



## **Group Tax Strategy**

**January 2019**

## Introduction

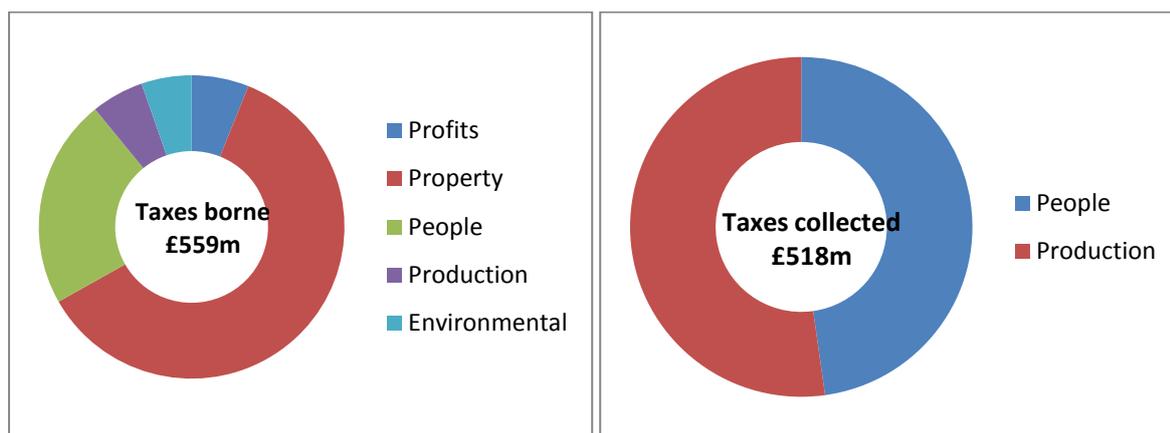
Wm Morrison Supermarkets Plc (“the Company”) is one of the UK’s largest food retailers with over 100,000 colleagues in almost 500 stores serving 12m customers every week.

Uniquely, we source and process most of the fresh food that we sell through our own manufacturing facilities making Morrisons one of the UK’s largest fresh food makers.

The vast majority of the Group’s business is in the UK so the vast majority of the Group’s taxes are paid in the UK. The Group consistently ranks as one of the largest contributors across a range of UK taxes<sup>1</sup>. In 2017/18 Morrisons made net contributions of £1.08bn to the UK Government of which £559m was borne by the Group and £518m was collected on behalf of our colleagues, customers and suppliers. A breakdown of Morrisons Total Tax Contribution is shown in the tables below.

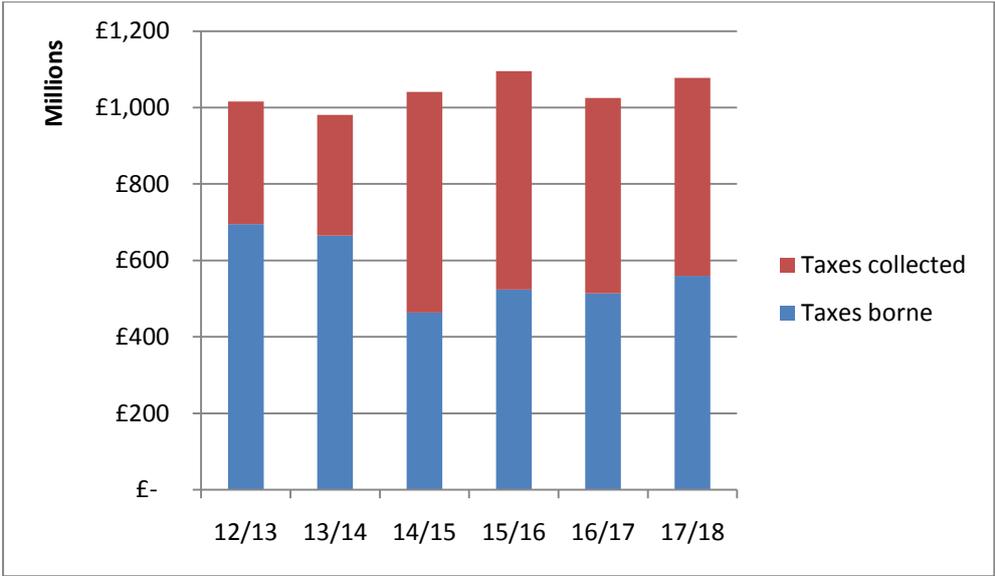
We understand the importance of the tax contribution we make and we take our responsibility towards the communities in which we operate and towards our colleagues, customers, investors and suppliers seriously. The Group is committed to paying all of its taxes in full and on time.

### FY18 Taxes borne and collected



### Total Tax Contribution in the past five years

<sup>1</sup> PwC Total Tax Contribution survey of the 100 Group of Companies



## Tax risk management and governance arrangements

The Group's Tax Strategy ("Strategy") is set by the Board of Directors. Executive responsibility for delivery of the Strategy is delegated to the Chief Financial Officer ("CFO") who also acts as the Senior Accounting Officer ("SAO") for the Group. The CFO has established a Group Tax Policy consisting of a clear set of principles<sup>2</sup> and defined roles and responsibilities. Group Tax Policy is reviewed and approved annually by the Audit Committee. Day-to-day management of Group Tax Policy is delegated to the Finance Director for Tax and Treasury who is supported by an in-house Group Tax Team of qualified tax professionals.

Tax risk management is aligned to the Group's overall risk management framework which has been built to identify, evaluate, mitigate and monitor risks. At the core of the tax risk management process is a tax risk register which is maintained by the Group Tax Team. The tax risk register details the key tax risks arising from the Group's business and is used to assess the inherent level of risk (likelihood and impact), controls, the controlled level of risk and future risk mitigation plans with the target date and target level of risk.

The tax risks in our business are mostly linked to its size and scale:

- With approximately 50,000 products on sale across our stores and online and approximately 12m customer baskets per week, ensuring the correct VAT rate is applied to sales is our main tax risk. Complexity and change in VAT legislation, particularly the rating of food and beverages, increases this risk;
- The source and origin of products on sale in our stores and online also leads to risks in ensuring the correct amount of tax, including Customs Duties, Excise Duties and VAT, are paid in our supply chain; and
- With over 100,000 colleagues in almost 500 stores payroll taxes and property taxes are also significant areas of tax risk.

Functional Heads are responsible for maintaining systems, processes and controls to manage tax risks arising in their business area. For example, the Head of People is responsible for payroll taxes and the Head of Estates is responsible for property taxes and environmental taxes.

The Finance Director for Tax and Treasury is responsible for monitoring compliance with Group Tax Policy. The Group Tax Team carry out regular reviews and testing of controls with assistance from Risk and Internal Audit as required. The Finance Director for Tax and Treasury reports to the Audit Committee on compliance with Group Tax policy twice per year. The Group Tax Team also carry out an assessment of the Group's tax accounting arrangements and report to the CFO as part of the annual SAO certification.

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<sup>2</sup> Group Tax Policy incorporates the CBI Statement of tax principles <http://www.cbi.org.uk/cbi-prod/assets/File/pdf/statement-of-tax-principles.pdf>

## Tax planning

The management of our tax affairs is focused on ensuring that we pay the right amount of tax in full and on time and that our tax affairs are consistent with our six priorities<sup>3</sup>. The Group's attitude towards tax planning is consistent with the CBI statement of tax principles which is incorporated into Group Tax Policy.

The Group will claim all tax allowances, exemptions and incentives to which it is entitled and which were specifically intended by Parliament. For example, capital allowances, substantial shareholding exemption or R&D expenditure credits.

Where there is more than one way to carry out a commercial transaction, the Group will choose the alternative which achieves the commercial aims of the business with the lowest tax cost based on a reasonable interpretation of the law.

The Group will not enter into any transaction that could produce an abusive tax result. Nor will the Group instigate any transactions for tax purposes. The Group does not use tax havens as a means of reducing its tax liabilities<sup>4</sup>.

Where uncertainty arises due to complexity or ambiguity in interpretation of tax law the Group Tax Team will seek to resolve the uncertainty by establishing its own view of the legislation and discussing the position with HMRC, including applying for formal clearance where applicable. Where there is a significant tax risk or an uncertainty cannot be resolved, the Group will seek second opinions from reputable external advisors.

## Tax risk

Group Tax Policy does not prescribe a set level of acceptable tax risk. The Group's overall risk management framework is built to identify, evaluate, mitigate and monitor those risks which threaten the achievement of our six priorities. Group Tax Policy is aligned to this framework and it defines tax risk as uncertainty about the tax treatment of any transaction where an adverse outcome could threaten the achievement of our six priorities.

Group Tax Policy requires tax risks to be assessed taking into account the expectations and needs of all of our stakeholders which includes our colleagues, the communities in which we operate (including any NGOs that represent those communities), our customers, HMRC, our investors and our suppliers. As the level of inherent risk (likelihood and impact) identified increases so too does the level of assurance that Group Tax Policy requires to mitigate the risk. This includes seeking second opinions from external advisors and obtaining advance clearance from HMRC where possible.

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<sup>3</sup> <https://www.morrisons-corporate.com/about-us/strategy-structure>

<sup>4</sup> The Group operates a small number of branches and subsidiary companies outside of the UK:

- The Group has operations in Gibraltar (supermarket store), Hong Kong (sourcing of non food products) and Netherlands (sourcing of flowers, fruit and vegetables);
  - The Group's captive insurance company is located in Isle of Man; and
  - Group companies based in Jersey and Guernsey own UK properties as a result of historic corporate acquisitions.
- All profits arising in Isle of Man, Jersey and Guernsey are subject to UK tax at the full rate.

Whilst Group Tax Policy does not prescribe a set level of acceptable tax risk, we regard protecting our reputation and brand as critical to the success of our business so our overall tax risk appetite is low.

## **Working with HMRC**

The Group's approach towards dealing with tax authorities is consistent with the CBI statement of tax principles which is incorporated into Group Tax Policy. The Group Tax Team interacts with HMRC on a regular basis and seeks to work together in an honest and constructive way. We have shared the Group Tax Policy referred to throughout this Strategy with our HMRC Customer Compliance Manager.

We aim to ensure any transaction for which the tax treatment is uncertain is clearly disclosed when it is included in a tax return submitted to HMRC. We also aim to work with HMRC in real time where possible so major transactions and events in our business are explained to HMRC before they are included in a tax return.

If we identify an error in a past tax return we aim to make a full and timely disclosure to HMRC. If HMRC open an enquiry into a past tax return we aim to provide a full and timely reply to HMRC.

When new tax legislation is introduced we will work with both HMRC and external advisors to clarify the interpretation of the law.

We expect tax risks to arise due to the size and scale of our business and complexity or ambiguity in interpretation of tax law. We aim to resolve these uncertainties through discussion with HMRC wherever possible.

From time to time we may disagree with HMRC's interpretation of a particular area of tax law. In this situation we will advocate our interpretation of the law and will proceed to litigation if we believe our interpretation is reasonable and more likely than not to succeed. We regard this as an important aspect of paying the right amount of tax, particularly where the outcome could impact our customers. For example, ensuring the correct VAT rate is applied to products on sale in our stores.

## **Scope**

Wm Morrison Supermarkets Plc is the parent of a group of companies ("the Group"). A list of subsidiary companies is included in the Company's Annual Report and Financial Statements (copy available from [www.morrisons-corporate.com](http://www.morrisons-corporate.com)).

This Tax Strategy applies to every company within the Group in accordance with paragraph 19 and 25 of Schedule 19 of the Finance Act 2016. The Strategy has been published and is freely available from [www.morrisons-corporate.com](http://www.morrisons-corporate.com) in accordance with paragraph 16(4). The Company regards publication of the Strategy as fulfilling its obligation under paragraph 16(2) for the period ended 3<sup>rd</sup> February 2019.

This Strategy applies from the date of publication until it is superseded. The company will publish an updated Strategy annually on [www.morrisons-corporate.com](http://www.morrisons-corporate.com).