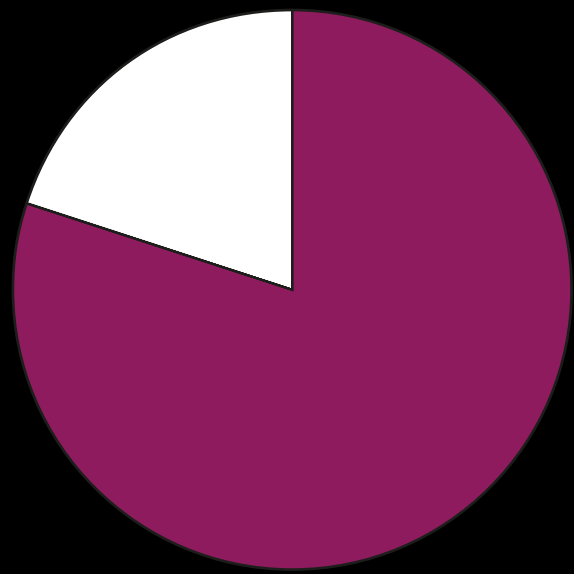


Revenues

UK	**87%**
Non-UK	**13%**

Non-UK

We have taxable presences in 111 countries outside the UK, but only 10 have aggregate revenues in excess of £100m.



Aggregate revenues

Top 10	**80%**
Balance of 101	**20%**

Country-by-country reporting continued

Typically, we expect our companies in non-UK countries 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 10 countries is extracted from our Country-by-Country Report for the year ended 31 March 2023, 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	761.2	19.4	2.0	782	63.5
Ireland[2]	474.5	194.3	29.3	728	89.9
India	347.2	56.7	11.2	12,498	39.3
Italy	297.3	32.5	2.6	614	144.0
Switzerland	244.3	7.1	2.7	73	6.1
Germany	228.6	17.2	3.4	351	58.5
France	164.0	8.5	0.8	332	25.0
Belgium	159.3	11.1	2.4	167	12.0
Netherlands	136.8	2.9	1.1	241	69.5
Hong Kong	125.4	8.1	1.0	67	5.2

1 External and related party revenue.
2 This includes the results of BT Sourced, our innovative, stand-alone procurement company based in Dublin.

Country-by-country reporting continued

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

Country	Revenues[1] £m	Profit/(loss) before tax £m	Corporate income tax paid £m	Employees	Tangible assets £m
Austria	7.6	0.6	0.1	3	1.2
Belgium	159.3	11.1	2.4	167	12.0
Bulgaria	1.0	0.0	0.0	0	0.1
Croatia	0.0	0.0	0.0	0	0.0
Cyprus	0.0	0.0	0.0	0	0.0
Czech Republic	0.0	0.6	0.1	0	0.0
Denmark	3.6	0.0	0.0	0	1.1
Estonia	0.0	0.0	0.0	0	0.0
Finland	2.3	0.1	0.1	0	1.1
France	164.0	8.5	0.8	332	25.0
Germany	228.6	17.2	3.4	351	58.5
Greece	0.0	0.4	0.0	0	0.0
Hungary	70.5	6.1	1.9	1,981	19.6
Ireland[2]	474.5	194.3	29.3	728	89.9
Italy	297.3	32.5	2.6	614	144.0
Latvia	0.7	0.0	0.0	0	0.1
Lithuania	0.3	0.0	0.0	0	0.0
Luxembourg	12.2	0.6	0.0	7	0.9
Malta	0.0	0.0	0.0	0	0.0
Netherlands	136.8	2.9	1.1	241	69.5
Poland	8.9	0.4	0.1	9	1.7
Portugal	8.4	0.7	0.0	6	0.5
Romania	0.0	0.1	0.0	0	0.0
Slovakia	1.5	0.0	0.0	0	0.3
Slovenia	0.9	0.0	0.0	0	0.1
Spain	65.1	1.6	1.1	196	5.2
Sweden	20.8	0.9	0.0	15	1.6

1 External and related party revenue.
2 This includes the results of BT Sourced, our innovative, stand-alone procurement company based in Dublin.

BT Group

© BT Group plc
Registered office:
1 Braham Street, London E1 8EE
Registered in England and Wales No. 4190816
Produced by BT Group plc

This document is the group tax strategy for BT Group plc and all its subsidiaries in respect of its financial year ending 31 March 2024 for the purposes of paragraph 16(2) Schedule 19 Finance Act 2016. It was published on bt.com on 25 March 2024, 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 228 onwards in BT Group plc's Annual Report 2023, 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.