CHAPTER 7:
TAXATION

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7.1 ACCOUNTING POLICIES RELATING TO TAXATION

7.1.1 INCOME TAX EXPENSE

Income tax expense or benefit comprises the sum of current and deferred tax.

The current tax payable or receivable is based on taxable profit for the year. Taxable profit or loss differs from profit or loss as reported in the statement of comprehensive income as it excludes items of income or expense that are taxable or deductible in other years in the determination of taxable profit or loss (temporary differences), and it further excludes items that are never taxable nor deductible (non-temporary differences). The group's liability for tax is calculated using tax rates that have been enacted or substantively enacted at the reporting date.

7.1.2 DEFERRED TAX

Deferred tax is provided using the balance sheet method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for tax purposes.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated using tax rates that have been enacted at the reporting date. The effect on deferred tax of any changes in taxation rates is charged to the statement of comprehensive income, except to the extent that it relates to items previously charged directly to equity.

Deferred tax assets and liabilities are set off when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends and has the ability to settle its current tax assets and liabilities on a net basis.

7.2 SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS MADE BY MANAGEMENT IN APPLYING THE RELATED ACCOUNTING POLICIES

Deferred tax assets are recognised only to the extent that it is probable that the deductible temporary differences can be realised from the utilisation of future taxable profit or to the extent of expected probable future transactions which may result in capital gains. This requires management to make assumptions, on a subsidiary-by-subsidiary level, of future taxable profits or expected capital gains in determining the deferred tax asset to be raised.

7.3 INCOME TAX (EXPENSE)/BENEFIT

	Group		Company	
For the year ended 31 December	**2020 Rm**	**2019 Rm**	**2020 Rm**	**2019 Rm**
South African normal tax				
Current	(951)	(748)	(18)	(50)
– Current year	(918)	(815)	(18)	(17)
– Prior year	(33)	67		(33)
Deferred	266	(258)	145	(31)
– Current year	235	(317)	145	(59)
– Prior year	31	59		28
Foreign normal tax				
Current	(21)	(13)		
– Current year	(21)	(13)		
Dividend withholding tax	(13)	(14)		
– Non-resident	(13)	(13)		
– Resident		(1)		
Total income tax (expense)/benefit through profit or loss	(719)	(1 033)	127	(81)
Continuing operations	(719)	(968)	127	(16)
Discontinued operations		(65)		(65)

7.4 RECONCILIATION OF TAX RATES

	Group		Company	
For the year ended 31 December	2020 %	2019 %	2020 %	2019 %
Tax as a percentage of profit before tax from continuing operations	7.3	10.9	(7.8)	0.3
Tax effect of:				
– Net capital gains[1]	2.1	1.0	1.9	1.2
– Net impairment charges on non-current assets[2]	(1.5)	0.1	(38.4)	0.3
– Expenses not deductible for tax purposes[3]	(2.2)	1.4	(1.1)	1.9
– Exempt income[4]	2.5		65.9	24.4
– Special tax allowances		0.1		
– Post-tax equity-accounted income[5]	18.2	14.7		
– Remeasurements of foreign tax rate differences	0.3	0.3		
– Prior year tax adjustments[6]		1.4		(0.1)
– Deferred tax assets recognised/(not recognised)[7]	1.8	(1.6)	7.5	
– Imputed income from controlled foreign companies and investments	(0.5)	(0.3)		
Standard tax rate	28.0	28.0	28.0	28.0
Effective tax rate for continuing operations, excluding income from equity-accounted investments	20.8	22.9		

[1] *Relates to the deemed disposal of the Cennergi JV and the disposal of EMJV.*

[2] *Impairment charges and impairment reversals were split out of the other non-deductible expenses line. Refer note 8.5.*

	Group 2020	Group 2019	Company 2020	Company 2019
[3] *Expenses not deductible for tax purposes:*	*(2.2)*	*1.4*	*(1.1)*	*1.9*
– Consulting, legal and other professional fees	*(0.1)*	*(0.7)*	*(0.4)*	*(1.1)*
– ESD grants	*(0.1)*	*(0.1)*	*(0.4)*	*(0.2)*
– Share-based payments		*1.3*	*(0.3)*	*1.5*
– Penalties and interest on taxes		*(0.1)*		
– Contingent consideration fair value adjustments		*1.3*		*2.2*
– Other[8]	*(2.0)*	*(0.3)*	*(0.1)*	*(0.5)*

[4] *For group, relates mainly to contributions received by Exxaro ESOP Trust and donations received by Exxaro Community NPC, a tax exempt institution. For company, this relates to dividend income received.*

[5] *The increase is as a result of the increase in the SIOC equity-accounted income (refer note 9.3).*

[6] *Includes disputes relating to imputed section 9D income from controlled foreign companies, which were settled with SARS in the prior year.*

[7] *A deferred tax asset has been recognised on assessed capital losses in anticipation of the sale of the Tronox investments. In the prior year only a portion (approximately 50%) had been recognised in company. Set off against the recognition of deferred tax assets are deferred tax assets not recognised for the group relating to tax losses, provisions and unredeemed capital expenditure. The most significant tax loss and unredeemed capital expenditure on which no deferred tax asset was recognised is that of Dorstfontein, amounting to R508 million.*

[8] *For group, relates mainly to the movement in the indemnification asset in 2020.*

7.5 DEFERRED TAX

	Group		Company	
At 31 December	2020 Rm	2019 Rm	2020 Rm	2019 Rm
The movements on deferred tax are as follows:				
At beginning of the year	(6 671)	(6 351)	296	374
Items charged to profit or loss	266	(258)	145	(31)
– Current year	235	(317)	145	(59)
– Prior year	31	59		28
Items charged directly to equity	30	(72)	18	(47)
– Share-based payments movement	30	(72)	18	(47)
Items charged directly to other comprehensive income	111	(7)		
– Cash flow hedges	120			
– Retirement employee obligations	(9)	(7)		
Reclassification to non-current assets held-for-sale	21			
Acquisition of subsidiaries	(917)			
Derecognised on loss of control of subsidiary		17		
At end of the year	(7 160)	(6 671)	459	296
Deferred tax asset	1 076	467	459	296
Deferred tax liability	(8 236)	(7 138)		

7.5 DEFERRED TAX continued

	At 31 December 2019		
	Assets Rm	Liabilities Rm	Total net liability Rm
Property, plant and equipment	588	(7 257)	(6 669)
Customer contracts			
Right-of-use assets	(141)	2	(139)
Share-based payments	115	40	155
Other accruals and provisions	(41)	553	512
Bad debt reassessment	21	24	45
Restoration provisions	425	256	681
Decommissioning provisions	96	56	152
Leave pay accrual	28	29	57
Retention payables	57	107	164
Prepayments	(14)	(23)	(37)
Environmental rehabilitation funds	(294)	(257)	(551)
Income received in advance	7		7
Inventories	(8)	17	9
Lease receivables		(19)	(19)
Local tax losses carried forward	310	55	365
Revaluation of financial assets at FVOCI		(82)	(82)
Retirement employee obligations	51	5	56
Deferred tax assets not recognised or derecognised	(879)	(447)	(1 326)
Investment in RBCT		(196)	(196)
Unclaimed donations	10		10
Lease liabilities	136	(1)	135
Cash flow hedge reserve			
Contributions to Exxaro ESOP Trust			
Total	467	(7 138)	(6 671)

Group

Movement during the year					At 31 December 2020		
Recognised in profit or loss Rm	Acquisition of subsidiaries Rm	Recognised in OCI Rm	Reclassification to non-current assets held-for-sale Rm	Recognised directly in equity Rm	Assets Rm	Liabilities Rm	Total net liability Rm
41	(1 151)		21		(933)	(6 825)	(7 758)
	(752)					(752)	(752)
22	(14)				(138)	7	(131)
(13)				30	121	51	172
(317)					(2)	197	195
					40	5	45
(154)					151	376	527
(66)	11				37	60	97
9					30	36	66
(32)					21	111	132
(6)					(11)	(32)	(43)
14					(62)	(475)	(537)
					6	1	7
4					(9)	22	13
2						(17)	(17)
397	974				1 287	449	1 736
						(82)	(82)
(6)		(9)			41		41
182					111	(1 255)	(1 144)
						(196)	(196)
62					72		72
1	15				145	6	151
		120			122	(2)	120
126					47	79	126
266	(917)	111	21	30	1 076	(8 236)	(7 160)

7.5 DEFERRED TAX continued

	Company			
	At 31 December 2019	Movement during the year		At 31 December 2020
	Total asset Rm	Recognised in profit or loss Rm	Recognised directly in equity Rm	Total asset[1] Rm
Property, plant and equipment	(38)	19		(19)
Right-of-use assets	(123)			(123)
Share-based payments	99	(10)	18	107
Other accruals and provisions	51	(24)		27
Bad debt reassessment	3	20		23
Restoration provisions	10			10
Leave pay accrual	7	2		9
Environmental rehabilitation funds	(8)			(8)
Lease liabilities	130	(3)		127
Capital losses	165	121		286
Unclaimed donations		16		16
Contributions to Exxaro ESOP Trust		4		4
Total	296	145	18	459

[1] *The deferred tax asset recognised for the company is supported by sufficient forecast profits to be utilised. The forecast profits are based on agreements in place with commodity businesses within Exxaro and other external parties.*

Tax on calculated assessable losses and unredeemed capital expenditure

	Group	
At 31 December	2020 Rm	2019 Rm
Deferred tax assets not recognised, relating to:		
– Local accumulated tax losses	(1 227)	(1 304)
– Current year tax losses calculated	(511)	329
– Unredeemed capital expenditure	(867)	(815)

7.6 NOTES TO THE STATEMENTS OF CASH FLOWS RELATING TO TAXATION

7.6.1 TAX PAID

	Group		Company	
For the year ended 31 December	2020 Rm	2019 Rm	2020 Rm	2019 Rm
Amounts receivable/(payable) at beginning of the year	215	(186)	(10)	
Acquisition of subsidiaries	(12)			
Amounts charged to the statement of comprehensive income	(985)	(775)	(18)	(50)
Arising on translation of foreign operations		(1)		
Reclassification to non-current assets held-for-sale	(20)			
Amounts (receivable)/payable at end of the year	(164)	(215)	(8)	10
Tax paid	(966)	(1 177)	(36)	(40)

7.7 TAX EFFECT OF OTHER COMPREHENSIVE INCOME

	Group							
	2020				2019			
For the year ended 31 December	Gross Rm	Tax Rm	NCI Rm	Net Rm	Gross Rm	Tax Rm	NCI Rm	Net Rm
Unrealised exchange differences on translation of foreign operations	55		(12)	43	(7)		8	1
Changes in fair value of equity investment at FVOCI	(13)		4	(9)	50		7	57
Remeasurement of retirement employee obligations	30	(9)	(5)	16	26	(7)	(4)	15
Changes in fair value of cash flow hedges	(535)	150	86	(299)				
Recycling of FCTR on liquidation of subsidiary	(103)		23	(80)	(7)		(1)	(8)
Recycling of FCTR on disposal of associate	(13)		3	(10)				
Recycling of FCTR on partial disposal of associate					(832)			(832)
Recycling of financial instruments revaluation reserve on deemed disposal of JV	59		(13)	46				
Recycling of financial instruments revaluation reserve on partial disposal of associate					1			1
Recycling of FCTR on dilution of associate					(1)			(1)
Recycling of fair value adjustments on cash flow hedges	107	(30)	(17)	60				
Share of OCI of equity-accounted investments relating to:	31	20	2	53	68	(1)	(1)	66
– Unrealised exchange differences on translation of foreign operations	15		(4)	11	44		11	55
– Revaluation of financial instruments	(54)	20	7	(27)	8		(12)	(4)
– Equity-settled reserve movement	68			68	10			10
– Other reserve movement					3			3
– Remeasurement of retirement employee obligations	2			2	3	(1)		2
Total	(382)	131	71	(180)	(702)	(8)	9	(701)

	Company	
	2019	
For the year ended 31 December	Gross Rm	Net Rm
Unrealised exchange differences on translation of foreign entity	(1)	(1)
Recycling of FCTR on deregistration of a foreign entity	3	3
Total	2	2