



# Tax risk management strategy



## Tax risk management strategy

Vodafone Group Plc has a tax strategy focused on the following 6 key areas:

- Integrity in compliance and reporting
- Enhancing shareholder value
- Business partnering
- Influencing tax policy
- Developing our people
- Controlling and managing risks.

This document provides further commentary in respect of the last of these, the control and management of risk by defining the risk management parameters of the compliance (first) and commercial (second and third) aspects of the strategy whilst the influencing of tax policy is covered in the code of conduct section.

These parameters are consistent with the OECD recommendations for responsible business conduct in a global context.



## Vodafone Group Plc Tax Code Of Conduct

### Introduction

This Code of Conduct applies to all tax professionals working in companies owned by Vodafone Group Plc. It endeavours to guide the role of tax professionals within the Group, their key responsibilities, their professional conduct and their approach to working relationships with external parties.

Vodafone believes its obligation is to pay the amount of tax legally due in any territory, in accordance with rules set by governments. In so doing it is not able to determine the "fair" amount of tax to pay.

It is not appropriate for the details of the Group's tax affairs to appear in the public domain. Vodafone will however only enter into transactions which would be fully justifiable should they become public.

### Responsibilities and Professional Conduct

Tax professionals will aim to:

- Effectively manage risk by application of components of the tax risk strategy
- Observe all applicable laws, rules, regulations and disclosure requirements
- Apply diligent professional care and judgment to arrive at well-reasoned conclusions
- Ensure all decisions are taken at an appropriate level and supported with documentation that evidences the facts, conclusions and risks involved
- The Group aims for certainty on tax positions it adopts but where tax law is unclear or subject to interpretation, written advice or confirmation will be sought as appropriate to ensure that our position would, more likely than not, be settled in our favour
- Where the tax treatment of an item is so uncertain and/or unquantifiable preventing the assessment of more likely than not, filing positions<sup>1</sup> should be subject to robust risk assessment and supported by full disclosure
- Develop and foster good working relationships with tax authorities, government bodies and other related third parties
- Undertake all dealings with tax authorities, government officials, ministers and other third parties in a professional, courteous and timely manner
- Be compliant with all anti-bribery legislation
- Lobby and seek to influence applicable industry bodies or associations, governments and other external bodies (e.g. OECD and the EU) where possible and appropriate to shape future tax legislation and practice in ways that balance the Group's interest (e.g. consistency, stability, competitiveness) with those of the relevant authority or policy.

### Commercial Rationale

The commercial needs of the Group are paramount and all tax planning will be undertaken in this context. All transactions must therefore have a business purpose or commercial rationale.

Due consideration will be given to the Group's reputation, brand, corporate and social responsibilities when considering tax initiatives, as well as the applicable legal and fiduciary duties of directors and employees of the Group and will form part of the overall decision-making and risk assessment process.

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1. As defined in the glossary at the end of this document.



### **Policy on Disclosure**

Compliance with all relevant legal disclosure and approval requirements will be adopted and all information will be clearly presented to the tax authorities or other relevant bodies, as appropriate. Openness, honesty and transparency will be paramount in all dealings with the tax authorities and other relevant bodies.

### **Other Policies and Procedures**

On all projects the required approvals and procedures detailed in the group governance manual and official delegations of authority will be complied with.

In addition, the group business principles and any other relevant codes are separate requirements which apply to all members of staff.

### **Assurance**

Should any person have specific queries about this Code, or would like advice on implementing it, they should speak with their line manager and, if not adequately addressed, those queries should be brought to the attention of the Group Tax Director. If confidential advice is required or there are concerns that cannot be addressed through line management, please contact the Group Human Resources Director or the Group Audit Director. Alternatively, concerns can be raised anonymously through the Vodafone website <http://concern.vodafone.com>

## Tax risk management – general

**Over-riding principle:** Tax risk is ideally managed by the prevention of unnecessary disputes. The avoidance of all tax dispute would suggest an overly prudent position that is not in line with our main objective to enhance shareholder value.

Prevention of unnecessary dispute is desired and appropriate and best achieved:

- From strong technical positions
- Clear explanation of those positions
- Thorough documentation, particularly of facts
- Well established relationships with tax authorities
- Strong compliance procedures ensuring accurate and complete tax returns.

Assessment of risk should take due account of:

- Both short and long term considerations and risks
- The impact on corporate reputation/brand
- The impact on relationships with governments
- The consequence of disagreements with tax authorities over the application of law
- The benefit of certainty in respect of uncertain or disputed tax positions.

**Appetite for risk:** Vodafone's appetite for risk is governed by its "more likely than not" principle enshrined in the code of conduct. Consistency and transparency<sup>2</sup> of application across the group is essential. All tax function members should act proactively to ensure and continually improve our tax risk decision making. Further definition of the components for interpreting and assessing risk are available in supporting documents.

### 1. Tax risk management for interactions with the business

Within the context of the commercial needs of the Group being paramount we will work with the business as an equal partner in providing clear, timely, relevant and business focused advice across all aspects of tax arising there from. Where alternative routes exist to achieve the same commercial results the most tax efficient approach in compliance with all relevant laws should be recommended.

To the extent necessary we will ensure the business understands our objective of enhancing shareholder value and the risk management parameters and principles, including our appetite for risk, which govern how we will do this.

We will ensure that the business understands that the tax function should be involved throughout from planning to implementation to avoid failure in implementation, documentation or maintenance without corrective action.

The prominence of the commercial needs will in no circumstances override compliance with all applicable laws. The tax function will therefore provide appropriate input as part of the approval process for business proposals to ensure a clear understanding of the tax consequences. The tax function will also then ensure accurate representation in tax returns and accounts. Such business decisions and input include assessment, quantification and presentation of provisions in respect of taxes accounted for above the EBIT line of the profit and loss account.

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2. As defined in the glossary at the end of this document.



Assessment of the tax consequences should reflect whether there is a realistic opportunity for success based on the commitment to robust on going implementation, governance and the provision of adequate budget, expertise and resources.

All such tax support will be given in the context of the tax function being an enabler not a gate-keeper, willing to accept uncertainty and risk in line with our approved appetite for risk and transfer pricing strategy to unlock the potential of opportunity.

## 2. Tax risk assessment procedures for decision making

The tax function must be involved in the planning, implementation and documentation for:

- All business or share acquisitions and disposals
- All changes in corporate structure
- All cross- border financing arrangements
- All significant business transactions
- All cross- border trading arrangements
- All significant new processes affecting tax compliance.

The CFO in each jurisdiction should be part of this engagement with the non-financial areas.

Where any new cross border intra-group trading arrangements are being set up, the local tax function should be involved and Group Tax must also be involved well in advance of any arrangements being put in place so that appropriate inter-company pricing can be designed and documented in accordance with the transfer pricing strategy.

All decisions should consider the financial return, potential reputational risk and financial risk (likelihood of payment and the cash, P/L impact). The framework and thresholds for making these assessments are illustrated in the appendix.

A detailed assessment of the risk should be carried out and which must be presented to the owners of the tax decision in the medium and high areas as defined in the appendix. Risk assessment should include but not be limited to:

1. A full description of the issue including a clear summary statement of the facts
2. An assessment of the financial costs and benefits of all potential scenarios
3. An assessment of the non-financial costs and benefits including an assessment of the nature and amount of resources to secure the benefit
4. An assessment of the probability of the risk crystallising
5. Commentary on the likely process of dispute resolution
6. Recommendations.

The level of authorisation and decision making is as follows and applies in addition to local governance requirements (e.g. local CFO or other approval):

- **Low Risk Area (Green):** Managed by the Head of Tax for Large Opcos and the Financial Controller or equivalent for Small Opcos
- **Medium Risk Area (Amber):** Managed as set out in the Low area plus second opinion is required either from external advisers or Group Tax. All risks falling within this area should be referred to Group Tax for information

- **High Risk Area (Red):** Medium Area control applies plus specific approval by Group Tax. The Regional CFO must also be informed
- **STR:** Short term reputation issues will fall within the Medium Risk area, regardless of the value. This is something that might appear in the press for a day or two
- **LTR:** Long term reputation issues fall within the High Risk area, regardless of the value. An LTR issue is something that might damage Vodafone's reputation, which for example could have an impact on our share price or customer loyalty.

In assessing reputational risk, the group does not want its tax affairs to appear in the public domain and will work to avoid any negative impact on shareholder value. The CFO, Media Relations and appropriate parties must be informed to ensure they can easily explain any relevant situation to investors.

### 3. Tax risk management in the compliance life cycle

#### A. Compliance principles

As stated in the tax code of conduct the Group must comply with all tax regulations and disclosure requirements in all countries in which it operates. Where compliance processes have been outsourced to a shared service centre (e.g. VOCH) both the shared service centre and the group company using the services of the centre must equally ensure this principle is adhered to.

This requires that:

- The Group should submit all returns by their due dates in line with local tax law
- In line with the code of conduct and via consideration of the risk scale all material positions taken in the tax returns must be supportable in terms of documentation and legal interpretation. It is strongly recommended that clear documentation of facts and circumstances be recorded at the time of any transaction
- Technical positions affecting two Vodafone tax jurisdictions should be reconciled and agreed by both Vodafone tax teams (and Group Tax where appropriate) in advance of any tax authority filing whether pre or post transaction and where applicable must be in accordance with the transfer pricing strategy as referenced in the appendix
- The tax function will robustly defend tax positions taken in the Group's tax returns
- The tax function will proactively pursue any tax timing benefits within the context of the tax risk strategy
- The tax function should monitor changes in relevant tax law and practice and undertake regular training in order to assess any consequences for the group, with the minimum aim of mitigating any adverse impact
- The tax function will manage its compliance affairs to minimise the risk of any adverse public comment
- Appropriate administrative safeguards with regard to back up procedures and electronic signatures will be established and executed by each tax team.

## **B. Tax authority relationships**

Tax Authority Relationship: In line with the code of conduct requirements to foster good relationships with tax authorities, governments and related third parties and to undertake all such dealings in a professional, courteous and timely manner:

- The tax function will pro-actively manage the relationship with the tax authorities with the aim of minimising the risk of challenge, dispute or damage to Vodafone's credibility arising when tax matters are inadvertently incorrect
- The tax function should participate in any tax authority formal consultation process where it is expected that the matter under consultation will have a material impact on Vodafone's liability, or where a significant change in practice is being proposed that will impact the Group's tax compliance management. Approval procedures for engagement with governments should be followed and points of guidance in respect of the impact of certain tax proposals on the telecoms industry should be sought
- Similarly, the tax function should participate in discussions/lobbying and the development of proposals with national and international organisations such as the OECD, EU, UN where possible and appropriate to shape the future
- The tax function should share information/request input as to whether subjects for consultation and lobbying are in place or have been monitored in other countries
- It is Vodafone's general policy to be transparent<sup>3</sup> and proactive in all interactions with tax authorities. The application of this principle should be tailored to each territory style and engagement. Each tax team is encouraged to proactively foster this principle and share best practice by determining and sharing with the Vodafone tax community their local interpretation of this principle.

## **C. Audit and Enquiry Management**

Audits and tax authority enquiries should in most circumstances be handled by the local tax team. Such enquiries will be handled in a courteous, timely and professional manner in the normal course of the annual compliance cycle.

On occasion a more formal structured approach, potentially in coordination with Group Tax should be considered by the local tax team in discussion with CFO and Group Tax. Characteristics of enquiries to be taken into consideration include:

- The overall liability at stake including tax and penalties
- The degree to which international concepts and/or consistency is relevant to the group
- The likelihood of litigation and need to adapt terms of engagement with the tax authority
- Similarly, the need to adapt internal interactions and information tracking
- The likely resource requirement and options to source this
- The reliance on expertise or information from other parts of the Group
- The risk of reputational damage.

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3. As defined in the glossary at the end of this document.



#### **D. Audit Resolution**

Arbitrary settlement on audit and/or use of tax amnesties is not generally appropriate. Refer to the tax amnesties section for further commentary.

All significant audits (for all taxes) should be subject to risk assessment and discussion as part of the appropriate local and Group governance approval processes to analyse and determine the choice of compromise positions on audit and the method thereof versus litigation / tribunals and other dispute processes.

Elements to be taken into consideration:

- Assessment of the technical merits (and political merits) of each issue under enquiry:
  - including a detailed review of the advice provided at the time of implementation
  - any subsequent advice received
  - Legislation updates
  - Recent case law updates
  - Tax authority statements / practices
  - EU / OECD / UN developments including updates to guidelines and commentary
- Assessment of the facts, quality of the documentation and implementation
- Process options
  - Scope (years, values, queries that authorities are entitled to pursue)
  - ADR
  - Cross border resolution
  - Arbitration
  - Litigation
- Cost v Benefit analysis (including looking at a portfolio of issues (if applicable))
  - Reputational issues with both tax authorities and stakeholders, culpability (interest and penalties), advisory fees, time value of money on tax deposits
  - Include long term consequences – for how long can we afford uncertainty
  - Cash flow implications (above and below line)
  - Losses, deduction capacity.

### **E. Use of tax amnesties**

Given Vodafone's compliance principles and approach to relationships with tax authorities the use of tax amnesties is unlikely to be deemed necessary or appropriate. However, in the wide variety of markets in which the Group operates and the economic factors driving Governments, amnesties could be an appropriate administrative tool of compliance efficiency.

The use of tax amnesties must be approved as stipulated in the group governance manual by the Group Tax Director, regional governance teams and the local CFO subject to a risk assessment with Group Tax. This should take into consideration any relevant elements of the country-specific settlement framework.

### **F. Tax reporting procedures and provisions**

The tax code of conduct requires that we comply with all laws and disclosures and act with due professional care. These requirements are never more relevant than in ensuring accuracy and completeness of the presentation of our tax position in the financial reporting of the group.

The reported financial accounts whether at year end or interims are expected to reflect all taxes including those accounted for above the EBIT line. This section refers only to the procedures for tax reporting of taxes below EBIT.

Absolute transparency is needed between Opcos and Group Tax to ensure appropriate accounting and disclosure decisions for external reporting and accurate and complete briefing of the Group Tax Director and Group CFO.

At each reporting event, tax charge and provisioning decisions should reflect the most up to date information to ensure that the group will have no significant adjustments to the actual tax charge or tax returns.

In meeting the above the Group Tax Reporting team will issue appropriate instructions and timetable for each reporting event for completion and review of Tax Packs.

#### **Local companies should:**

- Calculate all tax charges in accordance with the group accounting policy, referenced in the appendix
- Provide timely, complete and accurate tax packs and provision templates in accordance with instructions from the Group Tax reporting team
- Share relevant information in update calls in accordance with the reporting team agenda
- Assist Group Tax with questions and clarifications required as part of the reporting process.

#### **Group Tax reviewers should:**

- Undertake Opco provision reviews following reporting team guidelines
- Undertake review and update of group level transfer pricing provisions.

#### **Group Tax reporting team should:**

- Prepare, subject to all inputs, the group's consolidated tax charge in accordance with all applicable governance and accounting requirements
- Ensure appropriate briefing of investor relations team
- Prepare the tax section for the corporate social responsibility report.



In preparing the Corporate Social Responsibility Report Group Tax should ensure that tax messages are:

- Correct and complete
- Supported and supportable with documented positions where necessary
- Follow the principles of the OECD guidelines for multinational enterprises.

#### **4. Sharing of best practice**

At all times all members of the tax function should seek to share knowledge and to seek input on any and all matters that could improve the management of tax risk and to maximise shareholder value.

The tax function should seek to enhance shareholder value by reflecting best practice, experience and views in:

- Positions taken in tax returns
- Coordinating subjects for local lobbying and global lobbying
- Coordinating knowledge of potential tax laws that are subject to consultation processes
- Relevant EC legislation, draft directives, ECJ cases and similar legislation and decisions.

In so doing the confidentiality of financial matters is respected but much can be learned from understanding:

- Technical positions/rationale and the treatment of certain expenses or income
- Subjects of audit interest in various jurisdictions and the drivers of that interest
- Experiences of building mutual trust with tax authorities
- Audit procedures, activity, status and tactics.

## **Glossary and explanation**

### **Accepted practice transactions**

An accepted practice transaction is designed to create a tax benefit (including cash flow advantage) or avoid a tax burden but has little or no other commercial reason when viewed in isolation. Robust and open assessment is required to distinguish accepted practice transactions from artificial tax arrangements.

For example, a change in share ownership by indirect means versus a direct change comprising more individual steps than would otherwise be needed to achieve the same overall objective could be either an accepted practice transaction or an artificial tax arrangement. The additional steps enable a more favourable or less unfavourable taxation in comparison to the economically (pre tax) most appropriate and simplest transactions. It is of utmost importance for Vodafone to adhere to the transparency principle in this context with full disclosure of all relevant facts and circumstances to the tax administration (and of course our strong position and qualification). It is not our intention to disguise or to hide transactions from tax authorities.

In contrast, the routing of goods imported into the EU via the Netherlands to avoid a VAT cash flow disadvantage before onward sale to other EU destinations is fully accepted by all jurisdictions involved.

### **Transparency**

Transparency goes beyond the observation of all applicable laws, rules, regulations and disclosure requirements. It requires the proactive consideration of the provision of information to tax authorities in respect of tax relevant facts and circumstances if they will aid the resolution of the matter under discussion. For example if information not available in a territory is requested, Vodafone will not 'hide' behind territorial borders or the absence of legal obligations but will take reasonable efforts to provide the relevant fact based information. This is a fundamental element of our aim to develop and foster good working relationships with tax authorities. There is however a limit to proactive transparency where over time a relevant tax administration does not show it is willing to make its own contribution to a good and professional working relationship with Vodafone.

### **Tax (filing) positions**

A filing position refers to the treatment of income, expenditure or transactions on a tax return. The code of conduct "more likely than not" criterion of a position being sustained on its merits if challenged by a tax authority is expected to cover the majority of situations. However, there are instances in which a filing position will not meet the more likely than not standard but would still be tenable.

Examples of such tenable filing positions acceptable under this strategy (subject to full disclosure and the principle that we will pay the right amount of tax due) are:

- Where there are current uncertainties created by a comparison of any or all of the wording of law, tax authority interpretation of law and experience of the law as interpreted by the legislative system
- Where there are current uncertainties or opportunities created by recognised errors in law not yet corrected
- Where a position would be in accordance with an announced future correction of law
- Where the cost of full compliance with the law would be prohibitive but a reasonable estimate can be reflected

Tax filing positions taken by Vodafone will never be based on a principle of "not being found" nor for the sole purpose of obtaining leverage in the bargaining process of a settlement.



### **Artificial tax arrangements**

The tax code of conduct provides that we will enter into tax planning where the financial benefit is tax related but we will not engage in artificial tax arrangements. The test of artificiality is generally aligned with the existence of commercial purpose.

Some such cases could include, for example, the rationale for and ability to hold investments in other entities of the group, or the choice of tax jurisdiction for the undertaking of certain activities or the involvement of a particular entity in a transaction, or the role of a particular entity in a transaction.

The use of such arrangements would be "artificial" where there is otherwise no commercial purpose for the activities or if the attribution of profits or other benefits to a jurisdiction were not based on the actual activities and capabilities but merely on a contractual description of rights for which no capability exists.

Other artificial arrangements could include the provision of debt where there is no commercial rationale, provision of goods and services where there is no benefit to the recipient, the routing of transactions either financially (for withholding tax) or physically (for VAT) through companies which play no part in the underlying commercial arrangements.



## Appendix

### Related implementation and procedure documents:

- The tax section of the group accounting policy
- The risk scale
- The transfer pricing strategy
- The guidelines for interaction with government on telecoms specific tax policy
- The framework and thresholds for risk assessment approval procedures.