

# AN EVALUATION OF TAX PRESENTATION AND DISCLOSURE OF LISTED COMPANIES IN SOUTH AFRICA

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## **ABSTRACT**

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The significance of informative, decision-useful information is emphasized through presentation and disclosure. Descriptive disclosures can facilitate users to gain a better comprehension of the reporting entity in order to make enhanced investment decisions. Users of financial and non-financial reporting depend to a great extent on the reported information of companies. Therefore, it is imperative to assess the reported information of companies to ascertain whether this information is adequate and useful. This study focuses on the reporting of tax related matters of listed companies in South Africa. Tax reporting is divided into two broad categories, namely: mandatory tax reporting and voluntary tax reporting. A combined tax reporting approach, which consists of a combination of mandatory and voluntary tax reporting, can be described as excellent reporting.

Mandatory tax reporting is compulsory for all listed companies in South Africa. The evaluation of mandatory tax reporting in this study was based on the requirements of the International Financial Reporting Standards (IFRS). Voluntary tax reporting is not compulsory, but rather founded on a “comply or explain” approach. The International Integrated Reporting Council (IIRC) and Global initiatives are the foundation on which voluntary tax reporting is established.

Although one would hope that increased pressure to improve the transparency in tax reporting would facilitate tax compliance from companies, decoupling, as part of institutional theory, demonstrates that there is a gap between formal policies and actual organizational practices.

Keywords:

*Mandatory reporting*

*Voluntary reporting*

*IFRS*

*Tax*

## OPSOMMING

# ‘N EVALUASIE VAN BELASTING OPENBAARMAKING VAN GENOTEERDE MAATSKAPPYE IN SUID-AFRIKA

deur

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Die belangrikheid van goed deurdagte besluite word deur openbaarmaking beklemtoon. Beskrywende openbaarmaking kan gebruikers help om uitgebreide kennis rakende die verslagdoeningsentiteit te bevestig om sodoende beter beleggingsbesluite te neem. Gebruikers van finansiële en nie-finansiële verslae verlaat hulle grootendeels op die verslagdoenende inligting van maatskappye. Dit is daarom noodsaaklik om hierdie openbaarmaking van inligting te evalueer om dit na waarde te skat.

Hierdie studie fokus op die openbaarmaking van belastingsinligting van genoteerde maatskappye in Suid-Afrika. Belasting openbaarmaking word in twee breë kategorieë verdeel, naamlik: verpligte en vrywillige openbaarmaking. ‘n Gekombineerde belasting verslagdoeningsbenadering kan as uitnemende verslagdoening beskryf word.

Verpligte belasting openbaarmaking is ‘n voorvereiste vir genoteerde maatskappye in Suid-Afrika. Daar is gebruik gemaak van die vereistes van “International Financial Reporting Standards (IFRS)” vir die evaluering van hierdie navorsingsprojek. Vrywillige belasting openbaarmaking is nie verpligtend nie, maar is gefundeer op ‘n basis van “voldoen of verduidelik”. Die “International Integrated Reporting Council (IIRC)” en wêreldwye inisiatiewe is die basis waarop vrywillige belastingsopenbaarmaking gesetel word.

Alhoewel mens kon verwag dat die verhoogde druk op maatskappye om deursigtige belastingopenbaarmaking na te volg hulle sal noop om hulle belastingnakoming te verhoog, bestaan daar 'n gaping tussen formele beleid en die werklike toepassing daarvan in maatskappye.

Sleutelwoorde:

*Verpligte openbaarmaking*

*Vrywillige openbaarmaking*

*IFRS*

*Belasting*

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# AN EVALUATION OF TAX PRESENTATION AND DISCLOSURE OF LISTED COMPANIES IN SOUTH AFRICA

## CHAPTER 1

### INTRODUCTION

#### 1.1 BACKGROUND

The significance of informative, decision-useful information is emphasized through presentation and disclosure. Descriptive disclosures can facilitate users to gain a better comprehension of the reporting entity in order to make enhanced investment decisions. The presentation and disclosure of information in the financial reports of a company are indispensable to establish communication between the reporting entity and the outside world. Whilst this reported information increases external stakeholders' trust and confidence, the evaluation of ethics, fundamental values and governance are also increased internally (King Committee on Governance, 2009:12; Hindley & Buys, 2012:1249).

Apart from the benefit of increased internal and external stakeholder trust, in order to stay competitive in the capital market, a company needs effective and adequate financial reports. "Running out of gas" is the phrase Oberholzer (2011) used to describe a company's financial statements with a lack of adequate data. If the financial reports of a company are insufficient, comparability and comprehensibility of the information becomes almost impossible.

To assist with the comparability and comprehensibility of information, mandatory reporting requirements, like International Financial Reporting Standards (IFRS) and the framework of the International Integrated Reporting Council (IIRC), have been developed over the years.

Initially only the IFRS framework existed and it was presumed that the financial reporting of companies that complied with IFRS would be sufficient. However, for the stakeholders

of today, namely: investors, consumers and other citizens of a country, the sustainability of planet earth became increasingly more important (Swart: 2014). Stakeholders in modern times are emerging more sensibility with regards to the performances of entities. It therefore seems insufficient to evaluate a company's performance in modern times based only on information supplied by the mandatory presentation and disclosure requirements as per the IFRS, which can be described as "a photograph of a moment in time" (King Committee on Governance, 2009:12; Ho & Taylor, 2007).

The sustainable success of a company is about more than the economic success, it also involves the environmental excellence and social fairness (Elkington, 1997). With this in mind, the King III Report and Code on Governance added a new component to financial reporting requirements which entails social, environmental and economic disclosures. This so-called triple-bottom-line approach was first introduced by John Elkington (1997) and involves an all-inclusive representation of the company's performance (Rogers & Ryan, 2001; Hindley & Buys, 2012:1251). The combination of voluntary and mandatory disclosure will thus permit stakeholders to formulate a knowledgeable estimation of the economic value and sustainability of a company (King Committee on Governance, 2009:109). The triple-bottom-line approach is endorsed by the International Integrated Reporting Council (IIRC) through a process called 'integrated reporting'.

Integrated reporting creates value for a company by communicating social, environmental and economic aspects. It is envisaged that integrated reporting will ensure that "integrated thinking is embedded within mainstream business practice" (IIRC 2013:4). The IIRC Framework imparts broad principles without any reporting standards for the preparation of an integrated report, which is supposed to be an indication to stakeholders of how organizations create value over time. An integrated report should benefit all stakeholders interested in an organization's ability to create value over time. According to Accounting Simplified (2010-2013) the stakeholders that can be seen as possible users of reported information are the managers, shareholders, potential investors, financial institutions, suppliers, customers, current and future employees, the general public, government and governmental institutions.

Managers can be identified as some of the most significant users of financial reporting. They require the reported information to make important decisions regarding the company's financial performance and position in the market. International investors require prime, all-inclusive information and facts in order to assess and comprehend the quality of reported earnings, as well as changes in the company's equity and cash flows. Shareholders make investment decisions based on reported information from companies' annual statements. Therefore, reported information is necessary for shareholders to appraise the risk and return of existing and future investments in a company. Potential investors can also be classified as users, since they need to ascertain whether it will be sustainable and practicable to invest in a company. Financial institutions (e.g. banks) are required to analyse a company's financial statements so as to decide whether a loan or credit can be granted to a company. They specifically examine a company's financial strength. A company's financial statements are an indication of the entity's creditworthiness and therefore imperative for suppliers to decide whether goods can be supplied on credit. Customers (especially if a customer is dependent on a company) assess a company's financial statements to determine whether the entity has sufficient resources to guarantee a steady supply of goods in the future. On the other hand, current and future employees will use financial information to determine whether the company is profitable to work for, so as to establish job security. The information disclosed may be an indication of the possible effects of a company on the economy, environment and local community and thus important for the general public. Governments and Governmental institutions use financial statements to ascertain the accuracy of tax returns and tax declared. Furthermore, governmental institutions use reported information to determine the economic progress of different sectors in the economy.

Although the presentation and disclosure of information are important for a wide variety of internal and external users, it can, however, have positive or negative impacts on a company. If a company chooses to disclose information, stakeholders will know exactly what the current performance of the company is and can therefore decide whether to be involved in the company or not. On the other hand, should a company choose not to disclose certain information, it may be an indication that the company has something to hide or it may relate to something that they are not proud of. It is therefore important to enlighten stakeholders with regards to the extent to which companies comply with the

required presentation and disclosure requirements, in order for them to make important investment decisions.

## 1.2 RESEARCH OBJECTIVE

The objective of this study will be to determine to what extent the top 50 JSE listed companies comply with the tax presentation and disclosure requirements.

In line with the international disclosure requirements development, this study will have the following two secondary objectives:

- To determine to what extent the top 50 JSE listed companies comply with the **mandatory** tax presentation and disclosure requirements.
- To determine to what extent the top 50 JSE listed companies comply with the **voluntary** tax presentation and disclosure requirements.

## 1.3 DELIMITATIONS OF THE STUDY

This study is limited to the top 50 JSE listed companies as on 31 December 2013, based on market capitalisation. This sample is regarded as sufficient, since it captures 87% of the total market capitalisation of all JSE listed companies as on 31 December 2013. The focus of this study will furthermore only be on the tax presentation and disclosure. Although the quality of the presentation and disclosures made could be evaluated in certain instances, the focus of this study was to mainly evaluate the extent of compliance of companies and it communicates **what** companies disclose.

## 1.4 RESEARCH METHODOLOGY

### 1.4.1 General research methodology

This study is positioned within the interpretive paradigm as an attempt was made to comprehend the extent of tax reporting of the top 50 JSE listed companies. This study evaluates both the **mandatory** and the **voluntary** tax reporting of these companies.

In this study the IFRS tax disclosure requirements are identified and summarised in a **mandatory** tax reporting framework (refer to chapter 2.2). For the **voluntary** tax reporting, a tax transparency framework is developed (refer to chapter 3.2). Both these frameworks were utilised with the goal of evaluating the different reports and financial statements within the broader interpretative paradigm. These frameworks have two purposes, of which the first is an analysis grid for a thematic analysis and the second is a measuring tool to rank the outcome of the analysis. The results are expressed by way of descriptive statistics and the use of natural language argument. Limited use of inferential statistics assisted with quantifying the correlation between variables.

The analyses of the tax disclosure requirements were performed on the reports that were publicly available to stakeholders.

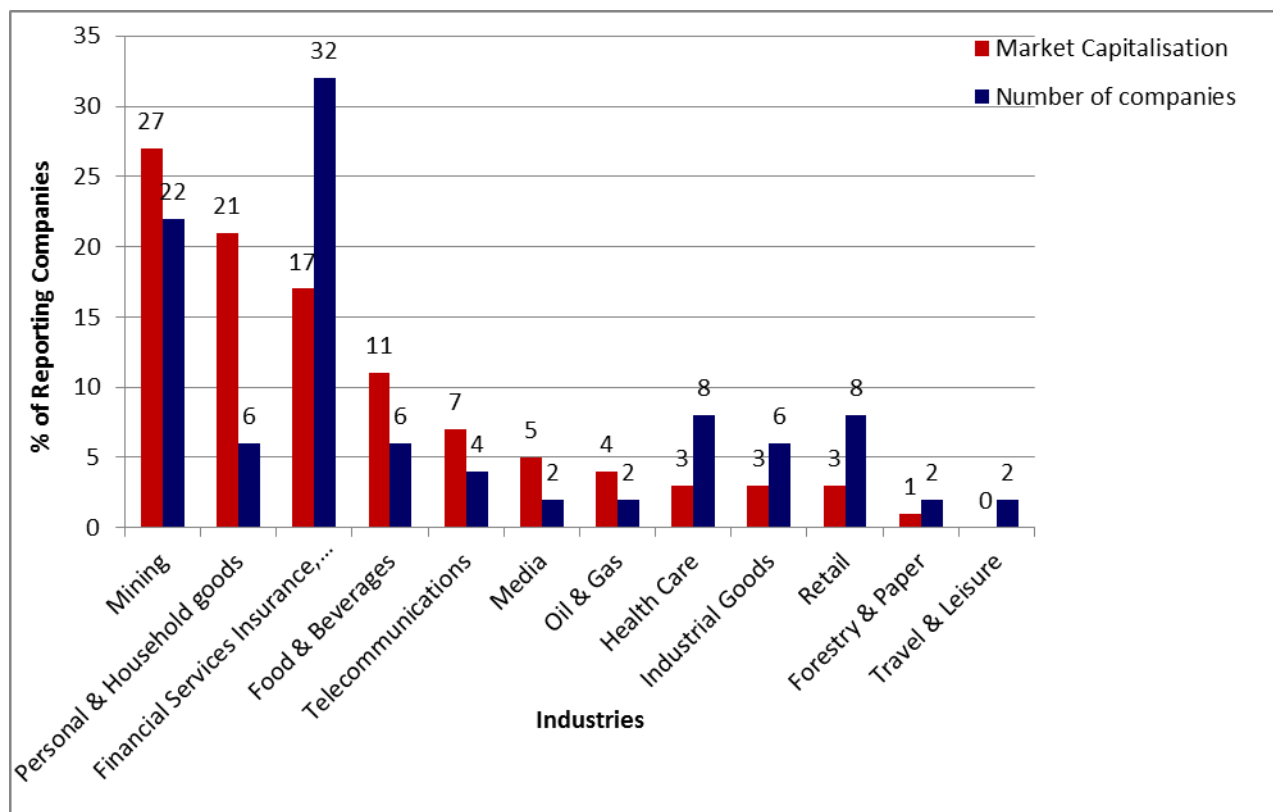
### 1.4.2 Sample

The top 50 JSE listed companies were investigated, based on market capitalisation as on 31 December 2013. The sample captures 87% of the total market capitalisation of all JSE listed companies as on 31 December 2013. The market capitalisation of companies in the sample varies from R1,1 trillion (British American Tobacco Plc) to R30,2 billion (Distell Group Ltd).

The sample represents companies across 12 industries (refer to Figure 1). Companies from the mining industry have the greatest representation in the sample - 11 companies (22% of the sample), representing 27% of the market capitalisation of the top 50 JSE listed companies. The personal and household goods industry only included three companies

(6% of the sample), but the market capitalisation of this industry was the second highest (21% of market capitalisation of the top 50 JSE listed companies). If the finance, insurance and real estate industries are combined as is done in the Standard Industry Classification (SIC) codes, this industry represents 17% of the market capitalisation and includes 16 companies (32% of the sample). The food and beverages industry is the smallest and represents 11% of the market capitalisation through three companies (6% of the sample). As a result, the sample represents a range of industries with the mining industry dominating the market capitalisation, whilst the highest number of companies is from the finance, insurance and real estate industries.

**Figure 1 Industry representation of sample**



## 1.5 STRUCTURE

This study conveys its results in three different parts. It commences with Chapter 2, which deals with the **mandatory** tax reporting presentation and disclosure requirements. This is followed by Chapter 3, which deals with the **voluntary** tax reporting presentation and this study is concluded in Chapter 4.



## CHAPTER 2

### MANDATORY TAX PRESENTATION AND DISCLOSURE

#### 2.1 INTRODUCTION

According to Owusu-Ansah (1998:609), mandatory disclosure is the obligated data and information to be disclosed and presented in a company's Annual Financial Statements. This type of disclosure is primarily focused on the financial indicators and economic issues of a company. Mandatory disclosure is specifically required, as the possibility will always remain that a company will not adhere to generally accepted disclosure practises, which will have a detrimental effect on the trustworthiness of information. Popova, Georgakopoulos, Sotiropoulos & Vasileiou (2013:2), therefore believes that "the credibility of the information in capital markets is positively influenced by the existence of disclosure regulation, which will ensure that companies comply to the regulatory requirements". Mandatory disclosure is consequently governed and regulated by regulatory agencies, for example the International Accounting Standards Board (IASB) in the form of the prescriptive IFRS statements.

This mandatory information is required, as regulatory bodies want to protect the benefit of and minimize the information gap between knowledgeable and non-knowledgeable investors by requiring companies to disclose a minimum level of information (Healy, Hutton & Palepu, 1999:501). The information required by mandatory reporting also forces companies to present and disclose information which they may want to hide, because the information may provide a negative reflection on the business, and assist in maintaining a certain standard in capital markets (Darrough, 1993).

In order to assess the extent of compliance with the mandatory tax presentation and disclosure requirements of the top 50 JSE listed companies, this chapter continues with the development of a mandatory tax disclosure framework (section 2.2). This framework served as the foundation of the mandatory tax reporting evaluation and the results of this evaluation is presented in section 2.3. Similar studies were conducted in 2002 (Stiglingh & Kotze, 2002), as well as in 2006 (Meyer, Stiglingh & Venter, 2006). At that time, in both

studies, it was evident that 100% compliance with the requirements was not met. The results presented in this study will also include the progress of mandatory tax reporting in comparison with these earlier studies.

## 2.2 MANDATORY TAX DISCLOSURE FRAMEWORK

This study is positioned within the IFRS, given that the extent of compliance of tax presentation and disclosure of the top 50 JSE listed companies was measured. IFRS were used to develop a mandatory tax disclosure framework, as it is mandatory for listed companies to prepare their financial statements in accordance with IFRS. This proclamation is required by JSE listing requirement 8.62(b) and section 29(4) of the Companies Act 2008, Act No. 71 of 2008. A mandatory tax disclosure framework was developed and used to evaluate the annual financial statements (in some instances the annual report and integrated report) of the companies.

The development of the mandatory tax disclosure framework commenced with the minimum content disclosure requirements of annual financial statements applicable to JSE listed companies, as set out in the International Financial Reporting Standards (IFRS). An electronic search of the word “tax” was done in the IFRS’s database to identify all the standards where tax disclosure is compulsory. Tax disclosure requirements was found in IAS 1, IAS 7, IAS 10, IAS 12, IAS 26, IFRS 3, IFRS 5, IFRS 8, and SIC 25 (Refer to table 1 below).

**Table 1 Summary of IFRS tax disclosure requirements**

Relevant Standard	Paragraph reference
<b>International Accounting Standards</b>	
<b>IAS 1</b> <i>Presentation of Financial Statements</i>	par 54(n), 54(o), 56, 60, 61, 82(d), 90, 91, 120
<b>IAS 7</b> <i>Statement of Cash Flows</i>	par 14(f), 35, 36
<b>IAS 10</b> <i>Events after Reporting period</i>	par 22(h)
<b>IAS 12</b> <i>Income taxes</i>	par 71, 74, 77, 78, 79, 80(a)-(h), 81(a-k), 82, 82A, 87A, 88, B13
<b>IAS 26</b> <i>Accounting and Reporting by Retirement Benefit Plans</i>	par 35

Relevant Standard	Paragraph reference
<b>International Financial Reporting Standards</b>	
<b>IFRS 3</b> <i>Business Combinations</i>	par B64(k), B67(d)(iii)
<b>IFRS 5</b> <i>Non-current Assets Held for Sale and Discontinued Operations</i>	par 33
<b>IFRS 8</b> <i>Operating Segments</i>	par 24, 23, 28
<b>Standard Interpretations Committee</b>	
<b>SIC-25</b> <i>Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders</i>	par 4

The mandatory tax disclosure framework was amended according to feedback from staff members in the Department of Taxation at the University of Pretoria. This mandatory tax disclosure framework was also compared to a similar disclosure framework developed by PriceWaterhouseCoopers (PWC) and it was found that the mandatory tax disclosure framework developed included all the aspects listed in the PWC framework. The mandatory tax disclosure framework presented in Annexure A; however, include additional aspects not listed in the PWC framework. All these aspects were reconsidered, but seeing as they relate to tax disclosure and are specifically required by IFRS, they were still included in the framework presented.

The final mandatory tax disclosure framework (refer to Annexure A), is divided into 5 categories (refer to Annexure A). These 5 categories are: Statement of Financial Position (category 1), Statement of profit or loss and other comprehensive income (category 2), Statement of cash flows (category 3), Statement of changes in equity (category 4), and the Notes to financial statements (category 5).

### 2.2.1 Data used in the evaluation

The Annual Reports, Annual Financial Statements and Integrated Reports for the top 50 JSE listed companies from the McGregor BFA Database and companies' websites for the 2013 financial period, were sourced. Both the Annual Reports and the Integrated Reports were sourced, because particular companies, for instance SABMiller plc.'s, annual financial statements are included in the Annual Report.

## 2.2.2 Data analysis

Two independent judges were involved in the data analysis process. These two judges were selected owing to their excellent knowledge in the accounting field. Both of them recently passed the ITC (Initial Test of Competence) exam and are currently busy with their academic articles at the University of Pretoria. Each judge received 26 companies to evaluate.

The selection of the first 25 companies for each judge was made by listing the top 50 JSE listed companies in Microsoft Excel, from the company with the highest market capitalisation to the company with the lowest market capitalisation. These companies were numbered from one to fifty. The even numbers were then given to one judge and the uneven numbers to the other.

The 26<sup>th</sup> company for each judge was randomly selected and evaluated by both judges, to ensure equality in the analysis of the data. The separate evaluation of the 26th company, which was evaluated by both parties, was compared and found to be in full agreement with each other. Although it is acknowledged that an element of subjectivity might have influenced the two judges, the 100% agreement of the evaluation of the selected company indicates that this risk might not substantially impact the results of this study. It is further important that the judges should compare the required reports with objective listed requirements and this might additionally reduce the risk of subjectivity.

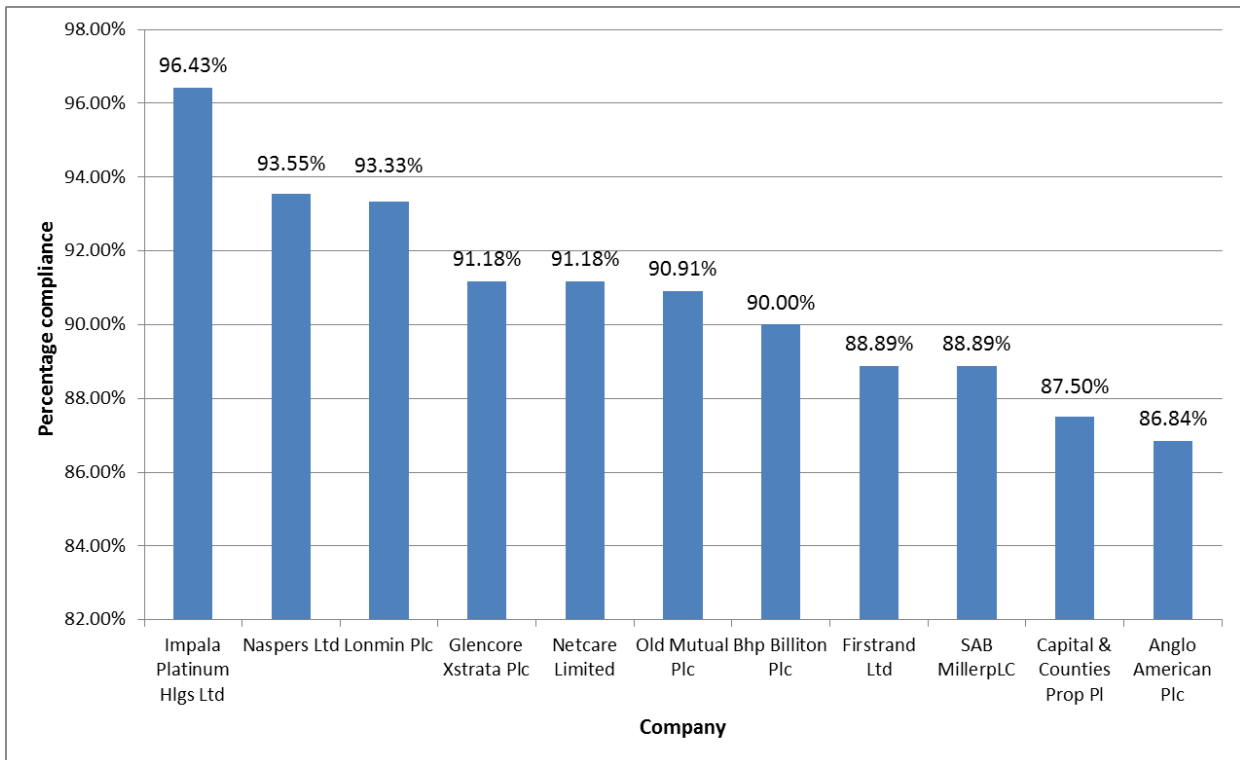
If it was evident from the data in the Financial Statements of a company that a certain requirement did not apply, it was indicated in the “Not Applicable” column. For example, companies are required to disclose the amount of income tax related to each item of other comprehensive income. If the company did not have other comprehensive income during the current year, this requirement was not applicable. The percentage of companies which complied with a requirement was determined by excluding the “not applicable” column. A comparison was made between this study and the previous studies where the requirements stayed the same.

## 2.3 RESULTS

Based on the evaluation of the mandatory tax disclosure framework, 86% of the top 50 JSE listed companies complied with more than 70% of the IFRS requirements, whilst an average compliance of 79.35% was found in this study.

The results indicate that the top 10 companies (22% of the sample) distinguished themselves with excellent mandatory tax reporting, with an average compliance of 90.79% (refer to figure 2).

**Figure 2: Top 10 Companies**



### 2.3.1 Mandatory tax disclosure results according to criteria

The extent of mandatory tax disclosure of the companies, relevant to each criterion in the mandatory tax disclosure framework, is presented in this section:

- Category 1: Statement of Financial Position (Section 2.3.1.1)
- Category 2: Statement of profit or loss and other comprehensive income (Section 2.3.1.2)
- Category 3: Statement of cash flows (Section 2.3.1.3)
- Category 4: Statement of changes in equity (Section 2.3.1.4)
- Category 5: Notes to financial statements (Section 2.3.1.5)

#### 2.3.1.1 Statement of Financial Position

**IAS 1 par 54(n):** *Liabilities and assets for current tax, as defined in IAS 12, shall be included as a separate line item.*

**IAS 1 par 54(o):** *Deferred tax liabilities and deferred tax assets, as defined in IAS 12, shall be included as a separate line item.*

**IAS 1 par 56:** *When an enterprise presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).*

**IAS 1 par 60 & IAS 1 par 61:** *Disclose the amount of the non-current portion of deferred or current taxes that is expected to be recovered or settled after more than 12 months.*

**IAS 12 par 71:** *An entity shall offset current tax assets and current tax liabilities if, and only if, the entity:*

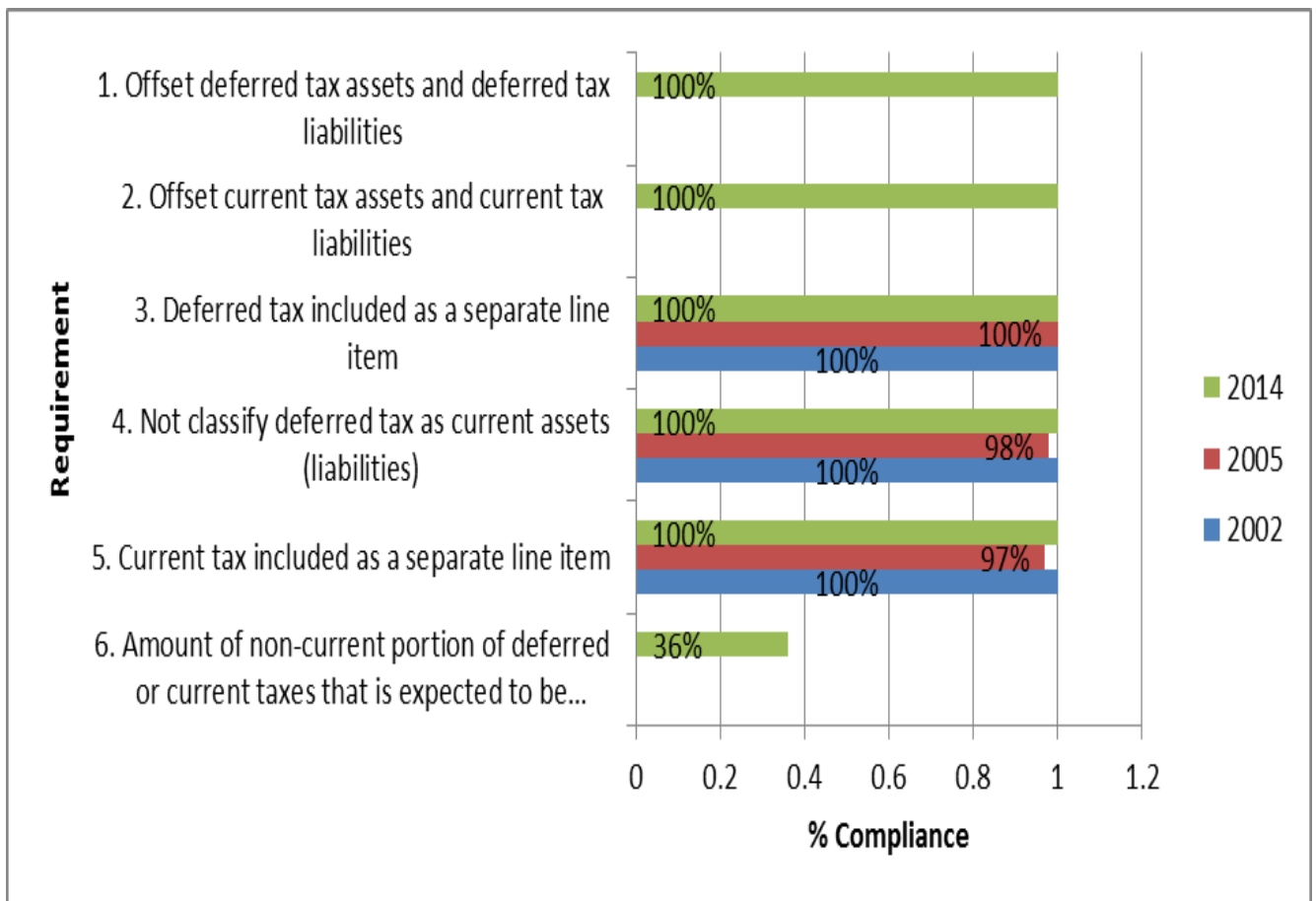
- a. *Has a legally enforceable right to set off the recognised amounts; and*
- b. *Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.*

**IAS 12 par 74:** *An entity shall offset deferred tax assets and deferred tax liabilities if, and only if:*

- a. *The entity has a legally enforceable right to set off current tax assets against current tax liabilities; and*
- b. *The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:*
  - i. *The same taxable entity; or*
  - ii. *Different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.*

The Face of the Statement of Financial Position shows an average compliance rate of 89%. Figure 3 (below) set out the compliance rate of each requirement of the Statement of financial position. Where applicable, the results are compared to the previous studies conducted. The results of the 2014 study (this study) are shown in green, 2005 in red and 2002 in blue.

**Figure 3 Statement of Financial Position results**



Requirement 3, 4 and 5's compliance rate has improved from 2005 to achieve a 100% compliance rate. Requirement 1, 2 and 6 were not applicable in either one of the previous studies. Requirement 6 only indicates a 36% compliance rate, which is very low and needs improvement. All the companies disclose a deferred tax amount, but they do not distinguish whether the recovering or settlement date will be more or less than 12 months. Figure 4 is an extract from Anglo American plc.'s 2013 Annual Report, with the mandatory disclosure of the expiry dates of deferred tax.



## Figure 4 Deferred tax expiry dates

The Group has the following balances in respect of which no deferred tax asset has been recognised:

US\$ million	2013				2012			
	Tax losses - revenue	Tax losses - capital	Other temporary differences	Total	Tax losses - revenue	Tax losses - capital	Other temporary differences	Total
<b>Expiry date</b>								
Within one year	16	-	-	16	17	-	-	17
Greater than one year, less than five years	294	-	-	294	286	-	-	286
Greater than five years	3	-	4,370	4,373	3	-	2,997	3,000
No expiry date	4,858	753	2,077	7,688	4,467	1,097	1,953	7,517
	5,171	753	6,447	12,371	4,773	1,097	4,950	10,820

(Source: Anglo American Plc, 2013:181)

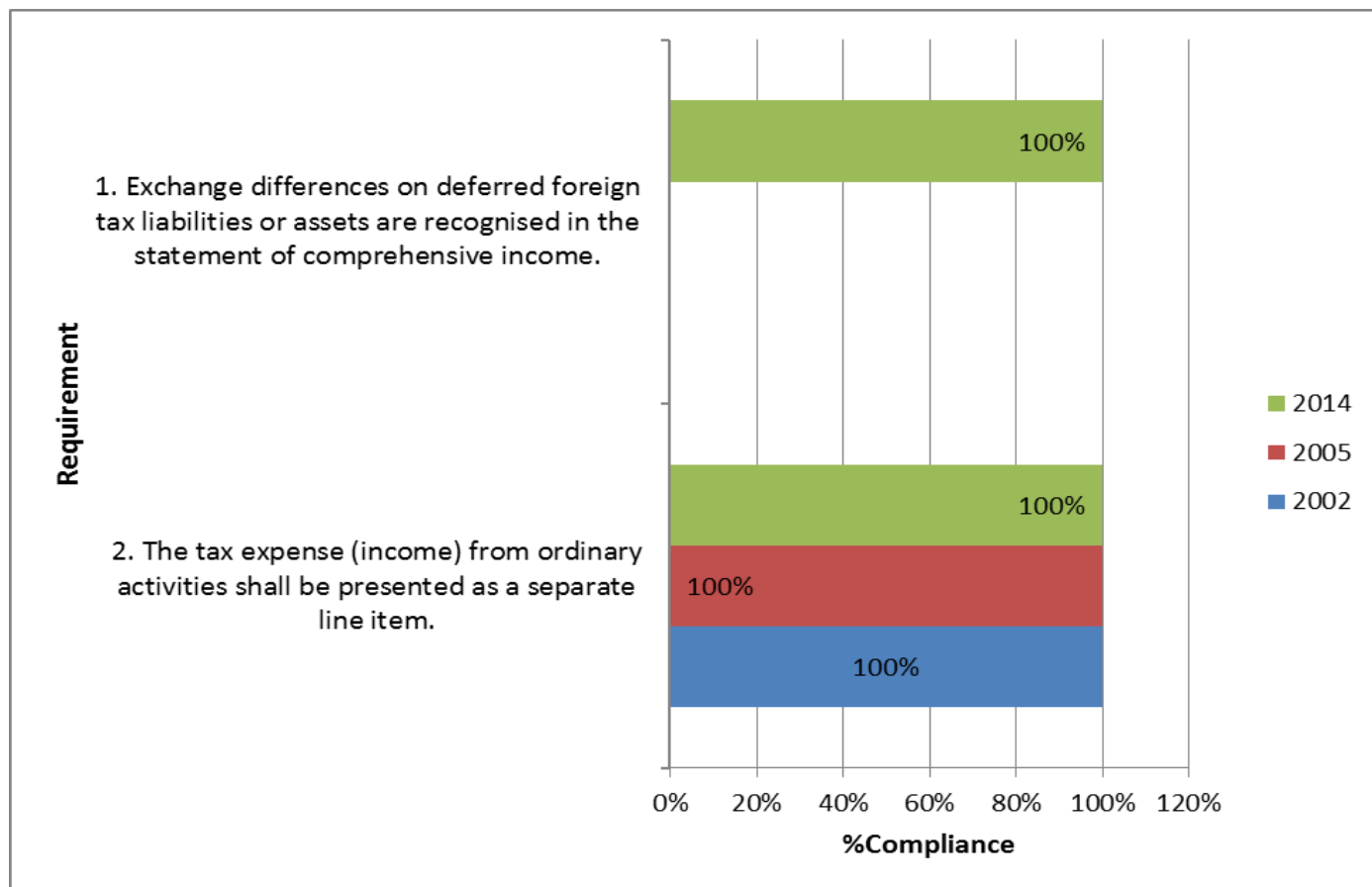
### 2.3.1.2 Statement of profit or loss and other comprehensive income

**IAS 1 par 82(d) & IAS 12 par 77:** *The tax expense (income) related to profit or loss from ordinary activities shall be presented as a separate line item.*

**IAS 12 par 78:** *Where exchange differences on deferred foreign tax liabilities or assets are recognised in the statement of comprehensive income, such differences may be classified as deferred tax expense (income) if that presentation is considered to be the most useful to financial statement users.*

As can be seen in Figure 5 (below), companies tend to disclose the necessary information in the Statement of profit or loss and other comprehensive income, resulting in an average of 100% compliance.

**Figure 5 Statement of profit or loss and other comprehensive income results**



Although requirement 1 was not applicable in the previous studies, it was found in the current study to be met by 20 companies. This requirement was not applicable to the other 30 companies. Some of the companies disclosed more information than necessary for requirement 2, for example BHP Billiton Plc. disclosed its Royalty-related taxation, while Barclays Africa Group Limited disclosed its indirect taxation in the Statement of profit and loss and other comprehensive income.

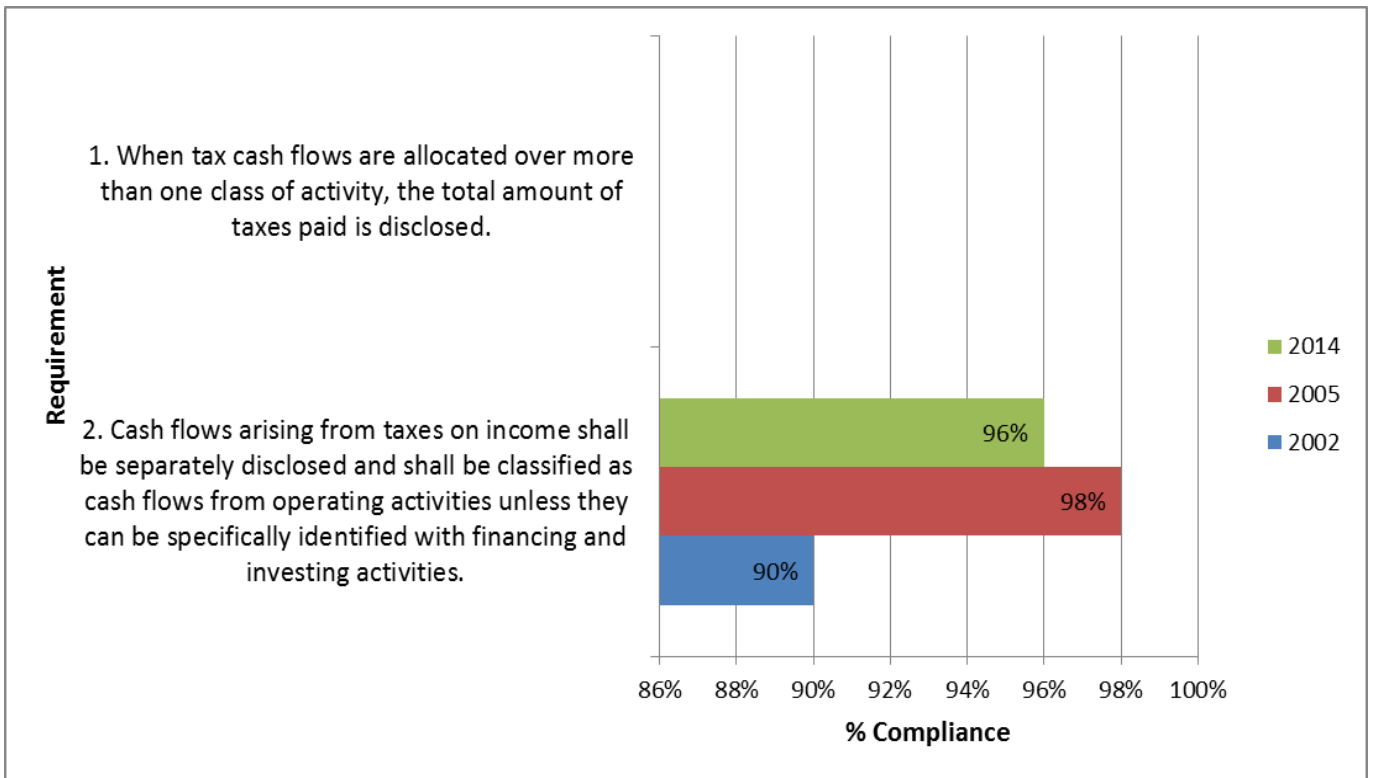
### 2.3.1.3 Statement of cash flows

**IAS 7 par 14(f) & IAS 7 par 35:** Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.

**IAS 7 par 36:** When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

Out of the 50 JSE listed companies, all the companies' cash flows related to operating activities and none of the cash flows were allocated over more than one class of activity. Figure 6 shows the compliance rate for these two requirements.

**Figure 6 Statement of cash flows results**



The percentage of compliance is slightly lower than that of the 2005 study, but higher than 2002. Three companies, however, disclosed more than what was expected from them. BHP Billiton Plc. disclosed their Income tax paid as well as Income tax refunded whilst the total cash tax contribution was disclosed by British American Tobacco Plc. Sasol Limited group disclosed a table showing all the monetary cash exchanges made to the government as shown in figure 7:

**Figure 7 Monetary exchanges with the Government**

Direct taxes	11 425	10 267	7 198	5 602	9 413
South African normal tax	9 355	7 358	5 235	4 270	8 067
foreign tax	2 001	1 861	1 192	726	515
dividend withholding tax	69	16	–	–	–
Secondary Taxation on Companies	–	1 032	771	606	831
Employees' tax	4 575	3 921	3 571	3 028	3 045
Indirect taxes	18 576	17 732	17 626	16 292	14 506
customs, excise and fuel duty	19 359	18 396	18 200	16 889	13 148
property tax	128	98	96	86	92
other levies	136	46	8	4	5
net VAT received	(2 956)	(2 161)	(1 714)	(1 615)	(1 056)
other	1 909	1 353	1 036	928	2 317

(Source: Sasol Limited Group, 2013:47)

#### 2.3.1.4 Statement of changes in equity

**IAS 12 par 81(a):** Disclose the aggregate current and deferred tax relating to items charged or credited to equity. For deferred taxes, it is useful to disclose the analysis by category of temporary differences.

**IAS 12 par 81(a):** The aggregate current and deferred tax relating to items that are charged or credited directly to equity.

**IAS 1 par 90 & IAS 12 par 81(ab):** An entity shall disclose the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments.

**IAS 1 par 91:** An entity may present items of other comprehensive income either:

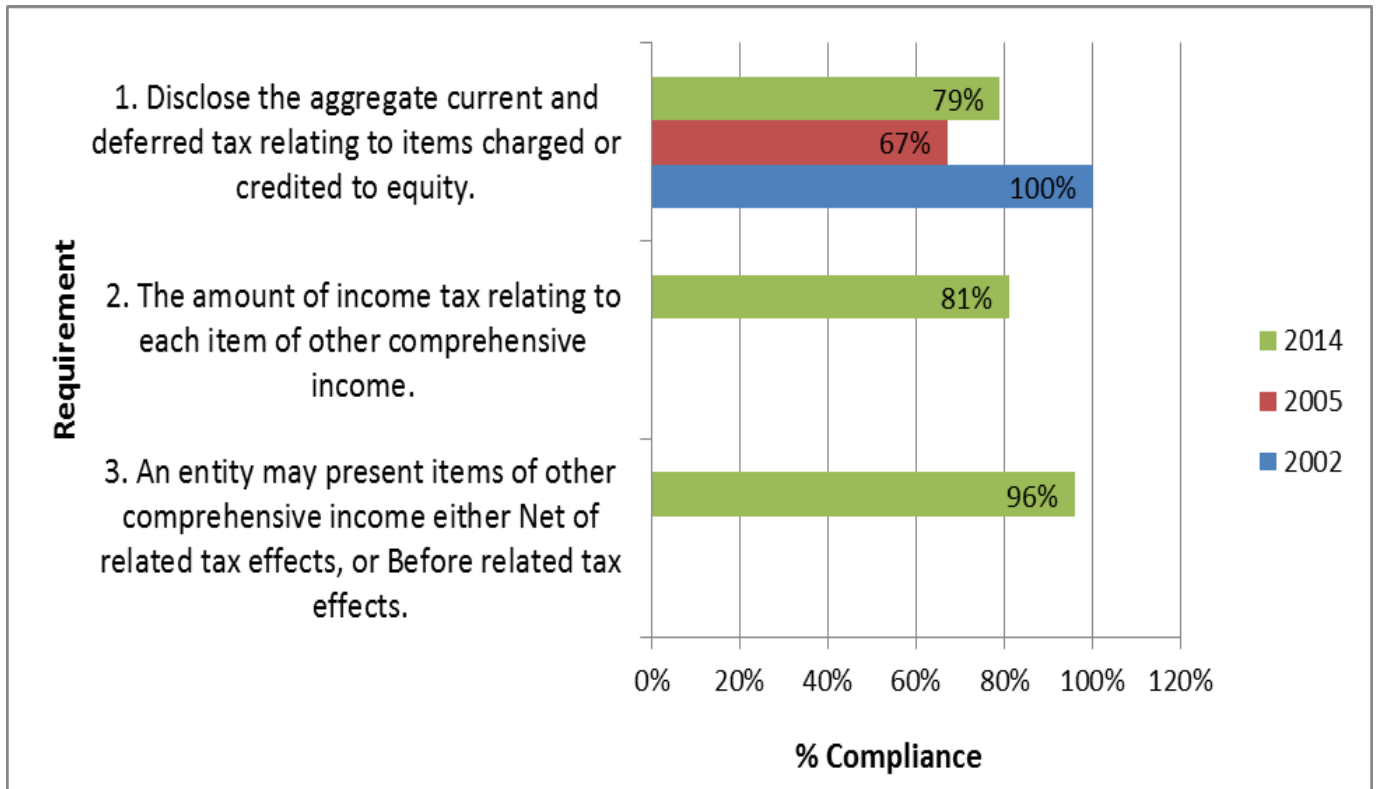
- a. Net of related tax effects, or
- b. Before related tax effects with one amount shown for the aggregate amount of income tax relating to those items.

If an entity selects alternative (b), it shall allocate the tax between the items that might be reclassified subsequently to the profit or loss section and those that will not be reclassified to the profit or loss section.

Improvement is necessary in the overall performance of the Statement of changes in equity (refer to figure 8). Of all the companies, 79% disclosed the aggregate current and deferred tax relating to items charged to equity. Ten companies did not comply with this requirement, because the equity items are disclosed net of tax in the statement of changes in equity without disclosing the impact of tax thereon. However, this is an improvement

from 2005, where only 67% of companies complied with this requirement, but still not as high as in 2002 where 100% compliance was observed.

**Figure 8 Statement of changes in equity results**



### 2.3.1.5 Notes to financial statements

Eleven notes to the financial statements are important for a company's tax disclosure. The notes are: Accounting policies, Deferred tax note, Income tax note, Business combinations, Contingent tax liabilities, Events after the balance sheet date, Segment reporting, Discontinued operations, Changes in tax status and Other. Each note's results are discussed separately, commencing with the Accounting policies.

### Accounting policies

**IAS 1 par 120:** *Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, users would expect an entity subject to income taxes to disclose its accounting*

*policies for income taxes, including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, users would expect disclosure of accounting policies for the recognition of foreign exchange gains and losses.*

Accounting policies are the specific policies, methods, measurement systems and procedures that companies utilize to prepare and present information in their financial statements.

The accounting policies used to prepare financial statements should be clearly stated, in order to enable users of the financial statements to properly comprehend the financial statements. Many alternatives are allowed for the same transaction by the accounting standards and therefore it is imperative to disclose these policies in the financial statements, so as to facilitate users in comparing financial statements of different companies to each other.

No mention of Accounting policy disclosures was made in the 2005 and 2002 study, but in this study, the entire group of 50 companies disclosed the Accounting policy used for each type of tax recognised in their financial statements.

## **Deferred tax note**

**IAS 12 par 81(e):** *The amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the statement of financial position.*

**IAS 12 par 81(f):** *The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, for which deferred tax liabilities have not been recognised.*

**IAS 12 par 81(g):** *In respect of each type of temporary difference, and in respect of each type of unused tax loss and unused tax credit:*

- a. *The amount of the deferred tax assets and liabilities recognised in the statement of financial position for each period presented;*
- b. *The amount of the deferred tax income or expense recognised in profit or loss, if this is not apparent from the changes in the amounts recognised in the statement of financial position.*

**IAS 12 par 82:** *An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:*

- a. *The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and*
- b. *The entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.*

Table 2 shows the results for the disclosure of the deferred tax note that relate to the deductible temporary differences, unused tax losses and credits for which no tax asset was recognised. Of all the companies, 81% complied with this requirement, which indicates an improvement from 2005. Nine companies, however, still did not disclose the amount of unused tax losses and deductible temporary differences.

**Table 2 The amount of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the statement of financial position.**

	Complied with	Not complied with	Not Applicable	% compliance
2014 study	38	9	3	81%
2005 study	27	9	27	75%
2002 study	8	2	0	80%

The entire group of 50 companies adequately disclosed the amount of each type of temporary difference in the Deferred tax note. In Table 3, all three studies' results are compared with each other. A slight improvement is visible in the results from the 2005 study conducted, since the compliance improved from 97% to 100%.

**Table 3 In respect of each type of temporary difference, and in respect of each type of unused tax loss and unused tax credit the amount of the deferred tax assets and liabilities recognised in the statement of financial position for each period presented.**

	Complied with	Not complied with	Not Applicable	% Compliance
2014 study	50			100%

	Complied with	Not complied with	Not Applicable	% Compliance
2005 study	58	2	3	97%
2002 study	9	0	1	100%

## Income tax expense note

**IAS 12 par 79 & IAS 12 par 80(a)-(h):** *The major components of tax expense (income) shall be disclosed separately. This may include:*

- a. *Current tax expense (income);*
- b. *Any adjustments recognised in the period for current tax of prior periods;*
- c. *The amount of deferred tax expense (income) relating to the origination and reversal of temporary differences.*
- d. *The amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes.*
- e. *The amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary differences of a prior period that is used to reduce current tax expense.*
- f. *The amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense.*
- g. *Deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 56; and*
- h. *The amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with IAS 8, because they cannot be accounted for retrospectively.*

**IAS 12 par 81(c):** *An explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms:*

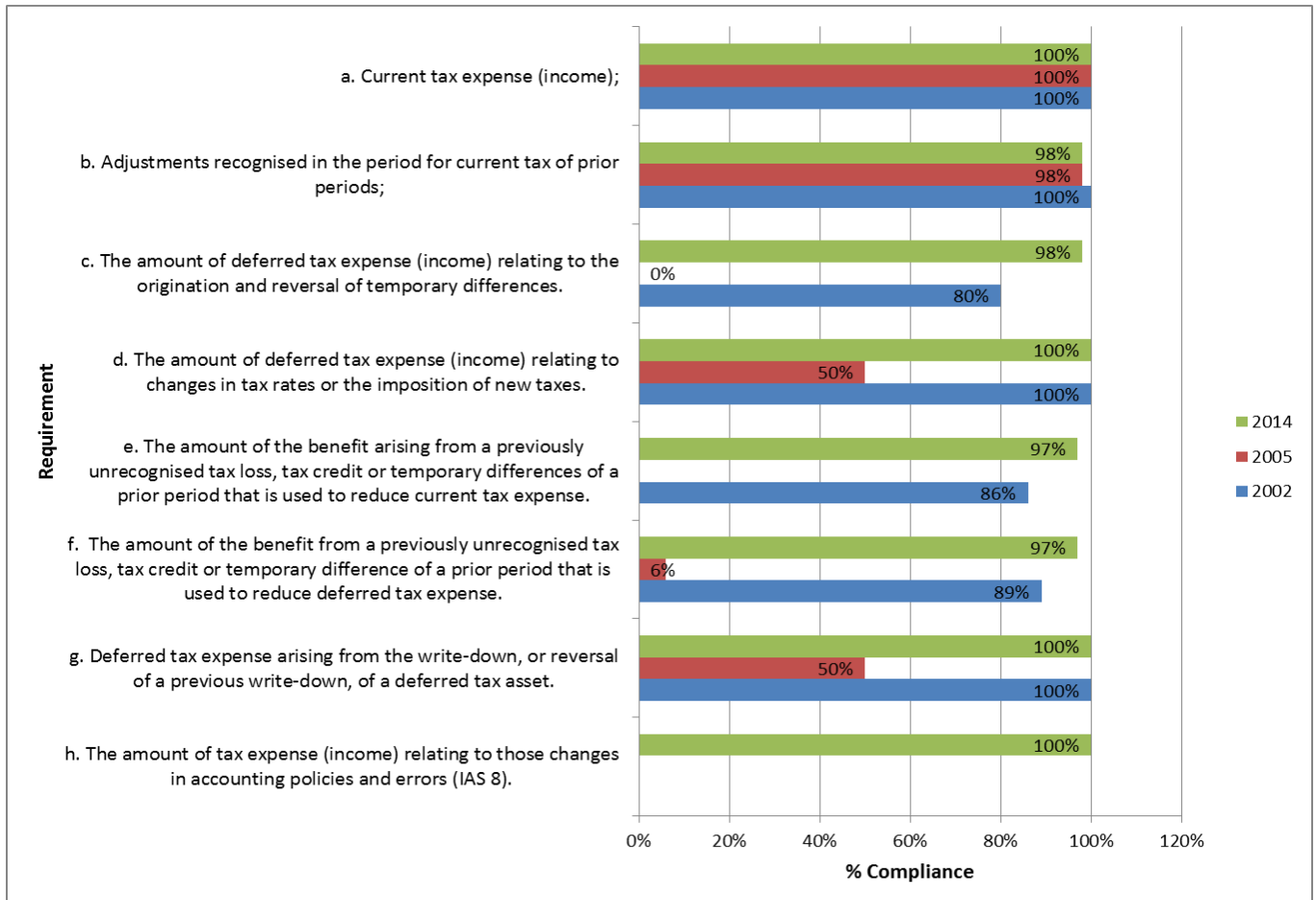
- a. *A numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or*
- b. *A numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed.*

**IAS 12 par 81(d):** *An explanation of changes in the applicable tax rate(s) compared to the previous accounting period.*



It is a requirement for the major components of the tax expense (income) to be disclosed separately in the Income tax expense note. Figure 9 shows the results for this requirement.

**Figure 9 Income tax note: “major components”**



- a) The current tax expense disclosure requirement was met in 100% of the cases and was applicable to all 50 companies. This was in line with the study conducted in 2005 and 2002.
- b) The disclosure for prior year adjustments stayed exactly the same with a compliance rate of 98% from 2005, which is still slightly lower than the 2002 results. One company, however, did not include the prior year adjustments in the details provided for the tax expense of the current year.
- c) A remarkable improvement is noticeable in the disclosure of the amount relating to the origination and reversal of temporary differences, from 0% in 2005 to 98% in 2014.

- d) Of all the companies, 35 disclosed information regarding changes in tax rates, while no mention of any changes in tax rate was stated in the financial reports of the other 15 companies. It was clear from the reports that these 15 companies did not have to report on any changes in tax rates. This therefore results in a 100% compliance rate and hence a significant improvement from the 50% compliance rate in 2005.
- e) Notable improvement is further seen in the disclosure of the benefit of previous unrecognised tax losses, from 0% in 2005 to 97% in 2014. This is also higher than the 86% compliance in 2002.
- f) Previously unrecognised tax losses emitted poor disclosure of information, showing 6% compliance in 2005. In 2014 the top 50 JSE listed companies achieved an astonishing improvement, with a compliance of 97%.
- g) This requirement was not applicable for 46% of the companies in 2014, as opposed to 92% in 2005 and 80% in 2002. The companies that disclosed the deferred tax expense arising from the write-down, or reversal of a previous write-down of a deferred tax asset, achieved 100% compliance. This is also an improvement on 2005's 50% compliance rate.
- h) In the studies conducted in 2002 and 2005, this requirement was not applicable as IAS 8 was only applicable from 1 January 2005. Of all the companies for which the requirement to disclose the tax expense (income) relating to those changes in accounting policies and errors was applicable, 100% complied with the requirement.

The requirement to disclose an explanation of the relationship between tax expense (income) and accounting profit, in either or both the tax expense (income) or the applicable tax rate, was met by all 50 companies in the sample. This is an improvement, from 98% in 2005 to 100% in 2014.

The tax rate for the top 50 JSE listed companies varies, because a lot of the companies have primary listings on the London Stock Exchange, with secondary listings on the JSE and therefore used the tax rate applicable in the UK. Tax is charged at a standard UK rate of 24% in 2013 (2012: 26%) (SABMiller Plc. 2013:112). However, it was found that 23 companies disclosed the applicable tax rates, but no explanations of these changes were disclosed. Nonetheless, 48 companies (96%), explained and disclosed the effective tax rate applicable. The effective tax rate therefore seems to be more important to a

company. An example of comprehensive disclosure relating to a company's effective tax rate is found where SAB Miller Plc. disclosed the following regarding their effective tax rate:

"The effective rate of tax for the year (before amortisation of intangible assets other than computer software and exceptional items) was 27.0% compared with a rate of 27.5% in the prior year. This change in the rate resulted from a combination of factors including:

- a full year's impact of the Foster's acquisition;
- the resolution of various uncertain tax positions; and
- reductions in corporate income tax rates in certain territories."

(Source: SABMiller plc. 39)

## Business combinations

**IAS 12 par 81(j):** *If a business combination in which the entity is the acquirer causes a change in the amount recognised for its pre-acquisition deferred tax asset, the amount of that change.*

**IAS 12 par 81(k):** *If the deferred tax benefits acquired in a business combination are not recognised at the acquisition date, but are recognised after the acquisition date, a description of the event or change in circumstances that caused the deferred tax benefits to be recognised.*

**IFRS 3 par B64(k):** *The total amount of goodwill that is expected to be deductible for tax purposes;*

**IFRS 3 par B67(d)(iii):** *Adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period in accordance with IFRS 3 para 67;*

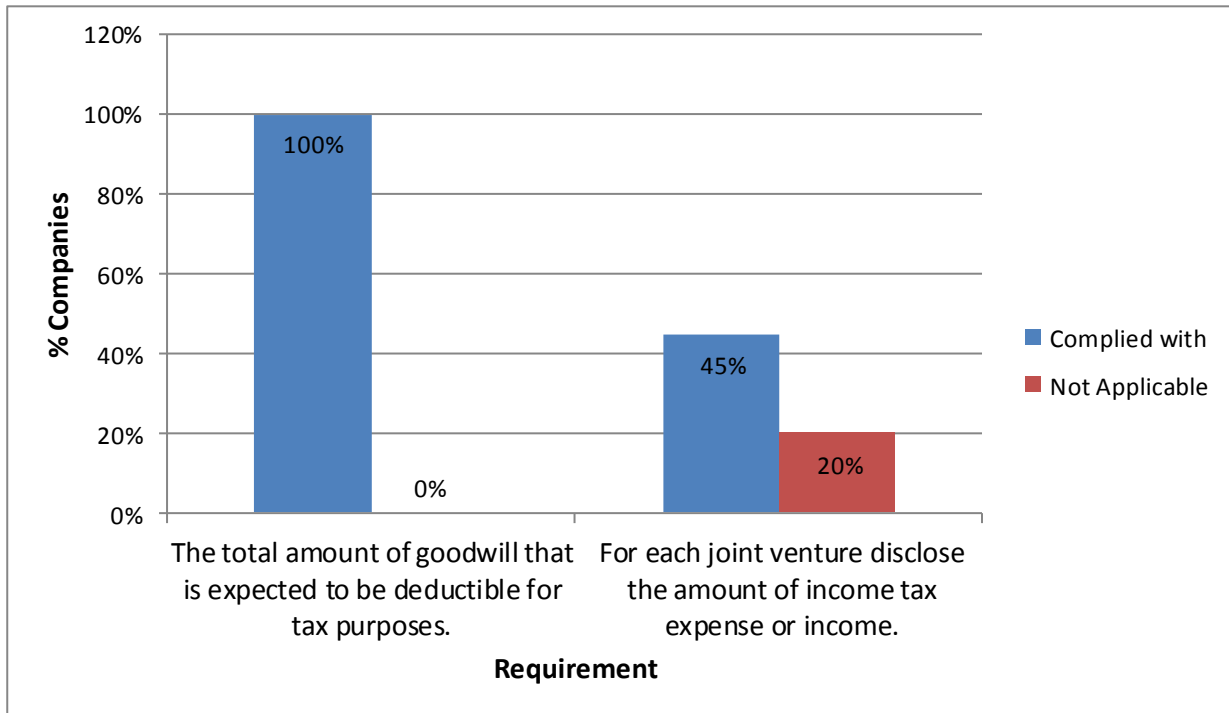
**IFRS 12 par B13:** *In addition to the summarised information required by IFRS 12 B12, disclose for each joint venture that is material to the reporting entity the amount of:*

- vii income tax expense or income*

Figure 10 illustrates the 2014 compliance with respect to the disclosure of tax effects of business combinations, as shown in blue (if the requirement was not applicable to the companies, it is illustrated in red). Of all the companies, 100% disclosed the amount of goodwill that is expected to be deductible for tax purposes, but the more common disclosure amongst the companies was that none of the goodwill is expected to be deductible for tax purposes. The companies are required to disclose the income tax with respect to each joint venture in the business. However, this requirement was not

applicable in 20% of the companies and only 45% of the companies for which this requirement was applicable, complied with it.

**Figure 10: Business combinations**



Business combinations are an important source of income for the companies and it is necessary to disclose the tax effects of the business combinations.

The disclosure relating to joint ventures indisputably needs improvement as only 45% of the companies for which the requirement was applicable complied with this.

## **Dividends, Contingent tax liabilities**

### **Dividends**

**IAS 12 par 82A:** *If income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend, disclose:*

- a. *the nature of the potential income tax consequences that would result from the payment of dividends; and*

- b. *the amounts of the potential income tax consequences practically determinable, and whether there are any potential income tax consequences not practically determinable.*

**IAS 12 par 82A & IAS 12 par 87A:** *In the circumstances described in paragraph 52A, an entity shall disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. In addition, the entity shall disclose the amounts of the potential income tax consequences practicably determinable and whether there are any potential income tax consequences not practicably determinable. An entity discloses the important features of the income tax systems and the factors that will affect the amount of the potential income tax consequences of dividends.*

### **Contingent tax liabilities**

**IAS 12 par 88:** *An entity discloses any tax-related contingent liabilities and contingent assets in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.*

**IAS 37** requires:

*For each class of provision, an entity shall disclose:*

- a. *the carrying amount at the beginning and end of the period;*
- b. *additional provisions made in the period, including increases to existing provisions;*
- c. *amounts used (i.e. incurred and charged against the provision) during the period;*
- d. *unused amounts reversed during the period; and*
- e. *the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.*

*Comparative information is not required.*

The dividends tax payable on dividends received are of utmost importance to shareholders. All 50 (100%) companies (as illustrated in figure 11) disclosed the tax effect (dividends tax) on dividends declared and paid. An excellent example of the disclosure of dividends tax can be illustrated by an example extracted from Remgro Limited's Integrated Annual Report (2013:34):

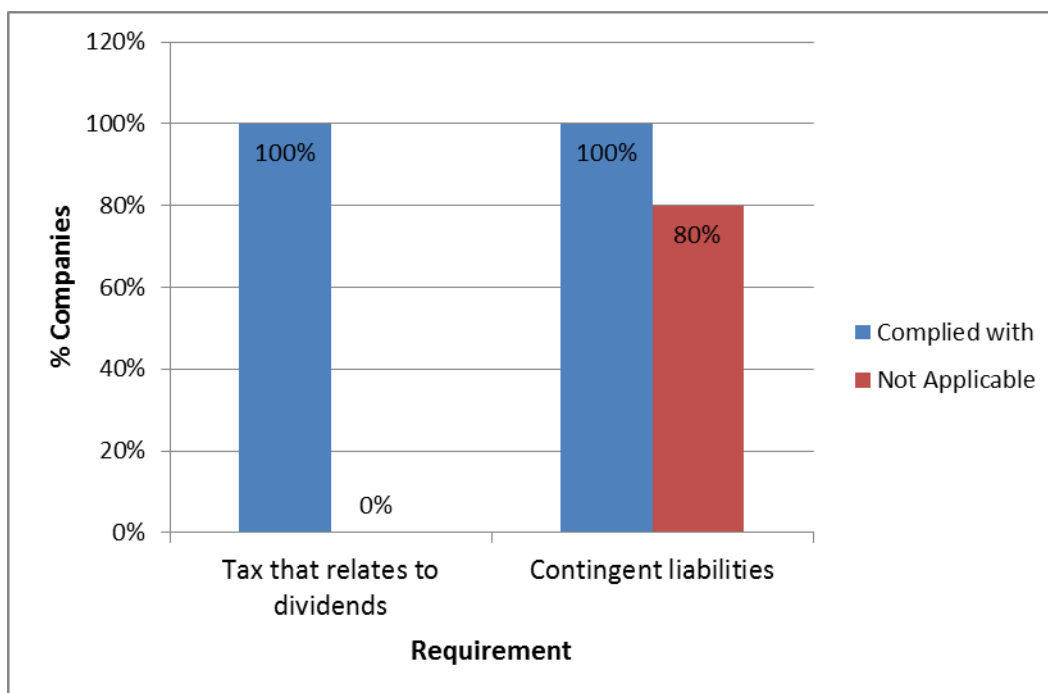
“with effect from 1 April 2012, STC was replaced with a dividend tax. In terms of the new legislation, companies will be allowed to apply their available STC credits against future dividends declared for a period of three years from the effective date of dividend tax. As at 30 June 2013 Remgro's available STC credits amounted to R3 668 million which can be offset against future dividend tax obligations of shareholders. R1 038 million of the STC

credits will be utilised for the final dividend of 201 cents per share declared on 18 September 2013.”

Of all the companies, 80% (as illustrated in figure 11) did not have Contingent liabilities, but 100% of the companies for which the requirement was applicable made the necessary disclosures. SABMiller Plc. disclosed the following Contingent Liability in their Annual Report (2013:141):

“The group has recognised various provisions in relation to taxation exposures it believes may arise. The provisions principally relate to non-corporate taxation and interest and penalties on corporate taxation in respect of a number of group companies.” (SABMiller Plc, 2013:141)

**Figure 11: Dividends, Contingent tax liabilities**



## Events after the balance sheet date, Change in tax status and Other

### **Events after the balance sheet date**

**IAS 12 par 81(i):** *The amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were authorised for issue, but are not recognised as a liability in the financial statements.*

**IAS 12 par 88:** *Where changes in tax rates or tax laws are enacted or announced after the reporting period, an entity discloses any significant effect of those changes on its current and deferred tax assets and liabilities in accordance with IAS 10 Events after the Reporting Period.*

**IAS 10 par 22(h):** *The following are examples of non-adjusting events after the reporting period that would generally result in disclosure:*

- (h) changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities (see IAS 12 Income Taxes);*

### **Changes in tax status**

**SIC 25 par 4:** *The current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or different period, in a direct credit or charge to the recognised amount of equity or in amounts recognised in other comprehensive income.*

*Changes in the tax status of an entity or its shareholders that give rise to tax consequences that relate to amounts recognised in other comprehensive income shall be recognised in other comprehensive income.*

*Changes in the tax status of an entity or its shareholders that give rise to tax consequences that relate to changes in the recognised amounts of equity, in the same or different period, shall be charged or credited directly to equity.*

### **Other**

**IAS 33:** *In order to illustrate the effect of taxation on the earnings per share, does the company in addition to basic and diluted after tax earnings per share disclose a before tax earning per share.*

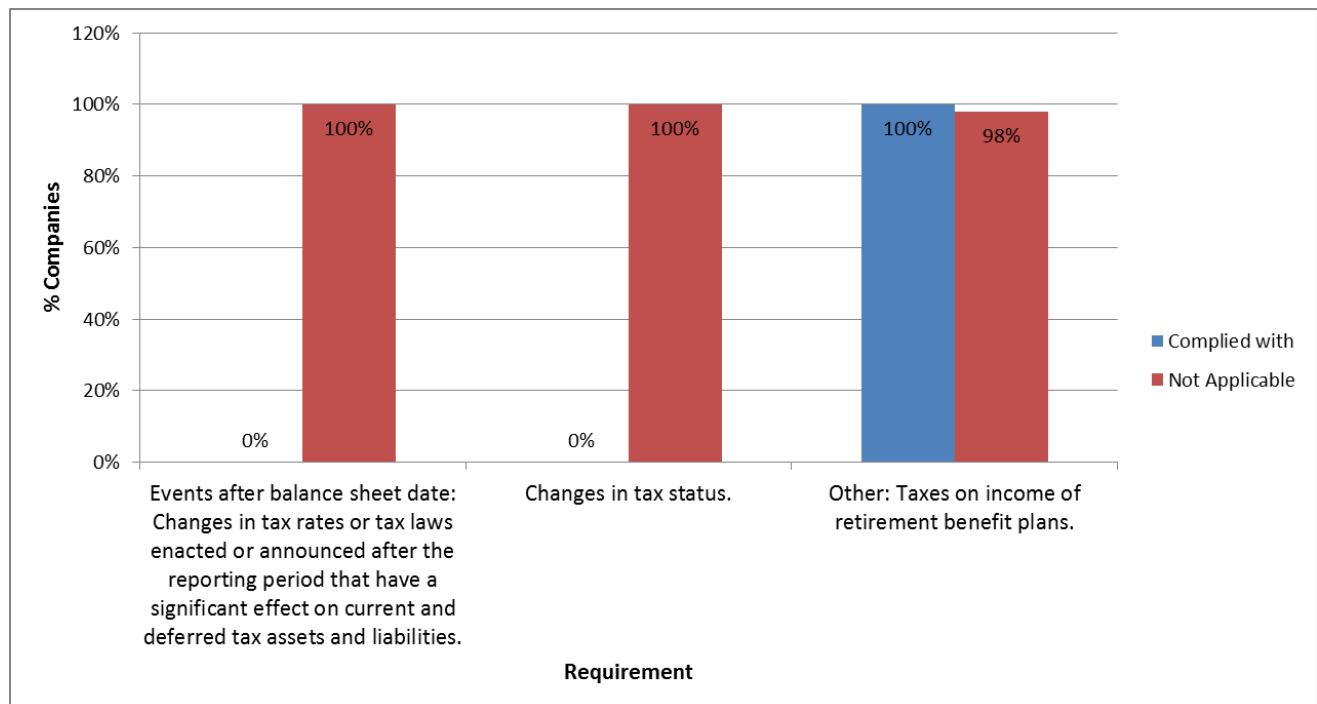
**IAS 26 par 35:** *Financial statements provided by retirement benefit plans include the following, if applicable:*

- b) a statement of changes in net assets available for benefits showing the following:
  - vii taxes on income**

None of the companies (refer to figure 12) disclosed or mentioned tax that relates to an event after the balance sheet date or changes in the tax status and, therefore, it is assumed that the requirement is not applicable to any of the companies.

Taxes on income of retirement benefit plans need to be disclosed in the notes to the Financial Statements, but this requirement were not applicable for 98% of the companies. Only one company disclosed the tax effect on income of retirement benefit plans, Netcare Limited (2013:55-57) in its Annual financial statements for the year ended 30 September 2013.

**Figure 12: Events after the balance sheet date, Change in tax status and Other**



## Segment reporting

**IFRS 8 par 23:** *An entity shall report a measure of profit or loss for each reportable segment. An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:*

- h) *income tax expense or income;*

**IFRS 8 par 28:** *Provide reconciliations (all material reconciling items are separately identified and disclosed) of the following:*

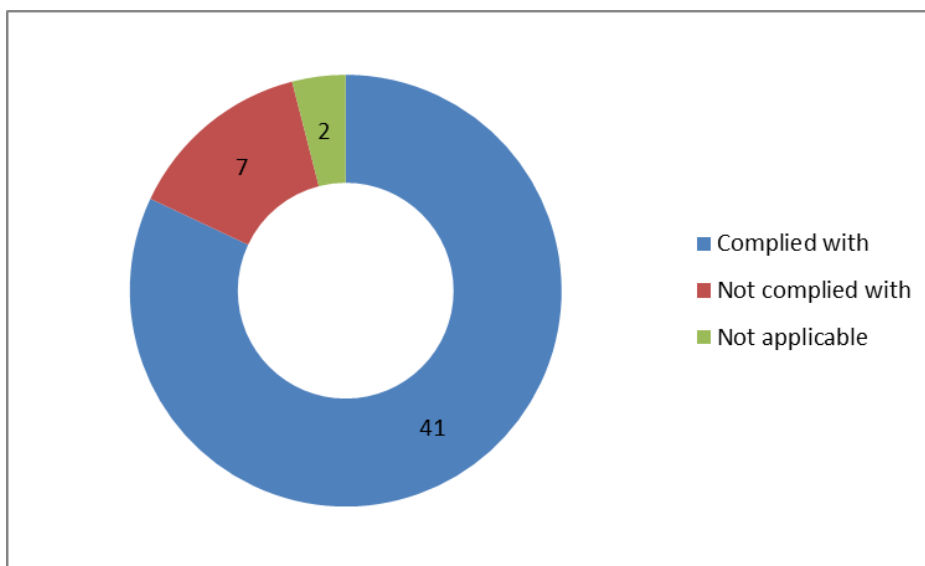
- a) *the total of reportable segments' revenues to the entity's revenue;*



- b) *the total of the reportable segments' measure of profit or loss to the entity's profit or loss before tax and discontinued operations, unless items such as tax income and expense are allocated to segments, in which case the reconciliation may be to the entity's profit or loss after those items;*

The requirement to disclose the tax expense for each reportable segment was applicable to 48 of the 50 companies. Of these companies, 41 of them (refer figure 13) met this requirement which represents 85% compliance.

**Figure 13: Income tax expense or income for each reportable segment.**



## Discontinued operations

**IAS 12 par 81(h):** *With respect to discontinued operations, the tax expense relating to:*

- a) *The gain or loss on discontinuance; and*
- b) *The profit or loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented.*

**IFRS 5 par 33:** *An entity shall disclose:*

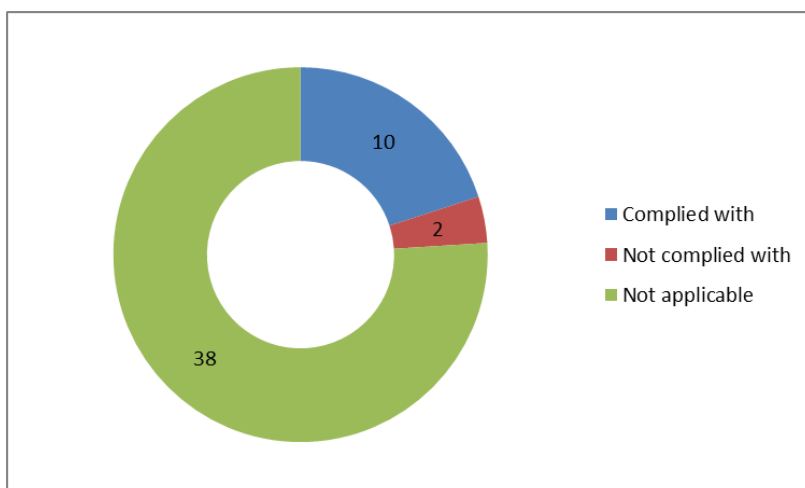
- a *a single amount in the statement of comprehensive income comprising the total of:*
  - i. *the post-tax profit or loss of discontinued operations and*
  - ii. *the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.*
- b *an analysis of the single amount in (a) into:*

- i. *the revenue, expenses and pre-tax profit or loss of discontinued operations;*
- ii. *the related income tax expense as required by paragraph 81(h) of IAS 12;*  
*and*
- iii. *the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.*

*The analysis may be presented in the notes or in the statement of comprehensive income. If it is presented in the statement of comprehensive income it shall be presented in a section identified as relating to discontinued operations, i.e. separately from continuing operations. The analysis is not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition.*

The requirement to disclose the tax expense relating to ordinary activities of discontinued operations was applicable to 48 of the 50 companies (refer to figure 14). Of all these companies, 38 met this requirement, which represents 79% compliance. This indicates an improvement from the study conducted in 2005 which was 70%.

**Figure 14: The tax expense relating to ordinary activities of discontinued operations**



## 2.4 CONCLUSION

The main objective of this study was to determine to what extent South African companies comply with the income tax presentation and disclosure requirement. This chapter summarised the results of the investigation of the mandatory tax presentation and disclosure requirements. From this study it is apparent that the top 50 JSE listed companies comply to a great extent to the mandatory tax presentation and disclosure requirements. Mostly significant improvements can be observed in the disclosures made from the previous studies conducted in 2005 (Meyer, *et al*, 2005) and 2002 (Stiglingh & Kotze, 2002).

The significance of income tax disclosure is emphasized in the words of PWC (2013a) & International Auditing and Assurance Standards Board (2011): “Today’s financial reporting users represent a spectrum of stakeholders including investors, lenders, regulators, accounting standard setters, analysts, researchers, and legislative or public policy-making bodies around the world. The business environment and user expectations have evolved such that companies are encouraged to communicate more effectively about their income tax profile.”

This chapter presented the results of the mandatory communication to stakeholders relating tax disclosure and presentation. Tax disclosure and presentation also includes aspects that are not mandatory and the next chapter will focus on the voluntary tax disclosure and presentation of the top 50 JSE listed companies.

## CHAPTER 3

### TAX TRANSPARENCY REPORTING

#### 3.1 INTRODUCTION

Voluntary disclosure constitutes extra information about a company, which provides a complete “picture” of a company’s performance (Owusu-Ansah, 1998:609). This type of presentation and disclosure refers to both the social and environmental issues of a company.

Voluntary presentation and disclosure’s primary goal is to meet the desires of a wider group of stakeholders, since it expands on the mandatory disclosure to give more detail. Voluntary disclosure also serves as effective communication for relevant stakeholders and in unfolding the business vision. Tian & Chen (2009:55) states that voluntary disclosure “is meaningful for perfecting listed companies' governance structure and enhancing the protection for investors' interests”.

The emphasis on voluntary tax disclosure, also referred to as tax transparency, is catalysed by the pressures on the global economy that has resulted in most governments requiring higher tax revenue to assist with reducing the current account deficits. The realisation that some multinational enterprises such as Amazon, Starbucks and Google pay little taxes has also sparked public debate. Despite the fact that these companies' tax affairs may have been legal, the ‘tax shaming’ of these companies resulted in public outrage and brand boycotts (Barford & Holt 2013). KPMG (2013b) states that the increased media focus on specific taxpayers, resulted in tax becoming a reputational risk. Nearly three quarters of CEO’s globally agree with this, as, according to them, companies have a social as well as a commercial responsibility that requires satisfying the societal needs beyond those of investors, customers and employees (PWC 2014a). Companies have a corporate social responsibility towards stakeholders and society at large and therefore regard tax transparency as essential in managing the reputational risk and in order to regain the trust of society.

Apart from managing the reputational risk, the Australian Taxation Office (2013:1) is of the opinion that tax transparency will discourage large corporate tax entities from engaging in aggressive tax avoidance practices. David Cameron (2014) goes further and advocates that greater tax transparency is one of the most important ingredients required to avert corruption and solve tax evasion. Even the Big Four accounting firms acknowledge the need for tax transparency. PWC in the United Kingdom (UK) award an annual tax transparency award for listed companies; EY did not award an award, but they analysed the tax transparency reporting of the FTSE 100 companies in the UK and proposes tax transparency reporting guidelines (EY: 2014b). KPMG has established a tax transparency team that assists corporates to improve internal visibility with regards to tax policy, governance and tax contributions (KPMG: 2014a).

Given the global concentration on tax transparency, the attention is focused on South Africa, the largest capital market in Africa, to establish the status of tax transparency reporting. The purpose of this study therefore includes the investigation of the tax transparency reporting practices of the 50 largest companies, in terms of market capitalisation listed on the Johannesburg Stock Exchange (JSE).

It is envisaged that the publication of the best practice examples of tax transparency reporting will promote excellence in the quality of tax transparency reporting in South Africa. The hope is also that it will encourage companies to deepen their thinking regarding the role of paying taxes as part of their social responsibilities.

This study summarises the results of the investigation into the extent of voluntary tax disclosure and presentation of the top 50 JSE listed companies. The study continues with the discussion of the tax transparency framework (**Section 3.2**); the results (**Section 3.5**); and the conclusion (**Section 3.6**).

## **3.2 TAX TRANSPARENCY FRAMEWORK**

The mandatory reporting of a company is thoroughly evaluated in Chapter 2, but to obtain a more accurate picture regarding the voluntary reporting of companies, it was crucial to

again include the extent of compliance of mandatory requirements. The results of the mandatory tax reporting as presented in Section 2 of this study were therefore also included in this part of the study. The mandatory requirements, however, only contributed a minor percentage to the overall scoring. In order to assess the voluntary reporting, another framework – referred to as the tax transparency framework - was developed for measurement purposes.

The first aspects relevant for this tax transparency framework were found in the guiding principles of the King Code. Since the application of the King Code is also a JSE listings requirement (8.63(a) and (b)), the release of King III meant that listed firms were required to issue an integrated report for periods on or after 1 March 2010, or clarify why they do not wish to apply this principle of King III. During May 2010, the Integrated Reporting Committee of South Africa (IRC) was established to develop guidelines on good integrated reporting practices. During March 2014, the IRC endorsed the Framework of the IIRC for South African firms and ceased its own guidance. As a result, the Framework of the IIRC for tax related reporting requirements were also reviewed.

Although the concept ‘tax payments’ is listed as one of the outcomes of integrated reporting, ‘taxation’ *per se* is not specifically referred to elsewhere in the Framework. Therefore, tax reporting in the context of the Framework needs to be evaluated with regards to the seven guiding principles and eight content elements that underpin an integrated report (IIRC, 2013). For the purpose of the tax transparency framework the relevant guiding principles and content elements were reworded to have a tax specific focus (refer to table 4):

**Table 4 Tax transparency reporting requirements derived from the IIRC Framework**

<b>Tax Transparency reporting requirement</b>	<b>Reference to IIRC Framework</b>
It should be clear if taxation was identified by the entity as a “business risk” and how the organisation intends to deal with it.	Content element number four.
The tax strategy of the company should be communicated.	Content element number five. Guiding principle number one.
The possible effect of taxation on the performance of the company should be clear.	Content element number six.

Tax Transparency reporting requirement	Reference to IIRC Framework
A taxation outlook.	Content element number seven. Guiding principle number one.
Details about the relationship management with the tax authority as stakeholder.	Guiding principle number three.
The information should be user-friendly and concise.	Guiding principle number five.

Tax transparency disclosure is also high on the agenda of various international organisations and countries. Although these tax transparency disclosure requirements are currently not compulsory for JSE listed companies, they represent good practice reporting requirements that any company could voluntarily initiate.

The initial focus on tax transparency was a consequence of the increase in international trade and the expansion of the digital economy that have resulted in Base Erosion and Profit Shifting (BEPS) by large multi-national companies (KPMG, 2013a). BEPS relates to instances where the interaction of different tax rules leads to double non-taxation, as well as cases of no or low taxation, by shifting profits away from the jurisdictions where the activities creating those profits occur (Organisation for Economic Co-operation and Development (OECD), 2013(b)). The G20 finance ministers called on the OECD to design an action plan with the goal of addressing BEPS issues in a co-ordinated and comprehensive manner (OECD, 2013(a)). Incorporated in this action plan are plans to enhance the tax transparency between OECD and non-OECD member countries (Action 5). The necessity of tax transparency on different levels is also emphasized. Action 12 specifically states that “Taxpayers should disclose more targeted information about their tax planning strategies” (OECD, 2013:21(a)). “Disclosure initiatives” is additionally identified as a useful measure to improve communication about tax risks to tax administrations and policy makers (OECD, 2013:22(c)). Another action that is focused on tax transparency is to encourage rules regarding transfer pricing documentation (Action 13, OECD, 2013:34(a)). Even though most of the BEPS Actions relate to country-to-country reporting, the disclosures relating to the tax strategies (including tax planning) and the transfer pricing policies apply at the firm level. It is not yet apparent when and in what format this information would be required by tax authorities, but it would be prudent for companies to be informed about this initiative (refer to table 5).

**Table 5 BEPS Action Plan tax disclosure relevant to companies**

<b>Tax Transparency reporting requirement</b>	<b>Reference</b>
Disclosure of tax strategies and tax planning	Action 12 of BEPS
Emphasize the importance of tax transparency	Action 12 of BEPS
More information is required regarding transfer pricing policies	Action 13 of BEPS

Currently, the emphasis of increased tax transparency is also applicable to companies operating in the extractive industries. The Extractive Industries Transparency Initiative (EITI) is founded on the principle that a country's natural resources belong to its citizens and the EITI Standard is an international standard that promotes transparency with regards to a country's natural resources. The EITI report demands that companies publish what they pay in tax and royalties, and governments publish what they receive. The information from these two stakeholders is then independently verified and reconciled (EITI 2014a). The information should be published according to tax type, company, government agency (which implies per country and per level of government) and by project (EITI 2014a). Forty-four countries around the world have been admitted as EITI countries and the EITI is endorsed by the African Union, with 15 African countries already compliant to the EITI standard (EITI 2014b). South Africa is not amongst these countries.

Consistent with the EITI standard, the United States of America (USA) launched its own initiative regarding tax transparency disclosure with the Dodd-Frank Wall Street Reform and Customer Protection Act (Dodd-Frank Act). This intended a "per project" and "per country" disclosure of taxes, royalties and other relevant payments to governments by companies in the extractive industries. However, these rules are currently suspended following a legal challenge. Nevertheless, the fact that the USA was accepted as a candidate of the EITI during March 2014 indicate their intent to implement tax transparency rules similar to those encapsulated in the Dodd-Frank Act.

Shortly after the introduction of the proposed Dodd-Frank Act in the USA, amendments to the European Union Accounting and Transparency Directives (EU Directive) were proposed. The EU Directive applicable to companies in the extractive industries is comparable to the Dodd-Frank Act proposals, with the addition of the logging industry. All



EU Member States are responsible for implementing the requirements of the EU Directive into local legislation by 20 July 2015 and it should be effective not later than financial years beginning on or after 1 January 2016.

Another EU initiative, called the EU Capital Requirement Directive (CRD IV), proposing final tax reporting for companies in the financial sector, were published in the Official Journal of the EU in June 2013 (Article 89 of CRD IV). Implementation by Member States is required by 1 January 2014, with the first reporting from 30 June 2014. In essence, tax on profits or losses and public subsidies received, have to be disclosed. The UK was the first EU Member State to enact this into local legislation with the Capital Requirements Country-by-Country Reporting (CBCR) Regulations 2013 framework that was enacted in December 2013. It is applicable to financial institutions (banks and investment firms) in the UK and requires *inter alia* corporation tax paid and public subsidies received to be disclosed. The reason for this is the recent focus on the taxes paid by multinationals and a demand from stakeholders for increased tax transparency. In this context, the CBCR is perceived by many as a significant milestone in achieving a greater level of financial and tax transparency for banks and investment firms (EY 2014a).

In June 2013, prime-minister Harper of Canada committed to developing mandatory payment reporting standards for Canadian extractive companies. The commitment to ensure greater tax transparency was reconfirmed in the 2014 annual budget (Canada 2014). The government will additionally develop an effective vehicle for mandatory reporting that would be presented by June 2015. The requirements would almost certainly agree in principle with that of the EITI standard and would focus on profit taxes, royalties and license fees paid to be disclosed by project. It appears as though a threshold of \$100 000 per type of tax per annum would be proposed and only companies exceeding this threshold would be obliged to disclose the required information (Canada 2014).

The tax transparency reporting initiatives mentioned above focus either on country-by-country-reporting, or on additional reporting requirements for companies in specific industries. The Danish Parliament passed laws in 2012 requiring the publication of the amount of tax paid by all companies in Denmark. These have been referred to as 'Open Tax Lists' and are published on the Danish Scattecentre's (revenue authority) website.

Australia also imposed tax transparency reporting requirements on the Commissioner of the ATO and not on the taxpayer companies in Australia (ATO 2013). These reporting requirements fall within three different categories (Schedule 5 of Act No. 124 of 2013). The first category requires the Commissioner to publish information regarding the large corporate tax entities with a total income of \$100 million or more per annum. The total income, taxable income and tax paid are included in the information to be disclosed in this category. For the second category, information regarding mineral and petroleum royalties payable per entity must be disclosed irrespective of the amount. In the third category, the Commissioner has the option to publish and disclose periodic aggregated information relating to a specific tax, excise duty or customs duty. The reason for this reporting is consistent with the reasons why tax transparency reporting was imposed on other companies around the world. The ATO (2013:1) stated that “the policy intent is to discourage large corporate tax entities from engaging in aggressive tax avoidance practices and to encourage public debate about corporate tax policy.” It is, nonetheless, clear that Australia went beyond the OECD’s Action Plan that signalled the need for taxpayer confidentiality to be respected. As the Commissioner would disclose information submitted in the tax returns and not necessarily amounts paid, the disclosed information will not reflect revised or additional assessments for a specific tax. Thus, it would be in their own interest for companies to increase their own tax transparency disclosure, as it would put the information published by the Commissioner into perspective for the stakeholders.

Although the global developments focus on companies in the extractive and financial industries, The Civil Society 20 (2014), that provides a platform for dialogues between the political leaders of G20 countries and representatives of civil society organisations, believes that the outcome of the 2014 G20 Summit in Brisbane in November 2014 would result in country-by-country reporting of taxes by all multi-national companies in G20 countries.

Table 6 summarises the tax transparency reporting requirements that exist internationally that may be applicable to multi-national companies in G20 countries after the G20 summit.

**Table 6 International trends in compulsory tax transparency reporting**

Tax transparency reporting requirement	Reference
Total tax on profits	EU CRD IV, CBRC and Canadian EITI
Taxes other than corporate tax paid and received, per tax paid (including royalties, license fees and subsidies paid and received)	EITI standard, Dodd-Frank Act EU Directive, EU CRD IV, CBCR and Canadian EITI
Per project disclosure of tax paid	EITI standard, Dodd-Frank Act, EU Directive and Canadian EITI
Per country disclosure of tax paid (including per level of government)	EITI standard, Dodd-Frank Act and EU-Directive

The tax disclosure emphasized above refers primarily to taxes on profits and other taxes (including royalties and licenses) borne by the company. PWC (2012) is of the view that the amount of the Total Tax Contribution (TTC), which consists of taxes borne and collected as well as compliance cost, is unknown. They are assisting companies to communicate its social impact to its stakeholders by promoting the disclosure of the TTC (PWC 2012). Taxes collected are payments that the company collects from third parties and remits to the state. The company bears the administrative cost and the risk of error to these taxes. PWC (2012) holds the view that taxes collected should be encompassed in the TTC as it reflects the social contributions that a company makes towards the state and its citizens. The significance of the TTC is also recognised by the UK City of London who commissioned PWC to annually calculate and publish the TTC of the Financial Services Industry in the UK (PWC 2013c). The World Bank has also applied the TTC approach with the goal of comparing the tax burden of small and medium enterprises in 2014 across 189 countries (World Bank 2014). EY (2013) also established that it is current practice for the FTSE 100 companies to report taxes borne and collected. Consequently, the TTC is included in the tax transparency framework.

EY (2013) summarises the current tax transparency disclosure practices of the FTSE 100 companies. Their summary encompasses a discussion regarding the merits of expanded disclosure regarding uncertain tax positions. They specifically refer to US GAAP (FIN 48), which requires the measurement of uncertain tax positions. They also include the disclosure of compliance with tax matters, including the timely filing of tax returns.

PWC (2014b) also developed a tax transparency framework to evaluate the tax transparency reporting of the companies listed in the UK. Their framework entails additional international tax transparency disclosure practices that they have accumulated over a number of years.

### 3.2.1 Summary of framework

The above-mentioned tax transparency disclosure proposals were employed as a starting point for the tax transparency framework. It was amended according to feedback from PWC (including a comparison with their UK tax transparency framework) and staff members in the Department of Taxation at the University of Pretoria. The framework was continuously updated with best practice tax transparency disclosure categories as the financial statements were analysed (refer to table 7). PWC (2013b) in the UK divides their tax transparency framework into three categories, namely: Disclosure on Tax strategy and risk management (category 1), Tax numbers and performance (category 2) as well as the Total tax contribution and the wider economic impact of tax (category 3). This study relied on this distinction.

**Table 7 Tax transparency framework**

**Category 1: Tax Strategy and risk management**

Criteria	Originating from
Is tax identified as a business risk?	IIRC framework – content element number four
Is there a clear discussion of how the company approaches its tax affairs (may be called tax strategy, policy on tax, and approach to tax)?	IIRC framework – content element number five and guiding principle number one
Does the company talk about its approach to tax planning/minimising tax liabilities?	Action 12 of BEPS
Does the company talk about its approach/policy on transfer pricing?	Action 13 of BEPS
Does the company discuss its relationship/interaction with tax authorities including tax compliance aspects?	IIRC framework – guiding principle number three
Is there discussion of tax risk management; and who has responsibility for governance and oversight of tax?	Action 12 of BEPS
Is it apparent that the Board or audit committee have discussed tax during the year?	PWC tax transparency framework

Criteria	Originating from
Is there disclosure of any amount set aside for uncertain tax positions?	FIN 48 (US GAAP) EY (2013) PWC tax transparency framework
Is there disclosure of the circumstances that led to the uncertain tax position?	FIN 48 (US GAAP) EY (2013) PWC tax transparency framework
Is there discussion of any important changes in tax legislation and how they impact the results?	EY (2013) PWC tax transparency framework
Is there any disclosure of policies on the use of jurisdictions commonly regarded as “tax havens” or “low tax jurisdictions”?	PWC tax transparency framework
Are the disclosures above illustrated with helpful charts and graphics?	IIRC framework – guiding principle number five

**Category 2: Tax numbers and performance**

Criteria	Originating from
To what extent does the company comply with the IFRS tax related disclosure requirements?	IFRS requirements
Would a layperson understand all the headings in the tax reconciliation; and know what they are talking about?	EY (2013) PWC tax transparency framework
Is the amount under any general or “other” heading in the tax reconciliation, less than 10% of the total of the reconciling items?	EY (2013) PWC tax transparency framework
Does the company show an “adjusted” tax rate as well as (and/or) the ETR (effective tax rate), perhaps backing out non-recurring items?	EY (2013) PWC tax transparency framework
Does the company show a weighted average statutory rate of corporate income tax?	PWC tax transparency framework
Is the deferred tax note consistent with the tax note and the income statement?	IFRS requirement
Is there a discussion of cash tax payments and how they relate to the tax charge?	PWC tax transparency framework
Is there a discussion about the main drivers for the tax rate?	PWC tax transparency framework
Is there a discussion of how the effective tax rate is likely to perform in future?	IIRC framework content element number seven and guiding principle number one
Is there a forecast ETR (i.e. a figure or range of figures)?	IIRC framework content element number seven and guiding principle number one
Is there a forecast cash tax rate?	IIRC framework content element number seven and guiding principle number one
Are the disclosures illustrated with helpful charts and graphics?	IIRC guiding principle number five
Is the impact of tax on the future results of the business stated?	EU CRD IV and CBCR Regulations 2013 Framework
Is there disclosure of public subsidies received?	EU CRD IV and CBCR Regulations 2013 Framework

### Category 3: Total tax contribution and wider economic impact

Criteria	Originating from
Is there discussion of how tax impacts the business strategy or results?	IIRC framework content element number six
Is there discussion of advocacy or lobbying activity on tax?	IIRC framework guiding principle number three
Is there any discussion of any country-by-country reporting initiatives and impact on their operations?	PWC tax transparency framework
Does the company show taxes paid by country/ geographic region/ project?	EITI standard, Dodd-Frank Act, EU Directive and Canadian EITI
Is there mention of paying taxes in the developing world?	EITI standard, Dodd-Frank Act, EU Directive and Canadian EITI
Is there mention of the impact of tax on shareholder value?	PWC tax transparency framework
Is there any mention of the importance of tax transparency or stakeholder interest in what tax is paid?	BEPS Action 12
Is there mention of tax in a discussion about the company's economic value added?	PWC tax transparency framework
Does the discussion above mention taxes other than corporation tax?	EITI standard, Dodd-Frank Act, EU Directive, EU CRD IV, CBCR Regulations 2013 Framework and Canadian EITI
Is there any reconciliation of other taxes paid to other taxes charged/borne in P&L/Income Statement?	PWC tax transparency framework
Does the company disclose its TTC?	PWC tax transparency framework
Does the company disclose a split between taxes borne and taxes collected?	PWC tax transparency framework
Are the disclosures above illustrated with helpful charts and graphics?	IIRC framework – guiding principle number five

### 3.3 DATA

Annual Reports, Corporate Social Responsibility Reports, Annual Financial Statements and Integrated Reports for the top 50 JSE listed companies were sourced from the McGregor BFA Database and companies' websites for the 2013 financial period. Reference was also made to other relevant reports from companies' websites relating to

the company's tax approach. The tax related information that was available on the website was often a duplication of information already examined in the reports. For three of the companies, specific tax fact sheets or tax approach documents for 2013 were available on the website and these complemented the reports analysed. Anglo American Plc has prepared a separate tax factsheet for each of the countries of operation. The "South African Tax Factsheet 2013" document offers detail regarding the tax approach and effective tax rates in South Africa. SAB Miller Plc prepared a document with detailed explanations of the company's approach to tax, which includes contributions to economic development, government tax revenues, tax affairs and taxes in the financial statement. Sasol Limited disclosed a presentation made to the Portfolio Committee on Trade and Industry. This presentation addresses Sasol's strategy regarding their approach to carbon taxes. All the relevant tax related information publicly available was used as data for the purpose of this study.

### **3.4 DATA ANALYSIS**

Each of the company's information was evaluated independently by two members of the research team. The two members of the research team compared their separate evaluations and then mutually agreed on the final evaluation of a specific company. For each of the items on the scoring sheet in Table 7, a company was allocated one point if it addressed the specific item as part of its reporting. The first item of Category 2 in Table 7 refers to compliance with IFRS mandatory disclosure requirements. For the purpose of evaluating this scoring item, companies' reporting was compared to items on a separate IFRS tax disclosure checklist. Seeing as the focus of this part of the study is voluntary tax transparency disclosure and not compliance with mandatory disclosure requirements, the extent of compliance with IFRS was weighted, as allocating a point to each IFRS disclosure requirement would have distorted the objective<sup>1</sup>. Companies' scores were totalled to provide a basis for ranking them on the extent of their tax transparency disclosure.

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<sup>1</sup> A Score of '3' was allocated if the IFRS requirements were complied with 100%, '2' if the IFRS requirements were at least 85% complied with and a score of '1' if the compliance was less than 85% but some disclosure is still made.



### 3.5 RESULTS

The results are first presented by company (paragraph 3.5.1) and then by criteria (paragraph 3.5.2).

#### 3.5.1 Tax transparency reporting results by company

Based on the evaluation of the tax transparency reporting, the top 50 JSE listed companies are classified into four groups. The top 10% of the companies' tax transparency reporting is regarded as 'Excellent', the next 10% as 'Good' and the rest of the companies that performed above average as 'Transparent'. The other 50% of the companies were encompassed in a 'Progress to be made' group. The results indicate that five companies (10% of the sample) distinguished themselves with excellent tax transparency reporting (refer to table 8).

**Table 8 'Excellent' tax transparency reporting**

Company	Industry	Year end	Market Capitalisation R' million
Anglo American Plc	Mining	2013/12/31	321 851
BHP Billiton Plc	Mining	2013/06/30	691 889
British American Tobacco Plc	Personal & Household Goods	2013/12/31	1 135 076
Lonmin Plc	Mining	2013/09/30	30 293
SAB Miller Plc	Food & Beverage	2013/03/31	890 267

Three of the companies with excellent tax transparency reporting represent the mining industry (Anglo American Plc, BHP Billiton Plc and Lonmin Plc), one the personal and household industry (British American Tobacco Plc) and one the food and beverage industry (SAB Miller Plc). It is interesting to note that all five these companies have their primary listings on the London Stock Exchange with secondary listings on the JSE. It is evident that the focus on tax transparency in the UK has been embraced by these companies. Although there is no additional compulsory tax transparency reporting requirements in South Africa, tax transparency reporting requirements are already internationally compulsory in some countries within the mining and financial industries. One would therefore expect increased tax transparency reporting in these industries,

especially for companies with dual listings. The absence of any company within the financial sector amongst the 'excellent tax transparency reporters' is consequently disappointing.

As expected, there is a statistically significant (at a one per cent level of significance) positive correlation between the tax transparency performance and companies' industry membership, with companies in the mining industry showing better performance than companies in other industries. Company size (as measured by market capitalisation) is also positively correlated (at a one per cent level of significance) with tax transparency performance. This evidence suggests that industry membership and company size are important drivers of tax transparency.

With the international focus on tax transparency reporting during 2013, one would have expected that it would positively impact the tax transparency reporting for companies with year ends in the second half of the year. The correlation between the tax transparency performance of the company and the timing of the year end are, nevertheless, statistically insignificant.

The excellence in tax transparency reporting of these companies was achieved in all three categories of the tax transparency framework, which is: Disclosure on their tax strategy and risk management, tax numbers and performance as well as the TTC and the wider economic impact of tax (refer to Table 9). The excellence in tax transparency reporting regarding the TTC and wider economic impact was on average slightly better for these companies when compared to the other two categories. What, however, distinguished them from the other companies were both the excellence in the total tax contribution category as well as the disclosure in the tax strategy and risk management category. Although their tax transparency disclosure in the tax numbers and performance category was also better than that of the other companies, the difference was marginal.

**Table 9 Average score by category**

Performance group	Tax strategy and risk management*	Tax numbers and performance*	Total tax contribution and wider economic impact*
<b>Excellent</b>	8.4	8.4	11
<b>Good</b>	5.8	7.4	8.4
<b>Average</b>	5.13	6.27	5.53
<b>Progress required</b>	2.16	5	2.88

\*Average relative score per company

The second group of companies located in the 80 to 89% percentiles of scores are regarded as companies with good tax transparency reporting (refer to table 10).

**Table 10 'Good' tax transparency reporting category**

Company	Industry	Year end	Market Capitalisation R' million
Anglo American Platinum Ltd	Mining	2013/12/31	106 230
Impala Platinum Holdings Ltd	Mining	2013/06/30	77 762
Kumba Iron Ore Ltd	Mining	2013/12/31	142 829
Mondi Plc	Forestry & Paper	2013/12/31	66 540
Sasol Limited	Oil & Gas	2013/06/30	334 338

The mining industry dominated the 'good' category with three companies (Anglo American Platinum Ltd, Impala Platinum Holdings Ltd and Kumba Iron Ore Ltd.). Sasol Limited represents the Oil and Gas industry and Mondi Plc the Forestry and Paper industry. As the EU directive includes the logging industry, Mondi Plc is required to have increased tax transparency reporting because of its primary listing on the London Stock Exchange.

The third group is companies located in the 50<sup>th</sup> to 79<sup>th</sup> percentiles of tax transparency scores. These companies are classified as 'Transparent' in their tax transparency reporting (refer to Table 11). These companies' tax transparency reporting was 'Transparent' for all three the categories, but the biggest disparity between this group and the companies that are more tax transparent in their tax reporting, is that there is less

focus on tax transparency disclosure in the tax strategy and risk management, total tax contribution and wider economic impact categories.

**Table 11 'Transparent' tax transparency reporting category**

<b>Company</b>	<b>Industry</b>	<b>Year end</b>	<b>Market Capitalisation R' million</b>
African Rainbow Minerals Ltd	Mining	2013/06/30	40 911
Anglogold Ashanti Ltd	Mining	2013/12/31	49 490
Aspen Pharmacare Holdings Ltd	Health Care	2013/06/30	122 594
Distell Group Ltd	Food & Beverage	2013/06/30	30 156
Firststrand Ltd	Financial Services	2013/06/30	202 346
Glencore Xstrata Plc	Mining	2013/12/31	727 789
Imperial Holdings Ltd	Industrial Goods & Services	2013/06/30	42 539
MMI Holdings Limited	Insurance	2013/06/30	39 716
Nedbank Group Ltd	Financial Services	2013/12/31	107 164
Old Mutual Plc	Insurance	2013/12/31	160 572
Remgro Ltd	Industrial Goods & Services	2013/06/30	99 984
Sanlam Limited	Insurance	2013/12/31	111 804
Standard Bank Group Ltd	Financial Services	2013/12/31	209 381
Tsogo Sun Holdings Ltd	Travel & Leisure	2013/03/31	31 462
Woolworths Holdings Ltd	Retail	2013/06/30	63 228

The fourth, and final, group of companies are the companies where progress are to be made in their tax transparency reporting (refer to table 12). Most progress is required in the TTC and wider economic impact category and least progress in the Tax numbers and performance category. Included in this group are two companies in the mining industry (Exxaro Resources Ltd and Assore Ltd), who not only performed below average when compared with the other top 50 JSE listed companies, but they are also the two mining companies that performed much lower than the average performance of the other companies in the mining industry.

**Table 12 'Progress to be made' tax transparency reporting category**

Company	Industry	Year end	Market Capitalisation R' million
Assore Ltd	Mining	2013/06/30	47 552
Barclays Africa Group Ltd	Financial Services	2013/12/31	112 115
Bidvest Ltd	Industrial goods & Services	2013/06/30	88 007
Capital & Counties Properties Plc	Real Estate	2013/12/31	42 821
Compagnie Financière Richemont	Personal & Household Goods	2013/03/31	545 908
Discovery Ltd	Insurance	2013/06/30	50 013
Exxaro Resources Ltd	Mining	2013/12/31	52 450
Growthpoint Properties Ltd	Real Estate	2013/06/30	47 005
Intu Properties Plc	Real Estate	2013/12/31	53 123
Investec Plc	Financial Services	2013/03/31	46 014
Liberty Holdings Ltd	Insurance	2013/12/31	34 802
Life Healthc Group Holdings Ltd	Health Care	2013/09/30	43 627
Mediclinic International Ltd	Health Care	2013/03/31	62 849
Mr Price Group Ltd	Retail	2013/03/31	41 129
MTN Group Ltd	Telecommunications	2013/12/31	406 539
Naspers Ltd	Media	2013/03/31	455 876
Netcare Limited	Health Care	2013/09/30	38 412
Rand Merchant Insurance Holdings	Financial Services	2013/06/30	40 782
Reinet Investments SCA	Financial Services	2013/03/31	39 561
RMB Holdings Ltd	Financial Services	2013/06/30	68 256
Shoprite Holdings Ltd	Retail	2013/06/30	93 575
Steinhoff International Holdings Ltd	Personal & Household Goods	2013/06/30	91 794
Tiger Brands Ltd	Food & Beverage	2013/09/30	51 130
Truworths Int Ltd	Retail	2013/06/30	35 695
Vodacom Group Ltd	Telecommunications	2013/03/31	197 898

### 3.5.2 Tax transparency reporting results according to criteria

The extent of tax transparency reporting of the companies relevant to each criterion in the tax transparency framework is presented in this section:

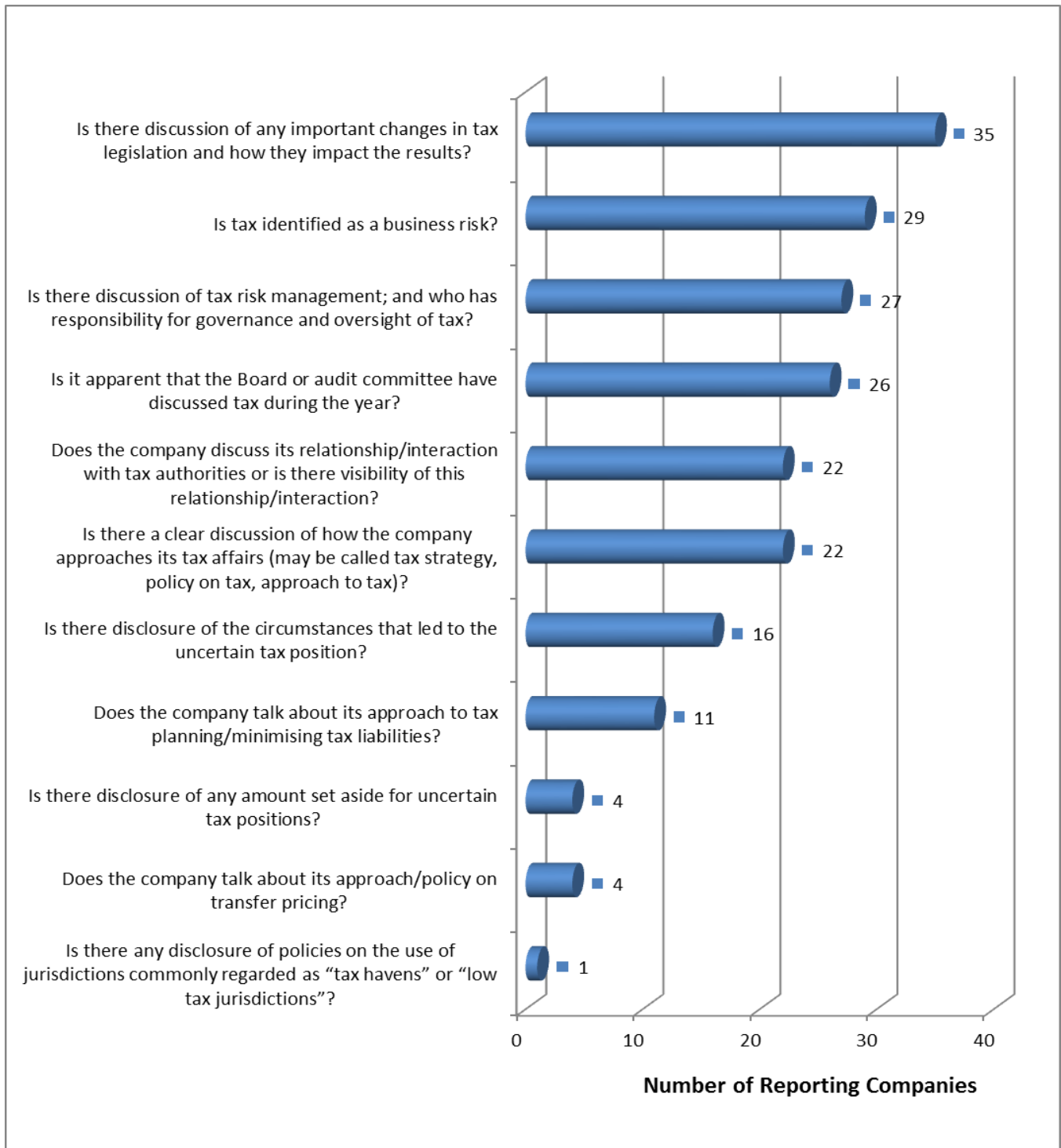
- Category 1: Tax strategy and risk management (Section 3.5.2.1).
- Category 2: Tax numbers and performance (Section 3.5.2.2).

- Category 3: Total tax contribution and wider economic impact (Section 3.5.2.3).

### **3.5.2.1 Category 1: Tax strategy and risk management**

The tax strategy and risk management category requires a clear and accessible discussion of tax strategy and risk management, including disclosure policies in key areas of the business, responsibilities for governance and oversight as well as material risks. The results for this category are contained in Figure 15. The tax transparency reporting performance in this category was the lowest when compared to the other two categories.

**Figure 15 Tax strategy and risk management category**



Of all the companies, 70% disclosed information regarding changes in tax legislation and how they impact the results (N = 35). Apart from changes to corporate tax, the change from Secondary Tax on Companies (STC) to dividends tax dominated this disclosure. Changes relating to other taxes were also mentioned. Lonmin Plc disclosed changes relating to carbon taxes as follows (CSR Report 2013:170):

“The National Climate Change Response Paper provides for a range of economic instruments to be used to drive mitigation and adaptation, one of which is the introduction of a carbon tax. This is due to come into effect on 1 January 2015 at a cost of R48 / tCO<sub>2</sub>e, increasing by 10% per annum for the first five years. There is no certainty yet on the exact structure of the scheme. It is currently expected that a company's direct carbon tax liability will initially be limited to its Scope 1 emissions, which will be incorporated into company costs as an additional tax liability. The electricity sector will however be covered by this tax as well, and will be likely to pass this onto the consumer in the form of a levy. This is significant as Scope 2 emissions account for our most significant source of GHG release. This levy is currently anticipated at approximately 3.7c / kWh in 2015, increasing by 10% annually up to a levy of 19.3c / kWh. Given this structure, it is projected that Lonmin could pay approximately R77.6 million in carbon tax in 2015, increasing at 10% per annum until 2020, resulting in estimated additional costs of over R600 million in nominal terms over the period...”

The fact that tax is regarded as a business risk was mentioned by 58% of the companies (N = 29). This criterion links closely with the previous one as uncertainty regarding tax changes would also constitute a business risk. This criterion was, however, satisfied when tax in general was identified as a business risk. Sasol Limited identified tax as a business risk and acknowledged the potential “reputational risk” of tax (Integrated Report 2013:64). BHP Billiton Plc described tax more broadly as a business risk in their Annual Report (2013:16) by stating that their:

“... operations are based on material long-term investments that are dependent on long-term fiscal stability and could be adversely impacted by changes in fiscal legislation. The mining industry has been identified as a source of tax revenue and can also be impacted by broader fiscal measures applying to business generally.”

Corporate tax was mostly disclosed as a business risk, but in certain cases excise duty imposed on products results in a business risk relating to taxes collected, as communicated by British American Tobacco Plc (Annual report 2013:11):

“The illegal market in tobacco products accounts for up to 660 billion cigarettes every year globally, depriving governments of around £30 billion in legitimate taxes. This illegal trade is also a huge competitor for the legal tobacco industry itself, and takes away a significant amount of legitimate business each year. The profits often end up in the hands of criminals who don't pay tax and sell their products to anyone, including children.”

Apart from identifying tax as a business risk, it is also essential to comprehend how companies manage this risk and who in the company has the responsibility and oversight of taxes. The companies that disclosed this information added up to 54% (N = 27). Sasol Limited disclosed in their Integrated Report (2013:64) that:

“A framework to govern the management of tax throughout the group has been established. Approved by the board, the governance framework combines appropriately skilled



resources, internal processes and internal and external controls to manage tax in line with the group strategy.”

As the board or audit committee ultimately oversees all aspects relating to the business, it was reassuring to discover that the majority of the companies (52%, N = 26) specifically discussed tax related matters on this level. Anglo American Plc disclosed this aspect in both their Annual and Corporate Social Responsibility Reports:

“Following discussion the Audit Committee approved the level of tax provisioning and proposed disclosure, having sought assurance from the external auditor that both were appropriate (Annual report 2013:112).

“Internally, tax matters are regularly presented to our Board and Audit Committee, which takes a particular interest in the alignment between the reality of our approach to tax, our stated ambition in terms of good tax governance, and our commitments to stakeholders” (Corporate Social Responsibility Report 2013:47).

Even though Capital & Counties Properties Plc is identified as a company where progress is required regarding their tax transparency reporting, it was clear from their Annual Report (2013:60) that the audit committee oversees tax related matters:

“The Group Head of Tax presented regular reports to the Committee, explained the basis of the Group’s tax position and updated the Committee on the ongoing relationship with HMRC. The Committee challenged the assumptions made in arriving at the tax position and discussed with the external auditor the assumptions and judgements made in arriving at the deferred tax position including appropriations from investment to trading property. The Committee was satisfied that the policy was appropriate for the Group.”

Two of the criteria in the Tax strategy and risk management category were addressed by 44% of the companies. The first of these two criteria is visibility regarding the company’s relationship with the tax authority. This criterion was met with general statements regarding stakeholder management, which include all levels of government and regulators. For example, as disclosed by Imperial Holdings Limited (CSR 2013:26):

Government and regulators	National and local government Johannesburg Securities Exchange (JSE) Self-regulatory bodies South African and overseas Revenue Services South African Reserve Bank Financial Services Board	Regular liaison with various government departments both at a company level and through industry bodies Engagement with municipalities Statutory reporting and regulatory releases Input on new legislation Black Economic Empowerment (BEE) and Employment Equity (EE) reports and submissions	Payment of taxes Labour rights Environmental protection Employment equity Occupational health and safety Broad-Based Black Economic Empowerment (B-BBEE) and transformation Human rights Protection of customer rights Skills development
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SAB Miller was more exact in their disclosure regarding their interaction with tax authorities (Our Approach to tax 2013:9):

“We believe our dealing with tax authorities should be based on respect and trust. To this end, we engage proactively with the authorities in the territories in which we operate. Believing that communication should be two-way, we seek opportunities to meet on a regular basis to ensure that our business dealings are better understood by the authorities and to exchange views and insights on various matters. This open, two-way communication with tax authorities is very important to us, and is a required practice in all our business units.

During the year to 31 March 2013 we held a range of meetings with tax authorities across the world, especially in Africa; some in the course of regular audits and follow up questions, some to provide updates and exchanges of information.”

The second criterion on which 44% of the companies disclosed information, relates to the visibility of the companies’ approach to its tax affairs. SAB Miller Plc disclosed a 12 page document titled “Our approach to tax 2013” and the following extract from this document summarises their approach (SAB Miller Plc 2013:6):

“Our key tax principles:

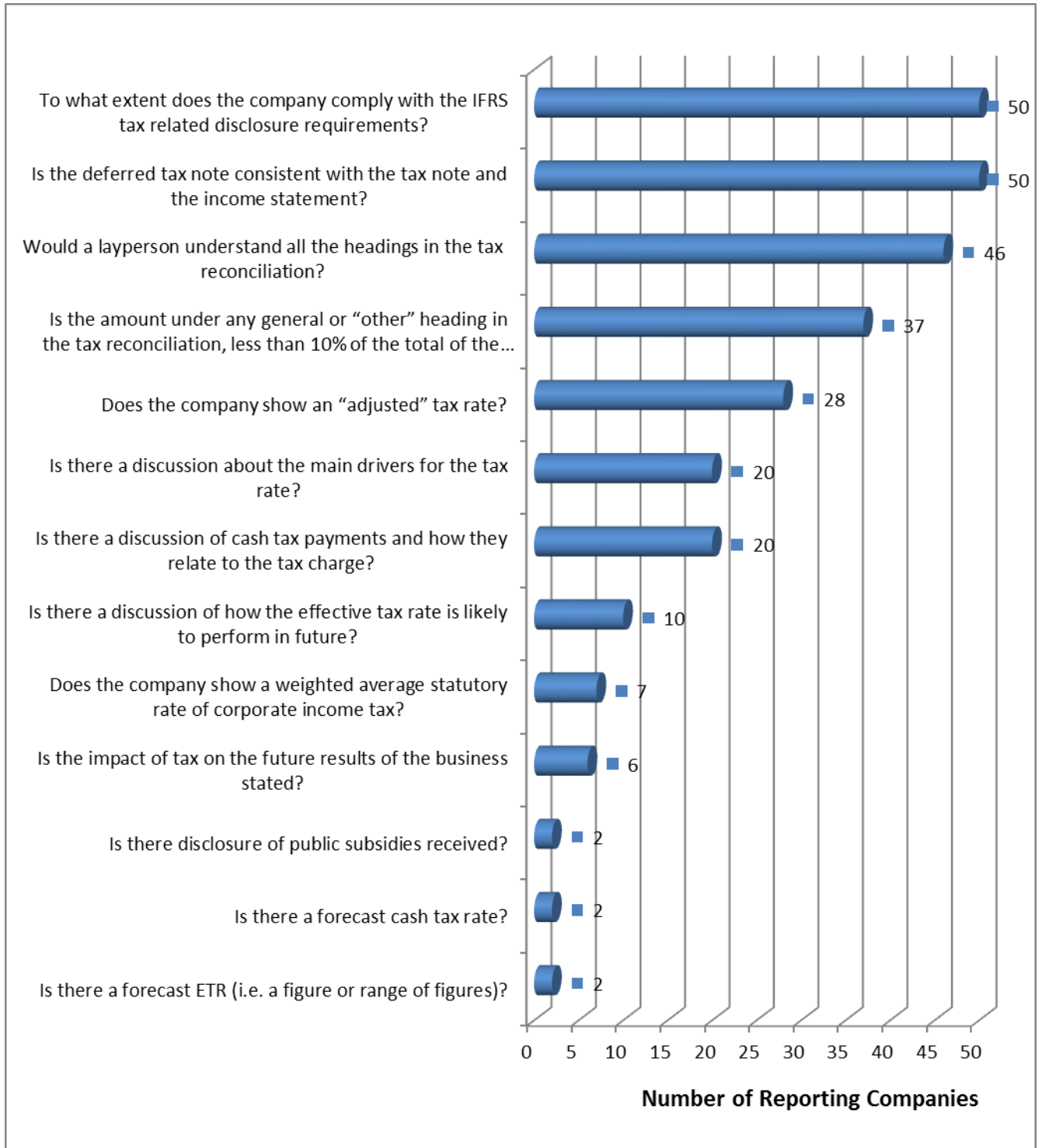
- We commit to act responsibly in relation to our tax affairs; to fulfil our compliance and disclosure obligations and to operate in accordance with all relevant laws and regulations.
- Our economic contribution, of which tax forms a part, is important and we aim to ensure that we pay the right and proper amount of tax in each country in which we operate.
- We seek to be efficient with our tax affairs and, in this context, will ensure that all tax planning is built on sound commercial business activity.
- We manage tax in line with our group governance framework and procedures; tax strategy, activities and uncertainties are documented and reported on a regular basis.
- We build constructive relationships with tax authorities; we encourage the building of tax administration capability and the promotion of efficient tax systems.
- We understand the value of our financial reporting to investors and society and work to provide enhanced and balanced disclosure in communicating our tax affairs.”

### **3.5.2.2 Category 2: Tax numbers and performance**

The Tax numbers and performance category entails transparent tax numbers and performance, such as clear reconciliations of the tax charge to the statutory rate and anticipated measures for tax (refer to Figure 16 for a summary of results). The tax transparency performance of companies included in the ‘Transparent’ and ‘Progress to be made’ groups were relatively better for this category than for the other two categories in

the tax transparency framework. Companies included in the ‘progress to be made’ group primarily derived their overall tax transparency scores from this category.

**Figure 16 Tax numbers and performance category**



In the tax numbers and performance category of the Tax Transparency Framework, it was expected that all companies would comply with the compulsory IFRS tax disclosure requirements. All 50 companies addressed the IFRS tax related disclosure requirements, although the extent of compliance differed. Nineteen companies (38%) complied with at least 85% of disclosure requirements and the compliance of 31 companies (62%) was below 85% of disclosure requirements.

Another IFRS tax related disclosure requirement that was not well adhered to, is the disclosure of the amount of the non-current portion of deferred or current taxes that is expected to be recovered or settled after more than 12 months (IAS 1 par 60 & 61). However, the compliance rate of 24% (12 companies) with this requirement is disappointing.

Another criterion within the tax numbers and performance category, where all firms complied, was the consistency between the information in the deferred tax note, the income tax expense note and the income statement. Even though all companies disclosed a tax reconciliation, only 92% (N = 46) disclosed it in a manner that would be comprehensible to a layperson. The functionality of the tax reconciliation was further impaired by the fact that 26% of the companies included unknown sundry items that exceeded 10% of the total reconciling items.

Of all the companies, 56% (N = 28) admitted an 'adjusted' effective tax rate, by either excluding non-recurring items or by adding other types of taxes. BHP Billiton Plc disclosed the following regarding 'adjusted' effective tax rates (Annual Report 2013:107):

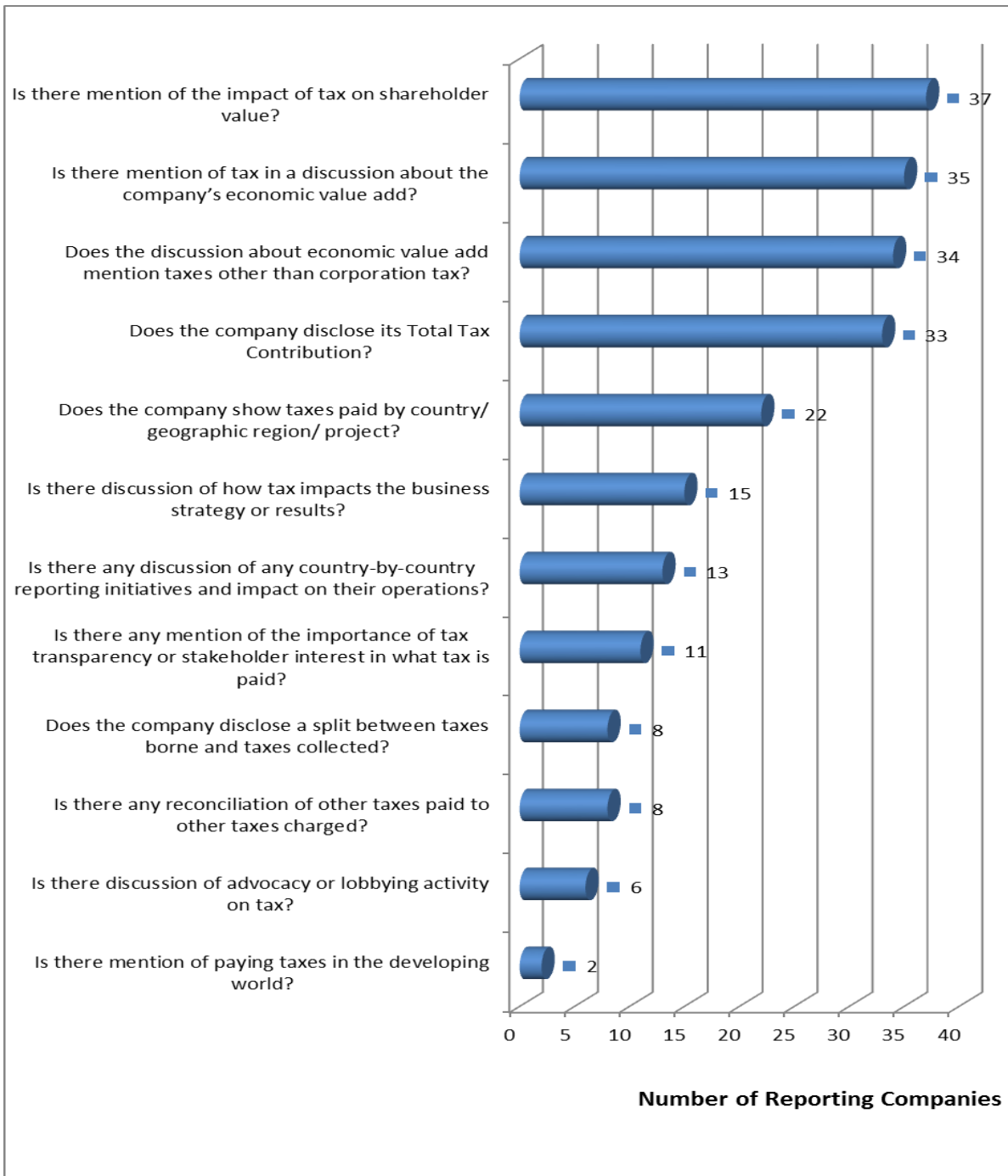
“Total taxation expense, including royalty-related taxation, exceptional items and exchange rate movements, was US\$6.8 billion, representing an effective tax rate of 38.0 per cent (2012: 32.5 per cent). Exceptional items decreased taxation expense by US\$980 million (2012: decrease of US\$1.7 billion), predominately due to the income tax benefit on impairments of US\$1.4 billion, which more than offset the income tax expense associated with divestments of US\$376 million, as detailed in section 3.6.5. Excluding exceptional items, the Group's effective tax rate was 39.3 per cent (2012: 34.8 per cent).”

No other criteria within the tax numbers and performance category were addressed by more than 40% of the companies.

### **3.5.2.3 Category 3: *Total tax contribution and wider economic impact***

The last category in the tax transparency framework relates to the TTC and wider economic impact thereof, showing how tax influences the business strategy, results and shareholder value (refer to Figure 17 for a summary of the results). The disclosure in this category primarily distinguished the companies included in the 'excellent' group from the rest of the sample.

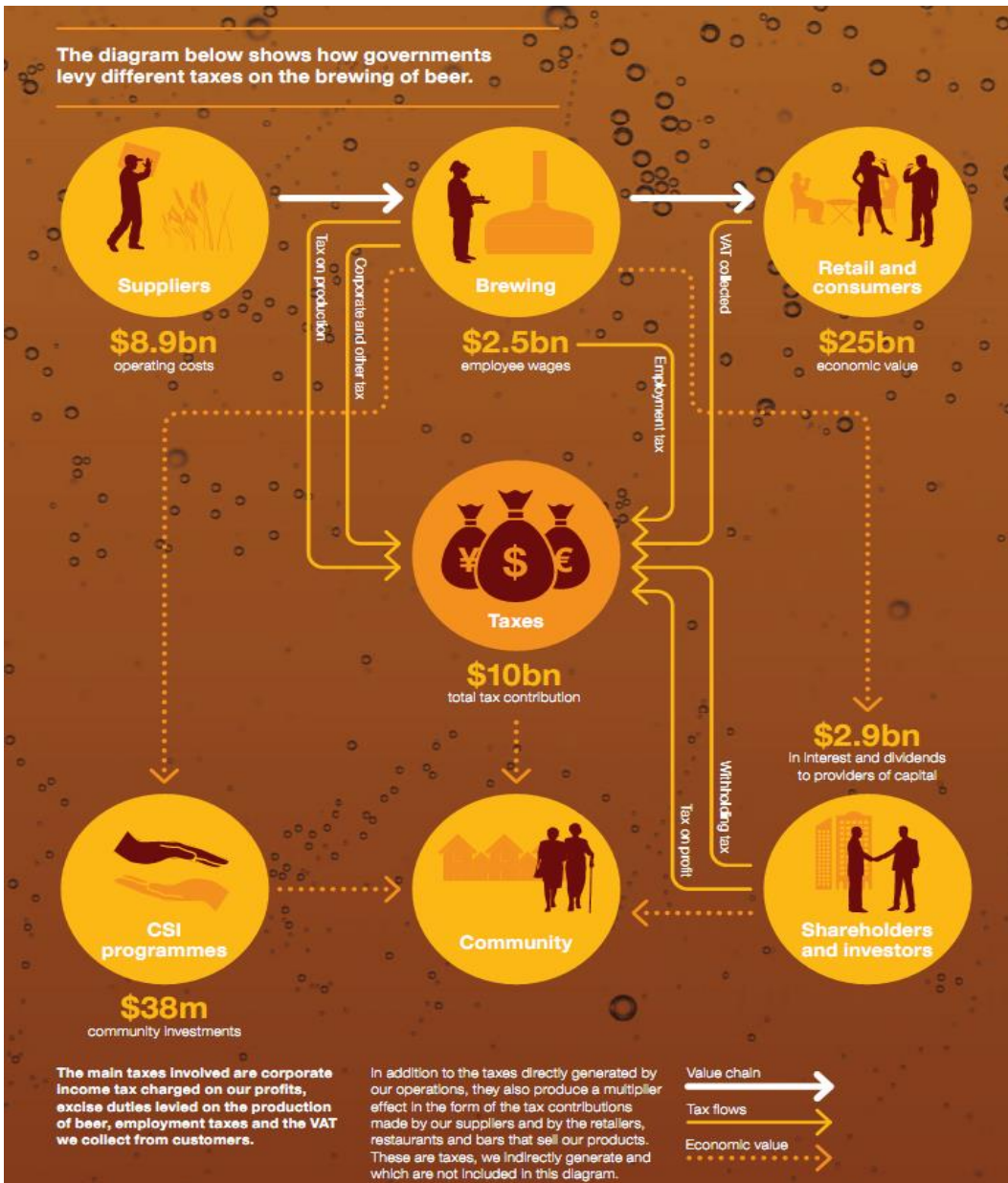
**Figure 17 Total tax contribution and wider economic impact category**



The impact of tax on shareholder value is the criterion within the TTC and wider economic impact category that was reported on most (74%, N = 37). The companies disclosed the tax consequences of dividends and the buying or selling of the companies' shares. In addition, the disclosure often distinguished between tax consequences for resident and non-resident shareholders.

Reporting regarding the economic value added by a company was included by 70% of the companies (N = 35). SAB Miller Plc illustrated their economic value added with the use of a diagram showing how governments levy different taxes on the brewing of beer (refer to Figure 18):

Figure 18 SAB Miller Plc's illustration of economic value added



(Source: SAB Miller Plc, 2013(b):7)



Anglo American Plc used a table to convey how mines are taxed at different stages in their life-cycle (refer to Figure 19).

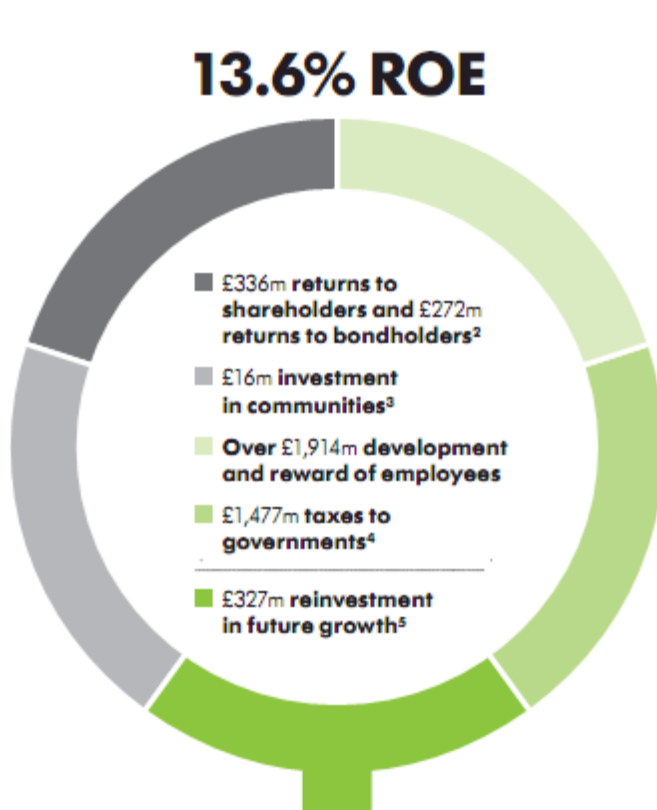
**Figure 19 Anglo American Plc’s communication of economic value added**

Taxes generated over the life of a mine		
Stage in life of mine	Profitability	Value add through taxes
Exploration	Operating and capital expenditure	Money spent with suppliers, generating sales taxes, and import duties. Employment taxes are also generated
Development (e.g. Minas-Rio in Brazil)	Operating and significant capital expenditure	Very significant amounts are spent with suppliers in developing the mine and infrastructure, generating sales taxes and import duties. Those supplier companies will in turn pay taxes on the profits generated supporting the Anglo American operations. Increasing levels of employment taxes are also generated, as well as payments being made to contractors
Early production (e.g. Kolomela in South Africa)	Recovery of investment	Many mining tax regimes include a royalty based on production volumes or values; so these revenues will start to flow to government even before the operation has made any profit. Employment taxes are also generated, as well as payments being made to contractors
Full production (e.g. Dawson in Australia)	Net profit	Corporate income tax will start to be paid at a time depending on how the tax regime allows companies to recover the cost of developing the mine. Royalties and employment taxes continue to be generated, as well as payments being made to contractors
Closedown	Closure and rehabilitation costs	Significant amounts are spent with local and international suppliers in closing down the mine and rehabilitating the land, generating sales taxes and import duties

(Source: Anglo American Plc, 2013(b):81)

The companies further quantified their economic value added and presented it in various formats. Old Mutual Plc communicated this information in a pie chart (figure 20):

**Figure 20 The economic value added by Old Mutual Plc.**

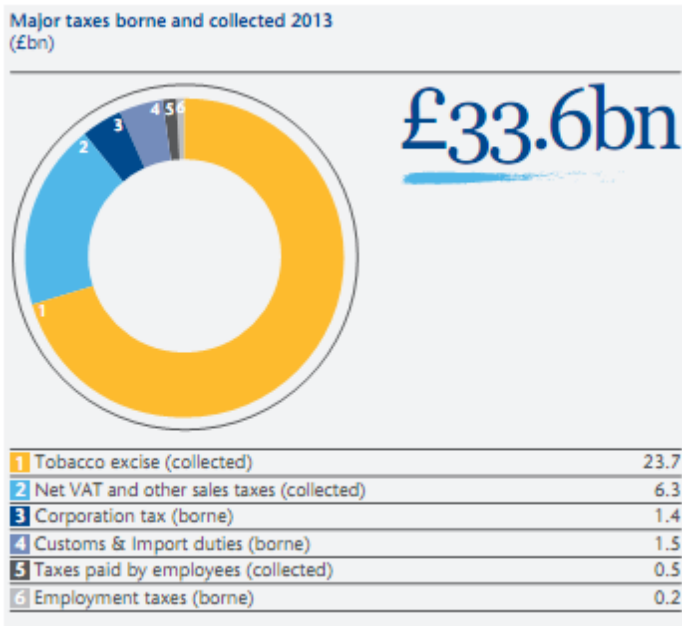


(Source: Old Mutual, 2013:21)

It is apparent from the information above that companies do not only include the impact of corporation tax in their disclosure of economic value added. Additional direct and indirect taxes impacting the company's economic value added was reported by 68% of the companies (N = 34). The companies either quantify the contribution of the different taxes, or define what they include in their tax contribution that is disclosed.

Of all the companies in the sample, 66% (N = 33) disclosed their TTC, of which eight companies provided a break-down between taxes borne and collected. British American Tobacco Plc also used a pie chart to convey the TTC for 2013 (refer to Figure 21).

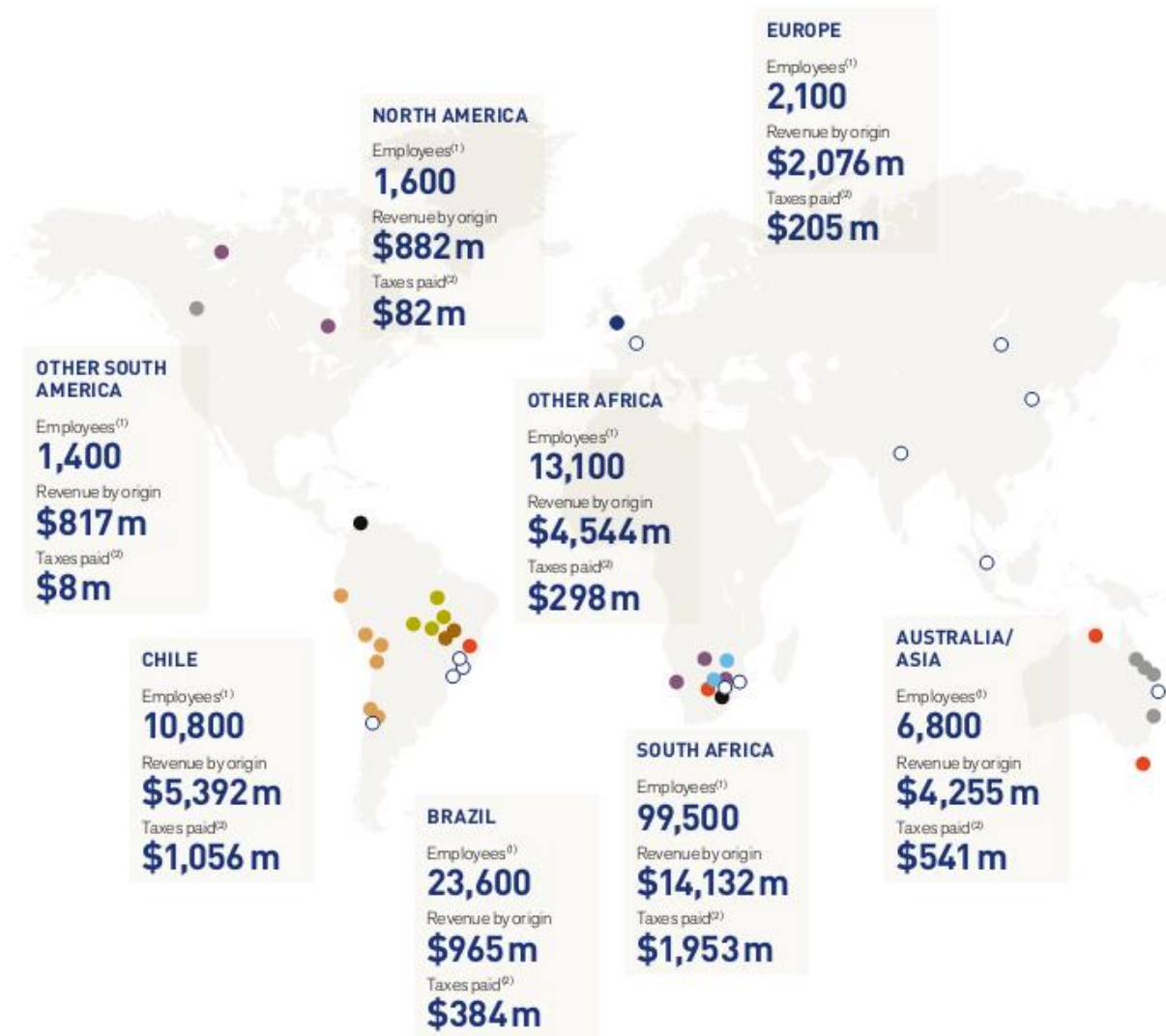
**Figure 21 Taxes borne and collected by British American Tobacco Plc**



(Source: British American Tobacco Plc, 2013:40)

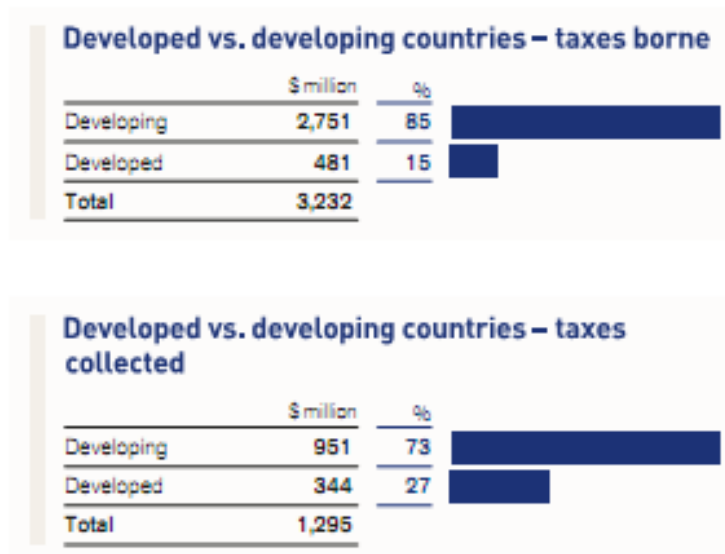
The only other criterion within the TTC and wider economic impact category that was disclosed by more than 40% of the companies was tax disclosure by country, geographical region or project. Of all the companies in the sample, 44% provided the users of their reports with this information (N = 22), and two of these companies broke the tax payments into another category to further distinguish between the developed and developing world. Anglo Anglo American Plc was one of the companies that disclosed the tax contribution by region (refer to figure 22) and between the developed and developing world (refer to figure 23).

Figure 22 Tax disclosure by region: Anglo American Plc



(Source: Anglo American Plc, 2013(a):6)

**Figure 23 Taxes in the developed and developing world: Anglo American Plc**



(Source: Anglo American Plc, 2013(b):46)

### 3.6 CONCLUSION

The main objective of this study was to determine to what extent South African companies comply with the income tax presentation and disclosure requirements. This chapter summarises the results of the analyses of the voluntary reporting of the top 50 JSE listed companies. Based on the evaluation of the tax transparency reporting, the top 50 JSE listed companies were classified into four different groups. The top 10% of the companies' tax transparency reporting is regarded as 'Excellent', the next 10% as 'Good' and the rest of the companies that performed above average as 'Transparent'. The other 50% of the companies were included in a 'Progress to be made' category. A notable discovery is that all five firms in the excellent category have primary listings on the London Stock Exchange. This evidence suggests that institutional forces within the UK are contributing to increased tax transparency.

Although the examination of the companies recognized some excellent tax transparency reporting, some companies in South Africa are not yet following international best practice regarding tax transparency reporting. An example is Vodacom Group Ltd that is classified in the 'Progress to be made' group. Its holding company, Vodafone Group Plc is the

winner of the PWC UK 2013 tax reporting award in the FTSE 100 and the judges remarked that 'It's hard to see what more the company could have done' (PWC 2013b:5). Tax transparency disclosure practices is therefore well established in the Vodafone Group, but not yet embraced by the South African subsidiary. Increased transparency might for some only arise when most of the voluntary tax disclosures are becoming mandatory in future. In line with this thinking, this chapter closes with a statement from Her Majesty (2013 CRD IV) that stipulates that:

“Increased transparency regarding the activities of institutions, and in particular regarding profits made, taxes paid and subsidies received, is essential for regaining the trust of citizens of the Union in the financial sector. Mandatory reporting in that area can therefore be seen as an important element of the corporate responsibility of institutions towards stakeholders and society.”

## **CHAPTER 4**

### **CONCLUSION**

#### **4.1 INTRODUCTION**

The presentation and disclosure of tax information is classified into two broad categories, namely: Mandatory tax reporting (chapter 2) and Voluntary tax reporting (chapter 3). The objective of this study was to evaluate the tax presentation and disclosure of listed companies in South Africa. It was therefore essential to evaluate each category of tax reporting. Both analyses (mandatory and voluntary tax reporting) were based on the top 50 JSE listed companies and the results of both analyses are concluded on in this chapter.

#### **4.2 MANDATORY TAX REPORTING**

Mandatory tax reporting, based on IFRS requirements, indicated significant improvement from the previous two studies conducted in 2002 & 2005 especially in the “Income tax note”. An average compliance of 79.35% from this study concludes that the top 50 JSE listed companies comply to a great extent with IFRS requirements. It was, however, noticeable that the companies with good mandatory tax reporting, disclosed more information than required from the IFRS requirements and therefore the results regarding voluntary tax reporting is of utmost importance for users of reports.

#### **4.3 VOLUNTARY TAX REPORTING**

Voluntary tax reporting, also referred to as tax transparency reporting, provides an all-inclusive approach of the company’s short, medium and long term strategies and opportunities. This all-inclusive approach is rapidly growing amongst different industries. The Mining industry is currently the leading industry in tax transparency reporting, followed by the Personal & Household Goods and Food & Beverage industry. Although one would

hope that increased pressure to improve the transparency in tax reporting of companies would facilitate their tax compliance, decoupling as part of institutional theory indicates that there is a gap between formal policies and actual organizational practices.

#### **4.4 CONCLUSION**

Karthik, Li & Yang (2014) believes that a correlation between mandatory tax reporting and voluntary tax reporting exists. A company with good mandatory tax reporting will also show good voluntary tax reporting. This is phenomenon is noticeable in this study conducted, as four of the top 10 companies in the mandatory tax reporting analyses were classified as companies with excellent tax transparency reporting. These companies are Lonmin Plc., BHP Billiton Plc., SAB Miller Plc. and Anglo American Plc. Impala Platinum Holdings Ltd, which was also one of the top 10 companies in the mandatory tax reporting analyses, were classified as a company with good tax transparency reporting. There is a hope that this study will encourage companies to improve both their mandatory and voluntary tax reporting.

This study, however, evaluated the extent of tax transparency disclosure and not the accuracy of the information. Botha (2014) discovered that more than half of employees responsible for tax reporting in their local companies do not have ultimate assurance or comfort on the information they receive from their operational areas or business units. This increased to nearly three quarters who could not rely on information received from the cross-border businesses and operations. The quality of tax related reporting, both for mandatory and voluntary reporting, remains an open question that would have to be investigated by future research

Although concerns regarding the quality of the tax related reporting remains, the nature of financial reporting has progressed over the past era to meet the continuous changing desires of stakeholders. With greater complexity in business models, sources of risk and uncertainty, as well as greater erudition in how risk is managed, industry and capital markets have become more challenging. This progression results in a need for information that is relevant and important to users, even if such information might be more subjective and less trustworthy. In some ways, disclosures, both mandatory and voluntary



have become the balancing item in the calculus of how to provide credible, decision-useful information.

## DEFINITION OF KEY TERMS

**Disclosure:** “The action of making new or secret information known” (Oxford Dictionaries, not dated(a)).

**General purpose financial statements:** “These financial statements are those intended to meet the needs of users who are not in position to require an entity to prepare reports tailored to their particular information needs” (International Accounting Standards Board, 2012:A559).

**Information:** “Raw data that has been verified to be accurate and timely, is specific and organised for a purpose, is presented within a context that gives it meaning and relevance and which leads to increase in understanding and decrease in uncertainty” (King Committee on Governance, 2009:52).

**Integrated reporting:** “This means a holistic and integrated representation of the company’s performance in terms of both its finance and its sustainability” (King Committee on Governance, 2009:54).

**Presentation:** “The manner or style in which something is given, offered, or displayed” (Oxford Dictionaries, not dated(b)).

**Stakeholders:** “Any group affected by and affecting the company’s operations” (King Committee on Governance, 2009:60).

**Sustainability:** “Sustainability of a company means conducting operations in a manner that meets existing needs without compromising the ability of future generations to meet their needs. It means having regard to the impact that the business operations have on the economic life of the community in which it operates. Sustainability includes environmental, social and governance issues” (King Committee on Governance, 2009:61).

Table 13 gives an explanation of the abbreviations used in this particular study:

**Table 13: Abbreviations used in this document**

<b>Abbreviation</b>	<b>Meaning</b>
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
JSE	Johannesburg Stock Exchange Ltd
TBL	Triple Bottom Line

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# **ANNEXURE A**

## **Mandatory tax disclosure framework**

<b>Category 1: Statement of Financial Position</b>		
	<b>Criteria</b>	<b>Paragraph reference</b>
	<b>Statement of Financial Position (Face)</b>	
1	Liabilities and assets for current tax, as defined in IAS 12, shall be included as a separate line item.	IAS 1 par 54(n)
2	Deferred tax liabilities and deferred tax assets, as defined in IAS 12, shall be included as a separate line item.	IAS 1 par 54(o)
3	When an enterprise presents current and non-current assets, and current and non-current liabilities, as separate classifications in its statement of financial position, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).	IAS 1 par 56
4	Disclose the amount of the non-current portion of deferred or current taxes that is expected to be recovered or settled after more than 12 months.	IAS 1 par 60 IAS 1 par 61
5	An entity shall offset current tax assets and current tax liabilities if, and only if, the entity: <ul style="list-style-type: none"> <li>a) Has a legally enforceable right to set off the recognised amounts; and</li> <li>b) Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.</li> </ul>	IAS 12 par 71
6	An entity shall offset deferred tax assets and deferred tax liabilities if, and only if: <ul style="list-style-type: none"> <li>a) The entity has a legally enforceable right to set off current tax assets against current tax liabilities; and</li> <li>b) The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:               <ul style="list-style-type: none"> <li>i. The same taxable entity; or</li> <li>ii. Different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.</li> </ul> </li> </ul>	IAS 12 par 74

<b>Category 2: Statement of profit or loss and other comprehensive income</b>		
	<b>Criteria</b>	<b>Paragraph reference</b>
7	The tax expense (income) related to profit or loss from ordinary activities shall be presented as a separate line item.	IAS 1 par 82(d) IAS 12 par 77 Also check E47 & 57.

<b>Category 2: Statement of profit or loss and other comprehensive income</b>		
	<b>Criteria</b>	<b>Paragraph reference</b>
8	Where exchange differences on deferred foreign tax liabilities or assets are recognised in the statement of comprehensive income, such differences may be classified as deferred tax expense (income) if that presentation is considered to be the most useful to financial statement users.	IAS 12 par 78

<b>Category 3: Statement of cash flows (face)</b>		
	<b>Criteria</b>	<b>Paragraph reference</b>
9	Cash flows arising from taxes on income shall be separately disclosed and shall be classified as cash flows from operating activities unless they can be specifically identified with financing and investing activities.	IAS 7 par 14(f) IAS 7 par 35
10	When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.	IAS 7 par 36

<b>Category 4: Statement of changes in equity (face or notes)</b>		
	<b>Criteria</b>	<b>Paragraph reference</b>
11	Disclose the aggregate current and deferred tax relating to items charged or credited to equity. For deferred taxes, it is useful to disclose the analysis by category of temporary differences.	IAS 12 par 81(a)
12	The aggregate current and deferred tax relating to items that are charged or credited directly to equity.	IAS 12 par 81(a)
13	An entity shall disclose the amount of income tax relating to each item of other comprehensive income, including reclassification adjustments.	IAS 1 par 90 IAS 12 par 81(ab)
14	An entity may present items of other comprehensive income either: a) Net of related tax effects, or b) Before related tax effects with one amount shown for the aggregate amount of income tax relating to those items. <i>If an entity selects alternative (b), it shall allocate the tax between the items that might be reclassified subsequently to the profit or loss section and those that will not be reclassified to the profit or loss section.</i>	IAS 1 par 91

<b>Category 5: Notes to financial statements</b>		
	<b>Criteria</b>	<b>Paragraph reference</b>
	<b>Deferred tax note</b>	

<b>Category 5: Notes to financial statements</b>		
	<b>Criteria</b>	<b>Paragraph reference</b>
15	The amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the statement of financial position.	IAS 12 par 81(e)
16	The aggregate amount of temporary differences associated with investments in subsidiaries, branches and associates and interests in joint arrangements, for which deferred tax liabilities have not been recognised.	IAS 12 par 81(f)
17	In respect of each type of temporary difference, and in respect of each type of unused tax losses and unused tax credits: <ol style="list-style-type: none"> <li>a) The amount of the deferred tax assets and liabilities recognised in the statement of financial position for each period presented;</li> <li>b) The amount of the deferred tax income or expense recognised in profit or loss, if this is not apparent from the changes in the amounts recognised in the statement of financial position.</li> </ol>	IAS 12 par 81(g)
18	An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when: <ol style="list-style-type: none"> <li>a) The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and</li> <li>b) The entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.</li> </ol>	IAS 12 par 82
	-	
19	Each entity considers the nature of its operations and the policies that the users of its financial statements would expect to be disclosed for that type of entity. For example, users would expect an entity subject to income taxes to disclose its accounting policies for income taxes, including those applicable to deferred tax liabilities and assets. When an entity has significant foreign operations or transactions in foreign currencies, users would expect disclosure of accounting policies for the recognition of foreign exchange gains and losses.	IAS 1 par 120
	<b>Income tax expense note</b>	
20	The major components of tax expense (income) shall be disclosed separately. This may include: <ol style="list-style-type: none"> <li>a) Current tax expense (income);</li> </ol>	IAS 12 par 79 IAS 12 par 80(a)
21	The major components of tax expense (income) shall be disclosed separately. This may include: <ol style="list-style-type: none"> <li>b) Any adjustments recognised in the period for current tax of prior periods;</li> </ol>	IAS 12 par 79 IAS 12 par 80(b)
22	The major components of tax expense (income) shall be disclosed separately. This may include: <ol style="list-style-type: none"> <li>c) The amount of deferred tax expense (income) relating to the origination and reversal of temporary differences.</li> </ol>	IAS 12 par 79 IAS 12 par 80(c)
23	The major components of tax expense (income) shall be disclosed separately. This may include: <ol style="list-style-type: none"> <li>d) The amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes.</li> </ol>	IAS 12 par 79 IAS 12 par 80(d)

<b>Category 5: Notes to financial statements</b>		
	<b>Criteria</b>	<b>Paragraph reference</b>
24	The major components of tax expense (income) shall be disclosed separately. This may include: e) The amount of the benefit arising from a previously unrecognised tax loss, tax credit or temporary differences of a prior period that is used to reduce current tax expense.	IAS 12 par 79 IAS 12 par 80(e)
25	The major components of tax expense (income) shall be disclosed separately. This may include: f) The amount of the benefit from a previously unrecognised tax loss, tax credit or temporary difference of a prior period that is used to reduce deferred tax expense.	IAS 12 par 79 IAS 12 par 80(f)
26	The major components of tax expense (income) shall be disclosed separately. This may include: g) Deferred tax expense arising from the write-down, or reversal of a previous write-down, of a deferred tax asset in accordance with paragraph 56; and	IAS 12 par 79 IAS 12 par 80(g)
27	The major components of tax expense (income) shall be disclosed separately. This may include: h) The amount of tax expense (income) relating to those changes in accounting policies and errors that are included in profit or loss in accordance with IAS 8, because they cannot be accounted for retrospectively.	IAS 12 par 79 IAS 12 par 80(h)
28	An explanation of the relationship between tax expense (income) and accounting profit in either or both of the following forms: a) A numerical reconciliation between tax expense (income) and the product of accounting profit multiplied by the applicable tax rate(s), disclosing also the basis on which the applicable tax rate(s) is (are) computed; or b) A numerical reconciliation between the average effective tax rate and the applicable tax rate, disclosing also the basis on which the applicable tax rate is computed.	IAS 12 par 81(c)
29	An explanation of changes in the applicable tax rate(s) compared to the previous accounting period.	IAS 12 par 81(d)
	<b>Business combinations</b>	
30	If a business combination in which the entity is the acquirer causes a change in the amount recognised for its pre-acquisition deferred tax asset, the amount of that change.	IAS 12 par 81(j)
31	If the deferred tax benefits acquired in a business combination are not recognised at the acquisition date, but are recognised after the acquisition date, a description of the event or change in circumstances that caused the deferred tax benefits to be recognised.	IAS 12 par 81(k)
32	The total amount of goodwill that is expected to be deductible for tax purposes;	IFRS 3 par B64(k)
33	Adjustments resulting from the subsequent recognition of deferred tax assets during the reporting period in accordance with IFRS 3 para 67;	IFRS 3 par B67(d)(iii)



<b>Category 5: Notes to financial statements</b>		
	<b>Criteria</b>	<b>Paragraph reference</b>
34	In addition to the summarised information required by IFRS 12 B12, disclose for each joint venture that is material to the reporting entity the amount of: vii income tax expense or income	IFRS 12 par B13
<b>Dividends</b>		
35	If income taxes are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend, disclose: a) the nature of the potential income tax consequences that would result from the payment of dividends; and b) the amounts of the potential income tax consequences practically determinable, and whether there are any potential income tax consequences not practically determinable.	IAS 12 par 82A
36	In the circumstances described in paragraph 52A, an entity shall disclose the nature of the potential income tax consequences that would result from the payment of dividends to its shareholders. In addition, the entity shall disclose the amounts of the potential income tax consequences practicably determinable and whether there are any potential income tax consequences not practicably determinable.  An entity discloses the important features of the income tax systems and the factors that will affect the amount of the potential income tax consequences of dividends.	IAS 12 par 82A IAS 12 par 87A
<b>Contingent tax liabilities</b>		
37	An entity discloses any tax-related contingent liabilities and contingent assets in accordance with IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> .  <i>IAS 37 requires:</i> <i>For each class of provision, an entity shall disclose:</i> a) <i>the carrying amount at the beginning and end of the period;</i> b) <i>additional provisions made in the period, including increases to existing provisions;</i> c) <i>amounts used (i.e. incurred and charged against the provision) during the period;</i> d) <i>unused amounts reversed during the period; and</i> e) <i>the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.</i>  <i>Comparative information is not required.</i>	IAS 12 par 88
<b>Events after the balance sheet date</b>		
38	The amount of income tax consequences of dividends to shareholders of the entity that were proposed or declared before the financial statements were authorised for issue, but are not recognised as a liability in the financial statements	IAS 12 par 81(i)

<b>Category 5: Notes to financial statements</b>		
	<b>Criteria</b>	<b>Paragraph reference</b>
39	Where changes in tax rates or tax laws are enacted or announced after the reporting period, an entity discloses any significant effect of those changes on its current and deferred tax assets and liabilities in accordance with IAS 10 <i>Events after the Reporting Period</i> .	IAS 12 par 88
40	The following are examples of non-adjusting events after the reporting period that would generally result in disclosure:	IAS 10 par 22(h)
	(h) changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities (see IAS 12 Income Taxes);	
<b>Segment reporting</b>		
41	An entity shall report a measure of profit or loss for each reportable segment. An entity shall report a measure of total assets and liabilities for each reportable segment if such amounts are regularly provided to the chief operating decision maker. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss: h) income tax expense or income;	IFRS 8 par 23
42	Provide reconciliations (all material reconciling items are separately identified and disclosed) of the following: a) the total of reportable segments' revenues to the entity's revenue; b) the total of the reportable segments' measure of profit or loss to the entity's profit or loss before tax and discontinued operations, unless items such as tax income and expense are allocated to segments, in which case the reconciliation may be to the entity's profit or loss after those items;	IFRS 8 par 28
<b>Discontinued operations</b>		
43	In respect of discontinued operations, the tax expense relating to: a) The gain or loss on discontinuance; and b) The profit or loss from the ordinary activities of the discontinued operation for the period, together with the corresponding amounts for each prior period presented.	IAS 12 par 81(h)

<b>Category 5: Notes to financial statements</b>		
	<b>Criteria</b>	<b>Paragraph reference</b>
44	<p>An entity shall disclose:</p> <ul style="list-style-type: none"> <li>a a single amount in the statement of comprehensive income comprising the total of:               <ul style="list-style-type: none"> <li>i. the post-tax profit or loss of discontinued operations and</li> <li>ii. the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.</li> </ul> </li> <li>b an analysis of the single amount in (a) into:               <ul style="list-style-type: none"> <li>i. the revenue, expenses and pre-tax profit or loss of discontinued operations;</li> <li>ii. the related income tax expense as required by paragraph 81(h) of IAS 12; and</li> <li>iii. the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.</li> </ul> </li> </ul> <p><i>The analysis may be presented in the notes or in the statement of comprehensive income. If it is presented in the statement of comprehensive income it shall be presented in a section identified as relating to discontinued operations, i.e. separately from continuing operations. The analysis is not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).</i></p>	IFRS 5 par 33
45	The current and deferred tax consequences of a change in tax status shall be included in profit or loss for the period, unless those consequences relate to transactions and events that result, in the same or different period, in a direct credit or charge to the recognised amount of equity or in amounts recognised in other comprehensive income.	SIC 25 par 4
46	Changes in the tax status of an entity or its and shareholders that give rise to tax consequences that relate to amounts in recognised in other comprehensive income shall be recognised in other comprehensive income.	SIC 25 par 4
47	Changes in the tax status of an entity or its shareholders that give rise to tax consequences that relate to changes in the recognised amounts of equity, in the same or different period, shall be charged or credited directly to equity.	SIC 25 par 4
	<b>Other</b>	
48	In order to illustrate the effect of taxation on the earnings per share, does the company in addition to basic and diluted after tax earnings per share discloses a before tax earning per share.	IAS 33
49	<p>Financial statements provided by retirement benefit plans include the following, if applicable:</p> <ul style="list-style-type: none"> <li>b) a statement of changes in net assets available for benefits showing the following:               <ul style="list-style-type: none"> <li>viii taxes on income</li> </ul> </li> </ul>	IAS 26 par 35