HEALTH · HYGIENE · HOME

# OUR TAX STRATEGY


Reckitt Benckiser Group plc (RB)

**Contents**



## About RB

RB is the global leading consumer health and hygiene company. Driven by a purpose to build healthier lives and happier homes, RB has operations in over 60 countries.

From the foundations of wellness and infant nutrition, to the fundamentals of a hygienic home, our global brands help people live healthier, happier lives. RB has world leading Powerbrands which include household 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 unique culture is at the heart of its success. Its drive to achieve, passion to outperform and commitment to quality and scientific excellence are manifested in the work of over 40,000 RB employees worldwide.

More information can be found at:

rb.com


**Front cover image:**
Some of the brands that make us the leading consumer health and hygiene company globally.

# A passion for doing things the right way

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

Welcome to our first Tax Strategy publication. Our comments regarding tax in this report apply to all of the taxes we are responsible for including UK taxes. RB is a responsible tax payer and welcomes the new requirement for large UK companies to publish their tax strategies. We fully agree with HMRC's policy objective of improving tax transparency. Part of increasing trust in the tax system is through better understanding.

RB hopes this publication aids stakeholders' understanding of our business and approach to tax.

While RB's corporate headquarters are in the UK, we operate in more than 60 countries globally. This Tax Strategy therefore applies equally to all RB's operations worldwide.

Over the following pages, we outline RB's approach to:

- tax transparency
- tax risk management and governance
- tax planning
- working with the UK and other national tax authorities
- Tax Principles

### Taxation highlights 2016

| | |
|---|---|
| **£9.9bn**<br>**Revenue**<br>(2015: £8.9bn) | **23%**<br>**Group effective tax rate**<br>(2015: 21%) |
| **£2,394m**<br>**Adjusted profit before tax**<br>(2015: £2,208m) | **£558m**<br>**Income tax expense**<br>(2015: £463m) |

We consider this publication satisfies our duty under paragraph 16(2), Schedule 19 Finance Act 2016 to publish the group tax strategy for the financial year ending 31 December 2017.

**Adrian Hennah**
Chief Financial Officer

# 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 July 2017 we immediately engaged with them to explain our approach to tax. This constructive dialogue with Oxfam is ongoing and the principles that underpin our Tax Policy are detailed on page 07.

RB backs the establishment of a globally consistent framework for universal country by country reporting and the automatic sharing of information between tax authorities.

We intend to submit our first Country by Country report to HMRC in December 2017, in accordance with new UK requirements.

RB supports Oxfam's 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.

RB considers that this publication satisfies the obligations placed on it by the 2016 UK Finance Act.

"We are open to a dialogue with all those who seek to better understand our business policies."

**Gemma Beck**
International Tax Director

# A reputation for corporate governance and responsibility

RB operates in more than 60 countries all of which have different tax regimes and practices. Potential tax risks can arise in these markets due to unclear legislation and differing interpretations of laws and regulations.

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

The Group's tax governance works through a set of documented standards and procedures. These cover our Tax Strategy, Tax Policy, and the operational aspects of tax.

Our 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

At RB, the 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, and compliance and reporting. We also have significant tax teams in New Jersey and Chicago.

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

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

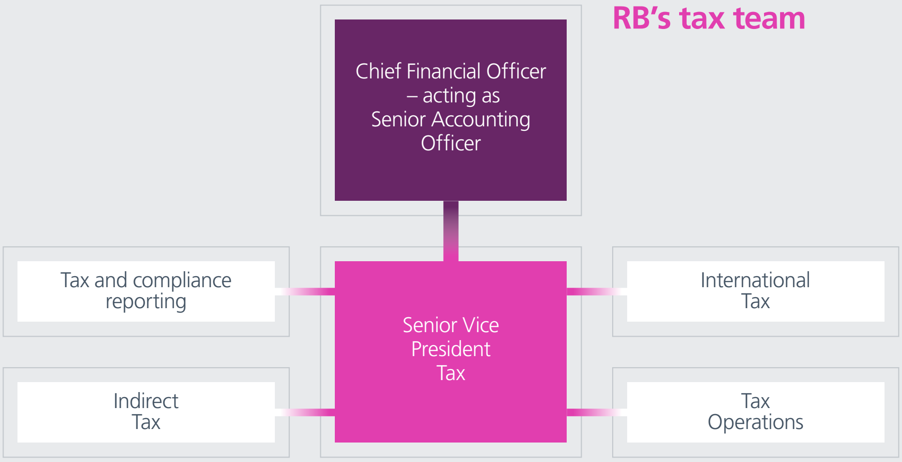
Under our Tax Policy the CHQ tax team is required to be notified in advance of specific types of transaction in order that the tax consequences and risks can be fully considered.

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 a quarterly report from the Group's Corporate Controller, including tax matters. Further updates are provided by RB's 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, we will from time-to-time 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 compliance with the Group's audit independence policy. This approach ensures that the ongoing independence of our external auditor is not compromised.

## RB's tax team



# 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 countries 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 in line with 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.

## 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 is not always clear, 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.

## Tax incentives

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

Case study – Thailand

### Working with tax incentives

The Board of Investment (BOI) in Thailand provides tax incentives for companies involved in the manufacture of medical devices and medicines. The availability of tax incentives was considered when deciding to expand one of our factories in Thailand during 2017.

These facilities manufacture several of RB's Powerbrands including Strepsils, Durex and KY products. Under an incentive granted by the BOI, a lower rate of tax may be payable on the profits generated from the sale of products arising from the increased factory capacity. Relief may also be available from duty on the import of raw materials and machinery for the facility.

Strepsil production in Thailand

# How RB assesses tax risk

## 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.

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. 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.

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 the CFO, who place the relevant provisions alongside it.

# Maintaining co-operative and trusted relationships

Our ways of working with tax authorities.

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

We therefore 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. We also meet our Customer Relationship Manager formally at least once a year to review our business activities.

RB's goal is to have a professional working relationship with the Customer Relationship Manager and other HMRC technical experts.

HM Revenue & Customs

"RB engages openly and regularly with HMRC."

**Richard Greensmith**
Group Tax Director

# RB's Tax Principles

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, VAT, sales taxes, duties and other levies.

## £546m

In 2016, RB's global corporate tax contribution was £546m.

## 23%

RB's effective tax rate was 23% in 2016. Our peer group companies tax contributions range from 18%-26%.

## 12%

RB's UK corporation tax contribution was £61m which represented just short of 12% of our total Group's corporation tax charge worldwide.

**As a global business, 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 Principles in practice – an example

RB started operations in Pakistan in 1951 and has made a significant tax contribution to the country.

Consistent with RB's vision of a world where people are healthier and live better, RB Pakistan launched the "Hoga Saaf Pakistan" or Clean Pakistan initiative in 2017. The programme aims to create a healthier, cleaner Pakistan and addresses the loss of life caused there by diarrhoea. Every year 53,000 children in Pakistan die because of diarrhoea.

Together with our local partners in Pakistan, RB is looking to improve the unclean and unhygienic conditions that cause diarrhoea. Our programme focuses on improving health education, basic hygiene practices and hygiene/sanitation infrastructure in Pakistan.

The "Hoga Saaf Pakistan" initiative has already resulted in:

- A health and hygiene education programme being rolled out to 350 rural villages
- A hand hygiene education programme designed to reach over 2.4 million children per annum
- A women's empowerment programme targeting 7,000 households. The initiative involves these women selling cost-effective health and hygiene products locally
- The creation of a hygiene curriculum, which is in the process of being introduced in Pakistan's biggest private schools network
- Hygiene education (in sign language) being taught to over 2,000 deaf children nationally
- 2,000 students from the top schools in Pakistan generating big ideas for eradicating diarrhoea, the results of which are being piloted in two villages

**Hygiene education in action**

Case study – Pakistan

## Our tax contribution

RB Pakistan complies with the Group's Tax Policy. The local finance team, which includes a tax specialist, works closely with RB's CHQ tax team to ensure full tax compliance.

Between 2014 and 2016, RB made a tax contribution in Pakistan of more than £45m. Every year RB Pakistan pays taxes in Pakistan including corporate tax, presumptive tax, workers welfare fund, federal sales tax, Punjab sales tax, Sindh sales tax and customs duties.

Other RB Group entities outside of Pakistan also pay tax in Pakistan on dividends and royalties received from RB Pakistan.

In 2016, RB Pakistan had a total tax liability of £17.5m which consisted of £4.9m corporate taxes, £8m sales taxes and £4.6m customs duties.

Other RB Group entities paid £1m in Pakistani withholding tax.

In 2016, our total tax contribution in Pakistan was 17% higher than in 2015 and 22% greater than in 2014.

Although there are sometimes challenges to doing business in Pakistan, RB always seeks to work constructively with the local tax authorities on the ground. Our goal is to forge professional relationships with all tax authorities in the 60 plus countries where we operate.

RB Pakistan has over 440 permanent employees in the country, who also make further tax payments via the personal income tax regime.

**27.27%**
**2016 effective tax rate**

**£45m***
**tax contribution**

**446**
**employees**

**16**
**brands sold in Pakistan**

**Dettol**
**our bestselling brand in Pakistan**

**1951**
**RB established operations in Pakistan**

The numbers above are taken from RB Pakistan's local statutory filings for 2016.
*The £45m tax contribution was in the period 2014-2016.

# Our broader economic contribution

Our purpose is to build healthier lives and happier homes.

RB's purpose means it is active in the field of social investment as the "Hoga Saaf Pakistan" initiative on page 08 illustrates.

Since 2003, our approach to social investment has developed significantly. Back then RB's overall global direct contribution was approximately £150,000 whereas the figure was £8m in 2016. We assess this investment with the same rigour we apply to investing in our commercial operations and use a third-party to evaluate our support.

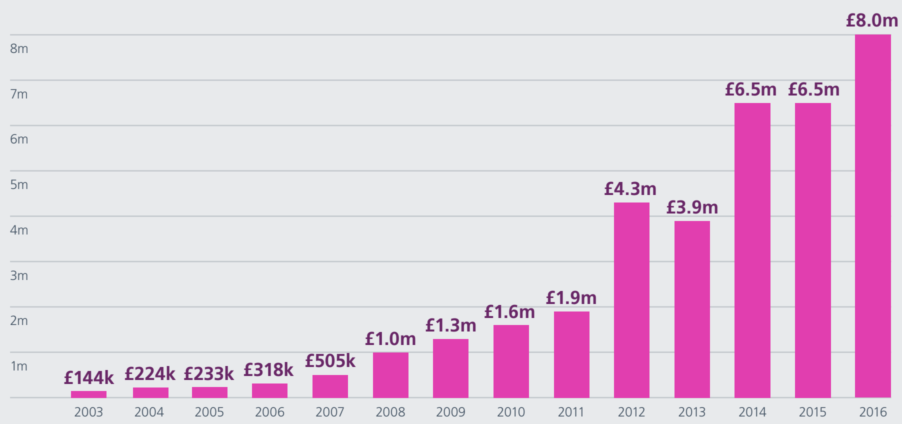
This investment benefited more than 1.5m people globally last year. We not only evaluate how many people our community initiatives reach but also the impact of this work. That is, the number of people who positively change their health behaviours because of our efforts.

Whether it is stopping children dying from preventable diseases such as diarrhoea, building toilets to discourage open defecation or educating communities on hygiene habits, our social investment is always designed to deliver the highest return on its purpose. Every hour of every day RB's social investment impacts the lives of 170 people in these communities.


Hygiene education in Pakistan

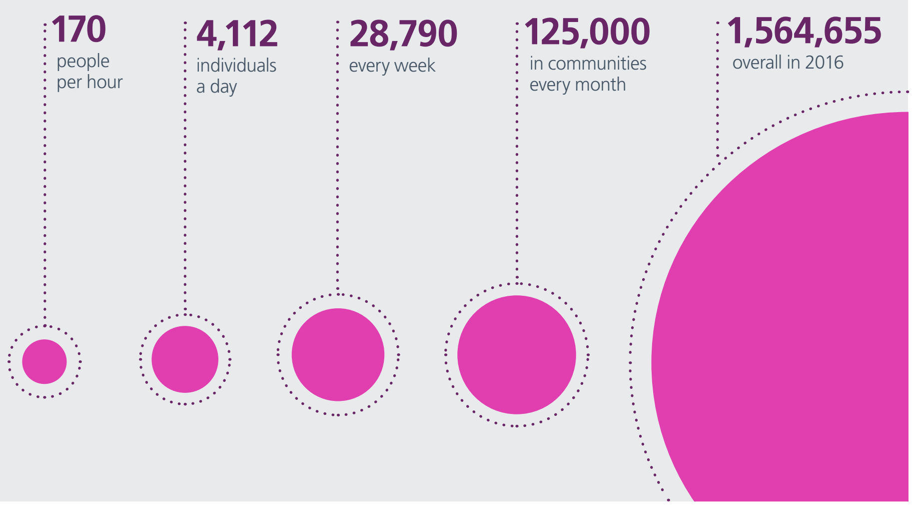

Encouraging hand washing in Pakistan

## RB's rising annual social investment




## Social investment

Over 1.5m people positively changed their health behaviours due to our programmes in 2016.



# 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 total taxable income. |
| **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 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. |
| **Tax** | The OECD working definition of a tax is a compulsory unrequited payment to the government. This includes corporate income tax, excise duties, property taxes, employment taxes, sales taxes, stamp duties and any other required payments. |
| **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 imposed at source, i.e. a third party 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 tax payments. |

Our betteRBusiness strategy encapsulates everything we do.

Financially, socially and environmentally we act responsibly and sustainably. We believe passionately in doing things the right way.

HEALTH ‣ HYGIENE ‣ HOME

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