Tax strategy

Contents

In 2020,
we delivered around…

2.2bn packs of medicine

580m vaccine doses

3.8bn consumer healthcare products

Over **65** manufacturing sites

R&D hubs in the UK, US, and Belgium

Operations in 96 countries, with over **94,000** employees

Introduction from our CFO

Investors, patients and consumers, employees and communities rightly expect companies to consider their social impact as well as their financial impact as they seek to create value over the long term.

GSK is a science-led global healthcare company with a special purpose – to help people do more, feel better and live longer. Every day, we help improve the health of millions of people around the world.

2020 was an extraordinary and challenging year, which brought this purpose to the fore. The COVID-19 pandemic dominated all aspects of life and business; and demonstrated that protecting health is central to our collective stability and prosperity.

Last year also saw continued efforts to reform the international tax system, led by the OECD. Along with providing innovative healthcare products, employment and training, tax is another important aspect of the contribution we make to society. We are supportive of a sustainable tax system that enables companies and citizens to thrive.

Likewise, we are supportive of efforts to ensure companies are appropriately transparent about how their tax affairs are managed. In this tax strategy, you will find information on the principles and processes that guide our approach to tax, as well as additional detail around the tax information provided in our 2020 Annual Report.

We have sought to give an insight into the complexities of discovering and developing a new medicine or vaccine, explaining what tax we pay at each stage of this long journey. We are committed to improving our tax reporting and welcome any feedback on this report.

Iain Mackay
Chief Financial Officer

Our Global Tax strategy has been prepared to meet the requirements of paragraph 16 of Schedule 19 to the UK Finance Act 2016 for the year ended 31 December 2020 and sets out our approach to tax as well as an overview of our global tax profile. It applies to the UK and all other countries in which we operate. This publication was approved by our Group Audit and Risk Committee on 12 October 2021 and by the Board on 14 October 2021.

Our tax principles

Our tax principles, underpinned by our values and expectations, long-term priorities and code of conduct, enable a common understanding and consistent approach to tax.

Business makes a major contribution to the public purse through its tax contribution. This includes direct taxes (such as corporate income tax) and indirect taxes (such as VAT and customs duties) as well as other taxes (such as employment taxes and property taxes). It is therefore important that companies explain their approach to tax. This helps inform dialogue about tax and tax policy.

We are supportive of efforts to ensure companies are appropriately transparent about how their tax affairs are managed. As part of that, we are publishing further contextual information this year.

We support the exchange of country-by-country reporting (CBCR) data between tax authorities as, validated against existing information held on taxpayers, it will support their ability to ensure multinational groups pay the right amount of tax in the right places. We recognise the debate around public disclosure of CBCR data - it is a complex issue and we continue to monitor developments in this area.

As a global healthcare company, we have a substantial business and employment presence in many countries around the world and pay a significant amount of tax. This includes corporate income tax and other business taxes, and tax associated with our employees. We also collect a significant amount of tax on behalf of governments along our supply chain, including from our employees.

Our tax principles, published here for the first time, enable a common understanding and consistent approach to taxation across GSK.

Principle 1: We are transparent

We are transparent with stakeholders and regularly provide communication regarding our approach to tax and taxes paid.

Principle 2: We have a robust risk management and governance framework

We have strong governance to adhere to our tax principles and manage tax risk in line with our tax risk management framework. Our approach to tax is overseen by our Board of Directors.

Principle 3: We respect tax law and the underlying policy intent

We comply with tax law in the countries in which we operate and are committed to operate in line with the tax policy intent as well as the letter of the law.

Principle 4: We do not seek abusive tax results

We act with integrity and do not engage in artificial tax arrangements or seek to avoid tax through the use of 'tax havens'.

Principle 5: We engage constructively with authorities

We seek to develop cooperative relationships with tax authorities, based on mutual respect, transparency and trust. Where appropriate, we also provide constructive business input on tax policy matters, advocating for reform that supports economic growth, job creation and the needs of our patients.

Principle 6: We support the business

Supporting the business in a tax efficient manner, ensuring profits are recognised in line with economic activity and through the appropriate use of investment incentives where the intent is aligned with the business activity, helps GSK deliver on its purpose of discovering and developing needed medicines, vaccines and consumer healthcare products.

Our tax risk management framework

We have strong governance to adhere to our tax principles and manage tax risk in line with our tax risk management framework.

Decisions, activities and operations undertaken across our business give rise to areas of uncertainty, some of which relate to tax (tax risk). Uncertainties regarding tax generally fall into one of three categories: operational related to tax processes and systems, technical judgement on the interpretation of tax law, and political and legislative changes on tax rules. Managing tax risk is about understanding where and why these uncertainties arise and deciding how these are addressed.

How do we manage tax risk?

Tax risk in all countries in which we operate is managed through robust internal policies, processes, training and compliance programmes. Our Board of Directors and the Audit and Risk Committee are responsible for approving our tax policies and risk management arrangements as part of our wider Internal Control Framework (ICF). The ICF is our comprehensive enterprise-wide risk management model and the means by which GSK ensures the reliability of financial reporting and compliance with laws and regulations. Our Board of Directors and the Audit and Risk Committee are responsible for the implementation of the ICF and are supported in this regard by the Risk Oversight Compliance Council and the Audit and Assurance function.

Who manages tax risk?

Our tax affairs are managed on a global basis by a team of tax professionals, led by the Global Head of Tax, who work closely with the business on a day-to-day basis. GSK's Global Tax team is part of our Global Finance function, with the Global Head of Tax reporting directly to the Group Chief Financial Officer.

The Global Tax team are suitably qualified for the roles they perform, with specific geographic, operational and technical responsibilities, including specialists in Corporate Income Tax, Transfer Pricing, Tax Reporting, Indirect Tax and Employment Tax. Training needs are supported in order that they are able to provide up to date technical advice in line with their responsibilities. Like all of our employees, the Global Tax team are required to adhere to our Code of Conduct.

How do we determine what level of tax risk is acceptable?

We are not prescriptive on the level of tax risk we are prepared to accept. However, we do not take speculative tax positions or those that bring material tax risk. Where there is material uncertainty on the tax treatment of a transaction, or where the necessary expertise is not available within the Global Tax team, external advice is sought before any position is taken. External advisers are required to adhere to our Code of Conduct.

What are the key tax risks faced by GSK?

The key tax risks faced by GSK, together with the measures in place to mitigate these risks, are set out in our tax risk management framework below.

Our tax risk management framework

Governance

Risk Management Control Boards promote the "tone from the top", establish our risk management culture and oversee internal controls. Significant tax decisions are submitted to the Tax Governance Board, which meets quarterly and comprises senior GSK Finance personnel. These bodies ultimately report to the Risk Oversight and Compliance Council, Audit and Risk Committee and the Board.

Risk

Operational	Technical judgement	Political and legislative
Compliance failure due to inadequate tax processes, personnel or systems.	Uncertainty in the interpretation or application of tax law.	Failure to identify, interpret or implement changes in tax legislation.

Mitigating measures

In-house operational tax, compliance and reporting and tax technology specialists partner with leading accounting firms to deliver compliance and statutory filings across the globe.	In-house tax specialists, supported by external advisers, support the local implementation of our business strategy, engaging proactively with tax authorities where possible to resolve areas of uncertainty.	In-house tax specialists partner with local advisers to monitor emerging changes in the local and international tax environment, proactively engaging with policy setters to provide constructive business input on tax policy matters.

Taxation across the biopharmaceutical lifecycle

Our biopharmaceutical business is built on new and innovative medicines and vaccines with a long development lead time and significant upfront investment.

Our pharmaceutical and vaccines businesses are built on the discovery and development of new and innovative medicines and vaccines. We are focusing on science related to the immune system, the use of human genetics and advanced technologies to help accelerate the pace at which we develop and deliver transformational medicines.

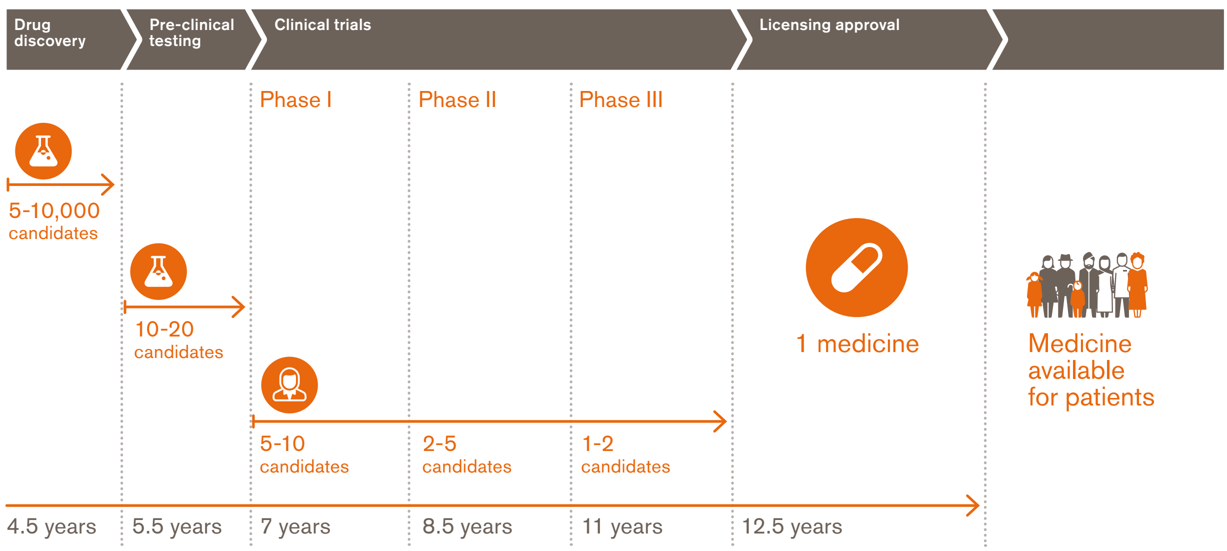
As an industry, developing new products can take up to 15 years and carries significant risk – less than 10% of drugs in clinical testing get approved. There are significant upfront costs, which vary depending on where an asset is in the R&D lifecycle. Given the inherently uncertain nature of drug discovery, there are no guarantees of a return. In 2020, GSK invested a total of £4.4 billion in biopharmaceutical research and development.

Investment in R&D can result in intellectual property (IP), such as patents related to new medicines. The ownership of our IP reflects the countries which drive R&D activity and bear the upfront investment costs and associated risks. IP can enable us to generate a return on our upfront investment in discovering and developing new products, although this might be 10-15 years or more down the line.

This long lifecycle means that looking at a single year's taxation in our industry is not necessarily reflective of our overall tax contribution. Our tax profile in any given country at any given time will be driven by factors such as the lifecycle stage and IP ownership. The tax profile of a particular country may fluctuate year-on-year.

Here, we set out what the lifecycle means for the taxes paid – the tax profile – at different stages of discovering and developing a new medicine. Vaccines have a similarly long and complex lifecycle.

Timeline and development stages for a pharmaceutical product (industry average)



Source: ABPI

Taxation across the biopharmaceutical lifecycle continued

Drug discovery and pre-clinical testing

The development cycle is challenging and highly uncertain. For every successful new treatment, scientists begin by testing on average 5,000 to 10,000 potential compounds. Only 10-20 candidates will make it into pre-clinical testing.

Clinical trials

Of these potential compounds, approximately five to ten will proceed to clinical trials, with only one to two making it through to Phase III. From Phase III onwards, the cost of investment increases due to the scale of the trials.

Tax profile

- A significant amount of employer taxes are paid in respect of employees involved in the drug discovery and development cycle, as well as associated support functions;
- Property taxes are paid on facilities where R&D and other activities are carried out;
- Indirect taxes, eg customs duties or VAT, can arise on the cross-border transfer of active pharmaceutical ingredients and other materials used;
- Corporate income taxes are low as no sales are made in these phases and significant upfront investment costs are incurred, which give rise to material economic losses during the drug discovery and development phase;
- The company collects a significant amount of tax on behalf of governments along the supply chain (including from employees).

Licensing approval

Once a medicine or vaccine has been through Phase III trials, it faces rigorous reviews by regulators. Ahead of potential regulatory approval, investment in manufacturing begins, so that a medicine or vaccine can be delivered to patients once it is approved. Investment continues after a medicine is licensed as companies support pharmacovigilance and further R&D.

Tax profile

- A significant amount of employer taxes continue to be paid in respect of employees involved in ongoing R&D activities as well as those supporting regulatory reviews;
- Property taxes are paid on facilities where R&D and other activities are carried out;
- Indirect taxes, eg customs duties or VAT, can continue to arise on the cross-border transfer of active pharmaceutical ingredients and other materials used;
- Corporate income taxes remain low as no sales are made and ongoing investment costs are incurred;
- The company collects a significant amount of tax on behalf of governments along the supply chain (including from employees).

Distribution of medicine to patients

The pharmaceutical industry is highly regulated, which shapes how medicines are developed, tested, manufactured and sold. The pricing of medicines is negotiated by governments and payors, with a limited exclusivity period. Once the medicine is off-patent, it can be manufactured or further developed by others.

Tax profile

- A significant amount of employer taxes continue to be paid in respect of employees involved in manufacturing, distribution and ongoing R&D activities;
- Property taxes are paid on facilities where R&D and other activities are carried out;
- Indirect taxes, eg customs duties or VAT, can arise on the cross-border transfer of medicines and vaccines as well as active pharmaceutical ingredients and other materials used;
- Corporate income taxes are paid on profits generated on approved medicines, with profits recognised in countries in accordance with the activities they have supported and any IP generated;
- The company collects a significant amount of tax on behalf of governments along the supply chain (including from employees).

Taxation across the consumer healthcare lifecycle

Our world-leading Consumer Healthcare business combines science and consumer insights to create innovative everyday healthcare brands that consumers trust and experts recommend.

Along with Pharmaceuticals and Vaccines, GSK has a Consumer Healthcare business, which was strengthened in 2019 through a combination with Pfizer's consumer healthcare business. We are one of the world's leading over-the-counter healthcare companies with number one positions in a number of markets.

As consumer healthcare products have a shorter development lifecycle than our biopharmaceutical medicines and vaccines, the tax profile is more consistent year on year in terms of amount and type of taxes paid.

Tax profile

- A significant amount of employer taxes are paid in respect of employees involved in R&D, manufacturing, marketing and distribution activities, as well as associated support functions;
- Property taxes are paid on facilities where manufacturing, distribution, R&D and support activities are carried out;
- Indirect taxes, eg customs duties, are paid on the cross-border transfer of materials and products along the supply chain;
- Corporate income taxes are paid on profits generated along the supply chain;
- The company collects a significant amount of tax on behalf of governments along the supply chain (including from employees).

Our approach to tax

We seek to develop cooperative relationships with tax authorities, based on mutual respect, transparency and trust.

How we work with tax authorities

We seek to maintain open and constructive relationships with tax authorities worldwide, meeting regularly to discuss our tax affairs and real time business updates wherever possible. As an example, in the UK, GSK has an open and transparent relationship with HM Revenue & Customs ("HMRC"). We have regular meetings throughout the year to discuss business changes.

We submit tax returns according to statutory time limits and engage proactively with tax authorities to seek to ensure our tax affairs are current, entering into continuous audit programmes and advance pricing agreements where appropriate. These arrangements provide long-term certainty for both tax authorities and GSK over the tax treatment of our business, based on full disclosure of all relevant facts.

The complexity of tax regulations means that we may occasionally disagree with tax authorities on the technical interpretation of a particular area of tax law. We seek to resolve any differences of interpretation with tax authorities in a cooperative manner. In exceptional cases, we may have to resolve disputes through formal proceedings.

Advocating reform

We monitor government debate on tax policy in our key jurisdictions so that we can understand and share an informed point of view regarding any potential future changes in tax law.

Where relevant, we provide pragmatic and constructive business input to tax policy makers either directly or through industry trade bodies, advocating reform to support economic growth and job creation as well as the needs of our patients and other key stakeholders.

Examples of this approach include our constructive input to the OECD's work on international taxation. In 2020, the OECD published revised Pillar 1 and Pillar 2 proposals, which revisit tax allocation rules and aim to ensure companies pay a minimum level of tax on income, regardless of where it arises. We submitted written responses to a request for business input from the OECD regarding these proposals.

It is essential that tax policy considers the significant upfront investment required to develop innovative medicines, which are the result of R&D investment decisions made many years earlier. Certainty and stability of tax regimes is therefore fundamental when the risks and rewards of the business can sit decades apart.

We follow established procedures and channels for dealing with tax authorities, government officials and ministers. In line with our Code of Conduct and our Values, we will not bribe or otherwise induce tax officials, governments or ministers.

Transfer pricing

We are subject to taxation throughout our supply chain. The worldwide nature of our operations means that our cross-border supply routes, necessary to ensure supplies of medicines into numerous countries, can result in conflicting claims from tax authorities as to the profits to be taxed in individual countries. This can lead to double taxation (with profits taxed in more than one country).

Profits are recognised in territories by reference to the activities performed there and the value they generate. To ensure the profits recognised in jurisdictions are aligned to the activity undertaken there, and in line with current OECD guidelines, we base our transfer pricing policy on the arm's length principle and support our transfer prices with economic analysis and reports.

The 'arm's length' principle

An underlying principle of transfer pricing is that two companies within the same group must act as if they were independent enterprises, with each appropriately rewarded for the functions they perform, assets they employ and risks they assume when entering into intra-group transactions. An appropriate reward is that which would be obtained in a transaction between unrelated parties. This is known as the 'arm's length' principle.

External tax advisers

We partner with external advisers to deliver our global tax compliance and statutory filings. Partnering with external advisers provides GSK access to high calibre staff, the latest in compliance technology and global expertise across a range of compliance activities, ensuring that we have a sustainable platform to manage the increasing demands of digitally enabled tax authorities.

As an example, external advisers have been engaged to support us in entering into Advance Pricing Agreements in various countries. These arrangements provide long-term certainty over the tax treatment of GSK's business, based on full disclosure of all relevant facts.

In order to supplement the subject matter expertise of our Global Tax team, we engage tax advisers to provide specialist input on areas of uncertainty, review the implications on our business of new tax legislation and provide support with significant transactions.

Our approach to tax continued

Our approach to tax planning

We do not engage in artificial tax arrangements – those without business or commercial substance. We do not seek to avoid tax using 'tax havens' or transactions we would not fully disclose to a tax authority.

When considering how to structure an investment or transaction, this process will be driven by the wider business strategy, with the tax impact being one of many factors considered. Where a choice exists on how to structure an investment or transaction, and where this is in line with our business strategy and tax principles, we will choose the more tax efficient option.

We have a zero-tolerance approach to tax evasion and the facilitation of tax evasion.

Our locations

We have operations in 96 countries, delivering medicines, vaccines and consumer healthcare products to patients and consumers. The need for our products arises in all locations and we are committed to delivering medicines and vaccines to patients across the globe. As a result we have a presence in a limited number of countries that may be perceived as tax havens, but our presence is not for tax purposes.

Our Annual Report provides a full list of all our subsidiaries, associates, joint ventures and joint arrangements – and the jurisdictions in which they are tax resident.

The EU has defined a list of non-cooperative jurisdictions for tax purposes. GSK has a corporate presence in one of those countries – Panama:

- Our presence in Panama, which started almost 50 years ago, encompasses manufacturing, distribution and the provision of supply chain management services to the region. We employ over 300 people in the country and pay tax on profits commensurate with local activities.

We also have a corporate presence in the following jurisdictions, which are often referred to as tax havens:

- Bermuda:
  - GSK has a long-established group insurance company in Bermuda, allowing GSK to aggregate operational risks and reinsure them within established Global and Bermudan insurance markets. This enables us to get better pricing and coverage than if every group company were to insure their own risks.
  - GSK also acquired a Bermudan entity as part of the acquisition of the Tesaro Inc group of companies in 2019. Steps are being taken to liquidate this entity;

The following legacy holding companies within our group structure are in the process of being liquidated:

- Mauritius: two entities which were previously group holding companies and are in the process of being liquidated.

Appendix: Explanation of the tax charge in our Annual Report

The GSK consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

The tax charge reported in our 2020 Annual Report is set out below. This section provides further information on specific elements of the tax charge.

Taxation charge based on profits for the year

For the year ended 31 Dec, 2020	£'m
UK current year charge	30
Rest of World current year charge	1,117
Credit in respect of prior periods	66
Current taxation	1,273
Deferred taxation	(693)
	580

The tax charge in our Annual Report reflects the corporate income tax arising on our profits. As outlined earlier in this document, corporate income is one important element of our tax contribution alongside other forms of tax such as employer taxes and property taxes. These other forms of taxation are integrated elsewhere in our accounts and are in addition to the corporation tax presented here.

Our current year tax charge is the amount of tax we expect to pay on the profits arising in 2020.

The credit in respect of prior periods is an adjustment to the current year tax charge booked in earlier years. This compares the tax charge booked in the Annual Report for a particular year with the tax charge booked in the filed tax returns for that year. Differences can arise for a number of reasons, including the calculations in the tax returns being made on a different basis (e.g. due to differences between IFRS and local accounting standards) and the tax charge for a particular year being amended following the resolution of open issues with tax authorities.

Deferred tax arises where there is a mismatch between the time at which items are recognised in the accounting profit and the time at which they are reflected in a tax return . An example of this is pension contributions where, in general, tax relief arises at the time the contributions are paid rather than at the time they accrue in the accounts. Deferred tax is recognised on these items to ensure the total tax charge for the period accurately reflects all items in the accounting result, including those which will only impact the current tax charge in future years.

Why does the amount of corporation tax paid differ from the current tax charge in the accounts?

Our current tax charge for 2020 was £1,273m and we made cash tax payments of £1,655m during 2020. We expect these figures to be different due to a number of factors.

The main driver for the difference is the timing of when cash tax payments are made in respect of a financial year, with some being made in the year in question and some being made after the year end. As such, cash tax payments made in 2020 may relate in part to the 2019 current tax charge and in part to the 2020 current tax charge. Further payments in respect of the 2020 position may fall due in 2021.

Another factor is that tax returns may subsequently be amended where open issues are closed with tax authorities, leading to additional payments being made or refunds being received in later years.

Appendix: Explanation of the tax charge in our annual report continued

Reconciliation of adjusted and total tax charge

GSK's total reported results represent the Group's overall performance for the year. The disclosures in our Annual Report reconcile the total tax charge for the year of £580m to the tax charge computed by applying the UK statutory rate of taxation (19%) to the Group's total profit before tax, setting out the main items which drive the difference.

Adjusted results are a non-IFRS measure that exclude the impact of one-off transactions, such as acquisitions and disposals, as well as items such as the amortisation or impairment of intangible assets and major restructuring costs. Further information on this is provided in our Annual Report. Below we have provided additional reconciliations in respect of the tax charges on adjusted profit and adjusting items, to help explain our effective tax rate.

For the year ended 31 Dec, 2020	Total £'m	Adjusting items £'m	Adjusted profit £'m
Profit before tax	**6,968**	(1,126)	8,095
UK statutory rate of taxation (19%)	**1,324**	(214)	1,538
Differences in overseas tax rates	**552**	(103)	655
Benefit of intellectual property incentives	**(586)**	128	(714)
R&D credits	**(105)**	(8)	(97)
FV remeasurement of non-taxable put options	**(3)**	(3)	–
Tax losses where no benefit is recognised	**18**	7	11
Permanent differences on disposals and acquisitions	**(338)**	(338)	–
Other permanent differences	**98**	10	88
Re-assessments of prior year estimates	**(228)**	(170)	(58)
Changes in tax rates	**(152)**	(24)	(128)
Tax charge / (credit)	**580**	**(715)**	**1,295**
Effective tax rate	**8.3%**	**63.5%**	**16.0%**

GSK's effective tax rate (the tax charge for the year expressed as a percentage of the profit before tax) differs from the UK statutory tax rate (19%) principally as a result of:

- the jurisdictional split of where profits arise and the applicable jurisdictional tax rates. This is influenced by product sales and the ownership of intellectual property, the profits on which may be eligible for R&D incentives such as the UK and Belgian patent box regimes;
- R&D credits, which are government incentives providing enhanced tax relief for qualifying R&D expenditure, designed to stimulate employment and investment in R&D;
- the impact of accounting charges arising from the fair value re-measurement of put options in relation to ViiV Healthcare;
- permanent differences which arise where there are items recognised for accounting purposes but not for tax purposes and vice versa – an example of this is taxes on intra-group dividends;
- permanent differences on disposals and acquisitions in 2020 reflect the tax impact of the disposal of Horlicks and other Consumer Healthcare brands to Unilever and subsequent disposal of shares received in Hindustan Unilever;
- a reassessment of estimates of uncertain tax positions following settlement of a number of open issues with tax authorities; and
- the impact of deferred tax items which are taxable or deductible in future periods becoming subject to different tax rates.

Glossary

Terms	Definition
Advanced Pricing Agreements (APA)	An agreement between a taxpayer and tax authority determining the transfer pricing methodology for pricing the taxpayer's international transactions for a certain period.
Arm's-length principle	The principle stating that the amount charged by one related party to another for a given product must be the same as if the parties were not related.
Cash tax	The amount of tax actually paid by an entity to meet tax obligations during a specific time period. This may include payments in respect of a liability from the previous financial year as well as payments on account in respect of the current year.
Corporate income tax	Tax levied by jurisdictions on the profits of a company which is tax resident there.
Customs duty	A tax levied on imports (and, sometimes, on exports) by the customs authorities of a country.
Deferred tax	An accounting adjustment required to the group tax charge when an item is included in the financial statements in one year but is taxed in another year – for example, some payments to the Group pension funds in accordance with IFRS.
Employer taxes	Taxes paid by employers which are calculated by reference to employees.
Effective tax rate	The tax charge for the year shown as a percentage of the profit before tax.
HMRC	Her Majesty's Revenue and Customs, the UK's tax, payments and customs authority.
IFRS	A common set of accounting standards set by the International Financial Reporting Standards Foundation.
Indirect tax	A tax levied on goods and services rather than on income or profits. Customs duty, excise, stamp duty and value added tax are examples of indirect tax.
OECD	The Organisation for Economic Co-operation and Development is an intergovernmental economic organisation founded in 1961 to promote economic growth, prosperity, and sustainable development. They encourage and coordinate international collaboration on tax matters to promote consistency and best practice.
Profit before tax	A company's profits after deducting all expenses from revenue (including operating expenses and interest) except for corporate income taxes.
Transfer pricing	Rules and methods for pricing transactions between enterprises under common ownership or control.