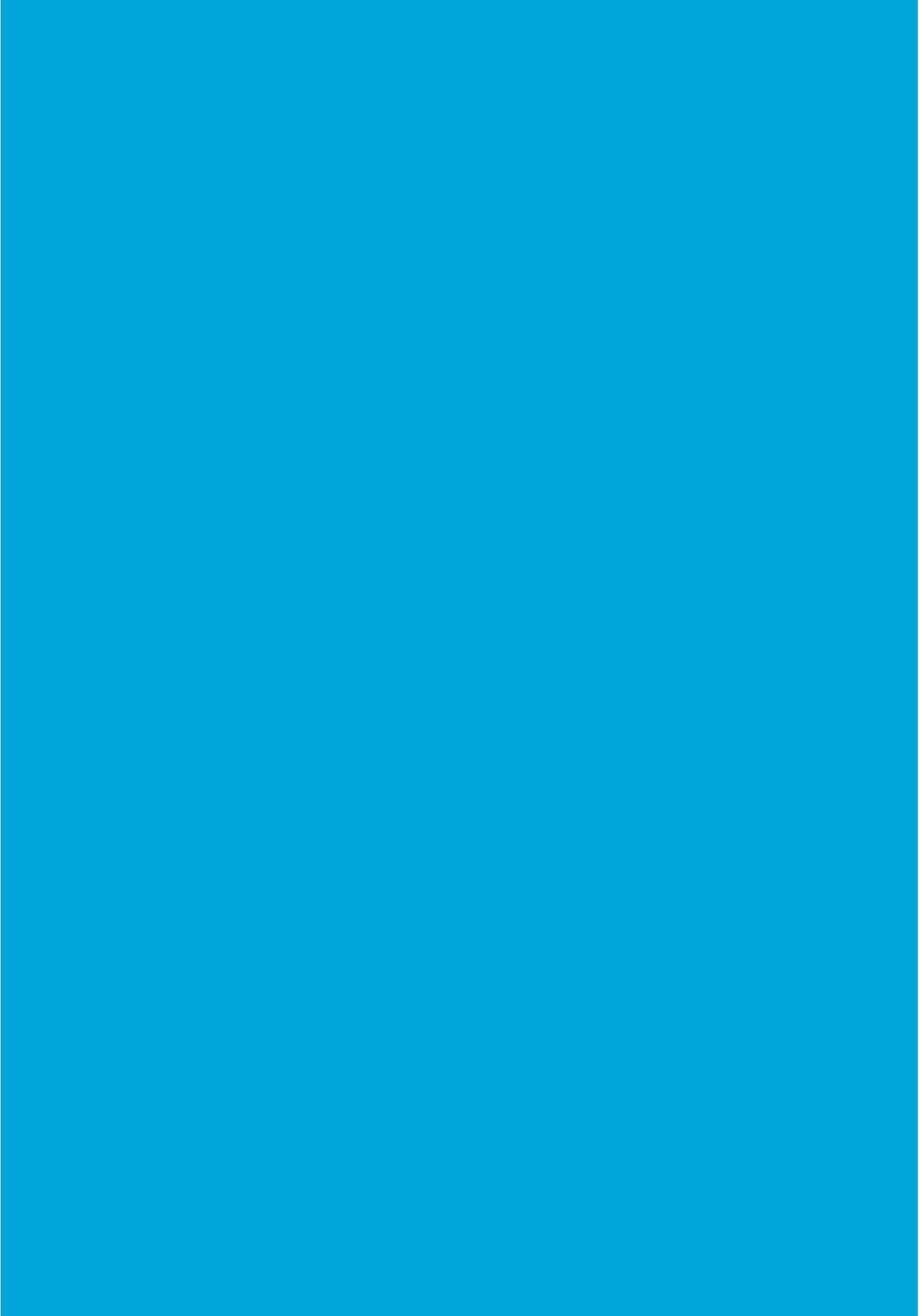


Total Tax Contribution 2009

What is the actual contribution of large companies to the fiscus?

May 2010





Foreword

The results of the third annual Total Tax Contribution Survey for large South African companies confirm the importance of large companies to the South African economy.

This year's Survey has been conducted against the background of a global recession, which has led to falling tax revenues around the world and necessitated governments to make difficult tax policy choices. Tax revenues in South Africa are under extreme pressure, and it was expected that this would be reflected in the 2009 Total Tax Contribution Survey. This has been a global trend with Total Tax Contribution studies in other tax jurisdictions, having already reflected reduced profitability and lower transaction activity, which have influenced tax reforms over the short term. *Paying Taxes 2010*, the fourth edition of a report from PricewaterhouseCoopers and the World Bank Group, shows that tax authorities worldwide (including South Africa) continue to overhaul tax systems by reducing taxes, streamlining administrative processes and modernising payment systems.

The findings from previous Total Tax Contribution studies are not out of sync with the South African government's agenda and its proposals for further tax reforms, which include the need to simplify the tax system with particular emphasis on easing compliance requirements for business.

The 2010 budget review pointed out several key areas for improved tax administration over the next three years. These included: increased digitisation to enable self-service and voluntary compliance; further modernisation of personal income tax, pay-as-you-earn, corporate income tax and value-added tax systems; the modernisation of customs systems; improved call centres, office operations and payment procedures; increased system infrastructure to process administrative penalties; and an enhanced focus on large taxpayers and high-net-worth individuals.

Past tax reforms included the reduction of the corporate income tax rate, the introduction of a new elective turnover-based tax for qualifying small businesses, a broad-based drive towards electronic filing, and simplification of tax returns. To follow, in the next year or so, is the proposed replacement of secondary tax on companies with a dividend withholding tax.

The reduction of the total tax rate should not be the main objective of tax reforms. As another area of reform, social security has already been raised as a priority by National Treasury. The budget review mentioned the possibility of introducing a national health insurance plan, which will be studied over the next five years. The area of retirement savings receives special attention, and the promotion of a greener economy now also occupies a firm position high up on National Treasury's agenda. Several incentives in this respect have also been introduced.

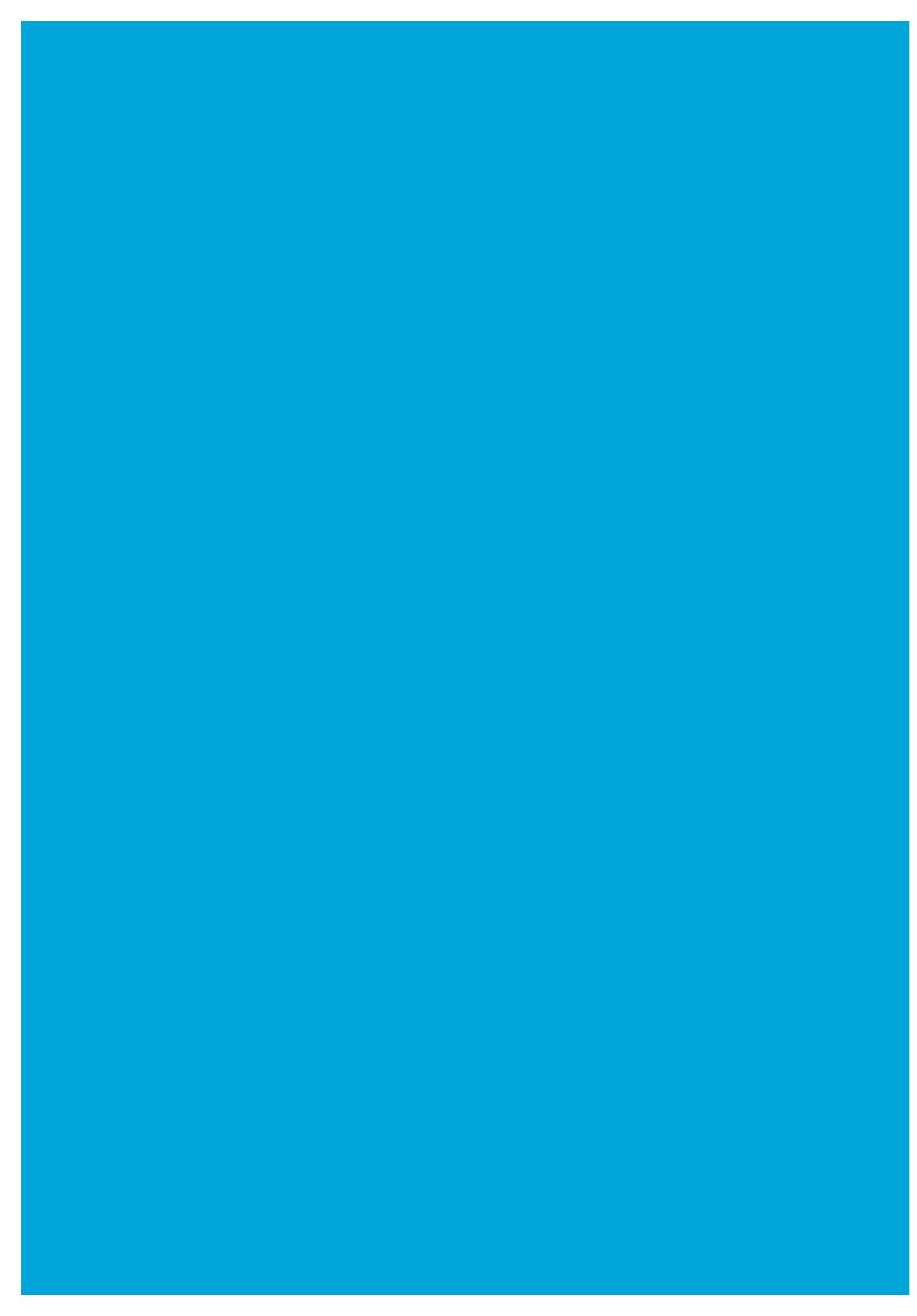
We thank participating companies for sharing their valuable information with us in carrying out this Survey.

Paul de Chalain
Managing Partner
Tax Services



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1. Key results



The results show that despite the recession, the largest companies in South Africa still contribute a significant proportion of the country's tax receipts from business by paying 20.16% of these.

Profitability – and therefore profit taxes – fell for many participating companies. The results show that corporate income tax is just one of 20 taxes companies pay in South Africa.

Participants reported that, on average, they were responsible for eight taxes borne and 3.51 taxes collected.

Participants reported a Total Tax Contribution of R133 685 million:

- Total taxes borne by participants were R61 011 million;
- Corporate income tax represents 74.63% of total taxes borne;
- Taxes borne by participants represent 9.48% of total estimated government taxation receipts from the relevant taxes;
- Participants collected a further R72 674 million in taxes;
- Taxes collected by participants represent 17.85% of total estimated government taxation receipts from the relevant taxes; and
- On average, for every R1.00 of corporate income tax borne, participants paid R0.34 in other business taxes and R1.60 in taxes collected.

Key results

Large companies have a major economic impact in South Africa:

- Total taxes borne by ten participating companies amounted to more than R2 000 million each; and
- Taxes borne by these participants represent 6.20% of total estimated government taxation receipts from the relevant taxes.

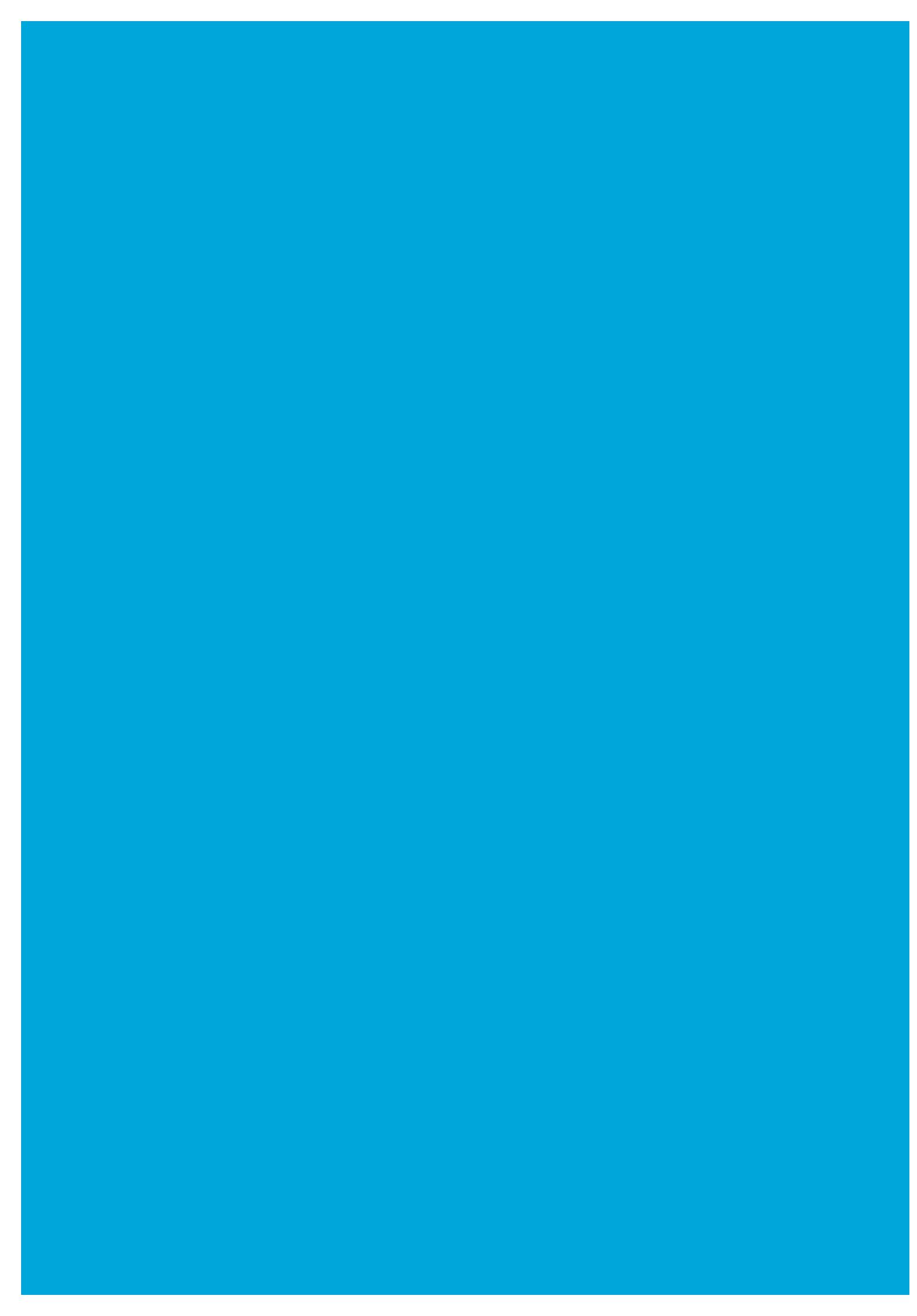
The total tax rate for all participants was 32.53%, which means that Tax Freedom Day was celebrated on 2 May.

Drawing on the findings of other Total Tax Contribution surveys undertaken by PricewaterhouseCoopers (PwC) in other territories, we have compared the total tax rate in a number of countries. Belgium has the highest average total tax rate at 52.07% and Canada the lowest at 27.60%.

Our Survey collected data on tax compliance cost and revealed that:

- On average, participants have 7.63 full-time equivalent employees involved in South African tax compliance work;
- The shadow tax department contributed 42.08% of total time spent on tax compliance activities; and
- For all taxes borne and taxes collected, the average cost of tax compliance is R1.42 for every R100 of taxes borne, effectively representing a surcharge on participants' tax bills.





2. Purpose and outline of the Survey



PwC believes it is important that the total impact of taxes on the business sector is appreciated and understood. This is the third Total Tax Contribution (TTC) Survey for large South African companies and we now have an extensive bank of data from three TTC Surveys on which to draw.

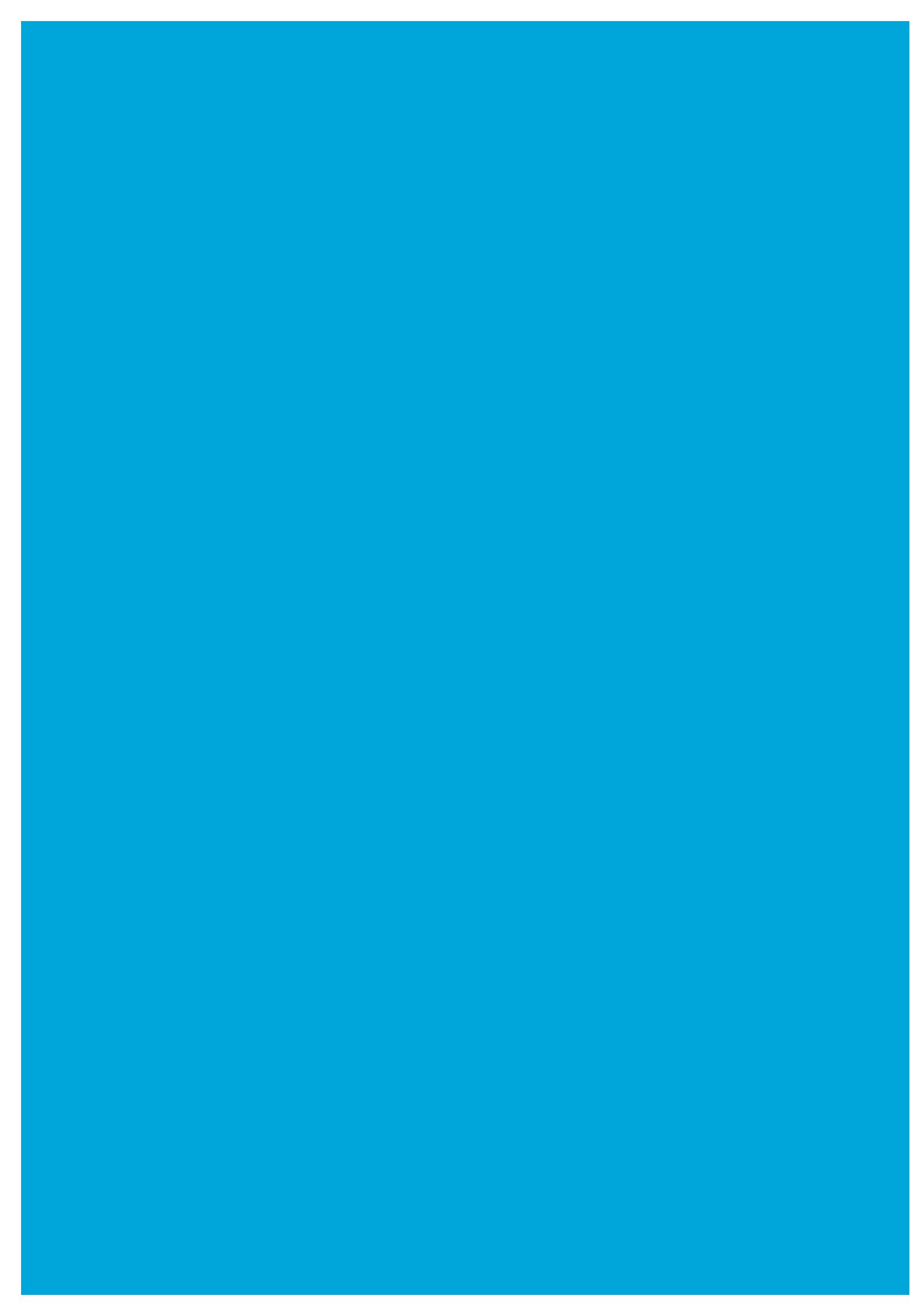
The purpose of the TTC Survey is to show the size of the contribution that large South African companies make to tax revenues in South Africa, and examine how the South African tax system impacts large business. The Survey also puts data in the public domain to inform the debates around what large companies contribute in taxes and the shape and development of the South African tax system.

The TTC Survey follows the principles of PwC's proprietary TTC Framework, which provides a methodology for measuring all the different taxes that companies pay. The TTC Framework makes a distinction between taxes borne (those taxes which are a cost to the company) and taxes collected (where the company is the unpaid tax collector on behalf of government). The Survey includes both taxes borne and taxes collected.

The Survey has been carried out using data provided by large South African companies on all their South African tax payments. The Survey reflects data from 45 participants for the financial year to 31 March 2009. See Appendix 1 for a list of participants. Each participating companies received a short report setting out its individual TTC results, including ranking among other Survey participants. See Appendix 2.

In generating the Survey results, PwC has anonymised and aggregated the data provided by participants. PwC has not verified, validated or audited the data and cannot, therefore, give any undertaking as to the accuracy of the Survey results.

The TTC Framework is a widely understood and accepted approach for measuring the impact of the tax system on business. Similar surveys in other countries enable the comparison of results internationally.



3. Total Tax Contribution of large South African companies



The amount of corporate income tax paid by large companies is subject to increasing scrutiny and public debate, particularly against the backdrop of the financial crisis and economic recession. There is a general perception that large companies are not paying their fair share in taxes, resulting in an increased tax burden for other taxpayers. But it is not widely appreciated that companies pay many other business taxes, apart from corporate income tax, which also contribute substantially to the public finances. These other business-related taxes usually have little visibility in financial statements. Because of the lack of transparency in respect of these other business taxes, there is generally little understanding of the nature and extent of the total amount of tax that companies pay.

Our latest TTC study determined that during the financial year to 31 March 2009, there were 20 different business taxes levied in South Africa. This number was made up of 18 national taxes and two local taxes.

For the purposes of the Survey, the 20 taxes borne and/or collected have been grouped in the following five categories, also known as the 'five Ps':

- Profit taxes (four taxes)
- Property taxes (three taxes)
- Product taxes (seven taxes)
- Planet taxes (two taxes)
- People taxes (four taxes)

Total Tax Contribution of large South African companies

These categories closely align with the classification of taxes under government receipts. Figure 1 lists the 20 taxes per category.

Figure 1 – List of taxes per category

Profit taxes (4)

Corporate income tax; betting and gaming duties (local tax); mining taxes; and secondary tax on companies. Retirement Fund tax was abolished effective 1 March 2007.

Property taxes (3)

Property rates (local tax); stamp duty and securities transfer tax (replaced stamp duty and uncertificated securities tax on marketable securities effective 1 July 2008); and transfer duty.

Product taxes (7)

Customs duties; excise duties; fuel levies; Road Accident Fund levy; Universal Service Fund levy; value-added tax; and withholding tax on royalties.

Planet taxes (2)

Air passenger tax and plastic bag levy.

People taxes (4)

Occupational injuries and diseases levy; pay-as-you-earn; skills development levy; and Unemployment Insurance Fund levy.

Data was provided by 45 companies on their South African tax payments for the financial year to 31 March 2009.¹ These companies reported taxes borne of R61 011 million and taxes collected of R72 674 million, representing a TTC of R133 685 million, or 20.16% of total government tax receipts for the year. See Figure 2.

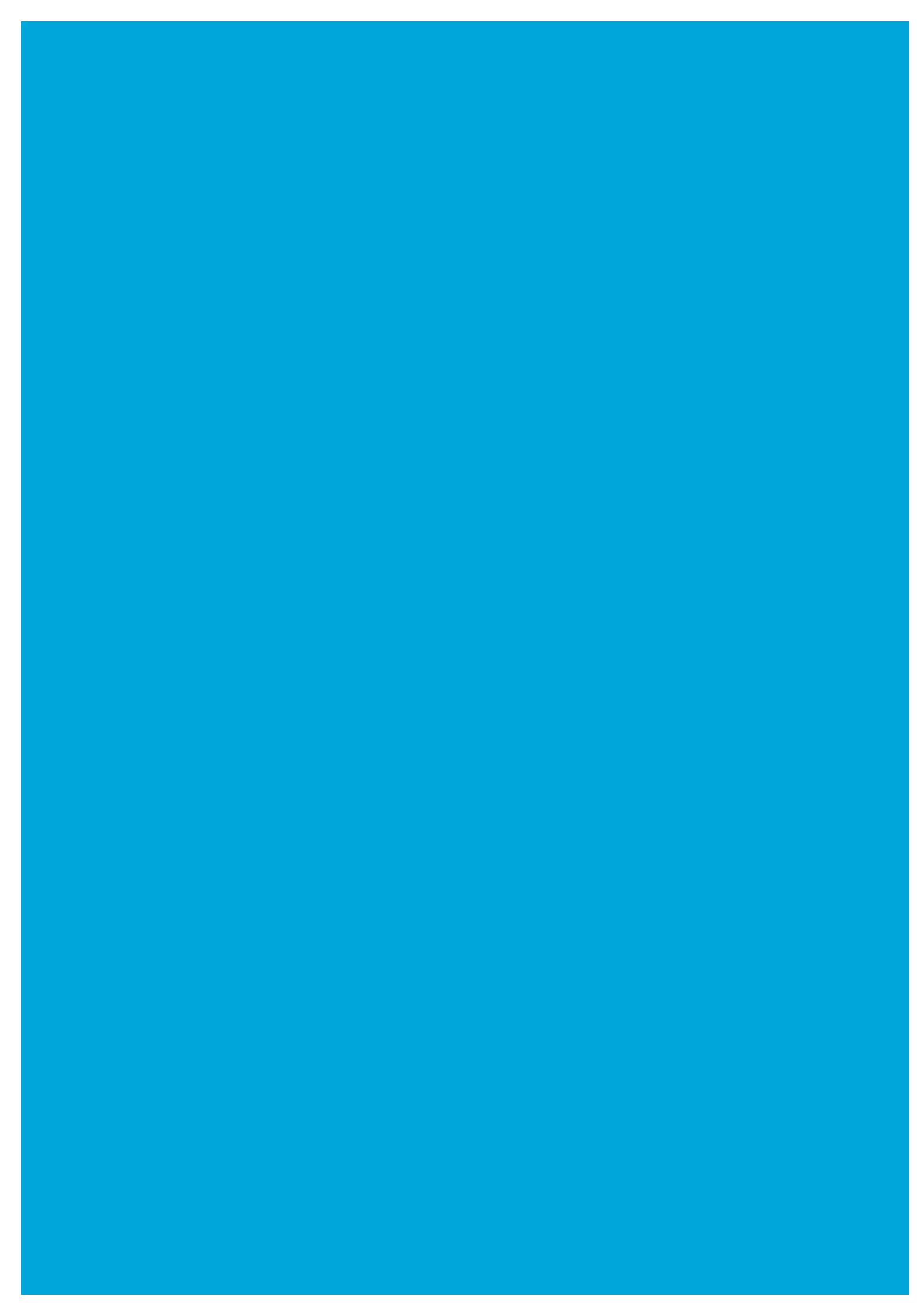
Figure 2 – Total Tax Contribution of large South African companies for the financial year to 31 March 2009

31 March 2009	Participants	Percentage of government tax receipts
Taxes borne		
Corporate income tax	R45 532 million	27.53%
Other business taxes	R15 479 million	3.23%
Total	R61 011 million	9.48%
Taxes collected	R72 674 million	17.85%
TTC	R133 685 million	20.16%

For every R1.00 of corporate income tax borne, participants paid an average of R0.34 in other business taxes. The collection obligations imposed on business by government are significant, and it is important to appreciate that the amount of tax collected by companies is a significant aspect of their TTC. Taxes collected by a company are essentially generated by its business activities in relation to either the employment of people or the sale of products and services. On average, participants collected R1.60 for every R1.00 of corporate income tax borne.

¹ Companies provided data on South African tax payments in their accounting year ended in the year to 31 March 2009.





4. Taxes borne and taxes collected



Certain taxes can be regarded as being both borne and collected – i.e. borne by a company in respect of its own consumption, and also collected by that company. These taxes are value-added tax (VAT) (irrecoverable VAT borne and VAT collected); securities transfer tax; fuel-related taxes (i.e. fuel levies, fuel excise duties, and Road Accident Fund levy); air passenger tax; pay-as-you-earn (PAYE) (i.e. PAYE settlements borne and PAYE collected); and Unemployment Insurance Fund payments. See Appendix 3.

Given the significant number of taxes impacting most companies, many Survey participants reported that they found it difficult to identify the precise amount and, in some cases, the number of taxes borne and taxes collected.

Some of these taxes are embedded in the cost of products (e.g. excise duties, fuel-related taxes and air passenger tax), some are transaction-based (e.g. stamp duty), and some form part of a range of lower-value taxes that are difficult for Survey participants to separately identify and quantify. Where no amount was provided by Survey participants in relation to a tax, the tax was treated as if it had not been borne or collected by that participant. This issue was particularly acute in the case of stamp duty, which most participants found difficult to accurately quantify. Consequently, it is likely that the data presented in the Survey understate the actual amounts of taxes borne and taxes collected by Survey participants.

Taxes borne

Participants in the Survey reported that, on average, they were liable for eight taxes. However, some participating companies bore as many as 14 different taxes.

Taxes borne and taxes collected

Taxes borne include:

Profit taxes

Corporate income tax; betting and gaming duties; mining taxes; Retirement Fund tax (abolished effective 1 March 2007); and secondary tax on companies.

Property taxes

Property rates; stamp duty and securities transfer tax (some companies were still liable for uncertificated securities tax); and transfer duty.

Product taxes

Customs duties; excise duties (i.e. fuel excise duties and ad valorem excise duties); fuel levies; irrecoverable VAT; Road Accident Fund levy and Universal Service Fund levy (no data were requested from participants).

Planet taxes

Air passenger tax.

People taxes

Occupational injuries and diseases levy; PAYE settlements; skills development levy; and Unemployment Insurance Fund levy.

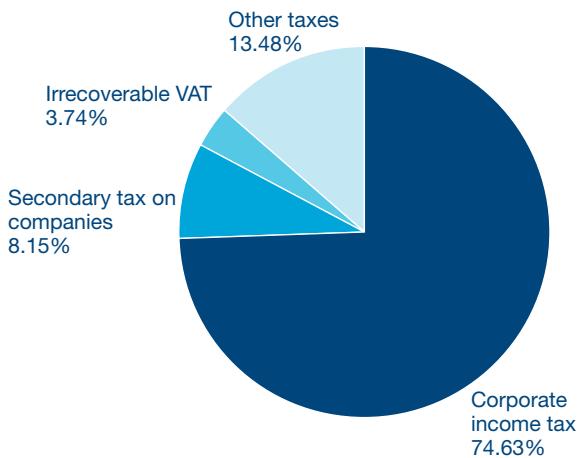
Total taxes borne by participants amounted to R61 011 million (9.48% of total government taxation receipts from the relevant taxes). See Appendix 4. Corporate income tax was the largest tax borne (74.63% of total taxes borne). For every R1.00 of corporate income tax borne, there was R0.34 in other taxes borne.

Secondary tax on companies was the second-largest tax borne (8.15% of total taxes borne), followed by fuel-related taxes (i.e. fuel levies, fuel excise duties and Road Accident Fund levy) (4.73% of total taxes borne) and irrecoverable VAT (3.74% of total taxes borne). VAT is irrecoverable if incurred on expenses for exempt supplies (e.g. financial services, residential accommodation, passenger transport and holding company cost), or incurred on certain business expenses where the input VAT is specifically denied (e.g. entertainment, motor car hire, acquisition of motor cars and certain subscriptions) and is therefore a tax borne.

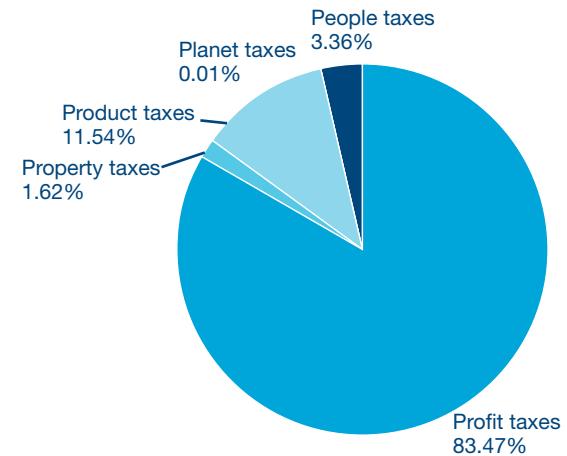
Taxes borne and taxes collected

Figure 3 shows the profile of taxes borne for participating companies per tax type and tax category.

Figure 3 – Taxes borne 2009 - percentage per tax type



Taxes borne 2009 - percentage per tax category



	Percentage
Profit taxes	83.47%
Corporate income tax	74.63%
Secondary tax on companies	8.15%
Mining taxes	0.39%
Retirement Fund tax	0.30%
Betting and gaming duties	0%
Property taxes	1.62%
Property rates	1.51%
Stamp duty and securities transfer tax	0.10%
Transfer duty	0.01%
Product taxes	11.54%
Irrecoverable VAT	3.74%
Fuel levies	3.32%
Customs duties	2.45%
Road Accident Fund levy	1.30%
Excise duties	0.72%
Planet taxes	0.01%
Air passenger tax	0.01%
People taxes	3.36%
Skills development levy	1.65%
Unemployment Insurance Fund levy	0.98%
Occupational injuries and diseases levy	0.53%
PAYE settlements	0.20%

Taxes collected

Participants in the Survey reported that, on average, they collected 3.51 taxes. Some participating companies collected as many as nine different taxes. Where taxes collected are concerned, only the expenses incurred in collection are a cost to the company, and not the tax itself.

Taxes collected include:

Property taxes

Securities transfer tax (some companies were still collecting uncertificated securities tax).

Taxes borne and taxes collected

Product taxes

Excise duties (fuel excise duties; excise duties on alcohol, beer, wine, and fermented beverages; and tobacco excise duties); fuel levies; Road Accident Fund levy; VAT; and withholding tax on royalties.

Planet taxes

Air passenger tax and plastic bag levy.

People taxes

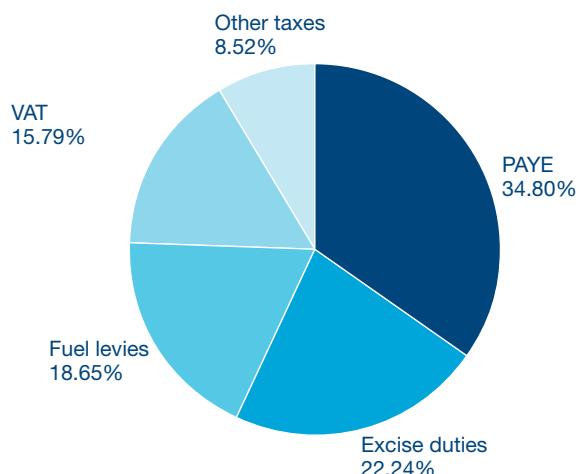
PAYE and Unemployment Insurance Fund levy.

Survey participants collected a total of R72 674 million in taxes. These are the taxes in which the company plays an administrative role in collecting taxes on behalf of government and represent 17.85% of estimated government taxation receipts from the relevant taxes. See Appendix 5.

PAYE contributed a significant 34.80% of total taxes collected, followed by fuel-related taxes (27.54% of total taxes collected), excise duties on alcohol, beer, wine, fermented beverages and tobacco (20.64% of total taxes collected) and VAT (15.79% of total taxes collected).

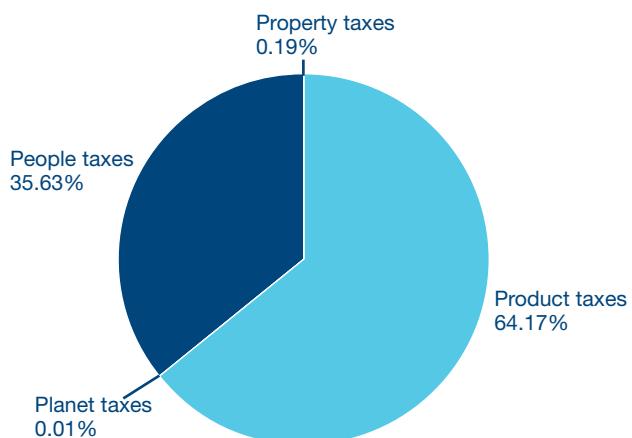
Figure 4 shows the profile of taxes collected for participating companies per tax type and tax category.

Figure 4 – Taxes collected 2009 - percentage per tax type



Property taxes	0.19%
Securities transfer tax	0.19%
Product taxes	64.17%
Excise duties	22.24%
Fuel levies	18.65%
VAT	15.79%
Road Accident Fund levy	7.29%
Withholding tax on royalties	0.20%
Planet taxes	0.01%
Plastic bag levy	0.01%
Air passenger tax	0.00%
People taxes	35.63%
PAYE	34.80%
Unemployment Insurance Fund levy	0.83%

Taxes collected 2009 - percentage per tax category



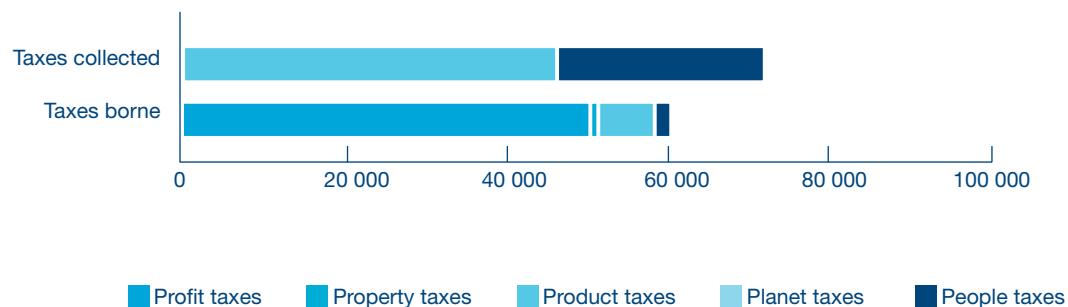
Taxes borne and taxes collected

Taxes collected to taxes borne

Taxes collected by Survey participants exceeded taxes borne by them. For every R1.00 of taxes borne by Survey participants, taxes of R1.19 were collected, and for every R1.00 of corporate income tax paid by Survey participants, R1.60 was collected.

Figure 5 illustrates total tax collected to total taxes borne.

Figure 5 – Total taxes collected to total taxes borne



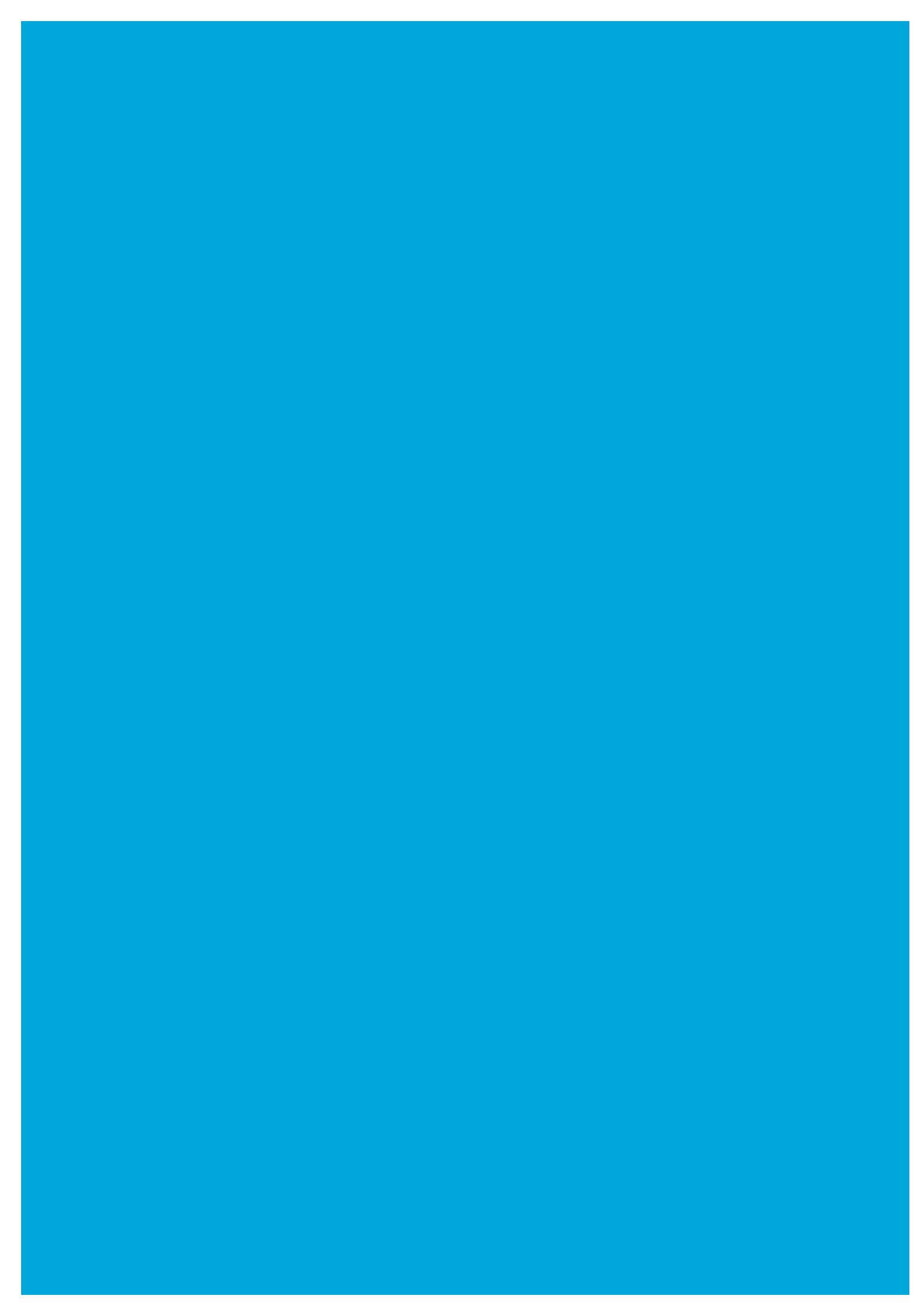
Large payers

Amongst the participating companies, ten companies from different industries each paid more than R2 000 million in total taxes borne. These ten companies accounted for 68.28% of the Survey totals for corporate income tax and 65.40% of total taxes borne. In addition, these ten companies collected 48.42% of taxes collected as reported by all participants. See Figure 6.

This shows the importance to the revenue authorities of tax collections from major corporate taxpayers.

Figure 6 – Total Tax Contribution of large payers for the financial year to 31 March 2009

31 March 2009	Large payers	Percentage of government tax receipts
Taxes borne		
Corporate income tax	R31 088 million	18.80%
Other business taxes	R8 813 million	1.84%
Total	R39 900 million	6.20%
Taxes collected	R35 190 million	8.64%
TTC	R75 091 million	11.33%



5. Key measures



The data analysis within the TTC Framework aggregates the data collected from Survey participants and examines it in relation to two key measures:

- Total tax rate; and
- TTC as a percentage of turnover.

Total tax rate

The total tax rate measures the percentage of company profits paid in taxes and provides a useful measure of the total tax burden. The total tax rate is calculated as all business taxes borne as a percentage of profits before all business taxes borne. In this calculation, the numerator is the total of all business taxes borne, and the denominator is the profit before all business taxes borne.

It is important to note that the profit figure used in the calculation is not the traditional figure found in the financial statements of the company, i.e. accounting profit before income tax. As many of the taxes borne are deducted in calculating profit before tax, these must be added back to generate a profit before all business taxes to determine profit before all business taxes borne.

The mean average² total tax rate for participants is 32.53%.

² The mean average is calculated by aggregating all the individual participants' observations and dividing the results by the number of those observations.

Key measures

The total tax rate can also be expressed in days, with the notional day of the year when a taxpayer has met all tax liabilities for that calendar year being known as ‘Tax Freedom Day’³. Tax Freedom Day is reached when total earnings for the year to date are equal to the total taxes borne by participants for the entire calendar year. Tax Freedom Day was calculated for all participants in the Survey and fell on 2 May.

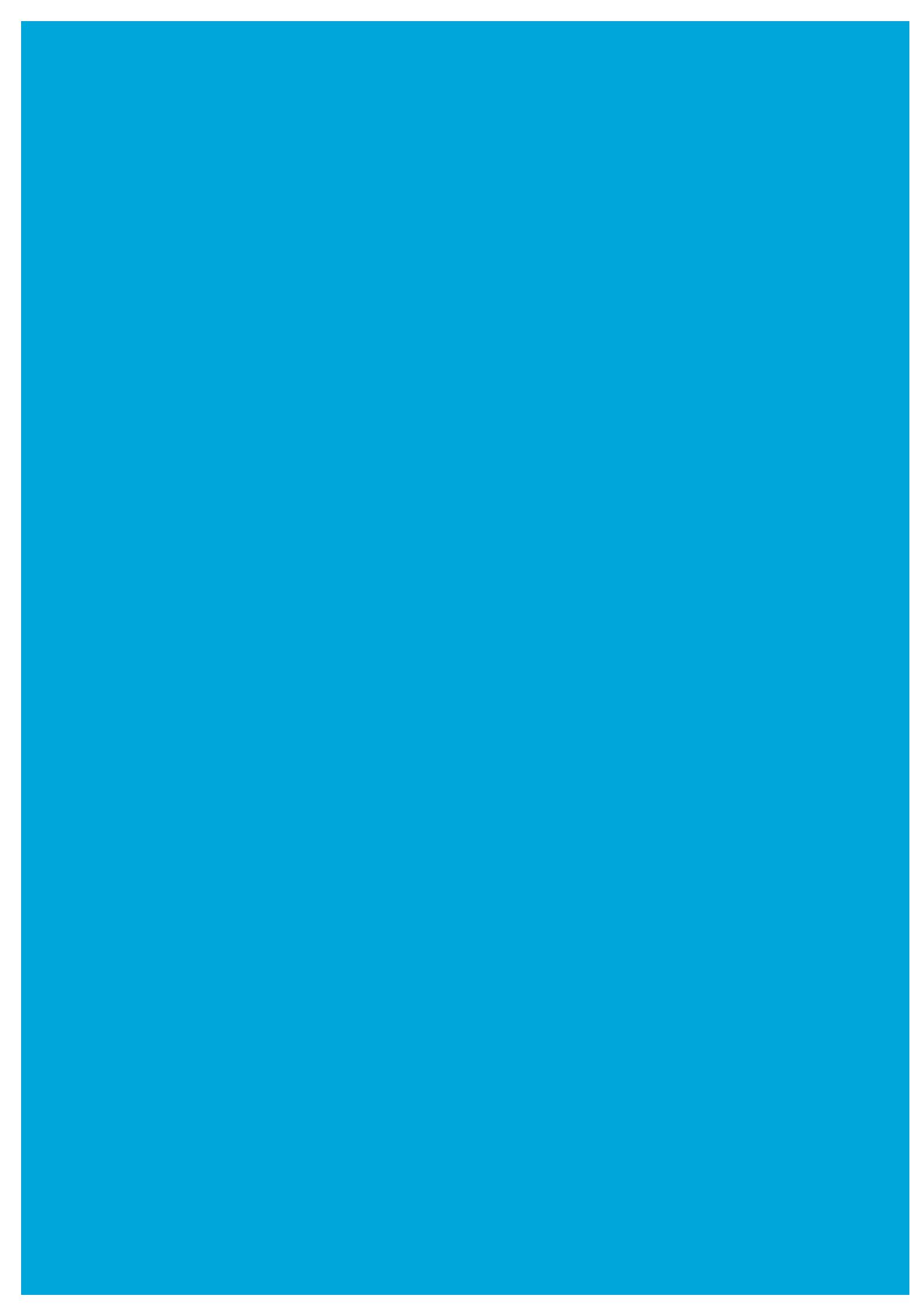
TTC as a percentage of turnover

TTC as a percentage of turnover is another useful measure of what a company contributes to government taxation receipts, having regard to their size as measured by turnover. The numerator for this calculation is TTC (i.e. total taxes borne and total taxes collected), and the denominator is turnover.

The mean average TTC as a percentage of turnover for participants is 15.57%.

³ The phrase is subject to copyright in South Africa, which is owned by the Free Market Foundation of Southern Africa.





6. Industry analysis



Survey participants were divided into the following four industries: financial services, manufacturing, mining and ‘other’. The financial services industry represents banks and insurance companies, while the manufacturing industry combines manufacturing of consumer goods and manufacturing of other goods (i.e. motor vehicles, oil and gas, etc.). The ‘other’ industry group includes all participants not included in financial services, manufacturing or mining.

Figure 7 shows the industries as well as the number of participants and their TTC.

Figure 7 – Industry analysis – number of participants and Total Tax Contribution

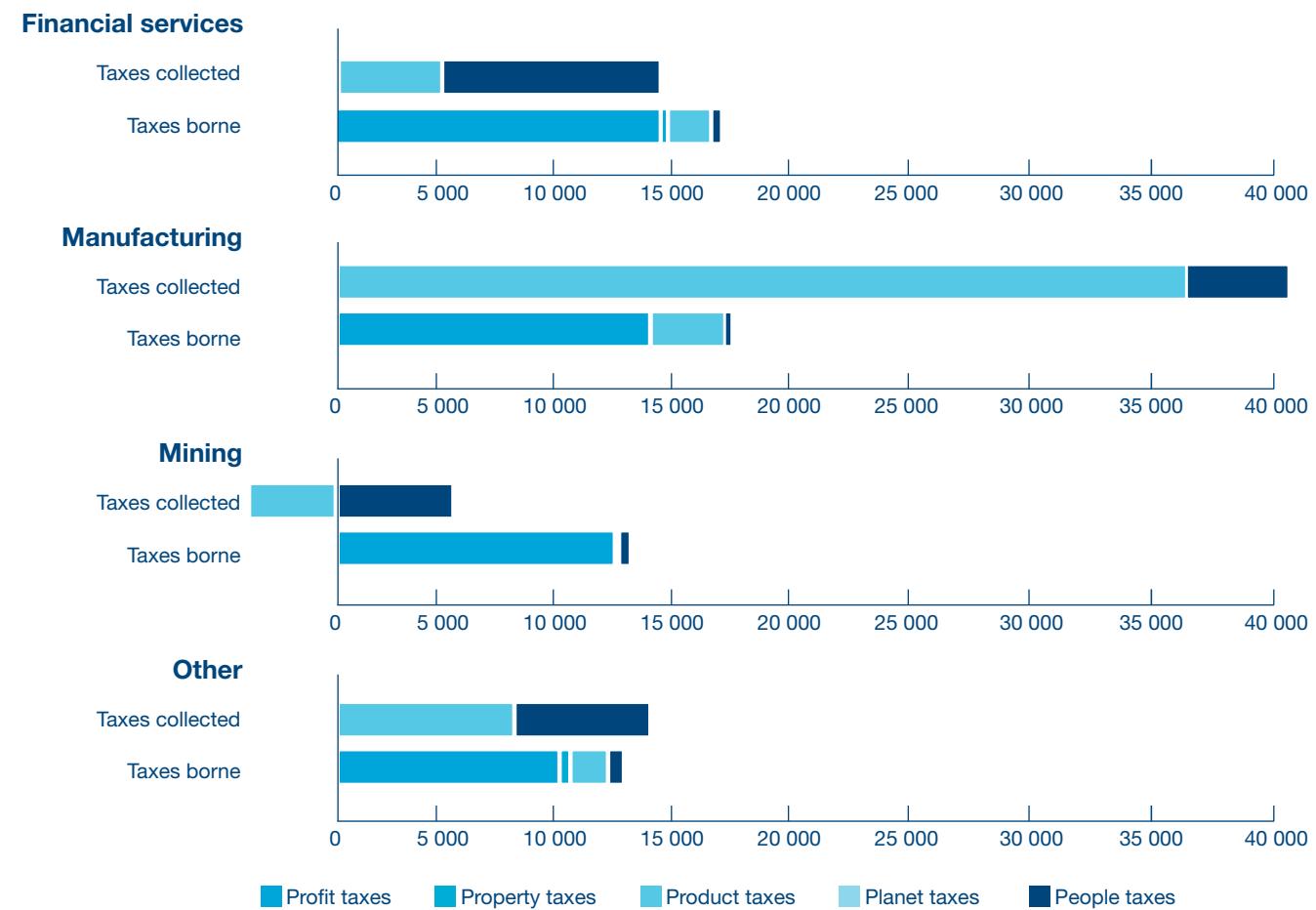
Industries	Participants	Total Tax Contribution
Manufacturing	13	R59 713 million
Financial services	9	R32 776 million
Other	13	R27 036 million
Mining	10	R14 160 million
Totals	45	R133 685 million

Figure 8 – Industry analysis – taxes collected to taxes borne

Industries	Taxes collected to taxes borne
Manufacturing	2.42
All participants as a group	1.19
Other	1.09
Financial services	0.84
Mining	0.11

Industry analysis

Figure 9 – Industry analysis – comparison of taxes collected to taxes borne



In interpreting the Survey results in this section, it is important to understand that there were different numbers of participants in each industry. A comparison between industries therefore does not compare like with like. However, the TTC key measures for the various industries enable comparisons to be drawn. The most meaningful figure for companies is the total tax rate.

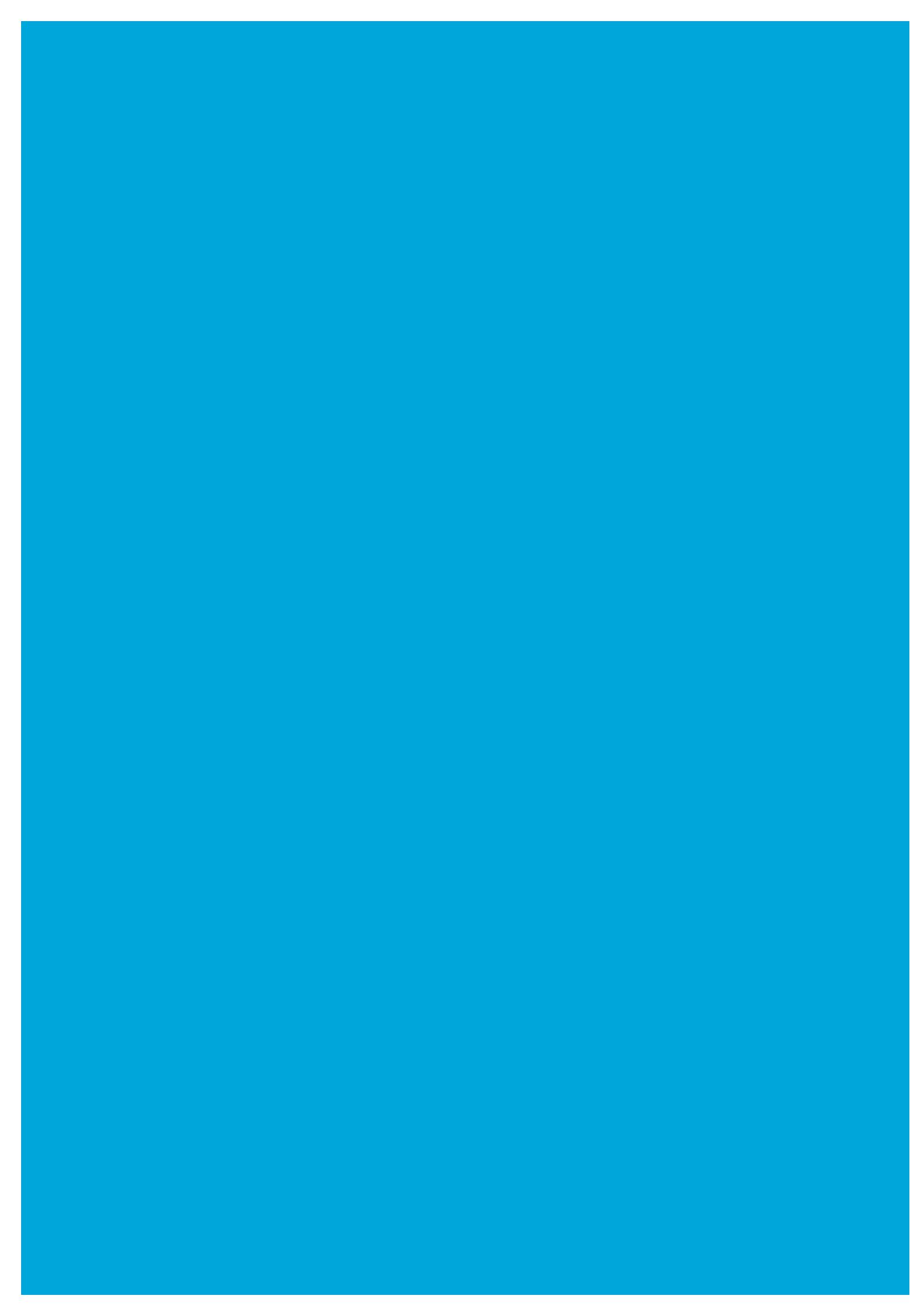
Figure 10 – Industry analysis – comparison of the total tax rate and Tax Freedom Day

Industries	Total tax rate	Tax Freedom Day
Financial services	40.65%	31 May
Other	38.10%	22 May
All participants as a group	32.53%	2 May
Manufacturing	31.53%	29 April
Mining	20.03%	16 March

Industry analysis

Figure 11 – Industry analysis – TTC as a percentage of turnover

Industries	TTC as a percentage of turnover
Manufacturing	21.42%
Financial services	19.73%
All participants as a group	15.57%
Other	11.54%
Mining	9.45%



7. Trends in tax payments



Total turnover for all participants as a group increased with 15.22%, while profit before tax decreased by 14.13%. The number of South African employees for all participants as a group remained more or less the same with a marginal increase of 0.32%, while salaries and wages increased by 8.18%.

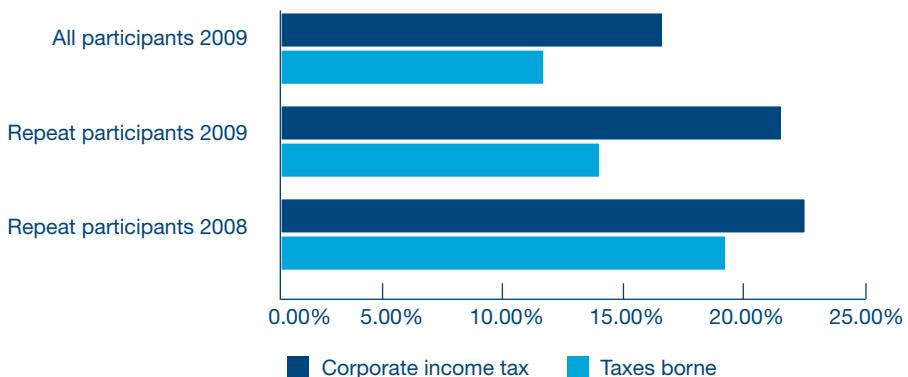
Taxes borne for all participants as a group increased by 11.70% (corporate income tax increased by 16.05% and other business taxes by 1.36%), while taxes collected increased by 11.59% (TTC increased by 11.64%).

Given the significant number of taxes impacting most companies, many Survey participants reported that they found it difficult to identify the precise amount and, in some cases, the number of taxes borne and collected. The two main obstacles to proper trend analysis are inaccurate and incomplete data. To manage the risks involved, only companies that participated in both the 2008 and 2009 TTC Surveys were included in further trend analysis. The assumption is that proper internal systems and controls relating to TTC information are already established and in use by these participants. This trend analysis study, using both the 2008 and 2009 Surveys, included 32 participants. The TTC databank for these companies includes data for three years, making trend analysis results more reliable. The 32 repeat participants include eight financial services industry companies, nine manufacturing industry companies, seven mining industry companies and eight 'other' industry companies.

For all repeat participants, taxes borne rose 13.42% between 2008 and 2009, compared to an 18.71% increase between 2007 and 2008. This is in line with an increase of 11.70% for all participants. Compared to the increase in corporate income tax of 16.05% among all participants, corporate income tax for all repeat participants increased by 21.06% between 2008 and 2009, compared to a 22.05% increase between 2007 and 2008. See Figure 12.

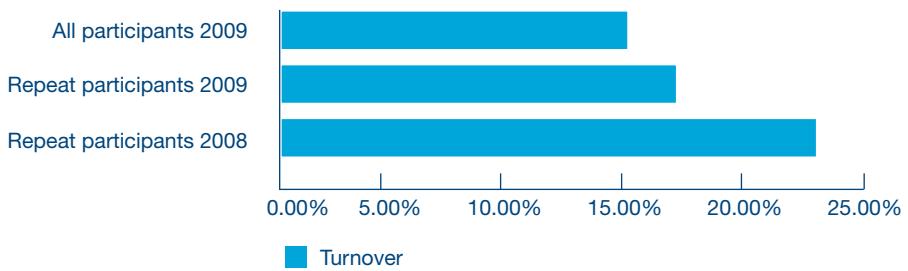
Trends in tax payments

Figure 12 – Trends in taxes borne



From an industry perspective, all industries reported increases in turnover. As a repeat participant group, these amounted to an increase in turnover of 17.35% between 2008 and 2009, compared to an increase of 23.48% between 2007 and 2008. The trend is in line with the increase in turnover of 15.22% for all participants as a group. See Figure 13.

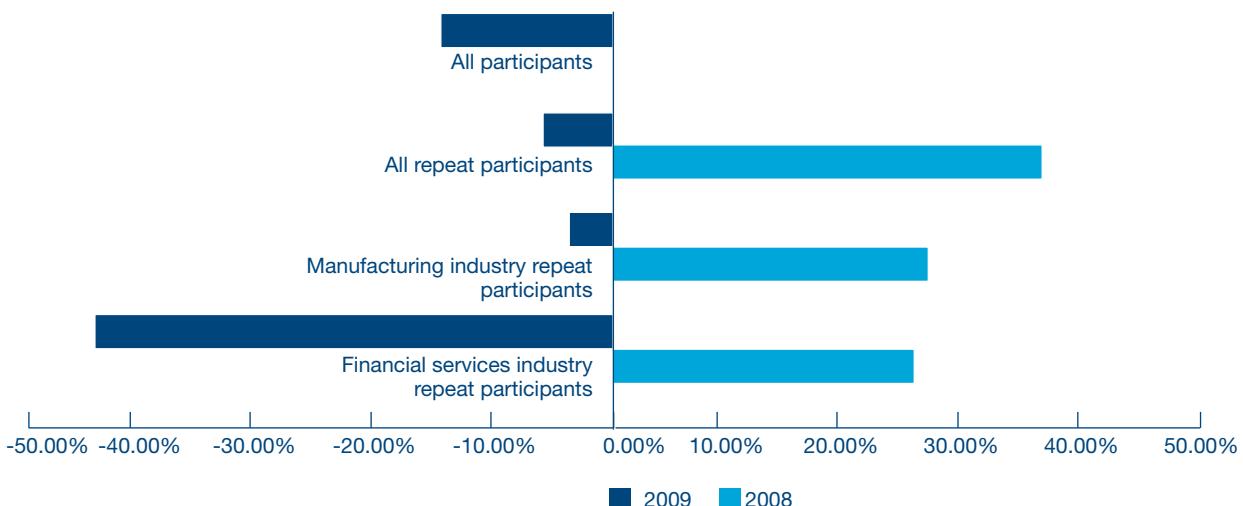
Figure 13 – Trends in turnover



Although taxes borne and turnover increased, a clear slowdown in economic activity is evident. This was expected as the Survey was conducted within the context of a global recession.

The financial services and manufacturing industries were possibly the most seriously affected and reported decreases in profit before tax that resulted in an overall decrease in profit before tax for all repeat participants of 5.77% between 2008 and 2009 (profit before tax increased by 37.65% between 2007 and 2008). Profit before tax for all participants decreased by 14.13% between 2008 and 2009. See Figure 14.

Figure 14 – Trends in profit before tax



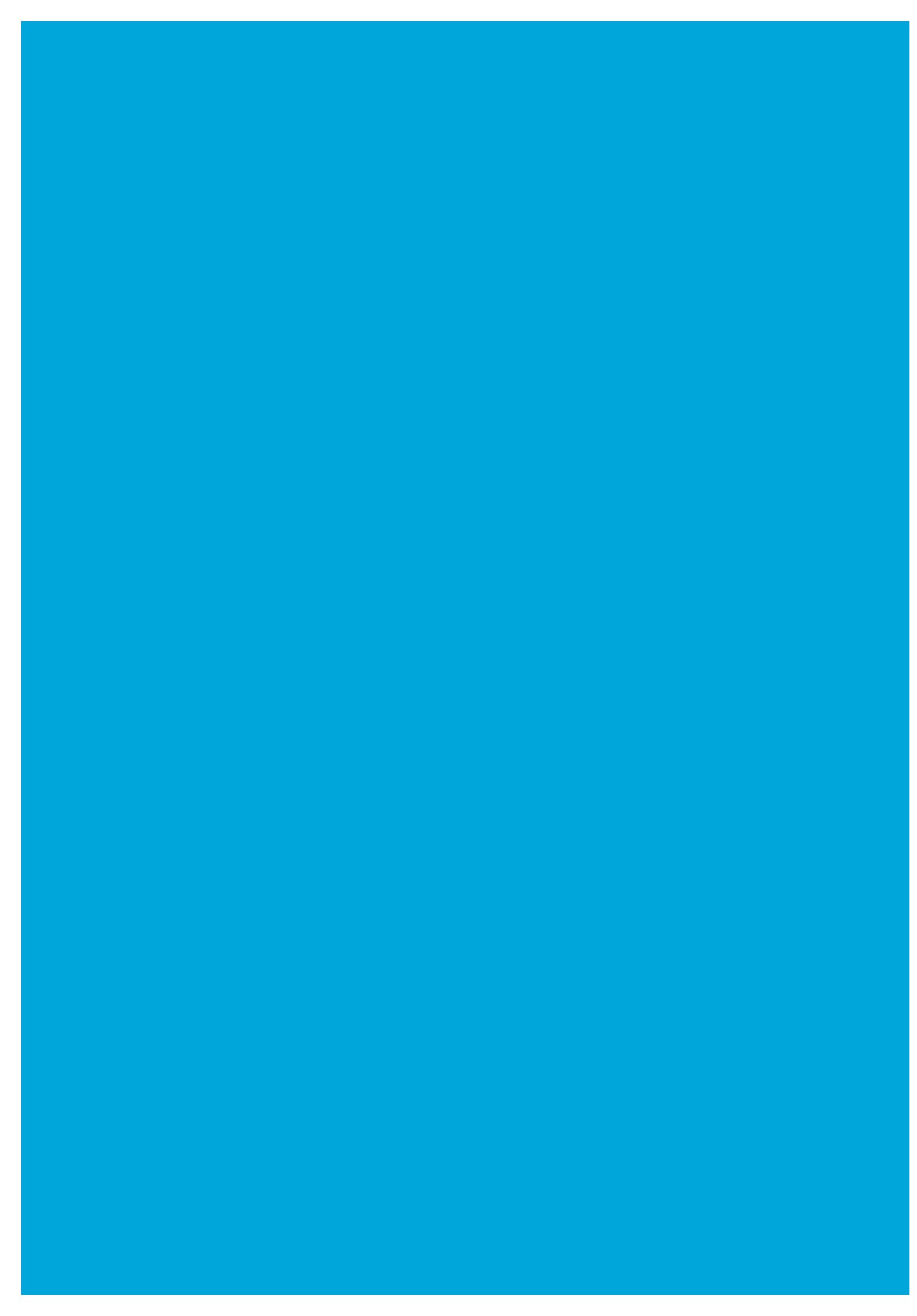
Trends in tax payments

Figure 15 – Trends in economic footprint, taxes borne and taxes collected (all repeat participants)

All repeat participants	Trends	
	2009	2008
Turnover	17.35%	23.48%
Profit before tax	-5.77%	37.65%
Number of employees	1.00%	12.21%
Salaries and wages	13.39%	7.41%
Taxes borne		
Corporate income tax	21.06%	22.05%
Other business taxes	-4.75%	11.54%
Total	13.42%	18.71%
Taxes collected	12.13%	9.82%
TTC	12.71%	13.70%

Figure 16 – Trends in key measures (all repeat participants)

All repeat participants	Trends		
	2009	2008	2007
Total tax rate	31.52%	31.01%	32.06%
TTC as a percentage of turnover	16.40%	16.18%	16.67%



8. International comparisons



In 2009, PwC in the United Kingdom completed its fifth Survey of The Hundred Group members. Other countries involved in such surveys include Australia, Belgium, Canada, India, Switzerland, The Netherlands and the United States. It should be noted, however, that the periods covered can vary by country. The TTC Framework is also applied by the World Bank Group in their 2009 report, *Paying Taxes 2010: The global picture*. The PwC TTC methodology seeks to create a common language for international comparisons. From a microeconomic point of view, PwC studies in numerous countries around the world have increased awareness in the corporate sector of the need for tax strategy and the risk management aspects of a company's tax affairs.

Alleviating the tax burden on the corporate sector, *inter alia* by adjusting tax rates and making compliance easier, can also have macroeconomic benefits such as attracting foreign investment and making the country more competitive internationally. *Paying Taxes 2010* shows that tax authorities worldwide (including in South Africa) continue to overhaul tax systems by reducing taxes, streamlining administrative processes and modernising payment systems.

Like the United Kingdom, South Africa has a centralised tax system. Of the 20 South African taxes borne and collected by companies, 18 are levied by the South African Revenue Service. In countries where taxes are also levied at local level, the number of taxes can be more numerous. Examples include Switzerland with 49 different taxes and Belgium with 78, while in the United States they are too numerous to count.

See also Appendix 6 and 7.

International comparisons

Figure 17 – Comparison of the total number of taxes paid by companies in various countries

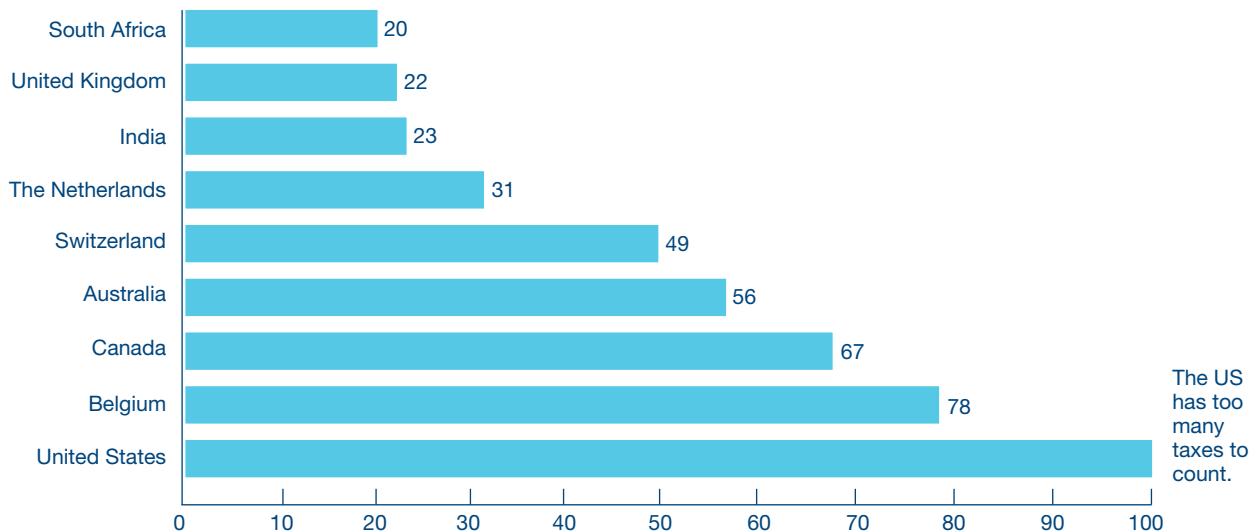
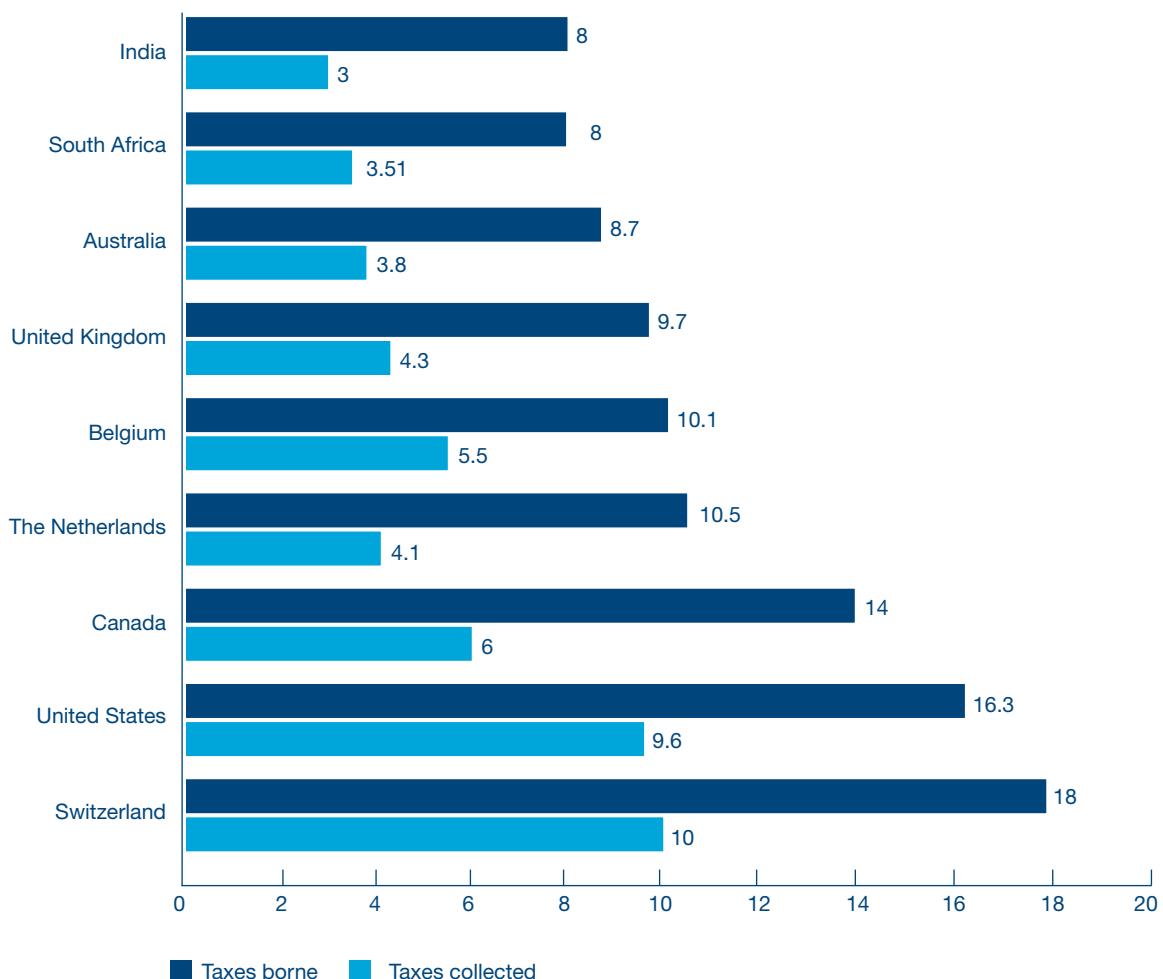


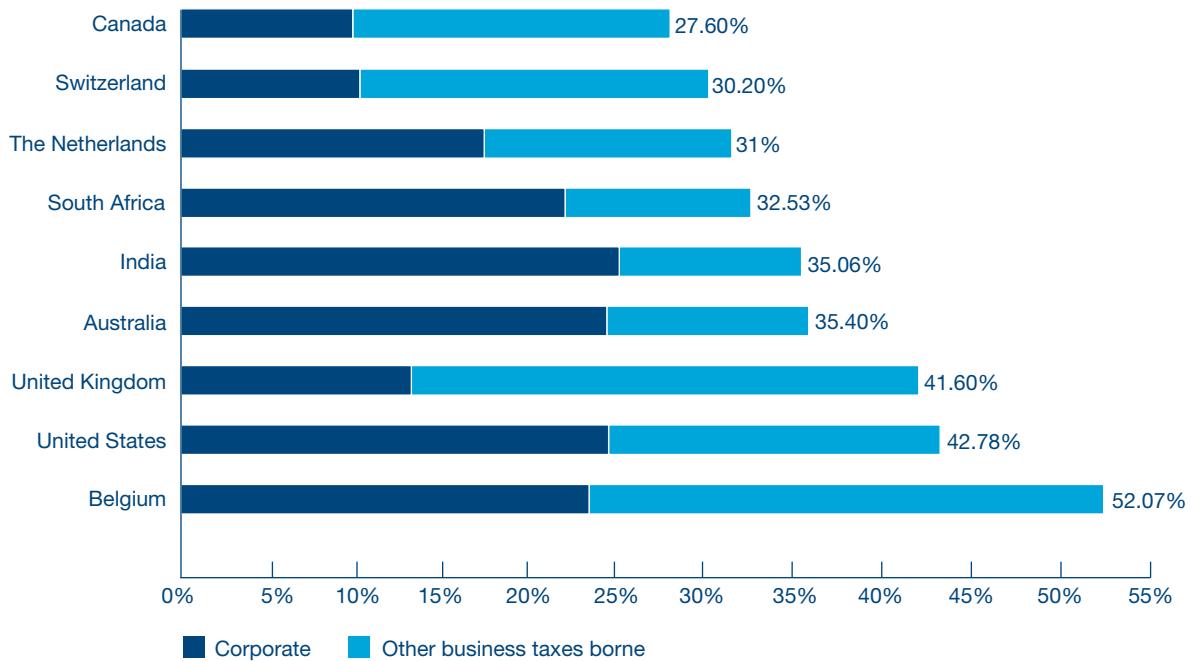
Figure 18 – Comparison of the average number of taxes borne and collected by companies in various countries



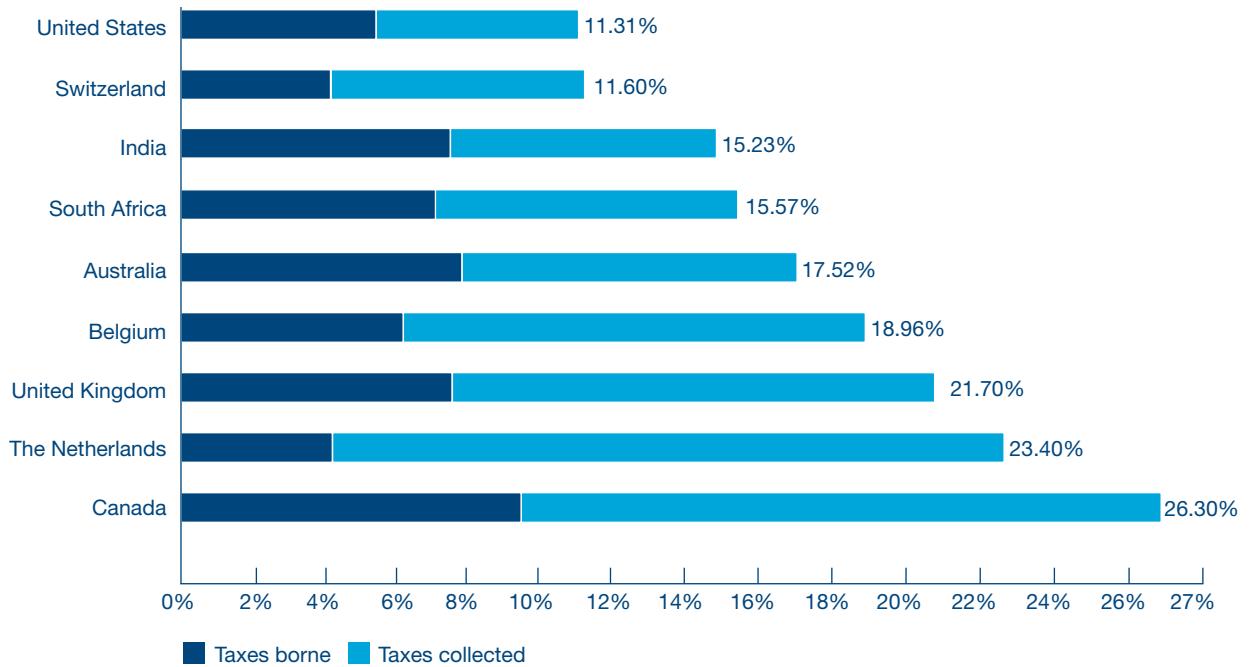
International comparisons

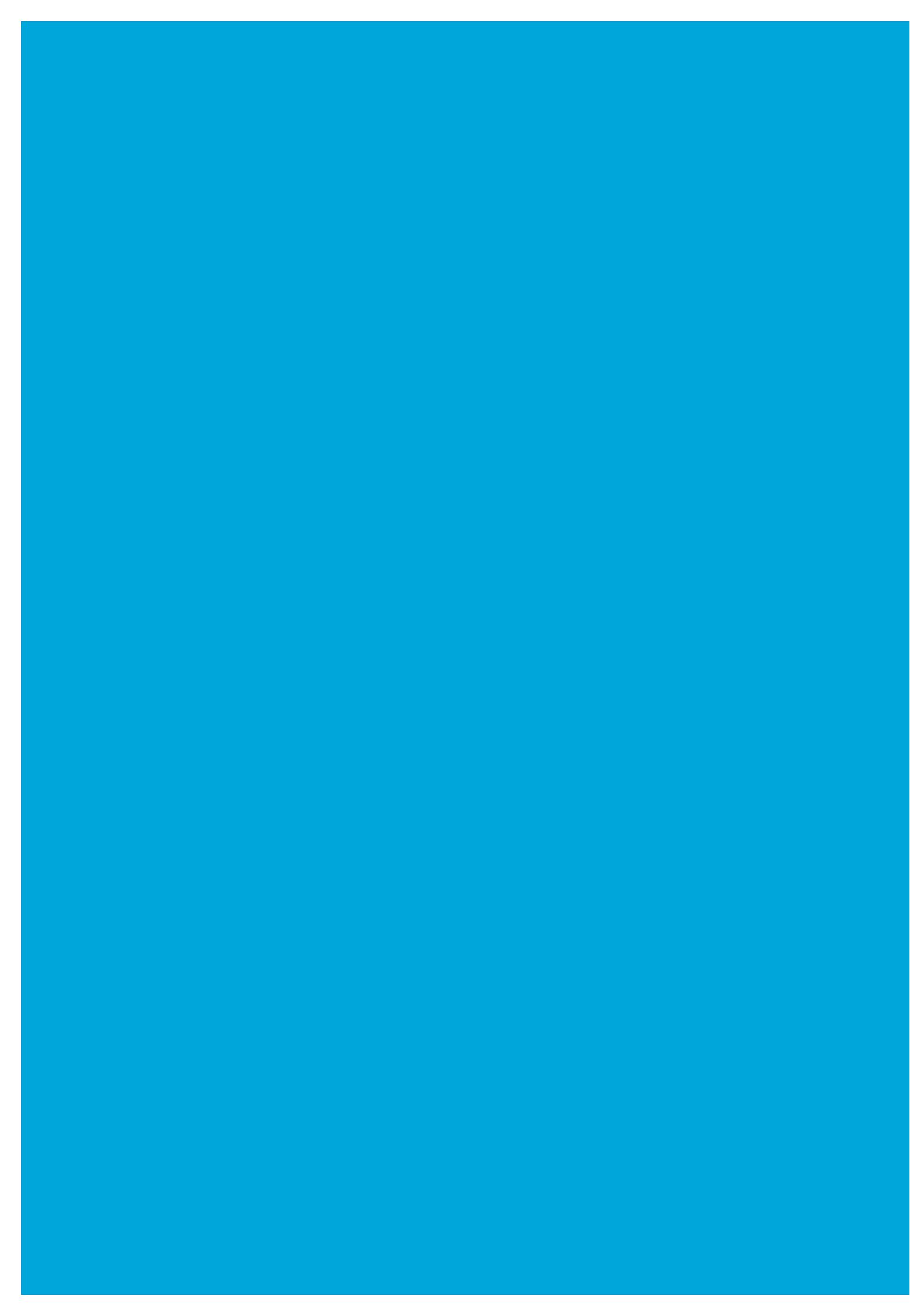
Figure 19 – Comparison of the key measures

Comparison of the average total tax rate



Comparison of TTC as a percentage of turnover





9. Tax compliance cost

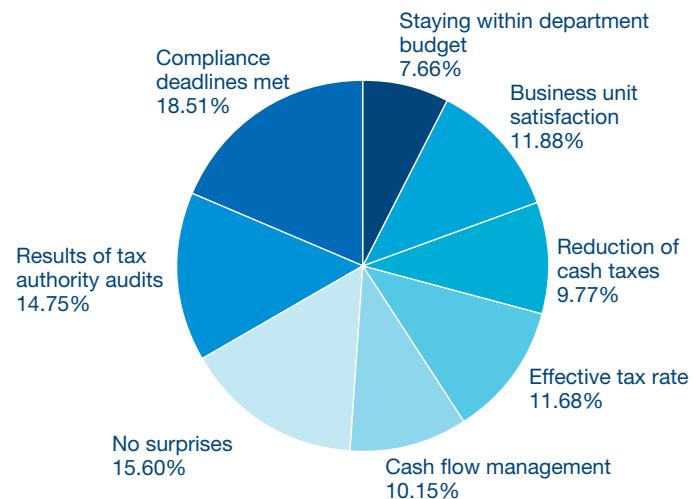


The TTC Survey included an investigation of the role and function of the in-house tax specialist. Among participants to the Survey, 31 responded by including data concerning their tax departments.

The head of tax generally reports to the financial director or the chief financial office, according to 85.71% of respondents.

The Survey revealed a considerable diversity between the various performance criteria that are applied in evaluating the tax effectiveness of the tax function within corporate environments. Meeting compliance deadlines was a key performance criteria for 18.51% of respondents, while 15.60% were required to ensure that there were 'no surprises', and 14.75% were evaluated on the results of tax authority audits. At the other end of the spectrum, only 19.92% were evaluated in relation to the management of cash (reduction of cash taxes and cash flow management) and only 11.68% in relation to the effective tax rate. This suggests that, in the main, tax specialists operate in middle management, as opposed to playing a strategic managerial role. See Figure 20.

Figure 20 – Tax department performance criteria



Tax compliance cost

A reassuring trend that emerged is the degree of integration of tax processes in the overall risk management framework of respondents. It was found that 81.82% of respondents have tax risk policies in place, while 100% have established tax risk management processes. These processes include the audit committee (90.91% of respondents) and/or the board of directors (81.82% of respondents). Large businesses are becoming increasingly aware of the risks that they may incur in relation to their tax affairs, and have implemented policies and processes that are designed to manage and control these risks.

Respondents indicated that 79.78% of their annual budget for the tax department relates to internal costs (mainly salaries, overheads, travel and training) and 20.22% to external tax consultants.

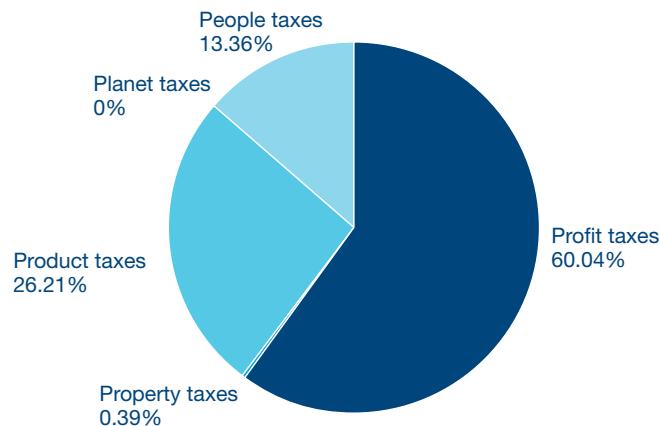
Respondents provided data on time spent on tax functions, and on average, as a separate business division, the central tax department comprised of 4.42 full-time equivalent employees, indicating that this area of tax is generally the domain of a small number of specialists.

Data on time spent by respondents reflects the reality that almost 88.05% of time is devoted to tax compliance and tax accounting, with only 2.91% being applied to tax planning and mitigation. See Figure 21. These results would indicate that tax specialisation in the corporate environment is in the early stages of development, with considerable emphasis being placed on operational rather than strategic effectiveness. In relation to tax type, the focus is primarily on profit taxes (corporate income tax and secondary tax on companies: 60.04%), with a lesser emphasis on product taxes (primarily VAT, customs and excise: 26.21%) and people taxes (primarily PAYE: 13.36%). See Figure 22.

Figure 21 – Time spent on tax function by the central tax department



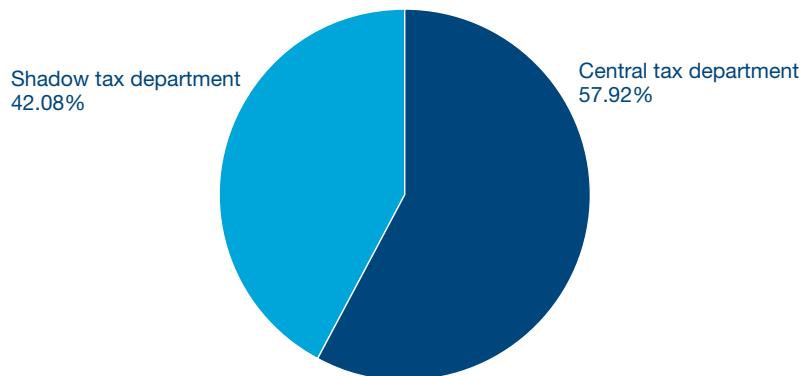
Figure 22 – Time spent on different tax categories by the central tax department



It was clear from the responses that certain tax functions may be performed outside of the tax department (for instance, human resources would manage payroll taxes). The degree of internal ‘outsourcing’ may in part explain differences in the employee numbers in specialist tax departments. This ‘outsourcing’ is also better known as the ‘shadow tax department’, and related costs are usually not budgeted for as driven by tax compliance. Data on time spent by respondents indicated that the shadow tax department consists of an average of 3.21 full-time equivalent employees.

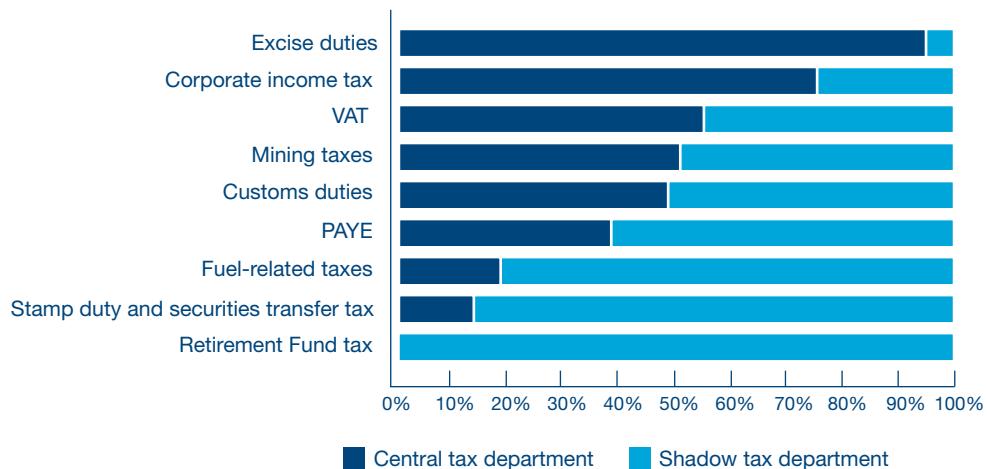
Therefore, the in-house specialist resources, on average, consist of 7.63 full-time equivalent employees and the shadow tax department contributed 42.08% of the time spent on tax compliance. See Figure 23.

Figure 23 – Split in total time spent between central- and shadow tax departments



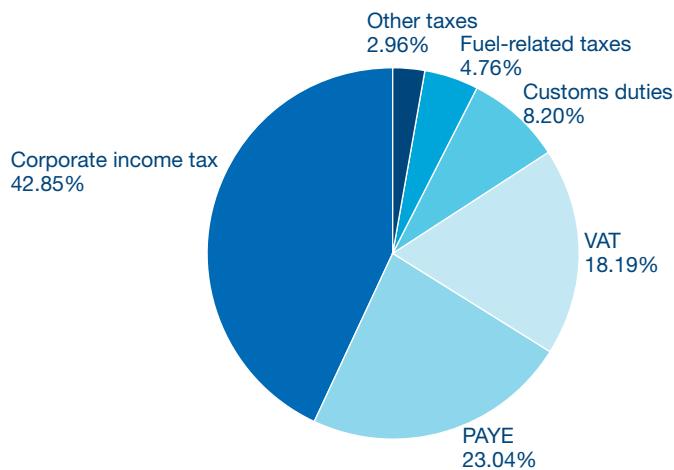
Tax compliance cost

Figure 24 – Central and shadow tax departments: tax type mix

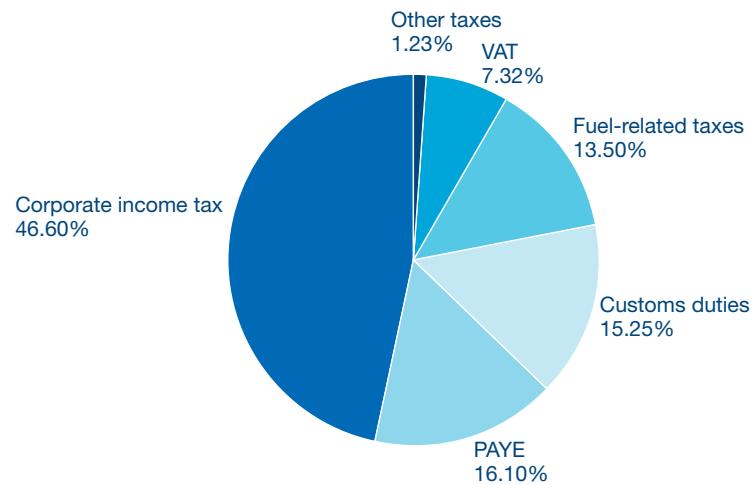


Data provided by respondents on total time spent on different tax types by the central- and shadow tax departments (own resources) indicated that 42.85% relates to corporate income tax, 23.04% to PAYE, 18.19% to VAT, and 8.20% to customs duties. Fuel-related and other taxes account for 7.72%. See Figure 25.

Figure 25 – Time spent on different tax types by own resources

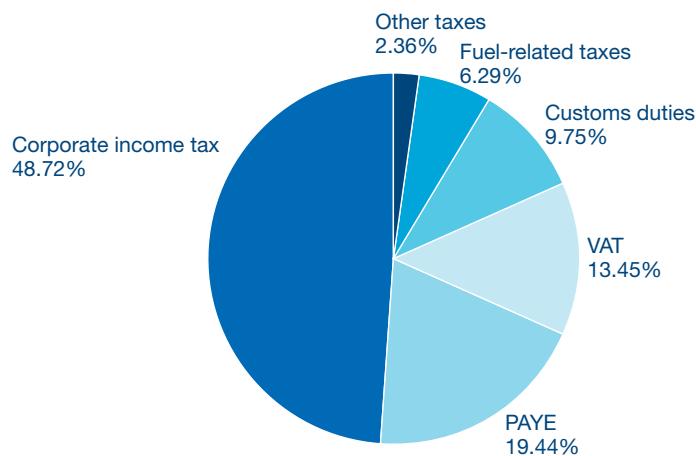


Respondents also provided the total cost incurred during the year on compliance services provided by external consultants. The data indicated that 46.60% of total cost relates to corporate income tax, 16.10% to PAYE, 15.25% to customs duties and 7.32% to VAT. Fuel-related and other taxes account for 14.73% of total cost. See Figure 26.

Figure 26 – External resource costs incurred on different tax types

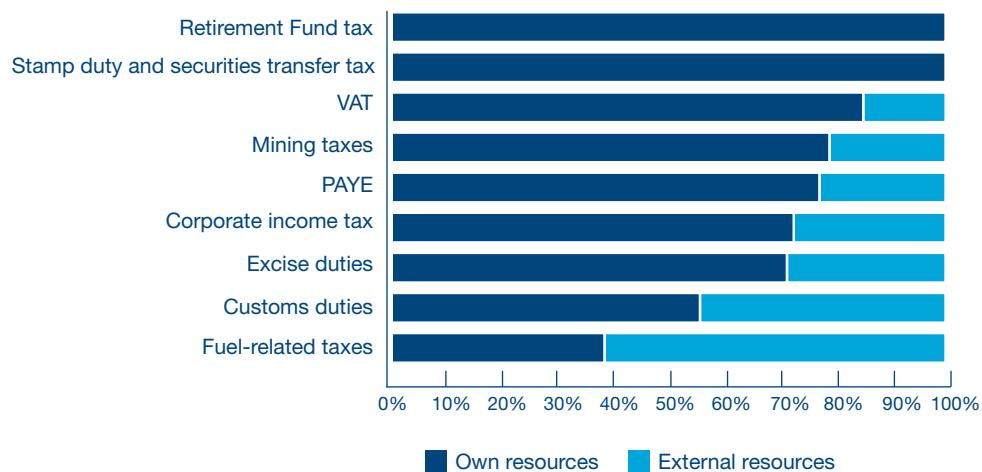
The data provided by respondents on time spent by internal resources have been translated to a monetary cost, utilising data provided by respondents on salary costs as well as a fixed percentage for overheads. Combined with data on external resources, this calculation revealed that some 71.66% of expenditure relates to internal costs, and 28.34% to external consultants.

The total cost indicated that 48.72% relates to corporate income tax, 19.44% to PAYE, 13.45% to VAT and 9.75% to customs duties. Fuel-related and other taxes account for 8.65%. See Figure 27.

Figure 27 – Total cost incurred on different tax types

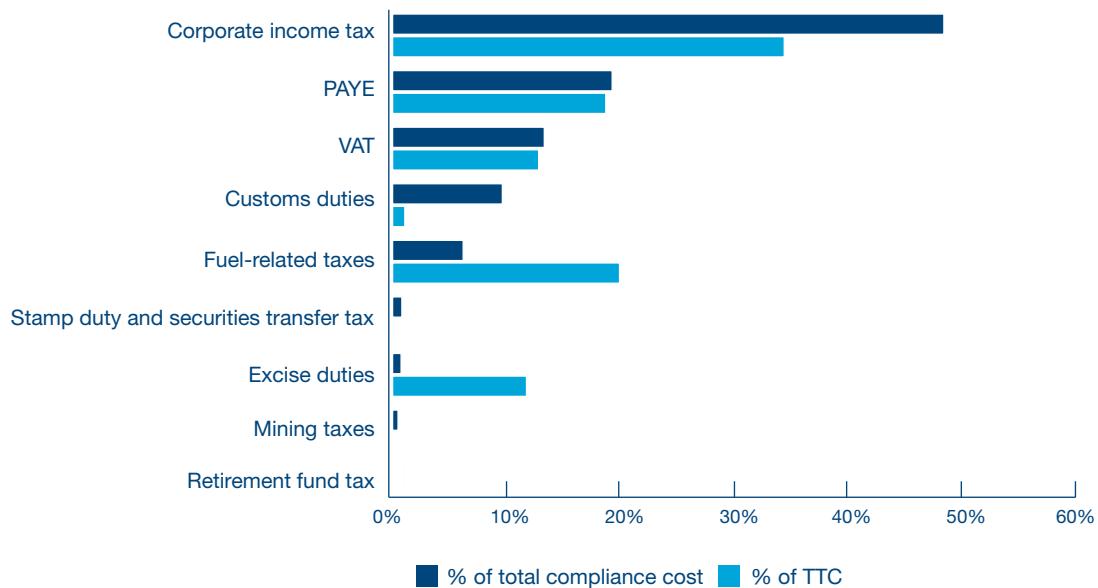
Tax compliance cost

Figure 28 – Split in total cost between own resources and external resources

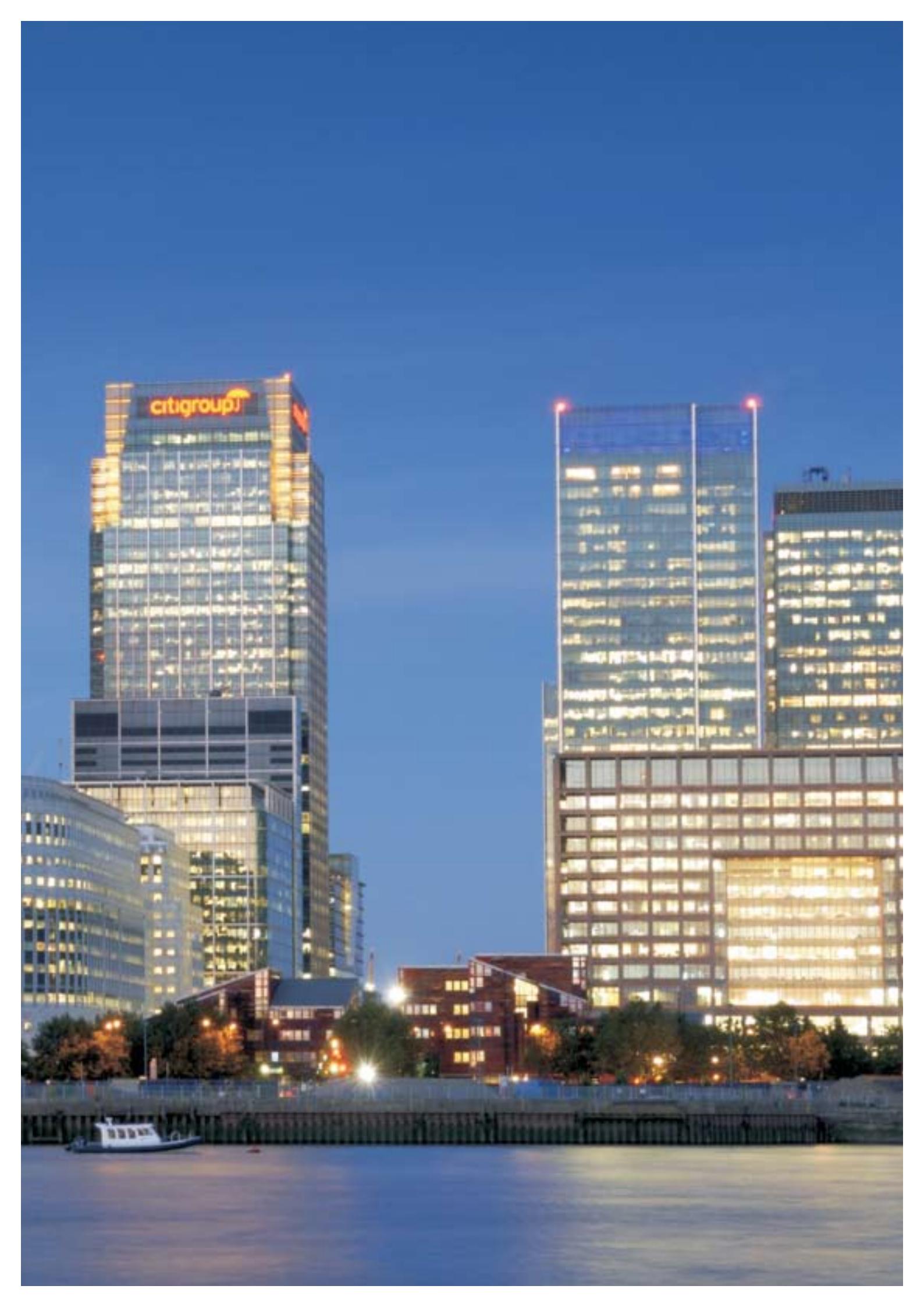


The tax compliance cost was compared to the TTC of those participants who provided compliance data. The comparison indicated that respondents spent, on average, 48.72% of total compliance cost on corporate income tax, while corporate income tax only represented 34.63% of the TTC. See Figure 29.

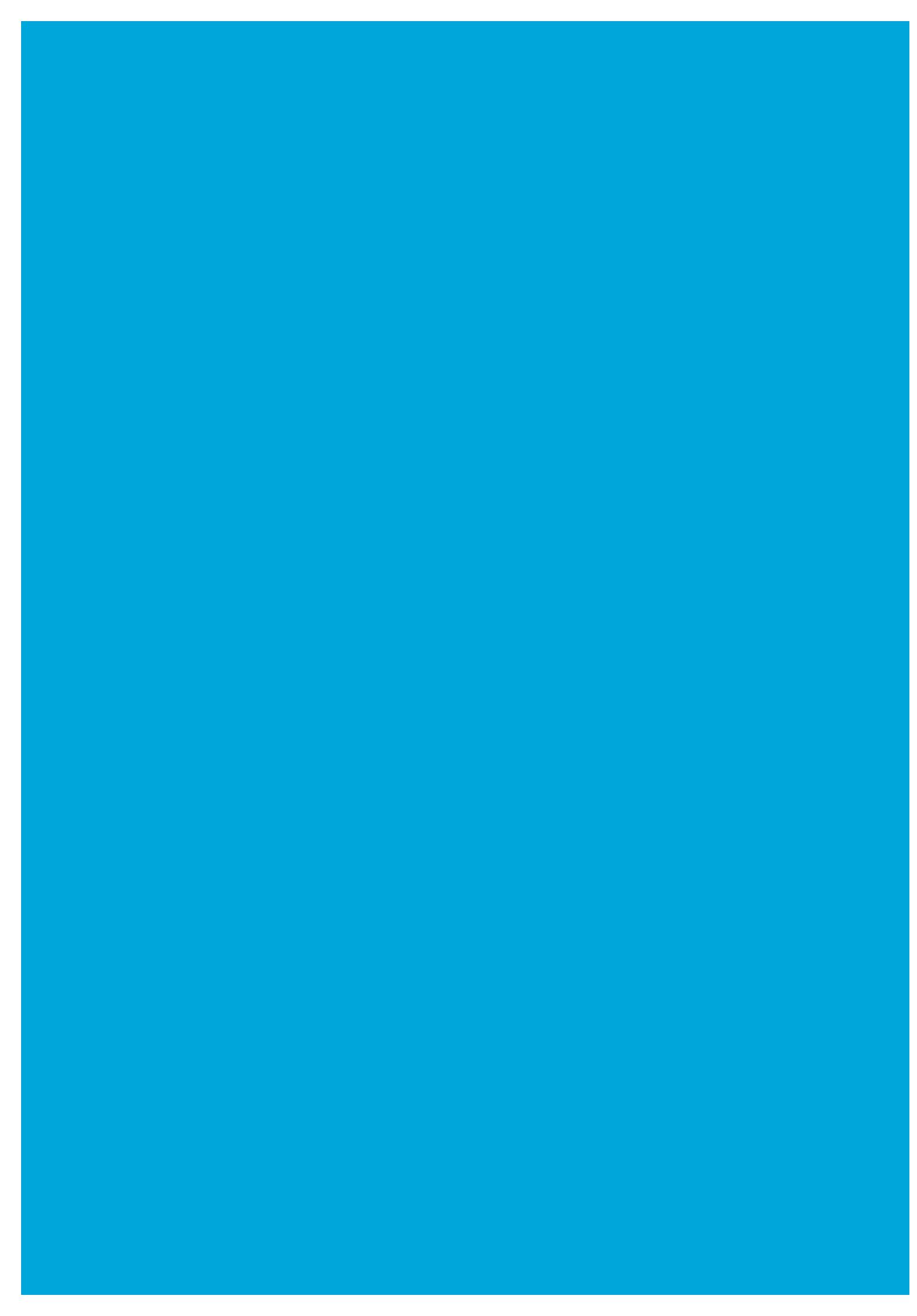
Figure 29 – Comparison between compliance cost and Total Tax Contribution



On average, respondents' cost to comply with corporate income tax was R1.00 for every R100 of corporate income tax paid, while the cost to comply with all taxes borne and collected was R1.42 for every R100 of taxes borne, effectively representing a surcharge on respondents' tax bills. On average, the cost of compliance with all taxes borne and collected is 0.33% of total taxes borne and collected and remitted to government.



citigroup



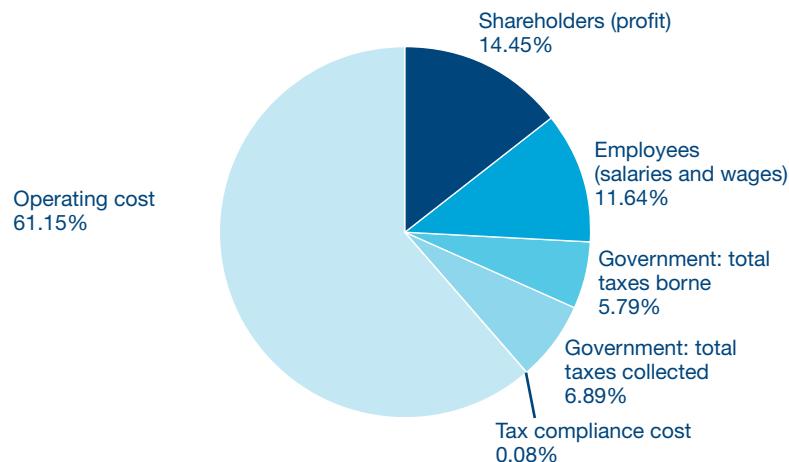
10. Distribution of value



Large companies have a major economic impact in South Africa. Participants reported a South African turnover of R1 007 865 million and employed 675 424 employees in South Africa. Chapter 3 mentioned that the 45 companies participating in the Survey contributed 20.16% of the tax revenues collected from Business by the South African Government.

The Survey also collected data on other aspects of the economic footprint of participants. Using these figures to look at how value generated by participants was distributed suggests that 12.68% was paid to government in taxes borne and collected, with 11.64% going to employees as salaries and wages (nett of employee taxes), and 14.45% going to shareholders. See Figure 30.

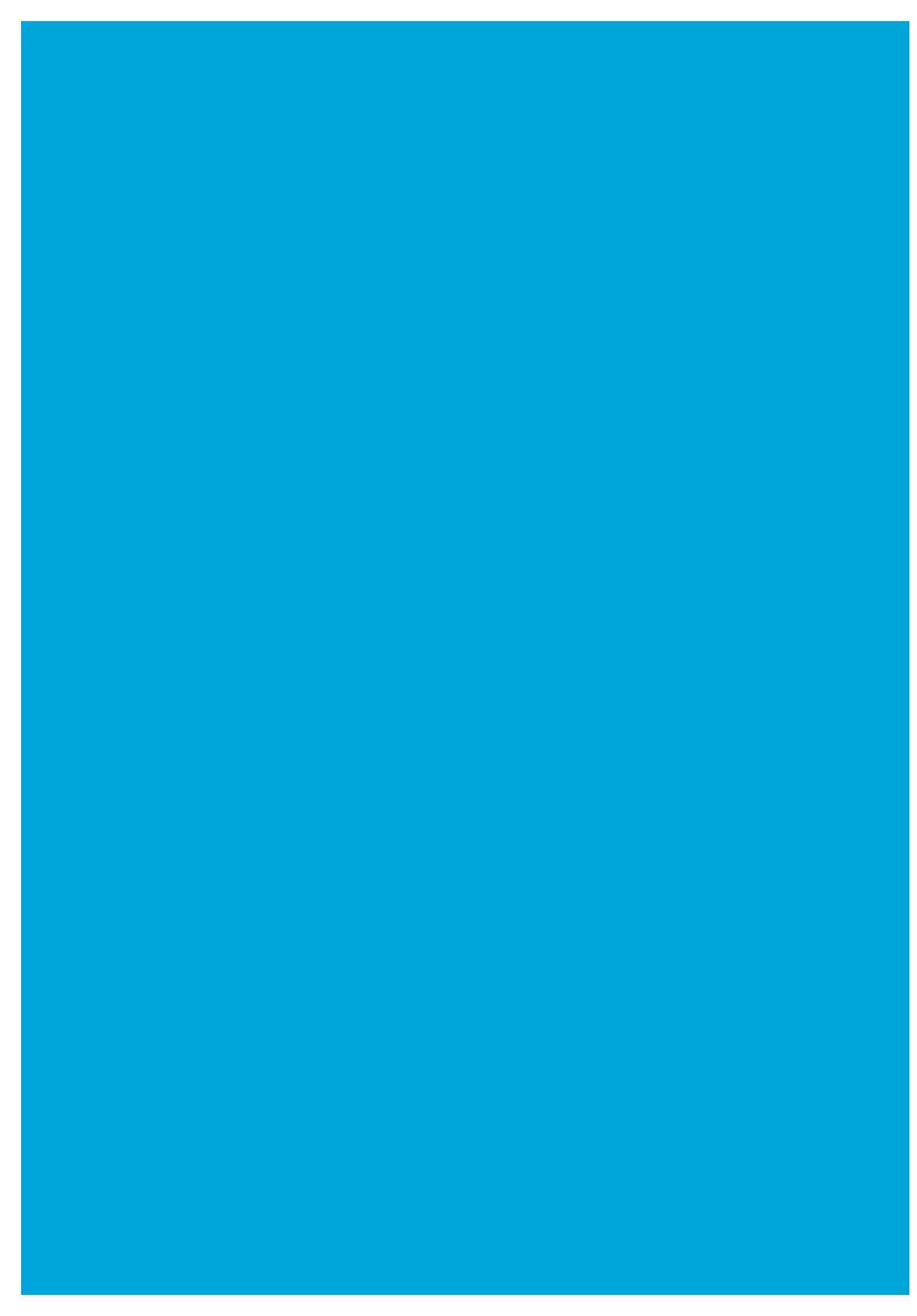
Figure 30: Taxes borne and –collected as a percentage of value distributed





Appendix 1: List of Survey participants

Absa	Nampak
Accenture	Old Mutual
Anglo American	Palabora Mining Company
Anglo Platinum	Parmalat
AngloGold Ashanti	PetroSA
ArcelorMittal	Pick n Pay
British American Tobacco	Pioneer Foods
BP	Rainbow Chicken
Capitec Bank	Reunert
Clicks Group	SABMiller
De Beers	Sanlam
Discovery	Sasol
Distell	Shoprite Checkers
Erbacon	Sishen Iron Ore
Ericsson	Standard Bank
Exxaro Resources	Stanlib
Foschini	Telkom SA
Gold Fields	Toyota Tsusho Africa
Liberty	Trans Hex
Medi-Clinic	Transnet
Media24	Vodacom
Metropolitan	Volkswagen
Mondi	



Appendix 2: Sample short report for Survey participants

Total Tax Contribution

PricewaterhouseCoopers Survey for large South African companies

Short report for large company (including ranking among other Survey participants)

Company: CompanyNumber46 (45 participants plus one)
Year-end: 31 March 2009

	CompanyNumber46 (45 participants plus one)	Rank (note 1)
Turnover	R 21,704,408,995	16 / 46
Profit before total taxes borne	R 4,741,115,378	13 / 46
Total taxes borne	R 1,542,284,832	16 / 46
Total taxes collected	R 1,837,091,648	13 / 46
Total Tax Contribution (i.e. taxes borne and taxes collected)	R 3,379,376,480	16 / 46
Total taxes collected to total taxes borne ratio	1.19	19 / 46
Total tax rate - total taxes borne as a percentage of profit before total taxes borne	32.53%	18 / 46
Total Tax Contribution as a percentage of turnover	15.57%	14 / 46

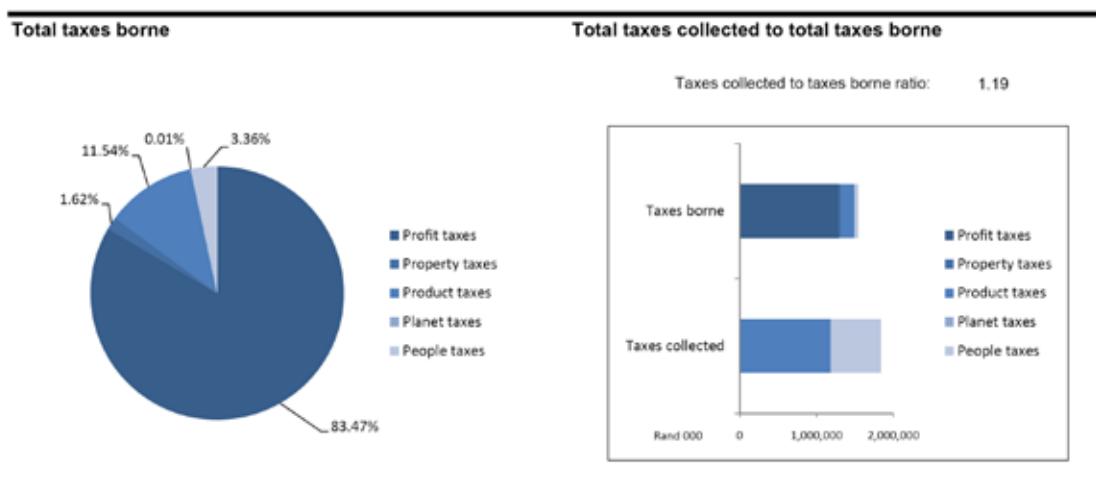
Note 1: Values ranked in descending order.

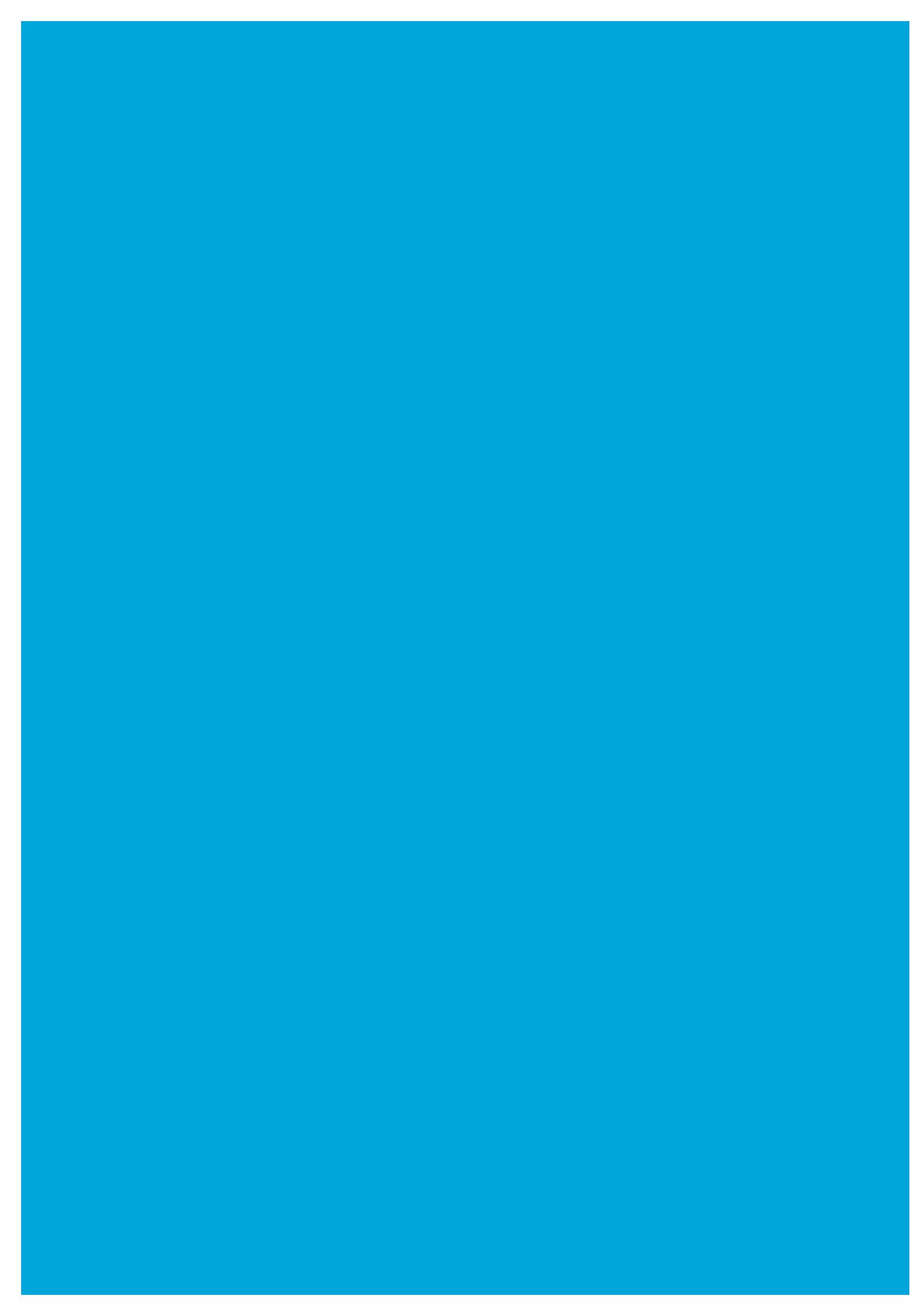
Taxes borne	Percentage per tax category	R 000	Taxes collected	Percentage per tax category	R 000
Profit taxes	83.47%	1,287,345	Property taxes	0.19%	3,490
Corporate income tax	1,151,007		UST/STT (note 2) collected		3,490
Betting and gaming duties	0		Product taxes	64.17%	1,178,862
Mining taxes	6,015		Excise duties on		379,176
Retirement Fund tax	4,627		alcohol, beer, wine, and fermented beverages		
Secondary tax on companies	125,696		Fuel-related taxes (note 3)		505,935
Property taxes	1.62%	24,985	Nett VAT collected		290,077
Property rates	23,289		Withholding taxes		3,674
Stamp duty and UST/STT (note 2)	1,542		Planet taxes	0.01%	184
Transfer duties	154		Air passenger tax		0
Product taxes	11.54%	177,980	Plastic bag levy		184
Customs duties	37,786		People taxes	35.63%	654,556
Fuel-related taxes (note 3)	72,950		PAYE collected		639,308
Irrecoverable VAT borne	57,681		Employees - UIF (note 4)		15,248
Ad valorem excise duties	9,562				
Planet taxes	0.01%	154			
Air passenger tax	154				
People taxes	3.36%	51,821			
PAYE settlements borne	3,085				
Employers: SDL, UIF, OID (note 4)	48,736				
TOTAL TAXES BORNE	1,542,285		TOTAL TAXES COLLECTED		1,837,092

Note 2: Uncertificated securities tax ('UST') / securities transfer tax ('STT').

Note 3: Fuel excise duty, fuel levies and Road Accident Fund levy.

Note 4: Skills development levy ('SDL'), Unemployment Insurance Fund levy ('UIF'), Occupational injuries and diseases levy ('OID').





Appendix 3: List of taxes borne and -collected

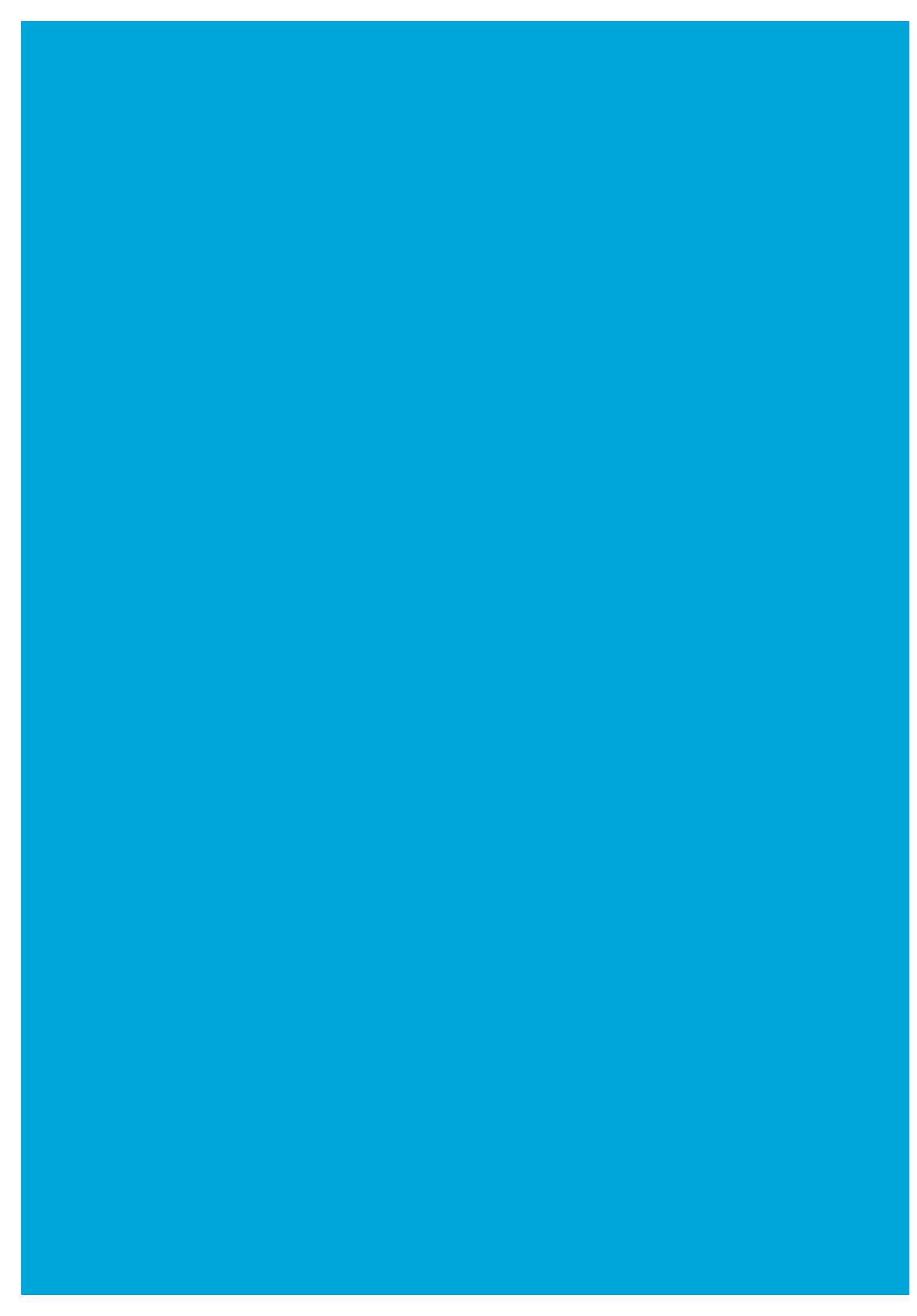
List of South African taxes borne and -collected by companies

Taxes	Tax borne	Tax collected
Profit taxes (four)		
Corporate income tax	✓	
Betting and gaming duties	✓	
Mining taxes	✓	
Retirement Fund tax (abolished effective 1 March 2007)	✓	
Secondary tax on companies	✓	
Property taxes (three)		
Property rates	✓	
Stamp duty and securities transfer tax ⁴	✓	✓
Transfer duty	✓	
Product taxes (seven)		
Customs duties	✓	
Excise duties ⁵	✓	✓
Fuel levies	✓	✓
VAT	✓	✓
Withholding tax on royalties		✓
Road Accident Fund levy	✓	✓
Universal Service Fund levy ⁶	✓	
Planet taxes (two)		
Air passenger tax	✓	✓
Plastic bag levy		✓
People taxes (four)		
Skills development levy	✓	
Unemployment Insurance Fund levy	✓	✓
Occupational injuries and diseases levy	✓	
PAYE settlements	✓	✓

⁴ Only securities transfer tax is borne and collected. Securities transfer tax replaced stamp duty and uncertificated securities tax on marketable securities, effective 1 July 2008. Some participants were still liable for uncertificated securities tax.

⁵ Excise duties borne include fuel excise duties and ad valorem excise duties. Excise duties collected include excise duties on fuel; alcohol, beer, wine, and fermented beverages; and tobacco.

⁶ No data was requested for the Universal Service Fund levy.



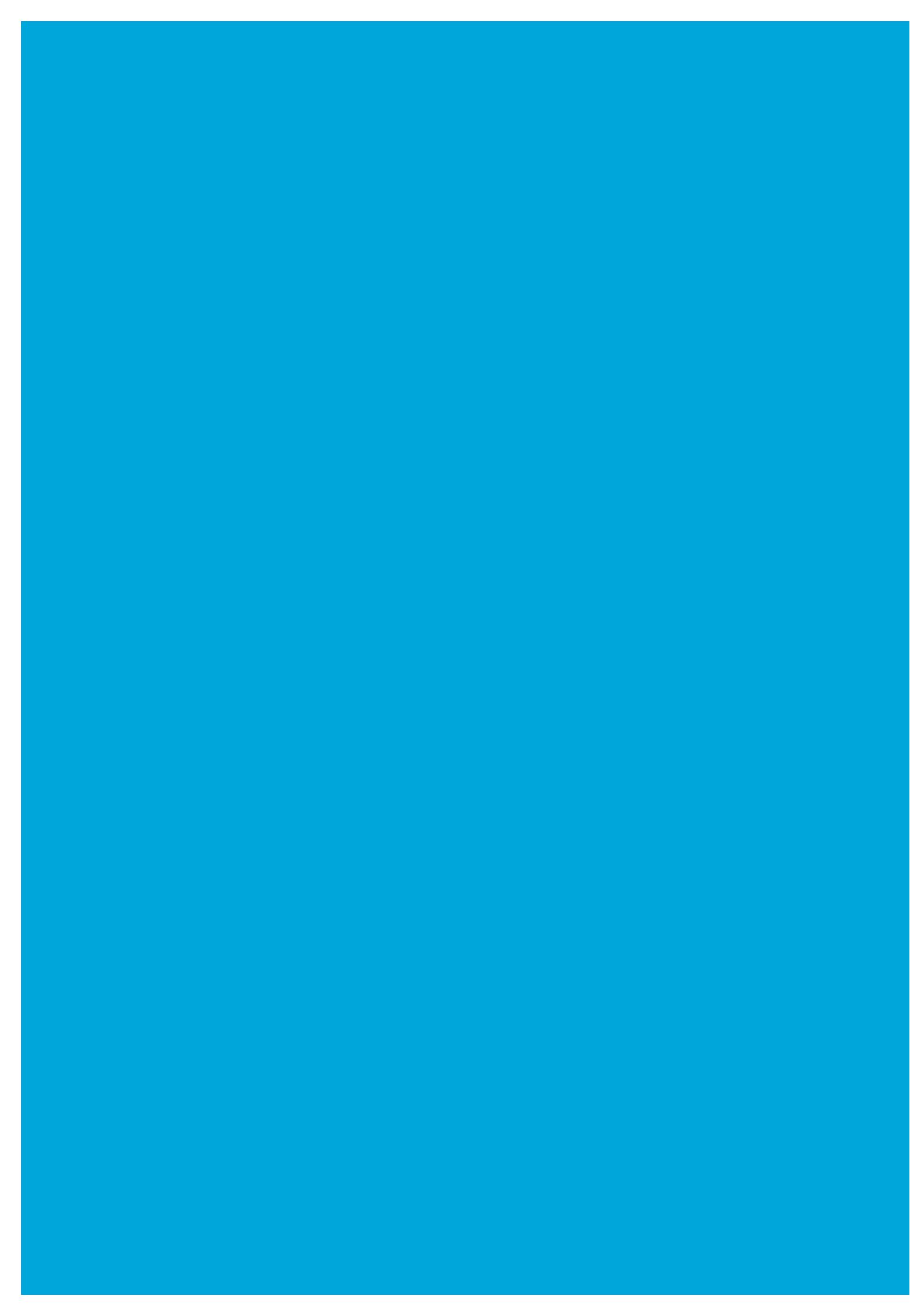
Appendix 4: Taxes borne

Taxes borne by participants

Taxes borne	2009 R million	Percentage of government receipts ⁷
Profit taxes		
Corporate income tax	R45 532	27.53%
Secondary tax on companies	R4 975	24.85%
Mining taxes	R236	33.34%
Retirement Fund tax ⁸	R180	125.87%
Betting and gaming duties	R0	0%
Property taxes		
Property rates	R921	3.42%
Stamp duty and securities transfer tax	R63	1.48%
Transfer duty	R9	0.19%
Product taxes		
Irrecoverable VAT	R2 282	1.48%
Fuel levies	R2 027	8.14%
Customs duties	R1 495	6.57%
Road Accident Fund levy	R794	8.09%
Excise duties	R442	21.54%
Planet taxes		
Air passenger tax	R5	0.95%
People taxes		
Skills development levy	R1 006	13.73%
Unemployment Insurance Fund levy	R600	5.94%
Occupational injuries and diseases levy	R324	7.18%
PAYE settlements	R120	0.07%
Total taxes borne	R61 011	9.48%

⁷ Sources: *National Treasury Budget Review 2010*; *Compensation Fund Annual Report 2009*; *SARS Annual Report 2009*; and *SARS Tax Statistics 2009*.

⁸ Retirement Fund tax was abolished effective 1 March 2007.

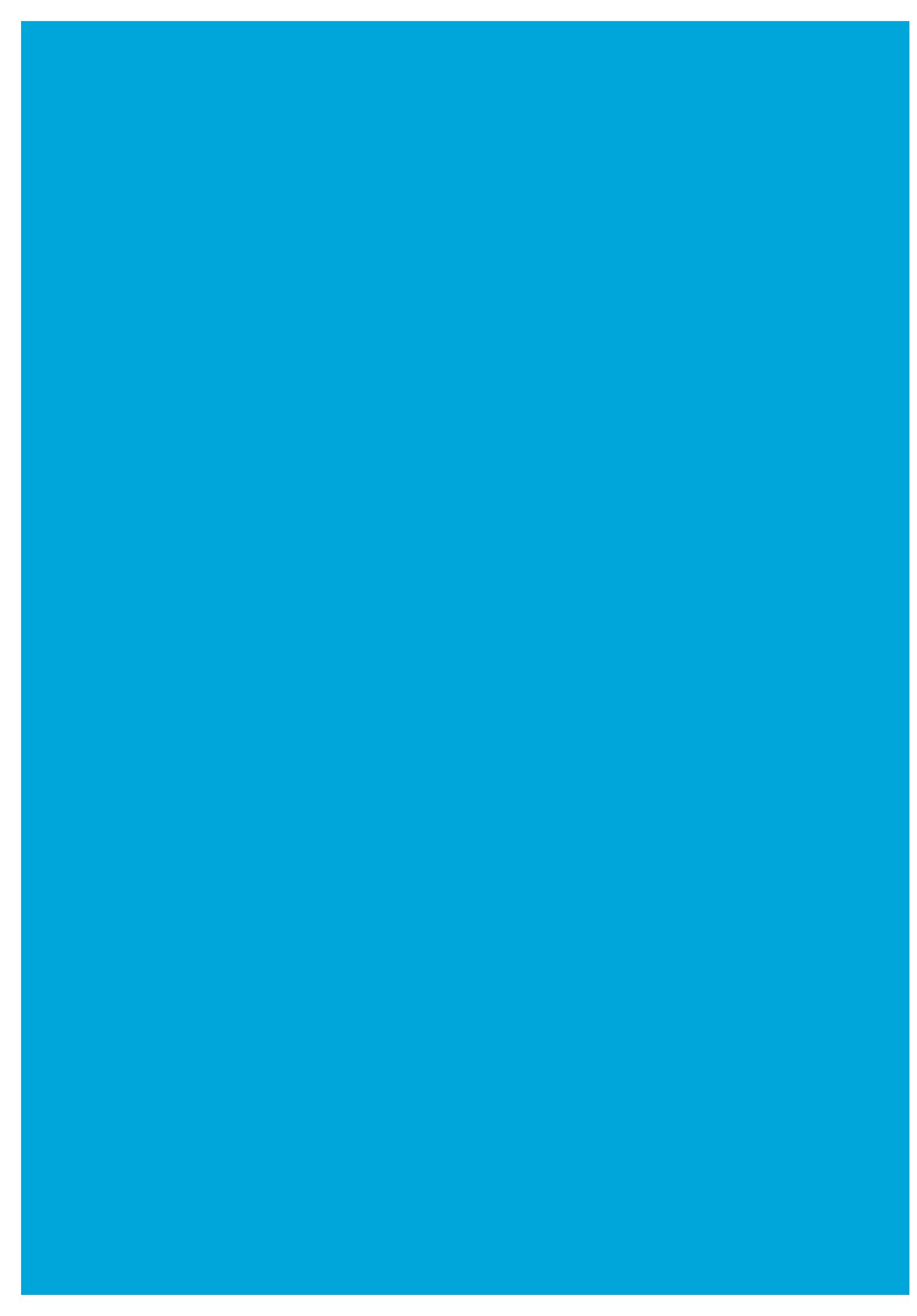


Appendix 5: Taxes collected

Taxes collected by participants

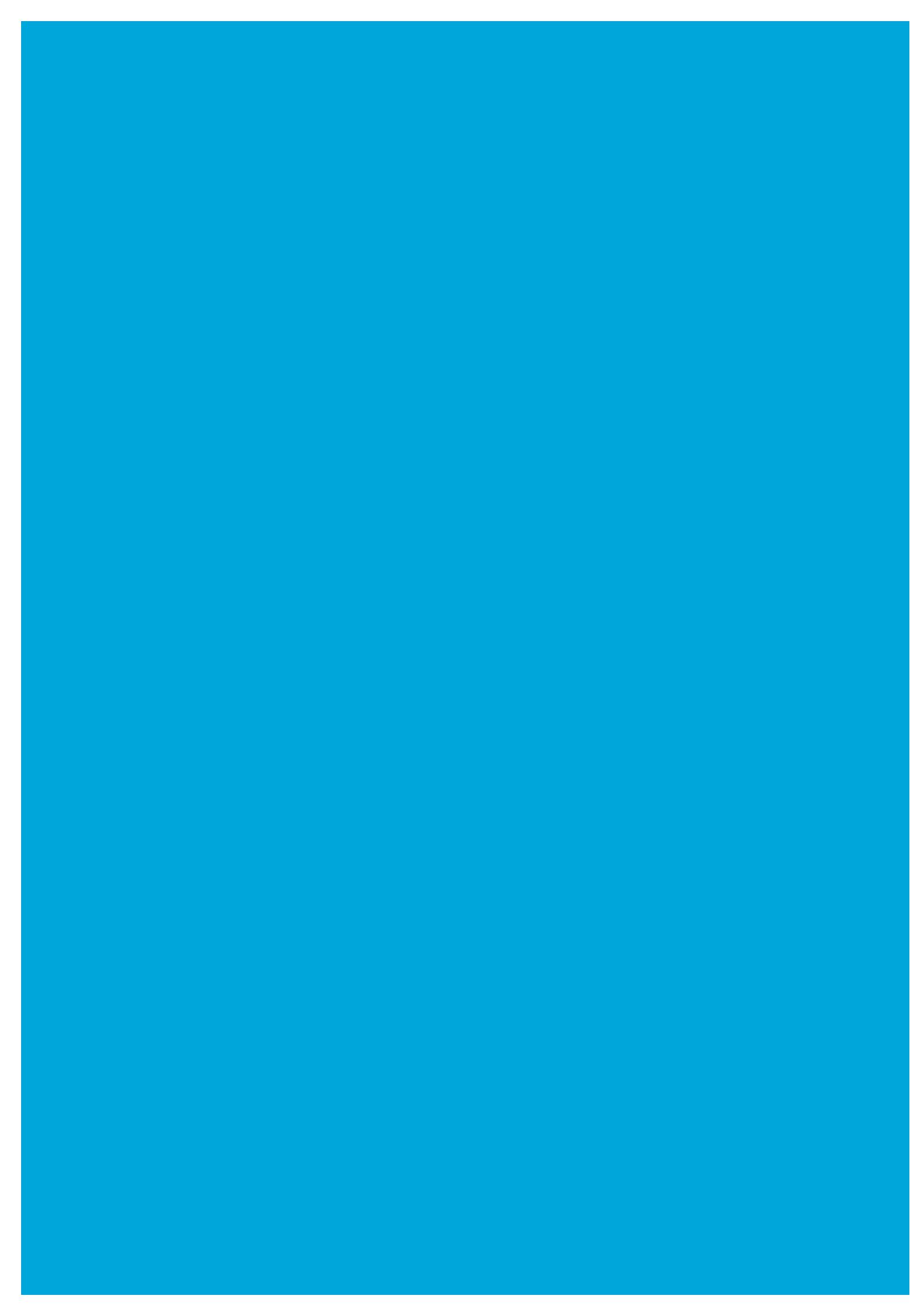
Taxes collected	2009 R million	Percentage of government receipts ⁹
Property taxes		
Securities transfer tax	R140	3.82%
Product taxes		
Excise duties	R16 166	82.65%
Fuel levies	R13 552	54.46%
VAT	R11 474	7.43%
Road Accident Fund levy	R5 298	53.98%
Withholding tax on royalties	R147	38.14%
Planet taxes		
Plastic bag levy	R4	4.85%
Air passenger tax	R0	0%
People taxes		
PAYE	R25 293	13.77%
Unemployment Insurance Fund levy	R600	5.94%
Total taxes collected	R72 674	17.85%

⁹Sources: *National Treasury Budget Review 2010; Compensation Fund Annual Report 2009; SARS Annual Report 2009; and SARS Tax Statistics 2009.*



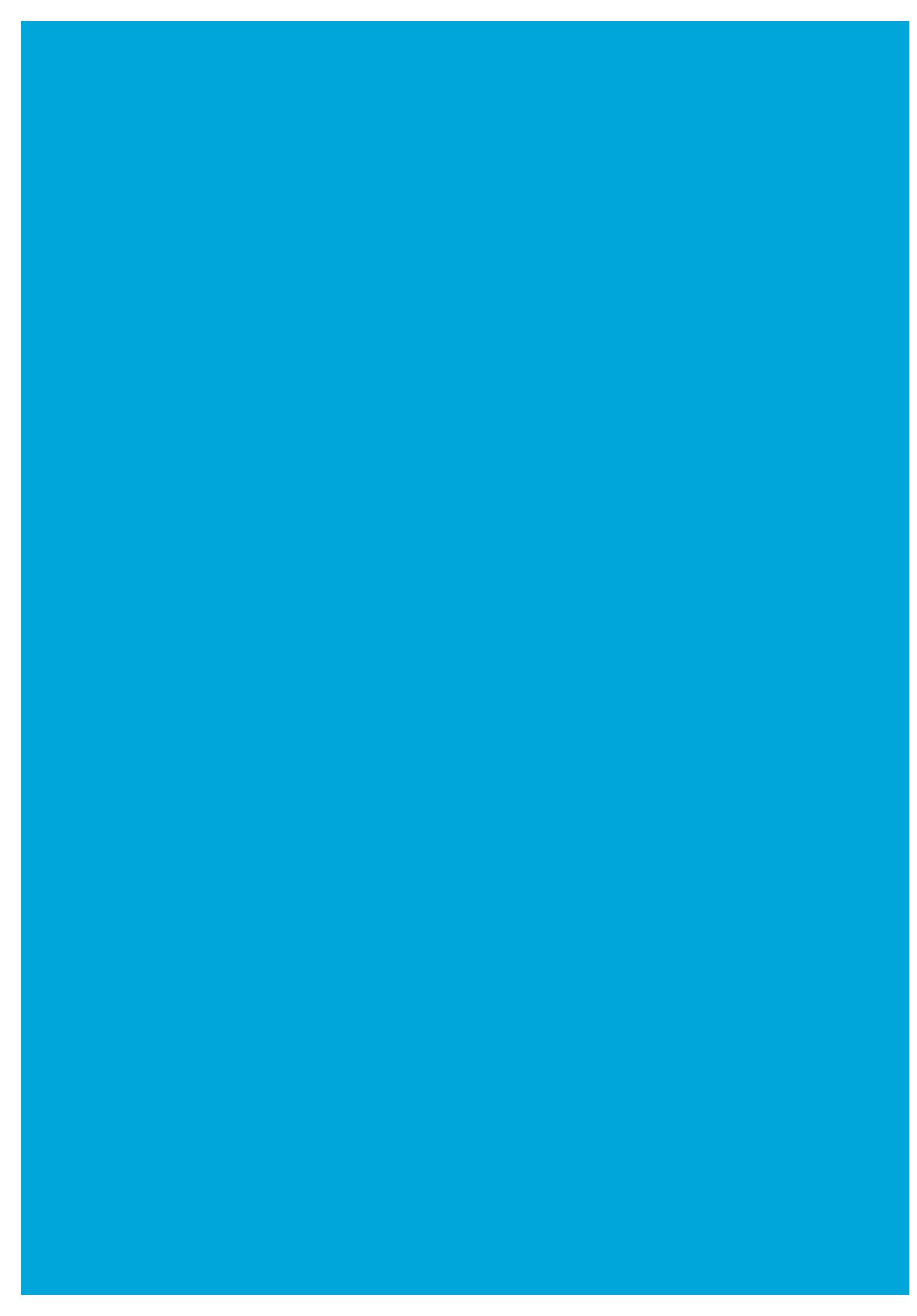
Appendix 6: South African Surveys

	South Africa		
	2007	2008	2009
Survey calendar year			
Number of survey participants	50	50	45
Size and shape of the tax system			
Number of taxes	22	20	20
Taxes borne			
Number of taxes borne	8.72	8.26	8
Total taxes borne (billion)	ZAR 49.62	ZAR 65.96	ZAR 61.01
Corporate [income] tax as a % of total taxes borne	66.07%	69.37%	74.63%
Other business taxes as a % of taxes borne	33.93%	30.63%	25.37%
Taxes collected			
Number of taxes collected	3.24	3.56	3.51
Total taxes collected (billion)	ZAR 52.89	ZAR 78.13	ZAR 72.67
Taxes collected to taxes borne	1.07	1.18	1.19
TTC (billion)	ZAR 102.51	ZAR 144.09	ZAR 133.68
Key measure			
Total tax rate	34.27%	31.85%	32.53%
TTC as a % of turnover	16.81%	15.77%	15.57%
Employee-related			
Employment taxes borne and collected per employee	ZAR 60 415	ZAR 69 640	ZAR 65 960



Appendix 7: International comparisons

	South Africa	Australia	Belgium	Canada	India	Switzerland	The Netherlands	United Kingdom	United States
Survey calendar year	2009	2008	2007	2008	2008	2008	-	2009	2008
Number of survey participants	45	79	61	23	41	58	-	86	40
Size and shape of the tax system									
Number of taxes	20	56	78	67	23	49	31	22	100+
Taxes borne									
Number of taxes borne	8	8.7	10.1	14	8	18	10.5	9.7	16.3
Total taxes borne (billion)	ZAR 61.01	AUD 31.4	EUR 3.4	CAD 4.1	INR 430.49	CHF 6.5	-	GBP 21.74	USD 46.2
Corporate [income] tax as a % of total taxes borne	74.63%	65.10%	44.22%	53.00%	71.00%	65.42%	-	44.00%	61.60%
Other business taxes as a % of taxes borne	25.37%	34.90%	55.78%	47.00%	29.00%	34.58%	-	56.00%	38.40%
Taxes collected									
Number of taxes collected	3.51	3.8	5.5	6	3	10	4.1	4.3	9.6
Total taxes collected (billion)	ZAR 72.67	AUD 33.6	EUR 7	CAD 10	INR 418.53	CHF 11.7	-	GBP 37.25	USD 48
Taxes collected to taxes borne	1.19	1.07	2.08	2.44	1.8	1.78	-	1.71	1.04
TTC (billion)	ZAR 133.68	AUD 65	EUR 10.4	CAD 14.1	INR 849.02	CHF 18.2	-	GBP 58.99	USD 94.2
Key measure									
Total tax rate	32.53%	35.40%	52.07%	27.60%	35.06%	30.20%	31.00%	41.60%	42.78%
TTC as a % of turnover	15.57%	17.52%	18.96%	26.30%	15.23%	11.60%	23.40%	21.70%	11.31%
Employee-related									
Employment taxes borne and collected per employee	ZAR 65 960	AUD 31 290	EUR 36 756	CAD 34 443	-	CHF 58 000	-	GBP 17 721	USD 25 889
Tax compliance									
Average number of full-time equivalent employees working on tax compliance	7.63	7	-	8	-	2.5	-	12.7	43.9



Appendix 8: Total Tax Contribution team



Paul de Chalain, Director

Paul de Chalain is the Tax Leader of PricewaterhouseCoopers Southern Africa.

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E-mail: paul.de.chalain@za.pwc.com



Charles de Wet, Director

Charles de Wet is a tax director and leads the South African Total Tax Contribution Survey initiative. He is also the leader for indirect taxes of the Southern African firm.

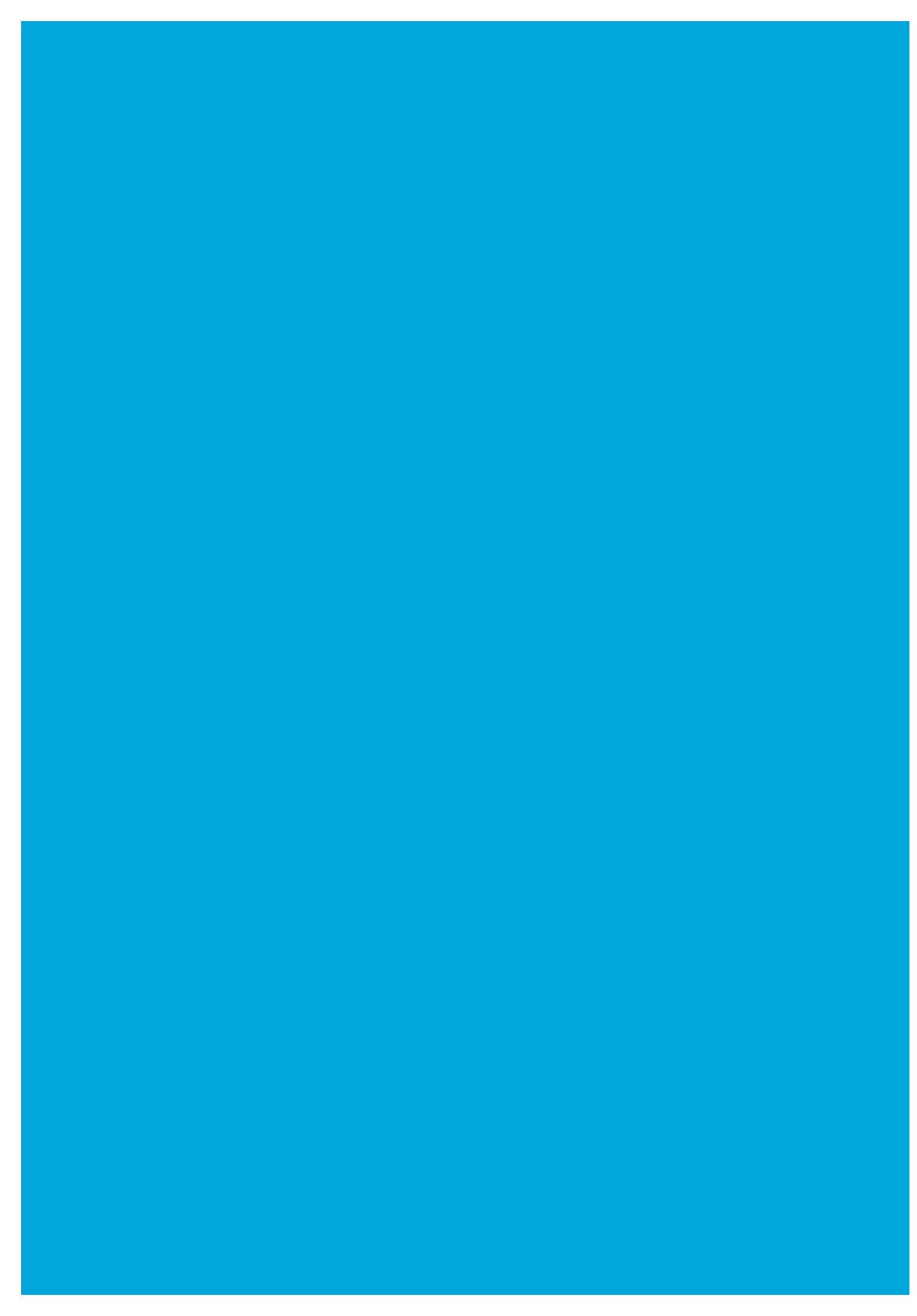
Tel: +27 21 529 2377
E-mail: charles.de.wet@za.pwc.com



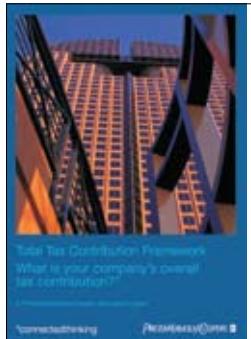
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Appendix 9: Total Tax Contribution publications

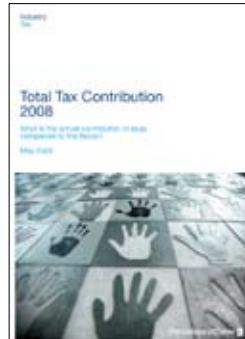


Total Tax Contribution Framework

What is your company's overall tax contribution?

A PricewaterhouseCoopers discussion paper

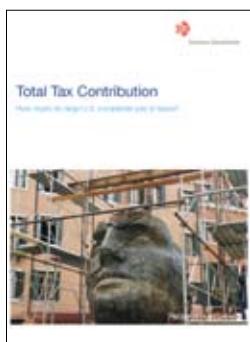
Published April 2005



Total Tax Contribution 2008

What is the actual contribution of large companies to the fiscus?

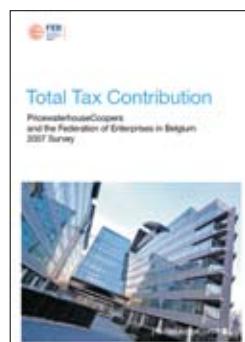
Published May 2009



Total Tax Contribution

How much do large U.S. companies pay in taxes?

Published February 2009



Total Tax Contribution

PricewaterhouseCoopers and the Federation of Belgium Enterprises 2007 Survey

Published March 2008



Total Tax Contribution

How much in taxes do Indian companies really pay?

PricewaterhouseCoopers India 2008 Survey results

Published May 2009



What is your company's Total Tax Contribution?

2008 Survey results

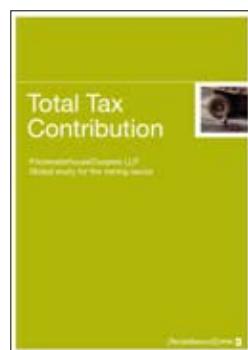
PricewaterhouseCoopers Australia

Published May 2009



Total Tax Contribution
PricewaterhouseCoopers
LLP 2009 Survey for The
Hundred Group

Published March 2010



Total Tax Contribution
PricewaterhouseCoopers
LLP Global study for the
mining sector

Published January 2009



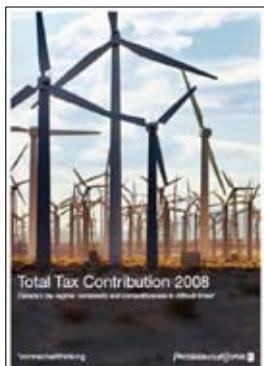
Paying Taxes 2010
The Global Picture

Published jointly with the
World Bank November 2009



**Tax Transparency
Framework**
*A review of the tax
communications of the
largest listed companies in
Belgium, the Netherlands
and UK*

Published October 2008



Total Tax Contribution 2008
*Canada's Tax regime:
complexity and
competitiveness in difficult
times*

PricewaterhouseCoopers
Survey for Canadian Council
of CEOs

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Total Tax Contribution
*How much tax do
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Published September 2009

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