

# APPROACH TO TAX STRATEGY

## TAX GOVERNANCE

The group’s approach to tax outlines the framework by which tax obligations are met from an operational and risk management perspective.

With consideration of the complexity of the evolving global tax landscape, the responsibilities for managing tax compliance obligations and tax risk are varied across the group.

The SPAR Group Ltd’s group tax strategy was reviewed and approved by the board on 16 November 2021 and is aligned with the group’s existing strategies, policies and overall purpose:

**“To inspire people to do and be more”**

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



1	● <b>Zero tolerance</b>	The group has adopted a principle view and will maintain a zero-tolerance approach for tax non-compliance.
2	● <b>Stakeholder value</b>	Tax is integral to all stakeholders, both internal and external.
3	● <b>Reputational risk</b>	The group’s reputation is protected by managing its tax affairs in a manner that will not have a detrimental effect on the reputation or brand of the group.
4	● <b>Corporate citizenship</b>	In the spirit of the group, tax corporate citizenship is underpinned by adherence to tax legislation and regulatory requirements within which it operates, demonstrable by compliance with tax laws and honesty in its dealings with relevant stakeholders both internal and external.
5	● <b>Communication with tax authorities</b>	The group values a good working relationship with tax authorities in the jurisdictions in which it operates and maintains these relationships.

The group tax strategy is supported by the group tax policy which was also approved by the Board on 16 November 2021. This is an operational document outlining the Group's approach to managing its tax compliance obligations and tax risks.

Based on the principles of good corporate tax citizenship, aligned to the principles of the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV)<sup>1</sup>, the group acknowledges its responsibility to its stakeholders, both internal and external, demonstrated through the group's decisions, actions and consideration of the impact thereof, on an ongoing basis. The global tax affairs of the group are managed in an efficient, transparent, responsible and sustainable manner in full compliance with the prevailing legislation in which the group operates.

The group will always aim to mitigate any adverse and/or unexpected financial consequences and protect its reputation, and accordingly, the overall strategy of the group is it will only engage in or promote tax planning that supports genuine commercial activity and will not enter into transactions that serve no commercial purpose other than the avoidance of tax.

## EFFECTIVE TAX RATE (ETR) AND TOTAL TAX CONTRIBUTION (TTC)

### ETR

The company ETR has decreased by 3.9% in 2021 from prior year. The main contributors to the movement are as follows:

- A favourable movement of 1.4% due to a liquidation distribution as a result of a corporate reorganisation transaction that took place during the financial year.
- A decrease of 1.7% as a result of the Group acquiring the minority interest in the BWG Group thereby extinguishing the financial liability in relation to the acquisition of the minority interest requiring remeasurement.
- A decrease of 1.2% as there was no further impairment to the company's investment in its Zambian associate in the current year.
- A 0.4% unfavourable increase due to an under-provision of current tax in FY2020. This is purely as a result of unpredictable movements in provisions and their impact on the tax calculation, coupled with a deeper analysis of tax sensitive accounts which the company was unable to forecast precisely when determining its provisional tax payment before the close of the financial year.

The group ETR has decreased by 0.7% in 2021 from the prior year. The main contributors to the movement are as follows:

- A decrease of 2.8% as a result of the Group acquiring the minority interest in the BWG Group and SPAR Switzerland thereby extinguishing the financial liabilities in relation to the acquisition of the minority interests requiring remeasurements.
- A decrease of 0.8% as there were no further impairments to the Group's investments in Zambia and Eswatini in the current year.
- A 1.1% unfavourable decrease in prior year current and deferred tax over-provisions.
- A substantial increase of 1.8% relating to tax losses not being provided for. The majority of this amount relates to tax losses of R487 million in Poland which have not been provided for as it is unlikely that future profits will be generated to utilise this tax loss.

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The effective tax rate of the group is detailed below:

Rmillion	GROUP		COMPANY	
	2021	2020	2021	2020
<b>TAXATION</b>				
<b>Current taxation</b>				
– Current year	<b>822.9</b>	876.4	<b>608.8</b>	692.2
– Prior year (over)/under provision	<b>(10.6)</b>	(36.8)	<b>10.9</b>	(1.4)
<b>Deferred taxation</b>				
– Current year	<b>(6.2)</b>	(98.4)	<b>(12.0)</b>	(32.8)
– Prior year under/(over) provision	<b>1.1</b>	(2.5)	<b>(4.8)</b>	(0.6)
<b>Foreign withholding income tax</b>	<b>1.4</b>	1.5	<b>1.4</b>	1.5
<b>Taxation expense for the year</b>	<b>808.6</b>	740.2	<b>604.3</b>	658.9
<b>Reconciliation of effective taxation rate (%)</b>				
South African current income tax rate at 28% (2020: 28%)	<b>28.0</b>	28.0	<b>28.0</b>	28.0
<b>Non-taxable income relating to:</b>				
Dividends received			<b>(0.4)</b>	(0.5)
Capital reorganisation – liquidation dividend			<b>(1.4)</b>	
Employee tax incentives			<b>(0.1)</b>	(0.1)
Share plans <sup>1</sup>	<b>(0.7)</b>	(0.7)	<b>(0.9)</b>	(0.8)
<b>Non-deductible expenses relating to:</b>				
Fair value adjustments, foreign exchange and finance costs on financial liabilities <sup>2</sup>	<b>(0.1)</b>	2.7		1.7
Business acquisition costs		0.1		0.1
Impairments		0.8		1.2
IFRS 9 ECL allowances			<b>0.1</b>	
Non-deductible interest costs	<b>0.1</b>			
Share of associates losses	<b>0.1</b>			
Accounting profit on disposal of associates			<b>(0.1)</b>	
Other operating costs	<b>0.4</b>	0.4	<b>0.1</b>	0.1
<b>Other items:</b>				
Accounting profit on disposal of assets			<b>(0.1)</b>	
Income tax allowances	<b>(0.1)</b>	(0.2)	<b>(0.1)</b>	(0.2)
Withholding income tax		0.1	<b>0.1</b>	0.1
Prior year income tax (over)/under provision	<b>(0.3)</b>	(1.4)	<b>0.3</b>	(0.1)
Capital gains tax	<b>0.1</b>		<b>0.1</b>	
Unutilised tax losses	<b>3.1</b>	1.3		
Non-deductible temporary differences	<b>(0.1)</b>	0.3		
Foreign tax rate differential	<b>(3.7)</b>	(3.9)		
<b>Effective taxation rate</b>	<b>26.8</b>	27.5	<b>25.6</b>	29.5

<sup>1</sup> Temporary differences between deferred tax asset balance raised for future costs to be incurred and income tax deduction granted in current year for costs actually incurred on the ESP and CSP.

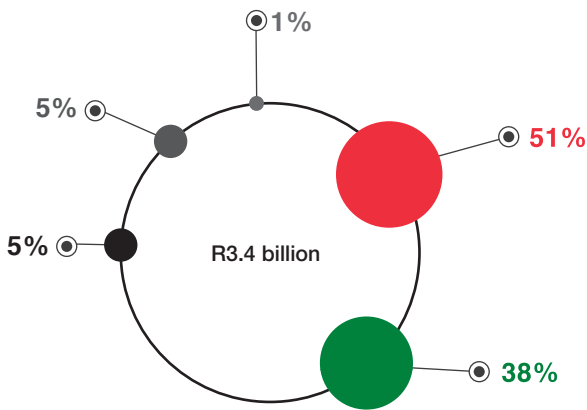
<sup>2</sup> Relating to Ireland, Switzerland and S Buys.

**TTC**

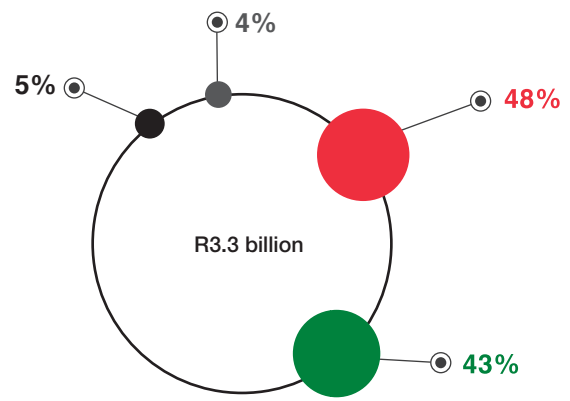
The SPAR Group Ltd contributes directly to tax authorities by way of taxes borne and taxes paid in the jurisdictions in which the group operates, enabling governments to provide social infrastructure and services.

The TTC of the group is detailed below:

2021 TAXES PAID BY JURISDICTION

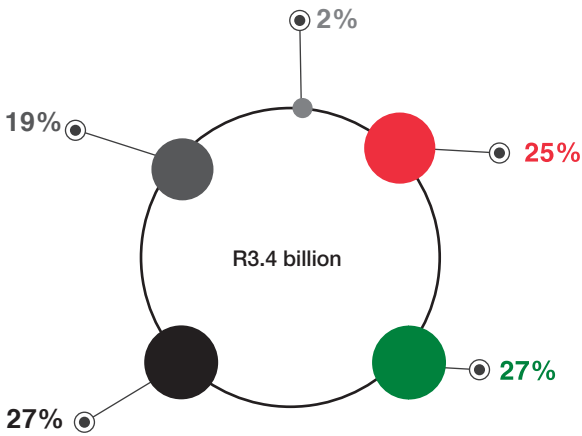


2020 TAXES PAID BY JURISDICTION

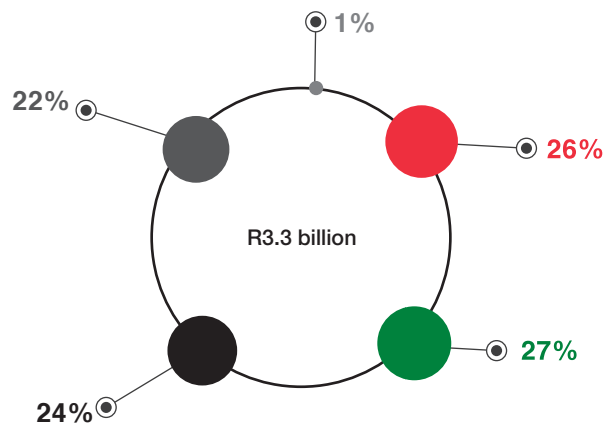


- South Africa   ● Ireland   ● United Kingdom   ● Switzerland   ● Namibia   ● Botswana   ● Eswatini
- Luxembourg   ● Netherlands   ● Mozambique   ● Poland

2021 TAXES PAID BY TYPE



2020 TAXES PAID BY TYPE



- Excise duties   ● Corporate taxes   ● Payroll taxes   ● VAT   ● Customs duties   ● Withholding taxes
- Environmental taxes   ● Property taxes

In response and in adherence to base erosion and profits shifting (BEPS), specifically action 13 and the South African Revenue Service Country-by-Country (CbC) Reporting, Master File and Local File guidance, the group has submitted its CbC report for the 30 September 2020 year of assessment on 29 September 2021.