Our Tax Strategy

30 June 2021
Our tax strategy

Approach to risk management and governance

Given the size, geographic scope and complexity of our operations, and at times, uncertainty regarding the application of taxation laws, risk may arise in the determination of our tax liabilities.

The identification and management of risk are central to achieving our corporate purpose of creating long-term shareholder value. Risk management is embedded in all of our critical business activities, functions, processes and systems through the following mechanisms:

- Risk assessments – we regularly assess known, new and emerging risks.
- Risk controls – we put controls in place over material risks, and periodically assess the effectiveness of those controls.
- Risk materiality and tolerability evaluation – we assess the materiality of a risk based on the degree of financial and non-financial impacts, including health, safety, environmental, community, reputational and legal impacts. We assess the tolerability of a risk based on a combination of residual risk and control effectiveness.

The material tax risks managed by BHP span the life cycle of tax, as illustrated below:
BHP’s exposure to these risks is a consequence of our size, our geographic scope and the complexity of our operations. The number of countries in which we file tax returns, for example, impacts the number of jurisdictions in which we need to understand any actual or potential changes in law or interpretation. Also, the size and complexity of our company, as well as our geographic scope, drives the materiality of our Transfer Pricing risks.

An extensive set of systems and controls are in place to manage our material and non-material risks. Examples of controls include membership of relevant industry bodies and regular engagement with local advisors to ensure we are aware of any changes in tax law or interpretation that may impact us; and scheduled benchmarking studies to ensure transactions are priced at arms-length terms. To address the risk of material financial misstatement and to meet the legislative and regulatory requirements governing the internal controls over financial and other reporting in the countries in which we operate we have an Internal Control Evaluation program (ICE)1.

Each control is assessed annually to ensure that it is designed appropriately to manage the risk. The controls are also subject to a regular verification process to ensure it is operating effectively. Each year, all material risks are assessed on the basis of the effectiveness of their controls, and given a rating which is reported to management and to the Risk and Audit Committee of the Board. The ICE program also provides an annual external assessment of the effectiveness of internal controls over financial reporting, which is published in our annual 20-F submission.

The risks inherent in individual transactions are managed through our Tax Risk Standard. This document provides approval levels and escalation points for all tax matters. Matters are considered for escalation based on a number of elements including, the quantum at risk, reputational risk, level of technical uncertainty and also change in law risk.

The Risk and Audit Committee (RAC) assists the Board with the oversight of risk management for BHP. The Board requires the CEO to implement a system of control for identifying and managing risk. The Financial Risk Management Committee (FRMC) is the management committee tasked with the review of internal controls relating to financial risks, including tax risk. The Global Head of Tax is accountable for the management of tax risk and provides an update to the FRMC on a quarterly basis.

Individual risk owners are accountable to the Global Head of Tax for the assessment and management of their risk.

Attitude towards tax planning

We seek to have a tax charge that contributes to superior business performance and delivers long-term shareholder value. In this respect, our transactions have proper commercial purposes and economic rationale. We locate business activities where value is optimally created. Accordingly, we do not engage in aggressive tax planning.

Two key documents define how we work in BHP. Our Charter describes our purpose and values and how we measure our success. It is the single most important means by which we communicate who we are, what we do, and what we stand for as an organisation, and is the basis for our decision-making. Supporting Our Charter is our Code of Conduct. The Code of Conduct helps guide our daily work. It demonstrates how we practically apply the commitments and values set out in Our Charter. Both documents are available on www.bhp.com.

Our approach to tax is underpinned by these documents and is embodied in our global Tax Principles. They have been endorsed by the Risk and Audit Committee (RAC) of the Board of BHP and are available on www.bhp.com.

We seek independent external tax advice in relation to materially uncertain tax positions. Materiality is determined based on a number of elements including the quantum at risk, the level of technical uncertainty and change in law risk, as defined in our Tax Risk Standard.

We locate our business activities where value is optimally created and accordingly do not engage in transactions that do not have proper commercial purposes and economic rational. Where we have the option to choose how to structure a transaction we will seek to do so in a tax-efficient manner thereby contributing to superior business

1 The ICE program incorporates controls relating to a number of instruments and directives from the countries in which we operate including the US (e.g. the Sarbanes-Oxley Act and the Foreign Corrupt Practices Act), the UK, Japan (JSOX), and guidance from the PCAOB and the SEC.
performance, whilst at all times adhering to our Tax Principles. Where tax incentives are transparently available to all eligible taxpayers, we will give consideration to accepting them should we meet the relevant criteria.

We currently have a number of subsidiaries in ‘tax haven’ countries (as per ‘The EU list of non-cooperative jurisdictions for tax purposes’ first issued in December 2017 and subsequently updated), which are detailed in our Economic Contribution Report. These were acquired for a variety of different reasons, such as part of an historical broader acquisition or to take advantage of a strong insurance regulatory regime. We do not use ‘tax haven’ countries to undertake transactions that do not have proper commercial purposes or economic rationale.

We respect and comply with the laws of the jurisdictions in which we operate. We meet all of our tax obligations on time. Our tax obligations include pricing transactions in our global value chain according to where value is created and economic activities occur, in compliance with the Organisation for Economic Co-operation and Development guidelines, based on the arm’s length principle.

Each of the elements above are key to defining our Tax Strategy. They guide us in our everyday decision-making, and ensure that we operate within a risk appetite that is acceptable to the Management and Board of BHP.

Level of acceptable tax risk

Our approach to tax risk management and the level of tax risk we are willing to accept is consistent with our general approach to risk management and risk tolerance across BHP.

Our internal tax risk governance processes do not define rigid levels of acceptable tax risk, noting however we at all times adhere to our Tax Principles. Our processes do define rigid approval and escalation points that ensure the appropriate decision makers, up to and including the Board of BHP, make any decision to tolerate tax risk.

As noted above, matters are considered for escalation and approval based on a number of elements including, the quantum at risk, reputational risk, level of technical uncertainty and also change in law risk. This approach ensures that the appropriate decision maker considers all relevant stakeholders in assessing a particular risk.

Approach to dealing with revenue authorities

We act with integrity when engaging with revenue authorities to support positive and sustainable relationships. Where possible, for the purposes of obtaining certainty of our tax positions, we engage with revenue authorities on a real-time basis regarding the application of the tax law and to identify and resolve any disagreements on a timely basis.

As part of our commitment to corporate citizenship, we seek to enter into agreements with revenue authorities about the amount of tax we should pay on our activities, in particular, on the pricing of intra-group transactions. This gives us greater certainty about our future tax payments and reduces the risk of tax disputes with tax authorities. We currently have agreements in place in relation to our intra-group service charges with the Australian Tax Office (ATO), the US Internal Revenue Service (IRS) and Her Majesty’s Revenue and Customs (HMRC) in the United Kingdom.

Where appropriate, we work with tax authorities to obtain rulings or guidance on future tax risks and the interpretation of tax law.

Given the size, geographic scope and complexity of our operations and, at times, uncertainty regarding the application of taxation laws, we have occasional disagreements with tax authorities over the amount of taxes to be paid. Where possible, we engage with revenue authorities on a real-time basis regarding the application of the tax law and to identify and resolve any disagreements on a timely basis.

Where ultimately we do not agree with a tax authority’s position we will defend our position, including by initiating court action if necessary.