5th edition

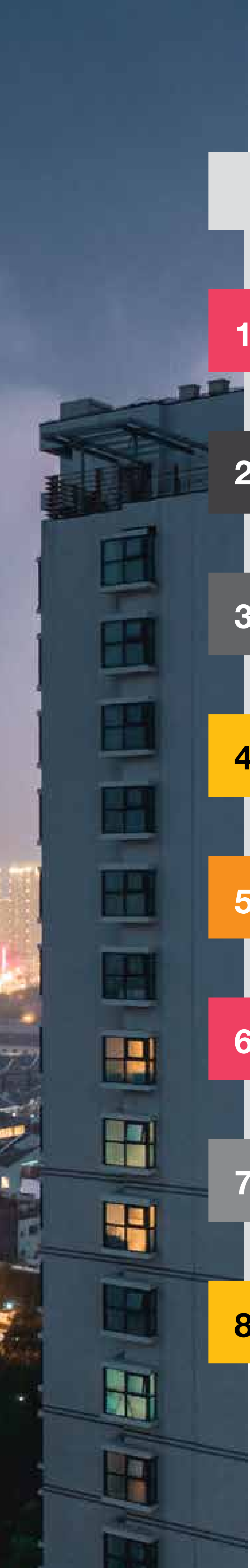
Building public trust through tax reporting

A review of the tax disclosures of the top 100 companies listed on the Johannesburg Stock Exchange in 2019

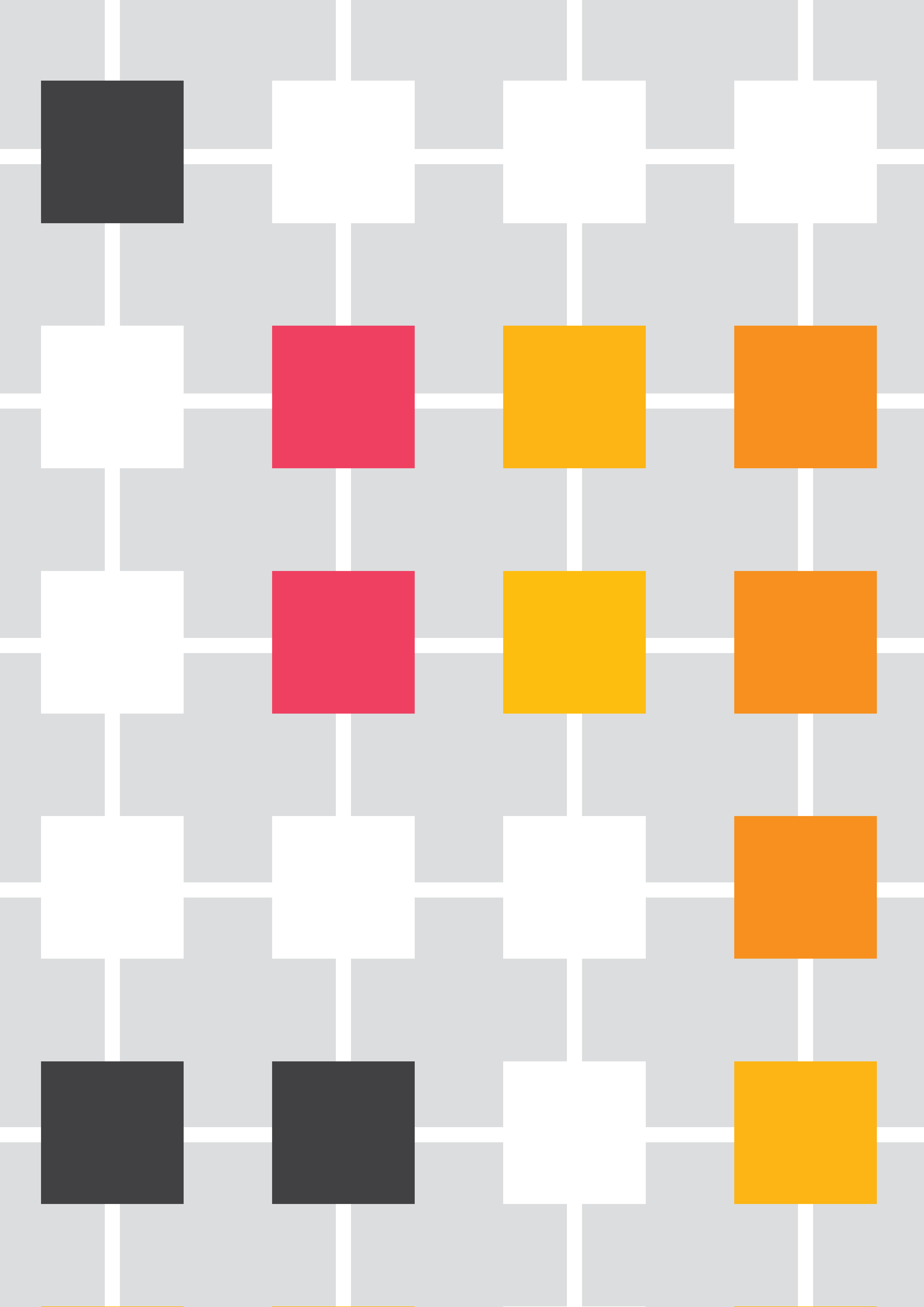
February 2021

pwc

www.pwc.co.za



Contents



1 Making a positive difference

Welcome to PwC's review of trends in tax transparency, released amid the COVID-19 pandemic. There is no telling what will define the tax landscape in the coming year and after the pandemic. What we do know is there will most certainly be accelerating demands for greater transparency in an environment where the media and civil society are sceptical about the taxes paid by multinationals. There is a spectrum of views among corporates on how they should respond, with some going for very extensive voluntary disclosures and some resisting this or considering it not applicable.

Although this report analyses the level of tax transparency presented by companies for the 2019 financial year, it cannot be denied that the outbreak of the COVID-19 pandemic in 2020 has had an enormous impact on almost every aspect of doing business, including taxes and tax transparency.

Companies across all sectors have made bold commitments announcing publicly how they're tackling some of the challenges associated with COVID-19. A recent Trust Barometer report updated in the midst of the COVID-19 crisis, found that 65% of the respondents agreed that "how well a brand responds to this crisis will have a huge impact on the likelihood of their buying that brand in the future. Not only that, but 60% of respondents indicate that they are turning towards brands that they can trust and 71% say that 'brands and companies that I see placing their profits before people during this crisis will lose my trust forever'.[1]

Whether a company's goal is to support its employees, communities, suppliers, customers or others, it is realising that its relationships with stakeholders should be based on its values and making a positive difference – which also impacts tax. Values drive behaviours that are required to realise purpose. Companies must be able to verbalise what this translates into for tax, as tax is more than a cost of doing business. How a company demonstrates its commitment to being a responsible taxpayer, through its taxes enabling governments to pay for public services, should be recognised and celebrated, especially in cases where companies remain focused on sustainability programmes that help address fallout from COVID-19, now and in the future.

With this in mind, we are encouraged by the findings of our Building Public Trust Through Tax Reporting initiative for 2019 year ends, as we found there to be a definite increase in voluntary tax disclosures among the companies that formed part of the study.

We summarise trends that are shaping the tax transparency landscape and provide examples of how companies are responding by using voluntary tax disclosures to tell their story, thereby demonstrating good corporate citizenship as responsible taxpayers.

We wish to thank the Department of Accounting at the University of Pretoria for assuming responsibility for the assessment of the top 100 companies listed on the Johannesburg Stock Exchange (JSE), as well as our review panel for their effort, insight and dedication to support this initiative. Their contribution in this regard is both invaluable and greatly appreciated.

Troopti Desai

Tax Reporting & Strategy Lead
PwC Southern Africa

1 Edelman Trust Barometer 2020: Special Report on Brand Trust and the Coronavirus Pandemic

2 Tax and ESGs

Tax, as an integral part of 'long-term sustainable value creation' of companies and society in general, has taken root

With a heightened sense of urgency surrounding environmental, social, and humanitarian issues, there is an elevated sense of societal pressure on leading organisations and their governing boards to take action and reset. In our previous 'Building public trust report', released in January 2020, we noted that companies are being urged to place sustainability at the heart of their operations as a key driver of competitiveness. Stakeholders increasingly want to understand an organisation's long-term value creation plans through credible, standardised information.

Historically, businesses took the view that social justice was a matter that should be addressed by the government. While the provision of a social safety net is no doubt a primary role of government, the macro-economic shocks associated with a vulnerable society remain persistent and endemic for a range of reasons, both inside and outside direct government control. As such, it is in the interests of all role players to address social concerns.

The United Nations Sustainable Development Goals (SDGs) provide goals and targets for companies to consider in their efforts to address environmental, social and governance (ESG) issues. The SDGs also provide a multitude of commercial opportunities for companies that seek to solve key problems through the development of relevant products and services.

Business as usual, with a sole focus on profitability, has become obsolete. Purpose-driven companies are reaping the benefits of a focus on their triple bottom line of people, planet and profit — positioning themselves for sustainable success. The time has come to focus, not on being the best in the world, but the best for the world. In other words, companies need to earn their 'social licence to operate' with public trust as the definitive currency. Furthermore, companies will need to report and deliver on their sustainability claims given the increased focus on transparency.

Many organisations are starting to demonstrate the interconnectedness across ESG issues and how these relate to their business strategies. At the same time, sustainability, and particularly ESG are being placed high on the board and CEO agenda . ESG integration requires leadership and an ESG transformation mindset. Board members and executives therefore need to ensure that this mindset is embedded across all levels of the organisation, including the tax function.

Building trust within a complex tax landscape

In August 2020 at the Fourth High-Level Tax Policy Dialogue of the African Union, African countries were urged to participate towards achieving a vigorous tax policy aimed at multinational companies, so that profits from their wealth can be shared more equitably on the continent and domestic revenue mobilisation can be strengthened.[2]

> *"At the heart of addressing development challenges in Africa, the African Union Agenda 2063, The Africa We Want – the long-term vision for Africa's transformation for 50 years – recognises that strengthening domestic resource mobilisation and reversing all forms of illicit financial flows from the continent are indispensable for realising the aspirations of the African populations of achieving an integrated, prosperous and peaceful Africa."*
>
> *Prof. Victor Harison, Commissioner for Economic Affairs African Union Commission*

Companies operating in Africa are facing a complex tax landscape and vigorous scrutiny. Stakeholder engagement and strong relationships are key to finding clarity and certainty amid the complexity.[3]

2 "Economic Affairs." African Union. Accessed January 11, 2021. https://au.int/ea.

3 "Global Forum on Transparency and Exchange of Information for Tax Purposes." Accessed January 11, 2021. https://www.oecd.org/tax/transparency/documents/tax-transparency-in-africa-2020.htm.

> *"Organisations' tax practices are of interest to various stakeholders. The approach an organisation takes to engaging with stakeholders has the potential to influence its reputation and position of trust. This includes how the organisation engages with tax authorities in the development of tax systems, legislation, and administration. Stakeholder engagement can enable the organisation to understand evolving expectations related to tax. It can give the organisation insight into potential future regulatory changes and enable the organisation to better manage its risks and impacts.[4]*

4 GRI 207 Standard on Tax https://www.globalreporting.org/how-to-use-the-gri-standards/gri-standards-english-language/

We have often observed that transparency builds trust. Communicating an organisation's contributions to the society in which it operates is one important way of building long-term trust with the public (people in the street, customers and media) and other stakeholders (employees, the board, suppliers and other business partners, NGOs, lawmakers and standard-setting bodies).

Furthermore, voluntary tax transparency is a way of demonstrating that an organisation actually does business in a sustainable and responsible way, as companies' tax-paying practices are an integral part of the sustainability debate. Being an important source of government revenue, taxes play a vital role in advancing the achievement of the SDGs. A company's tax payments are therefore a way of compensating society for the institutions and services it has access to.

Communicating on tax and a social licence to operate

This is what some companies are saying:

> *We recognise that AngloGold Ashanti must earn and maintain its social licence to operate in partnership with government and community stakeholders, thus contributing towards their sustainable future in the countries where we operate. Aligned with our vision, mission and values, we acknowledge our obligations as a responsible corporate citizen and that our operations contribute material tax revenues, in terms of both taxes borne and taxes collected, to the economies of the countries in which we conduct our business.*
>
> *AngloGold Ashanti Integrated Report 2019*

> *We are delivering on this purpose … aligned with the UN Sustainable Development Goals, relating to three global sustainability pillars: being a trusted corporate leader, building thriving communities, and maintaining a healthy environment. Being able to demonstrate our commitment to sustainable tax principles and the contribution we make to government and our host communities through the payment of taxes is critical for building trust with stakeholders and in supporting our licence to operate.*
>
> *Kumba Iron Ore Integrated Report 2019*

> *We look for opportunities to address significant societal needs in markets where we see growth potential. With this strategy we aim to create long-term value by improving lives …We create value in a number of ways, for example through the companies we back and the people we employ. We also recognise that the taxes we pay contribute to long-term value creation, helping to build stronger economies in the countries in which we invest, work and live. Naspers supports local governments in generating resources, therefore our taxes form an important element of our broader economic and social contribution to the countries where we operate. In this way Naspers, through its tax contributions, is able to contribute to the funding of national social objectives.*
>
> *Naspers Integrated Annual Report 2019*

> *Vodacom, as a purpose led organisation, with an agreed Social Contract, remains committed to deliver societal value through our core purpose, 'connecting for a better future'. The United Nations Sustainable Development Goals provide the best articulation of what that 'better future' looks like. Vodacom is committed to playing its role, as a private sector company, in the attainment of these goals, supporting governments, communities, businesses and individuals to build a better future. Tax revenues enable governments to meet the United Nations Sustainable Development Goals for example, providing essential public services, such as health care, security and education.*
>
> *Paying taxes is an integral part of how we create value and contribute to sustainability and inclusive economic growth. Operating responsibly and building relationships based on trust is integral to the long-term success of our business. Increased transparency with regards to our tax strategy, policies, practices and economic contributions is part of our commitment to delivering on our Social Contract.*
>
> *Vodacom Tax Transparency Report 2019 & 2020*

COVID-19 has fuelled the public debate on tax

As we noted in our previous report, there is an increasingly global awareness of responsible tax behaviour and the role taxes play in promoting sustainable and inclusive economic growth. Little did we know then the massive impact that the outbreak of the COVID-19 pandemic in 2020 would have on communities, economies and business. Countries are engaging in massive public spending in order to mitigate the negative economic impact of the COVID-19 pandemic.

Government support for businesses is likely to result in a re-evaluation of the relationship between the private sector and the state. This has fuelled the public debate on tax and certainly accelerated existing calls for greater scrutiny and broader information of businesses' sustainability programmes and the way they interact with society. Many stakeholders are making the connection between tax transparency and the social and governance agendas under ESG.

In the last year, discussions around 'tax as an ESG topic' received exponentially more attention from different role players and 'tax' is prominently featured as part of sustainability reporting. Tax is 'out there' and linked to issues such as 'corporate social responsibility', 'stakeholder engagement' and 'long-term sustainable value creation'. Tax as part of 'sustainability principles' is now internationally recognised. [5]

As companies set and evaluate their ESG goals, they cannot afford to overlook the importance of responsible tax practice. Investors' expectations are changing, but so too are those of policymakers, revenue authorities and civil society organisations along with others, with the global pandemic also having put all of this in further focus. The COVID -19 crisis has not only highlighted the imperative of companies acting responsibly and making a fair contribution to public funds, but it has also magnified the importance of reaching the SDGs and the need for an economic reset that allows for a just and sustainable future for all. [6]

> *"Supporters of ESG as an investment tool are confident that, if anything, it will become even more important to shareholders' analysis than it is already. The crisis has shown how interconnected everything is. That's what ESG is all about."*
>
> *Fiona Reynolds, CEO of the Principles for Responsible Investment*

5 van der Emden, E. and Klein, B., 2020. Good Tax Governance? …Govern Tax Good!. SSRN Electronic Journal,.

6 The B Team. 2020. The B Team | Why Responsible Tax Belongs On The ESG Agenda. [online] Available at: https://bteam.org/our-thinking/thought-leadership/why-responsible-tax-belongs-on-the-esg-agenda

Are you aware of investors' interest in tax?

Some of the main stakeholders interested in sustainability reporting include investors (in particular long-term, strategic investors). Over the last decade or so, the United Nations Principles for Responsible Investment (PRI) have been advocating the view that investors should be paying much more attention to the impact of ESG issues on investment performance. Interestingly, the PRI has recently also been narrowing in on tax.[7]

The PRI collaborative engagement on corporate tax transparency, which ran from 2017 to 2019, sought to create awareness within companies of investor concerns around aggressive corporate tax practices and expectations of responsible tax practice; and improve company disclosures across tax policy, governance and financial reporting to identify best practice. Investors within the engagement found that conversations involving both investor relations and sustainability teams were extremely valuable in providing a deeper picture of organisational practices.

The investor group sought the following information in their dialogues with companies:

- High-level thinking and views on tax matters
- Key risks, including changes in the regulatory landscape and companies' preparedness to address these changes
- Identification of transactions and tax practices that are deemed too risky or unacceptable
- Where responsibility for tax practices is held or delegated within the company, how information is shared, and decisions made
- Views on enhanced transparency

7 Principles for Responsible Investment : Advancing tax transparency: outcomes from the PRI collaborative engagement https://www.unpri.org/governance-issues/advancing tax-transparency-outcomes-from-the-pri-collaborative-engagement/5541.article

The PRI guidance doesn't offer a one-size-fits-all approach, but it does underscore the growing opportunities available for companies that improve their tax approach. Through this engagement, 36 institutional investors (representing approximately US$2.9tn in assets under management) asked for improved disclosure from 41 portfolio companies with the aim of clarifying investors' expectations of corporate behaviour and identifying leading practices in the following areas:

- **Global tax policy:** Companies were encouraged to formalise and publish a tax strategy that applies across the organisation and outlines the links between tax management and sustainability commitments.
- **Tax governance and risk management:** Companies were encouraged to disclose the role of the board in relation to tax matters, processes for defining and managing tax-related risks, and examples of unacceptable tax transactions/practices.
- **Country-by-country reporting:** Companies were encouraged to produce more meaningful data that substantiates their commitments to avoiding aggressive tax planning.

The bottom line is that the interests of investors with respect to a company's position on tax is becoming clearer as more relevant information becomes available. Whatever the reason may be for an investor to look at a corporate's tax position, all investors will incorporate material risks – whether environmental, social, governance or tax-related – in their investment decisions.

Information about tax policies and practices, country-by-country reporting and effective average tax rates is becoming part of the standard information that investors use for decision-making, either through their service providers, or in their own portfolio management.

> *"Why aren't we talking about tax as a cornerstone of sustainable business? Multinational corporations know very well that they must keep pace with accelerated interest in climate change, sustainable value chains and responsible investment. To this end, they are making sustainability a key pillar of their strategies and working to communicate their intentions clearly. However, one key metric has remained largely absent from the ESG conversation — and that is tax."*
>
> *Eelco van der Enden, Partner, PwC Netherlands*

3

Is it in your interest to be publicly transparent about taxes?

In December 2020 at the Fifth Sustainability Accounting Standards Board Symposium, Brian Moynihan, Chair of the World Economic Forum's International Business Council, said that disclosure can be a positive incentive, as it enables companies to prove they are doing what they say they are, which allows us to invest in them. We need people to see what they are doing so they can be encouraged to do more. If big companies are doing it, it will cascade down the system because customers and employees will demand it.

Voluntary public tax transparency is more than just publicly disclosing how much and where taxes are paid. It's about presenting easily understandable information on the broader economic contributions a taxpayer makes by paying taxes in the environment in which they operate and putting this information in the right context. This kind of public tax transparency can be very beneficial.

During the course of preparing this report, we spoke to different role players who are experts in the field of integrated and sustainability reporting. We also interacted with tax functions that are dedicating a lot of effort to implementing voluntary tax transparency disclosures. We share their views here.

Sharing an insider's view

Interview with Christo Landman, Executive Head of Tax, Nedbank Group

Nedbank has made significant progress in its tax transparency reporting. The tax function collaborated intensively with other internal role players to tell its tax story. We spoke to Christo Landman who leads the tax function to find out what the journey looked like for the company.

You have made a significant effort between 2018 and 2019 to improve your voluntary reporting on tax. What was your motivation to do this and why now?

It has been our objective to improve the level of our voluntary tax reporting in line with global trends. We have therefore focused on slowly improving the level of information that we disclosed, but more importantly how we position this better over the last couple of years. This was important for us to build trust with our stakeholders and regulators and demonstrate our contribution to society.

Were there any challenges that you faced in the process of becoming more transparent and how did you overcome them?

We didn't face any real challenges from within the organisation. We discussed our approach upfront with all the relevant internal stakeholders to ensure buy-in and aligned our voluntary tax reporting information with the approach that we have followed with other reporting requirements and publications.

When and how did you first come across the idea of public tax transparency? What was your reaction at that time?

I first discussed the idea of public transparency some six or seven years ago. I understood the importance of transparent tax reporting but struggled at first to find the right balance between the level of information to disclose and not disclosing too much or unnecessary information. This has gradually evolved as more information became available and after I did more research into the approach that other local and global companies followed.

What aspects of tax transparency are most important to you? What would you like to emphasise most?

Our tax strategy and the manner in which we manage tax risk. It is important for me to demonstrate our tax governance, oversight and reporting obligations.

In your report you mention that 'Nedbank Group recognises that the tax it pays is imperative to the economic and social development of the countries it operates in…' How do you view Nedbank's approach to tax in the context of sustainability?

Tax must be raised in a fair and equitable manner in order to meet the sustainability goals and, in particular, to promote sustainable economic growth and employment. It is therefore important for us to understand how the taxes that we pay contribute towards achieving these goals.

Do you think the trend of becoming more transparent in the tax landscape will become more evident on the African continent in the near future?

In my view it will be imperative to become more transparent in the current tax environment. Tax is a material aspect in every business and stakeholders/regulators will demand more transparent information to assess if companies are acting responsibly and in the public interest.

Looking back, have you experienced any value from your efforts to improve your voluntary reporting on tax?

It has definitely raised the profile and re-confirmed the importance of the tax function amongst the finance community and with our Group Exco. It will assist us in our objective to be absolutely transparent with our internal reporting to avoid any surprises but, most importantly, underline the value that tax is contributing to the organisation and society at large.

Finally, are there any steps you're planning next?

We want to focus on improving the message and positioning of our approach to tax, tax governance, control and risk management, how it is embedded in the organisation and applied across all jurisdictions in which we operate. In addition, we are looking at ways to better reflect our tax numbers and performance, and specifically the linkage to our sustainability targets/objectives.

What the experts say

Why should companies consider their current tax transparency strategy?

"The social imperative of being a responsible corporate citizen is particularly accentuated everywhere in the world given the dire state of the macroeconomic environment, in instances decimated by the effects of Covid-19 lockdown measures. Being transparent and communicating the strategy in a clear, concise and easy to understand language demonstrates the organisations commitment through the paying of taxes to the social needs of the countries in which these taxes are paid. In the interests of integrated reporting tax has an impact on the value creation story and therefore should be integrated into the messaging where readers expect to be informed of this important information.

Doing good business while taking care of people, planet and profit and being able to demonstrate this transparently is becoming an imperative."

Sheralee Morland, Chief Executive Officer, Joshero

Does a company need to consider balancing its actions and messaging between purpose and profit?

"Stakeholders' conflicting expectations from a company's tax strategy puts management in a catch-22 situation. This may be resolved through deliberate and effective tax transparency. However, providing a check list of tax related information is not transparency; on the contrary, it might obscure relevant information. Tax transparency is not about accounting for the taxes we paid or did not pay. It is about illustrating our accountability towards the societies in which we operate.

Therefore, as with all public disclosure, the manner in which information is provided is as important, if not more important, than the information itself."

Lizette Kotze, Senior Lecturer: Department of Accounting, University of Pretoria

"Gone are the days when the purpose of tax reporting was simply to provide stakeholders with information relating to the tax expense line item and tax risk management. Tax reporting now represents a valuable opportunity to demonstrate the company's commitment to being a responsible taxpayer, its commitment to ethical business practices, and its economic contributions in the jurisdictions in which it operates. In short, tax reporting represents a significant opportunity for companies to demonstrate that they are good corporate citizens.

However not all tax disclosures create the same impression. It is submitted that the kinds of tax disclosures that build public trust are those that are communicated effectively and transparently and integrated with the other company related disclosures to demonstrate the embedded nature of the tax strategy and approach and are set out with a degree of specificity and user-friendliness that lends credibility to companies' stated approach to tax transparency."

Tracy Johnson, Head of Taxation, University of Cape Town

What are the risks and benefits of providing more information about tax to the public?

A company needs to determine if its current tax transparency strategy fosters an environment of trust with stakeholders or erodes that trust; and where on this spectrum it wants to be. The answer is also an acknowledgement that this decision has potential repercussions which the company needs to be prepared for or accept, i.e., being overly transparent has its drawbacks, whilst not being transparent enough has reputational consequences which could lead to consumer boycotts.

Potential benefits: Support corporate responsibility; better understanding of the company by the public; positive stakeholder perception- increased consumer activity or investor interest.

Risks: Lack of clarity/incomprehensible disclosure could result in misunderstandings/miscommunication, potentially leading to consumer boycotts; legal action; or disinvestment.

Loshni Naidoo, Project Director at SAICA

4 Which framework should we use?

Moving towards a standardised framework

The past year saw significant developments towards a comprehensive corporate reporting system. In September 2020 in an attempt to work towards a comprehensive solution for corporate reporting, the International Organisation of Securities Commissions (IOSCO) — in conjunction with five framework and standard-setting institutions of international significance — co-published a shared vision of the elements necessary for more comprehensive corporate reporting. - The five other institutions included the Carbon Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB).

The institutions made a joint statement of intent to drive towards this goal — by working together and by each committing to engage with key actors such as IOSCO and the International Financial Reporting Standards Foundation (IFRS), the European Commission, and the World Economic Forum's International Business Council.

In mid-December 2020 the GRI, responding to a proposal from the IFRS to oversee sustainability standards alongside international accounting standards, motioned that sustainability reporting needs to be mandatory and on an 'equal footing' with financial reporting.

As integrated and sustainability reporting evolves, so do the drivers for tax transparency. For example:

Organisational drivers, including:

- Organisational purpose
- Stakeholder dialogue
- Sustainability and SDG agenda
- (Reputational) risk management
- Licence to operate

County-specific drivers, including:

- Corporate governance codes
- Country-specific regulations, codes of conduct, etc.
- Public tax disclosure obligations for specific industries or companies of a particular size

International drivers, including:

- The Organisation for Economic Co-operation and Development (OECD) Guidelines for multinational enterprises
- United Nations Global Compact and Sustainable Development Goals
- United Nations Principles for Responsible Investment
- GRI 207: TAX 2019
- World Economic Forum – International Business Council ESG metrics
- (Public) country-by-country reporting
- B-Team principles
- US Business Roundtable
- NGO reports on tax behaviour

Participate in the journey

> *We want to emphasise that there is no such a thing as an optimal disclosure level that applies for any business. The organisational approach to voluntary tax transparency is not an isolated approach but depends on the overall business strategy, broader (stakeholder) reporting and sustainability commitments. In our view, a company's tax disclosure is determined by who its stakeholders are and for what purpose it is providing the disclosure. What is the company already obliged to disclose? What additional information can help to tell the whole story, which may not be fully explained by legal disclosure obligations?*

The shift to public and voluntary tax transparency is evolving and there is still a long way to go. Participating companies that embark on the journey now will enable tax transparency to positively impact the debate and set a good example, which may help shape the way potentially mandatory public tax disclosures are designed in the future. The alternative is to do and say nothing and have the company's disclosures potentially misunderstood and misinterpreted.

Community and social vitality

While there is no common global standard yet, the World Economic Forum, in collaboration with PwC, Deloitte, EY and KPMG, released a core set of 'Stakeholder Capitalism Metrics' (SCMs)[8] and disclosures that can be used by companies to align mainstream reporting on performance against ESG indicators and track their contributions towards the SDGs on a consistent basis.

The SCMs are organised under four pillars, namely Principles of Governance, Planet, People and Prosperity. The last-mentioned pillar includes a key theme of 'community and social vitality' — how a company's economic value is generated and distributed — which, for example, could be demonstrated through the disclosure of a total tax paid core metric such as tax collected by the company on behalf of other taxpayers and total tax paid by a country for significant locations. The suggested disclosures are adapted from GRI 207: TAX 2019[9] which, at its core, has many similarities to the PwC Tax Transparency Framework.

8 Www3.weforum.org. 2020. [online] Available at: <http://www3.weforum.org/docs/WEF_IBC_Measuring_Stakeholder_Capitalism_Report_2020.pdf>

9 Refer to 'Building public trust through tax reporting' report released in 2020 for a detailed discussion on GRI 207. https://www.pwc.co.za/en/publications/building-public-trust.html

5 Our methodology

Transparency for who and for what purpose

The PwC Tax Transparency Framework (the Framework) is intended to guide companies in developing a tax transparency strategy that is fit for purpose. The Framework does not necessarily lead to more disclosure on tax matters but is intended to help companies make an informed decision on 'transparency for whom and for what purpose'.

Applying the Framework relies on the inclusion of narrative and contextual information. It is only when tax information is set alongside the stakeholder concerns related to tax, that this information takes on real meaning and engagement that is fit for purpose can be developed.

Framework criteria

The Framework includes 57 broadly defined tax transparency criteria that we consider to be good practice in voluntary tax reporting. These criteria are grouped under the following categories:

PwC Tax Transparency Framework categories

Context

- Effective transparency – easy to find and well communicated
- Value reporting

Tax strategy and risk management

- Tax strategy
- Tax as a business risk
- Tax risk management, tax governance, tax reporting and oversight
- Relationship with tax authorities
- Tax controversy
- Stakeholder engagement

Tax numbers and performance

- Key financial indicators
- Effective tax rate v cash tax rate
- Tax incentives
- Clear and understandable tax rate reconciliation

Total tax contribution and wider impact

- Jurisdictions, entities & primary activities
- Total economic contributions per tax type, jurisdiction, year
- Other economic contributions to government
- Tax & wider value creation
- Tax and SDGs/ corporate citizenship

We use the Framework to carry out an annual review of the voluntary tax reporting and transparency of the top 100 companies listed on the JSE. The companies evaluated were selected based on their market capitalisation on 31 December 2019.

For the study, annual reports, corporate social responsibility reports, annual financial statements, integrated reports, tax specific reports and relevant website information for the 2019 financial year were reviewed in our assessment.

Our aim is to guide companies from the potential complexity of tax transparency to practical execution. With this in mind, we closely monitor developments regarding voluntary tax transparency, mandatory tax disclosure, trends in integrated and sustainability reporting, and good practice for stakeholder engagement, both locally and globally. In this context we reconsider the criteria included in the Framework regularly to ensure that it aligns to these trends.

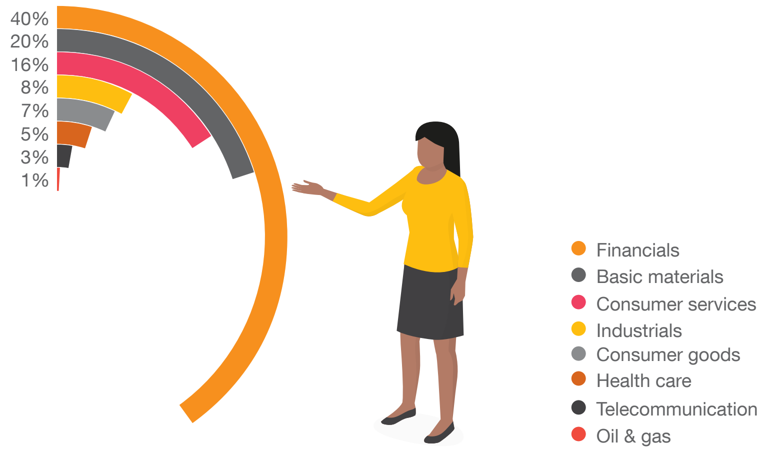
Our assessment methodology includes evaluating the Framework criteria on a five-point Likert scale to distinguish between different levels of quality disclosure. The lowest score on the scale indicates that no information related to the tax transparency criteria was demonstrated in any publicly available reports. Some companies demonstrate an emerging understanding of the tax transparency criteria with basic information related to the criteria provided, but the detail provided being high level, while other companies demonstrate a clear understanding of the criteria by providing a significant amount of detail thereon. The highest scores are awarded to those disclosures that demonstrate a clear understanding of the criteria and provide a significant amount of detail with a focus on demonstrating value creation through the reporting.

6 Trends in tax transparency

Transparency by sector representation

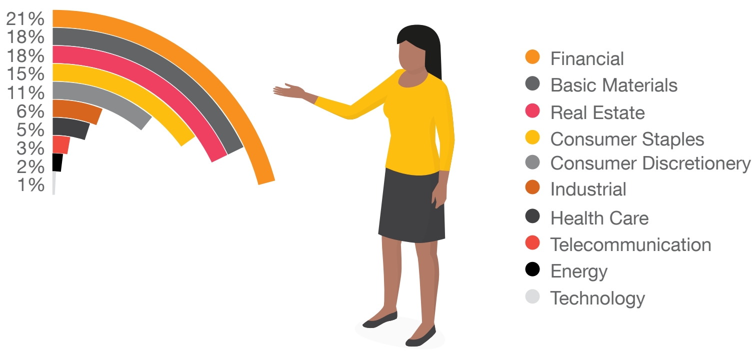
In terms of market capitalisation, the greatest representation in the study are companies from the Financial sector (21%), Basic Materials (18%) and Real Estate (18%). There is a marked difference in the sector representation in 2019 compared to our previous report covering 2018.

Figure 1. Sector representation – 2018



Base: 100
Source: PwC Building Public Trust Study 2018

Figure 2. Sector representation – 2019



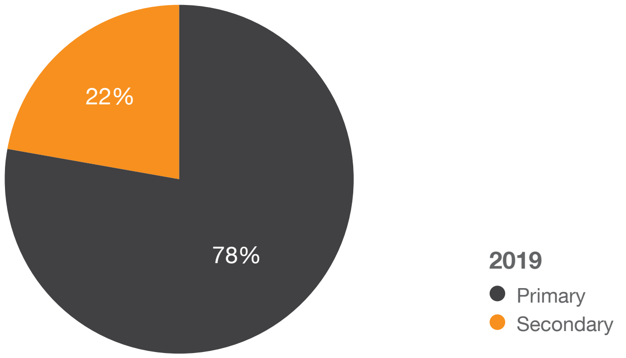
Base: 100
Source: PwC Building Public Trust Study 2019

Transparency by company type

In this study we distinguish between companies with a primary listing on the JSE and those with a secondary listing on the JSE.

Our emphasis leans towards the primary-listed companies (78%) (2018:70%) to demonstrate the progress made by South African-owned companies in their journey towards greater voluntary tax transparency. Twenty-two percent of the companies studied are companies with a primary listing on a stock exchange outside South Africa.

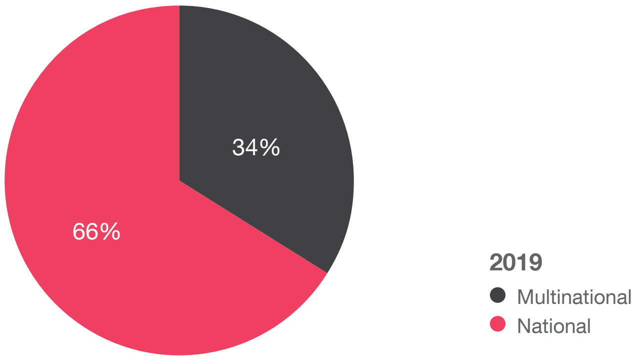
Figure 3. Primary vs secondary listed companies



Base: 100
Source: PwC Building Public Trust Study 2019

We also distinguish between primary-listed national and primary-listed multinational companies. National companies refer to those companies whose foreign sales are less than 50% of the total sales. Multinational companies are characterised as those whose foreign sales are more than 50% of the total sales.

Figure 4. Multinational vs national companies



Base: 100
Source: PwC Building Public Trust Study 2019

There has been a marked improvement in the average transparency per category of the primary-listed national and primary-listed multinational companies, although companies with a multinational presence still outperform national companies.

Best improvement growth per type of company from 2018 to 2019

Tax strategy and risk management: *Primary-listed multinational companies*

19

+ 5

34

2019
2018

Tax strategy and risk management: *Primary-listed inational companies*

10

+13

23

2019
2018

Total tax contribution and wider impact: *Primary-listed multinational companies*

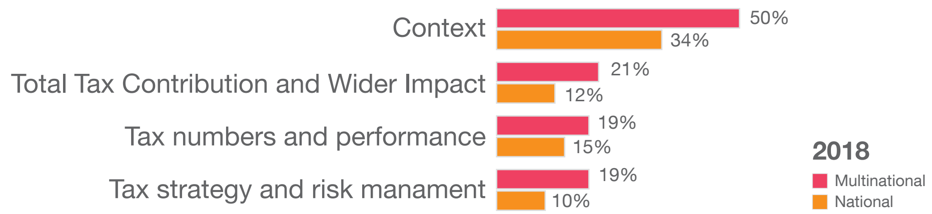
21

+14

35

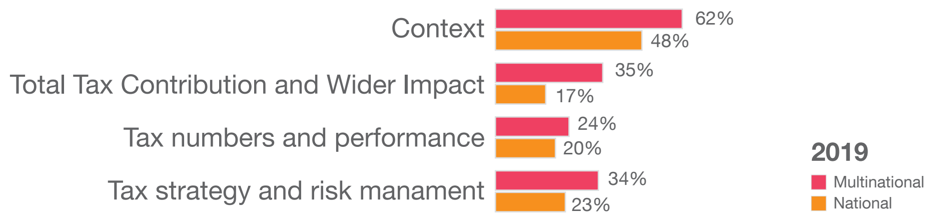
2019
2018

Figure 5. Average transparency per category of primary-listed national and primary-listed multinational companies, 2018



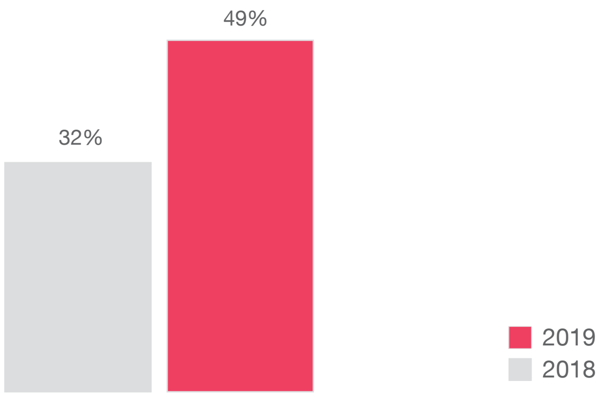
Base: 70
Source: PwC Building Public Trust Study 2018

Figure 6. Average transparency per category of primary-listed national and primary-listed multinational companies, 2019



Base: 78
Source: PwC Building Public Trust Study 2019

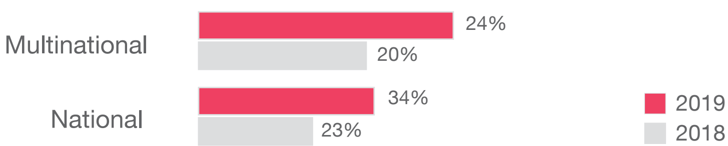
Figure 7. Average overall tax transparency: JSE top 100 listed companies, 2018 vs 2019



Base: 100
Source: PwC Building Public Trust Study 2018 and 2019

Average overall tax transparency increase: *JSE top 100 listed companies*

Figure 8. Average overall tax transparency per company type



Base: 100
Source: PwC Building Public Trust Study 2018 and 2019

Average overall tax transparency increase: *Top 100 listed companies on the JSE – National*

13

+7

20

2019
2018

Average overall tax transparency increase: *Top 100 listed companies on the JSE – Multinational*

19

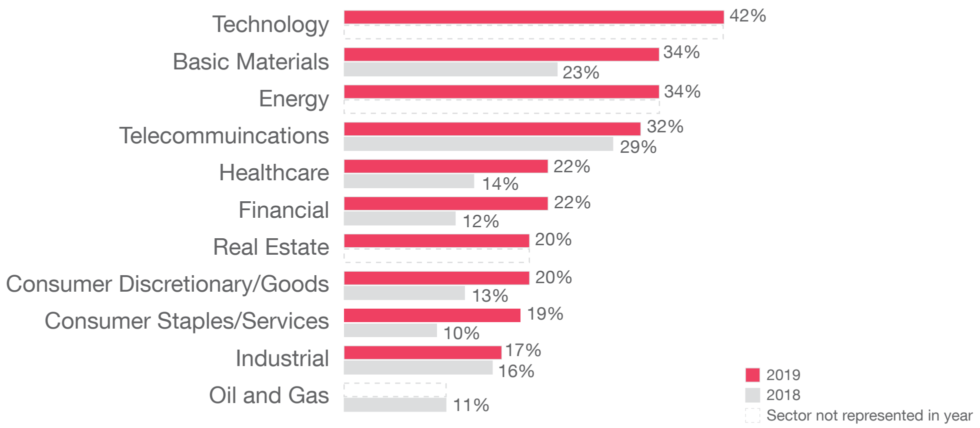
+10

29

2019
2018

In the previous year's study, the Telecommunications industry publicly demonstrated the most tax transparency overall, followed by Basic Materials. This year, the Technology sector showed marked improvement in tax transparency. It should however be noted that just one company in the technology sector was analysed in the previous year's study (none in 2018) along with two companies in the energy sector, 29 companies in the Basic Materials sector and three companies in the Telecommunications sector. The average performance per sector is clearly dependent on overall tax transparency demonstrated by all companies represented in the sector.

Figure 9. Average overall score for total tax transparency per industry, 2018 vs 2019



Base: 100
Source: PwC Building Public Trust Study 2018 and 2019

Average transparency per category of the PwC Framework

Next we outline the findings, trends and good practice demonstrated by participating companies per category of the Framework. This section features extracts and examples of emerging trends in tax transparency where disclosure demonstrates value creation. We also highlight the most notable developments related to the criteria within each category.

Figure 10. Distribution of average transparency per category

Base: 100
Source: PwC Building Public Trust Study 2018 and 2019

Context

In our previous report we started to incorporate an assessment of the manner and effectiveness in which companies communicate their tax information. At least 14 companies participating in the 2019 study demonstrated a clear understanding of how to effectively provide transparency of taxes (easy to find and well communicated) compared to seven companies in 2018. Furthermore, in 2019 at least ten companies demonstrated integrated tax related disclosure with other company related disclosure (i.e., a sense of value reporting on tax disclosure and how it integrates with and relates to the business) compared to seven in 2018.[10]

10 Based on a possible Likert rating of at least 4 out of a possible 5

AngloGold Ashanti demonstrates its commitment and support to various transparency initiatives.

WE PROMOTE TRANSPARENCY

and respect the rule of law where ever we operate.

Tax management

Tax management and the appropriate paying of taxes is integral in compliance. In the year, we exercised diligence and transparency in line with our group Tax Management Policy. This involved promoting open and transparent reporting based on ICMM principles and its position statement on transparency of mineral revenues, the EITI and relevant mandatory reporting of payments to governments.

We are a member of the ICMM tax working group and are committed to adopting the GRI tax reporting standards which come into play in 2020. We have complied with country-by-country reporting obligations (for more information see IR page 149) and have developed in-country tax management policies to comply with the specific requirements in several countries. [5]

We continue dialogue with our partners in the Democratic Republic of Congo, where we have a stake in the Kibali joint venture with Barrick Gold about the repatriation of funds held in the country.

Source: AngloGold Ashanti Sustainability Report 2019, p41

Tax strategy and risk management

Despite the fact that the King IV Report on Corporate Governance for South Africa 2016 (King IV Report™), which is mandatory for listed companies in South Africa, requires a company's governing body to be responsible for a tax policy that is not only compliant with the applicable laws, but that is also congruent with responsible corporate citizenship and that takes account of reputational repercussions, there was little improvement in the appetite of companies to disclose their tax strategy publicly.

Tax strategy communicated publicly

32

+ 2

34

2019
2018

Spar provides a visual demonstration of its tax strategy's alignment to its strategic objectives

"To inspire people to do and be more"

Tax management is key in the group achieving its strategic objectives. The group's approach to tax governance is based on five principles:

Source: SPAR shareholder analysis 2019: Fact sheet. Approach to tax, p1

There is, however, an increase in the number of companies that indicate that the governing body assumes responsibility for the tax strategy.

The governing body assumes responsibility for the tax strategy

27

+18

43

2019
2018

It is also encouraging to see that in 2019, at least ten companies demonstrated a clear understanding of the criteria, providing a significant amount of detail with a focus on demonstrating value creation in their reporting compared to three companies in 2018.[11]

11 Based on a possible Likert rating of at least 4 out of a possible 5

Nedbank clearly demonstrates that the responsibility for tax governance is a top priority for the governing board and robustly embedded from the top down

GOVERNANCE

The Nedbank Group Audit Committee is ultimately accountable for determining the Nedbank Group's tax philosophy and approach and, provides oversight of the tax practices and affairs of the group.

The tax philosophy and approach are incorporated in the Nedbank Group Tax Policy, which is reviewed and approved by the Group Audit Committee annually and provides the mandatory minimum principles and standards for the management of tax risk across the group, including tax compliance, transaction planning and implementation. The policy applies to all taxes and tax reporting obligations to relevant fiscal authorities in all jurisdictions in which the group carries on business. The subsidiary audit committees in all these jurisdictions further consider the tax landscape and key tax risks applicable to each subsidiary and jurisdiction.

The board holds the Group Chief Financial Officer accountable for ensuring compliance with the Nedbank Group Tax Policy. To this end, the Finance Forum, established and chaired by the Group Chief Financial Officer, supports her in discharging her duties to the board. The Finance Forum, which meets monthly, monitors tax compliance and compliance with the Nedbank Group Tax Policy and ensures that taxation risk is managed throughout the group and deals with tax matters on a groupwide basis. The Finance Forum membership consists of the Group Chief Financial Officer, Cluster Finance Executives, Executive Head: Group Tax, Group Financial Control and other related functions.

The Nedbank Group's tax risk status is reported quarterly to the Group Audit Committee, which is responsible for monitoring all significant tax matters, including compliance with the Nedbank Group Tax Policy. The Executive Head of Group Tax is a permanent invitee to the Group Audit Committee.

The Group Audit Committee also receives regular updates on changes to the tax landscape that will impact the group. A specific area of focus during the 2019 financial year was managing the outcome of numerous queries and information requests from the South African Revenue Service (SARS) as part of a groupwide audit being conducted in respect of corporate income taxes declared for the 2015–2017 years of assessment. SARS has not raised any additional assessment to date, but still needs to conclude their findings on a few outstanding tax positions adopted by the group.

The Nedbank Group Tax Policy and other associated tax risk frameworks are subject to periodic review by the Executive Head of Group Tax to ensure these are updated to reflect any changes in leading practice, tax risk governance and control standards, changes in the organisational structure of the Nedbank Group and changes in the external tax and regulatory environments.

Source: Nedbank Group Tax Report 2019, p2

Tax strategy linked to the business and sustainable development strategies of the organisation and the broader needs of society

16

+ 8

24

2019
2018

AngloGold Ashanti, Aspen, Implats and Naspers are some of the companies that demonstrated a link between their sustainability commitments, value creation and tax.

Source: AngloGold Ashanti Integrated Report 2019, p13

ECONOMIC VALUE DISTRIBUTED

US dollar million		2019	2018
	Total distributed by recipient [2]	3,316	3,326
$559m	**Employees**	559	713
	Salaries and wages	547	698
	Training and development	12	15
$808m	**Government**	808	717
	Current tax [3]	298	242
	Royalties [4]	160	151
	Employee taxes [4]	236	234
	Production, property and other taxes [4]	114	90
$26m	**Community** [5]	26	21
$1,715m	**Suppliers and services**	1,715	1,673
$208m	**Providers of capital**	208	202
	Finance costs and unwinding of obligations	181	178
	Dividends	27	24
ECONOMIC VALUE RETAINED		943	719

(1) Gold income increased by 3% due to the higher gold price received for the year 2019

(2) Economic distribution providing human, financial, social, natural and manufactured capital, guided by business objectives and material issues identified through the operating process to ensure sustainable long-term value retention for stakeholders, underpinned by our key behavioural programme operational excellence, implemented at every step of the business from exploration through the entire chain to divestment/disposal

(3) Current taxation includes normal taxation and withholding taxation on dividends paid per jurisdiction in which the group operates

(4) Employee, production, property and other taxes and royalties reported on a cash basis

(5) Community and social investments exclude expenditure by equity accounted joint ventures

CONTRIBUTING TO THE SDGs

Related SDGs

Source: Aspen Pharmacare Holdings Limited Integrated Report 2019, p25

Our sustainability themes

We have grouped our sustainability commitments into four key themes:

Theme 3 | **Society** | **SDGs**

Strategic objectives

To practice good corporate citizenship

We strive to operate an ethical and responsible business underpinned by our shared values and governance structures. We uphold the dignity, fundamental freedoms and human rights of our employees, contractors and the communities in which we live and work, and others affected by our activities.

Capital

Social & relationship

Material topics

- Human rights
- Ethical business culture
- BBBEE in South Africa
- Socio-economic development and investment in communities
- Fair taxation

Implats looked at its social and environmental activities against the SDGs to help the company prioritise goals that are most important to its business. These priorities were linked to its underlying contributions to the SDGs, all of which are underpinned by its collaboration with various partners and stakeholders to inform the development of its commitments and to integrate these into its business strategy.

Source: Implats Annual Integrated Report 2019, p67

STRENGTHEN THE MEANS OF IMPLEMENTATION AND REVITALISE THE GLOBAL PARTNERSHIP FOR SUSTAINABLE DEVELOPMENT (17 PARTNERSHIPS FOR THE GOALS)	Implats is committed to playing its role in the attainment of the SDGs by supporting government and working with other stakeholders to build thriving communities. Our socio-economic development initiatives and tax contributions help improve livelihoods by improving access to healthcare, housing, education, clean water and sanitation.	The total amount of tax payments to government for the reporting period was R2.34 billion in South Africa and US$82 million in Zimbabwe	61

Source: Naspers Integrated Annual Report 2019, p14 and 17

Creating value for our stakeholders

Value creation this year

We create value for key stakeholders through our business model, drawing on our pool of six capitals and in line with the UN Sustainable Development Goals (SDGs). In this section we highlight the value we created this year for our different stakeholders.

For more information on our sustainability journey, see pages 16 to 18
For more information on risks and opportunities, see pages 52 to 54

Having a real impact

The companies we back, the people we employ and the taxes we pay all create value, helping to build stronger economies in the countries we invest, work and live in. We support a range of corporate social initiatives that make a real difference to the people and communities who benefit from them.

Our governance structures, code of business ethics and conduct, and various policies provide the frameworks and guidance for our people to do the right thing.

Taxes paid

As a global company, we recognise that the tax we pay is an important element of our broader economic and social contribution to the countries where we operate.

US$23.4bn

direct, indirect and induced taxes paid

Read more on pages 49 and 50

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Governments and indirectly local communities

Approach to tax planning, views on aggressive tax strategies and use of tax havens have been areas of intense scrutiny over the years and continue to attract strong interest from tax authorities, civil society organisations, , ESG analysts and the wider public. More companies have discussed their approach to tax planning and minimising tax liabilities, although the transparency of this criteria remains low. It is concerning to note that fewer companies have expressed their views on aggressive tax strategies and there has also not been a considerable move towards more disclosure on policies for use in tax havens.

Approach to tax planning or minimising tax liabilities discussed

21

+ 9

30

2019
2018

Express views on aggressive tax strategies

15

- 1

14

2019
2018

Disclosure on policies for use of tax havens

12

+ 2

14

2019
2018

Absa demonstrates the importance of appropriate and responsible tax planning in relation to its stakeholders, in particular its customers, stating:

"Tax continues to be an important matter for our stakeholders, and we pay all taxes in accordance with legislative requirements in each of the countries in which we operate. Our tax function manages the impact of taxes through appropriate and responsible planning in order to support all our businesses and to manage financial and reputational risks."

One of the key elements of the company's approach includes customers:

Our customers

Our tax principles make it very clear that all tax planning for our customers must support genuine commercial activity. While our customers are ultimately responsible for any decisions in relation to their tax affairs, we, like other banks, provide some tax-related product offerings to our customers. Tax authorities understand these products, which often deliver tax incentives that are specifically intended by government. We would not provide a product if the tax planning in question did not comply with the spirit as well as the letter of the law.

In supporting legislation aimed at good conduct, we are committed to providing all of the necessary information in terms of various reporting requirements to the relevant tax authorities. These include the requirements of the United States Foreign Account Tax Compliance Act and the Organisation for Economic Co-operation and Development's Common Reporting Standards, which require that our entities throughout Africa share customer information with tax authorities. We also provide country-by-country reporting to assist with the prevention of tax evasion.

Source: Absa Group Limited 2019 Environmental, Social and Governance Report, p38

Exxaro is one of the companies that demonstrates that its tax risk appetite is linked to its overall enterprise risk appetite. It states that its vision is to create sustainable value for all stakeholders by striving for operational efficiency, continuous improvement and regulatory compliance within a framework of responsible citizenship.

In keeping with the group's risk management philosophy, business strategy and objectives, Exxaro tax function's TRM strategy is to create value, protect the group against loss, and ensure effective tax planning, compliance with tax legislation and appropriate financial reporting within acceptable risk parameters.

To this end, Exxaro will look at tax planning as a legitimate business lever within the parameters of tax legislation.

Material tax risk, opportunity and strategic response

Relevant tax matters are identified by considering issues identified through:

- Risk and opportunity arising from internal and external influences (page 2)
- Key expectations raised by stakeholders (page 4)
- Our enterprise risk management process (page 6).

These are prioritised based on inherent risk and predetermined risk appetite against the likelihood of the matter arising and its impact on value creation. Only the top five material tax risks and opportunities are discussed in this report.

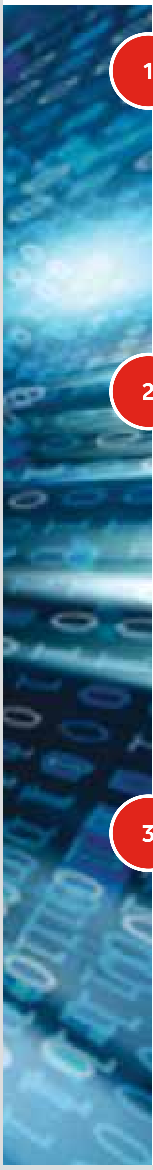
Source: Exxaro Tax Report 2019, p 5

Vodacom indicates that the identification of its principal tax risks are aligned to the ISO 31000 International Risk Management Standards and the requirements of King IV and lists its tree tactical tax risks which provides the Audit Risk and Compliance Committee and the Board with a robust assessment of the key tax risks facing Vodacom.

Our principal tax risk

Vodacom has a mature risk management framework that aligns with the ISO 31000 International Risk Management Standard and the requirements of South Africa's King IV Governance Code.

We identified the following three tactical tax risks which provides the Audit, Risk and Compliance Committee and the Board with a robust assessment of the key tax risks facing Vodacom.



1 Lack of appropriate governance policies, guides and control framework to manage transactional, operational, financial reporting and tax compliance risk.

Context:	A well-defined tax risk management policy allows Vodacom to improve business decisions by considering the tax impact of transactions and operations; increase tax compliance and therefor reducing unexpected tax assessments from tax authorities; react appropriately to the evolution of the taxation of the telecommunications industry.
Mitigating control:	Vodacom operates within a clearly defined tax governance framework, as set out in this report, that is designed to provide certainty for all stakeholders with an interest in our tax affairs.
Control effectiveness assessment:	Very Good.
Impact:	Major impact on reputation and financial loss.
Risk Rating:	High due to possible impact.

2 Failure to ensure timely and accurate compliance with all relevant financial reporting and regulatory requirements including the timely identification of changes in tax policy and reform impacting Vodacom at a transactional and operational level.

Context:	Compliance risk addresses the risks implicit in the systems, processes and procedures adopted by a company to prepare and submit its tax returns (direct and indirect) and in responding to any enquiries/issues raised by the various tax and regulatory authorities. This risk is impacted by the integrity of the underlying accounting systems and information; the accuracy and efficiency of tax processes; ensuring the tax compliance analysis processes are based on up to date knowledge of the latest tax laws and practices; and the proper and efficient use of technology in the various tax processes.
Mitigating control:	Vodacom implemented the three lines of defence, a widely recognized corporate governance model that is equally applicable to tax governance and aims to assign key tax risk management responsibilities at various levels within our business.
Control effectiveness assessment:	Very Good.
Impact:	Major impact on reputation and financial loss.
Risk Rating:	High due to possible impact.

3 Reputational damage due to unfavourable or inaccurate tax matters reported in the media.

Context:	Reputational risk concerns the wider impact on Vodacom that might arise from changes to the perception of the company by its shareholders, customers, suppliers, or employees should Vodacom be portrayed as not being a responsible corporate citizen and transparent taxpayer.
Mitigating control:	We trust that this report will enable more constructive conversations with other taxpayers, tax authorities, policy makers, investors, and stakeholders and demonstrates Vodacom's commitment to being a responsible corporate citizen and transparent taxpayer.
Control effectiveness assessment:	Very Good.
Impact:	Major impact on reputation and financial loss.
Risk Rating:	High due to possible impact.

Vodacom Tax Transparency Report for the years ended 31 March 2019 and 2020

12

Source: Vodacom Tax Transparency Report for the year ended 31 March 2019 p12[12]

12 Vodacom released a consolidated Transparency Report for the 2019 and 2020 financial year. Examples mentioned herein relate to the 2019 financial year.

Disclosure of uncertain tax positions

The number of organisations that disclosed the circumstances surrounding uncertain tax positions or tax controversy exposure remained the same at 31 companies. When reporting significant uncertain tax positions for a tax jurisdiction, the company can report the value of the tax positions, a description of tax positions and the reasons for any change in tax positions that occurred during the time period, where relevant.

AngloGold Ashanti, Exxaro and Gold Fields were some of the companies willing to disclose details on uncertain tax positions, a matter that is of importance and regarded as valuable information to most stakeholders.

AngloGold Ashanti describes its tax landscape as follows:

" The tax rules and regulations in many countries are highly complex and subject to interpretation. From time to time, the group is subject to a review of its historic income tax filings and, in connection with such reviews, disputes can arise with the tax authorities over the interpretation or application of certain rules in respect of the group's business conducted within the country involved. Significant judgement is required in determining the worldwide provisions for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business."

Irrespective of whether potential economic outflows of matters have been assessed as probable or possible, individually significant matters are included below, to the extent that disclosure does not prejudice the group.

Argentina - Cerro Vanguardia SA
The Argentina Tax Authority has challenged the deduction of certain hedge losses, with tax and penalties amounting to $10m (2018: $14m; 2017: $27m). Management has appealed this matter which has been heard by the Tax Court, with final evidence submitted in 2017. The matter is pending and judgement is expected in the next 24 months. Management is of the opinion that the hedge losses were claimed correctly and no provision has therefore been made.

Brazil - AGA Mineração and Serra Grande
The Brazil Tax Authority has challenged various aspects of the Companies' tax returns for periods from 2003 to 2016 which individually and in aggregate are not considered to be material. Based on the engagement with the Tax Authority, certain amounts have been allowed and assessments reduced, whilst objections have been lodged against the remainder of the findings. In December 2019, Serra Grande received a tax assessment of approximately $25m relating to the amortisation of goodwill on the acquisition of mining interests, which is permitted as a tax deduction when the acquirer is a domiciled entity. Management is of the opinion that the Tax Authority is unlikely to succeed in this matter. This is supported by external legal advice and therefore no provision has been made.

Colombia - La Colosa and Gramalote
The tax treatment of exploration expenditure has been investigated by the Colombian Tax Authority which resulted in claims for taxes and penalties of $88m(1) (2018: $144m; 2017: $150m) pertaining to the 2010 to 2014 tax years.

These assessments were appealed in 2016 (in the case of La Colosa) and resulted in an adverse judgement on 22 October 2018, in the Administrative Court of Cundinamarca. An appeal was lodged and all arguments submitted to the Council of State on 21 August 2018, with an expected judgement in the next 12 to 18 months. The deduction of exploration costs is prohibited from 2017 onwards following a change in legislation. Subsequent to this date, exploration costs have been treated in accordance with the amended legislation. In July 2019, the Supreme Administrative Court issued a ruling that duplicate penalties may not be charged. The impact of the ruling is that certain penalties will be waived, which reduces the overall exposure by $76m. The matter is pending and may take two to four years to be resolved. Management is of the opinion that the Colombian Tax Authority is unlikely to succeed in this matter and therefore no provision is made.

Source: AngloGold Ashanti Annual Financial Statements, p50

IFRIC 23 – Uncertain tax positions

In the prior year, the following two uncertain tax positions were reported:

1. A SARS dispute on imputing income from controlled foreign companies resulted in a tax liability of R255 million, including interest and penalties as at 31 December 2018:
   - After unsuccessful dispute resolution attempts, Exxaro and SARS litigated. The dispute has been favourably settled on 30 September 2019 with no further cash outflow to Exxaro.
2. An additional assessment for royalties received from SARS relating to Mafube Mining Proprietary Limited (Mafube), totalling some R280 million (Exxaro has a 50% joint venture with Anglo American hence R140 million Exxaro exposure), including interest and penalties:
   - Mafube objected to the assessment but SARS regretfully disallowed the objection. An appeal was lodged on 19 June 2019 against the disallowance of the objection. In December 2019, SARS communicated that it was willing to negotiate a settlement, which Mafube declined. On 5 March 2020, SARS was informed that Mafube would proceed with the appeal in the Tax Court.

No known uncertain tax positions relating to income tax exist for the 2019 financial year. Mineral royalties do not fall within the scope of IFRIC 23.

Source: Exxaro Tax Report 2019, p9

South Deep tax dispute

The South Deep mine ("South Deep") is jointly owned and operated by GFIJVH (50%) and GFO (50%).

During the September 2014 quarter, the South African Revenue Service ("SARS") issued a Finalisation of Audit Letter ("the Audit Letter") stating that SARS has disallowed GFIJVH's Additional Capital Allowance claim.

The Group objected to SARS' decision and vigorously defended its position. After no resolution was achieved during a Tax Court sitting in 2017, GFIJVH appealed to the High Court.

The Group announced that on 30 May 2018 GFIJVH and SARS entered into a confidential settlement agreement (as provided for in the Tax Administration Act) in full and final settlement of this matter. As a result of the settlement GFIJVH has recognised an additional R2,708.0 million (US$185.1 million) of capital allowances with a tax benefit on this amount of R785.3 million (US$53.7 million).

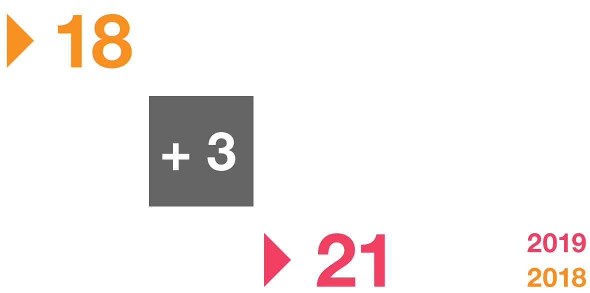
Source: Gold Fields Annual Financial Report 2019, p191

Tax policy

More than half of the companies in this study discussed changes to tax legislation and tax policy and their impact on the business.

Despite indications that stakeholder engagement is crucial for building trust in society, the number of companies that discuss their efforts to be involved in tax policy discussions, advocacy or lobbying activity in their industry, and the wider tax impact of tax reform on organisations, remains low. The number of companies that indicate whether they form part of any lobbying bodies or industry forums through which they engage on tax policy and reform has decreased since 2018.

Disclosure on stakeholder engagement



Participation in any lobbying bodies or industry forums to engage on tax policy and reform

17

\- 2

15

2019
2018

Nedbank recognises that its tax accountability extends beyond its own taxes. A financial institution is also accountable for the role it plays in the tax planning activities of its clients. Information supplied in the 2019 Tax Report on Advocacy and Lobbying Activity and the Tax Landscape illustrates Nedbank's acknowledgement of its responsibility to be accountable in this manner.

ADVOCACY OR LOBBYING ACTIVITY

The Banking Association South Africa (BASA), of which the Nedbank Group is a member, is the mandatory representative of the banking sector. The BASA Taxation Committee focuses on direct and indirect tax issues and assists in formulating industry positions or motivations for tax reforms for various SA revenue acts, including the Income Tax Act, the Value-added Tax Act, the Tax Administration Act and all subsequent amendment acts, which have a significant impact on BASA members.

The BASA Taxation Committee seeks to promote discussions on issues relating to the revenue acts and assists BASA in advocating for the interests of its members in ensuring that the regulatory and supervisory framework takes cognisance of the relevant issues.

The Nedbank Group complies with the recently updated banking accord signed by SARS and BASA. The accord encourages the banking industry to promote tax compliance, both within banks and by their clients, to periodically determine and review the effective tax rate of banks; discourage the involvement in and promotion of impermissible tax avoidance arrangements; timeously supply and disclose relevant information to SARS; and regularly engage SARS in resolving any matters of dispute. The accord also encourages SARS to enhance the levels of service to BASA members from various initiatives, such as adhering to statutory timelines, promoting compliance with the SARS Service Charter, dedicating skilled resources to the banking industry and ensuring professionalism in the services provided to the industry. The accord further seeks to enhance the relationship between SARS and banks, and to provide greater certainty about the interpretation and application of tax and customs laws, as well as the identification of tax risks. In addition, the accord has established the BASA/SARS Operational Forum to facilitate interaction between SARS and BASA in relation to all tax-related operational issues that are relevant to the banking industry and SARS. The Nedbank Group pledged its commitment to facilitate and support SARS in the automation of the third-party data process and other SARS information technology initiatives.

ADVOCACY OR LOBBYING ACTIVITY

The Banking Association South Africa (BASA), of which the Nedbank Group is a member, is the mandatory representative of the banking sector. The BASA Taxation Committee focuses on direct and indirect tax issues and assists in formulating industry positions or motivations for tax reforms for various SA revenue acts, including the Income Tax Act, the Value-added Tax Act, the Tax Administration Act and all subsequent amendment acts, which have a significant impact on BASA members.

The BASA Taxation Committee seeks to promote discussions on issues relating to the revenue acts and assists BASA in advocating for the interests of its members in ensuring that the regulatory and supervisory framework takes cognisance of the relevant issues.

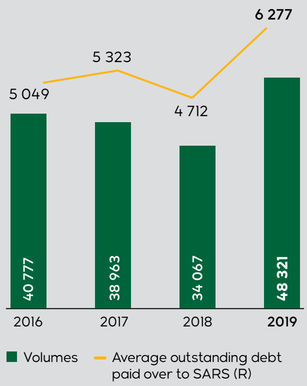
The Nedbank Group complies with the recently updated banking accord signed by SARS and BASA. The accord encourages the banking industry to promote tax compliance, both within banks and by their clients, to periodically determine and review the effective tax rate of banks; discourage the involvement in and promotion of impermissible tax avoidance arrangements; timeously supply and disclose relevant information to SARS; and regularly engage SARS in resolving any matters of dispute. The accord also encourages SARS to enhance the levels of service to BASA members from various initiatives, such as adhering to statutory timelines, promoting compliance with the SARS Service Charter, dedicating skilled resources to the banking industry and ensuring professionalism in the services provided to the industry. The accord further seeks to enhance the relationship between SARS and banks, and to provide greater certainty about the interpretation and application of tax and customs laws, as well as the identification of tax risks. In addition, the accord has established the BASA/SARS Operational Forum to facilitate interaction between SARS and BASA in relation to all tax-related operational issues that are relevant to the banking industry and SARS. The Nedbank Group pledged its commitment to facilitate and support SARS in the automation of the third-party data process and other SARS information technology initiatives.

Source: Nedbank Group Tax Report 2019, p4–5 that are fair-valued through profit and loss, and a new tax section was introduced with effect from 1 January 2018 to recognise the different credit loss impairment stages and to regularise the tax treatment thereof, including the day 1 adjustment that was processed through the statement of changes in equity. The 2019 South African tax legislative cycle was largely dedicated to clarifying anomalies in respect of the 2017 tax amendments.

For several years SARS has been plagued by bad news, ranging from multiple resignations to tax collection gaps and allegations that it lacks capacity and the will to go after tax evaders. The new Commissioner, Edward Kieswetter, has started rebuilding the tax agency that was once so highly regarded internationally and is focusing on stabilising the organisation, reestablishing integrity and compliance functions, and restoring employee confidence and public trust.

SARS has taken active steps to strengthen the management of its information technology systems, rebuild its technical prowess, and harness opportunities arising from information-sharing agreements between national tax authorities. The Nedbank Group, as one of the largest contributions to the fiscus, is committed to assisting SARS with these initiatives. The graph below reflects the tax debt of third parties collected by the Nedbank Group as a bank on behalf of SARS, which demonstrates the initiative between SARS and the Nedbank Group.

THIRD PARTY TAXES



Source: Nedbank Group Tax Report 2019, p5

SA's most notable response to the BEPS package to date has been the introduction of regulations and guidance on transfer pricing documentation and the automatic exchange of country-by-country reports and financial account information. In terms of transfer pricing documentation there is a requirement to file both a master file containing high-level information about global business operations and transfer pricing policies, as well as a local file containing detailed transactional transfer pricing documentation specific to each country, identifying material related-party transactions, the amounts involved in those transactions, as well as the company's analysis of the transfer pricing determinations that have been made regarding those transactions.

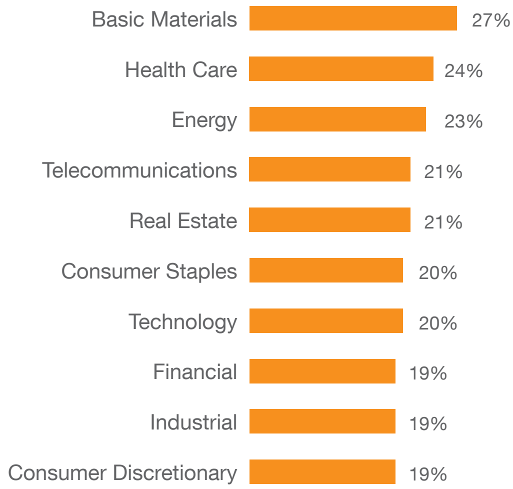
The Nedbank Group adheres to the key principles set out in the BEPS package and the related regulations put in place by fiscal authorities. In this regard, the group has adopted an internal policy that outlines and ensures the key principles and mandatory requirements with which the business must comply to ensure that transfer pricing methodologies are consistently applied, the terms of all intergroup dealings are in accordance with the arm's length principle and that contemporaneous transfer pricing documentation are maintained. The Nedbank Group has been filing the master file documentation and country-by-country reports based on financial reporting periods up to 31 December 2018. In the section titled 'Economic contribution of taxes paid', more information is provided on the Nedbank Group's tax contribution on a country-by-country basis.

As a reporting financial institution, the Nedbank Group is required to provide client information and client data to the relevant regulatory authority in terms of the US Foreign Account Taxation Compliance Act and the Common Reporting Standard of the OECD, which standard is also applicable to our subsidiaries and operations in Nedbank Africa Regions and the United Kingdom.

In line with the Nedbank Group's commitment of being a responsible taxpayer, it does not purposefully structure its affairs to shift profits to low-tax jurisdictions or 'tax havens'. The group will only operate in jurisdictions if there are valid business reasons and sufficient commercial substance.

Tax numbers and performance

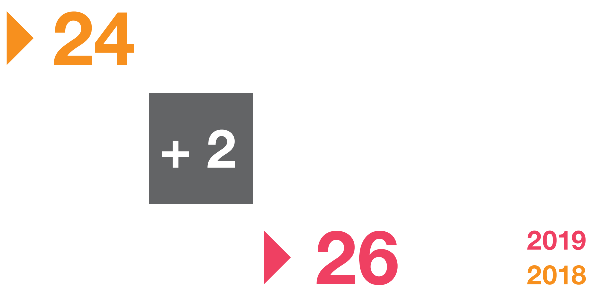
Figure 11. Tax numbers and performance: Average score per sector, 2019



Source: PwC analysis

Almost all companies provide a clear and understandable tax rate reconciliation. However, only half provide additional or supporting narrative to explain line items in the tax rate reconciliation. Less than a third of the companies provide a detailed breakdown of larger items in the tax rate reconciliation.

A detailed breakdown of larger items in the tax rate reconciliation



Aspen and Nedbank provide a clear and understandable tax rate reconciliation, with additional/supporting narrative to explain line items in the tax rate reconciliation and a visual description of variances between different years.

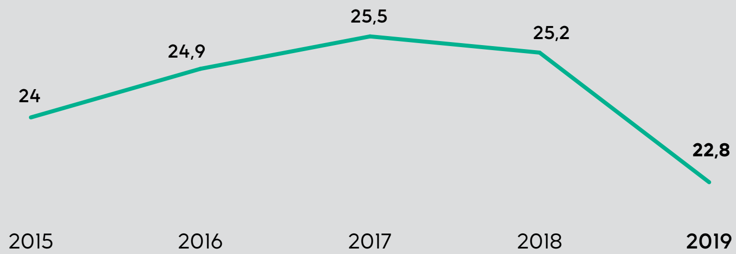
Five-year Group effective tax rate
(%)

Includes discontinued operations.

The effective tax rate is higher in the 2016 and 2019 fiscal year due to the write-off of the Venezuelan operations in 2016 and higher impairments in 2019.

Source: Aspen Pharmacare Holdings Limited Annual Financial Statements 2019, p94

ANALYSIS OF THE EFFECTIVE TAX RATE
(%)



Source: Nedbank Tax Report 2019, p6

More than half of the companies discuss the main drivers for their effective tax rate (ETR) and reasons for variances between subsequent years. Very few companies discuss how the ETR is likely to perform in future.

Main drivers for ETR and reasons for variances between subsequent years

A discussion of how the ETR is likely to perform in the future

7

+ 2

9

2019
2018

Less than half of the companies provided other financial information related to the jurisdictions in which they operate, which might provide the reader with a further indication of their performance in each jurisdiction, thereby providing some context on their tax position and contributions to the economy.

A discussion of how the ETR is likely to perform in the future

40

- 2

38

2019
2018

Total Tax Contribution and wider impact

Vodacom sets the bar high with its extensive disclosure applying GRI 207. It provides its public disclosure of CBCR including its total tax and economic contribution to public finances in all the jurisdictions in which it operates. For each jurisdiction it identifies the entities, ownership and nature of the business in the jurisdiction as well as the direct and indirect tax contribution and direct non-tax contributions.

For each of its mobile operating companies it also provides a breakdown and detailed explanation of the major tax types included in the total tax contribution. It structures its disclosure to also include financial and non-financial analysis aimed at providing more context and insight into the scale of activity in the various tax jurisdictions in which it operates. Furthermore, it provides insight into the reasons for the difference in the effective tax rate, tax paid rate and statutory tax rate in the various tax jurisdictions in which it operates.

	2019			
R'million	Revenue	Revenue from third parties	Revenue from other related parties*	Revenue from intragroup transactions**
Total as per consolidated annual financial statements	**86 627**			
South Africa	67 505	67 412	93	496
Tanzania	6 111	6 082	29	62
DRC	6 374	6 368	6	148
Mozambique	4 547	4 535	12	241
Lesotho	1 140	1 143	(3)	168
Nigeria	405	405	–	45
Zambia	81	81	–	20
Ghana	45	45	–	26
Kenya *(excluding Safaricom)*	48	48	–	23
Cameroon	64	64	–	20
Ivory Coast	18	18	–	19
Angola	15	15	–	12
United Kingdom	274	274	–	156
Mauritius	–	–	–	285
Guernsey	–	–	–	–
TOTAL		**86 490**	**137**	**1 721**

	2019			
R'million	Capital Expenditure	Number of employees	Amount distributed to employees in salaries and benefits	Tangible assets other than cash and cash equivalents
Total as per consolidated annual financial statements	**12 957**	**7 746**	**5 978**	**45 402**
South Africa	9 583	5 422	4 244	33 124
Tanzania	1 042	548	360	4 044
DRC	1 005	573	726	4 035
Mozambique	1 060	551	321	3 329
Lesotho	203	220	121	822
Nigeria	44	192	92	–
Zambia	5	128	34	–
Ghana	5	36	15	–
Kenya *(excluding Safaricom)*	4	22	13	6
Cameroon	5	30	14	–
Ivory Coast	–	8	9	–
Angola	–	8	3	–
United Kingdom	1	3	21	42
Mauritius	–	5	5	–
Guernsey	–	–	–	–

	2019							
	Profit before tax# R'million	Total Tax Charge* R'million	Effective tax rate ('ETR') %	Statutory tax rate %	Current Year Corporate tax charge R'million	Corporate tax paid** R'million	Corporate tax paid rate %	Comment on ETR and tax paid rate
Total as per consolidated annual financial statements	**22 089**	**6 557**	**29.7%**	**28.0%**	**6 440**	**6 535**	**29.6%**	
South Africa	16 204	5 391	33.3%	28.0%	5 321	5 452	33.6%	1
Tanzania	854	270	31.6%	30.0%	272	307	35.9%	2
DRC	(51)	80	(156.9%)	35.0%	80	60	(117.6%)	3
Mozambique	1 268	434	34.2%	32.0%	405	429	33.8%	4
Lesotho	495	126	25.5%	25.0%	119	117	23.6%	5
Nigeria	25	11	44.0%	30.0%	11	12	48.0%	6
Zambia	(26)	3	(11.5%)	35.0%	1	–	0.0%	7
Ghana	1	1	100.0%	25.0%	1	2	200.0%	8
Kenya *(excluding Safaricom)*	30	18	60.0%	30.0%	18	26	86.7%	9
Cameroon	8	3	37.5%	33.0%	3	6	75.0%	10
Ivory Coast	(10)	2	(20.0%)	25.0%	2	1	(10.0%)	11
Angola	8	1	12.5%	30.0%	1	–	0.0%	12
United Kingdom	(28)	38	(135.7%)	19.0%	37	–	0.0%	13
Mauritius	540	175	32.4%	15.0%	169	123	22.8%	14
Guernsey	(3)	4	(133.3%)	0.0%	–	–	0.0%	15
Net after tax profit from Safaricom (associate)	2 774							

The profit before tax in each jurisdiction reported in in this section of the report is after the elimination of intragroup transactions and thus would be different to the statutory profit before tax reported in the annual financial statements of those legal entities when aggregated.
* The total tax charge represents the sum of our corporate income tax, irrecoverable withholding taxes and deferred tax. Refer page 32 of the audited consolidated annual financial statements available at www.vodacom.com for more details on our tax accounting policy.
** Corporate tax paid includes dividend withholding taxes paid where dividend income is exempt from corporate tax in that jurisdiction.

Source: Vodacom Tax Transparency Report for the year ended 31 March 2019, p29–31

MTN provides context and insight by including value adding non-financial information in its tax report — in this case of its value chain analysis of the relative contributions made by each entity to the overall business and an assessment of whether profits are realised in-country and align with the functions, risks and assets of those group companies.

MTN has an extensive footprint, with operations and head office companies in 24 countries across Africa and the Middle East. Tax legislation and transfer pricing rules and regulations vary from country to country and consequently we operate in a complex and diverse tax environment.

The international tax landscape continues to evolve and the Organisation for Economic Co-operation and Development's (OECD) work on base erosion and profit shifting (BEPS) continues.

MTN Group has always paid attention to these developments with the most recent being published during 2019 whereby the OECD Secretariat put forward, and the inclusive framework adopted, a proposal for a "Unified Approach" under pillar one and the "Global Anti-Base Erosion Proposal (GloBE) – pillar two".

The Unified Approach under pillar one inter alia seeks to allocate profits earned or losses made by a multinational group company to the market jurisdictions (ie countries of the operating entities such as the MTN opco) over and above the profit or loss that is already realised in country by the operating companies. If this proposal is successful, this would represent a major change of the international tax/transfer pricing system in the last century.

The group has an extensive footprint across Africa and the Middle East, and operates on a decentralised basis. Consequently, the group applies its transfer pricing on a transaction-by-transaction basis.

During 2018 and 2019, the group undertook a value chain analysis (VCA) which is a corroborative economic analysis which evaluates the group's performance relative to its peers, and how value (ie EBITDA†) manifests between:

(a) group companies which do not engage with customers; and
(b) the MTN opcos who engage with customers.

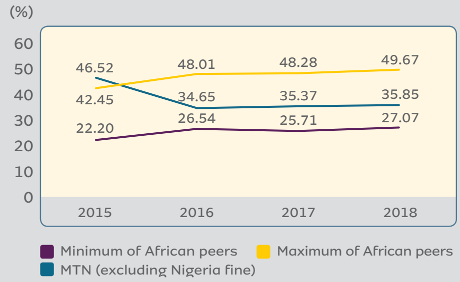
The VCA exercise was done to gain insight into the relative contributions made by each entity to the overall business.

Consequently, the group sought to assess whether the profit realised by the MTN opcos:

(a) aligns with the functions, risks and the assets of those group companies (as a stress test for the BEPS project); and
(b) is realised in country (as a stress test of the proposals in the Unified Approach).

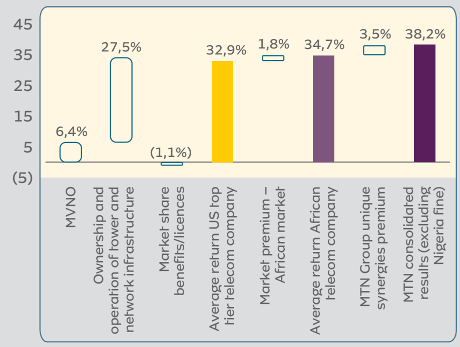
Also, as additional context, we noted that competitors of MTN in the region over the period 2015 to 2018[5] realised an average EBITDA† margin of 34,7% as compared to the weighted average of 38,2% achieved by MTN (excluding the impact of the fine in Nigeria).

The following graph illustrates the group's EBITDA† margin in comparison to the minimum and maximum EBITDA† margins realised by competitors in the region for the period 2015 to 2018.



The graph that follows shows the different levels of profitability within the worldwide telecommunication industry value chain, from 2015 to 2018. The graph also illustrates MTN Group's "unique synergy" premium above the profitability of its peers from 2015 to 2018 (adjusted for the fine in Nigeria).

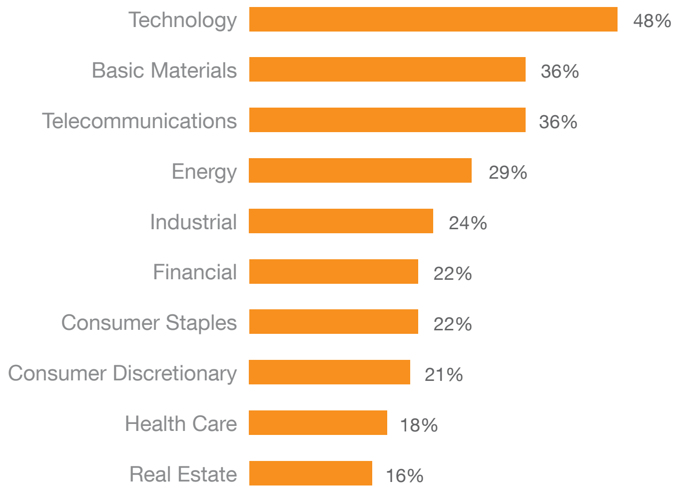
MTN outperformed its peers by 3,5% of the group's EBITDA†. The differential is inter alia attributable to brand equity, procurement and other synergies unique to the group.



Most, if not all, MTN opcos compete favourably with their peers. They have consistently achieved attractive profit margins, and have taken reasonable tax positions in the countries within which they operate.

Source: MTN Group Limited Tax report for the year ended 31 December 2019, p4

Figure 12. Total tax contribution and wider impact: Average score per sector

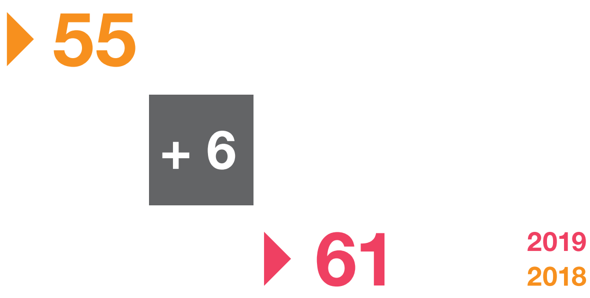


Base: 100
Source: PwC analysis

The majority of companies provide a list of jurisdictions in which they operate with an explanation of the nature of their operations in those jurisdictions, and also mention the number of entities and details of these entities in the jurisdictions. However, not all of these companies demonstrate the link between taxes paid in relation to this information. More than half of the companies provide a breakdown of different taxes paid by the organisation. However, only a third of these companies provide detail on the nature of the taxes included, as mentioned above. Similarly, only a third of these companies provide disclosure of taxes paid on a country-by-country or geographical regional basis.

There has been a significant increase in the number of companies that mention paying taxes in the developing world and their commitment to the SDGs. Unfortunately, very few companies mention the importance of tax transparency and stakeholder interest in tax and fewer organisations provided a description of the assurance process for disclosures relating to tax and payments to governments compared to previous years.

Breakdown of the different types of taxes paid



Taxes/levies paid/disclosed on a country-by-country/geographic region basis

24

+10

34

2019
2018

Paying taxes in the developing world and commitment to SDGs

23

+23

46

2019
2018

Importance of tax transparency/stakeholder interest in tax

20

+0

20

2019
2018

Assurance process for disclosures relating to tax and payments to governments

13

- 5

8

2019
2018

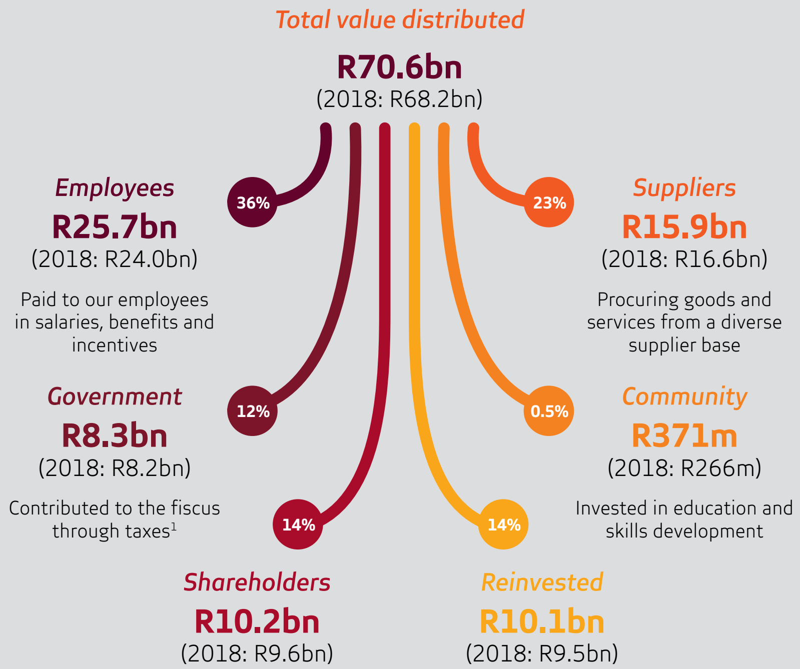
Absa provided a detailed and visual disclosure of its total value distributed and a breakdown of contributions to the fiscus in various jurisdictions.

Source: Absa Group Limited 2019 Environmental, Social and Governance Report, p36

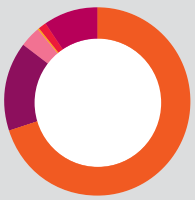
201-1 Direct economic value generated and distributed

Through sustainable financial performance, we create wealth and in turn distribute this wealth to key stakeholders – namely employees, suppliers, government, society and shareholders – while retaining funds for future growth.

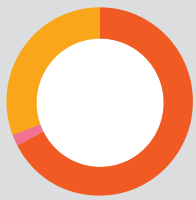
Total income **R80.0bn** + Income from our associates and joint ventures **R0.2bn** – Impairments **R7.8bn** – Non-controlling interest **R1.8bn** = Total value available for distribution **R70.6bn**



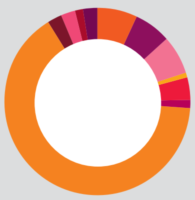
***Taxes paid** (2018 comparison)*
Per tax type (%)



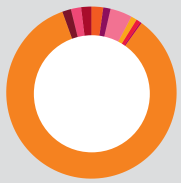
***Taxes collected on behalf of governments (%)** (2018 comparison)*
Per tax type (%)



***Taxes paid** (2018 comparison)*
Per country (%)

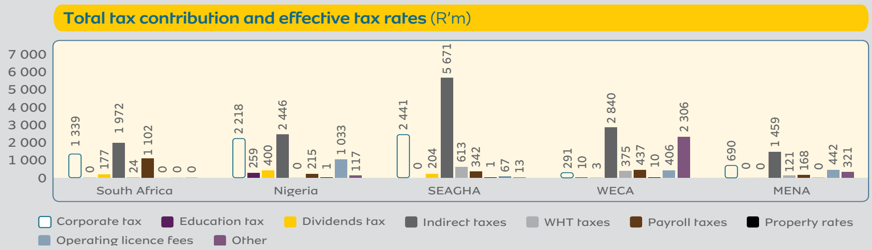


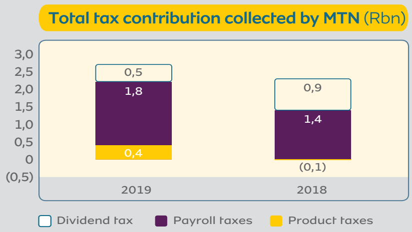
***Taxes collected on behalf of governments** (2018 comparison)*
Per country (%)

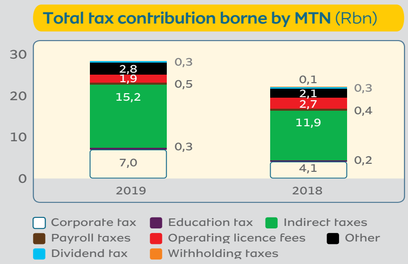


Source: Absa Group Limited 2019 Environmental, Social and Governance Report, p37

MTN uses unique visualisations to extrapolate on its total tax contribution and government levies paid in respect of the 2019 and 2018 financial years, which are classified by opco country and regions.



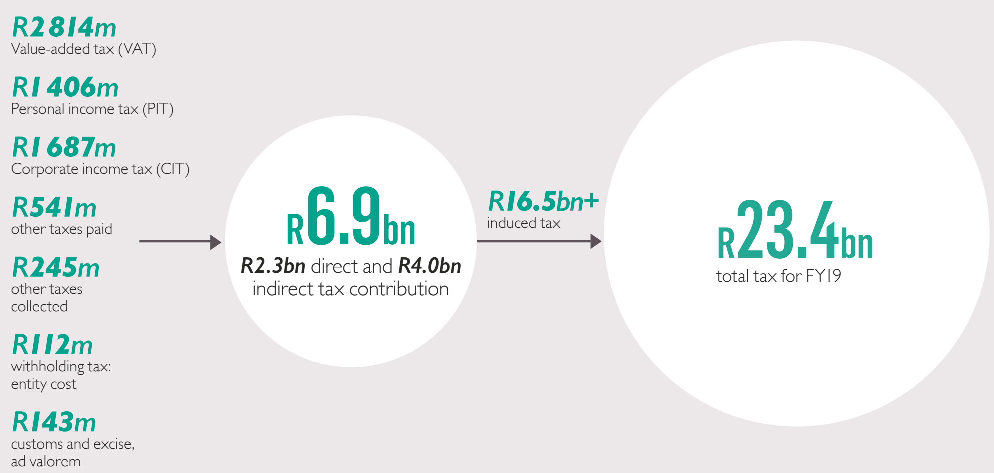




Source: MTN Group Limited Tax report for the year ended 31 December 2019, p8

Naspers uses a unique economic impact assessment to provide a holistic view of its contribution to the South African economy and how this supports local government.

NASPERS CONTRIBUTED AN ESTIMATED R24.6BN TO THE SOUTH AFRICAN FISCUS IN FY19



Source: Naspers Integrated Annual Report 2019, p49

In its report, Naspers states:

"The assessment of Naspers' contribution to the South African economy, and how this supports local government, was conducted in a two-step approach. Firstly, we calculated our total tax contribution, including direct taxes, indirect taxes and induced taxes (using the Economic Impact Assessment model). Thereafter we estimated our social impact. The basis for this analysis is the government spending portions as per National Treasury's budget. Naspers' total tax contribution is divided in the same ratios as per government spending. In this way Naspers, through its tax contributions, is able to contribute to the funding of national social objectives. As an illustrative example, Naspers' total 2019 tax contribution to South Africa's National Treasury is able to feed 77 146 children, finance 1 794 hospital beds and 481 doctors, 6 549 educators, 5 014 low-cost houses and 6 327 police officers."

ILLUSTRATIVE EXAMPLE

Illustrative example of social benefits if National Treasury allocates Naspers's total tax contribution of R24.6bn based on the FY19 budget allocation.

EDUCATORS 6 549	LOW-COST HOUSES 5 014
HOSPITAL BEDS 1 794	DOCTORS 481
CHILDREN FED 77 146	POLICE OFFICERS 6 327

Source: Naspers Integrated Annual Report 2019, p49

What to do now?

A standardised tax transparency framework can provide clarity, but even more important than the framework is the understanding and buy-in from all involved that an organisation's approach to tax transparency is not taken in isolation. Tax is part of an organisation's messaging on value creation and should be considered as part of the identity of the company, broader internal and external stakeholder reporting and sustainability commitments of the organisation.

> *A company's tax disclosure is determined by who its stakeholders are and for what purpose it is providing the disclosure. What is the company already obliged to disclose? What additional information can help to tell the whole story, which may not be fully explained by legal disclosure obligations?*
>
> *In our view there is not an optimal disclosure level that applies for all businesses. There is also no generic answer, and tax transparency should not be a 'tick-box' exercise as there is no point in voluntary tax transparency disclosures unless they add value for the company and its stakeholders.*

When considering how to deal with challenges and nuances a company may expect to face through the process of more transparent tax disclosure, it is not only tax and finance teams that should take note, but also investor relations, assurance, governance and CSI/sustainability teams.

As companies seek to build resilience in such challenging times, a tax transparency strategy that is sustainable, both for the business and for the wider society it operates in, will build long-term value for all stakeholders.

The general trend towards becoming more publicly tax transparent is clear, and we don't think this will reverse. It must be kept in mind that tax is a complex area, which is often very technical and difficult to understand. Typically, disclosures in this field are not intuitively accessible to a non-expert audience. Therefore, it is important to prepare relevant information in such a way that it is easily and quickly comprehensible. Complex matters should be presented simply and visually. The targeted audience should be able to understand statements at first glance. Apparent consistency within a report is also essential.

Misunderstanding or misinterpretation of published information is undesirable and must be avoided. In addition, it may be reasonable to assist readers by providing extra information. For example, organisations may want to illustrate the mechanisms of the tax systems they operate in or comment on specific market conditions that may have had a material effect on the figures presented in the report.

Last but not least, providing information that links tax to an organisation's ESG framework or similar sustainability goals is relevant and valuable. [13]

13 "Public tax transparency. The value of participating," PwC, 2019. https://www.pwc.ch/en/publications/2019/Public-tax-transparency_EN_Paper-3-web.pdf

Contact us

Troopti Desai

Tax Reporting & Strategy Lead
PwC Southern Africa

+27 (0) 11 797 4552
troopti.desai@pwc.com

Carla Perry

Tax Reporting & Strategy
PwC South Africa

+27 (0) 78 735 9393
carla.perry@pwc.com