Survey

PAYING TAXES IN NAMIBIA
Total Tax Contribution
April 2009

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers (PwC) believes it is important that the impact of all taxes on business is properly understood.

The amount of corporate tax paid by large companies is coming under increased scrutiny and public debate. The perception is that large companies are not paying their fair share in taxes and hence there is an increased tax burden on others, including individuals, to fund spending on social investments. Yet companies pay many other business taxes, apart from corporate tax, which also contribute to the public finances. Because of the lack of transparency over these business taxes, there is generally little understanding of the nature and extent of tax that companies pay.

In our effort to enhance transparency regarding the amount of tax contributed by large companies, we designed the PricewaterhouseCoopers Total Tax Contribution Framework.

The PwC Total Tax Contribution Framework entails a survey which enables companies/groups to collect and report total tax information in a consistent manner, while the results of the survey facilitates an informed debate amongst stakeholders and enhance corporate social responsibility reporting .

The Total Tax Contributions survey is based on the Framework, which focuses on taxes borne by the business and business taxes collected, from customers and employees that are then remitted to government.

PricewaterhouseCoopers Namibia conducted the first Namibian Total Tax Contribution Survey in 2009. We trust that this report will provide valuable insight regarding our tax system and its impact on business and confirm the significant contribution that large companies make to the Namibian economy. We would particularly like to thank the participants for their valuable contribution.

Albe Botha
Managing Director
PricewaterhouseCoopers Namibia
Tax Services

April 2009

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Executive summary

1. Executive Summary

Changing perceptions

Internationally and locally there is a perception that large companies do not pay as much tax as they should. These perceptions are seldom supported by empirical data, and are frequently hedged with generalisation and innuendo.

The debate as to the acceptable limits of tax avoidance has moved beyond the question whether strategies being adopted in this regard are technically within the bounds of the law. It has also moved beyond the simplistic view that the primary (perhaps the only) duty of a company is to maximise profits for the benefit of its shareholders.

The debate that is now topical focuses increasingly on the issue of companies' responsibilities as good corporate citizens who derive advantages from operating within a particular country's social, economic and political milieu, and ought to contribute to the communities in which they operate, and not seek selfishly for unacceptable ways of minimising their tax.

The data reported in the Total Tax Contribution (TTC) framework provides information that may be used for best practice financial reporting, as well as the formulation of tax strategies and policies and the management of tax risk by companies and government alike.

What is Total Tax Contribution?

The PricewaterhouseCoopers Total Tax Contribution Framework focuses on two areas that represent a company's overall taxation contribution. These are:

- Business taxes borne by the business – taxes that impact the income statement; and
- Business taxes collected – from customers and employees that are then remitted to government.

PricewaterhouseCoopers designed the Total Tax Contribution Framework to enable companies to collect and report total tax information in a consistent manner, to meet the needs of stakeholders and improve transparency.

Total Tax Contribution survey

A number of large Namibian companies were invited to participate in the 2009 Total Tax Contribution survey.

The survey used the PricewaterhouseCoopers Total Tax Contribution Framework to provide information on total business taxes borne and taxes collected in Namibia for the last two financial years. There was significant interest with 23 companies participating in the survey.

The participating companies represent a wide range of industries.

Taxes borne

The 2009 survey results show that:

- The 23 participants bore N$856m (2007: N$641m) in taxes.

- Of the total business taxes borne by survey participants, 65% or N$555m (2007: 60%, or N$385m) was corporate tax.

Taxes collected

In addition to taxes borne, in respect of the 23 participants, the 2009 survey results show that:

- Taxes collected from customers and/or employees totalled N$577m (2007: N$516m).
- For every N$1 of taxes borne, a further N$0.67 (2007: N$0.81) was collected on behalf of the Namibian Government.

The picture for individual participants

Tax

The taxes paid can be divided into profit taxes (1), indirect taxes (5), employment taxes (2), property taxes (1) and other taxes (1). Profit taxes refer to corporate taxes whilst indirect taxes consist of irrecoverable VAT, net VAT, withholding taxes (e.g. non-residents' shareholding tax and royalties) and customs duties. PAYE on employees' remuneration and social security contributions by employee and employer represent employment taxes, whilst property taxes relate to transfer duties and stamp duties respectively. Other taxes comprises primarily of industry-related levies, e.g. fishing, mining, tourism, etc.

On average, participating companies were subject to 4.4 taxes (2007: 4.4 taxes) out of the 7 taxes borne included in the survey.

For tax collected, the average number of taxes collected was 3 (2007: 3).

Total Tax Rate

The mean average total tax rate for participants was 38.41% in 2008, up from 33.99% in 2007.

The total tax rate is calculated as business taxes borne as a percentage of profits before total taxes borne. This measure indicates that on average for every N$2.88 of profit made, N$1 is paid in tax in 2008 (2007: N$3.38).

Taxes borne and collected as a percentage of turnover

The mean average of taxes borne and collected is 14.12% in 2008 and 12.76% in 2007.

Employment taxes per employee

Participants reported a mean average of N$519.58 of employment taxes borne per employee in 2008 and N$358.91 in 2007. This large increase was partly due to the increase in required Social Security contributions in 2008.

Employment taxes borne and collected as a percentage of the net wages and salaries bill for participants was, as a mean average, 19.79% for 2008 and 20.14% for 2007. A contributing factor to this decrease was the change in the tax threshold from N$24,000 to N$36,000 in 2008.

Large payers

Five companies each paid more than N$50million in taxes borne which represents 78% of corporate tax paid by the 23 participants as well as 72% of all taxes borne by participants.

Tax Freedom Day

Tax Freedom Day is the day on which taxpayers settled their full tax liabilities for the year.

Namibia's Tax Freedom Day 2009 fell on 17 April 2009. In effect the total earnings of the average Namibian taxpayer from 1 January 2009 to 17 April 2009 are equal to the total taxes that they have to pay for 2009. Last year Tax Freedom Day was on 19 April and the projected Tax Freedom day for next year is on 27 April 2010. An increase in days means that the overall tax burden has increased and a decrease the contrary.

In 2008 the average Tax Freedom Day for survey participants was 8 May.

SACU Revenue Pool

The Namibian government receives a significant portion of its income in the form of customs & excise duties from the Southern Africa Customs Union ("SACU"). In terms of the SACU Agreement, revenue from customs and excise duties is pooled and distributed according to a revenue sharing formula.

The revenue sharing formula means that an increase in intra-SACU imports claimed by one member state reduces the share of all other member states.

Namibia's share in terms of the SACU Revenue sharing formula is the single largest revenue item and any reduction in that share will directly impact Namibia's budget. This will mean an increased emphasis on other sources of fiscal revenue, e.g. collections from other indirect taxes, like VAT and transfer pricing being pursued to increase corporate income tax collections.

Background to research

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2. Background to research

Changing perceptions regarding the payment of tax

Increasingly, the payment of tax is regarded as a corporate social responsibility issue.

Conversely, the aggressive avoidance of tax is increasingly being viewed as antisocial, unethical, reprehensible, and a failure of corporate governance.

Clearly, if companies fail to pay the tax that is due by them, the shortfall has to be recovered from other taxpayers. Tax evasion and improper tax avoidance strategies thus increase the tax burden on other taxpayers.

In Namibia, as in many other countries, suspicions have from time to time been voiced that large corporations are not paying the amount of tax that is properly due by them.

Around the world, the tax environment for business is changing. Companies are coming under increasing scrutiny in relation to numerous aspects of their tax affairs. High profile corporate failures have moved tax up the risk agenda and there have been calls for the due payment of tax to be regarded as a corporate governance issue, especially in cases where some form of government grant was given to keep business afloat.

It needs to be kept in mind that companies pay not only corporate tax, but a considerable number of other business-related taxes as well.

An informed debate must thus look further than corporate tax and should take account of a company's total tax contribution to the national fiscus.

In particular, there has been a lack of awareness amongst the various corporate stakeholders, the public, the investment community, financial institutions, trade unions, employees and others of just how many business-related taxes there are in Namibia.

The lack of factual data in regard to the aggregate tax paid by companies, and the lack of transparency in regard to the number of different taxes borne by the corporate sector and their combined impact, has made it difficult to evaluate the arguments pro and contra the reduction of tax rates and other possible tax reforms.

On the one hand, the fiscus is understandably anxious not to see a decline in tax collections, and is concerned at the perceived scale of aggressive tax avoidance, particularly by large companies, including transfer pricing which shifts corporate profits to low tax jurisdictions.

On the other hand, the business sector perceives the overall tax burden on the corporate sector to be constantly increasing, thereby eroding profitability, discouraging investment and the formation of new businesses, and adversely affecting the country's international competitiveness. The business sector has also expressed the view that the ever-increasing complexity of the tax system and compliance processes is adding to the cost of compliance, which is equal to a further, largely invisible tax.

Recent studies by the World Bank have confirmed that a country's tax system is a significant factor affecting the ease of doing business in that country[1]. Namibia's ease of doing business rating according to these studies was 51st out of a total of 177 in 2009.

The PwC Total Tax Contribution survey facilitates a rational and informed debate on these issues.

[1] *See Doing Business in 2009 (and subsequent annual reports) published by the World Bank*

PwC Total Tax Contribution Framework

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3. PwC Total Tax Contribution Framework

What is the PwC Total Tax Contribution Framework?

The PwC Total Tax Contribution Framework takes account, not only of corporate tax, but of all business taxes borne or collected, in determining a company's aggregate tax contribution to the national fiscus. The Total Tax Contribution Framework draws a fundamental distinction between, on the one hand, business taxes borne (in other words, the company's own tax contribution to the fiscus, which constitutes a cost to the company) and on the other hand, taxes collected by the company and paid over to the fiscus where only the cost of collection and not the tax itself, is a cost to the company. The compliance cost to companies of performing this service is a significant aspect of the regulatory burden.

In this first Namibian study we confine the enquiry to the 10 main taxes imposed by Namibian legislation. (refer to Appendix C for a detail list).

The purpose of Total Tax Contribution research studies

The framework does not address economic questions such as whether companies or consumers ultimately bear the burden of taxes imposed on the company. The TTC framework does not plead the case for tax relief, nor is it a lobby to advance the interests of the corporate or any other sector. It simply sets out to establish facts and place them in the public domain.

TTC studies assist participating companies in making informed decisions on tax planning and risk management

PwC's Total Tax Contribution 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. The TTC framework assists companies in defining and managing tax strategy and risk.

What constitutes a "tax"?

Since the Total Tax Contribution survey is concerned with quantifying taxes borne and taxes collected, it is important to be clear as to what kind of payments constitute a "tax". Some payments, such as corporate tax, employees' tax (PAYE) and Value-Added Tax (VAT) clearly constitute a tax. The categorisation of some other payments is less clear-cut. For the purposes of the Total Tax Contribution Framework, a "tax" is taken to mean a compulsory levy, payable to government, (including state or local authorities, or an agency that remits the funds to government) by a business or individual which is used by the government or authority as part of public finance. It excludes payments for which there is a specific return of value, such as a licence fee or rent paid to the government in respect of government property. Payroll taxes and statutory levies, where borne or collected by the employer will usually constitute a tax borne or

collected. By contrast, where a mandatory payment by a company is paid into a separate fund specifically allocated for the benefit of a particular employee, it will not, in terms of the TTC Framework, constitute a tax.

Distinction between taxes borne and taxes collected

Taxes borne are the company's immediate cost and will impact their results. For example, payroll taxes form part of employment costs. Taxes borne are charged to the company's income statement and will ultimately be passed on to customers, employees or shareholders.

Taxes collected are not the company's own costs, but taxes collected on behalf of government from others, for example employees' tax (PAYE) in respect of employees. Taxes collected are administered by the company, involve costs of compliance, and indirectly impact on the company's results. Indirect taxes collected will, for example, impact prices to customers and employee taxes the cost of labour.

Certain taxes can be considered both borne and collected – borne by a company on their own consumption and collected by companies in the appropriate industry sector. Examples of taxes that can be both borne and collected include Social Security contributions, certain excise duties, fuel levy and payments to the Road Accident Fund.

Key measures

The analysis of results for individual participants in Section 5.4 "Survey results" aggregates the data collected from survey participants and examines the three key measures:

1. Taxes borne as a percentage of profit before all business taxes (Total Tax Rate);
2. Taxes borne and taxes collected as a percentage of turnover; and
3. Employment taxes borne and taxes collected per employee.

Total Tax Rate ('TTR')

The TTR measures the percentage of company profits paid in taxes and provides a useful measure of the total tax burden of a particular business. The TTR is calculated as business taxes borne as a percentage of profits before all taxes borne (including corporate tax and indirect taxes borne). Thus, in the 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, they must be added back to generate a profit before all business taxes. Accordingly, the TTR for a company is calculated as illustrated in the table below:

	N$		
Profit before business taxes (PBBT)	140	Tax borne/PBT (55/120)	46%
Other business taxes	(20)	CT/PBT (35/120)	29%
Profit before tax (PBT)	120	CT/PBBT (35/140)	25%
Adjustment for tax	(20)		
Taxable profits	(100)	**Total Tax Rate (55/140)**	**39%**
Corporate tax (CT)	35		
Other taxes	20		
Taxes borne	55		

Taxes borne and taxes collected as a percentage of turnover

Taxes borne and taxes collected 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 is total taxes borne and total taxes collected, as a proportion of Namibian turnover, which is the denominator.

Employment taxes borne and taxes collected per employee

The final measure we have considered is employment taxes borne and taxes collected per employee. In this calculation employment taxes borne and taxes collected are the numerator and the number of employees the denominator. Employment taxes borne are PAYE settlements and Social Security contributions. Employment taxes collected are principally income tax deducted at source under PAYE.

PwC Research Study

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4. PwC Research Study on the Total Contribution of large Namibian companies

Introduction

During the first quarter of 2009, PricewaterhouseCoopers in Namibia embarked on research into the Total Tax Contribution of large Namibian companies, using a standardised PwC Framework for such studies.

This is, to the best of our knowledge, the first such study done in Namibia.

The purpose of the Namibia survey was to collect data on all business-related taxes borne by large Namibian companies and all amounts of tax collected by such companies and remitted to the fiscus.

Methodology

Companies participating in the survey were asked to provide data for the completion of a detailed questionnaire in respect of taxes paid and collected by them during their latest financial years ending on/before 31 December 2008 and 2007 respectively. The data provided by the companies was collated by PwC. Companies were requested to provide data for both 2008 and 2007.

Due to comparability requirements, we were unable to include surveys where participants could not provide data on every tax for both 2008 and 2007.

PwC completed questionnaires were sense-checked and any apparent anomalies or queries were resolved with the participating companies. The methodology of the study and the need for confidentiality means that the data submitted by participating companies cannot be verified or audited. However, since there is no advantage for a participating company in giving incorrect information, PwC believes that the data is reliable. However PwC makes no representations or warranties in regard to the accuracy of the information provided by the participating companies or the results of the survey.

The data bank produced by the study will be kept strictly confidential by PwC and the results are published in anonymised form. The data generated by this survey is intended to provide a factual basis for on-going dialogue between government and stakeholders, not just on narrow matters of tax, but also on how the tax system impacts on the present and future shape of the Namibian economy and its international competitiveness.

The intention is to repeat this survey annually so that trends can be monitored in Namibia. Companies that did not participate in the first survey are invited to contact the PwC team (see page 40) to participate in subsequent surveys.

Participation in the survey

The quality of the data provided by the participating companies was excellent.

For purposes of the survey, companies were selected on the basis of their size and spread across a variety of sectors of the economy. The

purpose of the study was to obtain data on large Namibian companies, irrespective of what sector of the economy they are engaged in.

A list of the companies that participated in the survey is included in Appendix A.

Survey participants – group of participants

A significant number of the invited companies were keen to participate, and indicated their intention to do so, but were unable to collate the required data within the project timel ines. The first participation in a Total Tax Contribution survey entails a considerable amount of work by the companies concerned, but participation in subsequent surveys becomes considerably easier, as the companies then know where to find the relevant data and how to extract it. This exercise has intrinsic value, since every company ought to be aware of, and should be regularly monitoring the amount of its tax payments. PwC recommends that participating companies use this survey as an opportunity to put in place an internal process to collect this information regularly. PwC consolidated the survey data ensuring strict confidentiality of individual company inputs.

Survey results

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5. Survey results

5.1 Number of taxes

The total number of business taxes identified in Namibia is 14, excluding industry-specific levies.

By contrast, 23 taxes were identified in South Africa, which includes 21 national taxes and two local taxes. Similar work in the United Kingdom identified 22 business taxes while 55 taxes were identified in the Australian study.

Refer to Appendix B for a list of taxes in Namibia.

5.2 Tax burden

The importance of large Namibian companies to government finances was reinforced by the survey results. In 2008, the 23 survey participants bore N$856m in taxes and, in addition, collected N$577m on behalf of governments. Therefore, for every N$1 of tax borne, survey participants collected a further N$0.67 on behalf of government. A summary of taxes borne and taxes collected by survey participants compared to all Namibian Government's taxation receipts is contained in Appendix C.

Total taxes borne

Corporate tax represented the most significant proportion of taxes borne by survey participants, i.e. N$555m of the total N$856m borne by them. This corresponds to a contribution of 19.60% of total corporate tax receipts of government for 2008.

The other business taxes borne by participants, N$301m represented approximately 35.2% of their total taxes borne. Therefore, for every N$1 of corporate tax paid, these companies paid a further 54 cents of other business taxes.

The other major business taxes borne by survey participants were irrecoverable VAT (17%), customs duties (6%), levies (6%), and stamp duties (6%). These taxes borne, together with corporate tax, represented 99% of total taxes borne by survey participants. The survey results highlight the Namibian government's reliance on corporate tax to generate significant taxation revenue. Corporate tax represented 65% of total taxes borne by the survey population. This is slightly lower than the proportion of income tax to other business taxes in South Africa. In the PricewaterhouseCoopers South Africa Total Tax Contribution 2007, corporation tax represented 66% of total taxes borne by survey participants. The survey population included a diverse range of industries from insurance and banking to energy and fishing.

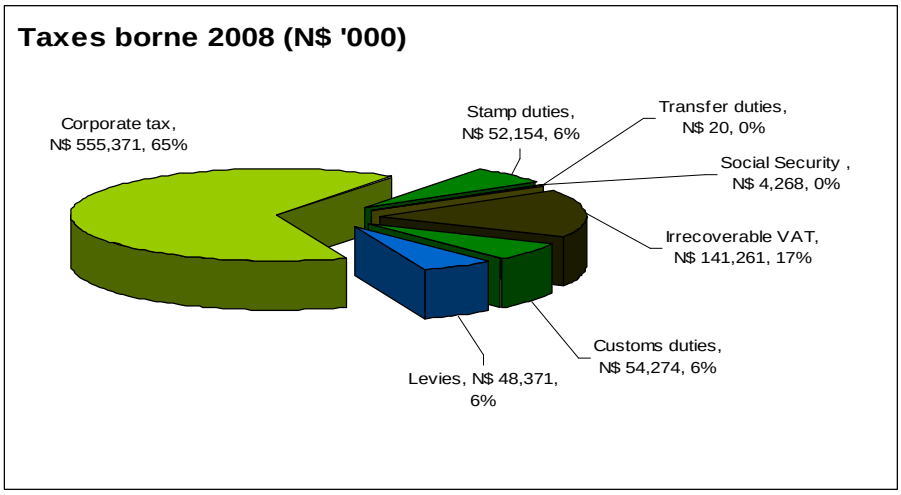


Figure 1: Taxes borne by participants

Total taxes collected

In addition to taxes borne directly, business makes a further significant contribution to government revenue through their obligation to collect a range of taxes from their customers and employees on behalf of the government.

Survey participants collected taxes of N$577m in 2008 (2007: N$516m). For every N$1 of taxes borne by the survey participants, taxes collected were N$0.67.

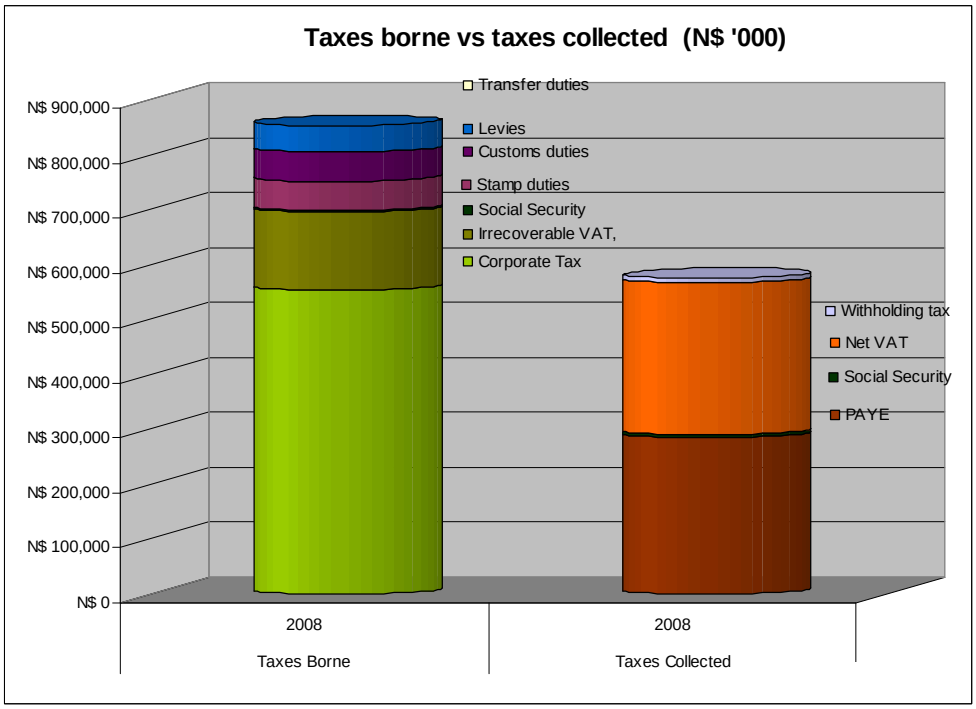


Figure 2: Taxes collected by participants

The major taxes collected in Namibia, by survey participants, were PAYE on employees' remuneration and net VAT. PAYE and net VAT collected by survey participants represented 97.85% (2007: N$98.11%) of taxes collected.

5.3 Tax mix

Tax mix by category of tax

For the purposes of the survey the 10 taxes borne and/or taxes collected, have been grouped as follows:

Profit taxes (1 tax)

Profit taxes are imposed on profits, for example, corporate tax on companies.

Indirect taxes (5 taxes)

Indirect taxes are imposed at different stages within the value chain. They are typically collected and passed on to consumers as part of the cost of goods or services, for example, VAT, stamp duties and customs duties.

Employment taxes (2 taxes)

Employment taxes are imposed on or collected by the employer in relation to the employment of people, for example, PAYE and Social Security contribution.

Property taxes (1 tax)

Property taxes relate to the acquisition, disposal, use and ownership of land and other assets (tangible and intangible), for example transfer duties.

Other taxes

These taxes include levies which are primarily industry-related, e.g. tourism, mining and fishing levies.

These categories and the tax classification closely align with the classification of taxes under the Government receipts.

While there is a significant reliance on corporate income type taxes in Namibia (as shown in "Survey results: tax burden") business makes a substantial contribution to government revenue through its role as collector of goods and services taxes, principally VAT and PAYE.

The mix of these taxation categories between the different levels of receipts by Government is set out in figure 4:

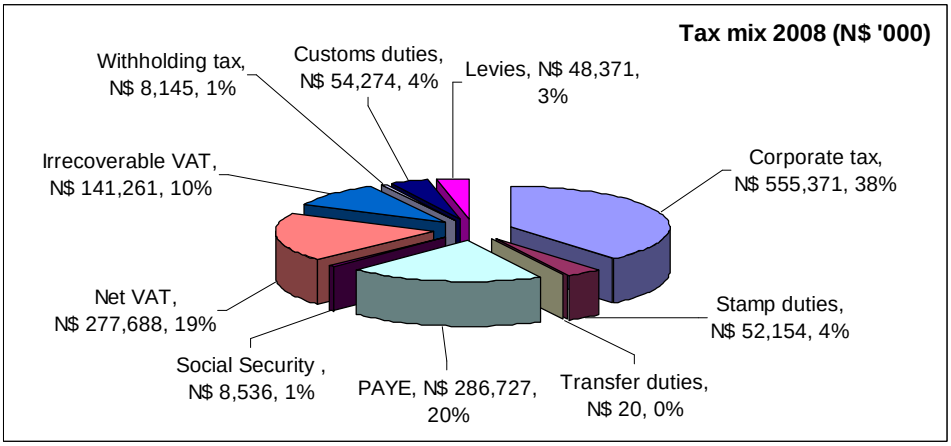


Figure 3: Tax mix of participants

Based on the information provided, participants reported that on average they were responsible for 4 taxes borne and 3 taxes collected.

Some participating companies bore as many as 6 different taxes. This confirms, similar to other Total Tax Contribution surveys conducted, that in determining the impact of tax on the corporate sector – and in considering possible tax reform –

account must be taken of the full range of taxes to which companies are exposed, and the debate should not be limited to corporate tax.

The number of taxes collected, on average is 3.04. This gives an indication of the heavy compliance burden in regard to taxes which the corporate sector is required, at its own expense, to collect and remit to the fiscus.

Given the significant number of taxes impacting most companies, for many survey participants it was difficult to identify the precise amount and, in some cases, number of taxes borne and taxes collected. In many cases taxes embedded in the cost of products (e.g. excise), transaction-based taxes (e.g. stamp duty) and a range of lower value taxes were difficult for survey participants to separately identify and quantify.

Where no amount has been provided by survey participants in relation to a tax, the tax has been treated as not borne or collected by that participant. This is particularly the case for stamp duty which proved difficult for most participants to accurately quantify.

Accordingly, it is likely the data presented in the survey understates the actual amounts of taxes borne and taxes collected by survey participants.

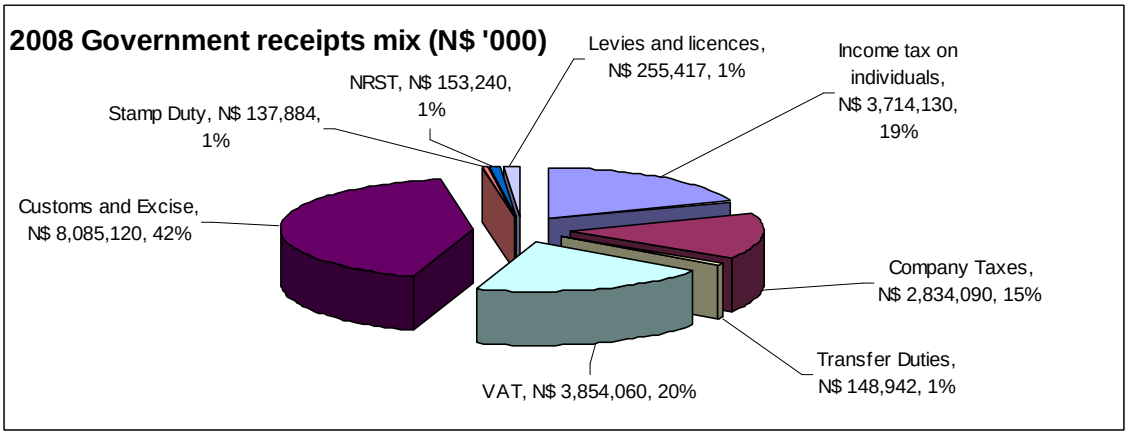


Figure 4: Tax mix of government receipts (2008 actual)

5.4 The picture for individual participants

The Total Tax Contribution has examined the impact of tax on business. In addition to data on taxes borne and taxes collected, survey participants were asked to provide information to indicate the size of their Namibian business in order to put their tax payments into context and assist with benchmarking.

We used this information to calculate the following:

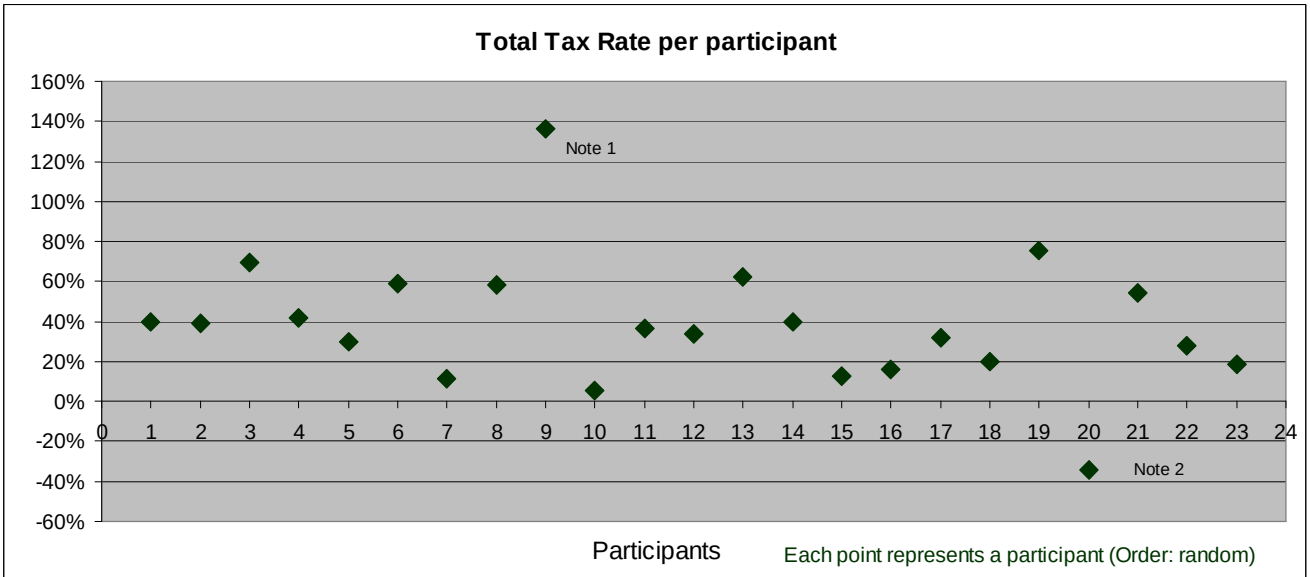
- Total Tax Rate (TTR);
- Taxes borne and taxes collected as a percentage of turnover;
- Employment taxes per employee; and
- Employment taxes as a percentage of salaries and wages.

Total tax rate (TTR)

The TTR is all business taxes borne as a percentage of profits before all business taxes borne. The mean TTR for survey participants was 38.41% in 2008 and 33.99 % in 2007. The increase in the TTR between 2007 and 2008 was partly due to a reported increase in corporate tax of 44.39%. The TTR measure shows that, on average, for every N$2.88 (2007: N$3.38) of profit made by the survey participants, N$1 was paid in tax. Figure 5 below shows the individual TTR for each of the survey participants.

There is no apparent pattern across survey participants and the TTR varies substantially from company to company. This highlights the importance for companies to manage tax strategy and risk on a regular basis. The TTR is impacted by two key factors:

- The profitability of the business; and
- The extent to which the business is subject to taxes that are assessed, irrespective of profitability.



Note 1: The reason for this particpant paying tax at a TTR of 136%, is that no corporate taxes were paid for the year. The business taxes borne exceed its Profit Before Business taxes.

Note 2: The reason for why this particpant has a negative TTR of -34%, is that it was in an accounting loss situation, but still subject to tax under specific tax legislation sections. Thus it paid taxes despite having an accounting loss.

Figure 5: Individual participants' Total Tax Rate (TTR)

Taxes borne and taxes collected as a percentage of turnover

Taxes borne and taxes collected as a percentage of turnover is a useful measure of what a company contributes to government tax receipts, having regard to their size as measured by turnover. The mean of total taxes to turnover of the survey participants was 14.1% in 2008 and 12.8% in 2007.

Taxes borne and collected as percentage of turnover

Total tax contribution as a percentage of turnover	2008			2007		
	Total	Borne	Collected	Total	Borne	Collected
Calculated for all participants as a group TTC as average % of turnover of participants	12.8%	7.7%	5.2%	12.4%	6.9%	5.5%
Calculated for all individual participant companies Mean average of ratio of TTC as a % of turnover for individual companies	14.1%	9.2%	4.9%	12.8%	9.9%	2.9%

Figure 6: Taxes borne and collected as percentage of turnover

Employment taxes per employee

Another measure is employment taxes borne and taxes collected per employee. Survey participants reported a mean of employment taxes (borne and collected) per employee of N$36,786 in 2008 and N$31,504 in 2007 as shown below.

Employment taxes borne and collected per employee

Employment taxes per employee	2008			2007		
	Total	Borne	Collected	Total	Borne	Collected
Calculated for all participants as a group Total avereage employment taxes paid per Namibian employee	N$ 32,968.16	N$ 476.55	N$ 32,491.61	N$ 31,254.74	N$ 350.02	N$ 30,904.72
Calculated for all individual participant companies Mean average of employment taxes per employee for individual companies	N$ 36,785.94	N$ 519.58	N$ 36,266.36	N$ 31,504.38	N$ 358.91	N$ 31,145.47

Employment taxes include PAYE, PAYE settlements and Social Security.

Figure 7: Employment taxes borne and collected by employee

Employment taxes as a percentage of salaries and wages

Using employment taxes borne and taxes collected as a percentage of the net wages and salaries bill, survey participants reported a mean of 19.8% in 2008 and 20.1% in 2007 as shown below.

Taxes borne and collected to net wages and salaries bill

Employment taxes to wages and salaries (plus employment taxes borne)	2008			2007		
	Total	Borne	Collected	Total	Borne	Collected
Calculated for all participants as a group Total average employment taxes to wages and salaries	18.8%	0.3%	18.5%	19.9%	0.2%	19.7%
Calculated for all individual participant companies Mean average of employment taxes to wages and salaries for individual companies	19.8%	0.4%	19.4%	20.1%	0.3%	19.8%

Figure 8: Taxes borne and collected to net wages and salaries bill

5.5 Large payers

In this survey, five companies each paid more than N$50million in total taxes borne. Amongst the participating companies, these five companies accounted for 78% of the survey totals for corporate tax and 72% of total taxes borne. In addition these five companies collected 73% of taxes collected as reported by all participants.

This shows the importance to the revenue authorities of tax collections from the major corporate taxpayers, and the high proportion of collections from such taxpayers vis-a-vis total tax collections. In this regard, Namibia is in line with overseas trends. The 2007 PwC survey of The Hundred Group of companies In the UK revealed that, of the companies surveyed, the 35 largest payers of total taxes borne contributed 68% of the total corporation tax payments. According to the *Total Tax Contribution: How much do large South African Companies really pay* report of the 2008 survey, nine companies each paid more than R2 billion in total taxes borne. Amongst the participating companies, these nine companies accounted for 58% of the survey totals for corporate tax and 57% of total taxes borne. In addition these nine companies collected 51% of taxes collected as reported by all participants.

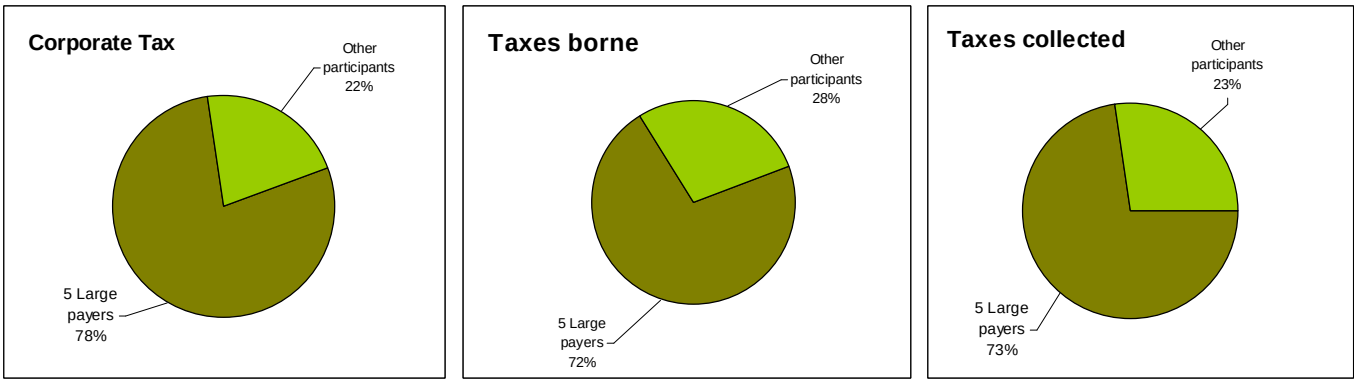


Figure 8: Large payers – taxes borne

5.6 Tax Freedom Day

Tax Freedom Day is the day on which taxpayers settled their full tax liabilities for the year.

The concept of Tax Freedom Day was developed and copyrighted in 1948 by Florida businessman Dallas Hostetler, who calculated it each year for the next two decades in the United States. In 1971, Hostetler retired and transferred the copyright to the Tax Foundation in the USA. The copyright in South Africa is owned by the Free Market Foundation which calculates this day every year.

In 2009 Namibia's Tax Freedom Day fell on 17 April 2009. In effect the total earnings of the average Namibian taxpayer from 1 January 2009 to 17 April 2009 are equal to the total taxes that they have to pay for 2009. Last year Tax Freedom Day was on 19 April 2008 and the projected Tax Freedom Day for next year is on 27 April 2010. An increase in days means that the overall tax burden has increased and a decrease the contrary.

Total taxes paid include the 10 taxes levied in Namibia as identified in the Total Tax Contribution survey for large Namibian companies. The data gathered during the survey makes it possible to calculate the average tax freedom day for the participants.

Tax Freedom Day for participants was calculated using taxes borne as defined in the TTC Framework. To calculate the tax burden the total taxes borne were divided by profit before all business taxes and this was translated into days to determine Tax Freedom Day for a calendar year. In 2008 the average Tax Freedom Day for participants was 8 May 2008. Tax Freedom Day creates the opportunity to reflect on the tax system and the value that is received for taxes paid.

As an involuntary investor in government, a taxpayer will strive for the day of Tax Freedom where tax liabilities are met and hard earned income can be spent voluntary.

5.7 International comparison

The Total Tax Contribution of UK and Australian companies

PwC UK, on behalf of the Hundred Group, and PwC Australia, on behalf of the Business Council of Australia, have published the results of a recent Total Tax Contribution survey of their respective members. The survey applied the same TTC methodology as this survey; the respective results are thus broadly comparable.

The PwC research into the Total Tax Contribution of companies in the United Kingdom and Australia provide useful benchmarks for the results of the PwC study of large South African companies, bearing in mind of course, the considerable differences between the economies and tax systems of the three countries. The consistent methodology used in all PwC's Total Tax Contribution studies permits international comparisons and benchmarking.

Participants can thus compare their tax data, not only with their peers in the home country, but also with their overseas counterparts.

The table on page 28 sets out international comparisons for 2007.

	Namibia 2007	South Africa 2007	UK 2007	Australia 2007
Size and shape of the tax system				
Number of taxes	14***	23	22	55
Government tax revenues to GDP*	32.9%	27.7%	37.4%	30.9%
Corporate tax as % of Government Tax revenues**	13.6%	6.3%	9.1%	27%
Survey				
Number of survey participants	23	50	74	63
TTC for participants as a percentage of Government tax receipts	11.3%	19.7%	13.3%	19.3%
Taxes borne				
Average number of taxes borne by participants	4.4	8.7	9	N/A
Corporate tax as percentage of taxes borne	60.0%	66.1%	56.0%	68%
Average TTR	34.0%	34.3%	36.2%	35.4%
Taxes collected				
Average number of taxes collected by participants	3.0	3.2	4.1	2.9
Taxes collected to taxes borne	0.81	1.07	1.83	1.19
Average taxes borne and collected to turnover	12.8%	16.8%	17.9%	17.5%

* Source for UK and Aus: OECD Publication, Revenue Statistics 1965 – 2007
** Source for UK and Aus: Latest published Government revenue statistics
*** Excludes industry-specific levies

SACU Revenue Pool

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6. SACU Revenue Pool

As shown in Figure 4: “Tax mix of government receipts (2008 actual)” the Namibian government receives a significant portion of its income in the form of customs & excise duties from the Southern Africa Customs Union. In terms of the SACU Agreement, revenue from customs and excise duties is pooled and distributed according to a formula as follows:

The customs component is based on the gross receipts of customs duties, ad valorem and specific customs duties on goods imported into the Common Customs Area (Botswana, Lesotho, Namibia, South Africa and Swaziland) and the share of each member country is calculated from the value of goods imported from other member states as a percentage of total intra-SACU imports.

The excise component is based on the gross receipts of excise duties levied within SACU and the share of each member country is calculated based on its GDP as a percentage of the total SACU GDP.

The development component is a fixed percentage of the excise component weighted in favour of the less developed SACU members (Swaziland and Lesotho) less each country's share towards maintaining SACU institutions, e.g. the SACU Secretariat, Commission and Council of Ministers. The revenue sharing formula means that an increase in intra-SACU imports claimed by one member state reduces the share of all other member states.

Namibia's share in terms of the SACU Revenue sharing formula is the single largest revenue item and any reduction in that share will directly impact Namibia's budget. This will mean an increased emphasis on other sources of fiscal revenue, e.g. collections from other indirect taxes, like VAT and transfer pricing being pursued to increase corporate income tax collections.

Another factor which might impact on shares from the Customs pool is the criticized large transfers from South Africa to the other member states and the political pressure on South Africa to reduce this form of subsidization to the other member states.

Free trade and preferential trade agreements means no or less customs duties on goods imported, e.g. the Trade Development and Co-operation Agreement ("TDCA") between the European Community and South Africa prescribes no or less duties on goods imported from the EC into South Africa. While the other member states of SACU are not party to that Agreement, the impact of lower customs, ad valorem and specific customs duties on goods imported from the EC will mean less receipts into the Common Revenue Pool of SACU and reduced shares. While free trade agreements are negotiated to increase trade between the contracting parties, it comes at a cost - reduced or nil revenue from customs duties, e.g. in terms of the Namibia-Zimbabwe Free Trade Agreement, no customs duties are levied by the importing contracting party on goods produced or originating in the other contracting party.

The main reason, however, for the real reduction in the SACU share is the global reduction of customs tariffs in terms of the World Trade Organization negotiations, which means that the gross receipts from customs duties in SACU are also reduced, leading to smaller shares from the SACU Pool for each member state.

Impact and future of Total Tax Contribution

7

7. Implication and future of Total Tax Contribution

An overall aim of the Total Tax Contribution Framework is to improve the transparency in relation to the reporting of all business taxes and to provide better, more consistent information for the management of tax through analysis and benchmarking.

An important use of the framework is also to inform the debate on business tax reform and the efficiency and effectiveness of the South African taxation system, leading to potential improvements.

By completing the survey, participants now have potentially robust data on an individual company basis which also gives them the opportunity to improve their reporting of tax information for internal management purposes, or externally in published financial or corporate social responsibility reports. There is a gap between accounting standards requirements and the needs of various stakeholders. The Total Tax Contribution Framework provides a convenient approach for the generation of data that can be reported on a regular basis and can be used to meet the needs of interested stakeholders.

PricewaterhouseCoopers strongly encourages the use of the framework for best practice financial reporting and as the basis for the design of any future reporting changes. While PricewaterhouseCoopers believes the Total Tax Contribution Framework can form the basis for any reporting of business tax information we are not advocating any mandatory use of this or any other framework for external reporting purposes. The data analysed and presented in this report focused on the measures that are most relevant from a macro perspective. In the longer term we believe the benefits of a Total Tax Contribution approach lie in the specific outcomes for individual companies. There is also a range of other data that is more useful to individual participants, including for benchmarking purposes. These benefits are summarised on page 34:

Qualification	• Identification of all taxes borne and taxes collected on behalf of gorvernment. • Analysis of individual company data using a standarised methodology. • Monitor the cost of compliance.
Management	• Benchmark company performance against competitors, industry and other groups. • Facilitate an open dialogue with senior management and boards to ensure alignment with corporate strategy. • Manage tax costs and focus on the allocation of tax resources.
Transparency	• Provide transparent reporting of taxes borne and taxes collected and communicate contribution in taxes with key shareholderes. • Broaden corporate social responsibility reporting to include tax contribution. • Facilitate discussion with government and other stakeholders.

Global use of the Total Tax Contribution framework

The use of the Total Tax Contribution Framework is gaining momentum globally. The World Bank will again use the framework for its 2008 report. In addition to the ongoing use of the framework in the UK, a number of other countries are progressing towards surveying large business in their respective countries. A number of large multi-national organisations are also applying the Total Tax Contribution concept to analyse and manage business taxes globally.

Appendices

Appendix A – Participants

PricewaterhouseCoopers Namibia would like to thank the following companies for participating in the survey.

- Namibia Power Corporation (Pty) Ltd
- Namibia Post Ltd
- Namsov Fishing Enterprises (Pty) Ltd
- Etale Holding (Pty) Ltd and its subsidiaries
- Etosha Fishing Corporation (Pty) Ltd
- Merlus Seafood Processors (Pty) Ltd
- Sands Hotels (Pty) Ltd
- The Namib Lodge Company (Pty) Ltd
- Bank Windhoek Ltd
- Standard Bank Namibia Ltd
- First National Bank of Namibia Ltd
- Nedbank Namibia Ltd
- Professional Provident Society Insurance Company (Namibia) (Pty) Ltd
- Liberty Life Namibia Ltd
- Metropolitan Life (Namibia) Ltd
- Old Mutual Life Assurance Company (Namibia) Ltd
- Santam Namibia Ltd
- Hollard Insurance Company of Namibia Ltd
- Capricorn Asset Management (Pty) Ltd
- Multichoice Namibia (Pty) Ltd
- Nampharm (Pty) Ltd
- Namib Mills (Pty) Ltd
- Distell Namibia Ltd

Appendix B – Classification of taxes

Type of tax	Taxes borne	Taxes collected
Taxes surveyed		
Corporate taxes	x	
Stamp duty	x	
Transfer duties	x	
PAYE		x
Social Security	x	x
Net VAT		x
Irrecoverable VAT (Note 1)	x	
Withholding taxes		x
Customs duties	x	
Levies	x	

Taxes not surveyed	New taxes not yet effective
Mining royalties	Withholding tax on interest
Fuel levy	Withholding tax on foreign consultants
Property rates	Environmental tax
Air passenger duty	Skills development levy
Road Accident Fund levy	

Note 1: Irrecoverable VAT includes VAT incurred in expenses for the making of exempt supplies, e.g. financial services, residential accommodation, passenger transport, holding company costs. It also includes VAT incurred on certain business expenses, where the input VAT is specifically denied, e.g. entertainment, passenger vehicle hire, acquisition of passenger vehicles, certain subscriptions, etc. Irrecoverable VAT is therefore a tax borne by the company and not a tax collected on behalf of Government.

Appendix C – Taxes borne and collected by participants versus Government receipts

N$ million	2008 Taxes borne and collected N$ '000	2008 Government receipts[5] N$ '000	% of tax receipts
Corporate taxes / Company taxes	N$ 555,371	N$ 2,834,090	20%
Stamp duty / Stamp duties and fees	N$ 52,154	N$ 137,884	38%
Transfer duties	N$ 20	N$ 148,942	0%
PAYE / Normal income tax on individuals	N$ 286,727[1]	N$ 3,714,130[2]	8%
Customs duties / Customs & Excise	N$ 13,683	N$ 8,085,120[3]	0%
Value Added Tax	N$ 418,973	N$ 3,854,060[4]	11%
NRST / Other taxes	N$ 5,100	N$ 153,240	3%
Levies and licences	N$ 48,371	N$ 255,417	19%
TOTAL	**N$ 1,380,399**	**N$ 19,182,883**	**7%**

Notes:

[1] excludes provisional income tax payments and normal income tax on individuals
[2] includes PAYE, provisional income tax payments and normal income tax on individuals
[3] represents the Customs Revenue Pool Share and the Customs Revenue Formula Adjustments
[4] Value Added Tax consists of Irrecoverable VAT borne as well as Net VAT collected
[5] Source: Republic of Namibia: Estimates of Revenue and Expenditure for the years: 1 April 2009 to 31 March 2012

Appendix D – Glossary

Simple Average or Mean

The simple average of "arithmetic mean" is calculated by summing all the individual company observations and dividing by the number of those observations.

Weighted Average

The weighted average for a particular ratio is calculated as the sum of the numerator for all observations divided by the sum of the denominator for all observations. The weighted average scales each observation according to the value of the denominator.

Tax

For the purpose of the Total Tax Contribution Framework, PricewaterhouseCoopers has defined tax as "something that is paid to government (by businesses or individuals) to fund government expenditure, excluding payments where there is a specific return of value (for example, rents, and licence fees)."

Taxes borne

Taxes borne are the company's immediate cost and will impact their results. For example, payroll taxes form part of employment costs. These taxes borne will ultimately be passed to customers, employees or shareholders with all the company's other costs. However, in the immediate term the taxes are paid and borne by the company and will be charged to the profit and loss account.

Taxes collected

Taxes collected are not the company's own costs. A company collects taxes on behalf of government from others, for example, income tax under Pay as you earn (PAYE) from employees. Taxes collected are administered by the company and will involve costs of compliance. Taxes collected will also have an indirect impact on the company's results since, for example, indirect taxes collected will impact prices to customers and employee taxes the cost of labour.

Total Tax Rate (TTR)

All business taxes borne as a percentage of profits before all business taxes.

Tax Freedom Day

Tax Freedom Day is the day on which taxpayers settled their full tax liabilities for the year.

PricewaterhouseCoopers Namibia Total Tax Contribution Team

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