

Implementing a Global Tax Solution GSK – a case study

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Overview of GSK

- Operation in 116 countries
- Over 100,000 employees globally
- 2nd largest pharmaceutical company globally and 3rd largest UK plc
- Broad and dynamic portfolio with significant growth opportunities
- Strong late stage pipeline with 31 major product potentials
- Large vaccine capability
- New market leading products include:
 - Alli – first FDA approved OTC weight-loss medication
 - Cervavax – cervical cancer vaccine
 - Seretide – treatment for asthma and chronic obstructive pulmonary disease (COPD)
 - Tykerb – oral treatment for breast cancer
 - Veramyst – new allergy medication

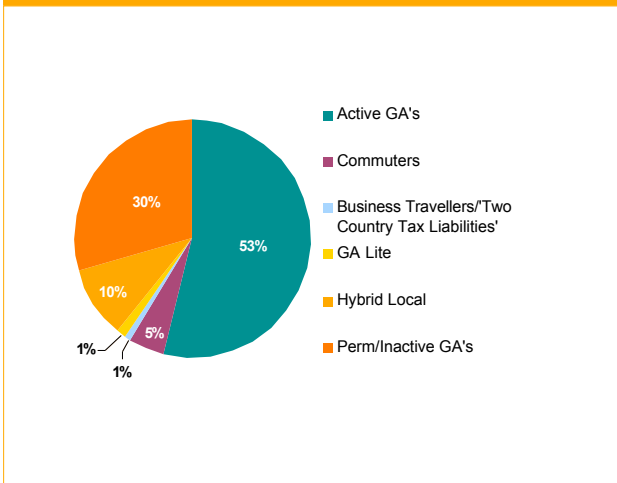
Equity plans at GSK

- Share option plan currently has 24,000 participants across 83 countries
- Restricted share plan and Performance share plan
- The HR processes support the global equity plans
- Improving stock plan process efficiency
- The employee experience
- Trade on the London Stock Exchange (LSE) and New York Stock Exchange (NYSE)



Global Assignees at GSK

Type of Assignee



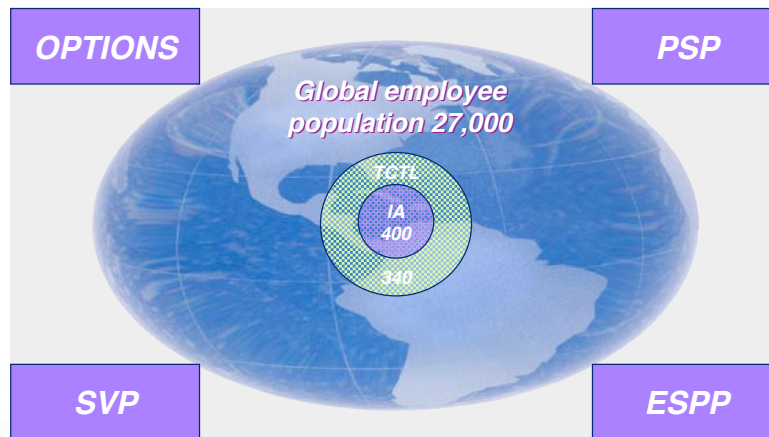
Issues facing GSK / Approach

- GSK goal to be tax compliant globally – social responsibility
- Due to:
 - employee population size and number of international moves
 - geographical spread – 50 countries – 32 withholding countries
 - complex payroll structure – outsourced and internal
 - small central head office functions

GSK needed an outsourced solution to address International Assignee (IA's) and Two Country Tax Liability (TCTL's) withholding tax calculations

- GSK has engaged two advisors – Global Mobility services from E&Y and the stock plan administrator is Citi Smith Barney
- Multiple GSK stakeholders input required
 - Tax, GM, Human Resource Processors

Employee Categorisation



International Assignees = Tax equalised

Two Country Tax Liability = Tax protected

Key challenges to overcome

- Data
- Connectivity
- Real time trading
- Multiple country and currency movements



Key challenges to overcome - Data

- Stock Option data held at Citi Smith Barney
- Employee mobility data held at E&Y
- Needed a common data point:
 - Citi Smith Barney participant unique ID (PUID)
 - Employee tax category coded in Citi Smith Barney System
 - 1 = US participant
 - 2 = ROW participant
 - 4 = International Expat
 - 5 = TCTL
 - Flag created to identify when an IA or TCTL places a stock option exercise



Key challenges to overcome - Data

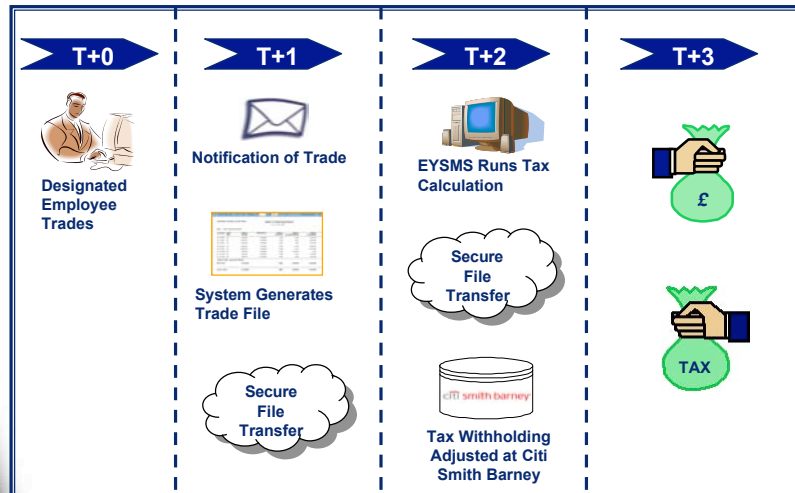
Assignee history

- EY maintain an assignee history database on SMS
- Update process
 1. Report is issued monthly by GSK's Global Mobility Centre (GMC) outlining current assignment details
 2. Report compared with prior month's report to identify which assignees have completed their assignment – marked to move to 05 status or marked to maintain as 04 status and to identify which assignees have commenced their assignment – marked to move to 04 (or EXP) status
 3. Ad hoc reports reviewed for details on GSK employees who move cross-border without the assistance of the GMC – generally marked to move to 05 status
 4. Ad hoc updates provided by GMC, GSK HR and the E&Y Network for details on GSK employees (and former employees) who have cross-border issues with their long-term incentives
 5. 04-05 Moves report prepared monthly by E&Y and delivered to GMC for approval
 6. GSK's HR, Citi Smith Barney details and EYSMS details are updated

Key challenges to overcome - Connectivity

- Citi Smith Barney system required a process to recognise a flagged participant
 - Automated email notification sent to E&Y, GSK and Citi Smith Barney when a participant coded as 4 or 5 places a trade
- Needed a way for Citi Smith Barney to provide stock data to EYSMS in a timely and secure way
- Citi Smith Barney push trade details to E&Y via secure internet transfer for E&Y to process tax calculation
- E&Y produce output with adjusted tax calculation and payroll instruction details
- Connectivity through the Citi Smith Barney Corporate Portal, Corporate Benefit AccessSM

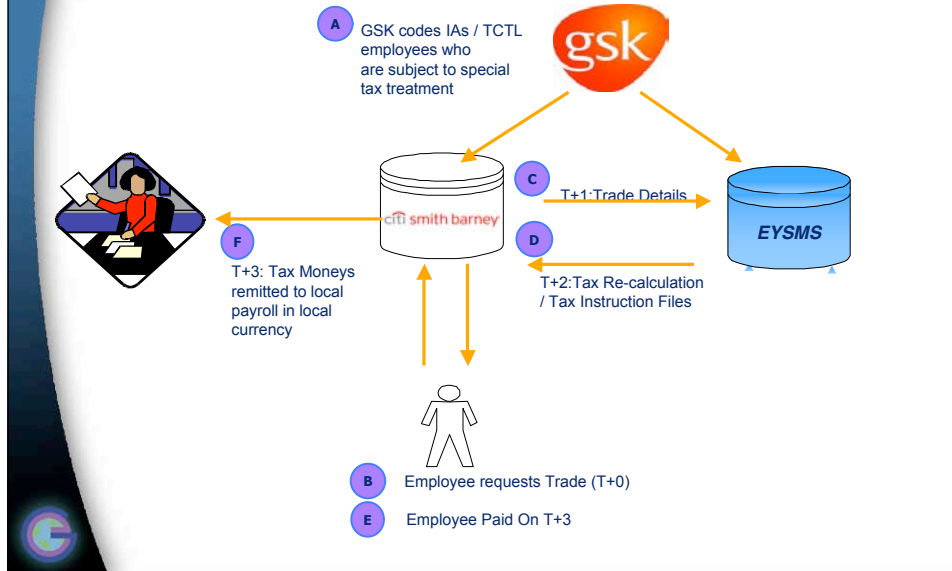
Key challenges to overcome – Real Time Trading



Key challenges to overcome – Multiple Country and Currency Movements

- GSK authorises Citi Smith Barney to distribute proceeds of trade in accordance with payroll instructions on the E&Y output
- Instructions in plan currency for each payroll location on a per transaction basis after applying equalisation or tax protection policy
- Citi Smith Barney aggregate payments per payroll location and then wire payments in local currency within normal settlement cycle
- Local payroll locations receive reports to reconcile currency received
- Local payroll locations then can remit tax withholdings to authorities
- Participant receives adjusted funds within normal settlement cycle with no delay!

Recap: How it all fits together

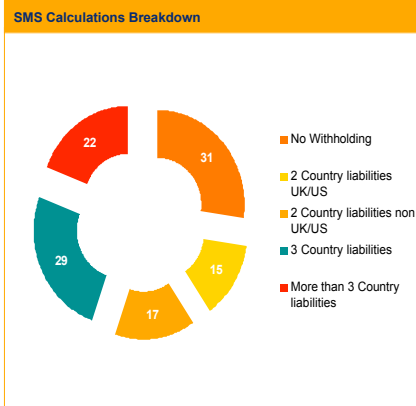


Cross Border Equity services support in 2006

Stock Options	
Number of calculations	114
Value of shares received	£7,270,863
Amount of tax withheld	£636,175

Other related services delivered by E&Y:

- February 2006 Performance Share Plan vesting withholding and hypo tax calculations to ensure global compliance
- Form 42 support to ensure correct reporting for mobile employees
- Tax technical position agreement with HMRC for Long Term Incentives and mobile employees



Benefits to GSK

- Support for tax adjustments in a real time trading environment on stock option exercises
- GSK are more compliant globally as Revenue receive tax monies on a timely basis
- Employee receives money without any delay
- Cutting edge solution supporting innovation and efficiency goals
- Reduced internal overhead
- Cost savings
- Assists with GSK's SOX 404 compliance requirements
- Getting a "value added" service

Lessons Learned

- Separate process required for transactions where shares are retained
- Open channels of communication between all parties and can do attitude required
- The devil is in the detail! No room for assumptions, every minute detail must be reviewed and agreed
- Data is a dirty business
- Test, test and test again
- Single process map



What Next?

- GSK move towards share based plans
 - Share Value Plan, Performance Share Plan and Employee Share Acquisition Plan
 - Solution to be extended to handle restricted share releases in a more automated fashion
 - Quicker whilst maintaining accuracy



Questions?

Thank you for your participation



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