

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

## Introduction

Philip Morris International (“PMI”) is leading a transformation in the tobacco industry to create a smoke-free future and ultimately replace cigarettes with smoke-free products to the benefit of adults who would otherwise continue to smoke, to society, the company and its shareholders.

Philip Morris Limited (“PML”) was first incorporated in 1950 and is the UK distributor for PMI’s combustible tobacco products and smoke-free products including heated tobacco, heated tobacco devices and e-cigarettes.<sup>2</sup> In addition to PML, PMI owns a number of other UK incorporated companies which have limited activities and/or do not participate in the distribution of tobacco products, heated tobacco devices or e-cigarettes in the UK (collectively “the PMI UK Group”).<sup>3</sup> This tax strategy relates to the activities of the PMI UK Group.<sup>4</sup>

## 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.

In the UK, the PMI UK Group pays corporation tax, customs duties, stamp duties and employment taxes. The PMI UK Group also collects and pays a variety of indirect taxes including excise duties and VAT. PML’s total tax contribution to the UK exchequer for the year ended 31 December 2019 was in excess of £750 million.

### **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 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, in order to ensure high standards of tax compliance wherever PMI operates, such as PMI UK Group in the UK.

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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 UK Group in accordance with Schedule 19 of the Finance Act 2016.

<sup>2</sup> In addition to the UK market, PML acts as distributor for the Republic of Ireland, Channel Islands and Isle of Man,

<sup>3</sup> A full list of UK incorporated companies controlled by PMI can be found at Companies House.

<sup>4</sup> Any references to “we”, “us” and “our” are references to PMI and the PMI UK Group.

PMI's mandatory practices include:

**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 (the PMI Tax Department) responsible for managing PMI's tax affairs. In the UK, this is supported by local tax expertise embedded within the PMI UK Group, with a direct reporting line to the PMI Tax Department.

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

In accordance with PMI's internal policies, the PMI UK Group consult internally (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 Department is actively involved in all key commercial and operational transactions and there is a clear allocation of responsibilities between the PMI Tax Department and the PMI UK Group tax team, who remain responsible for tax compliance in the UK for the PMI UK Group.

**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 decisions that are ethical and in line with the PMI's values. The Code of Conduct can be found [here](#).

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 internationally. 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 PMI'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.

PMI is also dedicated to tackling and preventing the illicit tobacco trade. The latest estimates from Her Majesty's Revenue and Customs ("HMRC") suggest that the cost of tobacco-related illicit trade to the UK taxpayer in 2018-2019 was £1.9 billion while KPMG assess the loss at as high as £2.47bn.<sup>5,6</sup> With this in mind, PMI cooperates closely with relevant law enforcement authorities in the UK and internationally. In 2016 we launched PMI IMPACT, a \$100 million, 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.

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

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

We interact 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 we work collaboratively with relevant 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 as and when they 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

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<sup>5</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/907122/Measuring\\_tax\\_gaps\\_2020\\_edition.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/907122/Measuring_tax_gaps_2020_edition.pdf)

<sup>6</sup> [https://public.tableau.com/views/CountryReport-TOUPLoad/CountryOverview?%3Aembed=y&%3AshowVizHome=no&%3Adisplay\\_count=yes&%3Atoolbar=no#3](https://public.tableau.com/views/CountryReport-TOUPLoad/CountryOverview?%3Aembed=y&%3AshowVizHome=no&%3Adisplay_count=yes&%3Atoolbar=no#3)

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.

**c. Corporate Criminal Offence**

In line with the recent Criminal Finances Act 2017, the PMI UK Group conducted a detailed risk assessment to establish the nature and extent of any risks and have implemented proportionate and risk-based approach via a local policy emphasising PMI's commitment to not facilitating tax evasion. In order to validate the work done, external legal counsel's opinion was sought to evaluate the work performed with the concluding remark that *"the Company has made significant efforts to install the requisite framework"* and *"that it has reasonable prevention procedures in place"*.

**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 26/11/2020.