GSK Position statements

Tax Strategy

Businesses are increasingly being challenged to ensure they contribute through the tax system to the societies in which they operate, and to provide information on their tax management principles and policies. We understand our responsibility to pay an appropriate amount of tax and we fully support efforts to ensure companies are appropriately transparent about how their tax affairs are managed. Our Tax Strategy applies to the UK and all other countries in which we operate.

We have a substantial business and employment presence in many countries around the globe and we pay a significant amount of tax, including corporation and other business taxes, as well as tax associated with our employees.

At the same time, we have a responsibility to our shareholders to be financially efficient and deliver a sustainable tax rate. As part of this approach, we look to align our investment strategies to those countries where we already have substantial economic activity, and where government policies promote tax regimes which are attractive to business investment, transparent in their intent and available to all relevant tax payers, such as the UK Patent Box.

We pay a considerable amount of tax in the UK because a significant proportion of our global corporate functions, research and development ("R&D") and manufacturing activities are located there. This includes corporation tax on profits generated, as well as indirect tax and employment taxes, although the precise amounts fluctuate from year to year. Further details about our corporate tax charges for each year are set out in that year's Annual Report.

Risk management and governance arrangements

We are subject to taxation throughout our supply chain. In line with current OECD guidelines we base our transfer pricing policy on the arm's length principle[1] and support our transfer prices with economic analysis and reports. The worldwide nature of our operations means that our intellectual property, R&D and manufacturing operations are centred in a number of key locations. A consequence of this is that our cross-border supply routes, necessary to ensure supplies of medicines into numerous end markets, can be complex and can result in conflicting claims from tax authorities as to the profits to be taxed in individual countries.

Tax legislation itself is also complex and differs across the countries in which we operate. As such, tax risk can also arise due to differences in the interpretation of such legislation.

Tax risk in all of the countries in which we operate is managed through robust internal policies, processes, training and compliance programmes to ensure we have alignment across our business and meet our tax obligations. Our Audit and Risk Committee, and the Board, are responsible for approving our tax policies and risk management.[2]

The tax affairs of the Group are managed on a global basis through a co-ordinated team of tax professionals, led by the Global Head of Tax, who work closely with the business. They are suitably qualified for the roles they perform, and we support their training needs in order that they continue to be able to provide up to date technical advice. Like everyone at GSK, they are required to adhere to our Code of Conduct.[3]

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[1] An underlying principle of transfer pricing is that even though two companies are within the same group, they must act as if they were independent enterprises. This means that companies must be appropriately rewarded for the functions they perform, assets they employ and risks they assume, when entering intra-group transactions to ensure profits generated are taxed in the countries where the value arises. An appropriate reward is considered to be the reward which would be obtained from a third party. This is known as the 'arm's length' principle.

[2] GSK's 'Tax Strategy' was approved by the Audit and Risk Committee on 16 October 2018 and by the Board on 18 October 2018.

[3] Our Code of Conduct is at: http//www.gsk.com/en-gb/about-us/policies-codes-and-standards/#codes-of-conduct

Significant decisions are submitted for consideration to the Tax Governance Board, which meets quarterly and comprises senior personnel from across GSK's Finance group. We are not prescriptive on the level of tax risk we are prepared to accept. However, we do not take speculative tax positions where the advice received does not support our position, or those that bring material tax risk. Where there is material uncertainty on the tax treatment of a transaction, external advice is sought before any position is taken. External advisors are also required to adhere to our Code of Conduct.

Our attitude to tax planning

We do not engage in artificial tax arrangements – those without business or commercial substance – and we do not seek to avoid tax using 'tax havens' or transactions we would not fully disclose to a tax authority. We have a zero-tolerance approach to tax evasion and the facilitation of tax evasion.

Relationship with tax authorities

We seek to maintain open, positive relationships with governments and tax authorities worldwide and we welcome constructive debate on taxation policy. We meet regularly with HMRC to discuss our tax affairs and provide real time business updates.

We submit tax returns according to statutory time limits and engage with tax authorities to seek to ensure our affairs are current, entering into arrangements such as Continuous Audit Programmes and Advance Pricing Agreements where appropriate. These agreements provide long-term certainty for both tax authorities and for GSK over the tax treatment of GSK's business. In exceptional cases, where matters cannot be settled by agreement with tax authorities, we may have to resolve disputes through formal appeals or other proceedings.

We monitor government debate on tax policy in our key jurisdictions to deal proactively with any potential future changes in tax law. We engage advisors and legal counsel to review tax legislation and the implications for our business. Where relevant we are active in providing relevant business input to tax policy makers.

Transparency

We support the implementation of the OECD's recommendations on country-by-country reporting ("CBCR") as being key to the success of the Base Erosion and Profit Shifting ("BEPS") project and aligned with our core values of transparency and integrity. As part of this implementation, we support the exchange of CBCR data between tax authorities. This data, validated against existing information held on taxpayers, will support their ability to ensure multinational groups pay the right amount of tax.

We are aware of the ongoing debate around public disclosure of CBCR data and continue to monitor developments in this area.

International tax framework

GSK supports the OECD's work on BEPS more widely and has been active in providing relevant business input to assist in successful delivery of the aims of the project. This requires the considered and co-ordinated implementation of a complete package of recommendations, which unites effectively the outputs of the different action items. We are encouraging continued international co-operation during the implementation phase, to secure the stable fiscal environment necessary for long term investment decisions.

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