

# Philip Morris UK Tax Strategy<sup>1</sup>

## Introduction

Philip Morris International (“PMI”) is a leading international tobacco company. Philip Morris Limited was first incorporated in 1950 and acts as the UK distributor for Philip Morris branded cigarettes, other tobacco products and e-cigarettes. In addition to Philip Morris Limited, PMI owns a number of other UK incorporated companies, which have limited activities and do not participate in the distribution of cigarettes and other tobacco products (collectively “the PMI UK Group”).<sup>2</sup>

PMI is committed to being a positive employer and strives to be environmentally and socially responsible. As we state in our sustainability report: “there is no doubt that the greatest contribution PMI can make to society is to replace cigarettes with less harmful alternatives.”<sup>3</sup>

PMI has announced its ambition to work with governments to phase out cigarettes worldwide, the first tobacco company to do so.<sup>4</sup> Our objective is to switch all adult smokers who would otherwise continue to smoke to safer, non-combustible (smoke-free) alternatives. Worldwide, it is our ambition that by 2025 at least 30% of our volumes will come from smoke-free products (assuming PMI maintains its market share). In the UK, we think that figure could be significantly higher.

PMI is also dedicated to fighting the illegal cigarette trade, which costs the UK taxpayer approximately £2.5 billion each year according to HMRC estimates.<sup>5</sup> We co-operate closely with relevant law enforcement authorities in the UK and internationally. We recently pledged \$100 million for PMI IMPACT, a first-of-its-kind global initiative to support public, private, and nongovernmental organizations to develop and implement projects against illegal trade and related crimes such as corruption, money laundering, and organized crime. An independent expert council allocates funding, and several UK based projects have already benefited.

## Ultimate Ownership and the role of Tax within PMI

The PMI UK Group’s ultimate parent undertaking and controlling party is Philip Morris International Inc., a company incorporated in the United States of America and headquartered in New York.

PMI’s UK business activities generate substantial taxes for the UK exchequer. In addition to corporation tax, the PMI UK Group pays customs duties, stamp duties, and employment taxes. The PMI UK Group also collects and pays a variety of indirect taxes such as excise duties and VAT, as well as employee taxes. Philip Morris Limited’s total excise duty payments for the year ended 31 December 2017 were approximately £728 million.

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<sup>1</sup> This information is published for and on behalf of all UK sub-groups and qualifying entities in the PMI group in accordance with Schedule 19 of the Finance Act 2016.

<sup>2</sup> A full list of UK incorporated companies controlled by PMI can be found at Companies House.

<sup>3</sup> [https://www.pmi.com/resources/docs/default-source/pmi-sustainability/pmi\\_sustainability\\_report\\_2016.pdf?sfvrsn=143382b5\\_2](https://www.pmi.com/resources/docs/default-source/pmi-sustainability/pmi_sustainability_report_2016.pdf?sfvrsn=143382b5_2) at page 3.

<sup>4</sup> <http://www.bbc.co.uk/news/business-38152297>

<sup>5</sup> Tobacco Tax Gap Estimates, 2016-17, available at [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/715742/HMRC-measuring-tax-gaps-2018.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/715742/HMRC-measuring-tax-gaps-2018.pdf)  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/654490/HMRC-tobacco-tax-gap-estimates-2017.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/654490/HMRC-tobacco-tax-gap-estimates-2017.pdf)  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/561322/HMRC-tobacco-tax-gap-estimates-2016.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/561322/HMRC-tobacco-tax-gap-estimates-2016.pdf)

## **1. Approach of the group to risk management and governance arrangements in relation to UK taxation:**

PMI is committed to conducting business in compliance with all applicable tax laws, and it has established tax standards intended to ensure compliance with those laws. Legal obligations and societal expectations require that our transactions are based on sound tax strategies and that we act in good faith in all dealings with tax authorities and other stakeholders.

In order to achieve this objective, PMI has implemented governance arrangements which set out clear accountabilities for the management of tax compliance risk and tax planning. PMI's tax strategy is to maintain a comprehensive, effective and practical risk management program, shared best practices, a structured and documented control framework, appropriate planning, and coordinated decision making.

PMI's mandatory practices includes:

### **a. Roles and responsibilities**

Clear definition of roles and responsibilities have been formalised within the PMI UK Group in accordance with PMI's internal Tax Compliance Program. PMI has a long established and experienced in-house tax team responsible for managing the wider PMI group's tax affairs. In the UK, this is supported by local tax expertise embedded within the PMI UK Group.

### **b. Escalation & Involvement of PMI Tax Department**

In accordance with PMI's internal policies, the PMI UK Group consult with the PMI Tax Department on all material transactions, including significant or recurring new transactions, business structures or operations with other PMI affiliates or unrelated parties, and determining positions, exposures or actions regarding material, non-routine tax or Customs matters. Where there is sufficient uncertainty over the tax treatment of a particular transaction or there is a potentially material impact, external advice is obtained.

### **c. Tax reporting and procedures**

PMI's Tax Standards and Guidelines are implemented with the objective of ensuring that effective and predictable tax compliance and control measures are in place. In accordance with these internal policies, the PMI UK Group must ensure that all UK tax filing obligations (internal and external) are accurately completed on a timely basis, and in accordance with applicable laws and regulations.

### **d. Documentation and tax records**

In accordance with PMI's internal policies, the PMI UK Group is obliged to ensure the appropriate creation and retention of all records and data impacting or supporting tax matters.

### **e. Monitoring and reviewing business activities**

In accordance with PMI's internal policies, business structures and transactions must be continually monitored and reviewed by the PMI UK Group to identify key tax issues for attention. The PMI tax team is actively involved in all key commercial and operational transactions and there is a clear allocation of responsibilities between the central tax team and the local UK tax team.

## **2. The attitude of the group towards tax planning (so far as affecting UK taxation)**

PMI's Code of Conduct (the "Guidebook for Success") outlines the fundamental beliefs and attributes underpinning the way in which PMI conducts its business, and requires all employees to make decision that are ethical and in line with the PMI's values. The Code of Conduct can be found at:

[https://www.pmi.com/resources/docs/default-source/our\\_company/code-of-conduct/english\\_code\\_of\\_conduct\\_external\\_online\\_180116.pdf?sfvrsn=f5c386b5\\_8](https://www.pmi.com/resources/docs/default-source/our_company/code-of-conduct/english_code_of_conduct_external_online_180116.pdf?sfvrsn=f5c386b5_8)

PMI engages in tax planning that supports our business and which reflects genuine commercial and economic activity. We do not engage in artificial tax arrangements or in transactions lacking substance.

PMI is committed to adhering to all relevant laws, both within the UK and externally. Wherever possible, PMI seeks to minimise the risk of uncertainty or dispute through timely and proactive engagement with the UK tax authorities.

PMI conducts all transactions on an arm's length basis in accordance with current OECD principles, and we support the move towards greater transparency.

## **3. The level of risk in relation to UK taxation that the group is prepared to accept**

PMI does not tolerate, facilitate, or support illegal activities involving the use of our Company products or assets as a vehicle for tax evasion or money laundering. For this reason, PMI has implemented business systems in order to ensure that we do what we reasonably can, as a responsible manufacturer of consumer products, to prevent our products from being used to disguise the proceeds of crime or in tax evasion schemes.

In light of an ever changing domestic and international tax landscape, the PMI UK Group's tax affairs and tax risk management procedures are regularly reviewed to ensure that processes and measures are up-to-date so that we are able to identify, assess, manage and mitigate tax risk as well as being aligned with the PMI Group's business strategy and governance framework.

Processes relating to different taxes are allocated to appropriate specialist functions within the finance and tax team who, in conjunction with our Internal Controls specialists, carry out regular reviews of activities and processes to identify key risks and mitigating controls in place. These key risks are monitored for changes within the business and the legislative environment and, where required, processes and controls are updated accordingly.

## **4. The approach of the group towards its dealings with HMRC**

### **a. Working with HMRC**

PMI interacts in an open and real time manner with HMRC. We seek to build sustainable relationships with HMRC that are constructive and based on mutual respect. We are transparent about how we manage tax compliance risk across all relevant taxes and duties, and work collaboratively with fiscal authorities to achieve early agreement. We are committed to prompt disclosure and transparency in all tax matters with HMRC and we aim to provide full, accurate and helpful answers to HMRC queries where these arise.

The PMI UK Group conducts an annual Business Risk Review with HMRC at which key tax issues and business changes with a potential UK tax impact are discussed. HMRC make an assessment of the taxpayer's inherent and behavioural risk factors and award an overall risk rating. Inherent risk factors include the fact that PMI UK Group is both large and international in nature. Behavioural risk factors include the PMI UK Group's attitude to tax governance and its stated tax strategy. Of the two possible ratings, namely "Low Risk" and "Not Low Risk", HMRC's most recent rating for the PMI UK Group is Not Low Risk.

**b. Senior Accounting Officer**

In addition to the internal tax policies and sign offs developed by the PMI UK Group, as a large business the PMI UK Group falls within the Senior Accounting Officer ("SAO") regime. A detailed risk assessment is conducted as part of the certification requirements and a Senior Accounting Officer appointed for the PMI UK Group.

**Further information**

The PMI UK Group's approach to tax is reviewed and regularly updated. This tax strategy was approved for publication by PMI on 23/11/2018.