TAX TRANSPARENCY REPORTING BY THE TOP 50 JSE-LISTED FIRMS

Madeleine Stiglingh[a]
Elmar R. Venter[a,†]
Ilinza Penning[b]
Anna-Retha Smit[b]
Anculien Schoeman[b]
Theuns Steyn[b]

[a] *Department of Accounting, University of Pretoria*

[b] *Department of Taxation, University of Pretoria*

Version: 28 January 2016

† Corresponding author

Elmar R. Venter
University of Pretoria
Department of Taxation
Lynnwood Road
Hillcrest
Pretoria 0002
South Africa
Phone: +27 12 420 6710
Email: elmar.venter@up.ac.za

We would like to thank two anonymous reviewers, participants at the 2015 Southern African Accounting Association biennial conference held in East London for comments on an earlier draft of the paper and Tanya Ackerman for research assistance. We are grateful to PWC for making their Tax Transparency Framework and the evaluation method used in the PWC UK Building Public Trust Awards available to us.

Abstract

As a result of increased regulatory focus on a number of firms' tax behaviour, tax compliance is now recognised as a source of reputational risk. Transparency on the reporting of tax related matters in public corporate reports could mitigate a firm's reputational tax risk. In this study, we develop a framework to evaluate tax transparency in such reports. This framework is then applied to the corporate reports of 50 large firms in South Africa to identify the performance of these firms in terms of the framework. We find that 86 per cent of the firms comply with more than 70 per cent of the mandatory tax reporting requirements. We also show that 50 per cent of the firms are transparent regarding their disclosure of tax strategy and risk management, tax figures and performance, their total tax contribution and the wider economic impact of their tax behaviour. The greatest improvement is required in disclosure regarding tax strategy and risk management and the total tax contribution and the wider economic impact.

Keywords: tax transparency, voluntary disclosure, integrated reporting, total tax contribution

1. Introduction

Tax revenue is the main source of funding for governments. It is vital to the development and maintenance of infrastructure and the provision of justice in support of liberty and a market economy. The realisation that a number of multinational firms such as Amazon, Starbucks and Google pay virtually no tax has sparked public debate. These firms' tax practices may have been legal, but the "tax shaming" of these firms has resulted in public outrage and brand boycotts (Barford & Holt, 2013). KPMG (2013) claims that the increased media focus on specific taxpayers has made tax a source of reputational risk. Nearly three quarters of Chief Executive Officers (CEOs) globally agree with this argument, because, in their opinion, firms have both a social and a commercial responsibility to meet the needs of society in general, aside from the needs of investors, customers and employees (PwC, 2014a). The European Union (EU) also holds that firms have a corporate social responsibility towards stakeholders and society, and the EU regards tax transparency as an essential aspect of managing reputational risk and regaining society's trust (EY, 2013).

The Australian Tax Office (ATO) is of the view that, in addition to managing reputational risk, calls for greater tax transparency will discourage large corporate tax entities from engaging in aggressive tax avoidance practices (ATO, 2013). In 2013, the Prime Minister of the United Kingdom (UK), David Cameron, went further. He argued that requiring greater tax transparency is a critical strategy in preventing corruption and combatting tax evasion (BBC, 2013). Global initiatives that promote or mandate tax transparency, such as the Extractive Industries Transparency Initiative (EITI), the United States of America's (USA's) *Dodd-Frank Wall Street Reform and Customer Protection Act (Dodd-Frank Act)*, and the EU's Directives on Accounting and Transparency all place increased pressure on firms to be transparent about their tax affairs.

In the context of the increased global focus on tax transparency, the reputational risk that arises from not being tax-compliant, and the fact that tax is a significant expense item for most firms, we argue that one way in which a firm can signal its tax transparency is through disclosure in its corporate reports. We develop a framework to measure tax transparency in such reports. This framework is applied to the corporate reports of 50 large firms in South Africa to identify the performance of these firms in terms of the framework.

As far as we know, this is the first study to evaluate tax transparency reporting for firms listed on the Johannesburg Stock Exchange (JSE).[1] This study therefore contributes to knowledge of mandatory and voluntary reporting by South African firms and highlights areas for improvement in disclosure by such firms.

This study is organised as follows: the second section provides an overview of tax transparency reporting; the third section describes the research design, including the sample and data; the fourth section presents the data analyses and results; and the fifth section concludes.

[1] We conducted a search on "tax transparency" on Ebscohost and Google Scholar to establish this position.

2. Tax transparency reporting

Tax transparency reporting initially focussed on mandatory tax reporting requirements (see Section 2.1), but more recently also includes current practices regarding voluntary tax reporting (see Section 2.2). We use both the mandatory and voluntary requirements in the development of our tax transparency framework.

2.1 Mandatory tax reporting

Mandatory reporting refers to the data and information that firms are obligated to disclose and present in their annual financial statements (Owusu-Ansah, 1998). Such disclosure focuses primarily on a firm's financial indicators and economic issues. Mandatory reporting is specifically required, but there is always a possibility that firms may not adhere to them, which reduces the trustworthiness of any information supplied. Popova, Georgakopoulos, Sotiropoulos and Vasileiou (2013:2) believe that "the credibility of the information in capital markets is positively influenced by the existence of disclosure regulation, which will ensure that firms comply to the regulatory requirements".

In discussing the regulation of financial accounting, Deegan (2009) comments on various theories that suggest who benefits from such regulation. For example, public interest theory claims that regulation protects the public. Mandatory information minimises the information gap between informed and uninformed investors by requiring firms to disclose a minimum level of information (Healy, Hutton & Palepu, 1999). Mandatory reporting further forces firms to present and disclose information which they may want to hide if the information might reflect negatively on the business, and mandatory reporting can assist in maintaining a minimum standard in capital markets (Darrough, 1993).

Mandatory reporting is governed and regulated by regulatory agencies such as the International Accounting Standards Board (IASB), in the form of the prescriptive International Financial Reporting Standards (IFRS). In South Africa, it is mandatory for all listed firms to prepare their financial statements in accordance with the IFRS[2]. The majority

[2] This requirement is imposed in terms of the JSE's Listing Requirement 8.62(b) and section 29(4) of the *Companies Act 2008, 71 of 2008*.

of the tax disclosures are contained in IAS 12, *Income Taxes*, although other standards also contain ad hoc disclosure requirements.

Compliance with the King Code of Corporate Governance ("King III") is also a JSE listing requirement (8.63(a), 8.63 (b)) (JSE). The release of "King III" means that listed firms are required to issue an integrated report for periods ending on or after 1 March 2010, or must explain why they choose not to issue an integrated report (King Committee on Governance, 2009). In May 2010, the Integrated Reporting Committee of South Africa (IRC) was established to develop guidelines on good integrated reporting practices. In March 2014, the IRC endorsed the Framework of the International Integrated Reporting Council (IIRC) for South African firms and stopped providing its own guidance.

The IIRC Framework provides broad principles without prescribing any specific reporting requirement for the preparation of an integrated report, which is intended to communicate to stakeholders how organisations create value over time. An integrated report should benefit all stakeholders interested in an organisation's ability to create value over time. Such stakeholders include employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers (IIRC, 2013). Although the concept of "tax payments" is listed as one of the outcomes of integrated reporting, "taxation" *per se* is not specifically referred to elsewhere in the IIRC Framework. As tax is a major expense for most firms, one would expect their integrated reports to address tax specifically. In line with the spirit of integrated reporting the relevant guiding principles and content elements contained in the IIRC (2013) Framework are reworded to contain a tax specific focus (see Table 1).

Table 1: Tax transparency reporting in an integrated report

Tax transparency reporting principle	Reference to IIRC Framework
It should be clear if **taxation** was identified by the entity as a "business risk" and how the firm intends to deal with it.	Content element 4
The **tax** strategy of the firm should be communicated.	Content element 5 Guiding principle 1
The possible effect of **taxation** on the performance of the firm should be clear.	Content element 6
A **taxation** outlook.	Content element 7 Guiding principle 1
Details about the relationship of management with the **tax** authority as a stakeholder.	Guiding principle 3
The **tax** information should be user-friendly and concise.	Guiding principle 5

2.2 Voluntary reporting

Voluntary reporting refers to additional information about a firm which is not specifically required in terms of regulation or standards – this is information which helps to provide a complete “picture” of a firm’s performance (Owusu-Ansah, 1998). Tax transparency reporting is high on the agenda of various international organisations and many countries. Tax transparency reporting requirements are currently not mandatory for JSE-listed firms, but they represent good practice reporting requirements that any firm could voluntarily adopt.

Internationally, the focus on tax transparency reporting has intensified as a result of increased international trade and the spread of the digital economy. These developments have resulted in base erosion and profit shifting (BEPS) by large multi-national firms. According to the Organisation for Economic Co-operation and Development (OECD), BEPS refers to instances where the interaction of different tax rules leads to double non-taxation, to no taxation or to low taxation, by shifting profits away from the jurisdictions where the activities creating those profits occur (OECD, 2013a). The Group of Twenty (G20) forum, which consists of the finance ministers and central bank governors of 19 countries plus the EU, has called on the OECD to develop a specific action plan to address BEPS issues in a co-ordinated and comprehensive manner (OECD, 2013b). The OECD BEPS action plan includes proposals designed to enhance tax transparency between OECD and non-OECD member countries (Action 5).

The importance of tax transparency on different levels is also emphasised. Action 12 (OECD, 2013a:21) specifically states that “[t]axpayers should disclose more targeted information about their tax planning strategies”. “Disclosure initiatives” are also identified as a useful measure to improve communication about tax risks to tax administrations and policy makers (OECD, 2013a). Action 13 is another action focused on tax transparency to encourage rules regarding transfer pricing documentation (OECD, 2013a). Although most of the BEPS Actions relate to country-by-country reporting, disclosures relating to tax strategies (including tax planning) and transfer pricing policies apply at a firm level. During June 2015 the OECD (2015) published a country-by-country reporting implementation package (including model legislation) to facilitate the consistent and quick implementation of new transfer pricing reporting standards developed under Action 13. Hence, it would be prudent for firms to stay informed about this initiative.

Currently the focus on increased tax transparency is mostly at the forefront of attention for firms operating in the extractive industries. The Extractive Industries Transparency Initiatives (EITI) is anchored in the principle that a country's natural resources belong to its citizens, so the EITI Standard is an international standard that promotes transparency on a country's natural resources. The EITI report requires firms to publish what they pay in tax and royalties, and governments to publish what they receive. The information from these two stakeholders is then independently verified and reconciled by an independent administrator (typically an auditing firm) (EITI, 2014a). The information published should include tax type, firm, government agency (this implies information per country and per level of government) and project (EITI, 2014a). So far, 44 countries around the world have been admitted as EITI-compliant countries. The EITI is endorsed by the African Union, and 15 African countries are already compliant with the EITI standard (EITI, 2014b). South Africa is not among those 15 countries.

Consistent with the EITI standard, the USA launched its own initiative regarding tax transparency disclosure as part of the *Dodd-Frank Act* which focuses on financial regulatory reform and consumer protection (USA, 2011). This Act is intended to ensure "per project" and "per country" disclosure of taxes, royalties and other relevant payments to governments by firms in the extractive industries. The rules have, however, been suspended following a legal challenge. Nevertheless, the fact that the USA was accepted as a candidate country (a country that is implementing EITI, but is not fully compliant yet) of the EITI in March 2014 indicates the USA's intention 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 EU's Accounting and Transparency Directive (EU Directive) were also proposed. The EU Directive that applies to firms in the extractive industries is comparable to the *Dodd-Frank Act* proposals, and also includes the logging industry. All EU Member States were responsible for incorporating the requirements of the EU Directive into local legislation by July 2015 and it should be effective not later than financial years beginning on or after 1 January 2016.

Another EU initiative, the EU Capital Requirement Directive (CRD IV), published in the Official Journal of the EU in June 2013 (Article 89 of CRD IV), proposes tax reporting for

firms in the financial sector. Implementation by Member States was required by 1 January 2014, and the first reporting period ended on 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 CRD IV in local legislation which was enacted in December 2013 (UK, 2013). Firms in the financial sector (banks and investment firms) have to comply with the Capital Requirements Country-by-Country Reporting (CBCR) Regulations 2013 framework. It requires, *inter alia*, the disclosure of corporate tax paid and public subsidies received. Many see the CBCR as a significant milestone in achieving a greater level of financial and tax transparency for banks and investment firms (EY, 2014).

In June 2013, Canada's Prime Minister, Harper, committed himself to developing mandatory tax reporting standards for Canadian extractive firms. This resulted in the enactment of the *Extractive Sector Transparency Measures Act*, *S.C. 2014, c. 39, s. 376* that became effective from 1 June 2015. This new law requires all Canadian oil, gas and mining businesses that are publicly listed firms in Canada or that meet certain size requirements to publish detailed records of the payments they make to foreign governments (Section 8). These firms must now itemize their payments to governments on a country-by-country and project-specific basis. Taxes, royalties, signing bonuses and operator fees must be broken down at the federal, provincial and municipal levels (Mendoza, 2015).

The Danish Parliament passed laws in 2012 requiring the publication of the amount of tax paid by all firms in Denmark. These "Open Tax Lists" are published on the website of the Danish Skattecentre (the revenue authority) (Wetherell, 2013).

Australia has also imposed tax transparency reporting requirements on the Commissioner of the Australian Tax Authority (ATO), but not on the taxpayer firms in Australia (ATO, 2013).[3] The corporate reporting requirements fall into three categories.[4] The first category requires the Commissioner to publish information regarding large corporate tax entities that have a total income of $100 million or more per annum. The entities' total income, taxable income

[3] Two recent Australian tax transparency disclosure developments happened since we collected our data. During September 2015, the CBCR was introduced into Parliament to implement the OECD's transfer pricing documentation standards (KPMG, 2015). In December 2015 the Tax Laws Amendment (Combating Multinational Tax Avoidance) Bill was passed by Senate. This legislation requires multinational corporations with global income of AUD$ 1 billion or more to lodge general purpose financial statements with the Commissioner of Taxation which the Commissioner in turn needs to submit to the Australian Securities and Investments Commission (ASIC). Documents filed with ASIC are publicly available (KPMG, 2015).

[4] A fourth category is applicable to individual taxpayers who receive a receipt from the ATO detailing how each dollar received from that taxpayer is used health, education, welfare, defence, etc. Since the focus of our study is corporate tax, we do not include this in our analysis (ATO, 2015).

and tax paid are included in the information to be disclosed in this category. The second category requires information regarding mineral and petroleum royalties payable per entity to 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 reporting this information is consistent with the reasons for imposing tax transparency reporting on other firms around the world. The ATO (2013:1) indicates 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, however, clear that Australia has gone beyond the OECD's Action Plan, which signalled the need for taxpayer confidentiality to be respected. Since the Australian Commissioner discloses information submitted in the tax returns and not necessarily amounts paid, the disclosed information does not reflect revised or additional assessments for a specific tax. It is therefore advisable for firms to increase their own tax transparency disclosure, because it puts the information published by the Commissioner into perspective for stakeholders.

Although global developments tend to focus on firms in the extractive and financial industries the outcome of the 2014 G20 Summit in Brisbane in November 2014 included country-by-country reporting of taxes by all multi-national firms in G20 countries (OECD, 2014).[5] Table 2 summarises the tax transparency reporting principles which are in force internationally.

Table 2: International trends in tax transparency reporting

Tax transparency reporting principles	Reference
Disclosure of tax strategies and tax planning	Action 12 of BEPS (OECD)
Emphasise the importance of tax transparency	Action 12 of BEPS (OECD)
Disclosure regarding transfer pricing policies	Action 13 of BEPS (OECD)
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

[5] During 2015, after we had collected our data, the OECD Global Forum, the leading global multilateral body which works on tax transparency and exchange of information, focussed its work in three areas, namely (1) automatic exchange of information, (2) developing a standard for the exchange of information on request, and (3) incorporating developing countries in the Forum's work. These developments occurred after our data analysis.

The tax transparency reporting initiatives referred to above focus either on country-by-country reporting, or on additional reporting requirements for firms in specific industries. Furthermore, these tax reporting requirements refer mainly to taxes on profits and to other taxes, which include royalties and licenses, borne by the firm. PwC (2012) argues that the amount of the total tax contribution, which consists of taxes borne and collected, as well as compliance costs, is usually not disclosed. PwC assists firms to communicate their social impact to their stakeholders by promoting the disclosure of the Total Tax Contribution (TTC) (PwC, 2012). Taxes collected are payments which a firm collects from third parties and remits to the state. The firm bears the administrative cost and the risk of error when collecting these taxes. PwC (2012) maintains that taxes collected should be included in the TTC, as it reflects the social contributions that a firm makes towards the state and its citizens. The importance of the TTC is also acknowledged by the UK City of London, which commissioned PwC to calculate and publish the TTC of the Financial Services Industry in the UK on an annual basis (PwC, 2013). The World Bank has also adopted the TTC approach in order to compare the tax burden of small and medium enterprises in 2014 across 189 countries (PwC, 2014c).

EY (2013) has summarised the tax transparency reporting practices of the FTSE 100 firms and found that it is the current practice for the FTSE 100 firms to report taxes borne and collected. As a result, TTC is included in the tax transparency reporting framework. EY's (2013) summary also includes a discussion regarding the merits of expanded disclosure regarding uncertain tax positions. It specifically refers to United States Generally Accepted Accounting Practice (US GAAP) (FIN 48), which requires the measurement of uncertain tax positions. It also includes the disclosure of compliance with tax requirements, including timely filing of tax returns.

The various tax transparency reporting principles mentioned above are incorporated into the Tax Transparency Reporting Framework developed in this study. PwC in the UK divides its tax transparency reporting framework into three categories, namely Category 1: Disclosure on tax strategy and risk management, Category 2: Tax numbers and performance, and Category 3: TTC and the wider economic impact of tax (PwC, 2013). We follow suit.

3. Research design

In this study, we develop a framework to evaluate tax transparency reporting. The tax transparency reporting framework is developed in two stages. First, a checklist is compiled consisting of the mandatory tax reporting requirements by using the minimum content disclosure requirements of annual financial statements applicable to JSE-listed firms, as set out in the IFRSs.. The checklist consists of 49 disclosure items covering 10 different standards and interpretations. An electronic search of the word "tax" was done across the IFRSs (including interpretations) to identify all the standards where tax disclosure is required. Tax disclosure requirements were found in IAS 1, IAS 7, IAS 10, IAS 12, IAS 26, IAS 33, IFRS 3, IFRS 5, IFRS 8, and SIC 25. The mandatory tax reporting checklist was validated and updated with feedback from academics specialising in accounting and taxation, and compared to a disclosure checklist developed by PwC (2014b).[6]

Second, a tax transparency reporting framework is compiled from a number of sources discussed above and summarised in Table 5 in the "originating from" column. The tax transparency reporting framework includes current practices regarding voluntary tax reporting. Because the tax disclosures highlighted in Table 1 are not explicitly required in terms of the IIRC (2013) Framework, we group them with the voluntary requirements. The framework has two purposes – the first is an analysis grid for a thematic analysis; the second is a measuring tool to rank the outcome of the analysis.

The tax transparency reporting of the Top 50 JSE-listed firms, based on their market capitalisation on 31 December 2013, is investigated. The sample firms comprise 87 per cent of the market capitalisation of all JSE-listed firms on 31 December 2013. The market capitalisation of firms in the Top 50 firms varies from R1,1 trillion to R30,2 billion.

The firms are spread across 14 industries (see Table 3). Firms from the mining industry have the greatest representation, with 11 firms (22 per cent) representing 27 percent of the market capitalisation of the Top 50 JSE-listed firms. The personal and household goods industry contributed only three firms (6 percent), but the market capitalisation of this industry was the second highest (21 percent). If the finance, insurance and real estate industries are combined

[6] For the sake of brevity, the checklist is not reproduced in the article, but is available on request from the authors.

as one industry, as is done in the Standard Industry Classification (SIC) codes, this industry represents 16 percent of the market capitalisation, with 16 firms (32 percent). The food and beverages industry represents 11 percent of the market capitalisation with three firms (6 percent). The sample firms thus represent a range of industries, with the mining industry dominating the market capitalisation representation; the highest number of firms is in the finance, insurance and real estate industries.

Table 3: Industry representation of the sample

Industry	No of firms	% of sample	Market Cap %
Finance, Insurance and Real Estate	16	32	15.84
Food & Beverage	3	6	11.27
Forestry & Paper	1	2	0.77
Health Care	4	8	3.10
Industrial Goods & Services	3	6	2.67
Media	1	2	5.29
Mining	11	22	26.55
Oil & Gas	1	2	3.88
Personal & Household Goods	3	6	20.56
Retail	4	8	2.71
Telecommunications	2	4	7.01
Travel & Leisure	1	2	0.35
Total	**50**	**100**	**100.00**

We obtained annual reports, corporate social responsibility (CSR) reports, annual financial statements and integrated reports of the sample firms for the 2013 financial period from the McGregor BFA database and firms' websites. We also considered other relevant reports from firms' websites relating to each firm's tax approach. The tax-related information available on firms' websites is often duplicated information already contained in the reports. For three of the firms, however, specific tax fact sheets or tax approach documents are available on their websites, and these complement the reports.

4. Data analysis and results

In line with the two stages in the development of the tax transparency reporting framework, the data analysis and results of the firms' mandatory tax reporting are discussed in Section 4.1, followed by the data analysis and results on the voluntary tax transparency reporting of the firms in Section 4.2.

4.1 Mandatory tax reporting

Two independent coders undertook the mandatory tax reporting data analysis process.[7] If it was evident from a firm's financial statements that a particular requirement did not apply to them, this was indicated in the "Not applicable" column.[8] The percentage of firms that complied with a requirement was determined after excluding the "Not applicable" requirements.

Based on the evaluation of the mandatory tax reporting checklist, 86 percent of the sample firms complied with at least 70 percent of the mandatory requirements. The average rate of compliance is 79.35 percent. The top 11 firms in terms of mandatory reporting (22 percent of the sample) complied with more than 85 percent of the requirements, with an average compliance of 90.79 percent.

The mandatory tax reporting checklist was divided into five categories, namely (1) the statement of financial position, (2) statement of profit or loss and other comprehensive income, (3) statement of cash flows, (4) statement of changes in equity, and (5) notes to the financial statements. Table 4 details the compliance rates of each category and its main sub-categories. Compliance rates were generally high across all five the main categories, with 100 percent compliance in the statement of profit or loss and other comprehensive income category.

Firms also fully complied with the statement of financial position disclosure requirements, except for the disclosure of the amount of the non-current portion of deferred or current taxes that firms expect to recover or settle after more than 12 months required in terms of IAS 1 par 60 & 61 (IASB, 2003). Only 36 percent of firms complied with this requirement.

Compliance rates amongst the statement of cash flows, statement of changes in equity and notes to the financial statements were 79 percent or higher, except for the disclosure of the income tax expense for each joint venture which was 45 percent.

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[7] These two coders were selected based on their IFRS expertise. Each coder evaluated 26 firms assigned randomly, with one firm being evaluated by both coders. A comparison was done between the separate evaluations of the firm evaluated by both coders and the result shows consistent coding between them.

[8] For example, firms are required to disclose the amount of income tax related to each item of other comprehensive income. If the firm did not have other comprehensive income during the current year, this requirement did not apply.

Table 4: Mandatory reporting results

IFRS Requirement	% compliance
Statement of Financial Position	
- Offset deferred tax assets and deferred tax liabilities.	100%
- Offset current tax assets and current tax liabilities.	100%
- Deferred tax included as a separate line item.	100%
- Not classified deferred tax as current asset(liability).	100%
- Current tax included as a separate line item.	100%
- Amount of non-current portion of deferred or current taxes that is expected to be recovered/settled after more than 12 months.	36%
Statement of profit or loss and other comprehensive income	
- Exchange differences on deferred foreign tax liabilities or assets included in other comprehensive income.	100%
- Tax expense (income) from ordinary activities presented as separate line item.	100%
Statement of cash flows	
- Cash flows arising from taxes on income shall be separately disclosed and classified as cash flows from operating activities unless related to financing and investing activities.	96%
Statement of changes in equity	
- Aggregate current and deferred tax relating to items charged or credited to equity	79%
- The amount of income tax relating to each item of other comprehensive income	81%
- Items of other comprehensive income presented net of related tax effects or before related tax effects	96%
Notes to the financial statements	
- Accounting policies	100%
- Deferred tax – recognition of deferred tax asset/liability	100%
- Deferred tax asset – no recognition of deferred tax asset	81%
- Income tax expense – major components	98%
- Business combinations – goodwill deductible for tax purposes	100%
- Business combinations – income tax expense(income) for each joint venture	45%
- Dividends – tax relates to dividends	100%
- Contingent tax liabilities	100%
- Segment reporting - income tax expense(income) for each reportable segment	85%
- Discontinued operations – tax expense relating to ordinary activities of discontinued operations	79%

4.2 Voluntary tax reporting

For the evaluation of the tax transparency reporting, each individual firm's reports were evaluated against the Tax Transparency Framework (see Table 5). The evaluation was independently conducted by two coders and two reviewers using *Atlas ti* as a tool in the qualitative analyses[9]. The results are presented first by ranking and then by criterion.

[9] The coders and reviewers compared their separate evaluations and reached consensus on the final evaluation of a specific firm.

Table 5: Tax transparency framework and results

Nr	Criteria	Originating from	Nr. of firms
	Category 1: Tax strategy and risk management		
A1	Is tax identified as a business risk?	IIRC framework – content element 4	29
A2	Is there a discussion of how the firm approaches its tax affairs (may be called tax strategy, policy on tax, and approach to tax)?	IIRC framework – content element 5 and guiding principle 1	22
A3	Does the firm talk about its approach to tax planning/minimising tax liabilities?	Action 12 of BEPS	11
A4	Does the firm talk about its approach/policy on transfer pricing?	Action 13 of BEPS	4
A5	Does the firm discuss its relationship/interaction with tax authorities including tax compliance aspects?	IIRC framework – guiding principle 3	22
A6	Is there discussion of tax risk management; and who has responsibility for governance and oversight of tax?	Action 12 of BEPS	27
A7	Is it apparent that the Board or audit committee have discussed tax during the year?	PwC tax transparency reporting framework	26
A8	Is there disclosure of any amount set aside for uncertain tax positions?	FIN 48 (US GAAP) EY (2013) PwC tax transparency reporting framework	4
A9	Is there disclosure of the circumstances that led to the uncertain tax position?	FIN 48 (US GAAP) EY (2013) PwC tax transparency reporting framework	16
A10	Is there discussion of any important changes in tax legislation and how they impact the results?	EY (2013) PwC tax transparency reporting framework	35
A11	Is there any disclosure of policies on the use of jurisdictions commonly regarded as "tax havens" or "low tax jurisdictions"?	PwC tax transparency reporting framework	1
	Category 2: Tax number and performance		
B1	Does the firm comply with the IFRS tax related disclosure requirements?[10]	IFRS requirements	50
B2	Would a person with reasonable knowledge of business and economic activities understand all the headings in the tax reconciliation; and know what they are talking about?	EY (2013) PwC tax transparency reporting framework	46
B3	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 reporting framework	37

[10] As the primary focus of the study is 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 our objective. A Score of '3' was allocated if the IFRS requirements were 100% complied with, '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.

Tax transparency reporting results by ranking

As expected, there is a statistically significant and positive correlation between tax transparency performance and firms' industry membership (Spearman correlation coefficient: 0.422; p-value: 0.002) – firms in the mining industry performed noticeably better than firms in other industries. Firm size (as measured by market capitalisation) is also positively correlated with tax transparency performance (Pearson correlation coefficient: 0.500; p-value: 0.000). This suggests that industry membership and firm size are determinants of tax transparency reporting.

We anticipated that the worldwide focus on tax transparency reporting in 2013 may have a positive impact on the tax transparency reporting for firms with year-ends that fall in the second half of the year. However, the correlation between the tax transparency performance of a firm and an indicator variable which is coded one for financial periods ending after 30 June 2013 and zero otherwise is statistically insignificant (Spearman correlation coefficient: 0.157; p-value: 0.277).

Based on the evaluation of the tax transparency reporting, the Top 50 JSE-listed firms are classified into four groups. The top 10 percent of the firms' tax transparency reporting is regarded as "Excellent", the next 10 percent as "Good" and the remaining 30 percent of the firms that performed above average as "Transparent". The remaining 50 percent of the firms were put into a "Progress to be made" group. The average score by ranking and category is presented in Table 6.

Table 6: Mean scores by category

Performance group	Total score	Tax strategy and risk management	Tax numbers and performance	TTC and wider economic impact
Excellent	32.80	8.40	8.40	11.00
Good	23.40	5.80	7.40	8.40
Transparent	18.20	5.13	6.27	5.53
Progress to be made	10.68	2.16	5.00	2.88

Of the firms with excellent tax transparency reporting, three of the firms are in the mining industry (Anglo American Plc, BHP Billiton Plc and Lonmin Plc), one is in the personal and household industry (British American Tobacco Plc), and one is in the food and beverage

industry (SAB Miller Plc). All five top firms have their primary listings on the London Stock Exchange, with secondary listings on the JSE. It is evident that these firms have embraced the focus on tax transparency in the UK. Although our literature review revealed that there are no additional compulsory tax transparency reporting requirements in South Africa, tax transparency reporting requirements are already internationally compulsory in some countries in the mining and financial industries. One would therefore expect increased tax transparency reporting in these industries, particularly for firms with dual listings. Notably, no firms from the financial sector are among the excellent tax transparency reporters.

Excellent firms performed well across all three categories of the tax transparency reporting framework, that is, disclosure of their tax strategy and risk management, tax numbers and performance, and the TTC and the wider economic impact of tax. What, however, distinguishes them from the other firms is both their excellence in the TTC category, and their disclosure in the tax strategy and risk management category. Although their tax transparency disclosure in the tax numbers and performance category is also better than that of the firms with lower scores, the difference is marginal.

Firms located in the second grouping (the 80th to 89th percentiles) of scores are regarded as firms with good tax transparency reporting. The mining industry dominated the "good" category, with three firms in this category, with one firm each from the Oil and Gas and Forestry and Paper industries. The EU Directive includes the logging industry, so the firm from the Forestry and Paper industry must meet international increased tax transparency reporting requirements because it has a primary listing on the London Stock Exchange.

The third group is firms located in the 50th to 79th percentiles of tax transparency scores. These firms are classified as "Transparent" in their tax transparency reporting. These firms' tax transparency reporting was "Transparent" for all three categories, but the biggest difference between this group and the firms that are more tax transparent is that these firms are less focused on tax transparency disclosure in the tax strategy and risk management category, and in the TTC and wider economic impact category.

The fourth and final group of firms are the firms that need to make some progress in their tax transparency reporting. The greatest progress is required in the TTC and wider economic impact category, and the least in the tax numbers and performance category. This group

includes two firms in the mining industry which are listed only on the JSE, which performed below average in their tax transparency reporting compared to the other Top 50 JSE-listed firms as well as relative to the other firms in the mining industry.

Tax transparency reporting results by criterion

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

- Category 1: Tax strategy and risk management
- Category 2: Tax numbers and performance
- Category 3: Total tax contribution and wider economic impact

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, responsibility for governance and oversight, and material risks. The tax transparency reporting performance in this category, compared to the other two categories, was the lowest.

Of the firms, 70 percent disclosed information regarding changes in tax legislation and how they affected the results (Nr. A10; n = 35). Apart from changes to corporate tax, the change from Secondary Tax on Companies (STC) to Dividends Tax in South Africa dominated this disclosure. Changes relating to other taxes (for example, carbon taxes) were also mentioned.

The fact that tax is regarded as a business risk was mentioned by 58 percent of the firms (Nr. A1; n = 29). This criterion is closely linked to the previous one, as uncertainty regarding tax changes also constitutes a business risk. However, this criterion was satisfied when firms identified tax in general as a business risk or potential reputational risk. Firms disclosed corporate tax mostly as a business risk, but in some cases, firms mentioned excise duty imposed on products specifically as a business risk.

Aside from identifying tax as a business risk, it was also important to understand how firms manage this risk and who in the firm is responsible for and exercises oversight of taxes. The majority of the firms (Nr. A6; 54 percent, n = 27) disclosed this information. As the board or

audit committee ultimately oversee all aspects relating to the business, it was reassuring to find that a majority of the firms specifically discussed tax-related matters at this level (Nr. A7; 52 percent, n = 26).

Two of the criteria in the tax strategy and risk management category were addressed by 44 percent (n = 22) of the firms. The first of these two criteria is visibility regarding a firm's relationship with the tax authority (Nr. A5). This criterion was met by general statements regarding stakeholder management which include all levels of government and regulators, or to be more specific, by firms' disclosure regarding their specific interaction with tax authorities.

The second criterion, where 44 percent of the firms disclosed information, relates to the visibility of firms' approaches to their tax affairs, either in their annual or integrated reports (Nr. A2). One firm even had a separate 12-page document called "Our approach to tax 2013".

Category 2: Tax numbers and performance. The tax numbers and performance category includes transparent tax numbers and performance, such as clear reconciliations of the tax charge to the statutory rate and/or forward-looking measures for tax. The tax transparency performance of firms included in the "Transparent" and "Progress to be made" groups was better for this category, relatively speaking, than for the other two categories in the tax transparency reporting framework. Firms included in the "Progress to be made" group mainly derived their overall tax transparency scores from this category.

We anticipated that all firms would address the compulsory IFRS tax disclosure requirements. All 50 firms did indeed address the IFRS tax-related disclosure requirements, although the extent of compliance differed (Nr. B1). A criterion in the tax numbers and performance category with which all firms complied was the consistency between the information in the deferred tax note, the income tax expense note and the income statement (Nr. B6).

All firms also disclosed a tax reconciliation, and 92 percent (n = 46) disclosed it in a way that would be understandable to a lay person (Nr. B2). The usefulness of the tax reconciliation was impaired by the fact that 26 percent of the firms included unknown sundry items that

exceeded 10 per cent of the total reconciling items (Nr. B3). More than half of the firms communicated an "adjusted" effective tax rate by either excluding non-recurring items or by adding other types of taxes (Nr. B4; 56 percent, n = 28). No other criteria in the tax numbers and performance category were addressed by more than 40 percent of the firms.

Category 3: Total tax contribution (TTC) and wider economic impact. The last category in the tax transparency reporting framework relates to the TTC and its wider economic impact, showing how tax influences the business strategy, results and shareholder value. The disclosure in this category was the main factor that distinguished the firms included in the "Excellent" group from the rest of the firms in the study. The impact of tax on shareholder value is the criterion in the total tax contribution and wider economic impact category that was reported on by most of the firms (Nr. C6; 74 percent, n = 37). Some firms disclosed the tax consequences of dividends and the buying or selling of the firms' shares. In addition, the disclosure often distinguished between the tax consequences for resident and non-resident shareholders. Moreover, 70 percent of the firms reported the economic value added of the firm in illustrative diagrams, tables or pie charts that communicated how firms are taxed at different stages in their life-cycle (Nr. C8; n = 35).

Firms included more than the impact of corporate tax in their disclosure of economic value added. Other direct and indirect taxes impacting the firm's economic value added were reported by 68 percent of the firms (Nr. C9; n = 34). The firms either quantified the contribution of the different taxes, or defined what they included in their disclosed tax contribution. In addition, 66 percent (n = 33) of the firms disclosed their TTC (nr. C11) − eight firms also provided a breakdown of taxes borne and taxes collected (nr. C10).

The only other criterion in the total tax contribution and wider economic impact category that was disclosed by more than 40 percent of the firms was tax disclosure by country, geographical region or project (nr. C4). Of the firms, 44 percent (n = 22) provided users of their reports with this information, and two of these firms broke the tax payments down into another category to distinguish between the developed and the developing world (nr. C5).

5. Conclusion

This study summarises the results of the evaluation of the tax transparency reporting of the Top 50 JSE-listed firms. Based on our evaluation of the tax transparency reporting, the Top 50 JSE-listed firms are classified into four different groups. The top 10 per cent of the firms' tax transparency reporting is "Excellent", the next 10 per cent is "Good", and the rest of the firms that performed above average are "Transparent". The last 50 per cent of the firms are placed in a "Progress to be made" category. The areas with the greatest room for improvement for firms in this category are disclosures about tax strategy and risk management and the total tax contribution and wider economic impact. A noteworthy finding is that all five firms in the "Excellent" category have primary listings on the London Stock Exchange. This suggests that institutional forces in the UK contribute to increased tax transparency. Although the evaluation of the firms identified some excellent tax transparency reporting, a number of firms among the Top 50 JSE-listed firms in South Africa do not yet follow international best practice regarding tax transparency reporting. Once again, we find disclosures about tax strategy and risk management and the total tax contribution lacking.

Our study is not without its limitations. Firstly, our sample is based on a small number of firms. Despite this, we obtain a large coverage in terms of market capitalisation. Secondly, since we completed our data collection, there have been developments in tax transparency disclosure requirements and our results could be sensitive to these changes.

An avenue for future research is to investigate whether there is an association between firm-level tax transparency and tax compliance. Given that this is the rationale for many of the global tax transparency initiatives this appears to be an important area for investigation. It might be argued that increased institutional pressure on firms (for example, as in the UK) or societal pressure (as exerted via the media) to improve the transparency in tax reporting will facilitate tax compliance.

We concur with the EU Capital Requirement Directive (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."

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