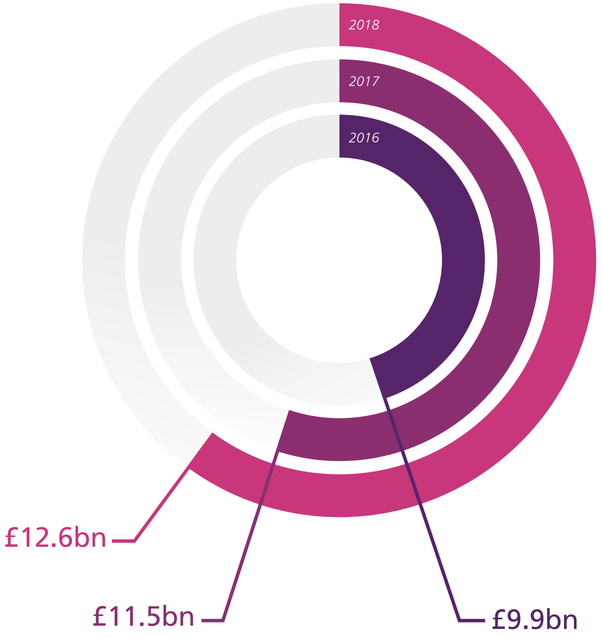
HEALTH ▸ HYGIENE ▸ HOME

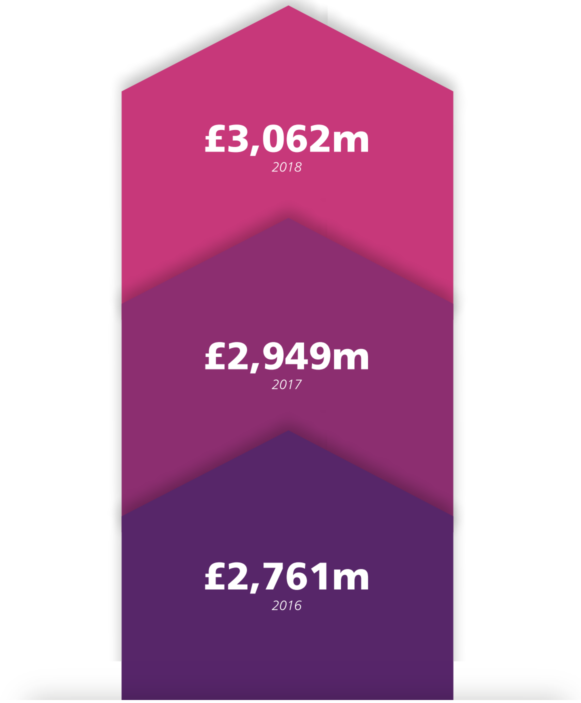
RB - Our Tax Strategy 2019

Reckitt Benckiser Group plc (RB)

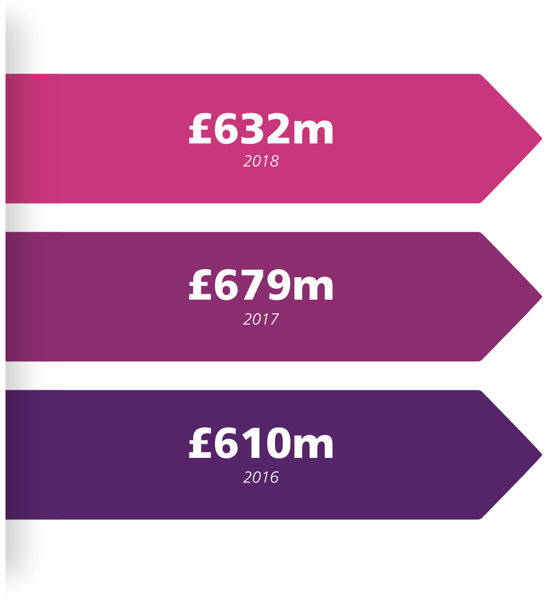
Tax Highlights 2016 - 2018



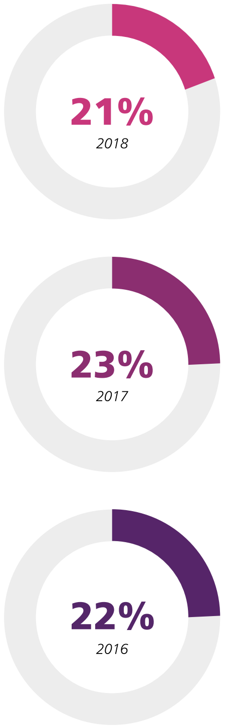
Net Revenue



Adjusted Profit Before Tax



Adjusted Income Tax Expense



***Adjusted Effective Tax Rate**

2018 *https://www.rb.com/media/4116/rb-ar2018.pdf*
2017 *https://www.rb.com/media/3476/annual-report-and-financial-statements-2017.pdf*
2016 *https://www.rb.com/media/2473/rb-annual-report-2016-no-spine.pdf*

* *The adjusted tax rate was 21% (2017: 23%) as a number of tax matters were settled in 2018 resulting in the release of various uncertain tax provisions. We expect our ongoing adjusted tax rate to be approximately 23%.*

RB's 2019 Tax Strategy

Our betteRBusiness strategy encapsulates everything we do at RB. Financially, socially and environmentally we seek to act responsibly and sustainably. We believe passionately in doing things the right way.

RB's purpose is to make a difference by giving people innovative solutions for healthier lives and happier homes. Through our two business units – Health and Hygiene Home – we create value for our employees, consumers, shareholders, communities and customers.

Our approach to tax aligns with our core value of responsibility and commitment to business transparency. In this Tax Strategy publication, launched December 2019, we outline RB's approach to:

- Tax principles
- Tax transparency
- Tax planning
- Tax risk management and governance
- Working with the UK and other national tax authorities

Adrian Hennah
Chief Financial Officer

Our comments regarding tax in this report apply to all of the taxes we are responsible for, including UK taxes. RB supports the requirement for large UK companies to publish their tax strategies. We agree with HMRC's policy objective of improving tax transparency.

Part of increasing trust in the tax system is through better understanding. We hope this publication aids understanding of our business and our approach to tax.

While RB's corporate headquarters are in the UK, we operate globally. This Tax Strategy applies to all of RB's operations worldwide.

We consider that this publication satisfies our duty under paragraph 16(2), Schedule 19 Finance Act 2016 to publish the Group's tax strategy for the financial year ending 31 December 2019.

In line with greater tax transparency, this year we have included in our Tax Strategy:

Case Study - UK: Working with Tax Incentives

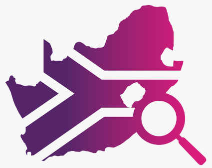
Page 12

How RB Assesses and Manages Risk

Page 13

Responding to Changes In Global Tax Laws

Page 16



Case Study: South Africa

Page 18

About our business

RB* is a leading global health, hygiene and home products company inspired by a vision of the world where people are healthier and live better. Our purpose is to make a difference by giving people innovative solutions for healthier lives and happier homes.

Through our two business units, Health and Hygiene Home, RB has operations in over 60 countries and our products reach millions of people globally every day. These trusted household brands include names such as Enfamil, Nutramigen, Nurofen, Strepsils, Gaviscon, Mucinex, Durex, Scholl, Clearasil, Lysol, Dettol, Veet, Harpic, Cillit Bang, Mortein, Finish, Vanish, Calgon, Woolite and Air Wick.

RB's drive to achieve, passion to outperform and commitment to quality and scientific excellence is manifested in the work of over 40,000 diverse, talented entrepreneurs worldwide.

For more information visit www.rb.com

**RB is the trading name of the Reckitt Benckiser group of companies*

RB's Tax Principles

Our approach to tax

As a company, we are guided by the following seven Tax* Principles:

1. We support efforts to increase trust and understanding of the tax system. We encourage greater tax transparency by businesses.
2. We act in accordance with and seek to comply with all relevant tax laws and obligations in all the countries in which we do business.
3. We abide by tax laws, guidelines and standards (including both those determined by countries' laws in which we operate and by international treaties and conventions). We monitor, adjust and review our Tax Policy on a regular basis to ensure we remain compliant as tax laws change.
4. We are committed to paying the taxes determined by the laws in each country where we do business. The taxes we pay are in accordance with where value is created, considering agreed transfer pricing principles.
5. We do not engage in tax evasion, nor planning that aims to achieve results that are contrary to the clear intention of legislation. We do not engage in transactions that are artificial or contrived, nor seek to exploit shortcomings within the relevant legislation.
6. We believe in an open and constructive dialogue with tax authorities and we seek to maintain co-operative and trusted relationships at all times. We will be transparent in all our dealings with tax authorities and other regulators.
7. We take appropriate steps to demonstrate that we are a compliant business with effective tax management processes and controls. The Group works with tax authorities in a timely and constructive manner to resolve disputes should they arise.

**Tax includes corporation taxes, duties, payroll and employment taxes and also indirect taxes such as sales tax and VAT levied on products sold to customers.*

Our Tax Policy

The countries where we operate have different tax regimes and practices. Potential tax risks may arise in these markets due to unclear legislation and differing interpretations of laws and regulations.

We operate in accordance with a Tax Policy agreed by our Board of Directors. The policy is in line with the overall strategy and operation of our business and applies to all the taxes we incur – including not just corporate taxes but also employment taxes, VAT and sales taxes, duties and other levies.

Our Tax Policy's goal is to ensure that:

Full consideration is given to all potential taxes which may impact on a transaction before the transaction is entered into.

Local tax legislation is fully complied with and all appropriate documentation is prepared at the required time, and filed with the respective authorities in advance of any deadlines.

The International Accounting Standards on tax, in particular IAS 12, are complied with and the reporting of tax (Current and Deferred) is coherent, timely and accurate.

Accurate and timely information on the tax status of all entities in the Group is communicated to the RB Corporate Headquarters (CHQ) tax department so the Group's overall tax position is fully understood.

RB's reputation for the highest level of corporate governance and responsibility is maintained.

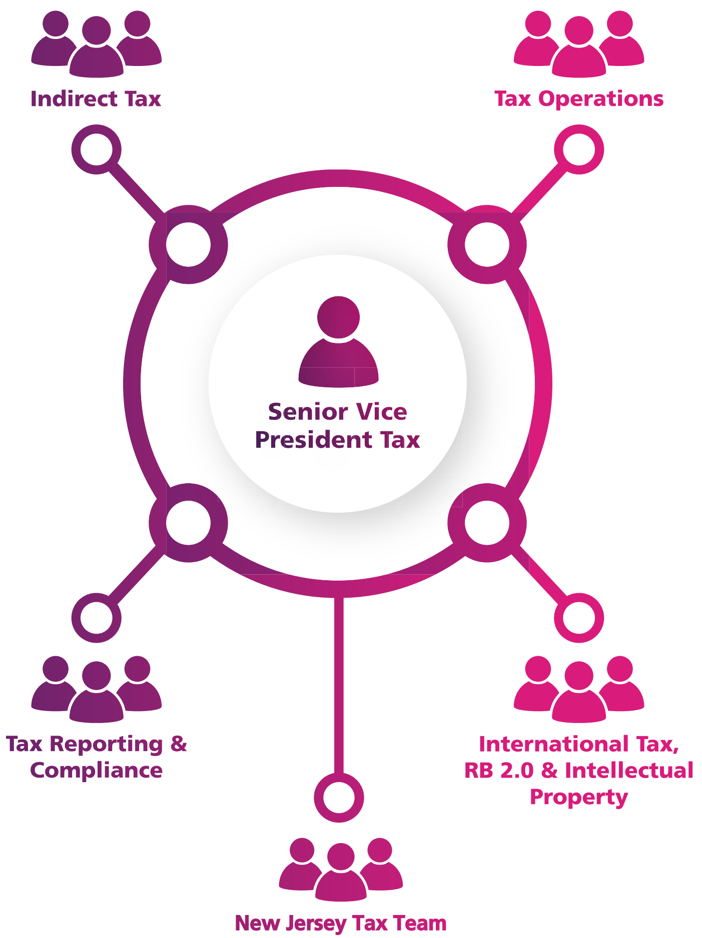
The RB CHQ tax team based in Slough, UK, is part of the Group finance function and reports to the Chief Financial Officer (CFO). The CFO receives frequent updates throughout the year from the tax team.

RB's Senior Vice President (SVP) Tax leads a team of in-house tax professionals, who hold a combination of accounting, tax and legal qualifications. The CHQ tax team comprises specialists in VAT and custom duties, international taxes, transfer pricing, intellectual property, compliance and reporting. We also have a significant tax team in New Jersey, USA.

The RB team includes a range of specialists, who ensure we are equipped to deal with the rapidly evolving international tax landscape.

In certain jurisdictions, where we have significant operations or local tax law is complex, local finance teams also include tax professionals who work closely with the CHQ tax team to ensure RB is fully tax compliant.

Our CFO acts as the Senior Accounting Officer (SAO) in the UK and each year signs off the SAO obligations as required under UK tax legislation.



The Group Audit Committee receives regular reports from the Group's Corporate Controller, including tax matters. Further updates are provided by RB's CHQ tax function to the Audit Committee as required.

International tax laws are often unclear and subject to a broad range of interpretations. Where uncertainty arises, from time-to-time we seek advisory and technical tax support from either large accounting firms or specific law firms. In such instances, the use of any given advisor is assessed on a case by case basis in line with the Group's audit independence policy. This approach ensures that the ongoing independence of our external auditor is not compromised.

In accordance with the SAO legislation in the UK, our CFO is required to confirm on an annual basis to HMRC that RB is operating appropriate tax processes and controls in the UK.

What is the SAO legislation?

This is UK legislation which ensures that companies over a particular size, take reasonable steps to ensure that appropriate tax accounting arrangements are in place.

?

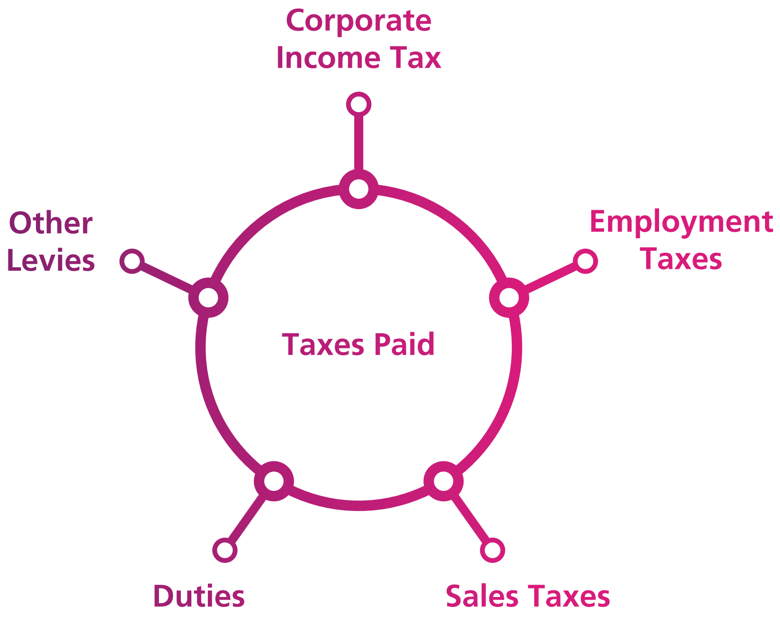
RB's Tax Contribution

Our business generates a significant amount of tax revenues for the governments of the countries in which we operate. This includes not just corporate taxes, but also employment taxes, sales taxes, duties and other levies.

In the year ended 31 December 2018, the Group paid **£567m[1]** in corporate income tax worldwide.

[1] *Reference 2018 Annual Report https://www.rb.com/media/4356/rb-ar2018.pdf*

In addition to the taxes generated, RB also contributes to the economy by employment creation, developing workforce skills, capital investments, the purchase of goods and services (including from local suppliers) as well as direct social impact investments. See the South Africa case study on page 18 as an example.



Increasing Trust And Understanding In The Tax System

We recognise the increasing complexity of tax regulation around the world.

RB supports efforts to increase trust and understanding in the global tax system. We are open to a dialogue with all those who seek to better understand our business policies. For example, when Oxfam published a report on our tax affairs in 2017 we immediately engaged with them to explain our approach to tax and worked together on our first Tax Strategy document. More recently, we inputted into Oxfam's discussion paper on Corporate Taxation (October 2019).

In accordance with the OECD's reporting requirement, RB files its annual Country by Country Report (CbCR) with HMRC. The submitted report discloses key components of our profit and loss accounts, including revenues earned, taxes paid, and the number of employees we have in all the markets in which we do business.

RB supports the establishment of a globally consistent framework for universal CbCR and the automatic sharing of information between tax authorities. We believe that CbCR is an effective way to improve tax transparency, build trust in the international tax system and tackle international tax avoidance.

We continue to support the call on governments to take the necessary steps to accelerate public country by country reporting and to create a level playing field for all businesses irrespective of where they are headquartered. We would encourage the UK Government to play a leading role in this respect.

Richard Greensmith
Group Tax Director

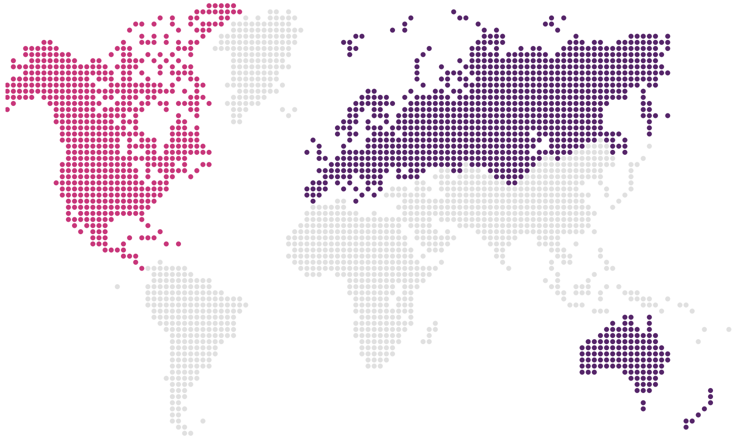
Meeting Our Tax Obligations

RB is committed to paying the taxes determined by the laws in each country where we do business.

The RB CHQ tax team partners with company colleagues in the markets where we do business to provide timely, appropriate advice and guidance on all aspects of tax. This allows tax risks to be managed, enables full compliance with local tax laws and facilitates good investment decisions taking into account future associated tax costs.

RB may consider different tax outcomes when deciding how to structure commercial transactions, but does not undertake artificial tax planning for the purpose of tax avoidance. Nor does RB wilfully engage in tax arrangements that go against the intent of tax laws.

As a global organisation, the RB Group contains over 400 subsidiary companies. The full list of entities can be found in our Annual Report[1] along with their country of incorporation. In accordance with our Tax Principle 5, we do not engage in artificial tax planning and therefore we do not have business operations in "Tax havens" or low tax jurisdictions without a commercial purpose.



Some of the companies listed in our Annual Report were either established for historical reasons that are no longer relevant or as part of an acquisition of a wider business. We have commenced a review of all dormant companies and are taking steps to liquidate any unnecessary entities.

[1] *Reference 2018 Annual Report https://www.rb.com/media/4356/rb-ar2018.pdf*

Many of our companies incorporated in "Tax havens" (listed in our Annual Report) are tax resident in the UK, which means that they file tax returns and pay tax in the UK in accordance with UK tax legislation. In addition, as a UK headed group all these entities are subject to disclosure and taxed (where appropriate) under the UK controlled foreign company rules.

What is a "Tax haven"?

The Organisation for Economic Co-operation and Development (OECD) defines a Tax haven as a country which imposes low or no tax and is used by corporations to avoid tax which otherwise would be payable in a high-tax country. Tax havens are seen by the OECD to have the following key characteristics: no or only nominal taxes; a lack of effective exchange of information; and a lack of transparency in the operation of the legislative, legal or administrative provisions.

Transfer Pricing

As a large multinational group, RB has companies incorporated in a significant number of countries and there are many cross-border transactions within the Group. These transactions are priced in accordance with the standards established under the relevant OECD Transfer Pricing guidelines.

The OECD standards guide multinational groups, such as RB, on the application of the "arm's length principle", which represents the international consensus on how to price transactions between members of the same multinational group.

These standards seek to ensure that the taxable profits of multinational groups are not artificially shifted out of a given jurisdiction and that the tax base reported by multinational groups in each country reflects the economic activity undertaken there.

As the correct interpretation and application of these standards can require fine judgements, a tax authority may from time-to-time challenge RB's judgement or interpretation of these rules. In these circumstances, we will actively and constructively engage with the relevant authority to resolve the situation.

The OECD's thoughts in this area continue to evolve however. For example, it is currently working on new proposals to change the way some multinational businesses are taxed. This latest programme of work is commonly referred to as BEPS (Base Erosion and Profit Shifting) 2.0. We will continue to monitor developments in this area and consider whether BEPS 2.0 requires us to modify the allocation of profits across the RB Group.

Tax Incentives

RB may consider the use of tax and other types of available incentives when deciding where to invest its resources. These incentives are only one of a wide range of factors we assess when making such business decisions. See page 12.

Case Study – UK: Working with Tax Incentives

Innovation is at the heart of everything we do at RB as our purpose is to give people innovative solutions for healthier lives and happier homes. Tax incentives are provided by many governments to encourage companies to invest in particular innovations. In return for these investments, companies can reduce the amount of tax they need to pay.

The UK government offers a variety of tax incentives to encourage investment by companies in research and development. RB has invested £105m* in a new Research and Development (R&D) centre in Hull (UK) which will support the creation and testing of cutting-edge consumer health innovations and which we expect will benefit from tax incentives.

Some of the incentives available in the UK include:

- Patent Box – this incentive enables companies to apply a reduced rate of UK corporation tax to profits earned from the use of patents.
- Research and Development Allowances – these provide UK companies with a 100% deduction for tax purposes for qualifying capital expenditure on research and development.
- Research and Development Expenditure Credit (RDEC) – this is currently a 12% tax credit for qualifying research and development expenditure.

* *Find out more: https://www.rb.com/media/news/2019/december/rb-confirms-200m-uk-investment-commitment-including-new-science-innovation-centre/*

How RB Assesses and Manages Risk

Risk management occurs at different levels in RB with annual identification and assessment performed at the functional, business, corporate and Group levels to provide both a 'top down' and 'bottom up' view of risk.

Controls are mapped and action plans are subsequently developed to address any control gaps.

At the Group level, the most significant principal and emerging risks are identified and disclosed in the Annual Report. Oversight across each principal risk is provided by a nominated Board Committee.

Internal control processes are implemented through clearly defined roles and responsibilities.

RB operates three strands in monitoring internal control systems and managing risk:

LINE MANAGEMENT

Management ensure that controls, policies and procedures are followed in dealing with risks in the day-to-day business. Supervisory controls ensure appropriate checks and verifications take place i.e. line management.

OVERSIGHT

Each function has its own management which acts as a second line of oversight and verification. This level sets the local level policies and procedures, subject to Group policy and authorisation i.e. oversight functions such as Finance, Legal, Supply etc.

INDEPENDENT REVIEW

The third strand is provided through independent review by Internal and External Audit, who challenge the information and assurances provided by the first two strands. This review ultimately gets reported back to the Board, via the Audit Committee, with action taken to address any matters identified.

Our tax governance framework

We are committed to responsible corporate behaviour. RB recognises the need for processes and procedures to govern the way we undertake our business. This includes the reporting and payment of tax. Therefore, the Group's tax governance works through a set of documented standards and procedures, which cover our Tax Strategy, Tax Policy, and the operational aspects of tax. The Board has ultimate responsibility for preparing the Annual Report and Financial Statements and therefore for ensuring that tax risk is appropriately managed.

Under our Tax Policy, day-to-day responsibility for all local taxes and tax compliance rests with the local Finance Director of each country or area. In discharging this responsibility, the Finance Directors will be supported by finance or tax professionals in their local finance teams, the CHQ Tax team and external advisers as required.

The local Finance Director is required to ensure that:

1. All necessary tax returns are prepared and submitted on a timely basis.
2. The tax returns are complete and accurate, with full and proper disclosure of any issues that could potentially be contentious.
3. The correct amount of tax is paid on a timely basis.
4. Tax authority audits/enquiries are properly managed to maintain constructive relationships with tax authorities worldwide.

The CHQ tax team is required to be notified in advance of specific types of transactions in order that the tax consequences and risks can be fully considered. They should also be informed of changes to local tax rules and legislation which may alter the tax profile of the business or give rise to additional tax risks.

In an increasingly complex international business environment, a degree of tax risk and uncertainty is inevitable. RB manages and controls these risks in a proactive manner and seeks appropriate advice from accountancy or law firms where appropriate.

Levels of acceptable tax risk are judged on an individual case-by-case basis, taking into account factors such as the materiality of the amounts involved and the technical knowledge and experience of local country tax specialists. Part of the risk of any transaction is the possibility that a tax authority's judgement or interpretation of local legislation may differ from RB's interpretation.

Members of the RB Tax Team

There are processes in place which ensure that decision-making goes through the appropriate levels of review within the tax team. Where necessary, the Group CFO and in turn the wider Board of Directors will be consulted to ensure the most appropriate course of action is taken. In determining the level of acceptable risk, it is always of paramount importance to maintain RB's reputation of being a responsible tax payer.

All uncertain tax positions are assessed on an ongoing basis and form part of RB's formal internal quarterly reporting process. Each potential tax uncertainty is separately evaluated by the CHQ tax team (and, where material, the CFO) to determine the appropriate level of provisioning. In our annual report we disclose the tax provision covering such uncertainties.

Responding To Changes In Global Tax Laws

Making Tax Digital

A new indirect tax development

As part of RB's tax risk management framework, the CHQ Tax and local finance teams monitor changes in the external tax environment to ensure we remain compliant with local tax laws. The work which RB has undertaken in response to 'Making Tax Digital (MTD)' is a good example of this.

MTD is being introduced across various geographies by tax authorities. Its aim is to transform tax administration so that it is more effective, efficient and easier for taxpayers to get their tax right. MTD should also play an important role in helping to ensure that the appropriate level of tax is paid, as tax authorities will now be able to see transaction level data. MTD for VAT went live in the UK on 1 April 2019 for most VAT registered businesses.

Compatible UK MTD software automatically prepares the VAT return for companies to electronically submit to HMRC. MTD is initially being introduced for VAT in the UK, but other taxes are expected to follow.

As a multinational company, RB will comply with the various MTD requirements being introduced in the countries where we operate. Each country is implementing electronic invoicing in its own way and RB is staying abreast of developments in this area.

Other external developments we continue to monitor include our readiness for Brexit and the OECD's proposed reforms in relation to the Digitalisation of the Economy. It is essential that RB remains equipped to respond to changes in the external environment, including tax changes brought about by new legislation.

In August 2019, RB successfully submitted its first VAT return via the HMRC MTD portal.

How We Work With Tax Authorities

Ensuring co-operative and trusted relationships

Given the increasing complexity of tax regulation around the world, local tax authorities may challenge some of the judgements RB has made or our interpretation of local tax legislation.

We believe in an open and constructive dialogue with tax authorities.

In the UK, our dealings with HMRC are professional and based on mutual respect. RB engages openly and regularly with HMRC, and aims wherever possible to consult with HMRC in advance of any major UK transaction and on areas of significant uncertainty e.g. due to a new piece of legislation.

We also meet our HMRC Customer Compliance Manager formally at least once a year to review our business activities. We use this as an opportunity to openly discuss any current, future and past tax risks across all relevant taxes and duties.

RB's goal is to have a professional working relationship with the Customer Compliance Manager and other HMRC technical experts. We also seek to ensure that RB remains fully compliant with statutory and legislative tax requirements.

Working collaboratively with HMRC on a real-time basis helps to deliver benefits for both parties. For HMRC, early resolution of issues ensures the right amount of tax is paid at the right time, improving cash flow for the funding of vital public services, and avoiding costly investigations. For RB, real-time working provides greater clarity over our tax position, helping to reduce the risk of unexpected surprises later down the line.

RB also looks to engage with the wider business community and trade bodies, so we can play a constructive role in the ever-evolving tax debate. An example of this is our work with the Confederation of British Industry (CBI) on key business topics including tax.

Case Study:
South Africa

OUR LOCAL TAX CONTRIBUTION AND SOCIAL IMPACT INVESTMENT IN SOUTH AFRICA.

Our Tax Contribution in South Africa:

28%
effective tax rate in 2018

£68m
Total Tax Contribution 2016-18

RB established operations in South Africa in 1970

43 brands sold in South Africa in 2018

Dettol is our best-selling brand in South Africa

Our business units in South Africa are engaged in the manufacture, marketing and distribution of a range of Health and Hygiene Home products. The South African business complies with the Group's Tax Policy and the local finance team works closely with RB's CHQ tax team to ensure full tax compliance.

Between 2016 and 2018, RB made a total tax contribution in South Africa of £68m (this comprises both taxes borne and collected – see below for further information). However, RB's economic contribution in South Africa is much wider than this, encompassing employment creation, workforce skills development, capital investments and the purchase of goods and services. For example, RB South Africa has over 500 employees in the country.

Companies in South Africa are subject to taxes borne (a cost to the company) and taxes collected on behalf of the government. The taxes borne by RB include corporate income tax, customs duties, a Skills Development Levy and Unemployment Insurance Fund employer contributions. Taxes collected by RB include VAT on behalf of customers, pay-as-you-earn (PAYE) on behalf of employees, Unemployment Insurance Fund employee contributions and withholding tax on behalf of other RB Group entities.

RB's total tax contribution in South Africa has grown by 22% between 2016 and 2018.

RB works constructively with the local tax authorities in South Africa. This is consistent with RB's goal of maintaining professional relationships with all the tax authorities in the 60 plus countries where RB operates.

South Africa Social Impact Investment

Case Study:

(DUREX)RED

HAVE SEX SAVE LIVES

RB and The Bill & Melinda Gates Foundation have committed $10m (£7.6m) over three years to help fight HIV and AIDS in South Africa.

Image credit: (RED)/Jonx Pillemer

50,000 South African adolescent girls and young women are being supported with a prevention package - from April 2019 to March 2022 - via the Global Fund.

World Aids Day 2019 marked the one year anniversary of RB's partnership with (RED) and the Global Fund in South Africa. Our 'Keeping Girls in School' programme is reducing new HIV infections in young women and reducing teenage pregnancies. It is also improving access to sexual reproductive health services and education, and encouraging school retention.

Durex created the special edition Durex RED condom that directly helps to protect against HIV and other STIs. Funds raised from the sales of this special-edition condom will go towards helping fight HIV and AIDS, so for the first time, as the campaign suggests, people can #HaveSexSaveLives.

RB and Durex have committed $5 million to support RED's mission over three years, and The Bill & Melinda Gates Foundation is matching this. This represents a total commitment of $10m (£7.6m) minimum to fight AIDS over three years.

100% of the money donated through the Durex RED partnership will go to South Africa. The 'Keeping Girls in School' programme aims to reduce new HIV infections and pregnancies among young women, improve access to sexual and reproductive health services and encourage more girls to stay in education.

The #HaveSexSaveLives campaign was highlighted in South Africa on World AIDS Day 2018, when the Durex RED bus travelled around the townships and gathered over 200,000 pledges to practice safe sex.

#HaveSexSaveLives

Image credit: (RED)/Jonx Pillemer

Glossary

In discussions around tax there are common misunderstandings which can hinder an informed dialogue. To help aid such conversations, we have set out a number of definitions below.

Corporate income tax:
All taxes that are based on the taxable profits of a company. Note that corporate taxes are generally levied on profits and not revenues (or sales).

Deferred tax:
The corporate income tax due in respect of temporary differences between accounting values and tax bases, as defined in International Accounting Standard 12.

Effective tax rate (ETR):
The rate at which a taxpayer would be taxed if its tax liability were taxed at a constant rate rather than progressively. This rate is computed by determining what percentage the taxpayer's tax liability is of their profit before tax.

Government:
Any governing body of a nation, state, region or district but not including any commercial enterprises or financial institutions that may be controlled by a government.

Group:
Includes all directly or indirectly-owned subsidiaries of RB Group plc.

HMRC:
HMRC stands for Her Majesty's Revenue and Customs – a non-ministerial department of the UK government responsible for administering and collecting taxes.

Indirect tax:
Taxes such as VAT or Sales Taxes and custom duties, which are levied on the consumption of specified goods rather than on income.

OECD:
The OECD (Organisation for Economic Co-operation and Development) is a multilateral organisation. Founded in 1961, the OECD provides a forum for representatives of countries to discuss and attempt to coordinate economic and social policies. It has a very significant role in international tax matters, www.oecd.org.

Transfer pricing:
A transfer price is the price charged by a company for goods, services or intangible property to a subsidiary or other related company.

Withholding tax:
Tax on income at source, i.e. the payor is charged with the task of deducting the tax from certain kinds of payments and remitting that amount to the government. Withholding taxes are found in practically all tax systems and are widely used in respect of dividends, interest, royalties and similar payments.

Links to resources

Here are some useful links to other RB reports:

Annual Report: https://www.rb.com/media/4116/rb-ar2018.pdf

Sustainability Insights Report: https://www.rb.com/media/4343/rb_sustainability-insights_2018.pdf

Gender Pay Report: https://www.rb.com/media/4344/rb-uk-gender-pay-report-2018.pdf

Members of the RB Tax Team